STELLA MARIS COLLEGE (AUTONOMOUS) CHENNAI – 600 086.

(For candidates admitted during the academic year 2009-2010 & thereafter)

SUBJECT CODE : CM/PC/AM24

M.Com. DEGREE EXAMINATION APRIL 2011
COMMERCE
SECOND SEMESTER

COURSE	**:**	**CORE**
PAPER	**:**	**ACCOUNTING FOR MANAGERIAL DECISIONS**
TIME	**:**	**3 HOURS** **MAX. MARKS : 100**

SECTION – A

ANSWER ANY FIVE QUESTIONS: **(5 x 8 = 40)**

1. Industries Ltd produced and sold 1,50,000 plastics buckets. Each bucket was sold at a price of Rs 20. The variable costs were Rs 14 per bucket and fixed manufacturing costs were Rs 3,00,000 per annum. The company's normal production capacity is 1,50,000 plastic buckets.
   a. You are required to ascertain the profit/loss under the absorption costing and variable costing methods and comment on the results.
   b. What would be the effect on income under the two different costing methods when the buckets produced and sold is 1,40,000.

2. The following information relates to a flexible budget at 60% activity, Prepare a budget for production at 80% and 100% activity
   Production at 60% capacity 600 units

Materials	Rs.100 per unit
Labour	Rs.40 per unit
Direct Expenses	Rs.10 per unit
Factory Overheads	Rs.40,000 (40%fixed)
Administration Expenses	Rs.30,000 (60%fixed)

3. Following information is obtained from the records of a company :

Budgeted Production for the period	600 units
Budgeted variable overhead	Rs.15,600
Standard time for one unit	20 Hrs.
Actual production for the period	500 units
Actual variable overhead	Rs.14,000
Actual hours worked	9,000 hrs.

   Calculate Variable overhead variances.

4. M Ltd produces two products A nad B using the same equipment and similar processes. An extract of the production data for these products in one period is shown as follows:

	A	B
Production for the period (units)	6,000	8,000
Direct Labour hours per unit (Hr)	2	4
Machine hours per unit (Hr)	4	2
Set-ups in the period (No)	20	60
Orders handled in the period (No)	25	90

Overhead Costs :
Related to Machine activity Rs.3, 20,000
Related to production run set ups Rs.30,000
Related to handling of orders Rs.36,000
You are required to compute production overhead absorption rate using the following methods:
   a. Traditional costing approach using direct labour hour rate.
   b. An Activity based costing approach using suitable cost drivers to trace overheads to products.

5. Present the following information clearly to management
   a. The marginal product cost and the contribution per unit
   b. The total contribution and profits resulting from each of the following mixtures

Particulars	**Product**	**Price Per unit(Rs)**
Direct Material	A	10
	B	9
Direct Wages	A	3
	B	2

Fixed Expenses…………..Rs 800
Variable expenses are allotted to the products as 100% of direct wages

Sale price	A	Rs. 20
	B	Rs. 15

Sales Mixture:
a. 100 units of Product A and 200 of B
b. 150 units of Product A and 150 of B
c. 200 units of Product A and 100 of B

6. Calculate the following ratios from the information given below:
   Gross Profit Ratio, Stock turnover Ratio, Fixed Asset turnover ratio and Liquid Ratio.

	Rs.		Rs.
Sales	25,20,000	Cost of sales	19,20,000
Net profit	3,60,000	Opening Stock	3,00,000
Closing stock	5,00,000	Current assets	7,60,000
Fixed Assets	14,40,000	Net worth	15,00,000
Long term Debts	9,00,000	Current liabilities	6,00,000

7. Explain the need and benefits of transfer pricing policy.

8. Explain the concept of MIS and the steps in designing MIS.

SECTION – B

ANSWER ANY THREE QUESTIONS: (3 x 20 = 60)

9. What is Zero –base budgeting? Explain its processes, advantages and limitations.

10. Explain the importance of Break-even Analysis in decision making.

11. From the following information you are required to prepare a cash budget for three months ending 31st December 2009 :

Months	Sales Rs.	Purchases Rs.	Wages Rs.	Overheads Rs.
August	40,000	20,400	7,600	3,800
September	42,000	20,000	7,600	4,200
October	46,000	19,600	8,000	4,600
November	50,000	20,000	8,400	4,800
December	60,000	21,600	9,000	5,000

Additional information:

a. Credit terms are :
   Sales- 10% sales are on cash basis. 50% of the credit sales are collected next month and the balance in the following month.
   Purchases – 50% cash purchases, the balance paid in the next month.
   Wages – 1/5 paid in the next month.
   Overheads – ½ paid in the next month.
b. Cash balance on 1st October 2009 is expected to be Rs.8, 000.
c. Machinery will be installed in August 2009, at a cost of Rs.1, 00,000. The monthly installment of Rs.15, 000 is payable from October onwards.
d. Dividend at 10% on preference share capital of Rs.3, 00,000 will be paid in December 2009.
e. Advance for sale of vehicle Rs.20, 000 to be received in December.
f. Income tax to be paid in December Rs.5, 000.

12. The following particulars are extracted from the records of the company::

	Product A	Product B
	Rs	Rs.
Sales	100	120
Material Cost	10	15
Wages	15	10
Direct Expenses	5	60
Fixed Overhead	5	10
Variable Overhead	15	20
Machine – hours used	3	2
Consumption of Materials – Kgs	2	3
Direct Wages per hour	5	5

Comment on the profitability of the Products when

a. Total Sales potential in units is limited
b. Total Sales potential in value is limited
c. Raw material is in short supply
d. Production capacity is the limiting factor
e. Assuming raw material as the key factor, the availability of which is 10,000 Kgs, and the maximum Sales potential of each product is 3,500 units, find out the product mix which will yield the maximum profit

13. Following information is given regarding standard composition and standard rates of wages of workers :

Standard composition and Standard hourly rate:

10 Men at Rs.600, 5 women at Rs.400 and 5 boys at Rs.200

A week consists of 40 hours and standard output per week is 1000 units.

In a particular week, gang consisted of 13 men, 4 women and 3 boys and the hourly wage rate was Men Rs.575, women Rs.425 and Boys Rs.220.

Two hours were lost in the week due to abnormal idle time. Actual production was 960 units. Compute Labour Variances.

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