STELLA MARIS COLLEGE (AUTONOMOUS) CHENNAI – 600 086.
(For candidates admitted during the academic year 2004-2005 & thereafter)

SUBJECT CODE : **CM/PS/AM45**

M.Com. DEGREE EXAMINATION APRIL 2009
COMMERCE
FOURTH SEMESTER

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

SECTION – A

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

1. A Company produces only one product which had the following costs:
Variable manufacturing costs Rs.4 per unit
Fixed manufacturing costs Rs.1,00,000 per annum
The normal capacity is set at 1,00,000 units
There are no work in process inventories. Fixed overhead rate is Re.1 per unit. In 2004 the company produced 1,00,000 units and sold 90,000 units at a price of Rs.8 per unit. In 2005 the company produced 1,10,000 units and sold 1,15,000 units at the same price. You are required to prepare income statements for 2004 and 2005 based on absorption costing and variable costing.

2. 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
Direct Material	B	9
Direct Wages	A	3
Direct Wages	B	2

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

Particulars	**Product**	**Price Per unit (Rs.)**
Sale price	A	20
Sale price	B	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

3. From the following information compute

   i) Fixed Overheads Variance
   ii) Expenditure Variance
   iii) Capacity Variance
   iv) Efficiency Variance

Particulars	Budget	Actual
Fixed Overheads for Nov	Rs.20,000	Rs.20,400
Units of Production in Nov	10,000	10,400
Standard Time for 1 Unit	2 Hours	
Actual Hours Worked		20,100 hours

4. The following information relates to a flexible budget at 60% activity, Prepare a budget for production at 80% and 100% activity

Production at 60% activity	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)

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

Particulars	A	B
Quantity produced (units)	6,000	8,000
Direct Labour hour per unit	2	4
Machine Labour hours per unit	4	2
Set-ups in the period	20	60
Orders handled in the period	25	90

Over Head Costs:

	Rs.
Related to machine activity	3,20,000
Related to production run set-ups	30,000
Related to handling of orders	46,000
	3,96,000

Required:
Calculation of production overheads to be absorbed by one unit of each product using the following costing methods:

a) Traditional costing approach using a direct labour hour rate to absorb overheads
b) An activity based costing approach, using suitable cost drivers to trace overheads to products.

6. Explain the importance of marginal costing in decision making.

7. Write short notes on:
   a) Key Factor
   b) Zero based budgeting
   c) Methods of pricing.

8. The Sales Manager of a company engaged in the manufacture and sale of three products P, Q and R gives you the following information for the month of October 2008:

Budgeted Sales: -

Product	Units sold	Selling price per unit Rs.	Standard contribution Margin per unit Rs.
P	2,000	12	6
Q	2,000	8	4
R	2,000	5	1

Actual Sales:
P 1,500 units for Rs.15,000
Q 2,500 units for Rs.17,500
R 3,500 units for Rs.21,000

(a) You are required to calculate the following variances:
i) The sales price variance.
ii) The sales volume variance.
iii) The sales quantity variance.
iv) Sales mix variance.

SECTION – B

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

9. A family store wants information about the profitability of individual product lines. Soft drinks, fresh produce and packaged products. The following information is provided for the year 2002-03 for each product line:

	Soft drinks Rs.	Fresh produce Rs.	Packaged food Rs.
Revenue	7,93,500	21,00,600	12,09,900
Cost of goods sold	6,00,000	15,00,000	9,00,000
Cost of bottles returned	12,000	0	0
Number of purchase order placed	360	840	360
Number of deliveries received	300	2,190	660
Hours of shelf-stocking time	540	5,400	2,700
Items sold	1,26,000	11,04,000	3,06,000

Family stores also provide the following information for the year:

	Total cost (Rs.)
Bottles returns	12,000
Ordering	1,56,000
Delivery	2,52,000
Shelf-stocking	1,72,800
customer support	3,07,200

If family stores allocates support cost (all costs other than cost of goods hold) to product lines using activity based costing, calculate the operating income and operating income as a percentage of revenues for each product line.

10. From the following particulars, find the most profitable product, all the three products are produced from the same material, same type of machines and labour, when

a) Raw material is in short supply
b) Production Capacity is the limiting factor
c) When labour is the limiting factor, and the available labour is limited to 18,600 hours, ascertain the profitable product mix.
d) Machine hours is the key factor
e) Sales revenue is the limiting factor

	A	B	C
Selling price per unit Rs.	60	55	50
Direct materials (kg.)	5	3	4
Direct labour (Hrs.)	4	3	2
Fixed overheads (Rs.)	7	13	8
Cost of direct materials per kg. (Rs.)	4	4	4
Direct labour rate Rs.	2	2	2
Maximum possible unit of sales	4,000	5,000	1,500

11. Compute material variances from the following information:

	Standard		Actual	
	Qty.	Rate	Qty.	Rate
A	40	4	830	4.25
B	60	3	1190	2.75

Standard loss is 15%. The actual output is 1700 units.

12. From the following cost data, forecast the cash position at the end of April, May and June 2004 :

Month	Sales	Purchases	Wages	Miscellaneous
Feb.	1,20,000	84,000	10,000	7,000
March	1,30,000	1,00,000	12,000	8,000
April	80,000	1,04,000	8,000	6,000
May	1,16,000	1,06,000	10,000	12,000
June	88,000	80,000	8,000	6,000

Additional information:

a) 20% Sales realized in the month of sales, discount allowed 2% balance realized equally in two subsequent months.
b) Purchases are paid in the month following the month of supply.

c) Wages – 25% paid in arrears in the following month.
d) Miscellaneous expenses paid a month in arrears.
   Rent Rs.1,000 per month paid. Income tax – first installment of advance tax Rs.25,000 due on June.
e) Income from investments – Rs.5,000 received quarterly in April, July etc.
f) Cash in hand – Rs.5,000 on 1st April, 2004.

13. A glass manufacturing company required you to calculate and present the budget showing the profit for the next year from the following information:

Sales:	
Toughened glass	Rs.3,00,000
Bent toughened glass	Rs.5,00,000
Direct material cost	60% of sales
Direct wages	20 workers @ Rs.150 per month
Factory overheads:	
Indirect labour:	
Works manager Rs.500 per month	
Foreman Rs.400 per month	
Stores and spares	2 ½ % on sales
Depreciation on machinery	Rs.12,600
Light and power	Rs.5,000
Repairs and maintenance	Rs.8,000
Other sundries	10% on direct wages
Administration, selling and distribution expenses	Rs.14,000 per year

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