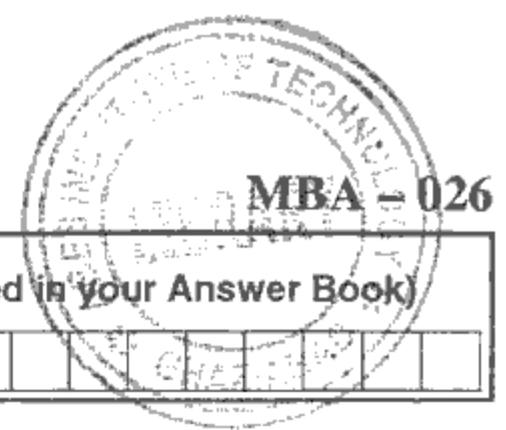




Printed Pages : 15



MBA - 026

(Following Paper ID and Roll No. to be filled in your Answer Book)

PAPER ID : 7115

Roll No.

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II M. B. A.
(SEM. ~~IV~~) EXAMINATION, 2008-09
COST & MANAGEMENT ACCOUNTING

Time : 3 Hours]

[Total Marks : 100

1 Attempt **all twenty** parts of the following. **1×20=20**

Choose the correct answer and write its serial order in the answer book.

(i) Select the most appropriate answer for each of the following cases :

The term 'cost' refers to

- (a) An asset that has given benefit and is now expired.
- (b) The price of products or services rendered.
- (c) The value of the sacrifice made to acquire goods.
- (d) An asset or service that has not given benefit and is now expired.
- (e) The present value of future benefits.



- (ii) Variable cost per unit :
- (a) remains fixed
 - (b) fluctuates with the volume of production
 - (c) varies in sympathy with volume of sales
 - (d) none of the above
- (iii) Conversion cost is the sum total of
- (a) direct material cost and direct wages cost
 - (b) direct wages, direct expenses and factory overheads
 - (c) indirect wages and factory overheads.
- (iv) Opportunity cost helps in :
- (a) ascertainment of cost
 - (b) controlling cost
 - (c) making management decisions.
- (v) Indirect costs cannot be identified with a particular cost centre are shared between cost centre using
- (a) a recovery rate
 - (b) an absorption rate
 - (c) a method of apportionment
 - (d) a method of allocation.

- (vi) The criteria in choosing a basis for allocating overheads include
- (a) basis must bear a relationship to the kind of services being rendered.
 - (b) ensure the application of factory overhead in reasonable proportion to a beneficial casual relationship.
 - (c) base selected should be closely related to functions represented by the applied overhead costs.
 - (d) minimise differential cost and effort.
- (vii) The allotment of whole items of cost to cost control or cost units is called
- (a) cost allocation
 - (b) cost apportionment
 - (c) overhead absorption
 - (d) cost classification.
- (viii) Which of the following methods of apportionment is most suitable for allocating the rent of building between cost centres?
- (a) number of employees
 - (b) machine hours
 - (c) kilowatt hours
 - (d) floor area



(ix) The difference between fixed and variable cost has a special significance in the preparation of :

- (a) a flexible budget
- (b) master budget
- (c) cash budget
- (d) None of the above

(x) The budget which commonly takes the form of budgeted profit and loss account and balance sheet is :

- (a) Cash budget
- (b) master budget
- (c) flexible budget
- (d) None of the above

(xi) Sales budget is a

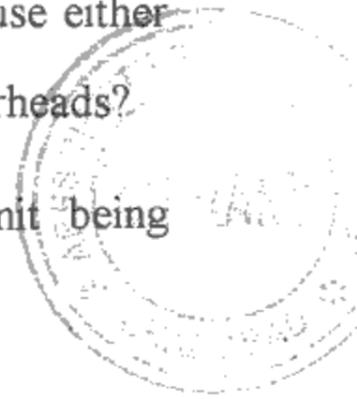
- (a) functional budget
- (b) master budget
- (c) expenditure budget
- (d) None of the above

(xii) Which of the following would not cause either an under or over-absorption of overheads?

- (a) actual direct labour time permitted being greater than budget
- (b) actual cost of direct labour being greater than budget
- (c) actual overheads incurred being less than budget.
- (d) the number of units produced being greater than budget.

(xiii) A company used different types of direct labour to manufacture products. The economic result of changing the combination of higher and lower paid workers in production are shown by the

- (a) direct labour mix variance
- (b) direct labour efficiency variance
- (c) direct labour rate variance
- (d) None of the above



(xiv) A company uses several direct materials to manufacture products. The results of obtaining an output different from the one expected based on the total quantities of direct materials placed in process is the

- (a) direct materials usage variance
- (b) direct materials mix variance
- (c) direct materials price variance
- (d) direct materials yield variance

(xv) Which one of the following statements accurately describes the Volume Variance

- (a) is the difference between the actual factor overhead and the budget allowance based on standard hours allowed.
- (b) is the difference between the budget allowance based on actual hours and actual factory overhead costs.
- (c) indicates the cost of capacity available but not utilised efficiently.
- (d) is generally the responsibility of department manager.

(xvi) Actual variable overhead costs are Rs. 35000. Actual hours worked were 17500 and the standard overhead rate for variable overhead is Rs. 2 per direct labour hour. Which of the following situations arose?

- (a) Rs. 875 favourable variable overhead efficiency variance
- (b) Rs. 875 favourable variable overhead efficiency variable
- (c) Rs. 875 unfavourable variable overhead spending variance
- (d) Rs. 875 unfavourable variable overhead efficiency variable.

(xvii) Depreciation on equipment which is traceable to a production foreman's responsibility centre is a/an

- (a) controllable cost
- (b) direct cost
- (c) indirect cost
- (d) None of the above



(xviii) The return on investment may be improved by :

- (a) increasing sales
- (b) reducing expenses
- (c) increasing the amount of capital utilised
- (d) all of the above

(xix) If materials are purchased at a price higher than the standard price, who should probably be held directly responsible for that variance?

- (a) purchase manager
- (b) production manager
- (c) sales manager
- (d) president

(xx) When management utilises the concept of management by exception, they concentrate their attention on those items in the performance report which

- (a) differ from the previous time period
- (b) vary significantly from what was forecasted
- (c) are controllable costs
- (d) are direct costs.

2 St. Tropez S.A. manufactures several different styles 30 of jewellery cases in southern France, Management estimates that during the second quarter of 2009 the company will be operating at 80% of normal capacity. Because the company desires a higher utilization of plant capacity, it will consider a special order.

St. Tropez has received special-order inquiries from two companies. The first is from Lyon, Inc. which would like to market a jewellery case similar to one of st. Tropez's cases. The Lyon jewellery case would be marketed under Lyon's own label. Lyon, Inc., has offered St. Tropez Rs. 67.5 per jewellery case for 20,000 cases to be shipped by July 1, 2009. The cost data for the St. Tropez jewellery case, which would be similar to the specifications of the Lyon special order, are as follows:

Regular selling price per unit	Rs. 100
Costs per unit:	
Raw materials	Rs. 35
Direct labour, .5 hour @ Rs. 60	30
Overhead, .25 machine hour @ Rs. 40	<u>10</u>
Total Cost	Rs. 75



According to the specifications provided by Lyon, Inc., the special-order case requires less expensive raw materials, which will cost only Rs. 32.5 per case. Management has estimated that the remaining costs, labour time, and machine time will be the same as those for the St. Tropez jewellery case.

The second special order was submitted by the Avignon Co. for 7,500 jewellery cases at Rs. 85 per case. These cases would be marketed under the Avignon label and would have to be shipped by July 1, 2009. The Avignon jewellery case is different from any jewellery case in the St. Tropez line, its estimated per-unit costs are as follows :

Raw Materials	Rs. 42.5
Direct labour, .5hour @ Rs. 60	30
Overhead, .5 machine hour @ Rs. 40	<u>20</u>
Total costs	Rs. 92.5

In addition, St. Tropez will incur Rs. 15,000 in additional setup costs and will have to purchase Rs. 25,000 special device to manufacture these cases;

this device will be discarded once the special order is completed.

The St. Tropez manufacturing capabilities are limited by the total machine hours available. The plant capacity under normal operations is 90,000 machine-hours per year, or 7,500 machine-hours per month. The budgeted fixed overhead for 2009 amounts to Rs. 2.16 million, or Rs. 24 per hour. All manufacturing overhead costs are applied to production on the basis of machine-hours at Rs. 40 per hour.

St. Tropez will have the entire second quarter to work on the special orders. Management does not expect any repeat sales to be generated from either special order. Company practice precludes St. Tropez from subcontracting any portion of an order when special order.

Question :

Should St. Tropez accept either special order? Justify your answer by making appropriate calculations.

OR



- 2 A firm has two machines namely machine P $10 \times 3 = 30$ and Machine Q. Machine P can be used for the production of either product A or product B or both. Machine Q can be used for the production of either product X or Y or both. In order to maintain customers relations a minimum quantity of 1500 unit each of A and B and 1200 units each of X and Y should be produced by the firm.

Machine hours available

P - 4500 hours

Q - 5100 hours

Machine used	Product			
	A	B	X	Y
Machine hours required per unit of output	P	P	Q	Q
Selling price per unit	1	1.25	1.25	0.8
Direct materials per unit	Rs.200	Rs.250	Rs.300	Rs.256
Direct Material per unit	80	100	100	80
Direct labour per machine hour	90	80	100	125
Variable overheads per machine hour	12	12	20	20

Fixed overhead is Rs. 4 lakh per annum. An additional expenditure involving a fixed overhead of Rs. 25000 per annum will convert machine P and Q in to a versatile centre such that any four of the products can be manufactured on these two machines. The rate of output on these machines and direct wage rate will however, remain the same.

- (a) Set up and optimal product mix subject to minimum market commitment both before and after the conversion of the machines into a versatile centre.
- (b) Evaluate the profitability under two sets of product mixes
- (c) Advise the management whether the conversion of machine should be undertaken or not.

- 3 Cost accounting is a system of foresight and $12\frac{1}{2}$

not a postmortem examination, it turns losses into profits, speeds up activities and stimulates wastes."

Comment

OR



3 Distinguish management accounting from financial accounting and cost accounting. What is the role of a controller?

4 How is prime cost different from managerial cost? State the elements of cost included in the two types of costs indicating their significance in cost accounting. $12\frac{1}{2}$

OR

4 The effect of a price reduction is always to reduce P/V ratio to raise break even point and to shorten the margin of safety. Explain and illustrate by numerical examples.

5 Enumerate the factors which account for variances in the usage of materials and labour. What steps are open to management to maintain budgeted profits when prices of materials are rate of wages increase due to government action ? $12\frac{1}{2}$

OR

5 What are the main steps in budgetary control? State the main objective of budgetary control.

6 What is transfer pricing? Write a note on how transfer pricing could be used in the current context? Will companies face any problem due to recession while applying transfer pricing ? $12\frac{1}{2}$

OR

6 Write short notes on the following :
(i) Investment Centre
(ii) Profit Centre

