III Semester M.Com. Examination, January 2019
(CBCS Scheme)
COMMERCE
Paper – 3.3AT : Accounting for Managerial Decisions

Time : 3 Hours | Max. Marks : 70

Instruction : *Answer **all** the sub-questions.*

SECTION – A

Answer **any seven** of the following sub-questions. **Each** sub-question carries **2** marks. (7×2=14)

1. a) What are the tools and techniques of marginal costing ?
   b) State the methods for measuring divisional performance.
   c) What is performance budgeting ?
   d) List the criticisms of ZBB.
   e) What are the benefits of cost manuals ?
   f) State the disadvantages of interfirm comparison.
   g) How accounting is useful for managerial decisions ?
   h) List out the criticisms of traditional budgeting.
   i) Define responsibility accounting.
   j) Why is 'Accounting for managerial decisions' important for an organisation ? Explain.

SECTION – B

Answer **any four** questions. **Each** question carries **five** marks. (4×5=20)

2. Write a note on decision making process.

3. Explain the difficulties in implementing responsibility accounting.

4. The effect of price reduction is always to reduce P/V ratio, raise the break even point and shorter the margin of safety. Explain.

5. Explain the requisites for the installation of uniform costing.

6. Which are the procedures you follow for effective interfirm comparison in the service sector ?

7. The Best Ltd. manufactures and sells as single product X whose price is Rs. 40 per unit and the variable cost is Rs. 16 per unit.
   a) If the fixed costs for this year are Rs. 4,80,000 and the annual sales are at 60% margin of safety, calculate the rate of net return on sales, assuming an income tax level of 40%.
   b) For the next year, it is proposed to add another product line Y whose selling price would be Rs. 50 per unit and the variable cost Rs. 10 per unit. The total fixed costs are estimated at Rs. 6,66,600. The sales mix of X : Y would be 7 : 3. At what level of sales next year, would the Best Ltd. break-even ? Give separately for both X and Y, the break-even sales in rupees and quantities.

SECTION – C

Answer **any three** questions. **Each** question carries **twelve** marks. **(3×12=36)**

8. Briefly explain the pros and consequences of 'database for decision making process'.

9. Sustainability Works Ltd. has at the factory three production departments. Machine shop, Fabrication and Assembly which are the responsibility of the shop superintendent. The shop superintendent along with materials managers, planning superintendent and maintenance engineer report to the works manager at the factory. The office administration, sales and publicity come under the sales manager who along with the works manager report to the managing director of the company. The following data relating to a month's performance are called out from the books of the company :

(Rs. in Lakhs)

Particulars	**Budget (Rs.)**	**Variance from budget**
Sales commission	800	50 A
Raw material and components		
– Machine shop	900	20 A
Publicity expenses	1,100	100 A
Printing and stationery	3,200	200 A
Travelling expenses	4,000	200 A
Wages		
– Machine shop	800	10 F
– Fabrication	600	20 A
– Assembly	720	10 A
Material		
– Assembly	760	40 A
– Fabrication	460	10 A
Utilities		
– Machine shop	320	10 A
– Assembly	470	60 F
– Fabrication	560	30 F
– Maintenance	400	20 A
– Stores	210	40 F
– Planning	180	20 A

Shop superintendent's office – Salaries and expenses	1,100	22 F
Depreciation – Factory	3,880	40 A
Works manager's office salary and administration	3,810	40 A
General office salaries	4,270	30 A
Managing directors salary and administration	2,800	20 F

(A-Adverse, F-Favourable)

i) Treating the machine shop, fabrication and assembly as cost centres, prepare cost sheets for each centre with the help of the additional information : The shop superintendent devotes his time amongst machine shop, fabrication and assembly in the ratio of 4:3:4. Other factory overheads are absorbed on the basis of direct labour in each cost centre. Office administration, selling and distribution overheads are borne equally by the cost centres.

ii) Treating the machine shop, fabrication and assembly as responsibility centres, prepare a Responsibility Accounting Report for the shop superintendent.

10. Elaborate the concept of 'master budget' ? Write a master budget copy of manufacturing business unit with imaginary figures.

11. A company manufacturing a highly successful line of cosmetics intends to diversify the product line to achieve fuller utilization of its plant capacity. As a result of considerable research made the company has been able to develop a new product called 'EMO'.

EMO is packed in tubes of 50 grams capacity and is sold to the wholesalers in cartons of 24 tubes at Rs. 240 per carton. Since the company uses its spare capacity for the manufacturer of EMO, no additional fixed expenses will be incurred. However, the cost accountant has allocated a share of Rs. 4,50,000 per month as fixed expenses to be absorbed by EMO as a fair share of the company's present fixed costs to the new production for costing purposes.

The company estimated the production and sale of EMO at 3,00,000 tubes per month and on this basis the following cost estimates have been developed.

	Rs. per carton
Direct materials	108
Direct wages	72
All overheads	54
Total costs	234

After a detailed market survey the company is confident that the production and sales of EMO can be increased to 3,50,000 empty tubes and the cost of empty tubes, purchased from outside will result in a saving of 20% in material and 10% in direct wages and variable overhead costs of EMO. The price at which the outside firm is willing to supply the empty tubes is Rs. 1.35 per empty tube. If the company desires to manufacture empty tubes in excess of 3,00,000 tubes, new machine involving an additional fixed overheads Rs. 30,000 per month will have to be installed.

Required :

i) State by showing your working whether company should make or buy the empty tubes at each of the three volumes of production of EMO namely 3,00,000 ; 3,50,000 and 4,50,000 tubes.

ii) At what volume of sales will it be economical for the company to install the additional equipment for the manufacture of empty tubes ?

iii) Evaluate the profitability on the sale of EMO at each, of the aforesaid three levels of output based on your decision and showing the cost of empty tubes as a separate element of cost.

12. The environment friendly manufacturing company currently operating at 80% capacity has received an export order from Middle East, which will utilise 40% of the capacity of the factory. The order has to be either taken in full and executed at 10% below the current domestic prices or rejected totally.

The current sales and cost data are given below :

Sales	–	Rs. 16.00 lakhs
Direct material	–	Rs. 5.80 lakhs
Direct labour	–	Rs. 2.40 lakhs
Variable overheads	–	Rs. 0.60 lakhs
Fixed overheads	–	Rs. 5.20 lakhs

The following alternatives are available to the management :

a) Continue with domestic sales and reject the export order.

b) Accept the export order and allow the domestic market to starve to the extent of excess of demand.

c) Increase capacity so as to accept the export order and maintain the domestic demand by :

i) Purchasing additional plant and increasing 10% capacity and there by increasing fixed overheads by Rs. 65,000 and

ii) Working overtime at one and half time the normal rate to meet balance of the required capacity.

You are required to evaluate each of the above alternatives and suggest the best one.