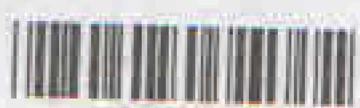

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Reg. No. [ ]

III Semester M.Com. Degree Examination, March - 2021

COMMERCE

Accounting for Managerial Decisions

(CBCS Semester Scheme 2018-19)

Paper : 3.3

Time : 3 Hours **Maximum Marks : 70**

Instructions to Candidates:

Answer **ALL** the sections.

SECTION - A

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

1. a) Give the meaning for avoidable and unavoidable costs.

   b) What is out of pocket cost?

   c) State the features of marginal costing.

   d) How PV ratio is useful for a decision maker in the orgnization?

   e) What is margin of safety? Explain with example.

   f) What are responsibility centers?

   g) Differentiate between forecast and budget.

   h) What is uniform costing?

   i) State the principles of responsibility accounting.

   j) State the requisites of budget.

SECTION - B

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

2. Being a CEO of a company how do you consider various departments/wings as different responsibility centers for decision making?

3. Write a note on process, pros and cons of ZBB.

4. Write a ntoe on cost based decision making throught marginal costing techniques.

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5. Thathagatha engineering is operating at 70% capacity and presents the following information:

BEP	Rs. 200 Crores
PV Ratio	40%
MOS	Rs. 50 Crores

Thathagatha's management has decided to increase production to 95% capacity level with the following modifications :

i. The selling price will be reduced by 8%

ii. The VC will be reduced by 5% on sales.

iii. Additional capital of Rs. 50 Crores will be needed for capital expenditure and working capital.

Required :

a. Indicate the sales figures, with the working, that will be needed to earn Rs. 10 crores over and above the present profit and also meet 20% interest on the additional capital.

b. What will be the revised?

i. BEP.

ii. PV Ratio.

iii. Margin of Safety.

6. China division of a Indian multinational company has prepared the following forecast for the year 2022 :

Particulars	Rs.
Profit before depreciation	1,00,00,000
Depreciation	25,00,000
Net current assets at 1-1-2021	50,00,000
Net value of fixed assets at 1-1-2021	2,00,00,000

The companies cost of capital is 10%

The division is considering selling a fixed asset with a net book value of Rs. 7,50,000 which after depreciation of Rs. 60,000, generated a profit per annum of Rs. 3,00,000. The proceedes and a subsidy from head office would be used to purchase a new machine for Rs. 2,00,000 which would generated an annual profit of Rs. 6,00,000 after depreciation of Rs. 1,50,000.

Requires :

a. Assuming China division does not sell and replace the machine, using the opening balance sheet values calculate :

- The divisions ROI
- The divisions residual income

b. If the machine is sold and replaced, calculate :

- The divisions ROI
- The divisions residual income

7. Who are the stake holders of an organisation? How inter firm comparison is useful for them?

SECTION - C

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

8. How do you solve cost - based problems efficiently through decision making process with data based management system? Explain with 5 real life/hypothetical cases.

9. What is absorption costing and marginal costing? Explain arguments in favour and against both the method of costing methods.

10. What is PPBS? Explain stages of PPBS, advantages of PPBS and steps in implementation of PPBS.

11. Mourya cement Ltd. Produced '43' grade cement for which the company has an assured market. The output for 2021-22 has been budgeted at 1,80,000 units at 90% capacity utilization. The cost sheet based on output (per unit) is as follows :

Particulars	**Rs.**
Selling price	130
Direct material	30
Component EH	9.40
Direct wages @ Rs. 7 per hour	28
Factory overhead (50% fixed)	24
Selling and distribution overheads (75% variable)	16
Administrative overhead (fixed)	5

The factory overheads are applied on the basis of direct labour hours.

To utilize the idle capacity and to improve the profitability of the company, the following proposals were put up before the Board of Directors for consideration:

a. An order has been received from abroad for 500 units of product '53' grade cement per month at Rs. 175 per unit. The cost data are :

Direct material	Rs. 56 per unit
Direct labour	10 hours per unit

Selling and distribution overheads applicable to this product order is Rs. 14 per unit and variable factory overhead are chargeable on the basis of direct labour hours.

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b. The company at present manufactures components EH, one unit of which is required for each unit of product 43 grade. The cost details for 15,000 units of component EH are as follows :

Particulars	Rs.
Direct material	30,000
Direct labour	52,500
Variable overheads	25,500
Fixed overheads	33,000
Total	**1,41,000**

The component EH however is available for purchase at the market at Rs. 7.90 per unit.

c. In the event of company deciding to purchase the component EH from market, the company has two alternatives for the use of the capacity so released, which are as under :

i. Rent out the released capacity at Re. 1 per hour

ii. Manufacture component GYP which can be sold at Rs. 8 per unit. The cost data of this component for 15,000 units are :

Particulars	Rs.
Direct material	42,000
Direct labour	31,500
Factory variable overheads	13,500
Other variable overheads	25,500
Total	**1,12,500**

Required :

A. Prepare a statement showing profitability of the company envisaged in the budget.

B. Evaluate the export order and state whether it is acceptable or not.

C. Make an appraisal of proposal to manufacture component EH and state whether the component EH should be manufactured in the factory or purchased from the market. Assume that no alternative use of spare capacity is available.

D. Evaluate the alternative use of the spare capacity and state whether to manufacture or buy the component EH and if your decision is to buy the component EH, which of the two alternatives for the use of spare capacity will you prefer?

12. Explain the pros and cons of uniform costing in detail with suitable examples.