# LOYOLA COLLEGE (AUTONOMOUS), CHENNAI – 600 034

**M.Com.** DEGREE EXAMINATION – **COMMERCE**

**FIRST** SEMESTER – **APRIL 2016**

## CO 1815 - ACCOUNTING FOR DECISION MAKING

Date: 03-05-2016 Dept. No. Max. : 100 Marks
Time: 01:00-04:00

### PART-A

**Answer ALL questions.** ` **(10 x 2 = 20)**

01. What do you mean by cost driver?
02. Explain the objectives of transfer price.
03. State any four features of marginal costing.
04. What are the main steps in budgetary control?
05. Give any four differences between standard costing and estimated cost.
06. What is Cash flow statement?
07. State the limitation of Ratio Analysis
08. Calculate (a) CA (b) CL (c) LA (d) Stock when CR 2.5 LR 1.5 and WC Rs.90,000
09. A factory produces 2 units of a commodity in one standard hour. Actual production during a particular year is 17,000 units and the budgeted production for the year is fixed at 20,000 units actual hours operated are 8000 calculate efficiency and activity ratios.
10. The cost volume and profit relationship of a company is described by equation Y = Rs.3,00,000 +.7X in which X represents sales and Y represents total cost. Find out (a) PV ratio (b) BEP sales.

### PART – B

**Answer any Five questions.** **(4 x 10 = 40 Marks)**

11. a) Explain the meaning of relevant costs.
    b) Discuss the characteristics of relevant costs
12. "Marginal costing is a valuable aid for Managerial Decisions" Discuss.
13. The following particulars are extracted from the books of Mr.K. Calculate cost per unit under ABC Analysis.

| Product | Machine hrs/unit | Dir. lab hrs/unit | Annual output(Uts) | Total Mach.hrs | Total dir.labhr | No. of Purchase orders | No.of set ups |
|---|---|---|---|---|---|---|---|
| Prod. A | 2 | 4 | 1,000 | 2,000 | 4,000 | 80 | 40 |
| Prod. B | 2 | 4 | 10,000 | 20,000 | 40,000 | 160 | 60 |
| | | | | 22,000 | 44,000 | 240 | 100 |

The cost of activities as follows:

Volume related Rs.1,10,000, Purchase relatedRs.1,20,000, Setup related Rs.2,10,000

14. Division A is a profit centre which produces, X, Y, and Z. each product has an external market.

| Particulars | X | Y | Z |
|---|---|---|---|
| External market price per unit (Rs.) | 48 | 46 | 40 |
| Variable cost of production per unit in division a (Rs.) | 33 | 24 | 28 |
| Labor hours required per unit in a division | 3 | 4 | 2 |

Product Y can be transferred to division B, but the maximum quantity that might be required for transfer is 300 units of Y.

The maximum external sales are

X-800 units

Y-500 units

Z-300 units

Instead of receiving transfer to product Y from division A, Division B could buy similar product in the open market at a slight cheaper price of rs.45 per unit. What should the transfer price be for each unit for 300 units of Y, if the total labour hours available in a division are: a) 3,800 hours? b) 5,600 hours

15. The expenses budgeted for production of 10,000 units in a factory are furnished below:

| | Per unit Rs. |
|---|---|
| Materials | 70 |
| Labour | 25 |
| Variable overhead | 20 |
| Fixed overhead (Rs.1,00,000) | 10 |
| Variable expenses (Direct) | 5 |
| Selling expenses (10% fixed) | 13 |
| Distribution expenses (20% fixed) | 7 |
| Administration expenses (50,000) (Fixed for all levels) | 5 |
| | 155 |

Prepare a flexible budget for the production of (a) 8,000 units and (b) 6,000 units.

16. From the following data, calculate 1. Labour cost variance 2. Rate variance 3. Efficiency variance 4. Mix variance 5. Labour sub efficiency variance.

| | Standard | | Actual | |
|---|---|---|---|---|
| | Hours | Rate | Hours | Rate |
| Skilled labour | 10 | 3.00 | 9,000 | 4.00 |
| Semi-skilled | 8 | 1.50 | 8,400 | 1.50 |
| Un-skilled | 16 | 1.00 | 20,000 | 0.90 |

The actual production was 1,000 articles.

17. From the following the Balance sheet prepare a Fund Flow Statement for 2015.

**Balance Sheets of Sree Ganesh Ltd., as on 31st March**

| **Liabilities** | **2014 (Rs.)** | **2015 (Rs.)** | **Assets** | **2014((Rs.)** | **2015(Rs.)** |
|---|---|---|---|---|---|
| Share capital | 6,00,000 | 6,00,000 | Fixed Assets | 10,00,000 | 11,20,000 |
| Reserves | 50,000 | 1,80,000 | Less : Depreciation | 3,70,000 | 4,60,000 |
| Profit and Loss account | 40,000 | 65,000 | | 6,30,000 | 6,60,000 |
| Debentures | 3,00,000 | 2,50,000 | Stock | 2,40,000 | 3,70,000 |
| Creditors for goods | 1,70,000 | 1,60,000 | Book debts | 2,50,000 | 2,30,000 |
| Provision for Income tax | 60,000 | 80,000 | Cash in hand and at Bank | 80,000 | 60,000 |
| | | | Preliminary Expenses | 20,000 | 15,000 |
| | 12,20,000 | 13,35,000 | | 12,20,000 | 13,35,000 |

## PART – C

**Answer any Two questions.** **(2 x 20 = 40 Marks)**

18. The balance sheet of Nirmal Enterprises Ltd. for the year ended.

| | 1998 Rs. | 1999 Rs. | | 1998 Rs. | 1999 Rs. |
|---|---|---|---|---|---|
| Share capital | 2,00,000 | 2,50,000 | Land & Building | 80,000 | 80,000 |
| Profit and Loss A/c | 50,000 | 1,00,000 | Investments | 20,000 | 32,000 |
| Capital reserve | - | 18,000 | Plant | 60,000 | 68,000 |
| Bank loan | - | 20,000 | Goodwill | 40,000 | 30,000 |
| Sundry creditors | 10,000 | 21,000 | Stock | 55,000 | 1,00,000 |
| Provision for tax | 15,000 | 18,000 | Debtors | 30,000 | 75,000 |
| Proposed dividend | 25,000 | 20,000 | Bills receivable | 10,000 | 50,000 |
| Provision for doubtful debts | 2,000 | 3,000 | | | |
| | 3,02,000 | 4,50,000 | | 3,02,000 | 4,50,000 |

Additional information:

1. Land And Building were purchased at a cost of Rs.4,000 and profit on sale of land and building was transferred to capital reserve during 1999.
2. Investment costing Rs.10,000 was sold at a loss of Rs.2,000 and the loss on sale was adjusted against capital reserve.
3. Investments were purchased and interest received Rs.3,000 was used in writing down the book value of investments.
4. Bad debts written off during the year 1999 Rs.1,000 against provision account.
5. Stock of 1998 was valued at 10% above cost. It was decided to value the stock at cost.
6. A loan of Rs.28,000 was raised during 1999.

19. The following particulars are obtained from costing records of a factory:

| | Product A (per unit) Rs. | Product B (per unit) Rs. |
|---|---|---|
| Selling price | 200 | 500 |
| Material (Rs.20 per kg.) | 40 | 160 |
| Labour (Rs.10 per hour) | 50 | 100 |
| Variable overhead | 20 | 40 |

Total fixed overheads Rs.15,000

Comment on the profitability of each product when :

(a) Raw material is in short supply;
(b) Production capacity is limited;
(c) Sales quantity is limited;
(d) Sales value is limited;
(e) Only 1,000 kgs. of raw material is available for both type of products in total and maximum sales quantity of each product is 300 units.

20. The following ratios and other data relate to the financial statements of Jay Co. Ltd. for the year ending 31st Dec. 1988:

| | |
|---|---|
| Working capital ratio (current ratio) | 1.75 |
| Acid test ratio | 1.27 |
| Working capital | Rs.33,000 |
| Fixed assets to shareholders equity | 0.625 |
| Inventory turnover (based on closing stock) | 4 times |
| Gross profit ratio | 40% |
| Earning per share | Re.0.50 |
| Debt collection period | 73 days |
| No. of shares issued | 20,000 |
| Earnings for the year on share capital | 25% |

The company has no prepaid expenses, deferred charges, intangible assets or long-term liabilities. You are required to draft the company's Balance Sheet and Profit and Loss Account.

21. The standard cost of a certain chemical mixture is

40% Material A at Rs.25 per kg.

60% Material B at Rs.36 per kg.

A standard loss of 10% is expected in production.

During a period, the actual usage and prices were :

150 kgs of Material A at Rs.27 per kg.

260 kgs of Material B at Rs.34 per kg.

The actual output was 360 kgs.

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