



# LOYOLA COLLEGE (AUTONOMOUS), CHENNAI – 600 034

## M.Com. DEGREE EXAMINATION – COMMERCE

FIRST SEMESTER – NOVEMBER 2016

### 16PC01MC04 - ACCOUNTING FOR DECISION MAKING

Date: 09-11-2016  
Time: 01:00-04:00

Dept. No.

Max. : 100 Marks

#### PART-A

Answer ALL questions.

(10 x 2 = 20)

01. State the uses of Fund Flow Analysis.
02. How is ABC better than the traditional Costing?
03. Illustrate the term Break Even Point.
04. What are the main steps in budgetary control?
05. Give any four advantages of Standard Costing.
06. State uses of Ratio Analysis
07. Pass the journal entries when a company issued shares worth of Rs 50,000 against the following assets. ( i) Stock Rs. 25,000,ii) Plant and Machinery Rs. 20,000.
08. You are given: Margin of safety Rs.10, 000 which represents 40% of sales. P.V. ratio 50%. Calculate (a) Sales (b) Break Even Sales.
09. Calculate the EPS from the following data, Net profit before tax Rs.1,00,000,Tax @50 %, 10% preference share capital (Rs.10 each) Rs.1,00,000 and 10,000 equity shares Rs.10 each.
10. Product X requires 20 kgs. of material at Rs.4per kg. The actual consumption of material for the manufacturing of product X came to 24 Kgs. of material at Rs.4.50 per kg. Calculate, (i) Material Price Variance (ii) Material Usage Variance

#### PART – B

Answer any Four questions.

(4 x 10 = 40 Marks)

11. a) Explain in detail the concept of Transfer Pricing.  
b) Discuss the methods and area application of Transfer Pricing.
12. “Marginal costing is a valuable aid for Managerial Decisions” Discuss.
13. A company produces three products A, B and C, with standard costs and quantities per unit are as follows:

	Product A	Product B	Product C
Quantity produced	10,000 Nos	20,000 Nos	30,000 Nos.
Direct material per unit	Rs.50	Rs.40	Rs.30
Direct labour per unit	Rs.30	Rs.40	Rs.50
Labour hours required per unit	3 hours	4 hours	5our hs
Machine hours required per unit	4 hours	4hours	7 hours
Number of purchase requisitions	1,200 Nos	1,800 Nos.	2,000 Nos.
Number of set ups	240 Nos.	260 Nos.	300 Nos.

- i. Production overhead split by department: Department 1- Rs.11,00,000 and Department 2 - Rs. 15,00,000
- ii. Department 1 is labour intensive and Department 2 is machine intensive

- iii. Total labour hours in department 1 - 1,83,333 while total machine hours In department 2 - 5,00,000.
- iv. Product overhead split by activity: receiving / inspecting = Rs.14,00,000
- v. Production scheduling / machine set up = Rs.12,00,000
- vi. Number of butches for scheduling and set up = 800

You are required to prepare Cost Statement under

- a) Traditional Absorption Costing and b) Activity Based Costing Method

14. A Ltd, has been approached by a customer who would like a special job to be done for him and is willing to pay Rs.22,000 for it. The job would require the following materials:

Material	Total Units Required	Units already in Stock	Book Value of Units in Stock Rs./ Unit	Realizable Value Rs./Unit	X Replacement cost Rs./Unit
A	1000	Nil	-	-	60
B	1000	600	20	25	50
C	1000	700	30	25	40
D	200	200	40	60	90

- a) Material B is used regularly by X Ltd. And if stocks are required for this job, they may need to be replaced to meet other production demand
- b) Materials C and D are in Stock as the result of previous excess purchase and they have a restricted use. No other use would be found for material C but Material D could be used another hob as substitute for 300 Units of Material E, which currently costs Rs.50 per Unit (of which the company has no units in stock at the moment).
- c) What are the relevant costs of material, in deciding whether or not to accept the job? All other expenses on this job are to be specially incurred. The relevant cost of other material is Rs.5,500.

15. Calculate funds from operations of X Ltd. from the following Profit & Loss A/c

DEBIT	Rs.	CREDIT	Rs.
To Salaries	10,000	By Gross Profit	2,00,000
To Rent	3,000	By profit on Sale of	
To Commission	2,000	Machines	5,000
To Discount allowed	1,000	By Dividend	
To Provision for		received	2,000
Depreciation	14,000	By Refund of tax	3,000
To Transfer to General			
Reserve	20,000		
To Loss on sale of			
Investments	5,000		
To Provision for tax	10,000		
To Discount on issue of			
Debentures	2,000		
To Preliminary Expenses	3,000		
To Selling Expenses	20,000		
To Net Profit	1,20,000		
	2,10,000		2,10,000

16. 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)	5
(Fixed for all levels)	155

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

17. The information regarding the composition and hourly wage rates of labour force engaged on a job scheduled to be completed in 30 hours are as follows :

	Standard		Actual	
	Category of Workers	No. of Workers	Hourly wage rate per worker	No. of workers
Skilled	75	Rs.6	70	Rs.7
Semi - skilled	45	4	30	5
Unskilled	60	3	80	2

The work was completed in 32 hours. Calculate labour variances.

**PART-C**

**Answer any ONE question.**

**(1 x 17 = 17)**

18. 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.

19. The following ratios and other data relate to the financial statements of Jay Co. Ltd. for the year ending 31<sup>st</sup> 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.

20. 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.

Calculate all material variances.

**PART- D**

**Compulsory Question**

**(1 x 23 = 23)**

21. The following are the summarized Balance Sheets of Alacrity & Co. as on 31<sup>st</sup>December 1987 and 1988

**Balance Sheets**

Liabilities	1987 Rs.	1988 Rs.	Assets	1987 Rs.	1988 Rs.
Share capital	2,00,000	2,50,000	Land & Buildings	2,00,000	1,90,000
General reserve	50,000	60,000	Machinery	1,50,000	1,69,000
Profit & Loss A/c	30,500	30,600	Stock	1,00,000	74,000
Bank loan (long - term)	70,000	-	Debtors	80,000	64,200
Sundry creditors	1,50,000	1,35,200	Cash	500	600
Provision for taxation	30,000	35,000	Bank	-	8,000
			Goodwill	-	5,000
	5,30,500	5,10,800		5,30,500	5,10,800

**Additional Informations:**

- (a) Dividend of Rs.23,000 was paid.  
 (b) The following assets were purchased for Rs.50,000 as consideration to be payable in shares  
 Stock - Rs.20,000, and Machinery Rs.25,000.  
 (c) Machinery was further purchased for Rs.8,000.  
 (d) Depreciation written off on machinery Rs.12,000.  
 (e) Income tax provided during the year Rs. 33,000.  
 (f) Loss on sale of machinery Rs.200 was written off to general reserve.

You are required to prepare the cash flow statements as per AS 3.

\*\*\*\*\*