POSTAL TEST PAPER

INTERMEDIATE SYLLABUS 2022

PAPER - 12

MANAGEMENT ACCOUNTING

Time Allowed: 3 Hours **Full Marks: 100**

The figures in the margin on the right side indicate full marks.

Answer Question No. 1 and any five from Question No. 2, 3, 4, 5, 6, 7 and 8.

1. (a) Choose the correct alternative **[1 × 12 = 12]**

(i) Production at 60% activity is ₹ 600 units, if flexible budget needs to be calculated at 80% activity what will be units produced?

a. ₹ 800
b. ₹ 600
c. ₹1200
d. ₹ 1000

(ii) In which of the following circumstances is there a strong argument that profit centre accounting is a waste of time?

a. When the transferred item is also sold on an external market.
b. When the supplying division is based in a different country to head office.
c. If the transferred item is a major product of the supplying division.
d. If there is no similar product sold on an external market and the transferred item is a major product of the supplying division.

(iii) Management accounting assists the management in ____________.

a. Planning
b. Directing
c. Controlling
d. All of the above

(iv) Creation of value through effective use of resources is the focus area of the:

a. 1st stage
b. 2nd stage
c. 3rd stage
d. 4th stage

(v) In an ABC system, the allocation bases that are used for applying costs to services or procedures are called:

a. Cost Pool
b. Cost Driver
c. Cost Absorption
d. Cost Object

(vi) Plant depreciation is an example of which activity-level group?

a. Unit-level activity
b. Facility-level activity
c. Batch-level activity
d. Product-level activity

(vii) The main reason for the usage of Activity Based Costing, by replacing the traditional costing system is that:

a. The overhead recovery rates used in traditional costing systems are inappropriate for decision-making.
b. The companies deal with more number of products at present
c. No scope for cause and effect relationship in traditional costing
d. The new manufacturing technology needs information for feedback of performance even the productis in progress.

(viii) Activity-based costing:
a. Uses a plant-wide overhead rate to assign overhead
b. Is not expensive to implement
c. Typically applies overhead costs using direct labor-hours
d. Uses multiple activity rates

(ix) Which of the following is least likely to be classified as a batch level activity in an activity based costing system?
a. Quality assurance
b. Receiving and inspection
c. Property taxes
d. Production set-up

(x) Margin of safety is referred to as
a. Excess of budgeted or actual sales over the variable expenses and fixed expense, at break-even.
b. Excess of budgeted or actual sales revenue over the fixed expenses.
c. Excess of actual sales over budgeted sales.
d. Excess of sales revenue over the variable expenses.

(xi) A decrease in sales price
a. does not affect the break-even point
b. lowers the fixed cost
c. Increases the break-even point
d. lowers the break-even point

(xii) What will be sales in units if fixed cost is ₹50,000 Contribution per unit is ₹60 and desired profit per unitis ₹10.
a. ₹6,000
b. ₹1,000
c. ₹1,000
d. ₹6,000

(b) State True or False: **[1 × 7 = 7]**

(i) The purpose of moving from a traditional costing system to an ABC system must therefore be based on the premise that the new information provided will lead to action that will increase the overall profitability of the business.
(ii) Activity based costing is not expensive to implement.
(iii) The kind of cost which will not differ due to the volume of the production is called Fixed cost.
(iv) Another term for marginal costing is variable costing.

(v) Fixation of selling price in the long run can be done without considering fixed costs.

(vi) Key factor is important in ascertaining the profitability.

(vii) Marginal-costing technique is also used in planning the profit level of the business.

(c) Fill in the blanks: **[1 × 6 = 6]**

i. A ________is a norm against which the actual performance can be measured.

ii. ____________ allow for rest periods, machine breakdowns, and setup time.

iii. Transfer prices based on full cost are appropriate if top management treats the divisions like ______________.

iv. According to the principles that guide the preparation of the ____________ a series of fixed budgets are drawn for different levels of activity.

v. __________has been defined as a "budget based on functions, activities and projects."

vi. Return on investment encourages investment in projects that would otherwise be rejected under _____________.

2.(a) What is Decision Theory and how is it related to other Theories? **[7]**

(b) You are the Cost Controller of ABC Company Limited. You are vouching for the introduction of Activity Based Costing in the Company and in the meeting with other executives of the Company, you said 'Why is using a single plant wide allocation rate not always accurate?'
You are required to give your view, in support of the above statement. **[8]**

3.(a) ABC Ltd. uses activity based costing and accumulates overhead costs in the following cost pools:

i. Human Resources
ii. Parts management
iii. Purchasing
iv. Quality Control
v. Equipment set-up
vi. Training employees
vii. Assembly department
viii. Receiving department

You are to find out for each cost pool whether the cost pool would be unit-level, batch-level, product-level or facility level. **[8x1=8]**

(b) A company is at present working at 90 per cent of its capacity and producing 13,500 units per annum. It operates a flexible budgetary control system. The following figures are obtained from its budget.

Particulars	90%	100%
Sales (₹)	15,00,000	16,00,000
Fixed expenses (₹)	3,00,500	3,00,600

Semi-fixed expenses (₹)	97,500	1,00,500
Variable expenses (₹)	1,45,000	1,49,500
Units made	13,500	15,000

Labour and material costs per unit are constant under present conditions. Profit margin is 10 per cent.

A. You are required to determine the differential cost of producing 1,500 units by increasing capacity to 100%

B. What would you recommend for an export price for these 1,500 units taking into account that overseas prices are much lower than indigenous prices? **[7]**

4.(a) ABC Limited has production capacity of 5,00,000 units per annum at its full capacity.

Company's Cost structure is as under:	
Variable production cost per unit	₹32.00
Variable selling expenses per unit	₹ 9.60
Fixed production cost per annum	₹30,00,000
Fixed selling expenses per annum	₹20,00,000

During the year ended 31st March, 2023, the company worked at 80 percent of its capacity. The operating data for the year are as follows:

Production	4,00,000 Units
Sales	₹ 64 per Unit; 3,87,500 Units
Opening stock of finished goods	50,000 Units

Fixed production expenses are absorbed on the basis of capacity and fixed selling expenses are recovered on the basis of period.

You are required to prepare statements of Cost and Profit for the year ending 31st March, 2023:

A. On the basis of marginal costing

B. On the basis of absorption costing. **[3 + 4 = 7]**

(b) A company is engaged in three distinct lines of production. Their production cost per unit and selling prices are as under:

Production (Units)	**X**	**Y**	**Z**
	3,000	**2,000**	**5,000**
	₹	**₹**	**₹**
Material Cost	18	26	30
Wages	7	9	10
Variable overheads	2	3	3
Fixed Overheads	5	8	9
	32	46	52
Selling price	40	60	61
Profit	8	14	9

The management wants to discontinue one line and gives you the assurance that production in two other lines shall be raised by 50%.

They intend to discontinue the line which produces Article X as it is less profitable.

(A) Do you agree to the scheme in principle?

(B) Offer your comments and show the necessary statements to support your decision. **[4+4=8]**

5.(a) In a meeting with the Director Finance of your company, he had pointed out that there might be some disadvantages in taking divisions as a profit centres. As a Management Accountant of the company you are required to state the various disadvantages in taking divisions as a profit centres. **[5]**

(b) Division A is a profit centre, which produces four products P, Q, R and S.

Each product is sold in the external market also. Data for the period is as follows:

Particulars	P	Q	R	S
Market Price per unit (₹)	350	345	280	230
Variable Cost of Production per unit (₹)	330	310	180	185
Labour hours required per unit	3	4	2	3

Product S can be transferred to Division B but the maximum quantity that might be required for transfer is 2,000 units of S.

The maximum sales in the external market are:

P	3,000 units
Q	3,500 units
R	2,800 units
S	1,800 units

Division B can purchase the same product at a slightly cheaper price of ₹ 225 per unit instead of receiving transfers of products S from Division A.

What should be transfer price for each unit for 2,000 units of S, if the total labour hours available in Division A are:

(i) 24,000 hours?

(ii) 32,000 hours? **[5 + 5 = 10]**

6.(a) In a Cost Conference, the speaker discussing budgets and standard costs made the following statement:

"Budgets and standards are not the same thing. They have different purposes and are set up and used in different ways; yet a specific relationship exists between them."

(A) Identify distinctions or differences between budgets and standards.

(B) Identify similarities between budgets and standards. **[8]**

(b) The following data is obtained from the cost record of ABC Limited:

Standard Mix		Actual Mix	
Material X	120 kg. @ ₹25	Materials X	110 kg. @ ₹ 30
Material Y	80 kg. @ ₹50	Material Y	90 kg. @ ₹ 45
	200 kg.		200 kg.
Less: Loss 30%	60 kg.	Less: Loss 25%	50 kg.
Output	140 kg.	Output	150 kg.

You are required to find out the following material variances:

(i) Cost Variance;

(ii) Price Variance;

(iii) Usage Variance;

(iv) Mix Variance;

(v) Yield Variance. **[7]**

7.(a) From the cost records of a company for a specific period, for product X, the information given in the first column can be ignored since it is only one of the several projections of an assistant accountant, but it may be useful to you.

Particular	This Period Actual (₹)	One of The Future Projections (₹)
Sales (Units)	10,000	20,000
Profit (Loss)	(10,000)	10,000
Fixed Costs	30,000	30,000
Variable Cost Per Unit	8	8

[7]

(b) A Company is manufacturing a product marks an average net profit of ₹ 2.50 per piece on a selling price of ₹ 14.30 by producing and selling 6,000 pieces or 60% of the capacity. His cost of sales is as under:

Particulars	**₹**
Direct material	3.50
Direct wages	1.25
Works overheads (50% fixed)	6.25
Sales overheads (25% variable)	0.80

During the current year, he intends to produce the same number but anticipates that fixed charges will go up by 10%, with direct labour rate and material will increase by 8% and 6% respectively but he has no option of increasing the selling price. Under this situation, he obtains an offer for further 20% of the capacity. What minimum price you will recommend for acceptance to ensure the manufacturer an overall profit of ₹ 16,730. **[2 + 6 = 8]**

8.(a) A Co. currently operating at 80% capacity has the following; profitability particulars:

Particulars	Amount (₹)	Amount (₹)
Sales		12,80,000
Costs:		
Direct Materials	4,00,000	
Direct labour	1,60,000	
Variable Overheads	80,000	
Fixed Overheads	5,20,000	11,60,000
Profit		1,20,000

An export order has been received that would utilise half the capacity of the factory. The order has either to be taken in full and executed at 10% below the normal domestic prices, or rejected totally. The alternatives available to the management are given below:

i) Reject order and Continue with the domestic sales only, as at present;

ii) Accept; order, split capacity equally between overseas and domestic sales and turn away excess domestic demand;

iii) Increase capacity so as to accept the export order and maintain the present domestic sales by:

(A) buying an equipment that will increase capacity by 10% and fixed cost by ₹40,000 and

(B) Work overtime at one and a half the normal rate to meet balance of required capacity. Prepare comparative statements of profitability and suggest the best. **[12]**

(b) Explain the opportunity cost approach to transfer pricing **[3]**