LOYOLA COLLEGE (AUTONOMOUS), CHENNAI – 600 034

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

FIRST SEMESTER – **NOVEMBER 2017**

17/16PCO1MC04 – ACCOUNTING FOR DECISION MAKING

Date: 10-11-2017 Dept. No. Max. : 100 Marks

Time: 01:00-04:00

Answer ALL questions. **PART-A** **(10 x 2 = 20)**

01. State the uses of Cash Flow Analysis.
02. What are advantages of Budgetary Control System?
03. How do standard costs differ from estimated costs?
04. Why is ABC better than the traditional Costing?
05. Write a note i) Comparative Statement. ii) Trend Analysis.
06. Mention the objectives of Transfer Pricing.
07. The P.V. ratio of a firm dealing in precision instrument is 50% and the margin of safety is 40%. You are required to work out the B.E.P. and the net profit if sales volume is Rs.50, 00,000.
08. 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.
09. Calculate Operating Profit Ratio and Net Profit Ratio.

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
Sales	**2,00,000**	**Administration Expenses**	**20,000**
Gross Profit	**70,000**	**Income from investments**	**22,000**
Selling expenses	**10,000**	**Loss due to fire**	**12,000**

10. From the following information relating to Bright Ltd., calculate funds lost in operations.

	Rs.
Net Loss for the year	90,000
Dividend received	7,000
Depreciation charged	10,000
Profit on sale of asset	5,000
Refund of tax	2,000

Answer any FOUR questions. **PART – B** **(4 x 10 = 40 Marks)**

11. What is Zero – Base Budgeting (ZBB) ? Explain the process of ZBB and its advantages.
12. a)Discuss the concept ofRelevant Costing and its characters
    b) Explain the reasons for applying the Relevant Costing
    c) Mention different decisions of Relevant Costing in Managerial Decisions.
13. Summarized below are the Income and Expenditure forecasts of Gemini Ltd. for the months of March to August, 2017:

Months	**Sales in Rs.**	**Purchases in Rs.**	**Wages in Rs.**	**Manufacturing in Rs.**	**Office Exp in Rs.**	**Office Exp in Rs.**
March	60,000	36,000	9,000	4,000	2,000	4,000
April	62,000	38,000	8,000	3,000	1,500	5,000
May	64,000	33,000	10,000	4,500	2,500	4,500
June	58,000	35,000	8,500	3,500	2,000	3,500
July	56,000	39,000	9,500	4,000	1,000	4,500
August	60,000	34,000	8,000	3,000	1,500	4,500

You are given the following further information :

(a) Plant costing Rs.16,000 is due for delivery in July payable 10% on delivery and the balance after the months.

(b) Advance Tax of Rs.8,000 is payable in March and June each.

(c) Period of credit allowed (i) by suppliers 2 months and (ii) to customers 1 month.

(d) Lag in payment of manufacturing expenses ½ month.

(e) Lag in payment of all other expenses 1 month.

You are required to prepare a cash budget for **three** months starting on 1st May, 2017 when there was a cash balance of Rs.8,000.

14. The following figures relate to Nirmal Traders Ltd. for the year ended 31st March 2017.

Trading and Profit and Loss Account

Particulars	Amount (Rs)	Particulars	Amount (Rs)
To Opening Stock	75,000	By Sales 5,20,000	
To Purchases	3,25,000	Less : Return 20,000	
To Gross Profit	2,00,000		5,00,000
		By Closing Stock	1,00,000
	6,00,000		6,00,000
To Operating Expenses:		By Gross profit	2,00,000
Administration 40,000			
Selling and		By Non-operating Income;	
Distribution 25,000	65,000	Dividend 9,000	
To Non-operating expenses:		Profit on sale of shares 11,000	20,000
Loss on sale of assets	5,000		
To Net profit	1,50,000		
	2,20,000		2,20,000

Balance Sheet as on 31st March 2017

Liabilities	Amount (Rs)	Assets	Amount (Rs)
Issued capital:		Land and Building	1,50,000
2,000 Equity shares of		Plant and Machinery	80,000
Rs.100 each	2,00,000	Stock	1,00,000
Reserves	90,000	Debtors	1,40,000
Current Liabilities	1,50,000	Cash and Bank	30,000
Profit and Loss a/c.	60,000		
	5,00,000		5,00,0000

Calculate (1) Gross profit ratio (2) Operating ratio (3) Operating profit ratio (4) Net profit ratio (5) Expenses ratio (6) Stock turnover ratio (7) Return on total resources (8) Turnover of fixed assets (9) Turnover to total assets.

15. Calculate all variances from the following particulars.

	Standard			Actual		
Material	Qty. Kg.	Price Rs.	Total Rs.	Qty. kg.	Price Rs.	Total Rs.
A	500	6.00	3,000	400	6.00	2,400
B	400	3.75	1,500	500	3.60	1,800
C	300	3.00	900	400	2.80	1,120
	1200			1300		
Less 10% Normal Loss	120			220		
	1080		5,400	1,080		5,320

16. 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 In division A	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 unitsof Y, if the total labour hours available in division a are: a)3800 hours. b)5600 hours

17. A company for which you are the cost accountant, manufacturers foods in three separate factories. The projected figures for the next year are as follows :

	Trichy	Madurai	Salem
	Rs.	**Rs.**	**Rs.**
Sales	44,00,000	40,00,000	70,00,000
Branch expenses :			
Salaries	4,20,000	3,80,000	6,20,000
Advertising	80,000	1,50,000	1,00,000
Others	1,00,000	80,000	1,10,000

There is a Central office in Madras which estimated to cost Rs. 15,40,000 and this is to apportioned to the three factories on the basis of the sales figures. Variable costs amount to 75% of sales of each factory. You are required to prepare a comparative profit and loss a/c for the next year and advise whether the Madurai factory should be closed if that would save all the Madurai branch expenses and reduce the Central office expenses from Rs. 15,40,000 to Rs. 12,40,000.

Answer any ONE question. **PART-C** **(1 x 17 = 17)**

18. From the following particulars find out the profitable product mix and prepare a statement of profitability.

	Product A	Product B	Product C
Units produced and sold	1,500	2,000	1,000
Selling price per unit	Rs.60	Rs.55	Rs.50
Requirement per unit:			
Direct material	5 kgs	3 kgs	4 kgs
Direct labour	4 hours	3 hours	2 hours
Variable overhead	Rs.9	Rs.14	Rs.6
Fixed overhead	Rs.5	Rs.5	Rs.5
Cost of direct material per kg	Rs.4	Rs.4	Rs.4
Direct wages per hour	Rs.2	Rs.2	Rs.2
Total availability of direct material		12,000 kgs	
Total availability of direct labour hours		10,000 hours	

At the products A, B and Care produced from the same direct material using the same type of machines. Consider both material and labour as key factors.

19. From the following particulars, prepare Trading, Profit and Loss Account and Balance Sheet.
    Current ratio – 3; Liquid ratio – 1.8
    Bank overdraft – Rs.20,000; Working capital – Rs.2,40,000
    Debtors velocity – 1 month; Gross profit ratio – 20%
    Proprietary ratio (Fixed assets/Shareholders' fund) – 0.9
    Reserves and surplus – 0.25 of Share capital.
    Opening stock – Rs.1,20,000; 8% Debentures – Rs.3,60,000
    Long-term investments – Rs.2,00,000
    Stock turnover ratio – 10 times; Creditors velocity - ½ month
    Net profit to Share capital – 20%

20. The following information provides details of costs volume and cost drivers for a particular period in respect of XYZ Ltd for Products X, Y and Z.

	Product X	Product Y	Product Z	Total
Production and sales (units)	30,000	20,000	8,000	
Raw material usage (units)	5	5	11	
Direct material cost (Rs.)	25	20	11	12,38,000
Direct labour hours	1-1/3	2	1	88,000
Machine hours	1-1/3	1	2	76,000
Direct labour cost	8	12	6	
Number of production run	3	7	20	30
Number of deliveries	9	3	20	32
Number of receipts	15	35	220	270
Number of production orders	15	10	25	50
OVERHEAD COSTS				**Rs.**
Set ups				30,000
Machine				7,60,000
Receiving				4,35,000
Packing				2,50,000
Engineering				3,73,000
Total of overhead costs				18,48,000

In the past, the company has allocated overheads to products on the basis of direct labour hours. However, the majority of overheads are related to machine hours rather than direct labour hours. The company has recently redesigned its costs system by recovering overheads using two volumes related based (a) Machine hours and (b) materials handling overhead rate of recovering overheads of the receiving departments. Both the current and the previous cost system reported low profit margins for product X, which is the company's highest selling product. The management accountant has recently attended a conference on 'Activity Based Costing', and the overhead costs for the last period have been analysed by the major activities in order to compute activity based costs.

From the above information, you are required to

a) Compute the products costs using a traditional volume related costing system based on the assumption that
b) All overheads are recovered are recovered on the basis of direct labour hours (old product costing system)
c) The overheads of the receiving department are recovered by materials handling overhead rate and the remaining overheads are recovered using a machine hour rate (new product costing system)

Compulsory Question **PART- D** **(1 x 23 = 23)**

21. Prepare Cash flow Statement as per As – 3 from the following balance sheets

Liabilities	2014 Rs.	2015 Rs.	Assets	2014 Rs.	2015 Rs.
Share capital	2,00,000	2,50,000	Land& Buildings	80,000	80,000
P & L A/c	50,000	1,00,000	Plant	60,000	68,000
Capital Reserve	Nil	18,000	Investment	20,000	32,000
Bank Loan	Nil	20,000	Goodwill	40,000	30,000
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	Cash	7,000	15,000
	3,02,000	4,50,000		3,02,000	4,50,000

a) Land & building were purchases for Rs. 40,000. Profit on sale of land was transferred to capital reserve.
b) Investment Rs. 10,000 was sold at a loss of Rs. 2,000 and loss on sale was adjusted against capital reserve.
c) Investment purchased and interest received Rs. 3,000 was used in writing down book value of investment.
d) Bad debts written off during the year Rs. 1,000 against provision account.
e) Stock of 2014 was valued 10% above cost.
f) A loan of Rs. 28,000 was raised during 2015.

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