M.Com(A&F) DEGREE EXAMINATION,NOVEMBER 2019
II Year III Semester
Accounting for Decision Making

Time : 3 Hours **Max.marks :75**

Section A $(10 \times 2 = 20)$ Marks

Answer any **TEN** questions

1. Mention any two applications of marginal costing.
2. A company produces two commodities A and B. The contribution per unit of A and B are Rs. 10 and Rs. 15 respectively. The total fixed cost is Rs. 2,400. Find the best mix from the following a) 200 units of A and 500 units of B b) 800 units of A only
3. What is differential costing?
4. Write the meaning of relevant cost.
5. Define internal rate of return.
6. Calculate the pay- back period from the following
   Initial investment Rs. 10,0,0,000 Annual cash inflow Rs. 3,00,000
7. What is transfer price?
8. The divisional profits of Division X is Rs. 25,000. The amount of divisional investment is Rs. 1,50,000 and the minimum desired rate of return on the investment and the cost of capital of 20%. Calculate divisional expected ROI and divisional expected RI.
9. Define activity based costing.
10. Mention the features of activity based budgeting.
11. From the following calculate the accounting rate of return when the annual net earnings is Rs. 30,000 and the investment is Rs. 1,00,000
12. The marginal cost of producing the component A is Rs. 6 per unit. The same component is available in the market with an assured supply at Rs. 6.40 per unit. Suggest the company whether to make or buy the component.

Section B $(5 \times 5 = 25)$ Marks

Answer any **FIVE** questions

13. ABC company produces two products X and Y whose total variable cost amounts to Rs. 23 and Rs. 16 respectively. The sale price per unit is Rs. 25 for X and Rs. 20 for Y. Find the best mix among the following

a. 250 units of X and 250 units of Y
b. 400 units of Y only
c. 400 units of X and 100 units of Y
d. 150 units of X and 350 units of Y

14. P Ltd is at present operating @ 80% capacity levels the production being 15,000 units per annum. The company operates a flexible budgetary control system. The following relevant cost data are obtained from the company's budget at different capacity utilisation levels:

Capacity Utilisation Level

	80%	100%
Sales	Rs. 20,00,000	Rs. 25,00,000
Variable Overheads	Rs. 2,25,000	Rs. 2,50,000
Semi - variable Overheads	Rs. 1,05,000	Rs. 1,11,000
Fixed Overheads	Rs. 4,00,000	Rs. 4,70,000
Output (in units)	15,000	18,750

Material and labour cost per unit are constant under present conditions. The management expects a profit margin @ 10% on sales.

You are required to compute the differential cost of producing the additional 3,750 units by increasing the capacity utilization level to 100% and the minimum price per unit at 10% Profit and Cost.

15. Project X initially costs Rs. 25,000. It generates the following cash flows

Year	Cash Inflows in Rs.	Present Value of Rs.1 @ 10%
1	9,000	0.909
2	8,000	0.826
3	7,000	0.751
4	6,000	0.683
5	5,000	0.621

Taking the cut-off @ 10% suggest whether the project should be selected or not.

16. A company fixes the inter-divisional transfer pieces for its products on the basis of cost plus an estimated return on investment in its divisions. The relevant portion of the budget for the Division A for the year 2006-07 is given below

Particulars	Rs.
Fixed assets	5,00,000
Current assets (other than debtors)	3,00,000
Debtors	2,00,000
Annual fixed cost for the division	8,00,000
Variable cost per unit of product	10
Budgeted volume of production per year (units)	4,00,000
Desired return on investment	20%

You are required to determine the transfer price for Division A.

17. State the objectives of activity based costing.
18. Pay back method is a test of liquidity and not profitability. – discuss.
19. Enumerate the steps involved in rational decision making.

Section C $(2 \times 15 = 30)$ Marks

Answer any **TWO** questions

20. A company usually manufactures 10,000 units of as product at a cost of Rs. 4 per unit and there is home market for consuming the entire volume of production at the sale price of Rs. 4.25 per unit. In the year 2000, there is a fall in the demand in the home market which can consume the 10,000 units only at a price of Rs. 3.75 per unit. The cost per 10,000 units is found to be

Materials	15,000
Wages	11,000
Fixed expenses	8,000
Variable expenses	6,000

The foreign market is explored and it is found that this market can consume 20,000 units of the product if offered at a sale price at Rs. 3.55 per unit. It is also discovered that for additional 10,000 units of the product (over initial 10,000 units) that fixed expenses will increase by 10%. Is it worthwhile to try to enter into the foreign market?

21. A Ltd. produces Q by its two divisions A and B. Q is first processed at A and then in B.A and B are treated as two profit centres. The cost-volume-profit structure is given as below:

Output units	X Costs Rs.	Y revenue Rs.	Profit Rs.
1,000	900	4,000	3,100
1,100	1,000	4,300	3,300
1,200	1,120	4,540	3,420
1,300	1,250	4,730	3,480
1,400	1,400	4,900	3,500
1,500	1,580	5,030	3,450
1,600	1,800	5,110	3,310

The net revenue at Y denotes the excess of sale proceeds over costs incurred in Y. These costs do not include the price of transferred material chargeable by X. You are required to discuss the problem and fix the optimum transfer price for A ltd.

22. Consider the following proposed investments with the indicated cash inflows

Investment	Initial outlay(Rs. in '000)	Year -end cash inflow (Rs in '000)		
		Year 1	Year 2	Year 3
A	200	200	NIL	NIL
B	200	100	100	100
C	200	20	100	300
D	200	200	20	20
E	200	140	60	100
F	200	160	160	80

Rank the investment alternatives using Net Present Value with a discount rate @10% and state your views. The discounted value of Rs. 1 @ 10% p.a. for first three years is 0.909, 0.826 and 0.751 respectively.

23. Describe the working of activity based costing.