SHRIMATHI DEVKUNVAR NANALAL BHATT VAISHNAV COLLEGE FOR WOMEN
(AUTONOMOUS)
(Affiliated to the University of Madras and Re-accredited with 'A+' Grade by NAAC)
Chromepet, Chennai — 600 044.
M.Com. A&F - END SEMESTER EXAMINATIONS APRIL - 2024
SEMESTER - IV
20PAFET4005 - Accounting for Decision Making

Total Duration : 2 Hrs. 30 Mins. Total Marks : 60

Section B

Answer any **SIX** questions $(6 \times 5 = 30$ Marks)

1. Explain the pricing decision under special circumstances.

2. A firm can purchase a separate part from an outside source at Rs.11 per unit. There is a proposal that the spare part be produced in the factory itself. For this purpose, a machine costing Rs.1 lakh with annual capacity of 20,000 units and a life of 10 years will be required. A foreman with a monthly salary of Rs.500 will have to be engaged. Materials required will be Rs.4 per unit and wages Rs.2 per unit. Variable overheads are 150% of direct labour. The firm can easily raise fund at 10% per annum. Advise the firm whether the proposal should be accepted.

3. Small Tools Factory has a plant capacity adequate to provide 19,800 hours of machine use. The plant can produce all A type tools or all B type tools or a mixture of the two types. The following information is relevant.

Per type	**A**	**B**
Selling Price (Rs.)	10	15
Variable Cost (Rs.)	8	12
Hours required to produce	3	4

Market conditions are such that no more than 4,000 A type tools and 3,000 B type tools can be sold in a year. Annual fixed cost are Rs.9,900.
Compute the product-mix that will maximise the net income to company and find that maximum net income.

4. X limited having an installed capacity of 1,00,000 units of their product is currently operating at 70% utilization. At current levels of input prices, the FOB units' cost (after taking credit for applicable export incentives) works out as follows:

Capacity Utilisation percent	**FOB unit costs (Rs.)**
70	97
80	92
90	87
100	82

The company has received three foreign offers from different sources as under:

Source A	5,000 units at Rs.55 per unit FOB
Source B	10,000 units at Rs.52 per unit FOB
Source C	10,000 units at Rs.51 per unit FOB

Advice the company as to whether any or all the export orders should be accepted or not.

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5. A department of company X attains sales of Rs.6,00,000 at 80% of its normal capacity and its expenses are given below:

Particulars	Amount
Administration Costs (Fixed):	
Office salaries	90,000
General expenses	2% of sales
Depreciation	7,500
Rates and Taxes	8,750
Selling Costs:	
Salaries	8% of sales
Travelling Expenses	2% of sales
Sales office	1% of sales
General expenses	1% of sales
Distribution costs:	
Wages (Fixed)	15,000
Rent	1% of sales
Other Expenses	4% of sales

Draw up flexible administration, selling and distribution costs budget, operating at 90%, 100% and 110% of normal capacity.

6. A manufacturing company submit the following figures relating to product X for the first quarter of 2001:

Sales Targets:

January	60,000 units
February	48,000 units
March	72,000 units

Stock position: 1^{st} January 2001 (% of January 2001 sales) - 50%
Stock position: 31^{st} March 2001- 40,000 units
Stock position: January and February - 50% (% subsequent months sale)
You are required to prepare production budget for the first quarter of 2001.

7. Describe the salient features of Marginal costing.

8. Explain the concept of Activity Based Costing.

Section C

I - Answer any **TWO** questions $(2 \times 10 = 20$ Marks)

9. P Ltd., is at present operating at 80% capacity level, the production being 15,000 units per annum. The company operate 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

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

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Material and labour cost per unit are constant under present conditions. The management expects a profit margin of 10% on sales. You are required to compute the differential cost of producing the additional 3,750 units by increasing the capacity utilisation level to 100% and the minimum price per unit at 10% profit on cost.

10. Prepare a cash budget for the three months ending 30^{th} June, 2001 from the information given below:

a)

Month	**Sales**	**Material**	**Wages**	**Overheads**
February	14,000	9,600	3,000	1,700
March	15,000	9,000	3,000	1,900
April	16,000	9,200	3,200	2,000
May	17,000	10,000	3,600	2,200
June	18,000	10,400	4,000	2,300

b) Credit terms are:
Sales and debtors – 10% sales are on sales are on cash, 50% of the credit sales are collected next month and the balance in the following month:

Creditors	Materials	2 months
	Wages	¼ month
	Overheads	½ month

c) Cash and Bank balance on 01.04.2001 is expected to be Rs.6,000.

d) Other relevant information is:

- Plant and Machinery will be installed in February, 2001 at a cost of Rs.96,000, the monthly instalment of Rs.2,000 is payable from April onward.
- Dividend @ 5% on Preference Share Capital of Rs.2,00,000 will be paid on 1^{st} June.
- Advance to be received for sale of vehicles Rs.9,000 in June.
- Dividend from investments amounting to Rs.1,000 are expected to be received in June.
- Income tax (advance) to be paid in June is Rs.2,000.

11. From the following, Calculate:

a) Break Even Point b) Margin of Safety c) Sales to earn a profit of Rs.1,20,000

	Rs.
Sales	6,00,000
Variable costs	3,75,000
Fixed costs	1,80,000

12. Elaborate the concept of cost ascertainment and pricing using target costing.

II - Compulsory question $(1 \times 10 = 10$ Marks)

13. The annual flexible budget of a company is as follows:

Production Capacity Cost	**40%**	**60%**	**80%**	**100%**
Direct Material	12,000	18,000	24,000	30,000
Direct Labour	16,000	24,000	32,000	40,000
Production Overheads	11,400	12,600	13,800	15,000
Administration Overheads	5,800	6,200	6,600	7,000
Selling and Distribution Overheads	6,200	6,800	7,400	8,000
	51,400	67,600	83,800	1,00,000

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Owing to trade difficulties the company is operating at 50% capacity. Selling prices have had to be lowered to what the directors maintain is an uneconomic level and they are considering whether or not their single factory should be closed down until the trade recession has passed.
A market research consultant has advised that in about 12 month's time there is every indication that sales will increase to about 75% of normal capacity and that the revenue to be produced from sales in the second year will amount to Rs.90,000. The present revenue from sales at 50% capacity would amount to only Rs.49,500 for a complete year.
If the directors decide to close down the factory for the year, it is estimated that:

- The present fixed cost would be reduced to Rs.11,000 a year.
- Closing down cost would amount to Rs.7,500.
- Necessary maintenance of plant would cost Rs.1,000 per annum.
- On reopening the factory, the cost of overhauling plant, training and engagement of new personnel would amount to Rs.4,000.

Prepare a statement for the directors presenting in such a way as to indicate whether or not it is desirable to close the factory.

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