

MID-WESTERN UNIVERSITY
FACULTY OF MANAGEMENT
FINAL EXAMINATIONS: 2074
MASTER OF BUSINESS STUDIES (MBS)
SEMESTER - II

Subject: Cost & Management Account

Course Code: MGMT 525

Full Marks: 100

Time: 4:00 Hours

You are required to answer in your own words as far as applicable. Figures in the margins indicate full marks.

SECTION A: CRITICAL THINKING QUESTIONS (10 X2 = 20 MARKS)

Answer all questions:

- Q1. Clarify the meaning of cost accounting.
- Q2. Sketch major four relationships between management accounting and financial accounting.
- Q3. "Out of pocket cost has relation with real cash concept". Briefly explain the statement based on cost classification as per managerial decision making.
- Q4. Write the meaning of break-even point.
- Q5. Define sunk cost with suitable example.
- Q6. A furniture company's contribution margin ratio is 40% and sells 30,000 units @ Rs.70 each in order to break even. Required: - Total fixed cost and Variable cost per unit
- Q7. Write any two differences between marginal costing and absorption costing method.
- Q8. Following information is given:

Month	January	February	March	April
Sales revenue Rs.	2,00,000	300,000	4,00,000	5,00,000
The gross profit margin will be 40 %. The desired ending inventory will be equal for all month as Rs. 150,000.				

Required: - Merchandise purchase budget for first three months

- Q9. Enlist any four basic information needed to prepare direct material purchase budget.
- Q10. What do you mean by master budget?

SECTION B: SHORT ANSWER QUESTIONS (6 X 8 = 48 MARKS)

Answer any SIX questions:

- Q11. "Cost classification is the function of management accounting for effective decision making process". Explain this statement highlighting the relationship of cost and management accounting with cost grouping as per managerial decision making. (8)
- Q12. Explain the supportive and conflicting roles of chief financial advisor in organization. (8)
- Q13. State the meaning of Zero Based Budget. Elaborate the process of preparing Zero Based Budget. Explain the pros and cons of Zero Based Budget system. (2+3+3)
- Q14. A) Following information of cost sheet of Surkhet Manufacturing Company is given to you:

Particulars	Amount	
	Detail	Total
Direct materials.....	150,000	
Productive wages.....	<u>50,000</u>	
Prime cost.....		200,000
Add :- Factory overheads (based on prime cost)		
Factory rent and rates.....	10,000	
Other manufacturing expenses.....	<u>30,000</u>	
		<u>40,000</u>
Factory cost		240,000
Add :- Administrative overhead(based on factory cost)		
Office salary.....	20,000	

Other administrative expenses.....	15,000	<u>35,000</u>
Cost of production		275,000
Add:- Selling overheads (based on factory cost)		<u>30,000</u>
Selling and distribution expenses.....	30,000	305,000
Cost of sales		<u>95,000</u>
Add: - Profit (23.75% of sales).....		400,000
Sales		

The cost estimated for materials and wages are Rs.18,000 and 12,000 respectively for a job.

Required: - Quotation sheet for a job

(4)

B) Explain the relationship between cost sheet and income statement.

(4)

Q15. The cycle parts manufacturing company installed with standard production capacity of plant is 15,000 units and manufacturing information related with 80 % capacity are as follows.

Variable data per unit	Amount Rs.	Fixed cost	Amount Rs.
Selling price per unit	20	Fixed factory overheads Rs.	60,000
Direct material cost	5	Fixed Admin. Cost Rs.	30,000
Direct labor cost	2	Selling expenses Rs.	17,000
Direct expenses cost	2	Production units	12,000
Administration exp.	4	Sales units	15,000
Selling expenses	2	Closing stock unit	2,000

Required: - Income statement under absorption costing and variable costing with profit reconciliation statement (8)

Q16. You are given following estimated revenue and expenses:

Head	December	January	February	March	April	May
Sales (Rs)	160,000	80,000	88,000	100,000	140,000	300,000
Raw materials(Rs.)	96,000	80,000	50,000	50,000	90,000	80,000
Labor	20,000	16,000	16,000	10,000	10,000	16,000
Production exp.(Rs.)	12,000	12,000	12,000	10,000	8,000	12,000
Selling expense(Rs.)	6,000	4,000	4,000	2,000	4,000	2,000

- Sales commission @ 5% on total sales is to be paid within a following month on actual sales of month.
- 50% of sales are for cash. The remaining is receivable after 1 month.
- Rs. 40,000 being the amount of second call may be received in March.
- Share premium amounting Rs. 10,000 is also obtainable with the second call.
- 100 % of purchase are credit purchase which are payable after 2 month.
- Loan agreement from Global IME bank @ 10% pa in multiple of Rs. 1,000.
- Lag in payment of wages is half month.
- Cash balance on 1st March Rs.25, 000.
- New machinery is installed at Rs.200, 000 on credit to be repaid by two equal installments in March and April.

Required: - Cash budget for the month of March, April and May

(3+3+2)

Q17. A company produces and sells three products M, N, and O. Related data on these are as follows:

Product	Sales unit	Selling price per unit	Variable cost per unit
M	6, 000	Rs.25	Rs.15
N	9,000	Rs.20	Rs.10
O	15, 000	Rs.10	Rs.4

Total fixed cost Rs.160, 000

Required:

- a) Overall breakeven unit (3)
 b) Total sales units for earning profit of Rs. 100,000 (2)
 c) Revised BEP units, if sales mix is changed to 15:9:6 from 0.20 : 0.30 : 0.50 (3)

Q18. The direct labor requirements of three products manufactured in a factory, each involving more than one direct labor operation are estimated as follows:

Operations	Direct Labor Hours per unit (in minute)		
	Product X	Product Y	Product Z
1	24	30	30
2	-	18	24
3	12	6	-

The factory works 8 hours per day, 6 days in a week. The budgeted quarter is taken as 13 weeks. During a quarter lost hours due to leave and holiday and other causes are estimated to be 124 hours. The budgeted hourly rates for the workers on the operation 1, 2 and 3 are Rs. 5, Rs.3 and Rs.4 respectively. The budgeted sales, opening stock, and closing stock of the products during the quarters are:

	Budgeted sales unit	Opening stock	Closing stock
Product X	10,000 units	0	1,000
Product Y	16,000 units	5,000	0
Product Z	12,000 units	4,000	2,000

Required:

- a. Production budget (1)
 b. Direct labor hours and cost budget and (4)
 c. Allocate the number of workers for each product. (3)

SECTION C: LONG ANSWER QUESTIONS (2 X 16 = 32 MARKS)

Answer any TWO questions:

- Q19. “Management accounting is a strategic discipline without any fixed functions and techniques for managerial decisions making process that depends upon dynamic environment”. Justify the statement, explaining the emerging concept, managerial functions and limitations of management accounting discipline. (16)
- Q20. Following is the income statement of a multi-product manufacturing company:

Particulars\ Products	A	B	Total
Unit produced and sold	1500	1, 000	2,500
Sales revenue	Rs.45, 000	Rs.45, 000	Rs. 90, 000
Less;- variable cost of goods sold			
Direct materials @ Rs. 8 per unit	Rs.16, 875	Rs. 18, 000	Rs.34,875
Direct labor @ Rs. 5 per hours	<u>Rs. 5, 625</u>	<u>Rs. 12, 000</u>	<u>Rs. 17, 625</u>
Contribution margin	Rs.22, 500	Rs.15,000	Rs.37,500
Less :- Joint fixed cost			<u>Rs. 17,500</u>
Net income before tax			Rs. 20, 000

Required:-

- a) Break even sales volume in unit (2)
 b) Break even sales unit when the sales mix are change to 2:3 ratio (2)
 c) Which sales mix is preferable? And why? (1)
 d) The decision making tools and process of cost volume profit analysis (1+1)
 e) Desiring to have production plan that maximize contribution, the company provide following information:

Particulars\ Products	A	B	Total available
Material / unit	1.25	2	9, 750 unit
Direct L.H/ unit	0.25	0.8	3,125 hours

Use LP technique to maximize contribution considering above constraints and utilizations of constraints at the activity level that maximize contribution. (7+2)

Q21. The following information is given to you:

Month	Actual and estimated Sale		Production budget (unit)	Manufacturing overheads Rs.	Direct Labor cost per unit @ Rs. 7
	Units	Total Rs.			
Nov.	10,000	200,000			
Dec	15,000	300,000			
Jan	15,000	300,000	20,000	130,000	140,000
Feb.	20,000	400,000	25,000	145,000	175,000
March	25,000	500,000	30,000	160,000	210,000
April	30,000	600,000	35,000		
Total	11,50,000	23,00,000	110,000	Rs.435,000	Rs.525,000

- Creditor of December last year was Rs.100, 000.
- Share capital and fixed asset at the end of December last year was Rs. 583,000 and Rs.100, 000 respectively.
- Closing stock of raw material and finished goods of December are 25,000 units and 18,000 units respectively.
- Depreciation charge on fixed asset Rs.1000 monthly.
- Each unit of finished product will need 3 units of raw material at a cost of Rs.5 each.
- Desired ending balance of raw materials at the end of each month will be sufficient inventory unit to meet next month production need
- The selling and distribution cost will be 10% of sales revenue. All direct labor and overhead cost will be paid in the same month.
- All purchases will be paid in the next month of purchase.
- Final call on share capital total Rs. 800,000 will be received on February after 10% discount.
- According to agreement, all borrowing will be in a multiple of Rs.5,000 to meet the deficiency of cash and payment in Rs.1, 000 with an interest 12% for the amount of loan repaid. Assume that loan taken at the beginning of month and paid at end.
- Out of total sales 20% will be in cash. 50% of credit sales will be collected in the month of sales, 30% in the next month of sales and the balance in the next following month of sales.
- Minimum cash and bank balance of Rs.10, 000.
- Debenture Rs. 100,000 will be mature on early January.

You are required to prepare following budget for January to March:

- a. Material purchase budget (unit and Rs.) (2)
- b. Direct material cost budget (1)
- c. Cost of production budget (1)
- d. Cost of goods sold budget (2)
- e. Cash collection and disbursement budget (5)
- f. Budgeted income statement (3)
- g. Budgeted balance sheet (2)

