K. J. SOMAIYA INSTITUTE OF MANAGEMENT STUDIES AND RESEARCH, Vidyavihar, Mumbai- 400077

Program MFM *(Batch2017-20), Sem-II*
Subject: Cost Management Accounting

Maximum Marks: 50
Duration: 3 Hours

Date: 13th April, 2018

Instructions

1. **The first question is compulsory, carrying 10 marks.**
2. **Attempt any 4 questions from the remaining.**

QUESTION 1

Joann Swanson owns and operates a restaurant. Her fixed costs are $17,000 per month. She serves luncheons and dinners. The average total bill (excluding tax and tip) is $18 per customer. Swanson's present variable costs average $9.50 per meal.
1. How many meals must she serve to attain a profit before taxes of $8,500 per month?
2. What is the break-even point in number of meals served per month?
3. Suppose Swanson's rent and other fixed costs rise to a total of $25,420 per month and variable costs also rise to $11.40 per meal. If Swanson increases her average price to $22, how many meals must she serve to make $8,500 profit per month?
4. Assume the same situation described in requirement 3. Swanson's accountant tells her she may lose 15% of her customers if she increases her prices. If this should happen, what would be Swanson's profit per month? Assume that the restaurant had been serving 3,000 customers per month.
5. Assume the same situation described in requirement 4. To help offset the anticipated 15% loss of customers, Swanson hires a pianist to perform for 4 hours each night for $2,300 per month. Assume that this would increase the total monthly meals from 2,550 to 2,800. Would Swanson's total profit change? By how much?

QUESTION 2

Assume that Nantucket Nectars reports the following costs to make 17.5 oz. bottles for its juice cocktails:
Nantucket Nectars Company

Cost of Making 17.5-Ounce Bottles

	Total Cost for 10,00,000 Bottles	**Cost per Bottle**
Direct materials	$80,000	$.080
Direct labour	30,000	.030
Variable factory overhead	60,000	.060
Fixed factory overhead	85,000	.085
Total costs	$2,55,000	$.255

Another manufacturer offers to sell Nantucket Nectars the bottles for $.25. The capacity now used to make bottles will become idle if the company purchases the bottles. Further, one supervisor with a salary of $60,000, a fixed cost, would be eliminated if the bottles were purchased. Suppose Nantucket Nectars can use the released facilities in another manufacturing activity that makes a contribution to profits of $75,000 or can rent them out for $55,000. Prepare a schedule that compares the four alternative courses of action. Which alternative would yield the lowest net cost?

QUESTION 3

3.A..Hamley Toy Company produced 13,000 stuffed bears. The standard direct-material allowance is 1.5 kilograms per bear, at a cost per kilo of $3.20. Actually, 18,700 kilos of materials (input) were used to produce the 13,000 bears (output).
Similarly, the standard allowance for direct labor is 5.1 hours to produce one bear, and the standard hourly labor cost is $6. But 67,100 hours (input) were used to produce the 13,000 bears.
Compute the quantity variances for direct materials and direct labor.

3.B. What is Responsibility Accounting? What are the basic principles of Responsibility Accounting and what are its benefits?

QUESTION 4

A company manufactures its sole product by passing the raw material through the distinct processes in its factory. During the month of April, 2017, the company purchased 96,000 kg of raw material at Rs 5 per kg and introduced the same in Process 1. Further particulars of manufacture for the month are given below:

	Process 1	Process II	Process III
Material consumed	33,472	27,483	47,166
Direct labour	80,000	72,000	56,000
Overheads	1,20,000	1,08,000	84,000
Normal waste as % of input	3%	1%	1%
Sale value of waste(Rs/kg)	2	3	5
Actual output during the month (kg)	93,000	92,200	91,500

Prepare the three Process accounts.

QUESTION 5

A. GS Ltd. Manufactures a single product for which market demand exists for additional quantity. Present sales level of Rs 1,40,000 per month utilizes only 70% capacity of the plant. The Marketing manager assures that with the reduction of 10% in the price , he would be able to increase sales The following data are available:

i. Selling price is Rs 14 pu
ii. Variable cost is Rs 6 pu
iii. Semi-variable cost is Rs 5000 fixed + 50 paise pu
iv. Fixed cost is Rs 20,000 at present level and is estimated to be Rs 24,000 at 80% output

You are required to prepare the following statements:
(a) The operating profits at 60%, 70% and 80% levels at current selling price
(b) The operating profits at 60%, 70% and 80% levels at revised selling price

QUESTION 6

Prepare a Cash Budget of Fashion Fabrics for the months April, 2017 to July , 2017 from the details given below:

a. Estimated Sales during 2017

Feb	March	April	May	June	July	August
12,00,000	12,00,000	16,00,000	20,00,000	18,00,000	16,00,000	14,00,000

b. On an average, 20% of sales are cash sales
c. Credit sales are realized in the third month(Jan sales in March)
d. Purchases amount to 60% of sales. Payment for purchases is also made after 2 months.
e. Variable expenses(other than sales commission) constitute 10% of sales and there is a time lag of half a month in these payments
f. Commission on sales is paid at 5% of sales value and payment is made in the third month.
g. Fixed expenses per month amount to Rs 75,000
h. Other values anticipated are:
   Interest on deposits Rs 1,60,000 received in April
   Sale of old assets Rs 12,500 received in May
   Payment of tax Rs 80,000 paid in June
   Purchase of fixed assets Rs 6,50,000 paid in July

Opening cash balance Rs 1,50,000

QUESTION 7:

a. Why is Inventory valuation important? Discuss the main methods of Inventory valuation.

b. Discuss the concept and methods of Transfer pricing.

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