

K. J. SOMAIYA INSTITUTE OF MANAGEMENT STUDIES AND RESEARCH

Program: PGDM (Core) Second Trimester (Batch 2018-2020)

Subject: Cost and Management Accounting
(End Term examination)

Maximum Marks: 50

Date: 12/01/2019

Notes:

- 1. All questions carry equal marks**
- 2. Answer all questions**
- 3. Make suitable assumptions if required and state them**
- 4. It is an OPEN BOOK examination and students are allowed to use ONLY OWN books, notebooks and calculators.**

QUESTION 1

A person explains that financial statements ultimately reflect the actual values and so the choice of any cost accounting method – actual, normal or standard is immaterial since the financial statements would be same under all methods. Do you agree?

QUESTION 2

It is suggested that since it may be difficult to find all relevant costs, we can reduce the possibility of taking wrong decisions by adding a miscellaneous cost whenever we are taking any decision. This miscellaneous cost would compensate for any missing relevant costs. Do you agree with this suggestion, if yes what should be the amount for this miscellaneous cost.

QUESTION 3

Under the CVP analysis, one of the assumptions is that the selling price remains the same under all volume. We know that selling price and volume are inversely related and lower price would result in higher volumes and higher price would result in lower volume. Given, this can we say that CVP analysis is more theoretical and has little practical application.

QUESTION 4

A company has received an order for 100 units of its product and is deciding whether to accept the order or not. The material cost would be Rs. 100 per unit. The company uses both permanent and temporary labor. Temporary labor is hired on a per day basis. Permanent labor is allocated to products at the rate of Rs. 20 per hour while temporary labor is allocated to the products at the rate of Rs. 10 per hour. Each unit would need 5 hours of labor. The company is currently using full labor but could produce these additional units either by

asking permanent labor to work over time or to hire additional temporary labor as needed. The job could also be scheduled in regular time and other normal jobs could be done on overtime. Overtime for permanent labor is paid at the rate of Rs. 30 per hour. Each work day is 8 hours. Overhead is applied at the rate of Rs. 30 per labor hour. The company expects some overhead costs may be variable but has not divided the overhead into fixed and variable parts. The company wants to calculate the lowest cost for each unit so as to send a price quote. Calculate what would be the lowest cost per unit.

QUESTION 5

Ballpark Concessions currently sells hot dogs. During a typical month, the stand reports an operating income of Rs.10,000 with sales of Rs.50,000, fixed costs of Rs.15,000, and variable costs of Re.0.50 per hot dog.

Next year, the company plans to start selling nachos for Rs.3 per unit. Nachos will have a variable cost of Rs.1.50 and new equipment and personnel to produce nachos will increase monthly fixed costs by Rs.5,000. Initial sales of nachos are expected to total 6,000 units. Most of the nacho sales are anticipated to come from current hot dog purchasers, therefore, monthly contribution margin of hot dogs is expected to decline to Rs.23,000.

Required:

- a. Determine the monthly breakeven sales in rupees before adding nachos.
- b. Should the company add the nachos business? Why or why not? Show your calculations.

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