# K. J. SOMAIYA INSTITUTE OF MANAGEMENT STUDIES AND RESEARCH

## Program:PGDM (Core) , 2nd Trimester (Batch 2016-2018)

## Subject: Cost and Management Accounting
**(End Trimester examination)**

**Maximum Marks: 100**
**Duration: 3 hours**

**Date: December 27, 2016.**

**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 NOTES examination and students are allowed to use ONLY OWN notebooks and calculators.**

### Question 1

Assume the following comments were recently overheard at an international management accounting conference. For each group of comments below, state whether or not you agree with each set of comments, and provide a 1 to 2 paragraph rationale for your position.

a. My advice is to always pick up any special offer of irregular materials from your supplier. The only place you'll take a hit is on the direct materials usage variance; because you'll have more scrap. But you'll always make it up on the materials price variance

b. In our company, every department is treated as a profit center. You can't really effectively evaluate a responsibility center unless you actually assign some revenues to it

c. Our bonus system is easy, and I'm sure it maximizes performance. Whenever a division exceeds its budgeted output for the year, everyone in the division gets a 15 percent bonus based on his or her annual salary

### Question 2

Any future cost is relevant." Do you agree? Explain.

### Question 3

**Breakeven units are calculated by dividing the fixed costs by unit contribution margin. The breakeven units therefore depend on fixed costs, selling price per unit and variable cost per unit. The breakeven units can be changed by changing any of these variables. In making any decision, how do we decide which values for all these**

**are the optimal values ?**

**Question 4**

A firms wishes to start a new product line which would last for 4 years. The firm would invest Rs. 100,000 in new equipment for this product. It estimates that it would cost Rs 5 per unit in direct material and Rs. 7 per unit in direct labor and the product would use 1 DLH to produce. Currently the firm applies overhead at the rate of Rs. 10 per direct labor hour (Rs. 4 variable and Rs. 6 fixed) and would use the existing facility for the manufacture of the product and does not expect any changes in the facility apart from new equipment. The firm estimates the selling price as Rs. 30 per unit and would spend Rs. 75,000 in advertising each year and there would be a cost of Rs. 4 per unit in distributing the product. The existing sales persons (salary Rs. 20,000 per month) and offices (owned by the firm, depreciation Rs. 50,000 per year) would be used for the new product. Calculate the breakeven sales in units and rupees and explain whether the firm should launch the new product.

**Question 5**

Markus Corporation's sales of gizmos are 25% for cash and 75% on credit. Past collection history indicates that credit sales are collected as follows:

30% in the month of sale
60% in the month following sale
10% in the second month following sale

In January, sales were Rs.42,000 and February sales were Rs.45,000. Projected sales for March are 3,000 gizmos at Rs.10 each. Projected sales for April are 4,500 gizmos at Rs.12 each. The cash balance at March 1 was Rs.5,785.

Markus expects to purchase Rs.24,000 of materials in February and Rs.21,000 of materials in March. Three-quarters of all purchases are paid for in the month of purchase, and the other one-fourth are paid for in the month following the month of purchase. In addition, a 2% discount is allowed for payments made in the month of purchase. All other fixed expenses are Rs.7,000 per month and are paid in the month of purchase.

a. Prepare a cash budget for March.
b. Why is the cash budget important?

**Question 6**

**Part of your company's accounting database was destroyed when Godzilla attacked the city. You have been able to gather the following data from your files. Reconstruct the remaining information using the available data. All of the raw material purchased during the period was used in production. (Hint: it is helpful to**

**solve for the unknowns in the order indicated by the letters in the following table.)**

| | Direct Material | Direct Labor |
|---|---|---|
| Standard price or rate per unit of input | Rs.16 per pound | e |
| Standard quantity per unit of output | c | f |
| Actual quantity used per unit of output | a | 3.5 hours |
| Actual price or rate per unit of input | Rs.14 per pound | |
| | Rs.21per hour | |
| Actual output | 20,000 units | 20,000 units |
| Direct material price variance | Rs.120,000 F | |
| Direct material quantity variance | b | |
| Total of direct material variances | Rs.40,000 F | |
| Direct labor rate variance | | d |
| Direct labor efficiency variance | | Rs.200,000 F |
| Total of direct labor variances | | Rs.130,000 F |

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