

(Following Paper ID and Roll No. to be filled in your Answer Book)

PAPER ID : 7115

Roll No.

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MBA

(SEM II) EVEN SEMESTER THEORY EXAMINATION, 2009-2010

COST & MANAGEMENT ACCOUNTING

Time : 3 Hours

Total Marks : 100

Note : *Attempt ALL questions.*

PART-A

1. Attempt all parts of this question; each question is of **1 mark**. **(20x1=20)**
- (a) "Good accounting provides automatic control of operations." Do you agree? Explain.
- (b) "It is confusing to think of fixed costs on a per-unit basis." Do you agree? Why or why not?
- (c) Present the CVP formula for computing the effects of a change in volume on after-tax income.
- (d) Why are fixed costs also called capacity costs?
- (e) Which of the following are step costs? Why?
- (i) Rent on a warehouse that is large enough for all anticipated orders.
- (ii) Teachers for a private elementary school. One teacher is needed for each 15 student.
- (iii) Sheet steel for a producer of machine parts. Steel is purchased in carload shipments, where each carload contains enough steel for 1,000 parts.

- (f) "Recovering sunk costs is a major objective when replacing equipment." Do you agree? Explain.
- (g) Why is the sales forecast the starting point for budgeting?
- (h) How do committed fixed costs differ from discretionary fixed costs?
- (i) Past costs are indeed relevant in most instances because they provide the point of departure for the entire decision process." Do you agree? Why?
- (j) What is the principal objective of a production budget?
- (k) Distinguish between flexible budgets and master budgets.
- (l) Name four cost objectives or cost objects.
- (m) Define a cost management system and give its three purposes.
- (n) Differentiate between Target Costing and Life Cycle Costing
- (o) How does Value Chain Analysis helps in identification of cost objectives ?
- (p) Differentiate between Activity Based Costing and Break Even Analysis
- (q) Incremental Costs are difficult to assess do you agree? Write briefly on how you interpret the above statement ?
- (r) Variance is related to the level of production activity. Do you agree? Elaborate.
- (s) What is a cost sheet
- (t) What is transfer pricing

PART-B

(1x30=30)

2. (a) Suppose you are the controller of Western Idaho State University, interested to start its operations in India. With current statistics generated by the research department the University is trying to make a Comprehensive Budget for the University. The university president, Willa Redcloud, is preparing for her annual fund-raising campaign for 2008-2009. To set an appropriate target, she has asked you to prepare a budget for the academic year. You have collected the following data for the current year (2007-2008) :

	Undergraduate Division	Graduate Division
Average salary of faculty member	Rs. 46, 000	Rs. 46, 000
Average faculty teaching load in semester		
Credit-hours per year (eight undergraduate or six graduate courses)	24	18
Average number of students per class	30	20
Total enrollment (full-time and part time student)	3600	1800
Average number of semester credit-hours Carried each year per student	25	20
Full time load, semester hours per year	30	24

For 2008-2009, all faculty and staff will receive a 6% salary increase. Undergraduate enrollment is expected to decline by 2%, but graduate enrollment is expected to increase by 5%.

- The 2008-2009 budget for operation and maintenance of facilities is Rs.500,000, which includes Rs. 240,000 for salaries and wages. Experience so far this year indicates that the budget is accurate. Salaries and wages will increase by 6% and other operating costs will increase by Rs. 12,000 in 2008-2009.
- The 2007-2008 and 2008-2009 budgets for the remaining expenditures are

	2007-2008	2008-2009
General	Rs.500,000	Rs. 525, 000
administrative Library		
Acquisitions	150,000	155,000
Operations	190,000	200,000
Health services	48,000	50,000
Intramural athletics	56,000	60,000
Intercollegiate	240,000	245,000
Insurance and	520,000	560,000
Interest	75,000	75,000

- Tuition is Rs. 70 per credit hour. In addition, the state legislature provides Rs. 780 per full-time-equivalent student. (A full-time equivalent is 30 undergraduate hours or 24 graduate hours.) Tuition scholarships are given to 30 full-time undergraduates and 50 full-time graduate students.

- Revenues other than tuition and the legislative apportionment are

	2007-2008	2008-2009
Endowment income	Rs. 200,000	Rs. 210,000
Net income from auxiliary Services	325,000	335,000
Intercollegiate athletic	290,000	300,000

- The chemistry/physics classroom building needs remodeling during the 2008-2009 period. Projected cost is Rs. 575,000.

- Prepare a schedule for 2008-2009 that shows, by division, (a) expected enrollment, (b) total credit hours, (c) full-time equivalent enrollment, and (d) number of faculty members needed.
 - Calculate the budget for faculty salaries for 2008-2009 by division.
 - Calculate the budget for tuition revenue and legislative apportionment for 2008-2009 by division.
 - Prepare a schedule for president Redcloud showing the amount that must be raised by the annual fund-raising campaign.
- (b) (D. Sandison) Extrusion Plastics is a multinational, diversified organization. One of its manufacturing divisions, Northeast Plastics Division, has become less profitable due to increased competition.

The division produces three major lines of plastic products within its single plant. Product Line A is high-volume, simple pieces produced in large batches. Product Line B is medium-volume, more complex pieces. Product Line C is low-volume, small-order, highly complex pieces.

Currently, the division allocates indirect manufacturing costs based on direct labor. The vice-president of manufacturing is uncomfortable using the traditional cost figures. He thinks the company is under pricing the more complex products. He decides to conduct an activity-based costing analysis of the business.

Interviews were conducted with the key managers in order to identify activities, resources, cost drivers, and their interrelationships.

Interviewee : Production Manager

Q.1 : What activities are carried out in your area ?

A.1 : All products are manufactured using three similar, complex, and expensive molding machines. Each molding machine can be used in the production of the three product lines. Each setup takes about the same time irrespective of the product.

Q.2 : Who works in your area?

A.2 : Last year, we employed thirty machine operators, two maintenance machines, and two supervisors.

Q.3 : How are the operators used in the molding process?

A.3 : It requires nine operators to support a machine during the actual production process.

Q.4 : What do the maintenance machines do?

A.4 : Their primary function is to perform machine setups. However, they were also required to provide machine maintenance during the molding process.

Q.5 : Where do the supervisors spend their time?

A.5 : They provide supervision for the machine operators and the maintenance machines. For the most part, the supervisors appear to spend the same amount of time with each of the employees that they supervise.

Q.6 : What other resources are used to support manufacturing?

A.6 : The molding machines use energy during the molding process and during the setups. We put meters on the molding machines to get a better understanding of their energy consumption. We discovered that for each hour that a machine ran, it used 6.3 kilowatts of energy. The machines also require consumable shop supplies (e.g., lubricants, hoses, and so on). We have found a direct correlation between the amount of supplies used and the actual processing time.

Q.7 : How is the building used, and what costs are associated with it?

A.7 : We have a 100,000 square-foot building. The total rent and insurance costs for the year were \$675,000. These costs are allocated to production, sales, and administration based on square footage.

- (i) Identify the activities, resources, and cost drivers for the division.
- (ii) For each resource identified in requirement 1, indicate its cost behavior with respect to the activities it supports (assume a planning period of 1 month).

PART-C

(12½x4=50)

3.
 - (a) Give definitions of variable cost, semi-variable cost, fixed cost, relevant range and relevant period along with examples of each one of the above. Also elaborate as to why each one of them is important ?
 - (b) Management Accounting assists in the corporate planning process. Explain.
 - (c) What do you mean by installation of costing system. Explain the practical difficulties involved in installing such a system in a manufacturing organisation.
 - (d) Management accounting is concerned with the accounting information which is useful to management.

4.
 - (a) Define marginal cost and marginal costing? Comment on how 'marginal costing technique' helps in decision making as well as in controlling costs.
 - (b) "Absorption costing obscures the total amount of fixed costs whereas variable costing highlights it" Explain.
 - (c) There is a general receiving in the country which is considered to be of a temporary nature. The cost accountant is not interested in retrenching the personnel. An order is available for a product at a selling price which evidently is below the cost of production. What advice will you give to the management regarding the order and why ?
 - (d) One of the main objectives to the contribution approach to costing is that it ignores fixed costs." Discuss and explain the advantages of contribution approach.

5. (a) Define a flexible budget and explain its importance as a budgeting technique and a tool of control.
- (b) What are the basic principles that are common to both standard costing and budgetary control. How far is budgetary control possible where production is erratic in nature.
- (c) Distinguish between budgetary control and standard costing from the point of view of control and decision making.
- (d) Variance analysis is an integral part of standard costing." Discuss in detail.
6. (a) What is activity based costing ? Write a note on the merits and demerits of activity Based costing.
- (b) State the situation where transfer pricing approach is more suitable and why ? Will a special considerations be made if a quotation for expert order is made.
- (c) Write short notes on the following :
- (i) Cost center
- (ii) Investment center
- (d) How does Value Chain Analysis influences a cost accountant.