



III Semester M.Com. Examination, December 2015  
(CBCS Scheme)  
COMMERCE

Paper – 3.3AT : Accounting for Managerial Decision

Time : 3 Hours

Max. Marks : 70

**Instruction :** Answer all Sections.

SECTION – A

Answer any seven of the following sub-questions. Each sub-question carries two marks :

(7×2=14)

1. a) What are sunk costs with reference to decision making ?
- b) State the applications of marginal costing technique.
- c) State the basic objectives of budgetary control.
- d) What are the methods for measuring divisional performance ?
- e) What is the significance of profit-volume ratio ?
- f) Differentiate Cost Indifference Point and Break-Even Point.
- g) How do responsibility centres differ from cost centres ?
- h) What is Uniform Cost Manual ?
- i) Define Performance Budget.
- j) What is PPBS ?

SECTION – B

Answer any four questions. Each question carries five marks.

(4×5=20)

2. Write an explanatory note on the steps in the preparation of Master Budget.
3. Briefly explain the difficulties in the implementation of Responsibility Accounting.
4. Write a brief note on Zero Based Budgeting.
5. Write a brief note on procedure involved under inter-firm comparison.
6. Data extracted from the books of Zenith Mills for the month of October 2015 are as follows :
  - a) Fixed expenses Rs. 40,000
  - b) Break-even sales Rs. 1,00,000.

**Calculate :** (a) P/V Ratio, (b) Profits when estimated sales are Rs. 2 lakhs, (c) Revised BEP in rupees if selling price is reduced by 20%, (d) Estimated sales to earn a profit of Rs. 40,000 after reduction in selling price by 20%.

P.T.O.



7. A manufacturer is thinking whether he should drop one item from his product line and replace it with another. Below are given his present cost and output data :

Product	Price (Rs.)	Variable Cost Per Unit (Rs.)	Percentage of Sales
Bookshelves	60	40	30%
Tables	100	60	20%
Beds	200	120	50%

Total fixed cost per year is Rs. 7,50,000 and sales last year were Rs. 25,00,000. The change under consideration consists in dropping the line of table in favour of cabinets. If this dropping and change is made the manufacturer forecasts the following cost output data :

Product	Price (Rs.)	Variable Cost Per Unit (Rs.)	Percentage of Sales
Bookshelves	60	40	50%
Cabinets	160	60	10%
Beds	200	120	40%

Total fixed cost per year is Rs. 7,50,000 and sales expected are Rs. 26,00,000. Should this proposal be accepted ? Comment.

#### SECTION - C

Answer **any three** questions. Each question carries **twelve** marks : (3×12=36)

8. Explain the objectives and benefits of uniform costing. Do you agree that by operating a system of uniform costing, individual manufacturers engaged in a particular industry derive greater advantages than a firm controlling a number of factories ?
9. What is budgetary control ? How are budget variations analysed ? Prepare a Variance Analysis Report for a production department.



10. As a part of its rural upliftment programme, the government has put under cultivation a farm of 96 hectares to grow tomatoes of four varieties : Royal Red, Golden Yellow, Juicy Crimson and Sunny Scarlet. Of the total, 68 hectares are suitable for all four varieties but the remaining 28 hectares are suitable for growing only Golden yellow and Juicy Crimson. Labour is available for all kinds of farm and is no constraint. The market requirement is that all four varieties of tomatoes must be produced with a minimum of 1,000 boxes of any one variety. The farmers engaged have decided that the area devoted to any crop should be in terms of complete hectares and not in fractions of a hectare. The other limitation is that not more than 20,000 boxes of any one variety should be produced. The following data are relevant :

	Varieties			
	Royal Red	Golden Yellow	Juicy Crimson	Sunny Scarlet
Annual Yield :				
Boxes per hectare	350	100	70	180
Costs :	Rs.	Rs.	Rs.	Rs.
Direct materials per hectare	476	216	196	312
Labour :				
Growing per hectare	896	608	371	528
Harvesting and pecking per box	3.60	3.28	4.40	5.20
Transport per box	5.20	5.20	4.00	9.60
Market price per box	15.38	15.87	18.38	22.27

Fixed overheads per annum :	₹
Growing	11,200
Harvesting	7,400
Transport	7,200
General Administration	10,200

**Required :**

- Within the given constraints, the area to be cultivated with each variety of tomatoes if the largest total profit has to be earned.
- The amount of such profit in rupees.
- A nationalized bank has come forward to help in the improvement program of the 28 hectares in which only Golden Yellow and Juicy Crimson will grow, with a loan of Rs. 5,000 at a very normal interest of 6% per annum. When this improvement is carried out, there will be a saving of Rs. 1.25 per box in the harvesting cost of Golden Yellow and the 28 hectares will become suitable for growing Royal Red in addition to the existing Golden Yellow and Juicy Crimson varieties. Assuming that other constraints continue, find the maximum total profit that would be achieved when the improvement programme is carried out.



11. A company manufactures a single product with a capacity of 1,50,000 units per annum. The summarized profitability statement for the year is as under :

Sales : 1,00,000 units @ Rs. 15 per unit		Rs. 15,00,000
Less : Cost of Sales :	<b>Rs.</b>	
Direct Materials	3,00,000	
Direct Labour	2,00,000	
Production overhead :		
Variable	60,000	
Fixed	3,00,000	
Administration Overhead (fixed)	1,50,000	
Selling and Distribution Overheads :		
Variable	90,000	
Fixed	1,50,000	12,50,000
Profit		<u>2,50,000</u>

You are required to evaluate the following options :

- I) What will be the amount of sales required to earn a target profit of 25% on sales, if the packing is improved at a cost of Re. 1 per unit ?
  - II) There is an offer from a large retailer for purchasing 30,000 units per annum, subject to providing a packing with a different brand name at a cost of Rs. 2 per unit. However, in this case there will be no selling and distribution expenses. Also this will not, in any way, affect the company's existing business. What be the break-even price for this additional offer ?
  - III) If an expenditure of Rs. 3,00,000 is made on advertising the sales would increase from the present level of 1,00,000 units to 1,20,000 units at a price of Rs. 18 per unit, will that expenditure be justified ?
  - IV) If the selling price is reduced by Rs. 2 per unit, there will be 100% capacity utilization. Will the reduction in selling price be justified ?
12. The sales manager of XYZ Ltd., is judged by the total sales. Exceeding the sales budget is considered good performance. The sales budget and the cost data for the current year are shown below :

	Products			(₹ in '000s)
	Silk	Cotton	Wool	Total
Sales Budget	450	900	1,650	3,000
Variable cost	225	405	495	1,125
Contribution	225	495	1,155	1,875
Actual sales	1,500	1,200	600	3,300

Actual prices were equal to budgeted prices and variable costs incurred were as budgeted per unit.

- i) Did the sales manager perform well ?
- ii) Suggest better performance measurement criterion to be used by the company.

