



Institute of Management
JK Lakshmipat University
Jaipur

END TERM EXAMINATION- APRIL 2018

MBA. Sem- II.
MM: 50 Marks

Course: Managerial Accounting
Time: 3 Hours
Subject code: AC20

Instructions: Attempt any three questions from Section A. Section B is compulsory.

Section A

Each question carries 10 marks.

Q1.

From the following forecasts of income and expenditure, prepare a cash budget for the months January to April, 2018.

Year	Months	Sales (Credit) Rs.	Purchases (Credit) Rs.	Wages	Manufacturing Expenses	Administrative Expenses	Selling Expenses
2017	Nov	30000	15000	3000	1150	1060	500
	Dec	35000	20000	3200	1225	1040	550
2018	Jan	25000	15000	2500	990	1100	600
	Feb	30000	20000	3000	1050	1150	620
	March	35000	22500	2400	1100	1220	570
	April	40000	25000	2600	1200	1180	710

Additional information is as follows-

1. The customers are allowed a credit period of 2 months.
2. A dividend of Rs. 10,000 is payable in April.
3. Capital expenditure to be incurred: Plant purchased on 15th January for Rs. 5000; a Building has been purchased on 1st March and the payments are to be made in monthly instalments of Rs. 2000 each.
4. The creditors are allowing a credit of 2 months.
5. Wages are paid on the 1st of the next month.
6. Lag in payment of other expenses is one month.
7. Balance of cash in hand on 1st January, 2018 is Rs. 15000.

Q2. Your directors are contemplating the purchase of new machine to replace an old one which has been in the factory for 5 years. From the following information prepare a statement for submission to the Board of Directors showing the effect of installation on costs and profits, and comment on the results shown. Ignore interest.

	Old Machine	New Machine
Purchase price	Rs. 40,000	Rs. 60,000
Estimated Life of machine	10 years	10 Years
Machine running hours per annum	2000	2000
Units produced per hour	24	36
	Rs.	Rs.
Wages per running hour	30	52.50

Power per annum	2000	4500
Consumable Store per annum	6000	7500
All other charges per annum	8000	9000
Material cost per unit	5	5
Selling price per unit	12.50	12.50

Q3. The following information has been obtained from the records of Excel Manufacturing Limited for the period from March 1, 2011 to March 31, 2011.

Details	Rs.
Cost of Raw material in stock as on 1 st march, 2011	15000
Raw materials purchased during the month	2,25,000
Wages paid	1,00,000
Wages outstanding	15,000
Factory overheads	46,000
Work in progress on 1 st March, 2011	6000
Raw materials in stock on 31 st March, 2011	12,500
Work-in-progress as on 31 st March, 2011	7,500
Opening stock of finished goods	30,000
Closing stock of finished goods	27,500
Selling and distribution overheads	10,000
Sales	4,50,000
Administration overheads	15,000

You are required to prepare a statement of cost.

Q4. Discuss the essential elements for establishment of budgetary control in an organization and discuss the various classifications of budgets.

Q5. "Marginal Costing is a useful tool in the hands of manager for managerial decision making" Discuss and draw a distinction between marginal costing and absorption costing.

Section B

Compulsory question of 20 marks

Q6.

Usha Company manufactures and sells adjustable canopies that attach to motor homes and trailers. The market covers both new unit purchases as well as replacement canopies. Usha developed its 2015 business plan based on the assumption that canopies would sell at a price of Rs. 400 each. The variable costs for each canopy were projected at Rs. 200, and the annual fixed costs were budgeted at Rs. 1,00,000. Usha's after-tax profit objective was Rs. 2,40,000; the company's effective tax rate is 40%.

While Usha's sale usually rises during the second quarter, the May financial statements reported that sales were not meeting expectations. For the first five months of the year, only 350 units had been sold at the established price, with variable costs as planned, and it was clear that the 2015 after-tax profit projection

would not be reached unless some actions were taken. Usha's president assigned a management committee to analyze the situation and develop several alternatives courses of action. The following mutually exclusive alternatives, labelled A, B, and C, were presented to the president.

- Reduce the sales price by Rs. 40. The sales organization forecasts that with the significantly reduced sales price, 2700 units can be sold during the remainder of the year. Total fixed and variable unit costs will stay as budgeted.
 - Lower the variable cost per unit by Rs.25 through the use of less expensive materials and slightly modified manufacturing techniques. The sales price will also be reduced by Rs. 30, and sales of 2200 units for the remainder of the year are forecast.
 - Cut fixed costs by Rs. 10,000, and lower the sales price by 5%. Variable cost per unit will be unchanged. Sales of 2000 units are expected for the remainder of the year.
- (a) Determine the number of units that Usha Company must sell in order to break even, assuming no changes are made to the selling price and cost structure.
- (b) Determine the number of units that Usha Company must sell in order to achieve its after-tax profit objective.
- (c) Determine which one of the alternatives Usha company should select to achieve its annual after-tax profit objective. Be sure to support your selection with appropriate calculations.
- (d) The precision and reliability of CVP analysis are limited by several underlying assumptions. Identify at least four of the assumptions.

Each case question carries 5 marks each.