

[4]

END TERM EXAMINATION

THIRD SEMESTER [BBA] DECEMBER-2015

Paper Code: BBA- 207

Subject: Management Accounting

BBA(B&I)-207

BBA(TTM)-207

Time : 3 Hours

Maximum Marks :75

Note: Attempt any five questions including Q.No. 1 which is compulsory.

- Q8. a) Explain the concept of Relevant Costs. (5)
- b) A company purchased a machine two years ago at a cost of Rs. 60,000. The equipment has no salvage value at the end of its six years. Useful life and the company is charging depreciation according to straight-line method. The company learns that a new equipment can be purchased at a cost of Rs. 80,000 to do the same job and having an expected economic life of 4 years without any salvage value. The advantage of the new machine lies in its greater operating efficiency which will reduce the variable operating expenses from the present level of Rs. 1,65,000 to Rs. 1,30,000 per annum. The sales volume is expected to continue at Rs. 2 lacs per annum for the next four years.

You are required to evaluate the usefulness of the proposal. (10)

- Q1. Comment on **ANY FIVE** of the following statements. Your answer should not exceed 50 words each: (5x3=15)
- Depreciation is an "out of pocket" cost.
 - Low gearing is preferable to high gearing.
 - Decrease in current liabilities will increase working capital.
 - The term "Funds" means "Current Assets" in case of a cash flow analysis.
 - There is no difference between a Forecast and a Budget.
 - Standard costing aids management in planning and control.
 - A cost variance is said to be favourable if the standard cost is more than the actual cost.
 - The valuation of stock is at higher price in absorption costing as compared to marginal costing.
- Q2. a) Distinguish between Management Accounting and Cost Accounting. (5)
- b) Explain the meaning of the term "Financial Statements". State their nature and limitations. (10)
- Q3. a) State the limitations of Ratio Analysis. (5)
- b) With the help of the following ratios regarding Indu Films, draw the Balance Sheet of the "Company for the year 2015: (10)

Current Ratio	2.5
Liquidity Ratio	1.5
Net Working Capital	3,00,000
Stock Turnover Ratio (Cost of Sales/ Closing Stock)	6 times
Gross Profit Ratio	20%
Fixed Assets Turnover Ratio (on cost of sales)	2 times
Debt Collection Period	2 months
Fixed Assets to Shareholders Net Worth	0.80
Reserve and Surplus to Capital	0.50

- Q4. a) Differentiate between a Cash Flow Statement and a Funds Flow Statement. (5)
- b) The following are the summarized Balance Sheets of a company as on 31st December, 2014 and 2015:

[2]

Liabilities:	2014 (Rs.)	2015 (Rs.)
Share Capital	2,00,000	2,50,000
General Reserve	50,000	60,000
Profit & Loss	30,500	30,600
Mortgage Loan (Long Term)	70,000	-
Sundry Creditors	1,50,000	1,35,200
Provision for Taxation	30,000	35,000
	5,30,500	5,10,800
Assets:	Rs.	Rs.
Land and Building	2,00,000	1,90,000
Machinery	1,50,000	1,69,000
Stock	1,00,000	74,000
Sundry Debtors	80,000	64,200
Cash	500	600
Bank	-	8,000
Goodwill	-	5,000
	5,30,500	5,10,800

Additional Information: During the year ended 31st December 2015:

- Dividend of Rs. 23,000 was paid.
- Assets of another company were purchased for a consideration of Rs. 50,000 payable in shares. Assets acquired : Stock Rs. 20,000; Machinery Rs. 25,000.
- Machinery was further purchased for Rs. 8,000.
- Depreciation written off on machinery Rs. 12,000.
- Income-tax provided during the year Rs. 33,000.
- Loss on sale of machinery Rs. 200 was written off to general reserve.

You are required to prepare the Cash Flow Statement as per AS 3(Revised) **(10)**

- Explain the meaning of Budgetary Control. **(5)**
- The Good City Police Department traditionally has prepared a functional Budget and now there is discussion about using a programme budget in an effort to control activities better and do a better job of securing resources from the state government. Below are the proposed functional budget for the next year and estimated data concerning the percentage of functional item costs assignable to each of the four major programmes of the police department?

GOOD CITY POLICE DEPARTMENT PROPOSED FUNCTIONAL BUDGET

	Rs.
Salaries	5,25,000
Vehicle Costs	2,50,000
Supplies	1,25,000
Utilities	50,000
Miscellaneous	44,000
Total	9,94,000

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[3]
PERCENTAGE OF COSTS ASSIGNABLE TO EACH PROGRAMME

	Crime Prevention	Criminal Investigation	Criminal Proceeding	Traffic Movement
Salaries	60%	20%	10%	10%
Vehicle Costs	70%	20%	2%	8%
Supplies	20%	30%	20%	30%
Utilities	10%	60%	20%	10%
Misc.	30%	25%	20%	25%

Required: Prepare a Programme Budget for the year. **(10)**

- Differentiate between Standard Costing and Historical Costing. **(5)**
- A company manufactures a particular product. The standard direct materials cost of which is Rs. 10 per unit. The following information is obtained from the costing records:

i) Standard Mix	Material	Quantity (Units)	Rate (Rs.)	Amount (Rs.)
	A	70	10	700
	B	30	5	150
		<u>100</u>		<u>850</u>
	Normal Loss (15%)	15	-	-
		<u>85</u>		<u>850</u>

ii) **Actual Results for June, 2014:**

Material	Quantity (Units)	Rate (Rs.)	Amount (Rs.)
A	400	11	4,400
B	200	6	1,200
	<u>600</u>		<u>5,600</u>
Loss (10%)	60	-	-
	<u>540</u>		<u>5,600</u>

Compute: **(10)**

- Material Price Variance
- Material Mix Variance
- Material Yield Variance
- Material usage Variance; and
- Total Material Cost Variance

- Differentiate between Marginal Costing and Absorption Costing. **(5)**

- A firm has Rs. 10,00,000 invested in its plant and sets a goal of 15% annual return on investment. Fixed costs in the factory presently amount to Rs. 4,00,000 per year and variable costs amount to Rs. 15 per unit produced. In the last year the firm produced and sold 50,000 units at Rs. 25 each and earned a profit of Rs. 1,00,000. How can management achieve their target profit goal by varying different variables like fixed costs, variable costs, variable costs, quantity sold or increasing the selling price per unit? **(10)**

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