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Reg. No. : ....

Name : ....

Fourth Semester M.Com. Degree Examination, June 2009
(Old Scheme – Prior to 2005 Admission)
Elective : FINANCE
CO 241 F : Paper – XIII : Costing for Managerial Decisions

Time : 3 Hours Max. Marks : 75

SECTION – A

Answer **all** questions.

1. Distinguish between contribution and profit.
2. What is absorption costing ? How it is different from marginal costing ?
3. What is margin of safety ? How can it be increased ?
4. Differentiate break even analysis from profit planning.
5. How is differential costing different from marginal costing ?
6. What is a budget and how it is different from budgetary control ?
7. Define standard costing and state the uses of standard costing.
8. Cost reduction and cost control-How they are different ?
9. What is transfer pricing and what are its objectives ?
10. What do you understand by ‘Report to Management’ ? **(10×2= 20 Marks)**

SECTION –B

Answer **any five** questions.

11. AB Ltd. has provided the following information :

    Sales 20,000 units at Rs. 5 per unit. Variable cost at Rs. 3 per unit. Fixed cost Rs. 8,000 per annum. Calculate PV ratio and also break-even sales of the company.

P.T.O.

12. A manufacturing concern which has adopted standard costing furnishes the following information :

    Standard : Material for 70 kg. finished products is 100 kg. Price of material is Rs. 1 per kg.

    Actual : Output is 2,10,000 kg. Material used is 2,80,000 kg. Cost of material is Rs. 2,52,000.

    Calculate :

    a) Material usage variance

    b) Material price variance.

13. Give the advantages and uses of zero based budgeting.

14. Explain the objectives and scope of budgetary control.

15. For one unit of a product the standard for materials is 5 kg @ Rs. 3 per kg. In a period, 12,300 units were produced. The total material consumed came to Rs. 1,89,100 @ Rs. 3.10 per kg. What is the material usage variance ?

16. From the following data, prepare a production budget for the XYZ Company Ltd. Stock for the budget period :

Product	**As on 1st January**	**As on 30th June**
A	9,000	10,000
B	8,000	9,000
C	11,000	15,000

Requirements to fulfil sales programme :
A – 60,000 units
B – 50,000 units
C – 80,000 units
Normal loss in production : A 4%, B 2%, C 6%.

17. From the following data, draw a simple breakeven chart :

    Selling price per unit Rs. 10. Trade discount 5%. Direct material cost per unit Rs. 3. Direct labour cost per unit Rs. 2. Fixed overheads Rs. 10,000. Variable overheads are 100% on direct labour cost.

    If sales are 10% and 15% above the break-even volume, determine the net profit.

(5×5=25 Marks)

SECTION – C

Answer **any two** questions.

18. Discuss the influence of fixed cost, variable cost and selling price on profit volume (P/V) ratio, break-even point (BEP) and profit.

19. A company currently operating at 80% capacity has the following particulars.

    Sales Rs. 32,00,000. Direct materials Rs. 10,00,000. Direct labour Rs. 4,00,000. Variable overheads Rs. 2,00,000. Fixed overheads Rs. 13,00,000.

    An export order has been received that would utilise half the capacity of the factory. The order cannot be split ie, it has either to be taken in full and execute at 10% below the normal domestic prices, or rejected totally. The alternatives available to the management are :

    i) Reject the order and continue with the domestic sales only (as at present), or

    ii) Accept the order, split capacity between overseas and domestic sales and turn away excess domestic demand, or

    iii) Increase capacity so as to accept the export order and maintain the present domestic sales by :

       a) Buying an equipment that will increase the capacity by 10%. This will result in an increase of Rs. 1,00,000 in fixed cost and

       b) Work overtime to meet balance required capacity. In that case labour will be paid at one and a half-time the normal wage rate.

    Prepare a comparative statement of profitability and suggest the best alternatives.

20. Define zero base budgeting and distinguish it from traditional budgeting. Enumerate the benefits to be achieved by a business organisation by introducing zero base budgeting.

21. ABC Ltd. manufactures a single product for which market demand exists for additional quantity. Present sale of Rs. 60,000 per month utilises only 70% capacity of the plant. Sales manager assures that with a reduction of 10% in the price he would be in a position to increase the sales by about 25% to 30%.

    The following data are available :

    a) Selling price Rs. 10 per unit

    b) Variable cost Rs. 3 per unit

    c) Semi-variable cost Rs. 6,000 fixed plus Rs. 0.50 per unit

    d) Fixed cost Rs. 20,000 at present level estimated to be Rs. 24,000 at 80% output.

    You are required to submit the following statements to the Board showing :

    i) The operating profits at 60%, 70% and 80% levels at current selling price and at proposed selling price.

    ii) The percentage increase in the present output which will be required to maintain the present profit margin at the proposed selling price.

22. Last year a company earned 20% pre-tax profit on a sales turnover or Rs. 100 lakhs.To improve its profitability and competitiveness the management has decided to reduce selling price by 10% and increase output by 20%. Cuts are proposed to be effected on variable and fixed costs at 5% and 20% respectively, what effects will these steps have on the company's profit this year ? The company was having a fixed cost of Rs. 25 lakhs per annum last year. **(15×2=30 Marks)**

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