(48A-2) SEAT No.________ No. of printed pages: 07

SARDAR PATEL UNIVERSITY
T.Y.B.B.A. EXAMINATION, VI SEMESTER
Saturday, 31.03.2018
Session: Morning Time: 10.00. A.M to 12.00 P.M.

Subject Code: UM06CBBA02
Subject Title: Accounting for Decision Making

Total Marks: 60

Note: (1) Figures to the right indicate full marks of the question
(2) Show your working clearly

Q.1 (a) 05

During the current year, AB Ltd showed a profit of Rs. 1,80,000 on a sales of Rs. 30,00,000. The variable expenses were Rs. 21,00,000.

You are required to work out:

(1) The break even sales at present
(2) The break even sale if variable cost increase by 5 per cent
(3) The break even sale to maintain the profit as at present, if the selling price is reduced by 5 per cent.

Q.1 (b) 05

X Limited has two plants producing an identical product with the same selling price. The particulars are as under:

	Plant A	**Plant B**
Capacity Utilization	70%	60%
	(Rs. Lacs)	(Rs. Lacs)
Sales	150	90
Variable cost	105	75
Fixed cost	30	20

It has been decided to merge plant B with Plant A. The additional fixed expenses involved in the merger amount to Rs. 2 lacs.

Find out:

(1) Break Even Point of Plant A & Plant B before merger.
(2) Break Even Point of merged plant & capacity utilization for BEP.
(3) Capacity utilization of merged plant required to earn a profit of Rs. 18 lacs.

Q.1 (c) 05

S Ltd., a multi product company, furnishes the following data relating to the year 2001

Particulars	**1st half of the year (Rs.)**	**2nd half of the year (Rs.)**
Sales	45,000	50,000
Total Cost	40,000	43,000

(P.T.O.)

Assuming that there is no change in prices and variable costs and that the fixed expenses are incurred equally in the two half year periods, calculate for the year 2002:

(i) the profit volume ratio,
(ii) the fixed expenses,
(iii) the break even sales, and
(iv) the percentage of margin of safety to total sales.

OR

Q.1 **15**

Softflow Ink Company's income statement for the preceding year is presented below. Except as noted, the cost revenue relationship for the coming year is expected to follow the same pattern as in the preceding year. Income statement for the year ending 31st December, 1998 as follows:

Sales (20,00,000 bottles) @ 25 paise		Rs. 5,00,000
Variable costs	Rs. 3,00,000	
Fixed cost	Rs. 1,00,000	Rs. 4,00,000
Pre tax profit		Rs. 1,00,000
Income tax		Rs. 50,000
Profit after income tax		Rs. 50,000

Required:

(a) What is break even point in sales and units?
(b) Suppose that a plant expansion will add Rs. 50,000 to fixed costs and increase capacity by 60%, how many bottles would have to be sold after the addition to break even?
(c) At what level of sales will the company be able to maintain its present pre tax profit position even after expansion?
(d) The company's management feels that it should earn at least Rs. 10,000 (pre tax profit per annum) on the new investment. What sales volume is required to enable the company to maintain the new investment?
(e) Suppose the plant operates at full capacity after the expansion, what profit will be earned?

Q.2 **15**

The following figures for a period were called out from the books of IPCL.

Particulars	Rs.
Sales	24,80,000
Purchase of Raw Mat6erial	10,00,000
Agent's Commission	20,000
Consumable Stores	25,000
Packing material	10,000
Stationary	10,000

Audit Fees	4,000
Staff Welfare Expenses	1,58,000
Insurance	26,000
Rent, rate and taxes	16,000
Managing Director's remuneration	84,000
Travelling expenses	21,000
Fuel & Oil	9,000
Electricity	5,000
Materials used in repairs	
To Plant & Machinery	24,000
To Buildings	10,000
Advertisement	25,000
Salaries & Wages	6,30,000
Postage & Telegrams	14,000
Contribution to Provident Fund	60,000
Directors Sitting Fees & travelling expenses	40,000
Subscription	2,000
Carriage	22,000
Interest on loan taken	18,000
Dividend to Shareholders	30,000
Depreciation Provided	55,000
Income Tax Provided	1,00,000
Retained Earnings	1,25,000
Opening Stock: Raw Materials	85,000
Finished Goods	2,00,000
Closing Stock: Raw Materials	1,08,000
Finished Goods	2,40,000

From the above, you are required to prepare s statement detailing the sources and disposal of Added Value.

OR

Q.2 15

What is Value Added Statement? How Value Added Statement differs from Profit & Loss Account? Also explain Advantages and Limitations of Value Added Statement.

(P.T.O.)

Q.3 15

Kalyani Limited produces three lines whose details are as under.

PARTICULAR	A	B	C
Capacity engage	30%	35%	35%
Units being produced	5,000	7,000	8,000
Cost per units	Rs.	Rs.	Rs.
Material	25	35	38
Wages	14	18	20
Variable overhead	10	12	12
Fixed overhead	08	10	11
	57	75	81
Selling price p.u.	52	85	93
Profit/ (loss)	**-05**	**+10**	**+12**

The management has already decided to discontinue the line A & utilized the disengaged capacity of the line A in the ratio of 1:2 respectively on the lines B & C. The expected rise in the cost & the selling price is as under.

PARICULAR	B	C
Material	10%	12%
Wages	5%	7%
Selling Price	2%	5%

Fixed expenses overhead shall remain unchanged. You are required to prepare a statement of projected profitability & advise the management as to whether the scheme to be adopted or abandoned.

OR

Q.3 (a) 07

The management of a company is thinking whether it should drop one item from the product line and replace it with another. Given below are present cost and output data:

Product	Price (Rs.)	Variable cost per unit	Percentage of sales
Bookshelf	60	40	30%
Table	100	60	20%
Bed	200	120	50%

Total fixed costs per year	Rs. 7,50,000
Sales	Rs. 25,00,000

The change under consideration consists in dropping the line of table and adding the line of cabinets. If this change is made, the manufacturer forecasts the following cost and output data:

Product	Price (Rs.)	Variable cost per unit	Percentage of sales
Bookshelf	60	40	50%
Cabinets	160	60	10%
Bed	200	120	40%

Total fixed costs per year	Rs. 7,50,000
Sales	Rs. 26,00,000

Should this proposal be accepted? Comment.

Q.3 (b) **08**

A Company engaged in plantation activities has 200 hectares of virgin land, which can be used for growing jointly or individually tea, coffee and cardamom. The yield per hectare of the different crops and their selling prices per kg. are as under:

	Yield	Selling price per Kg.
Tea	2,000 Kgs.	Rs. 20
Coffee	500 Kgs.	Rs. 40
Cardamom	100 Kgs.	Rs. 250

The relevant cost data are given below:

(A) **Variable Cost per kg.**

	Tea Rs.	Coffee Rs.	Cardamom Rs.
Labour Charges	8	10	120
Packing Materials	2	2	10
Other Costs	4	1	20
Total Cost	14	13	150

(B) **Fixed cost per annum**

	Rs.
Cultivation and growing cost	10,00,000
Administrative cost	2,00,000
Land revenue	50,000
Repairs and maintenance	2,50,000
Other costs	3,00,000
Total Costs	18,00,000

The policy of the company is to produce and sell all the three kinds of produces and the maximum area to be cultivated per product is as follows:

(P.T.O)

	Hectares	
	Maximum	Minimum
Tea	160	120
Coffee	50	30
Cardamom	30	10

Calculate the most profitable product mix and the maximum profit, which can be achieved.

Q.4 (a) **05**

X Limited manufactures auto parts. The following costs are incurred for processing 1,00,000 units of a components:

Direct material cost	Rs. 5,00,000
Direct labour cost	Rs. 8,00,000
Variable factory overheads	Rs. 6,00,000
Fixed factory overheads	Rs. 5,00,000

The purchase price of the component is Rs. 22. The fixed overheads would continue to be incurred even when the components is bought from outside although there would be reduction to the extent of Rs. 2,00,000

Required:

(a) Should the part be made or bought, considering that the present facility when released following a buying decision would remain idle?

(b) In case released capacity can be rented out to another company for Rs. 1,50,000, what would be the decision?

Q.4 (b) **05**

A machine shop in a factory is working to its full capacity and earning a contribution of Rs. 50 per hour. The management receives a high priority order which it wants to execute immediately. Material will be supplied by the customer and special order will take a minimum of 10 hours. Wages payable will be Rs. 15 per hour and variable overheads will be 150% of wages. If the customer is prepared to pay Rs. 800 for the order, should the order be accepted.

Q.4 (c) **05**

A company selling electric kits at a cost of Rs. 6,900 each, made up as under:

	Rs.
Direct materials	3,200
Direct labour	400
Variable overheads	1,000
Fixed overheads	200
Depreciation	200
Selling overhead – variable	100
Royalty	200
Profit	1,000
	6,300
Central excise duty	600
	6,900

(a) A foreigner buyer has offered to buy 200 kits at Rs. 5,000 each. As a cost Accountant, would you advise accepting this offer?

(b) What price should the company quote for a kit to be purchased by a company under the same management it it should be at cost.

OR

Q.4 15

PQR Limited manufactures medals for winners of athletic events and other contests. Its manufacturing plant has the capacity to produce 10,000 medals each month. The company has current production and sales level of 7,500 medals per month. The current domestic market price of the medal is Rs. 150. The cost data for the month of February is as under:

Variable cost (that vary with units produced)	Rs.
Direct materials	2,62,500
Direct manufacturing labour	3,00,000
Variable cost (that vary with number of batches)	
Set-ups, materials handling, quality control	
150 batches X Rs. 500 per batch	75,000
Fixed manufacturing costs	2,75,000
Fixed marketing costs	1,75,000

PQR limited has received a special one-time order for 2,500 medals at Rs. 100 per medal.
PQR limited makes medals for its existing customers in batch size of 50 medals.
(150 batches X 50 medals per batch = 7,500 medals)
The special order for 2,500 medals requires PQR limited to manufacture the medals in 25 batches of 100 each.

Required:

(i) Should PQR limited accept the special order? Why? Explain briefly.

(ii) Suppose the plant capacity was 9,000 medals instead of 10,000 medals each month. The special order must be taken either in full or rejected totally. Should PQR limited accept the special order? Why? Explain briefly.