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(28)

SARDAR PATEL UNIVERSITY
MBA (1 Semester) EXAMINATION

Tuesday, 29th April 2008

11.00 a.m. to 2.00pm

CC 110 – MANAGERIAL ACCOUNTING – 2

Marks -60

Notes:

1. **There are FIVE questions and all are compulsory.**
2. **The marks for each question are given against the question.**
3. **This is a closed book examination and answers are to be given in the answer book including the objective question.**

Q-1(a) Following is a monthly report for a new branch office that the Finest National Bank recently opened in a rapidly developing section of the city. (8)

FINEST NATIONAL BANK
Eastside Branch Office Report
October 1

	Planned	Actual	difference
Number of new accounts opened	225	180	(45)
Number f prospect calls made	113	84	(29)
Increase in deposit volume	\$100,000	\$80,000	\$(20,000)
Increase in loan volume	80,000	90,000	10,000
Expenses:			
Wages and salaries	\$ 15,000	\$12,800	\$2,200
Utilities	1,450	1,420	30
Rent on building	3,675	3,675	00
Supplies	225	230	(5)
Advertising	450	338	112
Other expenses	75	76	(1)
Total expenses	20,875	18,539	2336
Revenue from interest and service charges	20,500	20,000	(500)
Profit (loss)	\$ (375)	\$1461	\$1836

The branch manager is pleased that the report shows a \$1,461 profit instead of the expected loss of \$375

Required:
What questions can be raised about the performance of the Eastside Branch and its manager based on information in the report?

Q-1(b) Tabulate overview of variance analysis. (4)

Q-2(a) Mike Solid started a pizzeria in 1999. For this purpose he rented a building for $1,800 per month. Two persons were hired to work full-time at the restaurant and six college students were hired to work 30 hours per week delivering pizza. An outside accountant was hired for tax and bookkeeping purposes at a cost of $900 per month. The necessary restaurant equipment and delivery cars were purchased with cash. Mr. Solid has noticed that expenses for utilities and supplies have been rather constant. (8)

Mr. Solid increased his business between 1999 and 2001. Profits have more than doubled since 1999. Mr. Solid does not understand why his profits have increased faster than his volume.

A projected income statement for 2002 has been prepared by the accountant and is shown below:

Projected Income Statement
For the Year Ended December 31,2002

Sales		$308,000
Cost of food sold	$92,400	
Wages & fringe benefits of restaurant help	26,650	
Wages & fringe benefits of delivery person	54,100	
Rent	15,500	
Accounting services	10,900	
Depreciation of delivery equipment	16,000	
Depreciation of restaurant equipment	8,000	
Utilities	7,165	
Supplies (soap, floor wax, etc)	10,645	241,360
Income before taxes		66,640
Income taxes		19,942
Net income		46,648

Required :

a. What is the break-even point in number of pizzas that must be sold?
b. What is the cash flow break-even point in number of pizzas that must be sold?
c. If Mr. Solid withdraws $14,400 for personal use, how much cash will be left from the 2002 income-producing activities?
d. Briefly explain to Mr. Solid why his cash flow for 2002 will exceed his profits.

Q-2(b) Explain Cost Control and Cost Reduction (4)

Q-3(a) Based on the following information, prepare a Cash budget for ABC Ltd. (8)

	1st Qtr. Rs.	2nd Qtr. Rs.	3rd Qtr. Rs.	4th Qtr. Rs.
Opening cash balance	10,000			
Collections from Customers	125,000	150,000	160,000	221,000
Payment:				
Purchase of Materials	20,000	35,000	35,000	54,200
Other expenses	25,000	20,000	20,000	17,000
Salary & Wages	90,000	95,000	95,000	1,09,200
Income Tax	5000	-	-	-
Purchase of Machinery	-	-	-	20,000

The company desired to maintain a cash balance of Rs. 15,000 at the end of each quarter. Cash can be borrowed or repaid in multiplies of Rs. 500 at an interest of 10% per annum. Management does not want to borrow cash more than what is necessary and wants to repay as early as possible. In any event, loans cannot be extended beyond four quarters. Interest is computed and paid when the principal is repaid. Assume that borrowings take place at the beginning and repayments are made at the end of the quarters.

Q-3(b) Which are the components of Master Budget? (4)

Q-4(a) Vulcan Swimsuit Company is considering dropping its line of women's beach robes. A recent product income statement for the robe line is as follows: (8)

Revenue	$950,760
Cost of goods sold	861,840
Gross margin	88,920
Selling and administrative exp.	136,800
Net loss	$ (47,880)

A factory overhead account for 35 percent of the cost of the goods sold and is one-third fixed. These data are believed to reflect conditions in the immediate future.

Required:
Should the line be dropped?

Q-4(b) Explain the difference between financial accounting and cost accounting. (4)

Q-5(a) For production of 10,000 electoral automatic irons, the following are the budgeted expenses: (8)

	Per unit(Rs)
Direct materials	60
Direct labour	30
Variable overheads	25
Fixed overheads (Rs. 15,00,000)	15
Variable expenses (direct)	5
Selling expenses (10% fixed)	15
Administrative expenses (Rs. 50,000 rigid for all levels of production)	5
Distribution expenses (20% fixed)	5
Total cost of sales per unit	160

Prepare a budget for production of 6000, 7000, 8,000 irons, showing distinctly the marginal cost and total cost.

Q-5(b) **Draw a fictitious Profit volume chart and show the break even point** (4)

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