(A-37 & A-38) Seat No.:________ **No. of Printed Pages: 05**

SARDAR PATEL UNIVERSITY
T.Y.BBA (SEMESTER VI) EXAMINATION (NC) (2010)
2017
16th March 2017, Thursday
02.00 pm to 04.00 pm
Accounting for Decision Making (UM06CBBA02/07)

Total Marks: 60

Note: (1) All questions carry equal marks.
(2) Working notes are part of your answers, wherever necessary.

Q.1 (a) 10

The following figures relate to a company manufacturing a varied range of products:

Particulars	Total Sales (Rs.)	Total Cost (Rs.)
Year ended 31st May 2000	22,23,000	19,83,600
Year ended 31st May 2001	24,51,000	21,43,200

Assuming stability in price, with variable costs carefully controlled to reflect predetermined relationships, and an unvarying figure costs, calculate:

(a) The Profit volume Ratio, to reflect the rate of growth for profit and sales.
(b) Fixed cost
(c) Fixed cost % to sales
(d) Break Even Point
(e) Margin of safety for the year 2000 and year 2001.

Q.1 (b) 05

From the following data, calculate:

(i) Break even point expressed in amount of sales in rupees.
(ii) Number of units that must be sold to earn a profit of Rs. 60,000 per year.
(iii) How many units must be sold to earn a net income of 10% of sales?

Selling Price	Rs. 20
Variable cost	Rs. 14
Fixed Cost	Rs. 7,92,000

OR

Q.1 (a) 08

An analysis of Sultan Manufacturing Co. Ltd. led to the following information:

Cost element	Variable cost (% of sales)	Fixed cost
Direct Material	32.8	
Direct labour	28.4	
Factory overheads	12.6	1,89,900
Distribution overheads	4.1	58,400
General administrative overheads	1.1	66,700

(P.T.O.)

Budgeted sales are Rs. 18,50,000. You are required to determine:

- **(i)** the breakeven sales volume
- **(ii)** the profit at the budgeted sales volume
- **(iii)** the profit if actual sales:
  - **(a)** drop by 10%
  - **(b)** increase by 5% from budgeted sales

Q.1 (b) **07**

A company has annual fixed costs of Rs. 14,00,000. In 1996 sales amounted to Rs. 60,00,000 as compared with Rs. 45,00,000 in 1995 and profit in 1996 was Rs. 4,20,000 higher than in 1995.

(1) At what level of sales does the company break-even?

(2) Determine profit or loss on a pre cast sales volume of Rs. 80,00,000.

(3) If there is a reduction in selling price in 1997 by 10% and the company desires to earn same profit as in 1996, what would be the required sales volume?

Q.2 (a) **08**

A company produces a single product which is sold by it presently in the domestic market at Rs. 75 per unit. The present production and sales is 40,000 units per month representing 50% of the capacity available. The costs data of the product are as under:

Variable cost per unit Rs. 50

Fixed Costs per month Rs. 10,00,000

To improve profitability, the management has 3 proposals on hand as under:

- (a) To accept an export supply order for 30,000 units per month at a reduced price of Rs. 60 per unit, incurring additional variable costs of Rs. 5 per unit towards export packing and duties.
- (b) To increase the domestic market sales by selling to a D' Mart chain stores 30,000 units at Rs. 55 per unit, retaining existing sales at the existing price.
- (c) To reduce the selling price to increase domestic sales as advised by the sales department as under

Reduce selling price per unit by (Rs.)	Increase in sales expected (Units)
5	10,000
8	30,000
11	35,000

Prepare a table to present the results of the above proposals and give your comments and advice on the proposals.

Q.2 (b) **07**

An umbrella manufacturer makes an average profit of Rs. 2.50 per unit on a selling price of Rs. 14.30, by producing and selling 60,000 units at 60 per cent of potential capacity.

His cost of sales per unit is as follows:

Direct Materials	Rs. 3.50
Direct Wages	Rs. 1.25
Factory overheads	Rs. 6.25 (50% fixed)
Sales overheads	Rs. 0.80 (25% variable)

During the current year, he intends to produce the same number but estimates that his fixed cost would go up by 10% while the rates of direct wages and direct materials will increase by 8% and 6%, respectively. However, the selling price cannot be changed.

Under this situation, he obtains an offer for a further 20% of his potential capacity.

What minimum price would you recommend for acceptance of offer to ensure the manufacturer an overall profit of Rs. 1,67,300

OR

Q.2 (a) **08**

Mikado engineering company has received an export order for its sole product that would require the use of half of the factory's total capacity, which is estimated at 4,00,000 units per annum. The factory is currently operating at 60 % level to meet the demand of its domestic customers only. As against the current price of Rs. 6.00 per unit the export offer is Rs. 4.50 per unit which is less than the total cost of production, the breakdown of which is given below:

Variable cost	Rs. 4.00 per unit
Fixed overhead	Rs. 1.00 per unit
Total cost	Rs. 5.00 per unit

The condition of the export order is that it has either to be accepted in full or totally rejected. The following alternatives are available for decision-making:

(a) Accept the order and keep domestic sales unfulfilled to the extent of excess demand for the same.

(b) Increase factory capacity by installing a few balancing machines and equipment and also by working overtime to meet the balance of the required capacity. This will increase the fixed overhead by Rs. 15,000 annually and the additional cost for overtime work will be Rs. 40,000 per annum.

(c) Reject the order and remain with the domestic market only.

Prepare the statements indicating the alternatives and suggesting the proposal, which would be most convenient to the company

Q.2 (b) **07**

A company produces a single product which is sold by it presently in domestic market at Rs. 80 per unit. The present production and sales is 40,000 units per month representing 50% of the capacity available. The costs of the product are as under:

Variable costs per unit	Rs. 50
Fixed cost per month	Rs. 12,00,000

To improve the profitability, the management has three proposals as under:

(1) To accept an export for 30,000 units per month at a selling price of Rs. 60 per unit, incurring additional export & packing expenses Rs. 5 per unit on export order.

(2) To increase the domestic market sale by selling to a D-Mart stores 30,000 units at Rs. 60 per unit and retaining the existing sales at the existing price.

(P.T.O.)

(3) To reduce the existing selling price by 10% per unit to increase domestic sales by 30,000 units.

Give your comments and advise on the proposals.

Q.3 **15**

ABC Ltd., a LPG Cylinder manufacturing unit, gets an order from the Oil Corporation for supply of 40,000 cylinders at the standard price of Rs. 700 per cylinder. Getting order is a major problem. If an order is not executed in full for any reason, not only will ABC Ltd. lose the benefit, but it stands the risk of the order quantity being reduced for the next quarter also. The cylinders are made in two halves and then welded together. The cost structure is:

Materials	12.5 kg per half
Labour	Rs. 50 per half

Welding charges and fitting charges would be Rs. 30 per cylinder.

Unfortunately special steel plates are in short supply and ABC Ltd. has only stock of 500 MT. Another friendly unit, which has, in anticipation, made bottom halves, has offered to supply 40,000 numbers. What is the maximum price ABC Ltd. can pay to the unit for bottom halves? Transportation and unloading etc. will cost Rs. 5 per each half.

OR

Q.3 **15**

GMM 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 under changed. You are required to prepare a statement of projected profitability & advise the management as to whether the scheme to be adopted or abandoned.

Q.4 **15**

Explain the meaning and need of strategic management accounting?

OR

Q.4 **15**

Explain benefits and limitations of strategic management accounting

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