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SARDAR PATEL UNIVERSITY
T.Y.B.B.A. (General) (VI Semester) Examination
Thursday, 30th March 2017
10.00 am - 12.00 pm
UM06CBBA02 : Accounting for Decision Making

Total Marks: 60

Note : Figure to the right indicate full marks of the question paper.

Q.1 A company has two plants at location-1 and 11 operating at 100% and 75% of their capacities respectively. The company is considering a proposal to merge the two plants at one location to optimise - available capacity. The following details are available in respect of the two plants, regarding their present performance. (15)

	Location-1	Location-11
Sales (Rs. in lakhs)	200	75
Variable Cost (Rs. in lakhs)	140	54
Fixed Cost (Rs. in lakhs)	30	14

For decision making purpose you are required to workout the following information.

(1) The capacity at which the merged plant will break even.
(2) The profit of merged plant working at 80% capacity.
(3) Sales required if the merged plant is required to earn an overall profit of Rs. 200 lakhs.

OR

Q.1

(A) If margin of safety is Rs. 240000 (40% of sales) and P/V ratio is 30% of XY Ltd calculate its (1) Break even point (2) Amount of profit on sales of Rs. 900000. (05)

(B) X Ltd has earned a contribution of Rs. 200000 and net profit of Rs.150000 on sales of Rs. 800000. What is its margin of safety? (05)

(C) The ratio of variable cost to sales is 70%. The break even point occurs at 60% of the capacity sales. Find the capacity sales when Fixed costs are Rs. 90000. Also compute profit at 75% of the capacity sales. (05)

Q.2 ABC Ltd which produces three products furnishes you the following data for the year 2016. (15)

	Product		
	A	B	C
Selling price per unit (Rs.)	100	75	50
Profit / Volume ratio	10%	20%	40%
Maximum Sales Potential (Units)	40000	25000	10000
Raw material Content as percentage of variable costs	50%	50%	50%

The fixed expenses are estimated at Rs. 680000. The company uses a single raw material in all three products. Raw material is in short supply and the company has a quota for the supply of raw materials of the value of Rs. 1800000 for the year for the manufacture of its products to meet its sales demand.

You are required to (1) Set a product mix which will give the maximum overall profit keeping the short supply of raw material in view (2) compute the maximum profit.

OR

Q.2 The cost per unit of the three product A, B and C of a concern as follows: (15)

Particulars	A (Rs.)	B (Rs.)	C (Rs.)
Variable cost	20	20	18
Fixed cost	3	3	2
Total cost	23	23	20
Profit	9	7	6
Selling price	32	30	26
Number of units introduced	10000	5000	8000

Production arrangements are that if one product is given up, the production of the others can be raised by 50%. The directors propose that C should be given up because the contribution in that case is the lowest. Do you agree?

Q.3 The installed capacity of a company is one lakhs units per annum. It is licensed only to produce 75% capacity. However it is given an option by the Government to produce up to full capacity if the company could export and earn foreign exchange on the extra production. The operating costs at the installed capacity are: (15)

	Rs.
Direct material	3 per unit
Direct labour	2 per unit
Variable overheads	3 per unit
Fixed overheeads	2 lakhs per annum

No increases in the material and labour etc costs is anticipated during the current year. The company has received an overseas offer for 25000 units which, if accepted would involve an extra expenditure of Rs. 11000 towards special packing, commission etc. If the offer materialises, the company can obtain raw material required for the export order at a concessional rate of 40% below the present cost.

As a cost accountant of the company, submit a report to your managing director, suggesting the selling prices you recommend if the company is to earn the same profit margin as on local sales at Rs. 12 per unit of the installed capacity.

(i) Before getting the export order (ii) After getting the export order

Suggest also what further safeguards or precautions you would suggest while recommending the selling prices.

OR

Q.3 A mechanical toy factory presents the following information for the year 2016.

	Rs.
Material cost	120000
Labour cost	240000
Fixed overheads	120000
Variable overheads	60000
Units produced	12000
Selling prise per unit	50

The available capacity is a production of 20000 units per year. The firm has an offer for purchase of 5000 additional units at a price of Rs. 40 per unit. It is expected that by accepting this offer three will be saving of one rupee one per unit in material cost on all units manufactured, the fixed overhead will increase by Rs. 35000 and the overall efficiency will drop by 2% on all production.

State whether offer is acceptable or not. (15)

Q.4 The following figures for a period were extracted from the books of vidit Ltd. Prepare value added statement and distribution of value added statement for the year.

	Rs.
Sales	7142400
Commission on sales	57600
Purchase of Raw materials	2880000
opening stock of Raw materials	244800
Closing stock of Raw materials	311040
Other materials (net)	267840
Opening stock of finished stock	576000
Closing stock of finished stock	691200
Staff Welfare exps.	455040
Insurance	78880
Rent and taxes	46080
Managing Director's remuneration	241920
Carriage outward	63360
Director's Sitting Fees	115200
Int. on Bank Loan	51840
Dividend to share holders	86400
Retained earnings	360000
Depreciation	154400
Income Tax Provided	288000
Audit Fee	11520
Traveling exps	60480
Advertisement	72000
Postage and Telegrams	40320
Salaries on Wages	1814400
Contribution to P.F.	172800
Subscription	5760

OR

Q.4

(A) Prepare value added statement from the following conventional income statement of Vikas Ltd. (07)

Income statement for the year ended 31st March 2017

(Rs. in Thousand)

	Rs	Rs.
Turnover		2000
Less - Materials Consumed	800	
Services Purchased	100	
Wages	400	
Depreciation	100	
Interest Paid	200	1600
Profit before Tax		400
Less - Tax 50%		200
Profit after Tax		200
Less - Dividend		100
Retained earnings for the year		100

(B) Explain value added statement as an indicator of performance measurement. How does it differ from Profit & Loss Account? (08)

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