

JAIPURIA INSTITUTE OF MANAGEMENT, NOIDA
PGDM / PGDM (M) / PGDM (SM)
IIInd TRIMESTER (Batch 2016-18)
END TERM EXAMINATIONS

| | | | |
|-------------|-----------------------------------|-------------|-------|
| Course Name | Management Accounting and Control | Course Code | FA504 |
| Max. Time | 2 hours | Max. Marks | 40 |

Instructions: Attempt all questions.

Q1. (8 marks)

Susan Crossing purchased a used Ford Focus for \$12000. Since purchasing the car, she has spent the following amount on parts and labor:

| | |
|-------------------|---------------|
| New Stereo System | \$ 1500 |
| New paint Job | \$2500 |
| New Tyres | \$ 1200 |
| New muffler | <u>\$ 250</u> |
| Total | <u>\$5450</u> |

Unfortunately, the car needs a few major repairs now; among other things, the brake rotors and pads must be replaced, and the radiator has sprung a leak. (A new radiator is needed.) The repairs are estimated to cost \$2500. Susan has looked around at other used cars and has found a used Honda Civic for \$10,500 that is in very good condition and is approximately the same age as the Ford Focus. Susan can sell the Ford "as is" for \$ 8,500.

As a management accountant you are required to provide your suggestion based on the following situation:

- In trying to decide whether to repair the Ford Focus or buy the Honda Civic, Susan is upset because she has already spent \$17450 on the Focus. The car seems like it costs too much to sell at such a large loss. How would you react to her dilemma?
- Assuming that Susan would be equally happy with either the Ford Focus or the Honda Civic should she buy the Civic or repair the Focus? Explain your answer.

Q2. (8 marks)

At the end of 2014, Francis Alvares, CFO for Central products, received a report comparing budgeted and actual production costs for the company's plant in Forest Lake, Minneosta:

Manufacturing Costs
Forest Lake Plant
Budget Versus Actual 2014

| | Budget (\$) | Actual (\$) | Difference(\$) |
|-----------|-------------|-------------|----------------|
| Materials | 3200000 | 3500000 | 300000 |

| | | | |
|---------------------------|---------|---------|--------|
| Direct Labour | 2300000 | 2500000 | 200000 |
| Supervisory Salaries | 475000 | 500000 | 25000 |
| Utilities | 125000 | 135000 | 10000 |
| Machine maintenance | 350000 | 380000 | 30000 |
| Depreciation of Building | 90000 | 90000 | 0 |
| Depreciation of equipment | 250000 | 255000 | 5000 |
| Gatekeeper Salary | 220000 | 235000 | 15000 |

His first thought was that costs must be out of control since actual costs exceed the budget by \$585000. However, he quickly recalled that the budget was set assuming a production level of 60000 units. The Forest Lake plant actually produced 65,000 units in 2014. Given that production was greater than planned, should Francis expect that all actual costs will be greater than budgeted? Which costs would you expect to increase and by how much amount?

Q3. (10 marks)

A manufacturer is thinking whether he should change the mix of his product line. Below are given his present cost and output data:

| Products | Price (Rs.) | Variable costs per unit (Rs.) | Percentage of sales |
|------------|-------------|-------------------------------|---------------------|
| Book shelf | 60 | 40 | 30% |
| Tables | 100 | 60 | 20% |
| Beds | 200 | 120 | 50% |

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

The proposed change under consideration consists in reducing the line of tables and beds in favor of book shelf. If this change is made the manufacturer forecasts the following cost and output data:

| Products | Price (Rs.) | Variable costs per unit (Rs.) | Percentage of sales |
|------------|-------------|-------------------------------|---------------------|
| Book shelf | 60 | 40 | 50% |
| Tables | 100 | 60 | 10% |
| Beds | 200 | 120 | 40% |

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

Should this proposal be accepted?

Q4. (4 marks)

'Management accounting is a decision making science'. Do you agree with this statement? Give relevant reasons in support of your answer.

Q5. (10 marks)

The following information is available for PVR Glass for the fiscal year ending December 31, 2015.

| | |
|--|-------------|
| Beginning balance in work-in-process inventory | Rs. 210000 |
| Ending balance in work-in-process inventory | Rs. 300000 |
| Beginning balance in finished goods inventory | Rs. 500000 |
| Ending balance in finished goods inventory | Rs. 400000 |
| Direct material cost | Rs. 2500000 |
| Direct labor cost | Rs. 3000000 |
| Manufacturing overhead | Rs. 1700000 |

Prepare a statement of cost of goods manufactured and cost of goods sold for the year 2015.