

FINAL EXAMINATION

June 2014

F-P15(EPM)
Syllabus 2008

Management Accounting—Performance Management

Time Allowed: 3 Hours

Full Marks: 100

The figures in the margin on the right side indicate full marks.

Attempt Question No. 1 (carrying 25 marks), which is compulsory and any five more questions (each carrying 15 marks) from the rest.

Please: (i) Answer all part of a question at one place only.
(ii) Open a new page for answer to a new question.

1. (a) State whether the following statements given below are 'True' or 'False'. If True, simply rewrite the given statement (= 1 mark). If False, state it as False (= ½ mark) and rewrite the correct statement (= ½ mark):
- (i) Life Cycle Costing is a technique to establish the total cost of ownership.
 - (ii) The cost of quality report indicates the total cost to the organization of producing products or services conforming to quality of requirements.
 - (iii) A Balanced Score Card solely studies the performance of management by comparing a financial achievement with the amount spent thereon.
 - (iv) 'Symbiotic relationship' is one in which the cooperative action of semi-independent sub-systems taken together produces a total output greater than the sum of their outputs taken independently.
 - (v) JIT manufacturing, based as it is on 'Push through' philosophy, helps to provide parts at the right time and in right quantity. 1×5=5
- (b) Out of the different options given against each of the following statements, only one is the most appropriate option. You are required to write it down.
- (i) ZETA Ltd. has developed a new product and just completed the manufacture of the first four units of the product. The first unit took 3 hours to manufacture and the first four units together took 8.3667 hours to produce.
The learning curve rate is:
A. 69.5% B. 75% C. 83.5% D. None of these
 - (ii) A company produces 2 Joint Products P and V. In a year, further processing costs beyond split-off point spent were ₹ 8,000 and ₹ 12,000 for 800 units of P and 400 units of V respectively. P sells at ₹ 25 and V sells at ₹ 50 per unit. A sum of ₹ 9000 of Joint costs was allocated to Product P based on the net realization method. What were the total Joint costs in the year?
A. ₹ 15,000 B. ₹ 22,500 C. ₹ 27,000 D. ₹ 36,000
 - (iii) A Ltd., which manufactures small electric circuits, has a capacity to produce 4 lakh units. The market demand is sensitive to the sale price and it has been estimated that the company could sell 1 lakh units when the price is ₹ 50 per circuit. Thereafter the demand would double for each ₹ 5 fall in the selling price. The company expects a minimum margin of 25%. Accordingly the target cost of the company, to sell at full capacity should be:
A. ₹ 20 B. ₹ 25 C. ₹ 30 D. ₹ 32

Please Turn Over

(iv) A company, using a detailed system of standard costing, finds that the cost of investigation of variances is ₹ 30,000 and if after investigation, it is found that the situation is out of control, the cost of correction is ₹ 50,000. If no investigation is made, the present value extra cost involved is ₹ 2,00,000 . The probability of process, being out of control is 20%. The cost of investigation would be:

- A. ₹ 6,000 B. ₹ 10,000 C. ₹ 40,000 D. None of these

(v) A company makes components and sell internally to its subsidiary and also to external market. The external market price is ₹ 24 per component, which gives a contribution of 40% of sales. For external sale, variable cost include ₹ 150/unit for distribution costs. This is, however, not incurred on internal sales. There are no capacity constraints. To maximize company profit, the transfer price to subsidiary should be:

- A. ₹ 9.60 B. ₹ 12.90 C. ₹ 14.40 D. None of these 2×5=10

(c) Define the following terms in one/two sentences:

- (i) Self- regulatory Control System;
- (ii) Capacity Planning using overall factors;
- (iii) Enterprise Risk Management;
- (iv) Failure Mode and Effects Analysis;
- (v) Supply Chain Management.

1×5=5

(d) Expand the following abbreviations:

- (i) EFQM
- (ii) PDCA
- (iii) QFD
- (iv) ERP
- (v) TOC

1×5=5

2. (a) State what do you mean by the term 'Life Cycle Costing' (LCC)? Write a few lines regarding LCC. 7

(b) MEXTECH Ltd., specializes in the manufacture of Computers. It has now developed a New Computer-AD with advanced technology. Development of the New Computer is to begin shortly and MEXTECH Ltd, is in the process of preparing a Product Life-Cycle Budget. It expects the new product to have a life-cycle of 3 years and estimates the following costs:

Particulars	Year-1	Year-2	Year-3
Units manufactured and sold	30,000	1,20,000	90,000
Computers per batch	50	60	60
Price per Computer (₹)	18,000	16,000	14,000
R&D and Design Cost (₹ in lakhs)	1,800	200	–
Production Cost:			
Variable Cost per unit (₹)	6,400	6,000	6,000
Variable Cost per batch (₹)	28,000	24,000	24,000
Fixed Cost (₹ in lakh)	1,200	1,200	1,200
Marketing Cost:			
Variable Cost per unit (₹)	1,080	960	840
Fixed Cost (₹ in lakh)	800	600	600
Distribution Cost:			
Units Produced per batch	25	20	15
Variable Cost per unit (₹)	300	300	300
Variable Cost per batch (₹)	3,600	3,600	3,000
Fixed Cost (₹ in lakh)	480	480	480
Customer Service Cost per Unit (₹)	600	450	450

You are required to prepare Budgeted Life-Cycle Operating Profit for the Computer-AD.

