

SUGGESTED ANSWERS

PART – A

SECTION – I

1. (a)

- (i) (C)
- (ii) (A)
- (iii) (B)
- (iv) (D)
- (v) (A)
- (vi) (D)

1. (b)

- (i) (C)
- (ii) (D)
- (iii) (A)
- (iv) (E)

1. (c)

- (i) True
- (ii) False
- (iii) False
- (iv) True

SECTION – II

2. (a)

- (i) P/V Ratio = 40 %
- (ii) Break-even Sales = ₹ 600000
- (iii) Required Sales to Produce an Income of ₹ 100000 = ₹ 850000

2 (b)

- (i) Break Even Point = 20,000 flower vases
Margin of Safety = 4,000 flower Vases
- (ii) New Break Even Point = 22858 units or 22857 units
New Margin of Safety = 1142 units or 1143 units

Justification:

Since the margin of Safety decreases it will not be prudent to cut off advertising costs.

3. (a)

- (i) Material Cost Variance (MCV) = ₹ 1350 (A)
- (ii) Material Price Variance (MPV) = ₹ 1250 (A)
- (iii) Material usage Variance (MUV) = ₹ 100 (A)

3. (b)

- (i) Fixed overhead cost Variance = ₹ 1250 (Adv)
- (ii) Fixed Overhead Expenditure Variance = ₹ 5000 (Adv)
- (iii) Fixed Overhead Volume Variance = ₹ 3750 (Fav)
- (iv) Fixed Overhead Efficiency Variance = ₹ 750 (Adv)
- (v) Fixed Overhead Capacity Variance = ₹ 2700 (Fav)
- (vi) Fixed Overhead Calendar Variance = ₹ 1800 (Fav)

4. (a)

- (i) Selling price per unit of first order for 20 units ₹ 4750
- (ii) Minimum quoted price per unit of second order 60 units of fire alarm equipment = ₹ 3340.

4. (b)

Direct Material (Cost) Budget of Minor Circuits for four Quarters of Year 2.

Year - 2				
	First	Second	Third	Fourth
Required purchases – Circuits(units)	198000	306000	420000	288000
Purchase cost per Circuit(₹)	2	2	2	2
Total purchase cost(₹)	396000	612000	840000	576000

5. (a)**Significance of Management Accounting:**

The various advantages that accrue out of management accounting are enumerated below:-

1. **Delegation of Authority:** Now a day the function of management is no longer personal. Management accounting helps the organization in proper delegation of authority for the attainment of the vision and mission of the business.
2. **Need of the Management:** Management Accounting plays the role in meeting the need of the management.
3. **Qualitative Information:** Management Accounting accumulates the qualitative information so that management would concentrate on the actual issue to deliberate and attain the specific conclusion even for the complex problem.
4. **Objective of the Business:** Management Accounting provides measure and reports to the management thereby facilitating in attainment of the objective of the business.

5. (b)**Limitations of Inter-firm Comparison**

The practical difficulties that are likely to arise in the implementation of a scheme of inter-firm comparison are:

- (i) The top management may not be convinced of the utility of inter-firm comparison.
- (ii) Reluctance to disclose data which a concern considers to be confidential.
- (iii) A sense of complacency on the part of the management who may be satisfied with the present level of profits.
- (iv) Absence of a proper system of Cost Accounting so that the costing figures supplied may not be relied upon for comparison purposes.
- (v) Non-availability of a suitable base for comparison.

5. (c)

Objectives Of Inter Company Transfer Pricing

The following are the main objectives of inter-company transfer pricing scheme:

- (i) To evaluate the current performance and profitability of each individual unit: This is necessary in order to determine whether a particular unit is competitive and can stand on its working. When the goods are transferred from one department to another, the revenue of one department becomes the cost of another and such inter transfer price affects the reported profits.
- (ii) To improve the profit position: Intercompany transfer price will make the unit competitive so that it may maximize its profits and contribute to the overall profits of the organisation.
- (iii) To assist in decision making: Correct intercompany transfer price will make the costs of both the units realistic in order to take decisions relating to such problems as make or buy, sell or process further, choice between alternative methods of production.
- (iv) For accurate estimation of earnings on proposed investment decisions: When finance is scarce and it is required to determine the allocation of scarce resources between various divisions of the concern taking into consideration their competing claims, then this technique is useful.

5. (d)

Concept of Performance Budgeting

The main concepts of Performance Budgeting are enumerated below:

- (i) It is based on a classification of managerial level for the purpose of establishing a budget for each level. The individual in charge of that level should be made responsible and held accountable for its performance over a given period of time.
- (ii) The starting point of the performance budgeting system rests with the organisation chart in which the spheres of jurisdiction have been determined. Authority leads to the responsibility for certain costs and expenses which are forecast or present in the budget with the knowledge of the manager concerned.
- (iii) The costs in each individual's or department's budget should be limited to the cost controllable by him.
- (iv) The person concerned should have the authority to bear the responsibility.

PART – B
SECTION - III

6. (a)

- (i) (D)
- (ii) (B)
- (iii) (C)
- (iv) (B)
- (v) (C)
- (vi) (C)

6. (b)

- (i) (D)
- (ii) (C)
- (iii) (B)
- (iv) (E)

6. (c)

- (i) False
- (ii) False
- (iii) True
- (iv) True

SECTION – IV

7. (a)

- (i) Trade payables = ₹ 140000
- (ii) The value of Equality Share Capital = ₹ 1000000
- (iii) The value of fixed Assets = ₹ 900000
- (iv) Inventories = ₹ 140000 or ₹ 248000

7. (b)

- (i) Net Cash Flows from Operating Activities = ₹ 70 Lakh
- (ii) Net Cash Flows from Investing Activities : ₹ 188 Lakh
- (iii) Net Cash Flows from Financial Activities : = (₹ 240) Lakh

8. (a)

- Investment in Current Assets = ₹ 5158333
- Total Current Liabilities = ₹ 1218750
- Net Working Capital = ₹ 3939583

8. (b)

- (i) .
Operating Leverage (OL) = 2.667
Financial Leverage (FL) = 1.154
Combined Leverage (CL) = 3.077
- (ii) Level of EBIT = ₹ 108308

9. (a)

- (i) Total Net Present Value (NPV) (Incremental) = ₹ (1.193) (₹ in lakh)
- (ii) **Recommendation:**
Since Net present is negative, the proposal is not financially viable. The company should not consider to purchase a new Computer System

9. (b)

- (i) Cost of Equity = 16%
Cost Preference Capital = 15.43%.
- (ii) Weighted Avg. Cost of Capital (WACC) = 13.14%

10. (a)

Concept of Forfeiting:

Forfeiting refers to the exporter relinquishing his right to a receivable due at a future date in exchange for immediate cash payment, at an agreed discount, passing all risks and responsibilities for collecting the debt to the forfeited. It is the discounting of international trade receivable on a 100% "Without Recourse" basis. Forfeiting transforms the supplier's credit granted to the importer into cash transaction for the exporter protecting him completely from all the risks associated with selling overseas on credit. It effectively transforms a credit sale into a cash sale.

10. (b)

Consequences of Inadequate working capital in an organization are stated below:

- (i) It becomes difficult to implement operating plans and achieve the firm's profit target.
- (ii) It stagnates growth and it will become difficult to the firm to undertake profitable ventures for non-availability of working capital funds.
- (iii) It may not be in a position to meet its day-to-day current obligations and results in operational inefficiencies.
- (iv) The return on investment falls due to underutilization of fixed assets and other capacities of the business concern.
- (v) Credit facilities in the market will be lost due to fault working capital
- (vi) The reputation and goodwill of the firm will also be impaired considerably.

10. (c)

Significance of Capital Budgeting Decisions:

Capital Budgeting decisions are considered important for a variety of reasons. Some of them are the following:

- (i) **Crucial decisions:** Capital budgeting decisions are crucial affecting all the departments of the firm. So the capital budgeting decisions should be taken very carefully.
- (ii) **Long-run decisions:** The implications of capital budgeting decisions extend to a longer period in the future. The consequences of a wrong decision will be disastrous for the survival of the firm
- (iii) **Large amount of funds:** Capital budgeting decisions involve spending large amount of funds. As such proper care should be exercised to see that these funds are invested in productive purchases.
- (iv) **Rigid.** Capital budgeting decision cannot be altered easily to suit the purpose. Because of this reason, when once funds are committed in a project, they are to be continued till the end loss or profit no matter.

10. (d)

Assumption of Baumol's Model :

Baumol's Model is based on the following assumptions:

- (i) The demand for cash, transactions costs of obtaining cash and the holding costs for a particular period are given and do not change during that period.
- (ii) There is a constant demand for cash during the period under consideration.
- (iii) Cash payments are predictable
- (iv) Banks do not impose any restrictions on firms with respect of maintenance of minimum cash balances in the bank accounts.