

PAPER-12 : MANAGEMENT ACCOUNTING

SUGGESTED ANSWERS

SECTION – A

1.

- (i) (A)
- (ii) (C)
- (iii) (C)
- (iv) (A)
- (v) (D)
- (vi) (C)
- (vii) (C)
- (viii) (C)
- (ix) (D)
- (x) (B)
- (xi) (A)
- (xii) (C)
- (xiii) (B)
- (xiv) (B)
- (xv) (C)

SECTION – B

2. (a)

Some of the broad areas considered to be part of 'management accounting' is summarized in the following lines:

- Budgeting, planning and forecasting
- Measuring organisational, divisional and departmental performance
- Comparing results and performance within and between organisations
- Assisting in the process of increasing effectiveness and efficiency
- Assessing the performance of past and future capital investments
- Advising on decisions about product mix, markets to be served and selling prices
- Advising on decisions on whether to outsource products, components, activities and services
- Advising on decisions involving the investment of scarce funds between a range of possible alternatives
- Assisting in the making of a wide range of strategic decisions

The above mentioned are some of the relatively precarious activities of the higher-level management.

The fundamental activities of management accounting would include:

- calculating the profitability of products, services and operations,
- allocating costs to products,
- setting inter-divisional transfer prices.

There are also some functions of the management accountant which are focused on delivering critical information to the top-level management for initiating the process of increasing effectiveness and efficiency. Techniques such as activity-based cost management and theory of constraints are examples of such specialized activities.

Some authors also prefer to include capital budgeting decision within the scope of management accounting especially when there is a strategic aspect to it.

2. (b)

Total cost and Operating Income using ABC

	Cake (₹)	Pizza (₹)	Soft Drinks (₹)	Total (₹)
Total cost:	27,60,000	52,20,000	17,70,000	97,50,000
Operating income	2,64,750	31,500	2,13,750	5,10,000

3.

Incremental Gain ₹ 50000

Decision: M/s Bishalgarh Limited should invest in Product Promotion Campaign as the same will increase overall profit of the Company by ₹ 50000.

4. (a)

600 Units to be sold in 2023-24 to earn same amount of profit per unit of the last year (2022-23).

4. (b)

Products	M(₹)	N(₹)
Total Variable Cost of producing in-house	125	175
Extra cost of buying in each component	60	84
Extra cost of buying per machine hour	30	28

Priority should be given to the In-house production of component M in order to minimize the extra cost of buying-in.

5.

Cash Budget for the three months period January 2024 to March 2024 (₹)

Particulars	Jan, 24	Feb,24	Mar,24
Receipts:			
Opening balance	135000	380000	619410
Sales	538000	533910	591140
Total Receipts (A)	673000	913910	1210550
Payments:			
Creditors for direct material Lag in payment - 1 month	75000	65000	90000
Direct Labour	35000	30000	45000
Direct Expenses	17000	14000	25000
Factory Overhead	35000	42500	37500
Admin Overhead	56000	68000	53000
Gratuity & Benevolent fund payment of Mr. R. Rajendran	-	-	800000
EMI for Vehicle loan	75000	75000	75000
Total Payments (B)	293000	294500	1125500
Closing balance of Cash (A-B)	380000	619410	85050

6. (a)

- (i) Efficiency Variance = ₹ 3600 (A)
(ii) Capacity Variance = ₹ 5100 (F)
(iii) Idle Time variance = ₹ 4500 (F)
(iv) Volume Variance = ₹ 6000 (F)
(v) Budget / Expenditure Variance = ₹ 5000 (A)
(vi) Fixed Overhead Cost Variance = ₹ 1000 (F)

6. (b)

(a) Production Budget

Particulars	AB+	CD+
Production	55	210

(b) Material Requirement Budget

Particulars	A	B	C	D
Product AB+	44	11	--	--
Product CD+	--	--	105	105

(c) Purchase Budget

Particulars	A	B	C	D
Purchases (By weight in Tons)	49	41	205	55
Cost per ton	500	400	100	200
Purchases (₹)	24,500	16,400	20,500	11,000

Total Purchases = ₹ 72400

7. (a)

Economic Value Added (EVA) = ₹ 131094

Comment:

The Positive EVA of ₹131094 indicates that M/s Srilok Polymer Limited has surpassed the expectation of its Shareholders.

7. (b)

- (i) Labour time to do logo engraving in the 64 pcs of MS End Fittings is 104.64 minutes.
Labour cost for 64 units = ₹ 174.40
- (ii) labour time required to execute repeat order is 63.04 Minutes
Labour cost for repeat order of 64 units = ₹ 105.07

8. (a)

Table showing Probabilistic Budget & Expected Value

Sales Volume	Profit after tax (PAT) (₹)	Joint Probability (JP)	Expected Profit (₹) PAT x JP
180000 P = 0.3	110080	0.06	6604.80
	295840	0.18	53251.20
	357760	0.06	21465.60
200000 P = 0.5	151360	0.10	15136.00
	357760	0.30	107328.00
	426560	0.10	42656.00
240000 P = 0.2	233920	0.04	9356.80
	481600	0.12	57792.00
	564160	0.04	22566.40
Expected Value (EV)			336156.80

Comment: It can be observed that an expected profit estimate will be ₹ 336,156.80.

8. (b)**Meaning of Cost Centre**

A Cost Centre is defined as a function or department within an Organization which is not directly generating revenues and profits to the company but is still incurring expenses to the company for its operations. The contributions made by the cost centres in terms of profits is indirect. For example, a Company's human resource and Accounts departments could be considered as Cost Centres because these units do not generate revenues or charge for services, but they do incur cost.

Cost Centre vs. Profit Centre

A Cost Centre is different from Profit Centre in the following way

Cost Centre	Profit Centre
A Cost Centre is an organizational unit whose manager has the authority only to incur costs and is specifically evaluated on the basis of how cost are controlled.	A Profit Centre is an organizational unit whose manager is responsible for generating revenues and managing expenses related to current activity. Thus, Profit Centre should be independent organizational unit whose managers have the ability to obtain resources at the most economical prices.
The objective of Cost Centre is the control over the incurrence of expenses.	The objective of Profit Centre is to maximise the Centre's profit.
The Area of Operation of Cost Centre is comparatively narrow.	The Area of Operation of Profit Centre is comparatively wide.
Cost Centres managers are responsible for cost only,	Profit Centres managers are responsible for both costs and revenues.