PAPER-12 : MANAGEMENT ACCOUNTING
SUGGESTED ANSWERS
SECTION – A

1.

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

SECTION - B

2. (a)

Basis for Comparison	Financial Accounting	Management Accounting
Purpose	Financial Accounting classifies, analyses, records, and summarizes the financial transactions of a particular period of the company.	Management accounting helps management make effective decisions about the business.
Application	Financial accounting is to reflect true and fair picture of financial affairs.	Management accounting helps management to take meaningful steps and Strategies.
Scope	The Scope is pervasive, but not as much as the management accounting.	The Scope is much broader.
Information Type	Quantitative	Quantitative and qualitative.
Inter Dependence	It is not dependent on management accounting	Management accounting is basically decision-making accounting and depends on information created by Financial Accounting as well as Cost Accounting.
Statutory Requirement	It is legally mandatory to prepare financial accounts of all companies. (For example, in the Indian Context Companies Act 2013, relevant rules. of accounting standards furnishes the statutory requirements)	Management accounting has no statutory requirement.
Format	Financial accounting has specific formats for presenting and recording information.	There's no set format for presenting information in management accounting.
Users	Mainly for potential investors as well as all stakeholders.	Only for Management.
Verifiable	The information presented is verifiable.	The information presented is predictive and not immediately verifiable.

2. (b)

(i)

Cost Driver Rates :	**(₹)**
Material procurement	527
Material Handling	368
Maintenance	115
Set up	798
Quality Control	196
Machinery	30

(ii) Cost of batch of Components AXL 6 using ABC = ₹ 11,08,228

3.

(i)

Quantity of each product to be manufactures / purchased		
Particulars	**Machine Hours**	**Qty.**
Manufacturing Bonbon	5000	10000
Manufacturing Zimzam	1000	666/667
Purchase of Zimzam from M/s SB Ltd.	-	3000

(ii) Total Profit of M/s Posco Ltd.under (i) above = ₹ 25,26,500

4. (a)

(i) BEP = 16,000 units

Margin Of Safety (MOS) = ₹ 1,60,000

(ii) MOS = ₹ 1,28,000 or 3,200 units

(iii) Profit = ₹ 80,000

BEP = 20,000 units

MOS = ₹1,80,000

Thus, MOS is also increased by ₹ 20,000 in case of reduction in selling price.

4. (b)

KAUTILYA LTD

Statement of comparative profitability

Alternatives:	**Alternatives - I**	**Alternatives - II**	**Alternatives - III**
Sales domestic	48,00,000	30,00,000	48,00,000
Sales Export	----------	27,00,000	27,00,000
Total Sales	48,00,000	57,00,000	75,00,000
Direct Materials	15,00,000	18,75,000	24,37,500
Direct Labour	6,00,000	7,50,000	10,50,000
Variable overhead	3,00,000	3,75,000	4,87,500
Total variable cost	24,00,000	27,00,000	35,25,000
Contribution	24,00,000	27,00,000	35,25,000
Fixed overheads	19,00,000	19,00,000	20,50,000
Profit	5,00,000	8,00,000	14,75,000

Suggestion:

It reveals from the comparative analysis that Altemative-III i.e. 80% capacity for domestic sales & 50% capacity for Export Sales is the best as it would give highest profits (₹ 14.75 lakhs)

5.

Cash Budget for the three months period - April to June, 2024 (₹)			
Particulars	**April, 24**	**May, 24**	**June, 24**
Receipts:			
Opening balance	2,70,000	1,46,823	13,063
Sales	10,74,014	7,67,793	15,96,992
Total Receipts	13,44,014	9,14,616	16,10,055
Payments:			
Direct Material	4,87,566	3,02,524	2,70,666
Direct Labour	2,43,783	1,51,262	1,35,333
Factory Overhead	65,842	47,767	58,737
Fixed Cost	4,00,000	4,00,000	4,00,000
Factoring Commission	-	-	19,296
Total Payments	11,97,191	9,01,553	8,84,032
Closing balance of Cash	1,46,823	13,063	7,26,023

6. (a)

(i) Standard Variable Overhead Rate per hour = ₹ 3
Standard Fixed Overhead Rate per hour = ₹ 1

(ii) Variable Overhead Efficiency Variance = ₹ 11,400 (F)
Variable Overhead Expenditure Variance = ₹ 10,500 (A)

(iii) Fixed Overhead Efficiency Variance = ₹ 3,800 (F)
Fixed Overheads Capacity Variance = ₹ 14,000 (F)

6. (b)

(i) Production Budget (in units)

Particulars	**January**	**February**	**Mach**	**April**
Gadgets to be produced	5,300	6,250	7,125	7,625

(ii) Purchase budget for batteries

Particulars	**January**	**February**	**March**
No. of units required for Production	14,350	16,775	18,825
No. of units to be purchased	11,100	13,025	14,550

7. (a)

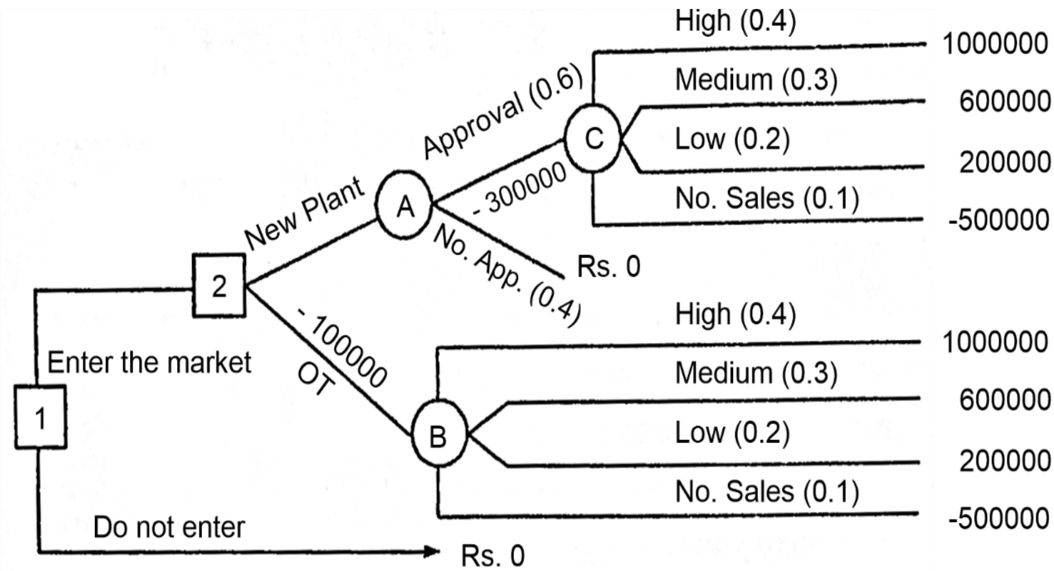
Computation of Economic Value Added (EVA)	
Particulars	**Amount (₹.)**
Profit after tax (PAT)	25,41,000
Add: Interest on 12% debt net of taxes	84,000
Total Return to providers of fund	26,25,000
Less: Cost of Capital Employed	8,00,000
Economic Value Added (EVA)	18,25,000

7. (b)

(i) Total Cost per unit of the first order of 30 units = ₹ 369.83 i.e. ₹ 370

(ii) Price to be quoted to yield 20% on Selling Price= ₹ 380

8. (a)



EMV of chance node C = ₹ 5,70,000

EMV of node B = ₹ 5,70,000

EMV of node A = ₹ 1,62,000

EMV of decision node 2 = New plant: ₹ 1,62,000

Overtime: = ₹ 4,70,000

EMV of decision node 1 = Enter Market = ₹ 4,70,000 (Max.) and pay overtime

Do not enter market = ₹ 00

Suggestion :

Since EMV of Decision Node – 1 (₹ 4,70,000) is maximum the company should enter the market and pay overtime wage.

8. (b)

Responsibility Centre:

A Responsibility Centre may be defined as an area of responsibility which is controlled by an individual. A responsibility centre is an activity such as department over which a manager exercises responsibility. Responsibility Centre may be departments, product lines, territories or any other type of identifiable unit or combination of units. All costs relating to the centre are collected and the manager responsible for such a cost centre judged by reference to the activity levels achieved in relation to costs. Even an individual machine may be treated as responsibility centre for cost control and cost reduction.

There are four types of Responsibility Centre are commonly identified. These are:

1. **Cost or Expense Centre:** The most elementary form of Responsibility Centre is the cost Centre, which itemizes all of the expenses incurred to run a specified function, but ignores the cost of capital involved in it, as well as any associated returns. 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. The objective of Cost Centre is the control over the incurrence of expenses. Cost Centres managers are responsible for cost only.

2. **Profit Centre:** 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 Profit Centre is to maximise the Centre's profit. Profit Centres managers are responsible for both costs and revenues.

3. **Revenue Centre:** A Revenue Centre is strictly defined as an organizational unit that is responsible for generation of revenues and has no control over selling price or budgeting cost. It is a distinct operating unit of a business that is responsible for generating sales and is judged solely on its ability to generate sales; it is not judged on the amount of costs incurred. Revenue centers are employed in heavily sales-focused organizations.

4. **Investment Centre:** An investment Centre is an organizational unit whose manager is responsible for managing revenues and current expenses. An investment center is a center that is responsible for its own revenues, expenses, and assets and manages its own financial statements which are typically a balance sheet and an income statement.