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CS/MHA/SEM-3/MHA-302/2012-13

2012

MANAGERIAL ACCOUNTING

Time Allotted : 3 Hours *Full Marks* : 70

The figures in the margin indicate full marks.

Candidates are required to give their answers in their own words as far as practicable.

GROUP – A

(Multiple Choice Type Questions)

1. Choose the correct alternatives for any *ten* of the following : $10 \times 1 = 10$

   i) In comparison with a financial statement prepared in conformity with generally accepted accounting principles, a managerial accounting report is most likly to

      a) be used by decision makers outside of the business organization.

      b) focus upon the operation results of the most recently completed accounting period.

      c) view the entire organization as the reporting entity.

      d) be tailored to the specific needs of an individual decision maker.

ii) The emphasis of corporate governance is on business practices which would provide maximum revenue to the equity shareholders.

a) True b) False.

iii) Corporate governance refers to the distribution of responsiblilities among different stakeholders and its transparent disclosure.

a) True b) False.

iv) Higher net working capital leads to higher liquidity and higher profitability

a) True b) False.

v) Working capital tied up with debtors should be estimated in relation to the selling price.

a) True b) False.

vi) According to hedging approach, current assets should be financed from long-term sources.

a) True b) False.

vii) It is always in the interest of the business firm to pursue tight credit standards as they yield lower collection costs and bad debts.

a) True b) False.

viii) Default costs are caused due to failure of customers to pay on time.

a) True b) False.

ix) For an effective responsiblity accounting system

a) The organization structure must be well defined

b) The responsibility and authorithy must go hand in hand at all levels

c) Both of these

d) None of these.

x) Responsibility performance reports should include the variances of actual amounts from the standard / Budget.

a) True b) False.

xi) Which of the following is identified primarily with management accounting ?

a) Preparation of financial statements

b) Focus on segments as well as the entire organization

c) Emphasising the past rather than the future

d) None of these.

GROUP – B

(Short Answer Type Questions)

Answer any *three* of the following. 3 × 5 = 15

2. Compare the hedging approach and the conservative approach in deciding the financing mix for working capital requirement.

3. Define responsibility accounting. What are the performance evaluation measures for different types of responsibility centres. 1 + 4

4. a) What is the purpose of limiting factor analysis ? 2

   b) Assume a company has two products *A* & *B*. The selling price, variable cost & labour hour requirement for *A* are Rs. 8, Rs. 6 & 2 hours respectively per unit. The selling price, variable cost & labour hour requirement for *B* are Rs. 24, Rs. 20 & 5 hours respectively per unit. Considering the labour is a very scarce resource, which product should be preferred to maximize overall contribution ? 3

5. Make a comparative assessment of management accounting & financial accounting.

6. What are credit standards ? What key variables should be considered in evaluating possible changes in credit standards ? 1 + 4

GROUP – C

(Long Answer Type Questions)

Answer any *three* of the following. 3 × 15 = 45

7. A newly formed company has applied for bank loan for financing its working capital requirements. You are requested by the bank to prepare an estimate of the requirement of the working capital for the company. Add 10% to your estimated figure to cover unforeseen contingencies. The information about the projected Profit & Loss account of the company is as under (in Rs.) :

Sales			21,00,000
Cost of goods sold	Materials used	8,40,000	
	wages & manufacturing expenses	6,25,000	
	Depreciation	2,35,000	
	Less, stock of finished goods (10% of FG prepared are not sold)	1,70,000	
			15,30,000
Gross profit			5,70,000
Other expenses	Administrative expenses	1,40,000	
	Selling expenses	1,30,000	
			2,70,000
Profit before tax			3,00,000
Provision for tax			1,00,000

The figures given above related only to the goods that have been finished and not to work-in-progress. Goods equal to 15% of the year's production (in terms of physical units) are in progress on an average, requiring full materials but only 40% of other expenses. The company believes in keeping two months consumption of materials in stock. Desired cash balance is Rs. 40,000.

Average time-lag in payment of all expenses is 1 month. Suppliers of materials extend 1.5 months credit. Sales are 20% cash, rest are at 2 months credit. 70% of the income tax has to be paid in advance in quarterly instalments ?

Can you make such other reasonable assumptions as you deem necessary for estimating working capital requirements ?

8. Define Corporate Governance. What do you understand by ICRA corporate governance rating ? Discuss the key variables that are mainly analysed to arrive at the CGR for a corporate entity. 2 + 1 + 12

9. a) What do you understand by 'receivables' and 'receivables management' ? 2

b) Discuss what you understand by credit policy. 3

c) A firm is contemplating stricter collection policies. At present, the firm is selling 36,000 units on credit at a price of Rs. 32 each. The variable cost per unit is Rs. 25 while the average cost per unit is Rs. 29. Average collection period is 58 days. Collection expenses amount to Rs. 10,000 and bad debts are 3 per cent.

If the credit collection procedures are tightened, additional collection charges amounting to Rs. 20,000 would be required, bad debts will be 1 per cent, the collection period will be 40 days, sales volume is likely to decline by 500 units. Assuming a 20% return on investments, what would be your recommendation ? 10

10. Write short notes on : 3 × 5
    a) Target Costing
    b) Collection Experience Matrix
    c) Principles of Corporate Governance.

11. A company manufactures three products (*X*, *Y* and *Z*). All direct operatives are the same grade and are paid at $11 per hour. It is anticipated that there will be a shortage of direct operatives in the following period, which will prevent the company from achieving the following sales targets :

Product *X*	3,600 units
Product *Y*	8,000 units
Product *Z*	5,700 units

Selling prices and costs are shown below :

For Products *X*, *Y* and *Z* selling prices and costs :

	Product *X*	Product *Y*	Product *Z*
	$ per unit	$ per unit	$ per unit
Selling prices	100·00	69·00	85·00
Variable costs :			
Production	51.60	35.00	42.40
Non-production	5.00	3.95	4.25
Fixed costs :			
Production	27.20	19.80	21.00
Non-production	7.10	5.90	6.20
Includes the cost of direct operatives	24.20	16.50	17.60

The fixed costs per unit are based on achieving the sales targets. There would not be any savings in fixed costs if production and sales are at a lower level.

Compute the production plan that will maximize contribution & profit for the company.