Model Answers

Subject –Accounting for Managerial Decisions

Paper code-AS-2366

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(Note-These models answers are only depiction of important points, in order to secure high marks examinees are require to explain all the points and give proper notes to the practical question. The length of answer may vary as per interpretation and presentation of subject matter.)

No-1. P/V Ratio=Change in profit/change in sales

=30000/200000*10=15%

(ii) (a) Determination of selling price

(b) Helpful in cost control and reduction

(iii) (a) To present required facts and information for the use of management

(b) To help in effective performance of managerial function

(iv)) (a) Formulation of policy

(b) Preparation of forecasts

(c)Comparisons of alternative combination of forecast

(d) Preparation of budgets

(e) Compare Budget with actual

(f) Take corrective measures

(v) Material cost variance=S.Q*S.P-A.Q*A.P

S.Q-Standard quantity, S.P-standard price

A.Q-actual quantity, A.P-Actual price

(vi) Marginal costing is a technique not method. It is a technique for decision making, which recognizes the relevant cost i.e. variable costs as a prime factor in the process f decision making. In this no importance is given to fixed cost.

(vii) (a) It helps in informative decision making by management.

(b) It helps in coordination among different levels of organization.

(viii) Angle of Incidence is angle or intersection between total cost and profit. It shows the profitability of the company. Higher the angle higher will be profit.

(ix) Contribution is the excess of sales over the variable cost. It shows the profitability without considering the fixed cost. It is equal to fixed cost plus profit. It can be calculated by:

Contribution=sales-variable cost.

(x) A cost centre is a smaller segment of activity for which costs can be accumulated. In case of certain centres it may not be possible to measure the output in terms of monetary units. In case of such centres the accounting system records only cost incurred and not revenue earned.

No.2. In this answer students are required to give brief introduction then they have to mention the following points:

Importance of Management accounting

i. Increase in efficiency
ii. Proper planning
iii. Measurement of performance
iv. Effective management control
v. Improved services to customers
vi. Maximizing the profits
vii. Prompt decision

Limitations of Management accounting:

i. Based on financial and cost accounts
ii. Continuity
iii. Not an alternate to management
iv. Proper knowledge required

v. Wider scope
vi. No legal backing

Note- brief explanation of above points required

No.3. Budgeting is a part of management process which includes preparation of budget, budget control, budget coordination and all those activities that are related with budgets.

Advantages of budgeting:

i. Action on basis of well decided plan
ii. Mechanism for policy implementation
iii. Work on basis of best option
iv. Objectivity
v. Control on cost of production
vi. Control on capital expenditure
vii. Standard for measuring performance

Disadvantages :

i. It based on plan estimates
ii. Not a substitute of management
iii. Time effect
iv. Conflict among executives
v. Operation of budget is not automatic

- Brief explanation of above points are required

No.4. Responsibility centre is a sub unit of an organization under the control of a manager who is held responsible for the activities of that centre. This responsibility may be in form of quantum of production, utilization of resources, efficiency in cost of sales etc. The responsibility centre can be classified as follows:

i. Cost centre
ii. Profit centre
iii. Investment centre

Along with the above students are also required to explain the objective and determinants of responsibility centre.

No.5. Variance means the difference between the actual and the standard. The term variance analysis refers to systematic evaluation of variances in attempts to provide the management the useful information for measuring efficiency and improving performance.

Various types of Labour variances:

i. Labour cost variance
ii. Labour rate variance
iii. Labour efficiency variance
iv. Labour yield variance
v. Idle time variance

Over head variances

It can be divided into two types

i. Variable overhead variance
ii. Fixed overhead variance

Note- Students are required to explain all type of labour variance and only mention various type of overhead variance.

No.6. (a) B.E.P (In Units) = Fixed cost/C.p.u

Contribution=Sales-variable cost

=20-4

=16

B.E.P(units) =80000/16

=5000 units

In RS.=B.E.P units*S.p.u

=5000*20

=100000

Margin of safety= Actual sales-BEP sales

=200000-100000

=Rs.100000

(ii) Break even chart is the graphical method of break even analysis. This chart depicts not only the inter relationship between fixed cost, variable cost, total cost, sales and profit or loss at different level of activity also shows the level of output at which there is no profit/loss.

Assumptions:

i. Total cost can be segregated into fixed and variable expenses.
ii. Fixed expenses remains constant at all level.
iii. Sales mix does not change during period.
iv. Variable costs vary in proportion to volume of production.
v. Change in sales does not bring any change in selling price per unit.

No.7. P/V Ratio=Change in profit/Change in sales*100

=6000/20000*100=30%

(ii) F=C-P, C==S*P/V Ratio

C=80000*30/100

=Rs.24000

F=24000-10000

=14000

(iii) B.E.P in Rs=F/P.V Ratio

=14000/30%

=46666

(iv) Profit when sales are Rs.250000

P=(S*P.V)-F

=(250000*30/100)-14000

=Rs.61000

(v) Sales in Rs.=F+P/P.V R

=14000+7500/.30

=Rs.75000

(Vi) M.O.S=Profit/ P.V R

=11250/.30

=37500

No.8.

	CASH BUDGET FOR THE MONTH OF APRIL,MAY AND JUNE				
Receipts		April	May	June	
Opening					
Bal		1300	1970	920	
Cash sales		900	850	800	
		7200	6750	8100	
Debtors	Total(a)	9400	9570	9820	
Payments					
Cash purchases		500	450	350	
Creditors		3780	4500	4050	
Wages		2250	2300	1950	
Expenes		600	700	600	
Rent		300	300	300	
Income tax			400		
	Total(B)	7430	8650	7250	
	Closing Bal	1970	920	2570	

- Working notes are required