

2016

(September)

COMMERCE

Paper : 103

(Cost and Management Accounting)

Full Marks – 80

Time – Three hours

The figures in the margin indicate full marks for the questions.

1. (a) Discuss the meaning of Activity Based Costing. What are the benefits of Activity Based Costing ? State its differences with Conventional Costing. 4+6+6=16

Or

- (b) Narrate the objectives and features of cost reduction. State the major areas in which cost reduction is usually possible. 3+3+10=16

2. (a) Explain the possible reasons for differences between profits shown by cost accounts and financial accounts. 16

Or

- (b) The product of a manufacturing concern passes through two processes A and B and then to finished stock. It is ascertained that in each process normally 5% of the total weight is lost and 10% is scrap which from processes A and B, realizes Rs. 80 per ton and Rs. 200 per ton respectively.

The following are the figures relating to both the processes :

	<u>Process A</u>	<u>Process B</u>
Materials (in tons)	1,000	70
Cost of materials per ton (in Rs.)	125	200
Wages (in Rs.)	28,000	10,000
Manufacturing expenses (in Rs.)	8,000	5,250
Output (in tons)	830	780

Prepare Process Cost Accounts showing cost per ton of each process. There was no stock or work-in-progress in any process. 8+8=16

3. (a) What is Comparative Income Statement ? Discuss the utility of such a statement.

4+12=16

Or

- (b) From the Income Statement given below, prepare a Common-size Income Statement. Give your brief interpretation of the common-size Income Statement. 12+4=16

INCOME STATEMENTS

For the year ending
31 December, 2014 and 2015

Particulars	2014 (Rs.)	2015 (Rs.)
Sales	1,40,000	1,65,000
Less :		
Cost of goods sold	<u>85,000</u>	<u>1,05,000</u>
Gross Profit	<u>55,000</u>	<u>60,000</u>
Operating expenses :		
Selling and distribution expenses	12,000	16,000
Administrative expenses	<u>10,000</u>	<u>11,000</u>
Total operating expenses	<u>22,000</u>	<u>27,000</u>
Net income before tax	33,000	33,000
Income Tax (40%)	<u>13,200</u>	<u>13,200</u>
Net income	<u>19,800</u>	<u>19,800</u>

4. (a) "Ratios are mechanical and incomplete." Give comment on this statement with justifications in support of your contention. 16

Or

- (b) (i) State the significance of the following ratios and how these are calculated :

1. Inventory Turnover Ratio
2. Receivable Turnover Ratio. $5 \times 2 = 10$

- (ii) The current ratio of the Popular Co. Ltd. is 2:1. Which of the following suggestion would improve, reduce or leave unchanged the current ratio ? $1 \times 6 = 6$

1. To sell stock for cash
2. To purchase stock on credit
3. To pay-off a current liability
4. To discount account receivables
5. To borrow money from bank for long period
6. To sell old furniture for cash.

5. (a) "The fate of large scale investment in fixed capital is often determined by a relatively small amount of current assets."

Give your comment on this statement. 16

Or

- (b) The capacity of an organisation is to produce 40,000 units of valve per annum. Due to protracted power cuts, the organisation can operate at 60% of the capacity level.

Ascertain the working capital requirement at the current level of operations. The following data on the cost-price structure of valves, at the current level of production, are available :

<u>Elements of cost</u>	<u>Per unit (Rs.)</u>
Raw materials	6
Direct labour	3
Overheads	<u>4</u>
Total cost	13
Profit	<u>3</u>
Selling price	<u>16</u>

Raw materials are in stock, on an average for 2 months. The duration of the production process is half a month. Finished products are in stock, on an average for 1 month.

Credit allowed to customers is 3 months and that obtained from suppliers of raw materials is 1½ months. Lag in payment of wages is half a month. There is, usually, no lag in payment of overheads.