Biyani's Think Tank

Concept based notes

Management Accounting -II

MBA - II Sem

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Preface

I am glad to present this book, especially designed to serve the needs of the students. The book has been written keeping in mind the general weakness in understanding the fundamental concept of the topic. The book is self-explanatory and adopts the "Teach Yourself" style. It is based on question-answer pattern. The language of book is quite easy and understandable based on scientific approach.

Any further improvement in the contents of the book by making corrections, omission and inclusion is keen to be achieved based on suggestions from the reader for which the author shall be obliged.

I acknowledge special thanks to Mr. Rajeev Biyani, *Chiarman* & Dr. Sanjay Biyani, *Director (Acad.)* Biyani Group of Colleges, who is the backbone and main concept provider and also have been constant source of motivation throughout this endeavour. We also extend our thanks to Biyani Shikshan Samiti, Jaipur, who played an active role in co-ordinating the various stages of this endeavour and spearheaded the publishing work.

I look forward to receiving valuable suggestions from professors of various educational institutions, other faculty members and the students for improvement of the quality of the book. The reader may feel free to send in their comments and suggestions to the under mentioned address.

Author

Syllabus

Section –A

Management Accounting-Introduction. Basic cost terms and concepts. Managerial implications of job order costing, process costing- simple process, process accounting of normal and abnormal wastage, Process Stock Accounting and inter process accounting.. cost-volume-profit analysis. Cost reduction system-kaizen costing system, ABC, Life cycle costing. Pricing decision. Standard cost and variance analysis.

Budgeting and budgetary control-Types of budget- Flexible, cash, sales, production budget, master budget. Managerial implication of budget, performance budgeting, ZBB.
Inferences from published financial statements-Ratio, cash flow and funds flow.
Emerging issues in Management Accounting-Human Resources Accounting, EVA, Internal Reconstruction and Amalgamation – concept, elementary accounting and interpretation.

Section –B

Cases/Problems. Note: 60% of the Questions will be Numerical/Cases/Inferences based.

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COSTING

It Consists of Principles and rules Which are used for determining : (a) the cost of manufacturing a product e.g. chemical, television, coolers, radios etc.: (b) the cost of providing a service e.g. power, material handling, electricity repairs etc. It is defined as under:

(i) Costing is the classifying recoding and appropriate allocation of expenditure for the presentation of suitably ascertainment of the cost of every order, job, contract, process, service or unit as may be appropriate. It deals with the cost of production, selling and distribution.

(ii) "Costing is the technique and process of ascertaining cost"

(iii) "Costing may be defined as the classifying, recording and appropriate allocation the expenditure for the determination of costs, the relation of these costs to sales value and the ascertainment of profitability"

COST ACCOUNTING

Cost accounting and costing are often used interchangeable. As costing is simply cost finding, which can be carried out by means of memorandum statements, antithetic process etc. Cost accounting is a formal system of accounting for costs by means of which costs of products or services are ascertained and controlled. It denotes the formal

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accounting mechanism by means of which costs are ascertained. Cost accounting is defined as under:

(i) "Cost Accounting is a system of recording in accounts of the material used and labour employed in the manufacture of a certain commodity or a particular job."

(ii) Cost Accounting is the provision of such analysis and classification of expenditure as will enable the total cost of any particular unit of production to be ascertained with reasonable degree of accuracy and at the same time to disclose exactly how such total cost is constituted."

(iii) "Cost Accounting is the application of accounting and costing principles, methods and the analysis of saving and /or excesses as compared with previous experience or with standards."

Thus, costing means finding out the cost of something and cost accounting means costing using double entry book-keeping methods.

COST ACCOUNTANCY

Cost Accounting is used to describe the principles, postulates, conventions, systems and techniques which are employed in a business to plan and control the utilization of its resources. Hence, it is the widest among all the terms and covers not only costing and cost accounting but also cost audit and control. It is defined as under:

"Cost accountancy is the application of costing and cost accounting principles, methods and techniques to the science, art and practice of cost control. It includes the presentation of information derived there from for the purpose of managerial decision making."

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COST ACCOUNTING

Costing	Cost Accounting	Cost Control	Cost Audit

Thus, cost accountancy is the science, art and practice of a cost accountant. Cost accountancy is the "science" because it consists of systematic and organized knowledge, which a because must possess for proper discharge of his functions. It is an "art" also because it involves costing techniques and methods, such as marginal costing, standard costing. Differential costing, budgetary control etc. Science cost accountancy comprises of efforts in the field of cost accountancy.

COST CONTROL

A cost accountancy now is only concerned with the ascertained of costs and fixing selling prices of the products but he is primarily interested in controlling the costs by exercising a variety of techniques such as marginal costing, quality control, budgetary control etc. It is defined as under:

"Cost control is the guidance and regulation by executive action of the costs of operation an undertaking"

The essential steps to achieve cost control are:

(i) Set up targets for expenses and for production performance

(ii) Measure periodically the actual expenses and production performances.

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(iii) Compare the actual with targets and find out the variations.

(iv) Analyze the variations both by causes and the executives responsible therefore, and

(v) Take corrective action to eliminate the variations, thereby bringing the actual closer to the gargets.

From the various steps enumerated above, the cost control aims at guiding the actuals towards the line of targets; Regulates the actuals if done by an executive actions; i.e.; by the person responsible for causing the deviation.

COST REDUCTION

It is a new dimension to the function of a cost accounting field. In this era of liberalization and competition only those concerns may survive who can deliver the best quality of goods and services at the lowest possible cost. It is possible by constant research and development in the areas of production procedures and product design etc.

COST AUDIT

Cost Audit is an audit of the accounting system and audit of implementation of the cost accounting plan. It connotes that there is a cost accounting system. Cost audit verifies the adequacy and accuracy of the system as such. Even when there is a system of cost accounting in implementation and the intended result from it may not be achieved. The scope of cost audit under the statute and the format of cost audit report required by it is clearly much larger. Cost may be looked at from a limited view, confined to cost ascertained, cost analysis and presentations. In this wider sense cost audit has to go into all critical areas of management functions where efficiency or lack of it is likely to be achieved. It becomes essential in case of business, where cost accounting is carried out on a large scale.

KIZEN COSTING SYSTEM

Kaizen costing consists of two Japanese words; KAI and ZEN, Kai means changes and ZEN means better, so KAIZEN stands for change for better. In other words, KAIZEN refers to continuous improvement. KAIZEN is a daily activity whose purpose goes beyond simple productivity improvement. It is also a process that, when done correctly humanizes the workplace, eliminates overly hard work (both mental and physical), and teaches people how to perform experiments on their work using the scientific methods and how to learn to spot and eliminate waste in business processes. In KAIZEN system, process and results both are considered so that actions to achieve effects are surface. It is a systemic thinking of the whole process in the order provided, creating problems elsewhere in the whole process in the order provided, creating problems elsewhere in the process. It is the learning, non-judgmental, non-blaming (Because blaming is wasteful) approach and intent will allow the re-examination of the assumptions that resulted in the current process. In traditional management, planner once fixes the process and other terms to produce any product and after that his interest diversifies to operate the process most efficiently, while in KAIZEN system, when the production is in running, planner focus on improvement. It KAIZEN system, management wants to explore the maximum potential with small and continuous improvements. When these improvements come together it results in cost reduction, improvement in production process and product design. In the Indian context, it is always said that "Boond boond se hi Ghara bharta hai".

In other words, small drops effectively become an urn of water. In traditional costing and target costing, targets are set according to customer consideration, in KAIZEN costing; targets are set by senior management. In KAIZEN costing, employees are trained and motivated to implement the daily changes, which can improve the quality and reduce the cost. The focus in KAIZEN system is the process which is used in production.

Daihatsu defines Kaizen costing activities that "sustain the current level of the existing car production cost, and further reduce it to the expected level based on the company's plan. In KAIZEN system, following few steps should be remembered:

1. Identify and chart down your problem.
2. Give grade to your problem like smaller, moderate and lager
3. Select the smallest problem and to eliminate this problem start to work on it.
4. Now move to the next graded problem and so on.

It should always be remembered that improving the process is a part of daily routine, so should never accept as it is. Each and every idea should be tired. Failed experiments should be eliminated and all problems must be shared with colleagues.

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ACTIVITY BASED COSTING

Activity based costing measures the cost the performance of different activities, resources and cost objects of an organization. ABC captures organizational costs for the factors of production and administrative expenses, and applies them to the defined activity structure. It is a process of simplifying and clarifying decision required by the process evaluators and senior management using activity costs rather than gross allocations.

Activity based costing gives stress on indirect resources demanded by the product. It emphasizes on the need to obtain a better understanding of cost behavior and thus ascertain what causes the overhead costs. After the collection of accurate date of direct materials, direct labor and direct expenses under the system, the next step is to examine the demands made by particular products on the indirect resources which is based on the following three rules:

1. Focus in expensive resources
2. Emphasis in resources whose consumption varies significantly by product or product type, look for diversity.
3. Focus on resources whose demand patterns are uncorrelated with traditional allocation measures like direct materials, direct labour and processing time etc.

The logic behind these three rules of activity based costing is that it is the activity which causes costs, not the products and it is the product which consumes activities in turn.

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LIFE CYCLE COSTING

Life Cycle Costing, aims at costs ascertainment of a product, project, etc. Over its projected life. It is a system that tracks and accumulates the actual costs and revenues attributable to cost object (i.e. Product) from its inception to its abandonment. Some times the terms “cradle-to-grave costing” and “womb-to-tomb” are used for life cycle costing. It estimates costs over products entire life cycle. The objective is to determine whether costs incurred at introduction stage, growth, maturity stage, saturation stage and decline stage will be recovered by revenue to be generated by the product over its life cycle? Many products have characteristics of exclusiveness, and this distinctiveness disappears over a period and product becomes a common product. The life cycle of a product begins with research and development of consumer’s need, followed by invention and further development to make the product saleable. After this, sales of product expands rapidly and the product gains acceptance of market. At the stage of maturity the competitors enter the field and exclusiveness of product starts diminishing. And after a period a product becomes a common commodity.

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ZBB

Zero Base Budgeting is an operating, planning and budgeting process which requires each manager to justify his entire budget request in detail from a scratch (hence zero base) and shifts the burden of proof to each manager to justify why he should spend any money at all. It is a new technique of preparing budgets by taking 'Zero as Base' rather than previous year's budget or data i.e., to say, writing on a clean state. In this technique, every department proposing in certain amount in a budget has to justify that the activity is essential and the proposing a certain amount in a budget has to justify that the activity is essential and the various amounts asked for are reasonable and relevant. In this way, the Budget Committee prepares budget Committee ranks departmental budget proposals on the basis of cost-benefit analysis and selects the best proposals. So, this approach requires that all activities be identified in the 'decision packages', which will be evaluated by systematic analysis and ranked in order of importance. This technique acts as a very useful tool in reducing the overall cost of an organization, for valuation of alternative techniques of completing a special work and for analyzing the results of completing or not completing a special work.

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PB (Performance Budgeting)

Performance budgeting is mainly related to the objectives set for any organization or institution (Under performance budgeting, classification of proposed financial allocation is done, according to various objectives, to show how money be allocated. For different activities, Schemes and Programmers.) That way, performance budgeting is an essential component for performance appraisal.

1. At a broad level, performance budgeting can be most appropriately associated with a budget classification that emphasizes the things which Government does rather than the things which government buys. Performance budgeting shifts the emphasis from the means of accomplishment to the accomplishment itself.

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ACCOUNTING FOR HR AND ECONOMIC VALUE ADDED

Human beings play the most important role for achievement of productivity in enterprises. They are well above machinery, material, building, technology, money etc. because E.H. and landkich, "People are the most important asset of an organization and yet, the value of this asset does not appear in the financial statements. This performance has not even been included as a part of internal accounting and reporting for management purpose".

Human Resources accounting identify, measures and reports, which is not presently accounted for under conventional accounting practice. According to American Accounting Associated defined HRA as "the process of identifying and measuring data about human resources and communicating this information to interested parties."

In fine, all the activities of an enterprise are initiated and determined by the persons who make up those institutions. Plants, Officers, computers, automated equipment and all else that a modern firm use are unproductive except for human effort and direction. Human being design or order equipment, they decide where and how to use computers, they modernize of fail to modernize technology employed, they secure capital needed and decide on the accounting the fiscal procedures used.

Although some people thinks that valuation of human resources is very difficult and a employee may react if he is under valued. But behavioral scientist like R Likert pointed out that the failer or accountants to value human resources was a serious handicap for management.

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EVA

ECONOMICS VALUE ADDED

The concept of value added as a tool of measuring performance has developed recently in big business houses. It is considered as an appropriate approach to measure the operating efficiency and profitability of a concern. The figure of value added of value added differs from the conventional profit figure in the sense that, the amount of value added is calculated by deducting the cost of bought in materials and service from the figure of sales revenue whereas, the figure of conventional profit is calculated y deducting all expenses from the figure of total revenue.

Classified of value Added:

1. On price basis : a. Gross value added
   b. Net value added
2. On object basis: a. Accounting value Added
   b. Economic value added
   c. Market value added
   d. cash value added
   e. Intellelining value added

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ECONOMIC VALUE ADDED

The New York based financial advisory stern Stewart and Co. originated the concept of economic value added which is today a popular concept among the various companies in simple words EVSA is difference between profit and cost of capita

Excess of return over cost of capital is termed as EVA. It is surplus left after charging appropriate return for the capital employed. When a shareholder invests his money in purchasing the share of a company he accepts that company will earn a sufficient amount which will be excess to company's cost of capital. A shareholder wants tow way benefits for his investment in shares, first he want to get good amount of dividend and second he desires appreciation in the price of shares. EVA is an appropriate surplus which may be earned by the efficiently performance of a management. Performance of management significant influence on the market value of share because market value of share appreciate if earning per share increase. Although there is no benchmark for comparing the performance of management but shareholder wants a minimum return according to risk involved in his investment. A company creates value for shareholder if it generates return in excess of its cost of capital. EVA requires a careful decision about the sources utilization and improvement in sting operating performance so EVA of a company will rise if existing is improved and capital is employed in such project, which earns a greater rate of return. More over to this EVA requires the lower cost of capital from such activities, which gives lower rate of return.

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INTERNAL RECONSTRUCTION

In internal reconstruction necessary changes in capital structure of a company are made without affecting the existence of a company. It is a plan in which efforts are made to bring out the company from losses and put it in a profitable position. The company is not liquidate therefore, it is also called quasi-reconstruction.

AMALGAMATION

When two or more companies are merged into one company, then it is called amalgamation. Under amalgamation, a new company is formed to takeover the business of amalgamated companies. As amalgamated companies are liquidated so their accounts are closed and new company which is the purchasing company make payments to Vender Company. Generally, payment is made in the form if shares of new company.

JOINT PRODUCTS AND BY PRODUCTS

In certain cases when same material is used and same process is used, output consist two or more products. This situation arises due to characteristics of production process. The multiple products are referred to as joint products or by products. Products from Chemical, dairy and agriculture industries are examples of joint and by products. Some times the products produced are all most of equal value and some time they have a different value. The multiple products resulting from a common manufacturing operation is referred to as;

1; Joint Products and 2. By Products

A product is joint or by, this depends upon its importance. For example in oil refineries, kerosene oil and diesel are of same value and sugar industries molasses and sugar are not split off point and then sold. Conclusively if management has plan to manufacture all multiple products and the sale value of these products is more or less equal they are referred to as joint products, other wise they would be classified as by products. In dairy industry butter, cream and skimmed milk and in petroleum industry petrol, diesel, LPG are examples of joint products, and soap industry glycerin and molasses in making if sugars are examples of by products. According to CIMA " A by product which is recovered incidentally from the material used in the manufacturing of recognized main products, such by-products having either a net realizable value or a usable value, such value being relatively unimportant in comparison with the saleable value of the main products. By-products are usually subjected to further processing after separation from the main product."

COST-VOLUME-PROFIT (CVP) ANALYSIS

Cost-volume-profit (CVP) analysis can be said a mathematical representation of the economics of producing a product. The relationship between a product's revenue and cost functions expressed within the CVP model are used to evaluate the financial implications of a wise rang of strategic and operations decisions. For instance, CVP analysis is used to improvement decisions possibly equally important, CVP analysis facilitates measuring the sensitivity of a product's profitability to variations in one; or more o its underlying. To all intents and purposes, CVP is quantitative model for developing much of the financial information relevant for evaluating resource allocation decisions.

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LOSS/SPOILAGE

To understand the concept of cost, the term 'loss' should be defined. Loss is lost cost. It is applied to define two accounting events. In financial accounting, it is used to describe a circumstance where expenses exceed revenues for an accounting period, that is, the reverse of net income (earnings) for the accounting period. On the other hand, a loss arises due to the cost of an asst being more than the sale proceeds when the asset is sold. This unfavorable event does not arise from a normal business activity but from non-operating transactions or events this meaning of loss is used to recognize the reverse of gain. That is, if no gain is achieved from the cost incurred or it becomes definite that no benefit will accrue, the cost becomes a lost cost, i.e. loss on sale of fixed asset, loss of a stock due to fire etc.

BREAK EVEN POINT OR BEP

According to Charls T. Horngren, "the break even point is that point of activity where total revenues and total expenses are equal, it is the point of zero profit and zero loss."

According to N.K.Prasad, "the break even point is the sales volume at which there is neither profit nor loss, being equal to revenue."

The break-even point can be expressed in terms of units of product or in terms of money value of sales volume as explained below:

(i) BEP (in units) = $\dfrac{\text{F}}{\text{Contribution per unit}}$

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(ii) BEP (in Rs.) = $\frac{F}{\text{P/V Ratio}} \times 100$

(iii) BEP in production capacity:

It is essential to decide at what level of production capacity BEP will be obtained. So, BEP sales can be expressed in percentage also. On this basis that project is selected for which BEP sales will be obtained at a lower capacity. If sales at 100% capacity and sales at BEP point is given, BEP sales in production capacity can be computed as follows:

BEP sales capacity % $\frac{\text{BEP Sales}}{\text{Sales at 100\% Capacity}} \times 100$

B.E.P. (in general) = Sales- Margin of Safety

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PROFIT VOLUME RATIO OR P/V RATIO

Profit-Volume Ratio expresses the relationship between contribution and sales value. This ratio is computed by dividing the amount of contribution by the amount of sales. It is also know as contribution to sales ratio. It gives the impact of changes in output level on operating income (Profit). It is usually expressed as a percentage and is a valuable guide to the profitability of a business.

The formula can be expressed as:

$$\text{P/V Ratio} = \frac{\text{Unit Sale Price} - \text{Unit Variable cost}}{\text{Unit Sales Price}} \times 100$$

Or P/V Ratio = $\frac{C}{S}$ x 100

Or P/V Ratio = $\frac{\text{Fixed cost + Profit}}{\text{Sales}}$ x 100

Or P/V Ratio = (1 – V/S) x 100

MARGIN OF SAFETY

Excess of actual sales over the break even sales is called margin of safety. The more the actual sales above the break-even point, the more safe is the position of the company. Margin of safety can be expressed in three ways and separate formula is used as follows:

(i) Margin of Safety (in Rs.)= Current sales unit – BEP Sales unit

(ii) Margin of safety (in Rs.) = Current Sales (Rs.) – BEP Sales (Rs.)

Alternatively, it can be computed as :

Margin of Safety in (Rs.) = $\frac{\text{Profit}}{\text{P/V Ratio}}$

(iii) Margin of Safety in Percentage :

Margin of Safety (in %) = $\frac{\text{Current Sales-BEP Sales}}{\text{Current Sales}}$ x100

(iv) Margin of Safety in general = sales – B.E.P. Sales

Importance of Margin of Safety – There is quite a lot of importance of margin of safety in business. In the business, as the margin of safety increases the chances of loss of business decreases because there will be the profit even after a decline in sales.

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The low margin of safety is not considered good for business. The following action should be taken for improvement of margin if safety:

(i) There should be decreases in variable costs.

(ii) There production on non-profitable commodities should be stopped;

(iii) There should be increase in quantity of production;

(iv) There should be increase in sales; and

(v) There should be decrease in fixed costs.

MONOPOLOSTIC

Major characteristics of monopolistic competition are:

a. There are many firms who sells differentiated version of the same product.
b. Under this competition no firm can influence the decision of other firms.
c. As monopolistic competition no firm can influence the decisions of other firms.
d. As monopolistic competition attracts new competitors, it affects on the excess profit in long run, because the price competition will arise with close competitor.
e. For maximizing the profit a firm has to compare marginal cost and marginal revenue.

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OLIFOPOLY

Generally, most of the firms operate in this situation and following points cover the characteristics of this type of market:

a. In oligopoly, before changes in the prices by a firm, possible competitor reaction should be considered.
b. A few large sellers occupy the major portion of the market.
c. If firm finds that due to increase or decrease in price its competitor will also follow it: than the shape of revenue curve will be same as that of the whole market.

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BUDGET, BUDGETARY CONTROL AND BUDGETING

The terms budgetary control and budgeting are often used interchangeable to refer of a system of managerial control. But in strict sense budgeting is a way if managing business and industry. It emphasized that management should anticipate problems, difficulties and opportunities. Advance decisions should be taken for the course of activities. Budgetary control denotes a formal system based on the concern of budgeting. So that everything can go according to the budgets.

Three main differences between budget and budgeting are as follows:

(i) Budget is a statement while budgeting is a process.
(ii) The work of budgeting starts quite earlier compared to preparation of budgets.
(iii) Budgeting relates to business activities while budget is the end result of it.

OBJECTIVE OF BUDGETARY CONTROL

Budgetary control is s technique of control which helps in other functions of management also. It is specially suitable to coordinate different function of management to increase sales, profit and efficiency of the concern. The objective and consequently the advantage of budgetary control are as follows:

1. **Planning** – The ideas of different levels of management are combined in the preparations of the budget and thus advantages of collective wisdom can be achieved.
2. **Coordination**: Coordination of all business activities smooth the functioning of organization.
3. **Control:** In budgetary control budgets are prepared as yardsticks against which actual results can be compared.
4. **Delegation of Authority and Responsibility** – Delegation of task to and decentralization of responsibilities on each functional manager improves the chances of best possible results.
5. **Communications:** With the help of proper communication income and expenditure can be planned and highest profitability can be earned.
6. **Decision Making:** With minimum working capital and efficient utilization of resources the organization can easily function and can take various types of decisions.
7. **Helps in Administration:** Centralized Planning and control helps in achievements of business objects easily.

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8. **Cost Control:** Management can identify the areas of weaknesses in policies, plans, motivation, coordination and control to reduce the cost and take remedial measure to remove the weaknesses.
9. **Improvement in Efficiency**: Reduction in losses and wastages to minimum improves productivity of men, machine and material.

UNREALIZED PROFIT ON STOCK

Transactions of purchase and sale of goods usually happen between companies in same business. Goods are sole by adding profit on cost. If at the date of amalgamation, either the purchasing company or vender company is holding will be assumed as unrealized profit.

Inter company holding

There may be following holds shares in Venders Company:

1. Purchasing company holds shares in Vender Company.
2. Vender Company holds shares in purchasing company.
3. Vender Company holds shares in other vender company.
4. Both companies holds shares in each other.

1. Purchasing company holds shares in Vender Company: In the case, ne assets of Vender Company are computed because a part of this belongs to purchasing company. It net asset be deducted from net assets and rest amount will be paid by purchasing company. For example:- If net assets of vender company are Rs. 10 lacs and vender company issued 10,000 shares, out of them purchasing company has 1000 shares, it means 10% shares are held by purchasing company to net assets will be deducted by 10% and Rs. 9,000 will be paid as purchase consideration.

If net payment method is used then payment will be made only to outside shareholder. In the above example, payment will be made only to 9000 shareholders.

Books of Vender Company: While closing the account of equity share capital, equity share holders and realization a/c will be credited.

Entry: [When there was no inter company holding]

Equity Share Capital a/c Dr.

To Equity Shareholders a/c

[When there is inter company holding]

Equity Share Capital a/c Dr.

To Equity Shareholders a/c

To Realization [Part held by purchasing company]

Books of Purchasing Company:

Shares held by purchasing company are shown in the balance sheet as investment. As Vendor Company has been liquidated so amount of this investment should be eliminated, so following entry will be made:

Capital Reserve A/c Dr.

To Investment in Shares of Vender Company a/c

2. **Vender Company holds shares in purchasing company**: First the net assets of purchasing company are computed, these net assets will be divided by the number of shares and by this way we get intrinsic value of per share. Now shares held by Vendor Company are multiplied with intrinsic value of share of purchasing company. Now this amount will be taken as value of investment. After this, net

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assets of Vendor Company are calculated and will be divided by value of per share of purchasing company. It will come, number of shares to be given by the purchasing company, out of these shares, shares already held by Vendor Company are deducted and remaining shares will be given as purchase consideration.

For accounting purpose: While preparing accounts of vender company, investment account will be left and other assets are taken over by purchasing company. At the end of journal when equity shareholders are paid then following entry will be made:-

Equity Shareholders a/c Dr.

To Share in purchasing Company A/c

[Share received in purchasing consideration plus investment]

3. **Vendor Company holds shares in other vendor company:** If purchase consideration payable to the company which is holding the shares includes the value of shares held also, purchase consideration of the vendor company whose shares are so held will be reduced in proportion to share holding.

   If purchasing consideration is payable to the company which is holding the shares and does not include the value of shares held and the other vendor company whose shares are so held will be paid for all the shares i.e. no reduction will be made in purchase consideration. In this case, proportion to payment will be made to Vendor Company which is holding the shares of other vender company.

4. **When both companies hold shares in each other:** In case of amalgamation, if both companies hold shares in each other, payment will be made by purchasing company to outside shareholders. If Value of share is not given, an equation will be made as given in the example.

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First of all, purchase consideration will be calculated for outside shareholder then it will be reduced by value of shares held by Vendor Company to arrive at purchase consideration.

ABNORMAL LOSS

Abnormal loss refers to the loss which is in excess of anticipated loss. This loss occurs due to the carelessness of management or workers. This loss is controllable. The good units absorb cost of normal loss but abnormal loss is not treated as a part of the product. These are the units, which could have been produced if there is no carelessness or bad plant design. If abnormal wastage is allowed to be part of cost of good unit, Cost of production per unit will unnecessary increase. Therefore, abnormal loss is kept in a separate account and if the unit of abnormal loss fetches some value, it is credited to abnormal loss account and not to the process account. Cost related to abnormal loss is debited to abnormal loss account and credited to process account. This type of accounting facilities actions for control the loss to be taken. Abnormal loss is valued like good unit produced. Treatment of abnormal loss is done according to following steps:

(a) First of all expenses incurred and input units are shown in the debit side of process account.

(b) Now quantity of normal loss and amount (if any) is shown in the credit side of process account.

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ABNORMAL GAINS / EFFECTIVES:

A reverse position to aforesaid situation (Abnormal loss) may arise when actual Production is more than the expected production, in other words normal loss is less than the anticipated loss. It is known s abnormal gain abnormal gain refers to units, which should not have been produced. Value of abnormal gain is debited to the relevant process account and while preparing abnormal gain account, it is shown in the credit side. Balance of abnormal gain account is transferred to costing profit and loss account.

Following steps are taken for valuation of abnormal gain.

(a) First of all expenses incurred to relevant process account are shown in debit side.

(b) Nor quantity and account (if any) of normal loss is shown presuming there had not been abnormal gain.

(c) Cost per unit of normal production is determined for this purpose as follows:

$$\frac{\text{Expenses incurred – Amount of normal loss}}{\text{Unit introduced – Unit of normal loss.}}$$

(d) Cost per unit is multiplied with the units of abnormal gain.

OUT OF POCKET COST

Out-of-pocket cost involves the cash outflows due to a particular management decision activity. Non-cash costs such as deprecation are not involved in out-of-pocked costs. This cost concept is important for management in deciding whether or not a particular project will at least return the cash expenditures related with the project chosen by necessitate the special order proposal is not accepted. Depreciation on plant and equipment is not relevant in decision making because no cash goes outside the concern.

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SHUT DOWN COST

Shut down costs are those costs which will arise under all conditions in the case of stopping manufacture of a product of closing down a department or a division. Shut down costs are always fixed costs. If the manufacture of a product is stopped, variable costs alike direct materials, direct labour, direct expenses; variable factory overhead will not be incurred. However, a part of fixed cost (if not total fixed costs) related with the product will be incurred such as rent, watchman's' salary, property taxes etc. Such fixed costs are unavoidable. Some fixed costs associated with the product become negligible and need not be incurred in case production is stopped such as supervisor's salary, factory manager's salary, lighting etc. Shut down costs, thus refer to minimum fixed costs which are incurred in the event of closing down of a department of division.

SUNK COST

Sunk cost is past or historical cost which already been incurred. It may be known as unavoidable cost, it refers to all past costs since these accounts cannot be changed once the cost is incurred. They are the costs which have been created that is made in the future. Examples of sunk costs are the book value is not relevant for decision regarding whether to use them or dispose them off.

Some accountants make discussion and argument that the total cost of a fixed asset is not the sunk cost, but sunk cost is the difference between the purchase price of a fixed asset and the net amount that could be realized from its sale. For example, if a plant has a book value of Rs. 10,00,000 and a scrap value of Rs. 60,000 then the sunk cost is Rs. 9,40,000 (Rs. 10,00,.000-60,000) and not Rs. 10,00,000. That is, the sunk cost is the difference between book value and scrap value.

RELEVANT COST

Relevant costs are related to future, which differ between alternatives. Relevant costs may also be termed as the costs which are influenced and changed by a decision. On the other hand, irrelevant costs are not influenced by the decision whatever alternative is selected. The features of relevant cost are as follows:

(I) Relevant costs are basically future costs, i.e. those costs which are expected to be charged in future. Relevant costs therefore, are not pass (sunk) costs which have already been incurred and cannot be altered by a decision.

(II) Relevant costs are only incremental (additional) or avoidable costs. Incremental costs refer to an increase in cost between two options. Avoidable costs are those which are not incurred from one alternative to another.

COST AUDIT

Cost Audit is an audit of the accounting system and audit of implementation of the cost accounting plan. It connotes that there is a cost accounting system. Cost audit verifies the adequacy and accordance of the system as such. Even when there is a system o cost accounting its implementation and the and the intended result from it may not be achieved. The scope of cost audit under the statue and the format of cost audit report required by it is clearly much larger. Cost may be looked at from a limited view, confined to cost ascertainment, cost analysis and presentation. In this wider sense cost audit has to go into all critical areas of management function where efficiency or lack of it is likely to be achieved. It becomes essential in case of a business where cost accounting is carried out on a large scale.

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Roll No. ________________________

2M6203

M.B.A. (Sem.-II) (Main & Back) Examination, June/July - 2011
M-2-2 Management Accounting- II

Time : 3 Hours **Total Marks : 70**
Min. Passing Marks : 28

Attempt any five questions in all out of the seven questions including questions 1 and 2, which are compulsory. Each question carries equal marks.

Use of following supporting material is permitted during examination. (Mentioned in form No.205)

1. Nil 2. Nil

SECTION-A

1. "Management Accounting is an application of accounting information for managerial decisions. The managerial decisions now focus on value creation through mergers and acquisitions which in turn rely heavily on published accounting information." Wjhat do you infer from the above? Explain the changing role of management accountant along with micro level drivers.

2. (a) From the following information of company, calculate the break even . point and turnover required to earn a profit of Rs. 36,000.

Fixed overheads	=	Rs. 1,80,000
Selling price	=	Rs. 20
Variable cost per unit	=	Rs. 2

If the company is earning a profit of Rs. 36,000, express the margin of safety available to it.

(b) There are two companies A Ltd. Both expect same sales volume for the next two years. Company A Ltd. has more proportion of fixed cost in total cost. What should Company A Ltd. do to reduce fixed cost? Will increase in turnover help the compamny to reduce the fixed cost burden?

(c) Company A Ltd. is making large capital expenditures than Company B Ltd. Can we say that profitability of A Ltd. is more than that of B Ltd. and A Ltd. is more efficient than B Ltd.?

(d) From the viewpoint of equity shares holders, does that debt in Capital Structure affect both the risk and profitability of the firm.

3. Write short notes on :
(a) ABC
(b) Kaizen Costing
(c) EVA
(d) HRA

4. (a) What is the difference between Cost control and cost reduction.
(b) ABC Ltd. is engaged in the process engineering industry. During the month of Arpil 2009, 2000 units were introduced in process 'X'. The normal loss is estimated at 5% of input. At the end of the month, 1,400 units had been produced and transferred to process 'Y', 460 were incomplete units and 140 units had to be scrapped at the end of the process. The incompletye units reached the following degree of completion:

Materials	:	75%
Labour	:	50%
Overheads	:	50%

Following are the further details regarding Process'X':

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Cost of 2000 units intorduced	Rs. 58,000
Additional materials consumed	Rs. 14,400
Direct Labour	Rs. 33,400
Allocated Overheads	Rs. 16,700

Note : The scrapped units fetched Rs. 10 each.

Prepare :

(i) Statement of equivalent production.

(ii) Statement of Cost.

(iii) Statement of evaluation.

(iv) Process 'X' Account.

5. (a) 100 skilled workmen, 40 semiskilled workmen and 60 unskilled Workmen were to work for 30 weeks to get a contract work completed. The standard weekly wages were Rs. 60, Rs. 36 and Rs. 24 respectively. The job was actually completed in 32 weeks by 80 skilled, 50 semiskilled and 70 unskilled workmen who were paid Rs. 64, Rs. 40 and Rs. 20 respectively as weekly wages.

(b) Ritu international manufactures a product ABC by mixing three raw materials. For every 100 kg of ABC, 125 kgs of materials are used in April 2009 there was an output of 5,600 kg of ABC. The standard and actual particulars of April 2009 are as follows: Calculate all variances.

6. (a) The balance sheet of ABC Ltd. is as under:

Share Capital	Rs.		Rs.
5,000 10% Preference Share of Rs. 10 each fully paid up	50,000	Goodwill	12,500
500 Equity Shares of Rs. 100 each fully			

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paid up	50,000	Fixed Assets a cost	45,000
Liabilities	7,500	Stock	12,000
		Debtors	15,000
		Profit and Loss A/c	22,000
	1,07,000		1,07,000

The following resolutions were passed and the scheme was duly approved by the court:

(i) Equity Shares of Rs. 100 each to be reduced to Rs. 50 each fully aid up.

(ii) 10% Preference Shares of Rs. 10 each to be reduced to Rs. 6 fully paid up 10% preference shares.

(iii) Goodwill and Profit and Loss A/c to be written of completely and the balance of amount to be used to write off Fixed Assets.

(b) Write a note on ZBB.

SECTION-B

7. Draw inference from the following ratios of SPIC Auto Ltd.

S.No.	Particulars	Year 1	Year 2	Year 3
1.	Current Ratio	2.65	2.7	3
2.	Acid Test Ratio	1.5	1.1	0.9
3.	Working Capital Turnover	2.75	3.00	3.25
4.	Receivables turnover (times)	9.83	8.41	7.2
5.	Collection Period (days)	37	43	50
6.	Inventory to Working Capital	0.95	1	1.1

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7.	Inventory Trunover (times)	6.11	6.01	5.41
8.	EPS (Rs.)	5.10	4.05	2.5
9.	Net income to net worth	0.11	0.08	0.07
10.	Operating expenses to Net Sales	0.22	0.23	0.25
11.	Sales increase during the year	0.10	0.16	0.23
12.	Cost of goods sold to Net Sales	0.70	0.71	0.73
13.	Dividend per share	3	3	3
14.	Fixed Assets to Net Worth	0.16	0.18	0.22
15.	Net Profit to Net Sales	0.07	0.05	0.02

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Roll No. ______________________

2M6203

M.B.A. (Sem.-II) (Main & Back) Examination, May/June - 2010
M-2-2 Management Accounting -II

Time : 3 Hours **Total Marks : 70**
Min. Passing Marks : 28

The question paper is divided in two sections. There are sections A and B, Section A contains 6 questions out of which the candidate is required to attempt any 4 questions. Section B Contains short case study/application based question which is Compulsory. All questions are carrying equal marks.

(Mentioned in form of No. 205)
Section-A

1. What do you mean by Management Accounting? Explain any five techniques of Management Accounting.

2. What do you mean by Zero base budgeting? Write difference between traditional budgeting and Zero base budgeting.

3. The following details are available in respect of process X :

Input	: 4,000 units @ Rs. 12 per unit.
Normal loss	: 15% of input, Saleable value of loss units Rs. 5 per unit.
Actual Output	: 3,500 units
Other costs	:
Sundry Materials	: Rs. 12,000

Wages	: Rs. 20,000
Direct Expenses	: Rs. 2,000
Production Overheads	: Rs. 6,000

Prepare:

(i) Process X account

(ii) Normal loss account

(iii) Abnormal loss/Gain Account.

4. Standard labout hours required to produce one unit of product z are 5 an standard wage rate is Rs.5 per labour hour. During the month ended 30th April, 2009, 2009 100 workers engaged for 25 days 8 hours daily.
Due to power failure all the workers remained idle for 3 hours on 17th April, 2009. Actual output for the month of April, 2009 was 3,950 units. The actual wage rate was Rs. 5.20 per laour hours. Compute Labour Variances.

5. A company's report of operations for two year shows the following results:

Particulars	Year 2007	Year 2008
Sales	Rs. 3,12,500	Rs.3,75,000
Profit (Loss)	Rs. 7,500	Rs.10,000

(i) At what level of sales in year 2009 the company will break even assuming no change in its components of Cost-volume-profit relationship.

(ii) Considering following changes for the year 2009 :
Selling price to be decreased by 10%
Variable cost to be decreased by 10%
Fixed cost to be increase by Rs. 32,500
State what sales volume would be needed for year 2009

(a) For break-even, and (b) to generated profit equal to 10% of sales.

6. What do you mean by "Human Resources Accounting"? What are the objectives of human resources Accounting.

Section-B

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7. Summarized Balance Sheet Income Statement of Akshita Limited for the year ended 31st March, 2009 are as under:

Income Statement for the year ended 31st March, 2009	**(Rs.000)**
Sales	1600
Less : Cost of Goods Sold (including depreciation Rs.60,000)	1310
depreciation Rs. 60,000)	290
Gross Margin	40
Less : Selling and Administrative Expenses	250
Earning before interest and Tax	45
Less : Interest Expenses	205
Earning before Tax	82
Less : Tax	123
Earning After Tax	

Balance Sheet as on 31st March, 2009			
Liabilities	**Rs.**	**Assets**	**Rs.**
60,000 equity shares		Net Fixed Assets	12,00,000
of Rs. 10 each	6,00,000	Inventory	3,00,000
Retained Earnings	2,20,000	Debtors	1,00,000
6.25% Debentures	7,20,000	Marketable	1,20,000
Creditors	1,80,000	Securities	97,000
Bills Payable	50,000	Cash	15,000
Provision for tax		Preliminary	
(Net of Advance Tax	27,000	Expenses	
Bank Overdraft	35,000		
	18,32,000		18,32,000

Calculate:

(i) Absolute Cash Ratio
(ii) Quick Ratio
(iii) Cash to Debt Service Ratio
(iv) Cash Earning per share
(v) Market price per share if price earning ratio is 125, and
(vi) Net worth turnover

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Roll No. ________________________

2M6203

M.B.A. (Sem.-II) (Main & Back) Examination, July - 2009
M-2-2 Management Accounting -II

Time : 3 Hours **Total Marks : 70**
Min. Passing Marks : 28

The question paper is divided in two sections. There are sections A and B, Section A contains 6 questions out of which the candidate is required to attempt any 4 questions. Section B Contains short case study/application based question which is Compulsory. All questions are carrying equal marks.

(Mentioned in form of No. 205)
Section-A

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1. (a) "The term cost must be qualified according to the context". Discuss the statement referring it's importance in managerial decision making.
   (b) Distinguish between "Relevant" and "Irrelevant" costs.

2. (a) Explain various methods of allocating joint cost to joint and by products.
   (b) Sirohi Ltd. produces a single product. Estimated cost per unit is detailed below:

Rs.
Direct Material 12

Direct Wages.........................8
Direct Expenses 4
Variable overhead.................2

Semi variable overheads at 100% level of activity (10,000 units) is Rs.60,000 and these expenses vary in steps of Rs.3,000 for every change in output of 1,000 units. Fixed overheads are estimated at Rs.60,000. Selling price is expected to be Rs. 50 per unit. Prepare flexible budget at 50% 70%, 90% level of activity.

3. (a) Briefly describe the provisions of Accounting standard 3 (AS: 3) as regards preparation of XYZ Ltd. start the year 2008 with indentical balance sheets; but the position changed by the end of the year as shown below:

	2008		**2008**	
	Division 'A'		**Division 'B"**	
Current :Assets	6,25,000	6,25,000	6,25,000	6,25,000
Current ; Liability	3,75,000	3,75,000	3,75,000	3,75,000
Working capital	2,50,000	2,50,000	2,50,000	2,50,000
Fixed Assets (Net)	2,50,000	6,25,000	2,50,000	5,00,000
Capital Employed	5,00,000	8,75,000	5,00,000	6,25,000
Financed by:				
Long-term Debt		2,75,000		
Equity share Capital & reserve	5,00,000	6,25,000	5,00,000	6,25,000
	5,00,000	8,75,000	5,00,000	6,25,000

You have the following additional information:
(a) Both the division have identical earning power.
(b) Each divisions earns a Net Profit Rs.60,000 after Taxation @ 50%

(c) Depreciation amounts to Rs.40,000 for each.

You are required to prepare funds flow statements for each division and comment on the financial policy and practices adopted by each as revealed by the Fund Flow Analysis.

4. (a) Distinguish between "Earning Fer Share (EPS) and Diluted Earning Per Share".

(b) X Co. Ltd. produces four joint products by refining crude vegetable oil. These products have ready market value but the company wants to process them further for maximizing profit. From the following information advise which products should be processed further and which should be sold at split off point. Assume all costs incurred after split off point are variable.

Product	Sales Value at split-off point Rs.	Sales value after further processing Rs.	Additional processing cost Rs.
A	40,000	50,000	8,000
B	25,000	30,000	7,000
C	30,000	45,000	6,000
D	10,000	14,000	5,000

Find also the maximum profit if joint cost is Rs.90,000.

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5. Give below is the balance sheet of Asatayam Ltd. asat 31.032009 :

Liabilities	Rs.	Assets	Rs.
Share capital		Land and building	1,00,000
4,000 equity shares of		Machinery	4,00,000
Rs.100 each fully paid	4,00,000	Motor vans	40,000
1,000 Equity "A" share		Furniture	10,000
of Rs. 100 each,		Investment (Market	
Rs.50 per share paid	50,000	value Rs. 40,000	50,000
Development rebate		Stock	1,00,000
reserve	1,50,000	Debtors	1,90,000
Loans (Unsecured	6,40,000	Bank balance	10,000
Creditors (including		Profit and loss A/c	6,00,000
Rs. 10,000 holding lien			
on some assets)	2,60,000		
	15,00,000		**15,00,000**

The company having turned the comer a scheme of reconstruction was prepared are approved as under (1) To bring in the books the present market value of land and building which had appreciated by 150%; (2) Equity shares to be reduced to Rs. 10 per share paid, the face value remaining the same at Rs. 100 and the equity shareholders paying a call of rs. 50 per share to provide funds for the company working; (3) Unsecured loans to be paid immediately to the extent of rs. 1,00,000 (4) Unsecured creditors to be paid immediately to the extent of 10% of their claims and they accepting a remission of 20% of their claims; (5) Development rebate reserve, being no longer required, to be transferred to profit and loss account; (6) Investment to be brought to their market value; and (7) The amount available as a result of the scheme to be used to write of the debit balance in profit and loss account.

Give journal entries to record the above and give the balance sheet after the reconstruction is effected.

6. (a) Write brief notes on:
   (i) Economic Value Addition (EVA)
   (ii) Human resources accounting.

(c) You are furnished with the following information as regards X Ltd :

(i) Profit Volume Ratio (PVR) for the year 2008. 40%

(ii) Company wants to increase selling price by 10% now in 2009.

(iii) Variable cost will be higher by 5% in 2009.

(iv) Total fixed will increase from Rs.3,00,000 in 2008 to Rs. 4,27,300 in 2009.

Work out break Even point (BEP) in term of sales in 2008 and 2009.

Section-B

Active manufactures are producing "Dinner Rolls" is batches of 12 dozen using a standard costing system. 200 of these batches were budgeted for a period of 4 week. Total fixed overhead for this level were Rs.15,000. Standard cost per batch is detailed below.

	Rs.
Wheat flour (20kgs.)	60
Mixing cooking direct labour hours (15)...........................	150
Total factory overhead..	120
	330

Following costs were incurred in producing 225 batches of rolls during the above period. Besides, there were 50 batches in work in progress (WIP) which were 50% completed as regards all elements of cost.

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However, there was no opening stock of any kind. Actual were as follows:

	Rs.
Direct material consumed 5250 kgs	13,650
Direct labour hours (Mixing-cooking) 3650	30,660
Actual variable overhead	11,050
Actual fixed overhead	15,500

Required:

(i) Prepare a table for all variances relating to material and labour costs.

(ii) Overhead variances using two way and three way analysis of variance.

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