

NATIONAL LAW UNIVERSITY, JODHPUR

End Term Examination November – 2024

UG V Semester

Finance II (Cost and Management Accounting)

Marks: 100

Time: 3 Hours

Instructions:

- i) *Attempt any five questions.*
- ii) *Use of simple calculator is permitted.*

Q.1). A. What are the two circumstances where Traditional Costing and Activity Based Costing would likely yield different results? Substantiate your answer with appropriate examples.

B. Highlight the qualitative factors to be considered by the management before making the final decision in case of buy or make.

(Marks 14+6=20)

Q.2). Write short notes on: -

- i. Behavioral aspects of Budgeting
- ii. Value Chain Analysis

(Marks 10+10=20)

Q.3). A. Toy Haven Inc. has assembled the following data pertaining to its two most popular Toys.

	Jumbo Toy	Widget Toy
Direct material	Rs 120	Rs 220
Direct labour	80	180
Manufacturing overhead @ Rs 320 per machine hour	320	640
Cost if purchased from an outside supplier	400	760
Annual Demand (units)	40000	56000

Past experience has shown that the fixed manufacturing overhead component included in the cost per machine hour averages Rs 200. Toy Haven's management has a policy of filling all sales orders, even if it means purchasing units from outside suppliers.

- i) If 100000 machine hours are available, and management desires to follow an optimal strategy, how many units of each product should the firm manufacture? How many units of each product should be purchased?
- ii) With all other things constant, if management is able to reduce the direct material for a Widget Toy to Rs 120 per unit, how many units of each product should be manufactured and/or purchased?

B. A company with an advanced manufacturing environment typically will have a higher break-even point and larger safety margin than a labour-intensive firm. True or false? Explain.

(Marks 12+8=20)

Q.4). A. Toy Station Company manufactures only one product, Robot Ranger. The company uses a standard cost system and has established the following standards per unit of Robot Ranger:

	Standard Quantity	Standard Price
Direct Materials	6 pounds	Rs 24 per pound
Direct Labour	2.4 Hours	Rs 80 per hour

During October, the company recorded the following activity:

The company produced 12000 units.

A total of 42000 pounds of material were used, purchased at a cost Rs 483000.

The company employs 80 persons to work on the production of Robot Ranger. These employees worked on an average of 320 hours at an average rate of Rs 84 per hour.

The company's management wishes to determine the efficiency of the activities related to the production of Robot Ranger.

- For direct materials used in the production of Robot Ranger, compute the direct material price variance and the direct material usage variance.
- The direct materials were purchased from a new supplier who is eager to enter into a long-term purchase contract. Would you recommend that Toy Station sign the contract? Explain.
- For direct labor employed in the production of Robot Ranger, compute the direct labor rate variance and the direct labor efficiency variance and provide analysis.

(Marks 20)

Q.5). A. What are Cost plus contracts? What are the advantages and disadvantages of cost-plus contracts from the perspective of contractor and contractee?

B. Briefly explain the features of escalation clause as inserted in a construction contract.

(Marks 10+10=20)

Q.6). The product manufactured by a light engineering factory undergoes two operations: Machining and Finishing. The following data are available relating to expenses incurred on production during September 2024:

	Machining	Finishing
Units as input	90,000	60,000
Direct materials	Rs 2,70,000	Nil
Direct labor	Rs 1,28,000	Rs 45,000
Overheads	Rs 64,000	Rs 1,35,000

At the end of the month there were 30,000 units lying incomplete in Machining operation. While the full quantity of materials had been consumed for total production, the expenditure on labor and overheads was estimated to be 66-2/3 % in respect of the incomplete product. You are required to prepare a detailed cost statement showing the final cost per unit assuming:

- Completed units of Machining Operation are transferred to the Finishing operation.
- Finishing operation has completed all the units received from the earlier operation during September 2024, leaving no work in progress at the end of the month.

(Marks 20)