SET A

MASTER OF COMMERCE
FIRST SEMESTER
ADVANCED COST & MANAGEMENT ACCOUNTING
MCM – 102

[USE OMR SHEET FOR OBJECTIVE PART]

Duration: 3 hrs. **Full Marks: 70**

Objective

Time: 30 mins. **Marks: 20**

Choose the correct answer from the following: ***1×20=20***

1. In Standard Costing, which one of the following is a Material Usage Variance?
   - a. The difference between actual material cost and standard material cost due to price changes.
   - b. The difference between actual and standard labour hours for production.
   - c. The difference between budgeted and actual overhead costs.
   - d. The difference between actual quantity used and standard quantity allowed for actual output, valued at standard price.

2. Which type of budget is prepared first in the budgetary control process?
   - a. Sales Budget
   - b. Cash Budget
   - c. Production Budget
   - d. Overhead Budget

3. Which one of the following budgets is most critical for managing liquidity in an organization?
   - a. Sales Budget
   - b. Cash Budget
   - c. Production Budget
   - d. Material Purchase Budget

4. In Standard Costing, a favourable Labor Efficiency Variance indicates:
   - a. Actual output is lower than budgeted output.
   - b. Standard labour rates are higher than actual rates.
   - c. Actual labour cost is higher than standard cost due to increased wages.
   - d. Actual labour hours used are less than standard hours allowed for actual output.

5. Which one of the following is the primary characteristic of Marginal Costing?
   - a. It considers only variable costs as product costs, treating fixed costs as period costs.
   - b. It includes all fixed and variable costs in product costing.
   - c. It allocates overheads based on machine hours exclusively.
   - d. It focuses on historical costs for financial reporting.

6. A company produces 1,000 units with a selling price of ₹50 per unit, variable cost of ₹30 per unit, and fixed costs of ₹15,000. What is the break-even point in units under Marginal Costing?
   a. 500 units
   b. 1,000 units
   c. 1,250 units
   d. 750 units

7. Differential Costing is primarily used to:
   a. Compare costs between two or more alternative courses of action.
   b. Determine the total cost of production for financial reporting.
   c. Allocate fixed overheads to products based on standard rates.
   d. Prepare budgets for long-term financial planning.

8. Incremental Costing is most relevant in which one of the following scenarios?
   a. Setting standard costs for long-term production planning.
   b. Preparing financial statements for external reporting.
   c. Evaluating the cost impact of increasing production by a specific quantity.
   d. Allocating overheads across multiple departments.

9. Which one of the following techniques is specifically associated with cost reduction rather than cost control?
   a. Budgetary Control
   b. Business Process Re-engineering (BPR)
   c. Variance Analysis
   d. Responsibility Accounting

10. What does a positive Economic Value Added (EVA) indicate about a company's performance?
    a. The company is generating returns below its cost of capital, destroying shareholder value.
    b. The company is earning exactly its cost of capital, leaving shareholder wealth unchanged.
    c. The company is generating returns above its cost of capital, creating shareholder value.
    d. The company is reporting a negative net income, indicating financial distress.

11. What does an 80% learning curve imply for a company's production process when cumulative production doubles?
    a. The average time per unit decreases to 80% of its previous value.
    b. The average time per unit increases to 80% of its previous value.
    c. The total production time doubles for each unit produced.
    d. The cost per unit remains constant regardless of production volume.

12. What is the primary purpose of productivity analysis in cost accounting?
    a. To increase the number of employees in production processes.
    b. To evaluate the efficiency of converting inputs into outputs to optimize costs and enhance profitability.
    c. To focus solely on increasing output without considering input costs.
    d. To replace cost accounting with financial reporting metrics.

13. How does Activity-Based Costing (ABC) differ from traditional costing methods in terms of overhead allocation?
   a. ABC uses a single predetermined rate based on direct labour hours or machine hours, while traditional costing uses multiple cost drivers.
   b. ABC allocates overhead costs based on activities and their respective cost drivers, while traditional costing relies on a single volume-based rate.
   c. ABC focuses solely on direct costs, while traditional costing includes both direct and indirect costs.
   d. ABC is simpler to implement than traditional costing due to its use of a single cost pool.

14. What is the primary difference between target costing and traditional cost-plus costing?
   a. Target costing adds a profit margin to the production cost to determine the selling price, while traditional costing starts with the market price.
   b. Target costing determines the maximum allowable cost based on a market-driven selling price minus the desired profit, while traditional costing calculates the selling price by adding a profit margin to the cost.
   c. Target costing focuses on production volume, while traditional costing emphasizes customer preferences.
   d. Target costing is used only for custom products, while traditional costing applies to mass-produced goods.

15. What is the primary purpose of the arm's length principle in transfer pricing?
   a. To ensure that transfer prices between related parties are set as if they were between unrelated parties in a competitive market.
   b. To allocate all profits to the parent company regardless of subsidiary contributions.
   c. To minimize documentation requirements for multinational enterprises (MNEs).
   d. To standardize transfer pricing methods across all industries globally.

16. Which one of the following transfer pricing method is most suitable for a distributor that adds minimal value to a product before reselling it to an independent buyer?
   a. Comparable Uncontrolled Price (CUP) Method
   b. Resale Price Method (RPM)
   c. Cost Plus Method
   d. Profit Split Method

17. What is a key objective of cost audit under Section 148 of the Companies Act, 2013?
   a. To verify the overall accuracy of financial statements for public reporting.
   b. To replace financial audits with a focus on tax compliance.
   c. To ensure accurate maintenance of cost records and compliance with Cost Accounting Standards.
   d. To set market-driven selling prices for products in regulated sectors.

18. Which of the following is identified as a characteristic of a management audit?
   a. It is primarily backward-looking, reviewing past financial performance.
   b. It focuses exclusively on quantitative and financial metrics.
   c. It is conducted solely by external government regulators.
   d. It is forward-looking, aiming to improve future performance.

19. Which one of the following is a recognized limitation of Responsibility Accounting?
   a. It centralizes all decision-making with top management.
   b. It prevents the setting of budgets and performance targets.
   c. Managers may develop a short-term focus to meet their immediate budgets.
   d. It eliminates the need for variance analysis and performance reporting.

20. What is the primary statistical goal of the Six Sigma methodology?
   a. To achieve a 99% quality acceptance rate.
   b. To achieve a maximum defect rate of 3.4 defects per million opportunities (DPMO).
   c. To eliminate the need for statistical process control.
   d. To reduce process cycle time by 50%.

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Descriptive

Time : 2 Hr. 30 Mins. Marks : 50

[Answer question no.1 & any four (4) from the rest]

1. "Marginal costing is a very useful technique to management for decision making". Explain it with examples. 7+3=10

2. Calculate: 2.5×4=10
   a) P/V ratio
   b) The amount of the fixed expenses
   c) The number of units to Break Even
   d) The number of units to earn a profit of Rs. 40,000.

   The selling price per unit can be assumed as Rs. 100. The company sold in two successive periods 7,000 units and 9,000 units and has incurred a loss of Rs. 10,000 and earned Rs. 10,000 as profit respectively.

3. a) Briefly discuss the concept of Learning Curve with a suitable example. 5+5=10
   b) Distinguish between cost control and cost reduction.

4. The expenses budgeted for production of 10,000 units in a factory are furnished below: 10

Particulars	Per unit (Rs.)
Materials	70
Labour	25
Variable Factory Overheads	20
Fixed Factory Overheads (Rs. 1,00,000)	10
Variable Expenses (Direct)	5
Selling Expenses (10% fixed)	13
Distribution Expenses (20% fixed)	7
Administrative Expenses (Rs. 50,000)	5
Total cost of sales per unit	155

   You are required to prepare a budget for the production of 8,000 units.

5. The standard material required to manufacture one unit of product X is 10 kg and the standard price per kg. of material is Rs. 2.50. The cost accounts records, however, reveal that 11,500 kg. of materials costing Rs. 27,600 were used for manufacturing 1,000 units of product X. Calculate the material variances. 10

6. Explain the concept of Economic Value Added (EVA).Discuss the major advantages and limitations of using EVA as a performance measurement tool. 4+3+3=10

7. a) Define Transfer Pricing and briefly explain any two of its methods. 5+5=10
   b) From the following calculate Cost Driver Rates:

Activity	Total Cost (Rs.)	Cost Allocation Base
Setting up	20,000	No of set-ups-100
Purchase of material	40,000	No of purchase orders-50
Customer visits	60,000	No of customer visits-40
Deliveries	80,000	Km travelled by delivery vehicles-800
Products handling	1,00,000	Per unit sold-10,000

8. Write notes on *(any two)*: 5×2=10
   a) Cost Audit under the Companies Act, 2013
   b) Management Audit.
   c) Target Costing
   d) Productivity Analysis

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