

Minor Test TXL 381

Discipline B. Tech.

Max. Marks 25

Date 26.09.2022

Time 1 Hour

1. Draw a break-even chart with a few illustrative figures. Explain the cost –volume relationship. How would a change in selling price affect the above? (5)
2. "It is said that an income statement prepared by variable costing procedure is more helpful to management than an income statement prepared by the absorption cost method." Do you agree? Discuss with the help of a suitable illustration. (5)
3. In what manner do the various methods of inventory valuation affect reporting profits? Which method of inventory valuation would you recommend in an inflationary situation? (5)
4. (a) How do standards and standard costs facilitate managerial planning and control? (2)  
(b) "The presence of under-absorbed overheads reflects operating inefficiency." Discuss.(2)
5. (a) "Fixed costs are really variable. The more you produce the less they become." Do you agree? Explain. (2)

(b) Assume the Royal Industries Ltd. has excess capacity. The normal plant capacity is 3,00,000 units per year and current production is 2,00,000 units. There is no alternative use of the idle facilities. The company receives an offer from a foreign customer to buy 1,00,000 units at Rs 10 a unit. The regular market price is Rs 14. The current manufacturing and selling costs are:

	Per unit	Total
<b>Total variable cost:</b>		
Direct labour	Rs 2	Rs 4,00,000
Direct material	Rs 3	Rs 6,00,000
Variable overheads	Rs 2	Rs 4,00,000
<b>Manufacturing cost</b>	<b>Rs 7</b>	<b>Rs 14,00,000</b>
Variable selling cost	Rs 1	Rs 2,00,000
<b>Total variable cost</b>	<b>Rs 8</b>	<b>Rs 16,00,000</b>
<b>Fixed overheads:</b>		
Manufacturing	Rs 2.50	Rs 5,00,000
Selling	Rs 0.50	Rs 1,00,000
<b>Total Cost</b>	<b>Rs 11.00</b>	<b>Rs 22,00,000</b>

Should the offer be accepted assuming that shipment charges of Rs 50,000 are to be borne by the seller? There will be a special packing of the products which will involve packing cost of Rs 0.25 per unit. Being an export order, the management is convinced of the fact that the regular market price of Rs 14 a unit will not be affected. (4)