
CA FINAL PAPER 5: ADVANCE MANAGEMENT ACCOUNTING
MODEL TEST PAPER – NO. 12

Question 1

(c) What are the various formulae used in calculating budget ratios?

(3 Marks)

Ans: Budget Ratios:

1. Efficiency Ratio = $(\text{Standard hours} \div \text{Actual hours}) \times 100$
2. Activity Ratio = $(\text{Standard hours} \div \text{Budgeted hours}) \times 100$
3. Calendar Ratio = $(\text{Available working days} \div \text{budgeted working days}) \times 100$
4. Standard Capacity Usage Ratio = $(\text{Budgeted hours} \div \text{Max. possible hours in the budgeted period}) \times 100$
5. Actual Capacity Usage Ratio = $(\text{Actual hours worked} \div \text{Maximum possible working hours in a period}) \times 100$
6. Actual Usage of Budgeted Capacity Ratio = $(\text{Actual working hours} \div \text{Budgeted hours}) \times 100$

Question 2

(b) What are the essential requisites for the installation of Uniform costing system?

(4 Marks)

Essential Requisites for Installation of Uniform Costing System:

- A. Firms should be willing to share or furnish relevant data /information.
- B. Spirit of mutual trust and co-operation should prevail among participating firms.
- C. Mutual exchange of ideas, methods used, special achievements made, research and know – how should be frequent.
- D. Bigger firms should lead in sharing their experience to enable smaller firms to improve their performance.
- E. Uniformity should be established with regard to the size of units, production methods, accounting methods, procedures and principles used.

Question 3

(b) What is 'Back flushing' in JIT? State the problems that must be addressed for the effective functioning of the system

(4 Marks)

Ans: Back flushing requires no data entry of any kind until a finished product is completed. At the time the total amount finished is entered into the computer system, which multiplies it by all the components listed in the bill of materials for each item produced. To work system properly some serious problems must be corrected.

- (i) **Production reporting:** The total production figure entered into the system must be absolutely correct.
- (ii) **Scrap reporting:** All abnormal scrap must be diligently tracked and recorded; otherwise these materials will fall outside the back flushing system and will not be charged to inventory.
- (iii) **Lot tracing:** Lot tracing is impossible under the back flushing system. It is required when a manufacturer need to keep records of which production lots were used to create a product in case all the items in a lot must be recalled.
- (iv) **Inventory accuracy:** Maintain accurate set of inventory records.

Question 4

(b) What are the applications of incremental/differential costs?

(5 Marks)

Ans: Applications of Incremental/Differential Cost:

1. Whether to process a product further or not.
2. Dropping or adding a product line.
3. Optimizing investment plan.
4. accepting an additional order from a special customer at lower than existing price.
5. Make or buy decision.

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6. Opening a new sales territory or branch.
7. Optimizing investment plan out of multiple alternatives.
8. Submitting tenders.
9. Lease or buy decisions.
10. Equipment replacement decisions

Question 5

(c) Brief the principles associated with synchronous manufacturing.

(5Marks)

Ans: Synchronous Manufacturing

It is an all encompassing manufacturing management philosophy which includes a set of principles, procedures, and techniques where every action is evaluated in terms of common goals of the organization.

The 7 principles are:

- i. Focus on synchronizing the production flow than on idle capacities.
- ii. Value of time at a bottleneck resource is equal to the throughput rate of products processed by the bottle neck.
- iii. Value of time at a non bottleneck resource is negligible.
- iv. Level of utilization of a non bottleneck resource is controlled by other constraints within the system.
- v. Resources must be utilized, not simply activated.
- vi. Transfer batch should not be equal to the process batch.
- vii. A process batch should be variable both along its route and overtime.

Question 6

(b) What do you mean by Degeneracy in transportation problem? How this can be solved?

(4 Marks)

Ans: In a transportation problem, if the no of occupied cells is less than $m+n+1$, such a solution, in transportation problem, is called as degeneracy. Degeneracy can occur two ways :

- i) The initial basic solution can turn out to be a degenerate solution. **Or**
- ii) an improved solution can turn out to be a degenerate solution

This can be solved by introducing an infinitesimally small allocation ϵ (epsilon) to least cost empty cell .so that the total number of allocated cells is equal to $m+n+1$ independent cells.

Question 6

(c) What is Price Discrimination? Under what circumstances it is possible?

(4 Marks)

Ans: Price discrimination is charging different prices with respect to customers, products, places and time
It is possible when

- the market being capable of being segmented
- the customers is not able to resell the product at a higher price
- The competitors' underselling is not possible