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**School of Business**  
**Bachelor of Business Administration**  
**Mid Term Examination - May 2024**

**Duration : 90 Minutes**  
**Max Marks : 50**

**Sem II - D1UA205T - Management and Cost Accounting**

General Instructions

*Answer to the specific question asked*

*Draw neat, labelled diagrams wherever necessary*

*Approved data hand books are allowed subject to verification by the Invigilator*

- 1) Can you extend the definition of management accounting to include planning, controlling, and decision-making processes, broadening its scope beyond historical financial data recording and reporting to provide insights for future strategic and operational activities? K2 (6)

- 2) Title: Accounting for Overheads in KFC: A Case Study K4 (8)

KFC, a renowned fast-food chain globally recognized for its fried chicken, faces the challenge of managing its overhead costs efficiently to maintain profitability amidst competitive pressures in the food industry. Overheads encompass various indirect costs incurred in running the business, including rent, utilities, administrative expenses, and depreciation. Efficient allocation and accounting for these overheads are crucial for KFC to accurately assess its cost structure and make informed decisions to enhance operational performance.

One approach KFC adopts for accounting for overheads is activity-based costing (ABC), which involves identifying and allocating overhead costs based on the activities that drive them. For instance, KFC may allocate rent expenses based on the square footage of space utilized for food preparation and customer service areas. Similarly, administrative expenses could be allocated based on the number of transactions processed or the time spent on managerial tasks. This method provides a more accurate representation of the true cost of producing each menu item, enabling KFC to set prices competitively while ensuring profitability.

Despite the benefits of activity-based costing, KFC also faces challenges in accurately capturing and allocating overhead costs. For instance, allocating utilities expenses based on usage may be complex due to variations in energy consumption across different locations and seasons. Moreover, accurately determining the portion of administrative expenses attributable to specific activities requires detailed tracking and analysis. Additionally, changes in overhead cost drivers or business operations may necessitate adjustments to the allocation methods used, highlighting the importance of regular review and refinement of accounting practices.

Analyse the case study and answer the given Questions:

- 1) How does KFC benefit from using activity-based costing for accounting for overheads? (2 Marks)
  - 2) What are some challenges KFC may encounter in accurately allocating utilities expenses? (2 Marks)
  - 3) Explain the significance of regularly reviewing and refining accounting practices for managing overhead costs at KFC. (2 Marks)
  - 4) How does efficient overhead cost management contribute to KFC's competitive position in the fast-food industry? (2 Marks)
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- 3) A custom furniture business receives orders for unique pieces of furniture. Identify how job costing can be utilized to determine the cost of each order, considering materials, labor, and overhead costs. How would you identify and allocate overhead costs to each job using different allocation bases? K3 (6)
  - 4) Examine the impact of relevant costs and sunk costs on both short-term and long-term decision-making. In what ways do these two cost concepts differ, and how can they be leveraged to make informed decisions across various time frames and scenarios? K4 (4)
  - 5) Identify how management accounting complements financial accounting, providing decision-making information for internal management purposes. What unique role does management accounting play in supporting strategic planning, resource allocation, and performance evaluation within an organization? K3 (9)
  - 6) From the following information available in respect of material X:- K4 (12)

Reorder quantity	1500 Units
Reorder period	4 to 6 Weeks
Maximum consumption	400 units per week
Normal consumption	300 units per week
Minimum consumption	250 units per week
- Calculate the following :
1. Re order level.(3Marks)
  2. Minimum level(3Marks)
  3. Maximum level(3Marks)
  4. Average stock level(3Marks)
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- 7) Explain the concept of cost classification based on behavior, distinguishing between fixed, variable, and semi-variable costs. Fixed costs remain constant regardless of output levels, variable costs change with production, while semi-variable costs are fixed over a certain range and vary thereafter. Give examples of each type. K5 (5)