IPCC Nov. 2009 exam
Ques paper 3 Costing FM

By

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Roll No.............................

Total No. of Questions—8]

[Total No. of Printed Pages—16

Time Allowed—3 Hours

Maximum Marks—100

FUN

Answers to questions are to be given only in English except in the case of candidates who have opted for Hindi medium. If a candidate who has not opted for Hindi medium, answers in Hindi, his answers in Hindi will not be valued.

All questions are compulsory.

Working notes should form part of the answer.

Marks

1. Answer any **five** of the following : 5×2=10

(i) Define the following :

(a) Imputed cost

(b) Capitalised cost.

(ii) Calculate efficiency and activity ratio from the following data :

Capacity ratio	=	75%
Budgeted output	=	6000 units
Actual output	=	5000 units
Standard Time per unit	=	4 hours

(iii) List the Financial expenses which are not included in cost.

(iv) Mention the main advantage of cost plus contracts.

(v) A Company sells two products, J and K. The sales mix is 4 units of J and 3 units of K. The contribution margins per unit are Rs. 40 for J and Rs. 20 for K. Fixed costs are Rs. 6,16,000 per month. Compute the break-even point.

Marks

(vi) When is the reconciliation statement of Cost and Financial accounts not required ?

2. Mega Company has just completed its first year of operations. The unit costs on a normal costing basis are as under : 15

		Rs.
Direct material 4 kg @ Rs. 4	=	16.00
Direct labour 3 hrs @ Rs. 18	=	54.00
Variable overhead 3 hrs @ Rs. 4	=	12.00
Fixed overhead 3 hrs @ Rs. 6	=	18.00
		100.00

Selling and administrative costs :

Variable	Rs. 20 per unit
Fixed	Rs. 7,60,000

During the year the company has the following activity :

Units produced	=	24,000
Units sold	=	21,500
Unit selling price	=	Rs. 168
Direct labour hours worked	=	72,000

Actual fixed overhead was Rs. 48,000 less than the budgeted fixed overhead. Budgeted variable overhead was Rs. 20,000 less than the actual variable overhead. The company used an expected actual activity level of 72,000 direct labour hours to compute the predetermine overhead rates.

Required :

(i) Compute the unit cost and total income under :

(a) Absorption costing

(b) Marginal costing.

Marks

(ii) Under or over absorption of overhead.

(iii) Reconcile the difference between the total income under absorption and marginal costing.

3. (a) XP Ltd. furnishes you the following information relating to process II. 8

(i) Opening work-in-progress—NIL

(ii) Units introduced 42,000 units @ Rs. 12

(iii) Expenses debited to the process :

	Rs.
Direct material	61,530
Labour	88,820
Overheads	1,76,400

(iv) Normal loss in the process = 2% of input.

(v) Closing work-in-progress—1200 units

Degree of completion —	Materials	100%
	Labour	50%
	Overhead	40%

(vi) Finished output—39500 units

(vii) Degree of completion of abnormal loss :

Material	100%
Labour	80%
Overhead	60%

(viii) Units scraped as normal loss were sold at Rs. 4.50 per unit.

(ix) All the units of abnormal loss were sold at Rs. 9 per unit.

Marks

Prepare :

(a) Statement of equivalent production.

(b) Statement showing the cost of finished goods, abnormal loss and closing work-in-progress.

(c) Process II account and abnormal loss account.

(b) The following information is available from the cost records of Vatika & Co. For the month of August, 2009 : 8

Material purchased 24,000 kg Rs. 1,05,600

Material consumed 22,800 kg

Actual wages paid for 5,940 hours Rs. 29,700

Unit produced 2160 units.

Standard rates and prices are :

Std. cost for AO × Actual output

Direct material rate is Rs. 4.00 per unit

Direct labour rate is Rs. 4.00 per hour

Standard input is 10 kg. for one unit.

Standard requirement is 2.5 hours per unit.

Calculate all material and labour variances for the month of August, 2009.

nswer any **three** of the following : 3×3=9

i) Standard Time for a job is 90 hours. The hourly rate of Guaranteed wages is Rs. 50. Because of the saving in time a worker a gets an effective hourly rate of wages of Rs. 60 under Rowan premium bonus system. For the same saving in time, calculate the hourly rate of wages a worker B will get under Halsey premium bonus system assuring 40% to worker.

i) Explain briefly, what do you understand by Operating Costing. How are composite units computed ?

Marks

(iii) The following information relating to a type of Raw material is available :

Annual demand	2000 units
Unit price	Rs. 20.00
Ordering cost per order	Rs. 20.00
Storage cost	2% p.a.
Interest rate	8% p.a.
Lead time	Half-month

Calculate economic order quantity and total annual inventory cost of the raw material.

(iv) List the eight functional budgets prepared by a business.

5. Answer any **five** of the following : 5×2=1

(i) Explain briefly the limitations of Financial ratios.

(ii) What do you understand by Business Risk and Financial Risk ?

(iii) Differentiate between Factoring and Bills discounting.

(iv) Differentiate between Financial Management and Financial Accounting.

(v) Y Ltd. retains Rs. 7,50,000 out of its current earning. The expected rate of return to the shareholders. If they had invested the funds elsewhere is 10%. The brokerage is 3% and the shareholders came in 30% tax bracket. Calculate the cost of retained earning.

(vi) From the informations given below calculate the amount of Fixed assets and Proprietor's fund.

Ratio of fixed assets to proprietors fund	=	0.75
Net working capital	=	Rs. 6,00,000

Marks

6. The Balance Sheets of a Company as on 31st March, 2008 and 2009 are given below : 15

Liabilities	31.3.08	31.3.09	Assets	31.3.08	31.3.09
	Rs.	Rs.		Rs.	Rs.
Equity share capital	14,40,000	19,20,000	Fixed assets	38,40,000	45,60,000
Capital reserve	—	48,000	Less depreciation	11,04,000	13,92,000
General reserve	8,16,000	9,60,000		27,36,000	31,68,000
Profit & Loss A/c	2,88,000	3,60,000	Investment	4,80,000	3,84,000
9% debentures	9,60,000	6,72,000	Sundry debtors	12,00,000	14,00,000
Sundry creditors	5,50,000	5,90,000	Stock	1,40,000	1,84,000
Bills payables	26,000	34,000	Cash in hand	4,000	—
Proposed dividend	1,44,000	1,72,800	Preliminary		
Provision for tax	4,32,000	4,08,000	Expenses	96,000	48,000
Unpaid dividend	—	19,200			
	46,56,000	51,84,000		46,56,000	51,84,000

Additional informations :

During the year ended 31st March, 2009 the company :

(i) Sold a machine for Rs. 1,20,000; the cost of machine was Rs. 2,40,000 and depreciation provided on it was Rs. 84,000.

(ii) Provided Rs. 4,20,000 as depreciation fixed assets.

(iii) Sold some investment and profit credited to capital reserve.

(iv) Redeemed 30% of the debenture @ 105

(v) Decided to write off fixed assets costing Rs. 60,000 on which depreciation amounting to Rs. 48,000 has been provided.

You are required to prepare Cash Flow Statement as per AS-3.

Marks

7. (a) From the following Financial data of Company A and Company B : 8

Prepare their Income statements.

	Company A	Company B
	Rs.	Rs.
Variable cost	56,000	60% of sales
Fixed cost	20,000	—
Interest expenses	12,000	9,000
Financial Leverage	5 : 1	—
Operating Leverage	—	4 : 1
Income tax rate	30%	30%
Sales	—	105000

(b) A hospital is considering to purchase a diagnostic machine costing Rs. 80,000. The projected life of the machine is 8 years and has an expected salvage value of Rs. 6,000 at the end of 8 years. The annual operating cost of the machine is Rs. 7,500. It is expected to generate revenues of Rs. 40,000 per year for eight years. Presently, the hospital is outsourcing the diagnostic work and is earning commission income is Rs. 12,000 per annum; net of taxes. 8

Required :

Whether it would be profitable for the hospital to purchase the machine. Give your recommendation under :

(i) Net Present Value method

(ii) Profitability Index method.

PV factors at 10% are given below :

Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8
0.909	0.826	0.751	0.683	0.621	0.564	0.513	0.467

P. T. O.

Marks

3×3=9

8. Answer any **three** of the following :

   (i) Explain the two basic functions of Financial Management.

   (ii) Explain the following terms :

   (a) Ploughing back of profits

   (b) Desirability factor.

   (iii) What do you understand by Weighted average cost of Capital ?

   (iv) There are two firms P and Q which are identical except P does not use any debt in its capital structure while Q has Rs. 8,00,000, 9% debentures in its capital structure. Both the firms have earning before interest and tax of Rs. 2,60,000 p.a. and the capitalisation rate is 10%. Assuming the corporate tax of 30%, calculate the value of these firms according to MM Hypothesis.