Cost & FM. May. 2011

Roll No. ....

Total No. of Questions – 7

Total No. of Printed Pages – 8

Time Allowed – 3 Hours

Maximum Marks – 100

JNK

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 has not opted for Hindi medium, his answers in Hindi will not be valued.

Question No. **1** is compulsory.

Attempt any **five** questions from the remaining **six** questions.

Working Notes should form part of the answer.

Marks

1. Answer the following : 4×5 =20

(a) You are given two financial plans of a company which has two financial situations. The detailed information are as under :

Installed capacity	10,000 units
Actual production and sales	60% of installed capacity
Selling price per unit	₹ 30
Variable cost per unit	₹ 20

Fixed cost :

Situation 'A' = ₹ 20,000

Situation 'B' = ₹ 25,000

Capital structure of the company is as follows :

	Financial Plans	
	XY	XM
	₹	₹
Equity	12,000	35,000
Debt (cost of debt 12%)	40,000	10,000
	52,000	45,000

You are required to calculate operating leverage and financial leverage of both the plans.

Marks

(b) You are given the following information of a worker :

(i)	Name of worker	:	'X'
(ii)	Ticket No.	:	002
(iii)	Work started	:	1-4-11 at 8 a.m.
(iv)	Work finished	:	5-4-11 at 12 noon
(v)	Work allotted	:	Production of 2,160 units
(vi)	Work done and approved	:	2000 units
(vii)	Time and units allowed	:	40 units per hour
(viii)	Wage rate	:	₹ 25 per hour
(ix)	Bonus	:	40% of time saved
(x)	Worker X worked 9 hours a day.		

You are required to calculate the remuneration of the worker on the following basis :

(i) Halsey plan and

(ii) Rowan plan

(c) Prepare a Store Ledger Account from the following transactions of XY Company Ltd. :

April, 2011

1	Opening balance 200 units @ ₹ 10 per unit.
5	Receipt 250 units costing ₹ 2,000
8	Receipt 150 units costing ₹ 1,275
10	Issue 100 units
15	Receipt 50 units costing ₹ 500
20	Shortage 10 units
21	Receipt 60 units costing ₹ 540
22	Issue 400 units

The issues upto 10-4-11 will be priced at LIFO and from 11-4-11 issues will be priced at FIFO.

Shortage will be charged as overhead.

(d) What is factoring ? Enumerate the main advantages of factoring.

Marks

2. (a) You are given the following information of the three machines of a manufacturing department of X Ltd. : 8

Preliminary estimates of expenses (per annum)

	Total	Machines		
		A	B	C
	(₹)	(₹)	(₹)	(₹)
Depreciation	20,000	7,500	7,500	5,000
Spare parts	10,000	4,000	4,000	2,000
Power	40,000			
Consumable stores	8,000	3,000	2,500	2,500
Insurance of machinery	8,000			
Indirect labour	20,000			
Building maintenance expenses	20,000			
Annual interest on capital outlay	50,000	20,000	20,000	10,000
Monthly charge for rent and rates	10,000			
Salary of foreman (per month)	20,000			
Salary of Attendant (per month)	5,000			

(The foreman and the attendant control all the three machines and spend equal time on them.)

The following additional information is also available :

	Machines		
	A	B	C
Estimated Direct Labour Hours	1,00,000	1,50,000	1,50,000
Ratio of K.W. Rating	3	2	3
Floor space (sq. ft.)	40,000	40,000	20,000

There are 12 holidays besides Sundays in the year, of which two were on Saturdays. The manufacturing department works 8 hours in a day but Saturdays are half days. All machines work at 90% capacity throughout the year and 2% is reasonable for breakdown.

You are required to :

Calculate predetermined machine hour rates for the above machines after taking into consideration the following factors :

- An increase of 15% in the price of spare parts.
- An increase of 25% in the consumption of spare parts for machine 'B' & 'C' only.
- 20% general increase in wages rates.

(b) The Marketing Manager of XY Ltd. is giving a proposal to the Board of Directors of the company that an increase in credit period allowed to customers from the present one month to two months will bring a 25% increase in sales volume in the next year. 8

The following operational data of the company for the current year are taken from the records of the company :

	₹
Selling price	21 p.u.
Variable cost	14 p.u.
Total cost	18 p.u.
Sales value	18,90,000

The Board, by forwarding the above proposal and data requests you to give your expert opinion on the adoption of the new credit policy in next year subject to a condition that the company's required rate of return on investments is 40%.

Marks

3. The management of MNP Company Ltd. is planning to expand its business and consult you to prepare an estimated working capital statement. The records of the company reveals the following annual information : 16

		₹
Sales –	Domestic at one month's credit	24,00,000
	Export at three month's credit (sales price 10% below domestic price)	10,80,000
Materials used (suppliers extend two months credit)		9,00,000
Lag in payment of wages – ½ month		7,20,000
Lag in payment of manufacturing expenses (cash) – 1 month		10,80,000
Lag in payment of Adm. expenses – 1 month		2,40,000
Sales promotion expenses payable quarterly in advance		1,50,000
Income tax payable in four instalments of which one falls in the next financial year		2,25,000

Rate of gross profit is 20%.

Ignore work-in-progress and depreciation.

The company keeps one month's stock of raw materials and finished goods (each) and believes in keeping ₹ 2,50,000 available to it including the overdraft limit of ₹ 75,000 not yet utilized by the company.

The management is also of the opinion to make 12% margin for contingencies on computed figure.

You are required to prepare the estimated working capital statement for the next year.

Marks

4. The summarized Balance Sheets of XYZ Limited as at 31st March, 2010 and 2011 are given below : 16

Liabilities	2010 (₹)	2011 (₹)	Assets	2010 (₹)	2011 (₹)
Preference share capital	4,00,000	2,00,000	Plant and Machinery	7,00,000	8,20,000
Equity share capital	4,00,000	6,60,000	Long term investment	3,20,000	4,00,000
Share premium A/c	40,000	30,000	Goodwill	–	30,000
Capital redemption reserve	–	1,00,000	Current Assets	9,10,000	11,41,000
General reserve	2,00,000	1,20,000	Short term investment (less than 2 months)	50,000	84,000
P & L A/c	1,30,000	1,75,000	Cash and Bank	1,00,000	80,000
Current liabilities	6,40,000	9,00,000	Preliminary expenses	40,000	20,000
Proposed dividend	1,60,000	2,10,000			
Provision for tax	1,50,000	1,80,000			
	21,20,000	**25,75,000**		**21,20,000**	**25,75,000**

Additional information :

During the year 2011 the company :

(i) Preference share capital was redeemed at a premium of 10% partly out of proceeds issue of 10,000 equity shares of ₹ 10 each issued at 10% premium and partly out of profits otherwise available for dividends.

(ii) The company purchased plant and machinery for ₹ 95,000. It also acquired another company stock ₹ 25,000 and plant and machinery ₹ 1,05,000 and paid ₹ 1,60,000 in Equity share capital for the acquisition.

(iii) Foreign exchange loss of ₹ 1,600 represents loss in value of short term investment.

(iv) The company paid tax of ₹ 1,40,000.

You are required to prepare cash flow statement.

Cash from operation
Net pft
(+)
(–)
Cash flow statement
(+)
(–)

Marks

5. (a) You are given the following information of the cost department of a manufacturing company : 12

	₹
Stores :	
Opening Balance	12,60,000
Purchases	67,20,000
Transfer from work-in-progress	33,60,000
Issue to work-in-progress	67,20,000
Issue to repairs and maintenance	8,40,000
Shortage found in stock taking	2,52,000
Work-in-progress :	
Opening Balance	25,20,000
Direct wages applied	25,20,000
Overhead applied	90,08,000
Closing Balance	15,20,000
Finished products :	

Entire output is sold at a profit of 12% on actual cost from work-in-progress.

Other information :

	₹
Wages incurred	29,40,000
Overhead incurred	95,50,000
Income from Investment	4,00,000
Loss on sale of fixed assets	8,40,000

Shortage in stock taking is treated as normal loss.

You are required to prepare :

(i) Stores control account;

(ii) Work-in-progress control account;

(iii) Costing Profit and Loss account;

(iv) Profit and Loss account and

(v) Reconciliation statement

(b) What is debt securitization ? Explain the basic debt securitization process. 4

Marks

6. (a) The management of Z Company Ltd. wants to raise its funds from market to meet out the financial demands of its long-term projects. The company has various combination of proposals to raise its funds. You are given the following proposals of the company : 12

(i)

Proposals	% of Equity	% of Debts	% of Preference shares
P	100	–	–
Q	50	50	–
R	50	–	50

(ii) Cost of debt – 10 %

Cost of preference shares – 10%

(iii) Tax rate – 50%

(iv) Equity shares of the face value of ₹ 10 each will be issued at a premium of ₹ 10 per share.

(v) Total investment to be raised ₹ 40,00,000.

(vi) Expected earning before interest and tax ₹ 18,00,000.

From the above proposals the management wants to take advice from you for appropriate plan after computing the following :

- Earning per share
- Financial break-even-point
- Compute the EBIT range among the plans for indifference. Also indicate if any of the plans dominate.

(b) Distinguish between cost units and cost centres. 4

7. Answer any **four** of the following : 4×4 =16

(a) How do you deal with the following in cost accounts ?

(i) Packing Expenses

(ii) Fringe benefits

(b) Explain the following ratios :

(i) Operating ratio

(ii) Price earning ratio

(c) Enumerate the causes of labour turnover.

(d) Write short note on William J. Baumal Vs. Miller-Orr cash management model.

(e) Discuss the process of estimating profit/loss on incomplete contracts.
