

Test Series: March, 2012

MOCK TEST PAPER – 2
IPCC/PCC: GROUP – I/GROUP-II
PAPER – 3/4: COST ACCOUNTING AND FINANCIAL MANAGEMENT
PART – I : COST ACCOUNTING

All questions are compulsory.

Working notes should form part of the answer.

Time Allowed – 1 ½ Hours

Maximum Marks – 100

1. Answer any five of the following: (5 x 2 = 10 Marks)
- (i) You are given the following particulars calculate:
- (a) Break-even point
 - (b) Sales to earn a profit of ₹ 20,000
 - i. Fixed cost ₹ 1,50,000
 - ii. Variable cost ₹ 15 per unit
 - iii. Selling price is ₹ 30 per unit
- (ii) S.G Co. Ltd. Supplies you the following information: -
- | | |
|---|-----|
| No. of workers at the beginning of the year | 400 |
| No. of workers at the end of the year | 500 |
| No. of workers resigned | 35 |
| No. of workers discharged | 10 |
| No. of replaced workers | 40 |
- Find out Labour Turnover Rate under Flux Method.
- (iii) About 50 items are required every day for a machine. A fixed cost of ₹ 50 per order is incurred for placing an order. The inventory carrying cost per item amounts to ₹ 0.02 per day. The lead period is 32 days. Compute:
- (a) Economic Order Quantity
 - (b) Re-order level
- (iv) How will you treat the research and development costs in connection with Job undertaken on behalf of a customer; and
- (v) What is spoilage? Give its treatment in Cost Accounting.

(vi) Define Differential Cost and Incremental Cost..

2. (a) Aviation Ltd. manufactures a range of products and the data below refer to one product which goes through one process only. The company operates a thirteen four-weekly reporting system for process and product costs and the data given below relate to period 2011.

There was no opening work-in-progress stock.

50,000 units of materials input at ₹ 2.94 per unit entered the process.

Further direct materials added	1,38,300
Direct wages incurred	65,550
Production overhead	74,700

Normal loss is 3% of input.

Closing work-in-progress was 8,000 units but these were incomplete, having reached the following percentages of completion for each of the elements of cost listed.

	%
Direct materials added	75
Direct wages	50
Production overhead	25

2700 units were scrapped after a quality control check when the units were at the following degrees of completion.

	%
Direct materials added	66.67% or $66\frac{2}{3}\%$
Direct wages	33.1% or 33.33%
Production overhead	16% or 16.67%

Units scrapped, regardless of the degree of completion, are sold for ₹ 1 each and it is company policy to credit the process account with the scrap value of normal loss units.

You are required to prepare the Period 2011 accounts for the: (i) process account; and (ii) abnormal gain or loss.

- (b) Outlook Ltd. produces and sells a single product. Sales budget for calendar year 2011 by quarters is as under:

Quarter	I	II	III	IV
No of units to be sold	12,000	15,000	16,500	18,000

The year is expected to open with an inventory of 4,000 units of finished products and close with an inventory of 6,500 units.

Production is customarily scheduled to provide for two-thirds of the current quarter's sales demand plus one-third of the following quarter's demand. Thus production anticipates sales volume by about one month.

The standard cost details for one unit of the product is as follows:

Direct materials 10 kgs @ 50 paise per kg.

Direct labour 1 hour 30 minutes @ ₹ 4 per hour

Variable overhead @ ₹ 1 per hour

Fixed overheads 1 hour 30 minutes @ ₹ 2 per hour based on budgeted production volume of 90,000 direct labour hours for the year.

- (i) Prepare a Production budget for 2011, by quarters, showing the number of units to be produced and the total costs of direct material, direct labour, variable overhead and fixed overheads.
- (ii) If the budgeted selling price per unit is ₹ 17, what would be the budgeted profit for the year as a whole?
- (iii) In which quarter of the year, is the company expected to break-even.

(9 + 6 = 15 Marks)

3. (a) The following standards have been set to manufacture a product:

Direct materials:	₹
2 units of P at ₹ 4 per unit	8.00
3 units of Q at ₹ 3 per unit	9.00
15 units of R at ₹ 1 per unit	<u>15.00</u>
	32.00
Direct labour 3 hours @ ₹ 8 per hour	<u>24.00</u>
Total standard prime cost	<u>56.00</u>

The company manufactured and sold 6,000 units of the product during the year.

Direct material costs were as follows:

12,500 units of P at ₹ 4.40 per unit

18,000 units of Q at ₹ 2.80 per unit

88,500 units of R at ₹ 1.20 per unit

The company worked 17,500 direct labour hours during the year. For 2,500 of these hours the company paid at ₹ 12 per hour while for the remaining the wages were paid at the standard rate.

Calculate material price, usage variances, labour rate, and efficiency variances.

- (b) Soloproducts Ltd. Manufactures and sells a single product and has estimated a sales revenue of ₹ 126 lakhs this year based on a 20% profit on selling price. Each unit of the product requires 3 lbs of material P and 1½ lbs of material Q for manufacture as well as a processing time of 7 hours in the Machine Shop and 2½ hours in the Assembly Section. Overheads are absorbed at a blanket rate of 33-1/3% on Direct Labour. The factory works 5 days of 8 hours a week in a normal 52 weeks a year. On an average statutory holidays, leave and absenteeism and idle time amount to 96 hours, 80 hours and 64 hours respectively, in a year.

The other details are as under

Purchase price	Material P	₹ 6 per lb	
	Material Q	₹ 4 per lb	
Comprehensive Labour rate	Machine shop	₹ 4 per hour	
	Assembly	₹ 3.20 per hour	
No. of Employees	Machine shop	600	
	Assembly	180	
	Finished Goods	Material P	Material Q
Opening stock	20,000 units	54,000 lbs	33,000 lbs
Closing stock (Estimated)	25,000 units	30,000 lbs	66,000 lbs

You are required to calculate:

- The number of units of the product proposed to be sold.
- Purchased to be made of materials P and Q during the year in Rupees.
- Capacity utilization of machine shop and Assembly section, along with your comments. (2 x 8 = 16 Marks)

4. Answer any three of the following:

- Discuss the three methods of calculating labour turnover.
- In Akanksha Ltd raw material passes through four processes A, B,C and D and the output of each process is the input of the subsequent process. The loss in the four processes A,B,Cand D are respectively 25%, 20%, 20% and 16 ⅔ % of the Input. If the end product at the end of process D is 40,000 kgs, what is the quantity of raw materials required along with its cost to be fed at the beginning of Process A when the cost of the same is ₹ 5 per kg.
- What are the characteristics of a good Costing System.
- Differentiate between Job costing and Batch costing. (3 x 3 = 9 Marks)

Test Series: March, 2012

MOCK TEST PAPER – 2
IPCC/PCC: GROUP – II/GROUP – II
PAPER – 3/4: COST ACCOUNTING AND FINANCIAL MANAGEMENT
PART – II : FINANCIAL MANAGEMENT

All questions are compulsory.

Working notes should form part of the answer.

Time Allowed – 1 ½ Hours

Maximum Marks – 50

1. Answer the following:
 - (i) What are the main responsibilities of a Chief Financial Officer of an organisation?
 - (ii) How return on capital employed is calculated? What is its significance?
 - (iii) Explain the concept of Indian depository receipts.
 - (iv) Discuss the features of Secured Premium Notes (SPNs).
 - (v) Explain the concept of Multiple Internal Rate of Return. (5 × 2 = 10 Marks)
2. Balance Sheets of a company as on 31st March, 2010 and 2011 were as follows:

Liabilities	31.3.10	31.3.11	Assets	31.3.10	31.3.11
	₹	₹		₹	₹
Equity Share Capital	10,00,000	10,00,000	Goodwill	1,00,000	80,000
8% P.S. Capital	2,00,000	3,00,000	Land and		
General Reserve	1,20,000	1,45,000	Building	7,00,000	6,50,000
Securities Premium	-	25,000	Plant and		
Profit and Loss A/c	2,10,000	3,00,000	Machinery	6,00,000	6,60,000
11% Debentures	5,00,000	3,00,000	Investments		
Creditors	1,85,000	2,15,000	(non-trading)	2,40,000	2,20,000
Provision for tax	80,000	1,05,000	Stock	4,00,000	3,85,000
Proposed Dividend	1,36,000	1,44,000	Debtors	2,88,000	4,15,000
			Cash and Bank	88,000	93,000
			Prepaid	15,000	11,000
			Expenses		
			Premium on	-	20,000
			Redemption of		
			Debentures		
	<u>24,31,000</u>	<u>25,34,000</u>		<u>24,31,000</u>	<u>25,34,000</u>

Additional Information:

1. Investments were sold during the year at a profit of ₹ 15,000.
2. During the year an old machine costing ₹ 80,000 was sold for ₹ 36,000. Its written down value was ₹ 45,000.
3. Depreciation charged on Plants and Machinery @ 20 per cent on the opening balance.
4. There was no purchase or sale of Land and Building.
5. Provision for tax made during the year was ₹ 96,000.
6. Preference shares were issued for consideration of cash during the year.
7. Debentures are redeemed at the beginning of the year.

You are required to prepare:

- (i) Cash flow statement as per AS-3.
 - (ii) Schedule of Changes in Working Capital. (8 + 8 = 16 Marks)
3. (a) Sankya Limited wishes to raise additional finance of ₹ 20 lakhs for meeting its investment plans. The company has ₹ 4,00,000 in the form of retained earnings available for investment purposes. The following are the further details:
- .. Debt equity ratio 25 : 75.
 - .. Cost of debt at the rate of 10 percent (before tax) upto ₹ 2,00,000 and 13% (before tax) beyond that.
 - .. Earning per share, ₹ 12.
 - .. Dividend payout 50% of earnings.
 - .. Expected growth rate in dividend 10%.
 - .. Current market price per share, ₹ 60.
 - .. Company's tax rate is 30% and shareholder's personal tax rate is 20%.

You are required to:

- (i) Calculate the post tax average cost of additional debt.
 - (ii) Calculate the cost of retained earnings and cost of equity.
 - (iii) Calculate the overall weighted average (after tax) cost of additional finance.
- (b) Gamma Limited is commencing a new project for manufacture of electric toys. The following cost information has been ascertained for annual production of 60,000 units at full capacity:

		Amount per unit
		₹
Raw materials		20
Direct labour		15
Manufacturing overheads:	₹	
Variable	15	
Fixed	<u>10</u>	25
Selling and Distribution overheads:	₹	
Variable	3	
Fixed	<u>1</u>	<u>4</u>
Total cost		64
Profit		<u>16</u>
Selling price		<u>80</u>

In the first year of operations expected production and sales are 40,000 units and 35,000 units respectively. To assess the need of working capital, the following additional information is available:

- (i) Stock of Raw materials.....3 months consumption.
- (ii) Credit allowable for debtors.....1½ months.
- (iii) Credit allowable by creditors.....4 months.
- (iv) Lag in payment of wages.....1 month.
- (v) Lag in payment of overheads.....½ month.
- (vi) Cash in hand and Bank is expected to be ₹ 60,000.
- (vii) Provision for contingencies is required @ 10% of working capital requirement including that provision.

You are required to prepare a projected statement of working capital requirement for the first year of operations. Debtors are taken at cost. (8+7=15 Marks)

4. Answer the following:

- (a) A company offers a Fixed deposit scheme whereby ₹ 10,000 matures to ₹ 12,625 after 2 years, on a half-yearly compounding basis. If the company wishes to amend the scheme by compounding interest every quarter, what will be the revised maturity value?
- (b) Y Ltd. retains ₹ 7,50,000 out of its current earnings. The expected rate of return to the shareholders, if they had invested the funds elsewhere is 10%. The brokerage is

3% and the shareholders come in 30% tax bracket. Calculate the cost of retained earnings.

- (c) A firm has a total sales of ₹ 12,00,000 and its average collection period is 90 days. The past experience indicates that bad debt losses are 1.5% on sales. The expenditure incurred by the firm in administering receivable collection efforts are ₹ 50,000. A factor is prepared to buy the firm's receivables by charging 2% commission. The factor will pay advance on receivables to the firm at an interest rate of 16% p.a. after withholding 10% as reserve. Calculate effective cost of factoring to the firm. Assume 360 days in a year. (3 × 3 = 9 Marks)