

IPCC – PAPER 3

1. (a) (i) Quarterly Production Budget of AK Ltd. for the calendar year 2012.
Annual production

Quarter	I	II	III	IV	Total
Unit sold	18,000	22,000	25,000	27,000	92,000

∴ Total unit sold	92,000
Add : Closing stock of finished Product	8,000
Total	<u>1,00,000</u>
Less : Opening stock of finished Product	6,000
Annual Production	<u>94,000</u>

Quarterly Production Budget

Particulars	Q I	Q II	Q III	Q IV
70 % of current quarter sales	12,600	15,400	17,500	18,900
30 % of following quarter sales	6,600	7,500	8,100	7,400
Total	19,200	22,900	25,600	26,300 * WN1

* Balancing figure

WN1 : Total production in first third quarter = 19,200 + 22,900 + 25,600 = 67,700 units

∴ IV Quarter Production = 94,000 – 67,700 = 26,300

- (ii) Selling Price P.U. = ₹ 40
 Variable cost P.U. = ₹ 34.50
 C.P.U. = ₹ 5.5
 Total fixed cost = 1,10,000 hr × ₹ 2 = ₹ 2,20,000

$$B E P = \frac{F}{C.P.U.} = \frac{2,20,000}{5.5} = 40,000 \text{ units}$$

Quarter	Sales (units)	Cumulative Sales
Q I	18,000	18,000
Q II	22,000	40,000 (BEP)
Q III	25,000	65,000
Q IV	27,000	92,000

∴ “ BEP will be achieved in Quarter II “

1. (b) Calculation of machine Hour Rate

(I) Fixed Expenses	Amount (₹)
Insurance premium (9000 × 10/90)	1,000
Rent (2,400 × 12 × 1/10)	2,880
(II) Machine Expenses	
Repair & Maintenance	5,000
Depreciation $\frac{10,00,000 - 10,000}{10}$	99,000
Electricity (4,000 × 8 × 3.75)	1,20,000
Total Overdue	2,27,880
Productive Machine Hour (4200 – 200)	4,000
M H R 22,7880 / 4,000	56.97

Note : It has been assumed that no electricity is consumed in non productive hours

Q.1(c)

(i) Market Value of RES Ltd

$$\begin{aligned} MV_L &= MV_U + (D \times t) \\ &= 25,00,000 + (5,00,000 \times 0.30) \\ &= 26,50,000 \end{aligned}$$

$$(ii) K_e = \frac{EAS}{E} \times 100 = \frac{4,72,500}{21,50,000} \times 100 = 21.98 \%$$

$$\begin{aligned} (iii) WACC &= \frac{(E \times K_e) + (D \times K_d)}{E + D} \\ &= \frac{(21,50,000 \times 21.98\%) + (5,00,000 \times 10.50\%)}{26,50,000} = 19.81\% \end{aligned}$$

Working Notes:

Under MM Approach $MV_U = EBIT(1-t) / K_o$

Hence $25,00,000 = EBIT(1-0.30) / 0.21$

$EBIT = \text{Rs. } 7,50,000$

The leverage irrelevance theorem of MM is valid if the perfect market assumptions underlying their analysis are satisfied. However, in the face of imperfections in the real world capital markets, the capital structure of a firm may affect its valuation.

Presence of taxes is a major imperfection in the real world. When taxes are applicable to corporate income, debt financing is advantageous. This is because dividends and retained earnings are not deductible for tax purposes; interest on debt is a tax-deductible expense. As a result, the total income available for both stockholders and debt-holders is greater when debt capital is used.

Q.1(d) Evaluation of discount policy

Particulars	Amount in Rs.
(A) Contribution on additional sales $= 12 \text{ L} \times \frac{1}{3} \times 22 \%$	= 88,000
(B) <u>Saving of Interest</u>	
<u>Cost of Debtors</u>	
Under existing situation $12\text{L} \times 78\% \times \frac{30}{360}$	= 78,000
After change in policy $16\text{L} \times 78\% \times \frac{20}{360}$	= 69,333
Decrease in COD	8,667
Saving of Interest @ 15%	1,300
(C) <u>B. Debts</u>	
Current $12\text{L} \times 1.50\%$	= 18,000
After $16\text{L} \times 2\%$	= 32,000
	(14,000)
(D) <u>Cash Discount</u>	
Current $12\text{L} \times 50\% \times 1\%$	= 6,000
After $16\text{L} \times 80\% \times 2\%$	= 25,600
	(19,600)
Net Benefit before tax	55,700
Less: Income Tax @30%	16,710
Net Benefit	38,990

Note : saving of interest is calculated on cost of debtors.

2. (a)

Contract A/C
for the period 1-7-2011 to 31-03-2012

Particulars	Amount ₹	Particulars	Amount ₹
To Material sent to site	7,74,300	By Bank—sale of Material	10,000
To, Labour paid 1,079,000	11,81,500	By P & L - loss on sale of material	3,500
Add: outstanding labour 1,02,500		By Material in hand	75,800
To, salary to engineer (20,500 × 9)	1,84,500	By WIP	
	60,750	work certified (45,00,000 × 50 %) 22,50,000	
To, salary to supervisor (9,000 × 9 × 3/4)		work uncertified 65,9,900	29,09,900
To, Admin. & other Exp. 4,60,600	4,50,600		
Less : Prepaid Exp. 10,000			
	77,250		
To, Depreciation on plant $\frac{7,71,000 - 50,000}{7} \times \frac{9}{12}$	77,250		
To, Notional Profit c/d	2,70,300		
	2,999,200		2,999,200
To, P & L A/c	1,60,178	By Notional Profit b/d	2,70,300
To Reserve	1,10,122		
	2,70,300		2,70,300

Working note

(i) Total Cost up to date
 $774300 + 1181500 + 184500 + 60750 + 450600 + 77250 - 10,000 - 3500 - 75800 = 2639600$

(ii) Total Proportion of work uncertified = $\frac{2}{3} - \frac{1}{2} = \frac{4-3}{6} = \frac{1}{6}$

Cost of work uncertified = $2639600 \times \frac{3}{2} \times \frac{1}{6} = 659900$

Working Note

Profit transferred to P & L = $\frac{2}{3} \times \text{Notional Profit} \times \frac{\text{Cash Received}}{\text{work certified}}$
 $= \frac{2}{3} \times 270300 \times \frac{20,00,000}{22,50,000} = 160178$

2 (b) X Ltd.

Cash Flow Statement for the year ended 31..03.2012

Amount Rs.

Amount Rs.

(A) Cash From Operating Activities

Net Profit After Tax	80,000
Add : Provision for tax	1,78,000
Depreciation	2,05,000
Loss on sale of Machine	15,000
Interest on Debenture	14,000
Transfer to Reserve	50,000
Prelim. exp. w/o	10,000
Operating Profit before WC changes	5,52,000
Less : Increase in stock	1,85,000
Less : Increase in Debtor	2,55,000
Add : Increase in creditors	65,000
CFO	1,77,000
Less : Tax paid	1,58,000
Net CFO	19,000

(B) Cash from Investing Activities

Purchase of FA (1,10,000)	
Sale of FA 65,000	(45000)

(C) Cash from Financing Activities

Interest on debenture (14,000)	
Equity Shares Issued 2,00,000	
Redemption of Debentures (1,05,000)	81,000
Net CF generated	55,000
Opening Cash & Cash Equivalent	1,25,000
Closing Cash & Cash Equivalent	1,80,000

Working Note:

Fixed Assets a/c			
To Bal.	2,050,000	By P&L (Dep.)	205,000
To Bank	1,10,000	To Bank	65,000
		To P&L (loss)	15,000
		By Bal.	1,875,000
	2,160,000		2,160,000

Provision for Tax a/c			
To Bank	158,000	By Bal.	145,000
To Bal.	165,000	By P & L	178,000
	323,000		323,000

Debentures a/c			
To Bank	100,000	By Bal.	300,000
To Bal.	200,000		
	300,000		300,000

Equity Share Capital a/c			
		By Bal.	1,800,000
		By General Reserve	200,000
To Bal.	2,200,000	By Bank	200,000
	2,200,000		2,200,000

- 3 (a)(i) Rate per unit = 10
Standard time for one unit = 15 min.
Rate per Hr. = 40

Worker	Std. Time for total production	Actual Time	Time saved	Efficiency
A	$176 \times \frac{15}{60} = 44 \text{ Hrs.}$	40 Hrs.	4	$\frac{44}{40} \times 100 = 110\%$
B	$140 \times \frac{15}{60} = 35 \text{ Hrs.}$	40 Hrs.	—	$\frac{35}{40} \times 100 = 81.51\%$

Halsey $\Rightarrow$ Actual hours $\times$ Rate per Hour + (50 % of time saved $\times$ Rate per Hr.)

$$A = 40 \times 40 + 50 \% (4 \times 40) = 1600 + 80 = 1,680$$

$$B = 40 \times 40 + 50 \% (0 \times 40) = 1600$$

Rowan plan = Actual Hrs. $\times$ Rate per hr + $\frac{\text{Time saved}}{\text{std. time}} \times (\text{Actual hr.} \times \text{Rate per hour})$

$$A = 40 \times 40 + \frac{4}{44} (40 \times 40) = 1745.45$$

$$B = 40 \times 40 + \frac{0}{35} (40 \times 40) = 1600$$

- (ii) Taylors plan
Worker A efficiency is above normal thus he will be paid 120 % of piece rate
 $= 176 \times 10 \times 120 \% = ₹ 2112$
Worker B efficiency is below normal thus he will be paid 80 % of piece rate
 $= 140 \times 10 \times 80 \% = ₹ 1120$
Emersons efficiency plan

Worker A will be paid $\Rightarrow 20 + 10 = 30 \%$ bonus
 $\therefore \text{Bonus} = 40 \times 40 \times 30 \% = 480$
Total wages = $40 \times 40 + 480 = 2080$

Worker B $\Rightarrow$ As per Emersons efficiency plan when efficiency is between 66.67 % to 100 % Bonus can be given 0 to 20 %. In absence of information it has been assumed that bonus of 20 % is paid.

Worker B : Bonus = $40 \times 40 \times 20 \% = 320$
Wages = $(40 \times 40) + 320 = 1,920$

3 (b) Estimation of Working Capital Requirement

<u>Particulars</u>		<u>Amount</u>
Cash Bal.	$6,30,000 \times 40\%$	2,52,000
Stock of RM	$54,000 \times 120 \times \frac{2}{12}$	10,80,000
Stock of WIP	$54,000 \times 150 \times \frac{1}{12}$	6,75,000
Stock of FG	$54,000 \times 180 \times \frac{1}{12}$	<u>8,10,000</u>
Debtors	$54,000 \times 180 \times \frac{1.5}{12}$	<u>12,15,000</u>
	Current Assets	<u>40,32,000</u>
Creditors	$54,000 \times 120 \times \frac{1}{12}$	5,40,000
O/S Wages	$54,000 \times 20 \times \frac{1}{12}$	<u>90,000</u>
	Current Liabilities	<u>6,30,000</u>
	Net Working Capital	34,02,000
	Add: Safety Margin	<u>5,10,300</u>
	WC. Required	<u>39,12,300</u>

4. (a) Actual variable OH = 2,95,000 – 62,500 = 2,32,500

Actual fixed OH = 62,500

Using high low point method

$$\text{standard variable OH p.u.} = \frac{2,70,000 - 1,80,000}{14,000 - 8,000} = 15 \text{ p.u.}$$

$$\therefore \text{standard fixed OH} = 2,70,000 - (14,000 \times 15) = 60,000$$

$$\text{standard variable OH} = 15,000 \times 15 = 22,50,000$$

Actual Hours = 74,000

$$\text{standard Hours per unit} = \frac{\text{std. OH rate p.u.}}{\text{std. rate p.hr.}} = \frac{20}{4} = 5 \text{ per Hrs.}$$

$$\therefore \text{Total standard Hours} = (5 \times 15,000) = 75,000 \text{ hrs.}$$

$$\text{Std. variable OH rate per Hour} = \frac{15}{5} = 3 \text{ per hrs.}$$

(i) Variable OH expenditure variance

$$\Rightarrow (\text{std. variable OH for actual hours} - \text{Actual variable OH})$$

$$\Rightarrow 74,000 \times 3 - 2,32,500$$

$$\Rightarrow 2,22,000 - 2,32,500 = 10,500 \text{ (A)}$$

variable OH efficiency variance

$$= (\text{Absorbed variable OH} - \text{std. variable OH for actual hour})$$

$$= (15,560 \times 5 \times 3) - (74,000 \times 3) = 2,33,400 - 2,22,000 = 11,400 \text{ (F)}$$

(ii) (Absorbed fixed OH – Std. fixed OH for actual hour)

$$= (15,560 \times 5 \times 0.8) - (74,000 \times 0.8)$$

$$= (62,240 - 59,200) = 3,040 \text{ (F)}$$

$$* \text{ Std fixed OH rate per hour} = \frac{60,000}{75,000} = 0.8$$

Fixed OH capacity variance

$$\Rightarrow (\text{Std. fixed OH for actual hr.} - \text{Budgeted OH})$$

$$= (74,000 \times 0.8 - 60,000)$$

$$= (59,200 - 60,000) = 800 \text{ (A)}$$

4 (b) * We know that

$$\begin{aligned} \text{CFAT} \times \text{EPVF @ IRR} &= \text{Cost of project} \\ \therefore 96,000 \times 3.352 &= 3,21,800 \end{aligned}$$

* $\text{Pay Back Period} = \frac{\text{Cost of project}}{\text{Annual Cash Inflows}} = \frac{3,21,800}{96,000} = 3.352 \text{ yrs.}$

* $\text{PI} = \frac{\text{PV IF}}{\text{Cost of project}} \therefore 1.05 = \frac{\text{PV IF}}{3,21,800} \therefore \text{PVIF} = 3,37,890$

* $\text{NPV} = \text{PVIF} - \text{Cost of project} = 3,37,890 - 3,21,800 = 16,090$

* Cost of capital
 $\text{CFAT} \times \text{EPVF @ COC} = \text{PVIF}$
 $96,000 \times \text{EPVF @ COC} = 3,37,890$
 $\therefore \text{EPVF @ COC} = 3.520$
 Therefore Cost of Capital = 13 %

Ans.5(a) Integrated Accounting is the name given to a system of accounting whereby cost and financial accounts are kept in the same set of books. Such a system will have to afford full information required for costing as well as for Financial Accounts. In other words, information and data should be recorded in such a way so as to enable the firm to ascertain the cost (together with the necessary analysis) of each product, job, process, operation or any other identifiable activity. For instance, purchases analysed by nature of material and its end use. Purchases account is eliminated and direct postings are made to Stores Control Account, Work-in-Progress accounts, or Overhead Account. Payroll is straightway analysed into direct labour and overheads. It also ensures the ascertainment of marginal cost, variances, abnormal losses and gains. In fact, all information that management requires from a system of costing for doing its work properly is made available. The integrated accounts give full information in such a manner so that the profit and loss account and the balance sheet can be prepared according to the requirements of law and the management maintains full control over the liabilities and assets of its business.

The main advantages of Integrated Accounting are as follows:

- (i) Since there is one set of accounts, thus there is one figure of profit. Hence the question of reconciliation of costing profit and financial profit does not arise.
- (ii) There is no duplication of recording of entries and efforts in the separate set of books.
- (iii) Costing data are available from books of original entry and hence no delay is caused in obtaining information.
- (iv) The operation of the system is facilitated with the use of mechanised accounting.
- (v) Centralisation of accounting function results in economy.

Ans.5(b) (i) Notional Cost or implicit Cost or Opportunity Cost.

- (ii) Out of pocket Cost.
- (iii) Shutdown Cost.
- (iv) Conversion Cost.

Q.5(c) Factors that a venture capitalist should consider before financing any risky project are as follows:

(i) Level of expertise of company's management: Most of venture capitalist believes that the success of a new project is highly dependent on the quality of its management team.

They expect that entrepreneur should have a skilled team of managers. Managements also be required to show a high level of commitments to the project.

(ii) Level of expertise in production: Venture capital should ensure that entrepreneur and his team should have necessary technical ability to be able to develop and produce new product / service.

(iii) Nature of new product / service: The venture capitalist should consider whether the development and production of new product / service should be technically feasible. They should employ experts in their respective fields to examine idea proposed by the entrepreneur.

(iv) Future Prospects: Since the degree of risk involved in investing in the company is quite fairly high, venture capitalists should seek to ensure that the prospects for future profits compensate for the risk. Therefore, they should see a detailed business plan setting out the future business strategy.

(v) Competition: The venture capitalist should seek assurance that there is actually a market for a new product. Further venture capitalists should see the research carried on by the entrepreneur.

(vi) Risk borne by entrepreneur: The venture capitalist is expected to see that the entrepreneur

bears a high degree of risk. This will assure them that the entrepreneur have the sufficient level of the commitments to project as they themselves will have a lot of loss, should the project fail.

(vii) Exit Route: The venture capitalist should try to establish a number of exist routes. These may include a sale of shares to the public, sale of shares to another business, or sale of shares to original owners.

(viii) Board membership: In case of companies, to ensure proper protection of their investment, venture capitalist should require a place on the Board of Directors. This will enable them to have their say on all significant matters affecting the business.

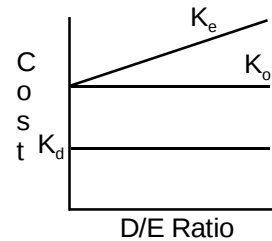
Q.5(d) Net Operating Income Approach (NOI):

According to this approach, capital structure decisions of the firm are irrelevant. Any change in the leverage will not lead to any change in the total value of the firm and the market price of shares, as the overall cost of capital is independent of the degree of leverage. As a result, the division between debt and equity is irrelevant.

As per this approach, an increase in the use of debt which is apparently cheaper is offset by an increase in the equity capitalisation rate. This happens because equity investors seek higher compensation as they are opposed to greater risk due to the existence of fixed return securities in the capital structure.

Assumptions under NOI Approach :

- ❖ Cost of debt is less than cost of equity
- ❖ Cost of debt and overall cost of capital is constant.
- ❖ No corporate taxes.



6 . (a)

Process A A/c							
Particulars	Qty.	Rate	Amount	Particulars	Qty.	Rate	Amount
To Raw material	8,000	9	72000	By Normal loss a/c	400	2.00	800
To Direct wages	–	1.5	12000	By Abnormal loss	100	12.5	1,250
To, Direct Exp.	–	0.75	6000	By bal c/f	7,500	12.5	93,750
To OH	–	0.725	5800				
	8,000	–	95,800		8,000	–	95,800
To bal b/d	7,500	12.5	93,750	By P & L A/c	2,500	12.5	31,250
				By process B A/c	5,000	12.5	62,500
	7,500	–	93,750		7,500	–	93,750

$$\text{Working Note 1 : Overhead} = 17400 \times \frac{12000}{36000} = 5,800$$

$$\text{Working Note 2 : Cost per unit} = \frac{95800 - 800}{8000 - 400} = 12.5$$

Process B A/c							
Particulars	Qty.	Rate	Amount	Particulars	Qty.	Rate	Amount
To Process A a/c	5,000	12.5	62500	By Normal loss a/c	400	2.00	800
To Direct wages	–	4.8	24000				
To, Direct Exp.	–	1	5000	By P & L A/c	4,800	4.8	1,04,640
To OH	–	2.32	11600				
To abnormal gain	300	21.8	6,540				
	5,300	–	1,0,9640		5,300	–	1,0,9640

$$\text{Working Note : 1 overhead} 17,400 \times \frac{24,000}{36,000} = 11,600$$

$$\text{Working Note : 2 cost p.u.} = \frac{103,100 - 5,000}{5,000 - 500} = \frac{98,100}{4,500} = 21.8$$

P & L A/c			
Particulars	Amount	Particulars	Amount
To Process A a/c	31,250	By sales	
To Process B a/c	1,04,640	– A 2,500 × 15	37500
To, selling exp.	5,000	– B 4,800 × 25	1,20,000
To, abnormal loss	1,050	By, Abnormal gain	3,540
To, bal c/d	19,100		
	161040		161040

Normal Loss A/c							
Particulars	Qty.	Rate	Amount	Particulars	Qty.	Rate	Amount
To Process A a/c	400	2	800	By Bank			
To Process B a/c	500	10	5,000	– A	400	2	800
				– B	200	10	2,000
				By abnormal gain	330	10	3,000
	900		5800		900		5800

Abnormal Loss A/c							
Particulars	Qty.	Rate	Amount	Particulars	Qty.	Rate	Amount
To Process A a/c	100	12.5	1,250	By Bank	100	2	200
				By costing P & L A/c	–	–	1,050
	100		1250		100		1250

Abnormal Gain A/c							
Particulars	Qty.	Rate	Amount	Particulars	Qty.	Rate	Amount
To Normal loss A a/c	300	10	3,000	By Process a/c	300	21.8	6,540
To P & L A/c	–	–	3,540				
	300		6540		300		6540

6.(b) JCPL Ltd .

(i) Operating Leverage = $\frac{\text{Cont'n}}{\text{Cont'n} - \text{F.C.}}$

$$= \frac{3,90,000}{3,90,000 - 90,000} = 1.30 \text{ t}$$

$$\text{Financial Leverage} = \frac{\text{EBIT}}{\text{EBIT} - \text{I} - \frac{\text{Dp}}{1 - t}} = \frac{3,00,000}{3,00,000 - 40,000 - \frac{50,000}{(1 - .30)}} = 1.59 \text{ t}$$

(ii) Cover for Preference Dividend = $\frac{\text{EAT}}{\text{Dp}} = \frac{1,82,000}{50,000} = 3.64 \text{ t}$

$$\text{Cover for Equity Dividend} = \frac{\text{EAS}}{\text{De}} = \frac{1,32,000}{1,20,000} = 1.10 \text{ t}$$

(iii) Earning Yield = $\frac{\text{EPS}}{\text{MPS}} = \frac{1.65}{20} \times 100 = 8.25\%$

$$\text{Price Earning Ratio} = \frac{\text{MPS}}{\text{EPS}} = \frac{20}{1.65} = 12.12$$

(iv) Net Fund Flow

Net Profit After Tax	1,82,000
Add: Provision for Tax	78,000
Add: Depreciation	90,000
Add: Interest	40,000
Net Fund Flow	<u>3,90,000</u>

- 7(a) . The profit maximisation approach is not an operationally feasible criterion because of the following limitations :
- ❖ It does not consider risk
 - ❖ It does not take care of social responsibilities
 - ❖ It is not suitable for non profit making organisation
 - ❖ It does not consider time value of money

- 7(b).
- (i) Current Ratio, Quick Ratio, Stock Turnover Ratio
 - (ii) Proprietary Ratio, Debt - equity ratio
 - (iii) Earning Per Share, P/E ratio, Return on equity.
 - (iv) Capital Turnover ratio, Return on capital employed

Q.7(c)(i) Deep Discount Bonds

Deep Discount Bonds is a form of zero-interest bonds. These bonds are sold at a discounted value and on maturity face value is paid to the investors. In such bonds, there is no interest payout during lock in period.

IDBI was the first to issue a deep discount bond in India in January, 1992. The bond of a face value of Rs. 1 lakh was sold for Rs. 2,700 with a maturity period of 25 years. The investor could hold the bond for 25 years or seek redemption at the end of every five years with a specified maturity value.

Ans.7(c) (ii) Angle of Incidence

This angle is formed by the intersection of sales line and total cost line at the break-even point. This angle shows the rate at which profits are being earned once the break-even point has been reached. The wider the angle the greater is the rate of earning profits. A large angle of incidence with a high margin of safety indicates extremely favourable position.

Ans.7(d) CVP analysis is based on the following assumptions:

1. Changes in the levels of revenues and costs arise only because of changes in the number of product (or service) units produced and sold – for example, the number of television sets produced and sold by Sony Corporation or the number of packages delivered by Overnight Express. The number of output units is the only revenue driver and the only cost driver. Just as a cost driver is any factor that affects costs, a revenue driver is a variable, such as volume, that causally affects revenues
2. Total costs can be separated into two components; a fixed component that does not vary with output level and a variable component that changes with respect to output level.
Furthermore, variable costs include both direct variable costs and indirect variable costs of a product. Similarly, fixed costs include both direct fixed costs and indirect fixed costs of a product
3. When represented graphically, the behaviours of total revenues and total costs are linear (meaning they can be represented as a straight line) in relation to output level within a relevant range (and time period).
4. Selling price, variable cost per unit, and total fixed costs (within a relevant range and time period) are known and constant.
5. The analysis either covers a single product or assumes that the proportion of different products when multiple products are sold will remain constant as the level of total units sold changes
6. All revenues and costs can be added, subtracted, and compared without taking into account

Ans.7(e) Difference between Bills of Material and Material Requisition Note:

Bills of material	Material Requisition Note
It is the document prepared by the drawing office.	It is prepared by the Foreman of the consuming department.
It is a complete schedule of component parts and raw materials required for a particular job or work order.	It is a document authorizing Store-keeper to issue materials to the consuming department.
It often serves the purpose of a Stores Requisition as it shows the complete schedule of materials required for a particular job i.e. it can replace stores requisition.	It cannot replace a bill of materials.
It can be used for the purpose of quotations.	It is useful in arriving historical cost only.
It helps in keeping a quantitative control on materials drawn through stores Requisition.	It shows the material actually drawn from stores.