

Test Series: October, 2013

MOCK TEST PAPER – 2
INTERMEDIATE (IPC): GROUP – I
PAPER – 3: COST ACCOUNTING AND FINANCIAL MANAGEMENT
PART – I : COST ACCOUNTING

Question No. 1 is compulsory.

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

Working notes should form part of the answer.

Time Allowed – 1 ½ Hours

Maximum Marks – 50

1. Answer the followings:

- (a) A company uses three raw materials A, B and C for a particular product for which the following data apply :–

Raw Material	Usage per unit of product (Kgs)	Re-order Quantity (Kgs)	Price per Kg. (₹)	Delivery period (in weeks)			Re-order level (Kgs)	Minimum level (Kgs)
				Minimum	Average	Maximum		
A	10	10,000	0.10	1	2	3	8,000	?
B	4	5,000	0.30	3	4	5	4,750	?
C	6	10,000	0.15	2	3	4	?	2,000

Weekly production varies from 175 to 225 units, averaging 200 units of the said product.

What would be the following quantities:–

- (i) Minimum Stock of A?
 - (ii) Maximum Stock of B?
 - (iii) Re-order level of C?
 - (iv) Average stock level of A?
- (b) A skilled worker in XYZ Ltd. is paid a guaranteed wage rate of ₹ 30 per hour. The standard time per unit for a particular product is 4 hours. P, a machine-man, has been paid wages under the Rowan Incentive Plan and he had earned an effective

hourly rate of ₹ 37.50 on the manufacture of that particular product.

What could have been his total earnings and effective hourly rate, had he been put on Halsey Incentive Scheme (50%)? (2 x 5 =10 Marks)

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

	Preliminary estimates of expenses			
	Total	(per annum)		
		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. (8 Marks)

3. The standard labour component and the actual labour component engaged in a week for a job are as follows:

	Skilled Workers	Semi-skilled Workers	Un-Skilled Workers
Standard number of workers in the gang	32	12	6
Standard wage rate per hour (₹)	3	2	1
Actual number of workers employed in the gang during the week	28	18	4
Actual wages rate per hour (₹)	4	3	2

During the 40 hours working week the gang produced 1,800 standard labour hours of work.

Calculate:

- Total labour cost variance;
- Labour mix variance ; and
- Rate of wages variance. (8 Marks)

4. 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 2012-13.

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

2,700 units were scrapped after a quality control check when the units were at the following degrees of completion.

	(%)
Direct materials added	66 $\frac{2}{3}$
Direct wages	33 $\frac{1}{3}$
Production overhead	16 $\frac{2}{3}$

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 2012-13 accounts for the: (i) Process account; and (ii) Abnormal gain or loss. (8 Marks)

5. (a) What are the essential pre-requisites of integrated accounting system?
(b) Distinguish between job costing and process costing? (4 x 2 = 8 Marks)
6. Outtek Ltd. produces and sells a single product. Sales budget for calendar year 2012-13 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 2012-13, 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? (8 Marks)
7. (a) Discuss basic assumptions of Cost Volume Profit analysis.
- (b) Write note on cost-plus-contracts. (4 x 2 =8 Marks)

MOCK TEST - 2
INTERMEDIATE (IPC) – Group I
PAPER – 3: 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) Do you agree that cost of capital of a firm is independent of leverage? Discuss.
 - (ii) "The twin aspects viz procurement and effective utilisation of funds are the crucial tasks which the finance manager faces". Discuss briefly. (2 × 2 = 4 Marks)
2. (a) From the books of Alpha Limited, following information is available:

Debtors velocity	3 months
Stock velocity	6 months
Creditors velocity	2 months
Gross profit ratio	20%

Gross profit for the year ended 31st March, 2013 was ₹ 5,00,000. Closing stock for this year was ₹ 20,000 more than what it was at the beginning of the year. Bills Receivable and Bills Payable were ₹ 60,000 and ₹ 36,667 respectively.

You are required to calculate the value of (i) sales; (ii) sundry debtors; (iii) sundry creditors; and (iv) closing stock.

- (b) Beta Limited presently gives terms of net 30 days. It has ₹ 6,00,00,000 in sales and its average collection period is 45 days. To stimulate demand the company plans to change its terms to net 60 days. In case of doing so the sales are expected to go up by 15%. After this change it is expected that the average collection period shall be 75 days, with no difference in the payment habits between the new and old customers. Variable costs are 80 paisa for every ₹ 1 sale and the companies required rate of return on investment in receivables is 20%. Should the company extend its credit period? (Assume a 360 day year). (8 + 8 = 16 Marks)
3. (a) A company has sales of ₹ 1 lakh, the variable costs are 40% of the sales while the fixed operating costs amount to ₹ 30,000/- The amount of interest on long term debt is ₹ 10,000. You are required to calculate the combined leverage and illustrate its

impact if sales increase by 5%.

- (b) The primary financial objective of a company is stated by corporate finance theory to be the maximisation of the wealth of its shareholders, but this objective is usually replaced by the surrogate objective of maximization of the company's share price. Discuss the ways in which this substitution can be justified. (8+6= 14 Marks)

4. (a) The capital structure of Gamma Limited is as follows:

10% Preference shares of ₹ 10 each	₹ 50,00,000
Equity shares of ₹ 100 each	₹ 70,00,000
	₹ 1,20,00,000

Additional information

Profit after tax (50%)	15,00,000
Depreciation	6,00,000
Equity dividend paid	10%
Market price per equity share	200

You are required to compute the following:

- (i) The cover for the preference and equity dividend.
 - (ii) The earnings per share
 - (iii) The price earnings ratio
 - (iv) The net funds flow.
- (b) Presently, the current assets and current liabilities of Delta Limited are ₹ 16 lakh and ₹ 8 lakh respectively. Calculate the effect of each of the following transactions individually and totally on the current ratio of the company.
- (i) Cash purchase of new machinery for ₹ 5 lakh.
 - (ii) Purchase of new machinery for ₹ 10 lakh on a medium-term loan from the bank, with 20 per cent margin.
 - (iii) Payment of dividend of ₹ 2 lakh

Receipt of a shipment of new materials at landed cost of ₹ 5 lakh, against which the bank finance obtained is ₹ 3 lakh. (8+8 =16 Marks)