

CA PCC NOV 2008 - COST ACCOUNTING & FINANCIAL MANAGEMENT

All question are compulsory.

1. Answer any five of the following: (5x2=10M)
- i. The annual carrying cost of material 'X' is Rs. 3.6 per unit and its total carrying cost is Rs.9,000 p.a. What would be the EOQ for material 'X', if there is no safety stock of material X?
 - ii. A machinery was purchased from a manufacturer who claimed that his machine could produce 36.5 tonnes in a year consisting of 365 days. Holidays, breakdown, etc., were normally allowed in the factory for 65 days. Sales were expected to be 25 tonnes during the year and the plant actually produced 25.2 tonnes during the year. You are required to state the following figures:
 - a) rated capacity b) practical capacity c) normal capacity d) actual capacity
 - iii. State the unit of cost for the following industries
 - a) Transport b) Power c) Hotel d) Hospital
 - iv. State the method of costing that would be most suitable for
 - a) Oil refinery b) Bicycle manufacturing c) Interior decoration d) Airlines company
 - v. Differentiate between "scrap" and "defectives" and how they are treated in cost accounting.
 - vi. Explain briefly the concept of 'flexible budget'.
2. As of 31st March, 2008, the following balances existed in a firm's cost ledger, which is maintained separately on double entry basis: (15M)

Particulars	Debit (Rs.)	Credit (Rs.)
Stores Ledger Control A/c	3,00,000	-
Work-in-progress Control A/c	1,50,000	-
Finished Goods Control A/c	2,50,000	-
Manufacturing Overhead Control A/c	-	15,000
Cost Ledger Control A/c	-	6,85,000
	7,00,000	7,00,000

During the next quarter, the following items arose:

Particulars	Rs.
Finished Product (at cost)	2,25,000
Manufacturing overhead incurred	85,000
Raw material purchased	1,25,000
Factory wages	40,000
Indirect labour	20,000
Cost of sales	1,75,000
Materials issued to production	1,35,000
Sales returned (at cost)	9,000
Materials returned to suppliers	13,000
Manufacturing overhead charged to production	85,000

You are required to prepare the Cost Ledger Control A/c, Stores Ledger Control A/c, work-in-progress Control A/c, Finished Stock Ledger Control A/c, Manufacturing Overhead Control A/c, Wages Control A/c, cost of Sales A/c and the Trial Balance at the end of the quarter.

3. a. ABC Ltd. can produce 4,00,000 units of a product per annum at 100% capacity. The variable production costs are Rs.40 per unit and the variable selling expenses are Rs.12 per sold unit. The budgeted fixed production expenses were Rs.24,00,000 per annum and the fixed selling expenses were Rs.16,00,000. During the year ended 31st March, 2008, the company worked at 80% of its capacity. The operating data for the year are as follows: (7M)
- Production 3,20,000 units
 Sales @ Rs.80 per unit 3,10,000 units
 Opening stock of finished goods 40,000 units
- Fixed production expenses are absorbed on the basis of capacity and fixed selling expenses are recovered on the basis of period.
- You are required to prepare Statements of Cost and Profit for the year ending 31st March, 2008:
- i. On the basis of marginal costing
 - ii. On the basis of absorption costing.

- b. Describe briefly, how wages may be calculated under the following systems: **(3M)**
- Gantt task and bonus system
 - Emerson's efficiency system
 - Rowan system
 - Halsey system
 - Barth system.

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4. Answer any three of the following: **(3x3=9M)**

- i. A product passes from Process I and Process II. Materials issued to Process I amounted to Rs.40,000, Labour Rs.30,000 and manufacturing overheads were Rs.27,000. Normal loss was 3% of input as estimated. But 500 more units of output of Process I were lost due to the carelessness of workers. Only 4,350 units of output were transferred to Process II. There were no opening stocks. Input raw material issued to Process I were 5,000 units. You are required to show Process I account.

- ii. PQ Ltd. reports the following cost structure at two capacity levels:

	(100% capacity) 2,000 units	1,500 units
Production overhead I	Rs. 3 per unit	Rs. 4 per unit
Production overhead II	Rs. 2 per unit	Rs. 2 per unit

If the selling price, reduced by direct material and labour is Rs. 8 per unit, what would be its break-even point?

- iii. A contract expected to be completed in year 4, exhibits the following information:

End of Year	Value of work certified Rs.	Cost of work to date Rs.	Cost of Work not yet Certified Rs.	Cash Received Rs.
1	0	50,000	50,000	0
2	3,00,000	2,30,000	10,000	2,75,000
3	8,00,000	6,60,000	20,000	7,50,000

The contract price is Rs.10,00,000 and the estimated profit is 20%.

You are required to calculate, how much profit should have been credited to the Profit and Loss A/c by the end of years 1, 2 and 3.

- iv. UV Ltd. presents the following information for November, 2008:

Budgeted production of product P = 200 units.

Standard consumption of Raw materials =2 kg per unit of P.

Standard price of material A = Rs. 6 per kg.

Actually, 250 units of P were produced and material A was purchased at Rs. 8 per kg and consumed at 1.8 kg per unit of P. Calculate the material cost variances.

5. Answer any five of the following: **(5x2=10M)**

- Write a short note on "Deep Discount Bonds".
- What is meant by 'Venture Capital Financing'?
- Discuss the concept of "Optimal Capital Structure."
- Name the various financial instruments dealt with in the international market.
- How return on capital employed is calculated? What is its significance?
- What is quick ratio? What does it signify?

6. Balance Sheets of a company as on 31st March, 2007 and 2008 were as follows: **(15M)**

Liabilities	31.3.07	31.3.08	Assets	31.3.07	31.3.08
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 Building	7,00,000	6,50,000
General Reserve	1,20,000	1,45,000	Plant & Machinery	6,00,000	6,60,000
Securities Premium	-	25,000	Investments (non-trading)	2,40,000	2,20,000
Profit & Loss A/c	2,10,000	3,00,000	Stock	4,00,000	3,85,000
11% Debentures	5,00,000	3,00,000	Debtors	2,88,000	4,15,000
Creditors	1,85,000	2,15,000	Cash and Bank	88,000	93,000
Provision for tax	80,000	1,05,000	Prepaid Expenses	15,000	11,000
Proposed Dividend	1,36,000	1,44,000	Premium on Redemption of Debentures	-	20,000
	24,31,000	25,34,000		24,31,000	25,34,000

Additional Information:

- a. Investments were sold during the year at a profit of Rs. 15,000.
- b. During the year an old machine costing Rs. 80,000 was sold for Rs. 36,000. Its written down value was Rs. 45,000.
- c. Depreciation charged on Plants and Machinery @ 20 percent on the opening balance.
- d. There was no purchase or sale of Land and Building.
- e. Provision for tax made during the year was Rs. 96,000.
- f. Preference shares were issued for consideration of cash during the year.

You are required to prepare:

- i Cash flow statement as per As-3.
 - ii Schedule of changes in Working capital.
7. a. MN Ltd. 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:

Particulars	Amount per unit (Rs.)	
Raw materials		20
Direct labour		15
Manufacturing overheads:		
Variable	15	
Fixed	10	
Selling and Distribution overheads:		25
Variable	3	
Fixed	1	4
Total cost		64
Profit		16
Selling price		80

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 _____ 1 ½ 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 Rs. 60,000.
- vii. Provision for contingencies is required @ 10% of Working capital requirement including that provision.

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You are required to prepare a projected statement of Working capital requirement for the first year of operations. Debtors are taken at cost. **(9M)**

- b. A company wants to invest in a machinery that would cost Rs. 50,000 at the beginning of year 1. It is estimated that the net cash inflows from operations will be Rs. 18,000 p.a. for 3 years, if the company opts to service a part of the machine at the end of year 1 at Rs. 10,000 and the scrap value at the end of year 3 will be Rs. 12,500. However, if the company decides not to service the part, it will have to be replaced at the end of year 2 at Rs. 15,400. But in this case, the machine will work for the 4th year also and get operational cash inflow of Rs. 18,000 for 4th year. It will have to be scrapped at the end of year 4 at Rs. 9,000. Assuming cost of capital at 10% and ignoring taxes, will you recommend the purchase of this machine based on the net present value of its cash flows?

If the supplier gives a discount of Rs. 5,000 for purchase, what would be your decision? (The present value factors at the end of years 0, 1, 2, 3, 4, 5 and 6 are respectively 1, 0.9091, 0.8264, 0.7513, 0.6830, 0.6209 and 0.5644). **(7M)**

8. Answer any three of the following:

(3 x 3 = 9M)

- i A company offers a Fixed deposit scheme whereby Rs. 10,000 matures to Rs. 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?
- ii A company operates at a production level of 1,000 units. The contribution is Rs. 60 per unit, operating leverage is 6, and combined leverage is 24. If tax rate is 30%, what would be its earnings after tax?
- iii What do you mean by Stock Turnover ratio and Gearing ratio?

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iv Explain the concept of multiple Internal Rate of Return.