

Test Series: August, 2012

MOCK TEST PAPER – 1
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 – 50

1. Answer the following:

- (i) About 35 items are required every day for a machine. A fixed cost of ₹ 135 per order is incurred for placing an order. The inventory carrying cost per item amounts to ₹ 0.06 per day. The lead period is 29 days compute EOQ.

- (ii) Define the terms 'cost centre' and 'cost unit'.

- (iii) Calculate Efficiency and Capacity ratio from the following figures:

Budgeted production	900 units
Actual production	820 units
Standard time per unit	4 hours
Actual hours worked	3400 hours

- (iv) A company has fixed cost of ₹1,30,000, Sales ₹ 4,50,000 and Profit of ₹ 50,000.

Required:

- (i) Sales volume if in the next period, the company suffered a loss of ₹15,000.
(ii) What is the margin of safety for a profit of ₹ 70,000?

- (v) Distinguish between Joint Product and By Product (5 x 2 = 10 Marks)

2. (a) Anuj Ltd. manufactures a single product, X. The following figures relate to X for a one-year period:

Activity Level	50%	100%
Sales and Production (units)	700	1400
	₹ in lakhs	₹ in lakhs
Sales	10.50	21.00
Production Cost:		
Variable	4.20	8.40

Fixed	2.10	2.10
Selling and administration cost:		
Variable	3.50	7.00
Fixed	1.575	1.575

The normal level of activity for the year is 1050 units. Fixed costs are incurred evenly throughout the year, and actual fixed costs are the same as budgeted. There were no stocks of X at the beginning of the year.

In the first quarter, 230 units were produced and 190 units were sold.

Required:

- What would be the fixed production costs absorbed by X, if absorption costing is used?
 - What would be the under/over-recovery of overheads during the period?
 - What would be the profit using absorption costing?
 - What would be the profit using marginal costing? (8 Marks)
- (b) Ducati Ltd. produces product 'GEM' which passes through two processes before it is completed and transferred to finished stock. The following data relate to April 2012.

	Process		Finished stock
Particulars	I	II	
	₹	₹	₹
Opening stock	7,500	9,000	22,500
Direct materials	15,000	15,750	
Direct wages	11,200	11,250	
Factory overheads	10,500	4,500	
Closing stock	3,700	4,500	11,250
Inter-process profit			
Included in opening stock		1,500	8,250

Output of process I is transferred to process II at 25% profit on the transfer price.

Output of process II is transferred to finished stock at 20% profit on the transfer price. Stocks in process are valued at prime cost. Finished stock is valued at the price at which it is received from the process II. Sales during the period are ₹ 1,40,000.

Required: Process cost accounts and finished goods account showing the profit element at each stage. (8 Marks)

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

	₹
Direct materials:	
4 units of P at ₹ 5 per unit	20.00
6 units of Q at ₹ 6 per unit	36.00
20 units of R at ₹ 2 per unit	<u>40.00</u>
	96.00
Direct labour 3 hours @ ₹ 12 per hour	<u>36.00</u>
Total standard prime cost	<u>132.00</u>

The company manufactured and sold 10,000 units of the product during the year.

Direct material costs were as follows:

41,000 units of P at ₹ 5.20 per unit

58,000 units of Q at ₹ 5.80 per unit

2,05,000 units of R at ₹ 2.10 per unit

The company worked 28,500 direct labour hours during the year. For 8,500 of these hours the company paid at ₹ 15 per hour while for the remaining the wages were paid at the standard rate.

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

(8 Marks)

- (b) Marina Ltd. manufactures and sells a single product and has estimated a sales revenue of ₹ 257 lakhs this year based on a 20% profit on selling price. Each unit of the product requires 4 kgs of material P and 2 kgs of material Q for manufacture as well as a processing time of 7 hours in the Machine Shop and 3 hours in the Assembly Section. Overheads are absorbed at a blanket rate of 20% on Direct Labour. The factory works 6 days of 8 hours a week in a normal 52 weeks a year. On an average statutory holidays, leave & absenteeism and idle time amount to 64 hours, 80 hours and 48 hours respectively, in a year.

The other details are as under:

Purchase price	Material P	₹ 10 per kg
	Material Q	₹ 8 per kg

Comprehensive

Labour rate	Machine shop	₹ 3 per hour
	Assembly	₹ 6 per hour

No. of Employees

Machine shop 630

Assembly 260

	Finished Goods	Material P	Material Q
Opening stock	18,000 units	50,000 kgs	32,000 kgs
Closing stock (Estimated)	22,000 units	42,000 kgs	36,000 kgs

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.
4. Surface Transport has a fleet of three trucks of 12 tonnes capacity each plying in different direction for transportation of customers' goods. The trucks run loaded with goods and return empty. The distance travelled, number of trips made and the load carried per day by each truck are as under:

Truck No.	One way distance km.	No. of trips per day	Load carried per trip/day tones
1	36	4	9
2	28	5	12
3	40	3	10

The analysis of maintenance cost and the total distance traveled during the last two years is as under:

Year	Total distance travelled	Maintenance cost ₹
1	1,20,200	58,080
2	1,80,600	82,240

The following are the details of expenses for the year under review:

Diesel: ₹ 38 per litre. Each liter gives 4 km per litre of diesel on an average

Drivers' Salary: ₹ 9,000 p.m.

License and taxes: ₹ 7,000 p.a. per truck

Insurance: ₹ 36,000 p.a. for all the three vehicles.

Purchase price per truck: ₹ 15,00,000. Life 10 years. Scrap value at the end of life is ₹ 1,50,000

Oil and lubricants: ₹ 30 per 100 km run

General overhead: ₹ 1,08,000 p.a.

The vehicles operate 22 days per month on an average.

Required:

- (a) Prepare an annual cost statement covering the fleet of three vehicles.
- (b) Calculate the cost per km. run.
- (c) Determine the freight rate per tonne km. to yield a profit of 15% on freight.

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MOCK TEST PAPER – 1
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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) "The chief financial officer of an organisation plays an important role in the company's goals, policies, and financial success". Elucidate.
- (ii) Lenders and bondholders would be interested in which type of ratio?
- (iii) Bridge finance refers to loans taken by a company normally from commercial banks for a short period because of pending disbursement of loans sanctioned by financial institutions. Comment.
- (iv) "Factoring is a new concept in financing of accounts receivables". Discuss the concept of Factoring.
- (v) Five years ago, Alpha Limited issued 12 per cent irredeemable debentures at ₹ 103, ₹ 3 premium to their par value of ₹ 100. The current market price of these debentures is ₹ 94. If the company pays corporate tax at a rate of 35 per cent what is its current cost of debenture capital? (5 × 2 = 10 Marks)

2. (a) Mayhem Limited is evaluating two projects with an expected life of three years and an investment outlay of ₹ 10,00,000. The estimated net cash flows for each project are as follows:

	Project A	Project B
	₹	₹
Year 1	3,00,000	6,00,000
Year 2	10,00,000	6,00,000
Year 3	4,00,000	6,00,000

The opportunity cost of capital is 10% for both the projects. Determine the net present value (NPV) of the two projects and advise the management.

- (b) Jagriti Limited issues ₹ 2,00,000, 15% debentures of ₹ 100 each. The company is in the 35% tax bracket. You are required to calculate after tax cost of debt if debentures are issued at

- (i) Par,
- (ii) 10% discount and
- (iii) 10% premium.

If brokerage is paid at 2%, what is the cost of debentures if issue is at par?

(8 + 8 = 16 Marks)

3. (a) Seva Electronics Company 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 paise for every ₹ 1 sale and the companies required rate of return on investment in receivables is 20%. Should the Seva Electronics Company extend its credit period? (Assume a 360 day year).

- (b) The capital structure of Sasha Forgings 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 earning ratio, and
- (iv) The net funds flow.

(8 + 7 = 15 Marks)

4. Answer the following:

- (a) Distinguish between Deep Discount Bonds and Zero Coupon Bonds.
- (b) For Anusha Limited the average receivables balance is ₹ 30,00,000 and credit sales are ₹ 4,00,00,000. You are required to compute the receivable collection period.
- (c) Sukanya borrowed ₹ 10,00,000 from a bank on a one-year 16% term loan, with interest compounded quarterly. Determine the effective annual interest on the loan?

(3 × 3 = 9 Marks)