

Test Series: September, 2013

MOCK TEST PAPER – 1
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: (2 x 5 =10 Marks)

- (a) Gold Star Ltd. has two factories for producing cigarettes of identical quality. The figures of F/Y 2012-13 are as follows:

	Factory-A	Factory-B
Selling price per packet (₹)	75	75
Variable cost per packet (₹)	60	65
Fixed cost (₹)	3,10,000	2,15,000
Sales (units)	35,000	40,000
Production capacity (units)	40,000	45,000

Fixed cost includes depreciation on plant and machinery in factory A and factory B ₹40,000 and ₹ 38,000 respectively. You are required to calculate:

- (i) Break-even Point in sales and units for each factory separately.
 - (ii) Cash BEP in units for each factory separately.
 - (iii) BEP in units for company as a whole. Current product mix of factory A and factory B is 1:2.
- (b) A manufacturer of Chennai purchased three Chemicals A, B and C from Visakhapatnam. The invoice gave the following information:

	(₹)
Chemical A : 3,000 Kg @ ₹ 4.20 per Kg	12,600
Chemical B: 5,000 Kg @ ₹ 3.80 per Kg	19,000
Chemical C: 2,000 Kg @ ₹ 4.75 per Kg	9,500
Central Sales Tax	822

Railway Freight	<u>1,000</u>
Total Cost	<u>42,922</u>

A shortage of 200 kg, 280 kg. and 100 kg. was noticed in Chemical A, Chemical B and in Chemical C respectively due to leakage. At Chennai, the manufacturer paid Octroi duty @ ₹ 0.10 per kg. He also paid Cartage ₹ 22 for Chemical A, ₹ 63.12 for Chemical B and ₹ 31.80 for Chemical C. Calculate the stock rate that you would suggest for pricing issue of chemicals assuming a provision of 5% towards further deterioration.

2. (a) Interio Ltd. manufactures quality furniture to customers' order. It has three production departments A, B and C which have overhead absorption rates (per direct labour hour) of ₹12.86, ₹12.40 and ₹14.03 respectively.

Two pieces of furniture are to be manufactured for customer. Direct costs are as follows:

	Job -XYZ	Job- MNO
Direct material (₹)	15,400	10,800
Direct labour		
Dept.-A @ ₹ 76/ hour	20 hours	16 hours
Dept.-B @ ₹ 70/ hour	12 hours	10 hours
Dept.-C @ ₹ 68/ hour	10 hours	14 hours

The firm quotes prices to customers that reflect a required profit of 25% on selling price. Calculate the total cost and selling price of each job.

- (b) What is normal and abnormal wastage? How are they dealt in cost accounts?

(5+3 Marks)

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

Direct Material:	(₹)
2 units of A @ ₹ 4 per unit	8.00
3 units of B @ ₹ 3 per unit	9.00
15 units of C @ ₹ 1 per unit	<u>15.00</u>
	32.00
Direct labour: 3 hrs @ ₹ 8 per hour	<u>24.00</u>
Total standard price 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 A at ₹ 4.40 per unit
18,000 units of B at ₹ 2.80 per unit
88,500 units of C 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 ₹12 per hour while for the remaining; the wages were paid at standard rate. Calculate: (i) Materials Price Variance , (ii) Material Mix Variance, (iii) Labour Rate Variance and (iv) Labour Efficiency Variance

(b) Define the terms 'Cost Centre' and 'Cost Unit'. (6 + 2= 8 Marks)

4. Superb Limited undertook a contract for ₹ 5,00,000 on 1st July 2012. On 30th June 2013, when the accounts were closed, the following details about the contract gathered:

(₹)

Material purchased	1,00,000
Wages paid	45,000
General Expenses	10,000
Plant Purchased	50,000
Materials on hand 30-6-13	25,000
Wages accrued 30-6-13	5,000
Work certified	2,00,000
Cash received	1,50,000
Work uncertified	15,000
Depreciation of plant	5,000

The above contract contained an escalation clause which read as follows:

"In the event of prices of materials and rates of wages increase by more than 5%, the contract price would be increased accordingly by 25% of the rise in the cost of materials and wages beyond 5% in each case."

It was found that since the date of signing the agreement the prices of materials and wages rates increased by 25%. The value of work certified does not take into account the effect of the above clause.

Prepare the contract account. Workings should form part of the answer. (8 Marks)

5. Chrome Ltd. has furnished you the following information from the financial books for the year ended 31st December, 2012:

Profit & Loss Account

For the year ended 31st December, 2012

	(₹)		(₹)
Opening stock of finished goods:		Sales 10,250 units	3,58,750

500 units @ ₹ 17.50 each	8,750	Closing stock of finished goods:	
Materials consumed	1,30,000	250 units @ ₹ 25 each	6,250
Wages	75,000		
Gross Profit c/d	<u>1,51,250</u>		
	<u>3,65,000</u>		<u>3,65,000</u>
Factory overheads	47,375	Gross Profit c/d	1,51,250
Administration overheads	53,000	Interest	125
Selling expenses	27,500	Rent received	5,000
Bad Debts	2,000		
Preliminary expenses	2,500		
Net Profit	<u>24,000</u>		
	<u>1,56,375</u>		<u>1,56,375</u>

The Cost Sheet shows: (i) the Cost of Materials as ₹ 13 per unit; (ii) the Labour Cost as ₹ 7.50 per unit; (iii) the Factory Overheads are absorbed at 60% of Labour Cost; (iv) the Administration Overheads are absorbed at 20% of Factory Cost; (v) Selling Expenses are charged at ₹ 3 per unit; (vi) the Opening Stock of Finished Goods is valued at ₹ 22.50 per unit.

You are required to :

- (i) Calculate Cost of Production, by elements of costs, per unit and in total.
 - (ii) The statement of profit or loss as per Cost Accounts for the year ended 31st December, 2012.
 - (iii) The Statement showing the Reconciliation of Profit or Loss as shown by the Cost Accounts with the profit as shown by the Financial Accounts. (8 Marks)
6. (a) Distinguish between Job costing and Batch costing.
- (b) Write short notes on Scope of Cost Reduction (4 x 2 = 8 Marks)
7. Akruti Health Center consists of 20 beds. Health centre remains open for 300 days in a year. For the year ended 31st March 2013, the health centre was occupied at full capacity for 200 days and at 80% of the capacity for the remaining days.

Below are the details of the expenditure:

Rent for the premises	₹ 15,000/- per month
Repair & Maintenance	₹ 10,000/-
Food supplied to patients	₹ 72/- per patient per day
Laundry charges	₹ 30/- per patient per day

- | | |
|----------------------------|----------------------------|
| Medicines | ₹ 60/- per patient per day |
| Administrative expenses | ₹ 72,000/- |
| Salary to two supervisor s | ₹ 2000 p.m for each. |
| Salary to four nurses | ₹ 1,500 p.m. for each |
| Salary to two ward boys | ₹ 1,200 p.m for each |
- Expert doctors were called from the outside to visit the patients. Expert doctors were paid ₹ 250 for each patient visited by them.
- From the above information calculate:
- Fee that Health centre should have been charged to per patient per day to earn a profit of 75% on fees charged.
 - Number of patient- day to arrive at Break-even. (8 Marks)

Test Series: September, 2013

MOCK TEST - I
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) "In a period of no inflation, the time value of money is zero". Critically examine this statement.
 - (ii) "The finance manager has an operating responsibility for the management of investment in receivables". In the context of this statement, state three aspects of management of sundry debtors.
 - (iii) "An investment decision implies the choice of an objective, an appraisal technique and the project's life." What factors may be considered for determining the life of the project? (3 × 2 = 6 Marks)
2. (a) Alpha Limited is considering offering a discount for payment within 10 days to its customers, who currently take 45 days for payment. It is expected that only 40% of the customers shall avail of this discount; however the company shall have administrative savings of ₹ 4450 per year due to this policy. If sales, which are unaffected by the discount, are ₹ 16,00,000 per year and the cost of short term finance is 11 per cent, what is the maximum discount that could be offered?
- (b) Beta Limited's financial statements contain the following information:

	Previous year	Current year
Cash	₹ 2,00,000	₹ 1,60,000
Sundry debtors	3,20,000	4,00,000
Temporary investments	2,00,000	3,20,000
Stock	18,40,000	21,60,000
Pre-paid expenses	<u>28,000</u>	<u>12, 000</u>
Total current assets	<u>25,88,000</u>	<u>30,52,000</u>
Total assets	<u>56,00,000</u>	<u>64,00,000</u>
Current liabilities	6,40,000	8,00,000

10% Debentures	16,00,000	16,00,000
Equity share capital	20,00,000	20,00,000
Retained earnings	4,68,000	9,04,000
<i>Statement of profit for the current year</i>		
Sales		₹ 40,00,000
Less : Cost of Goods Sold		28,00,000
Interest		<u>1,60,000</u>
Net profit		10,40,000
Less : Taxes (0.35)		<u>3,64,000</u>
Profit after taxes		<u>6,76,000</u>
Dividends declared on equity shares		2,20,000

From the above, appraise the financial position of Beta Limited from the point of view of :

- (i) Liquidity,
- (ii) Solvency
- (iii) Profitability, and
- (iv) Activity ratios.

(6 + 14 = 20 Marks)

3. (a) (1) Gamma Limited issues ₹ 2,00,000 15% debentures of ₹ 100 each. It 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.
- (2) If brokerage is paid at 2%, what is the cost of debentures if issue is at par?
- (b) Theta Limited is expecting an annual earnings of ₹ 3 Lakhs before paying any interest and taxes. The company has ₹ 10 lakhs of 10% debentures in its capital structure. The capitalisation rate is 12.5%. You are required to calculate the value of Theta Limited as per the NI approach. Also, compute the overall cost of capital.

(8 + 5 = 13 Marks)

4. Answer the following:

- (a) Distinguish between Investment, Financing and Dividend decisions in the context of the various roles and responsibilities of the Finance manager.
- (b) From the following information of Zeta Limited, you are required to calculate:

<i>Description</i>	<i>₹</i>
Raw material inventory consumed during the year	6,00,000
Average stock of raw material	50,000

Work in progress inventory	5,00,000
Average work in progress inventory	30,000
Finished goods inventory	8,00,000
Average finished goods stock held	40,000
Average collection period from debtors	45 days
Average credit period availed	30 days
No of days in a year	360 days

- (i) Net operating cycle period
- (ii) Number of operating cycles in a year
- (c) An investor deposits ₹ 100 in a bank account for 5 years at 8 per cent interest. Find out the amount which he will have in his account if interest is compounded (a) annually (b) semi-annually (6-monthly), (c) quarterly and (d) continuously.

(3 + 4 + 4 = 11 Marks)