SUGGESTED ANSWER FOR MAY 2014
COST ACCOUNTING AND FINANCIAL MANAGEMENT

K RAMANAN ACA

1) a

Year	Sale	Profit	Contribution(PV Ratio*sales)	Fixed Cost
2012-13	2500000	250000	450000	200000
2013-14	2000000	160000	360000	200000
Difference	**500000**	**90000**		

PV Ratio = Change in Profit/Change in Sale

PV Ratio = 90000/500000 *100 = 18%

i) Fixed Cost = Contribution – Profit = 450000-250000 = 200000
Fixed Cost = 2,00,000

ii) Break Event Point = Fixed Cost/PV Ratio = 200000/18%
11,11,111.11

iii) Profit when sales is Rs.30,00,000

Contribution (Sales *PV Ratio) = 3000000*18%
= 5,40,0000
Profit = Contribution – Fixed Cost
5,40,000-2,00,000
3,40,000

iv) Sales When Profit is Rs.4,75,000

Sales = (Fixed Cost + Profit)/PV Ratio
=(200000+475000)/18%
= **37,50,000/-**

V) Margin of Safety(MOS) When profit is Rs.270000/-

Sales = (Fixed Cost + Profit)/PV Ratio
=(200000+270000)/18%
= 26,11,111.11/-

MOS = Sales – BEP Sales
= 26,11,111.11-11,11,111.11
= **15,00,000/-**

1) b Memorandum Reconciliation Statement

Loss as per Cost Records	**(48,700.00)**
Less:	
Factory Overhead under absorbed	30,500.00
Income tax not considered in Cost Records	52,400.00
obsolescence not considered in cost Records	20,700.00
over valuation of closing Stock	9,500.00
	(161,800.00)
Additions	
Admin over head over absorbed	65,000.00
Depreciation over charged in cost record	45,000.00
Transfer fee not considered in cost	10,200.00
Notional not charged in	
financial accounts	54,000.00
over valuation of opening stock	23,000.00
Profit as per financial records	**35,400.00**

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1) c

Trading Profit and Loss Account			
Opening Stock	337500	Sales(625000/.20)	3125000
Purchases	2606250	Closing stock	600000
Gross Profit (3125000*.25)	781250		
	3725000		3725000
		Gross Profit	781250
Administrative and Selling Exps (Bal Figure)	156250		
Net Profit (2500000*1/4)	625000		
	781250		781250

Cost of Goods Sold (COGS) = Sales – Gross Profit

Stock Turnover Ratio = COGS/Average Stock

Stock Turnover Ratio = 5

Average Stock = 468750

Average Stock = (Opening Stock + Closing Stock)/2

468750 = (Opening Stock + 600000)/2

Opening Stock = 937500 – 600000

Opening Stock = 337500

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1) d

Particulars	Capital Structure	Proportion	Cost of capital after tax	WACC
Equity Capital	6,500,000.00	61.90	16.30%	10.09%
12% Preference Capital	1,200,000.00	11.43	12.00%	1.37%
15% Redeemble Debentures	2,000,000.00	19.05	10.50%	2.00%
10% Convertible Debentures	800,000.00	7.62	7.00%	0.53%
	10,500,000.00			**14.00%**

Weighted Average Cost of Capital (WACC) = 14.00%

2) a

Annual Requirement (A) = 1000000/2.5 = 40000 Kgs
Cost of Placing an Order (B) = 370+380 = 750
Carrying Cost © = (.25*12)+12 = 15

EOQ = Square Root of (2AB/C)
2AB/C = 2*40000*750/15
4000000

i) EOQ = Square Root (2AB/C)= (4000000)^1/2 = 2000 Kgs
ii) Frequency Order = Annual Requirement/ EOQ
40000/2000
20 Times
In months = 12/20 = .60 Months
In Days = 360/20 = 18 Days (Approx)

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iii) Quantum/Percentage of Discount if Purchases made on Quarterly Basis

At EOQ Total Cost is

= Purchase Cost + Buying Cost + Carrying Cost
= (40000*80)+(750*20)*(2000*15*1/2)
= 3200000+15000+15000
= 3230000

Total Cost for Quarterly Purchases

= Purchase Cost + Buying Cost + Carrying Cost
= (40000*80)+(750*4)*(10000*15*1/2)
= 3200000+3000+75000
= 3278000

Quantum of Discount when quarterly purchases is adopted

Since we know total cost as per EOQ Purchases is less as compared to Purchases based on Quarterly basis. If you want to purchase should be made on quarterly basis, then total cost should on quarterly purchases should be equal to EOQ Purchases.

Quantum of Total Discount = Total Cost as per Quarterly Purchases – EOQ Purchses
= 3278000 – 3230000
= 48000

Discount per unit = 48000/40000 Kg
= 1.2 Per Kg

% of Discount = 1.2/80*100
= 1.5%

2) b

Particulars	Working	Amounts
		IN CRORES
Sales	Turnover(T/O)/Total Assets = 2.5 = (T/O)/20 =(20*2.5)	50.00
Less: Variable Cost	.65*sales	32.50
Contribution		**17.50**
Fixed Cost		4.00
EBIT		**13.50**
Less: Interest	10*.15	1.50
EBT		**12.00**
Less: Tax		3.60
Net Profit		**8.40**
No of Shares		0.50
EPS (Earnings per share)		**16.80**

Operating Levearge = Contribution/Earnings Before interest and Tax (EBIT)
= 17.5/13.5
= 1.2963

Finance Levearge = EBIT/Earnings before Tax(EBT)
=13.5/12
= 1.125

Combined Leveage =Contribution/EBIT*EBIT/EBT = Contribution/EBT
= Operating Levearge * Finance Levearge
= 1.2963*1.125
= 1.4583

Disclaimer

3)a

Process A

Particulars	qty	Rs.	Particulars	Qty	Rs.
Raw Material	40000	360000	BY Process B	37000*.80*27	799200
Material Consumed		242000	By normal Loss	2000*15	30000
Direct Wages		258000	By Abnormal Loss	1000	27000
Manufacturing Exps		196000	By Cost of Sale	37000*.20*27	199800
		1056000			**1056000**

Normal Loss = Input Quantity * Normal Loss %
= 40000*5/100 = 2000 units
Standard Output = Input Quantity – Normal Loss
= 40000-2000
= 38000
Actual Output = 37000
Abnormal Loss = Actual Output – Standard Output
= 37000-38000
= 1000

Total Cost = 1056000 – (Normal Loss unit * Scrap Value)
= 1056000-(2000*15)
=1026000

Cost Per unit = Total Cost/Standard Output
= 1026000/38000
= Rs.27/- Per unit

Process B

Particulars	**qty**	**Rs.**	**Particulars**	**Qty**	**Rs.**
From Process A	29600	799200			
Material Consumed		225000	By normal Loss	2960*20	59200
Direct Wages		190000			
Manufacturing Exps		123720	By cost of Sale	27000*48	1296000
Abnorma Gain	360*48	17280			
		1355200			**1355200**

Normal Loss = Input Quantity * Normal Loss %
= 29600*10/100 = 2960 units

Standard Output = Input Quantity – Normal Loss
= 29600-2960
= 26640

Actual Output = 27000

Abnormal Gain = Actual Output – Standard Output
= 27000-26640
= 360

Total Cost = 1337920 – (Normal Loss unit * Scrap Value)
= 1337920-(2960*20)
= 1278720

Cost Per unit = Total Cost/Standard Output
= 1278720/26640
= Rs.48/- Per unit

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Profit and Loss Account

Sale value of Process A	37*37000*.20	273800
Sale value of Process B	27000*61	1647000
		1920800
Less: Cost of output		
Process A	27*37000*.20	199800
Process B	27000*48	1296000
		425000
loss on Abnormal loss	(27-15)*1000	12000
		413000
Add: Abonral Gain profit	360*(48-20)	10080
		423080
Less: Expenses		448080
Loss		**-25000**

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3) b

Current Status – Commission from Outsourcing per annum (net of Tax)
= 15000*12
= 180000

Expected revenue per annum		7,90,000.00
Less: Operating Cost		2,25,000.00
		5,65,000.00
Less: Depreciation	(1500000-300000)/5	2,40,000.00
		3,25,000.00
Less: Tax		97,500.00
		2,27,500.00
Less: Opportunity cost - commission on outsourcing		1,80,000.00
		47500
Add: Depreciation		240000
Cash Flows Per annum		2,87,500.00

Annuity Factor = 3.605

Particulars	Cash Flows	Annuity Factor/Discount Factor	Present value of Cash flows
	(A)	(B)	= A*B
Annual Inflow	287500	3.605	1036437.50
Salvage Value of CT Scan	300000	.567	170100.00
			1206537.50
Cost of CT Scan	1500000	1	1500000.00
Net Present Value			(293462.50)

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Profitability Index = PV of Cash Inflow/PV of Cash Outflow =
= 1206537.50/1500000
= .8044

Decision - Not to Purchase CT Scan

4) a

Particulars	Ref	Standard	Actual
Production		4000	3800
No. of Days		20	21
Fixed Overhead		40000	39000
Variable Overhead		12000	12000
Std Rate per Quantity		3	
Absorbed Variable Overhead	Actual Qty * Std Rate	11400 (3800*3)	
Std Rate per Quantity		10	
Absorbed Fixed Overhead	Actual Qty * Std Rate	38000 (3800*10)	
Budgeted Fixed Overhead (BFOH)		40000	

Variable Overhead Cost Variance = Absorbed Variable Overhead – Actual Variable Cost
= (Actual Output*Std Rate) – 12000
= 11400-12000
= 600 (Adverse)

Fixed Overhead Cost Variance = Absorbed Fixed Overhead – Actual Fixed Cost
= (Actual Output*Std Rate) – 12000
= 38000-39000
= 1000 (Adverse)

FOH Expenditure Variance = BFOH – Actual Fixed Overhead = 40000-39000
= 1000 (Favorable)

FOH Volume Variance = Absorbed FOH – BFOH = 38000-40000
= 2000 (Adverse)

4) b **Cash Flow Statement (Indirect Method)**

Net Profit as transfer to Balance Sheet (240000-150000)	90,000.00	
Add:		
Transfer to General Reserve	1,50,000.00	
Proposed Dividend	2,50,000.00	
Depreciation	1,50,000.00	
Amortisation - Goodwill	1,25,000.00	
Tax Provision	2,25,000.00	
Interim Dividend	1,00,000.00	
Profit before Working Capital Changes	**10,90,000.00**	
Changes in Working Capital		
Increase in Creditors	1,40,000.00	
Decrease in Outstanding Expenses	(20,000.00)	
Increase in Debtors	(4,60,000.00)	
Decrease in Stock	50,000.00	
	8,00,000.00	
Less: Tax Paid	1,75,000.00	
Cash Flow From Operating Activities		**6,25,000.00**
Cash flow From Investing Activities		
Sale of Land	50,000.00	
Purchase of Plant & Machinery	(6,50,000.00)	
Cash flow From Investing Activities		(600000.00)

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Cash flow From Financing Activities		
Issue of Share Capital - Equity Shares	5,00,000.00	
Redemption of Preference Shares	(2,50,000.00)	
Payment of Proposed Dividend	(2,10,000.00)	
Payment of Interim Dividend	(1,00,000.00)	
Cash flow From Financing Activities		(60,000.00)
		(35,000.00)
Opening Cash and Cash Equivalents		1,25,000.00
Closing cash and Cash equivalents		90,000.00
Opening Cash and Cash Equivalents		1,25,000.00
Closing cash and Cash equivalents		90,000.00
Decrease in Working capital		**35,000.00**

Provision For Tax

Tax Paid	175000	Opening Balance	200000
To Balance c/d	250000	By P & L	225000
	425000		**425000**

Plant and Machinery

Opening Balance	400000	Depreciation	50000
To Cash/Bank	650000	By Balance C/d	1000000
	1050000		**1050000**

Land and Buildings

Opening Balance	1000000	Depreciation	100000
		By Cash/Bank	50000
		By Balance C/d	850000
	1000000		**1000000**

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Note:

a)Marketable Securities:

Since Clear Information is not available about Marketable Securities, it is assumed that Marketable securities satisfies the criteria for Cash Equivalents as per AS 3. Hence Marketable Securities considered as Cash Equivalents.

Student may take alternate View also.

b) Proposed Dividend

It is assumed that Proposed Dividend includes Preference Dividend. Hence Preference dividend not considered Separately for Cash Flow Statement.

6)a Contract Account

Particulars	**Rs.**	**Rs.**	**Particulars**	**Rs.**	**Rs.**
		(in '000)			**(in '000)**
Material Issued		7,700.00	Material at Site		110.00
Direct wages	3,300.00		Material return to store		175.00
Add: Outstanding	100.00		Plant at Site		
		3,400.00	800000-800000*.15*4/12		760.00
Site Office Cost	550.00		By P & L		130.00
Less: Prepaid	50.00				
		500.00	By		
To Plant Purchased		800.00	Work Certified (WC)	12,650.00	

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			Work uncertified (UWC)	225.00	
To Notional Profit (NP)		1,650.00			12,875.00
Total		**14,050.00**	Total		**14,050.00**
To P& L					
NP*2/3*WC/CR		880.00	By Notional Profit		1,650.00
To Reserve for WIP		770.00			
Total		**1,650.00**	Total		**1,650.00**

Contractee Account

To Balance C/d		10,120.00	By Bank		10,120.00
		10,120.00			**10,120.00**

Balance Sheet

Particulars	Rs.	Rs.	Particulars	Rs.	Rs.
		(in '000)			(in '000)
			Plant At Sit		760.00
			Material at Sit		110.00
Outstanding Wages		100.00	Material at store		
			Prepaid exps		50.00

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			WIP		
			Work Certified	12,650.00	
			Work uncertified	225.00	
				12,875.00	
			Less: Profit reserve	770.00	
				12,105.00	
			Less: Contractee	10,120.00	
					1,985.00

Percentage of Work Completed
Work Certified = 12650
Total Contract = 17100
% of completion = 73.98

6)b
Estimated Working Capital

Raw Material		
(104000*98*3/52)		5,88,000.00
Work in Progress		
Raw Material		
(104000*98*2/52*.75)		
Labour		
104000*53*2/52*.70		6,46,800.00
Factory OH		
104000*(88-15)*2/52*.70		
Finished Goods		
104000*4/52*(239-15)		17,92,000.00
Sundry Debtors		
104000*(282-43-15)*.75*2.5/52		8,40,000.00
Cash and Bank		2,25,000.00

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		40,91,800.00
Less: Current liabilities		
Labour		
(104000*53*2/52)		2,12,000.00
Factory OH		
104000*(88-15)*1.5/52		2,19,000.00
Sundry Creditors		
104000*98*3.5/52		6,86,000.00
WC Before Provision		29,74,800.00
Add: 4% Provision for Contingencies		1,23,950.00
Working Capital		**30,98,750.00**

Let Assume Working Capital Before Provision for Contingencies is A
Let Assume provision for Contingencies is P
P = .04 * Required Working Capital (RWC)
A+P = RWC = A+.04RWC = RWC
2974800 + .04 RWC = RWC
.96 RWC = 2974800
RWC = 30,98,750
Provision for Contingencies = .04*30,98,750 = 1,23,950
Provision for Contingencies = 123950

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