Paper 10- Cost & Management Accounting And Financial Management

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Full Marks :100 **Time allowed: 3 hours**

Answer Question No. 1 which is compulsory Carries 25 Marks

1. (a) Match the statement in Column I with the most appropriate statement in Column II : **[1×4 =4]**

Column I	Column II
1. Budget is prepared for a…	**A.** Contribution / Sales X 100
2. P/V ratio	**B.** Capital Structure
3. Function of Management	**C.** Definite period
4. Net Income Approach	**D.** Planning, Organising, Controlling and Decision making

(b) Choose the correct answer from the given four alternatives. **[1 x3=3]**

(i) This function works like a policeman to ensure the performance of the employees:
- **A.** Controlling
- **B.** Planning
- **C.** Organizing
- **D.** None of these

(ii) Revision of budgets is
- **A.** Unnecessary
- **B.** Can't determine
- **C.** Necessary
- **D.** Inadequate data

(iii) Planning and control are done by
- **A.** top management
- **B.** lowest level of management
- **C.** all levels of management
- **D.** None of the above

(c) Fill in the blanks. **[1×4 =4]**

(i) The success of budgetary control system depends upon the willing cooperation of--------

(ii) Management accounting a ------------ tools to management.

(iii) In Financial Management EPS stands for …………………..

(iv) Net Working Capital is the difference between ………………….

(d) State whether the following statements are True or False **[1x4=4]**

(i) Cost Accounting is defined as technique and process of ascertaining costs.

(ii) Marginal cost is the Prime cost plus Variable Overheads.

(iii) Cost of abnormal idle time is charged to the Product Labour Cost.

(iv) Liquid Assets do not include Inventory.

(e) Answer the following questions. **[2x5=10]**

(i) The monthly cost of maintenance of machinery for 11,000 machine hours run is ₹ 1,70,000 and for 18,500 hours it is ₹ 2,02,500. What is the cost of maintenance for 14,000 hours?

(ii) A company's fixed cost amount to ₹ 110 lakhs p.a. and its overall P/V ratio is 0.4. What is the annual sales of the company to have a Margin of Safety of 25%?

(iii) A firm has sales of ₹ 40 lakhs; variable cost of ₹ 25 lakhs; fixed cost of ₹ 6 lakhs; Calculate operating Leverage.

(iv) X Ltd Sales during the year 2014-15 is ₹ 12,00,000; Opening Stock for 2014-15 ₹ 3,00,000 and Closing stock for 2014-15 ₹ 1,80,000. Calculate the Inventory turnover ratio.

(v) Average collection period of a company is 2 months, Cash sales and average receivables are ₹ 5,00,000 and ₹ 6,50,000 respectively. Find the amount of total sales.

Section A

I. Answer any one Question from Q. No 2 and 3. Each Question carries 15 Marks

2.(a) VINAK Ltd. operating at 75% level of activity produces and sells two products A and B. The cost sheets of these two products are as under:-

	Product A	Product B
Units produced and sold	600	400
Direct materials (₹)	2.00	4.00
Direct labour (₹)	4.00	4.00
Factory overheads (40% fixed) (₹)	5.00	3.00
Selling and administration overheads (60% fixed) (₹)	8.00	5.00
Total cost (₹)	19.00	16.00
Selling price per unit (₹)	23.00	19.00

Factory overheads are absorbed on the basis of machine hour which is the limiting factor. The machine hour rate is ₹2 per hour. The company receives an offer from Canada for the purchase of Product A at a price of ₹17.50 per unit. Alternatively the company has another offer from the Middle East for the purchase of Product B at a price of ₹15.50 p.u. In both cases, a special packing charge of fifty paise per unit has to be borne by the company. The company can accept either of the two export orders and in the either case the company can supply such quantities as may be possible to produce by utilising the balance of 25% of its capacity.

You are required to prepare:

(i) A statement showing the economics of the two export proposals giving your recommendation as to which the proposal should be accepted, and

(ii) A statement showing the overall profitability of the company after incorporating the export proposal recommended by you. **[5+5]**

(b) What is the relation between Management Accounting and Cost Accounting? **[5]**

3.(a) The profit for the year of Push On Ltd. works out to 12.5% of the capital employed and the relevant figures are as under:

	₹
Sales	5,00,000
direct Materials	2,50,000
direct Labour	1,00,000
Variable overheads	40,000
Capital employed	4,00,000

The new sales manager who has joined the company recently estimates for the next year a profit of about 23% on capital employed, provided the volume of sales is increased by 10% and simultaneously there is an increase in selling price of 4% and an overall cost reduction in all the elements of cost by 2%.

Find out by computing in detail the cost and profit for next year, whether the proposal of sales manager can be adopted. **[10]**

(b) Difference between Standard Costing and Budgetary Control. **[5]**

II. Answer any two Questions from Q. No 4, 5 and 6. Each Question carries 10 Marks

4.(a) Write the advantages of Uniform Costing. **[5]**

(b) State the factors affecting Learning Curve. **[5]**

5. Budgeted and actual sales for the month of December, 2012 of two products A and B of M/s. XY Ltd. were as follows:

Product	Budgeted Units	Sales Price/Unit (₹)	Actual Units	Sales Price / Unit (₹)
A	6,000	₹5	5,000	5.00
			1,500	4.75
B	10,000	₹2	7,500	2.00
			1,750	8.50

Budgeted costs for Products A and B were ₹4.00 and ₹1.50 unit respectively. Work out from the above data the following variances.

Sales Volume Variance, Sales Value Variance, Sales Price Variance, Sales Sub Volume Variance, Sales Mix Variance. **[10]**

6. The following is the statement of a Radical Co. for the month of June.

	Products		Total
	L (₹)	M (₹)	(₹)
Sales	60,000	60,000	1,20,000
Variable costs	42,000	30,000	72,000
Contribution	18,000	30,000	48,000
Fixed cost			36,000
Net Income			12,000

You are required to compute the P/V ratio for each product and then compute the P/V Ratio, Breakeven Point and net profit for the following assumption.

(i) Sales revenue divided 60% to Product L & 40% to Product M.

(ii) Sales revenue divided 40% to Product L & 60% to Product M. Also calculate the profit estimated on sales upto ₹1,80,000/- p.m. for each of the sales mix provided above.

Section B

Answer any two Questions from Q. No 7, 8 and 9. Each Question carries 20 Marks

7.(a) A Company provided the following data:

	Cost per unit (₹)
Raw materials	52.00
Direct labour	19.50
Overheads	39.00
Total Cost	110.50
Profit	19.50
Selling Price	130.00

The following additional information is available:

(i) Average raw materials in stock: one month.
(ii) Average materials in process: half-a-month
(iii) Average finished goods in stock: one month
(iv) Credit allowed by suppliers: one month
(v) Credit allowed to debtors: two months.
(vi) Time lag in payment of wages: one and a half weeks.
(vii) Overheads: one month
(viii) One-fourth of sales are on cash basis.
(ix) Cash balance is expected to be ₹ 1,20,000.

You are required to prepare a statement showing the Working Capital needed to finance a level of activity of 70,000 units of annual output. The production is carried throughout the year on even basis and wages and overheads accrue similarly.
(Calculation be made on the basis of 30 days a month and 52 weeks a year). **[10]**

(b) From the following Balance Sheet of PKJ Ltd., Prepare Funds Flow Statement for 2016.

₹ 000

Liabilities	31-3-15	31-3-16	Assets	31-3-15	31-3-16
Equity Share Capital	150	200	Goodwill	50	40
9% Redeemable Preference Share capital	75	50	Land & Buildings	100	85
Capital Reserve	—	10	Plant & Machinery	40	100
General Reserve	20	25	Investments	10	15
Profit & Loss Account	15	24	Sundry Debtors	70	85
Proposed Dividend	21	25	Stock	39	55
Sundry Creditors	13	24	Bills Receivable	10	15
Bills Payable	10	8	Cash in hand	7	5
Liability for Expenses	15	18	Cash at bank	5	4
Provision for tax	20	25	Preliminary Exp.	8	5
	339	**409**		**339**	**409**

Additional information:

(i) A part of land was sold out in 2016, and the profit was credited to Capital Reserve.

(ii) A machine has been sold for ₹5,000 (written down value of the machinery was ₹6,000). Depreciation of ₹5,000 was charged on plant in 2016.
(iii) An interim dividend of ₹10,000 has been paid in 2016.
(iv) An Amount of ₹1,000 has been received as dividend on investment in 2016.

[10]

8.(a) A chemical company is considering replacing an existing machine with one costing ₹65,000. The existing machine was originally purchased two years ago for ₹28,000 and is being depreciated by the straight line method over its seven-year life period. It can currently be sold for ₹30,000 with no removal costs. The new machine would cost ₹10,000 to install and would be depreciate over five years. The management believes that the new machine would have a salvage value of ₹5,000 at the end of year 5. The management also estimates an increase in net working capital requirement of ₹10,000 as a result of expanded operations with the new machine. The firm is taxed at a rate of 55% on normal income and 30% on capital gains. The company's expected after-tax profits for next 5 years with existing machine and with new machine are given as follows:

Year	Expected after-tax profits	
	With existing machine (₹)	**With new machine (₹)**
1	2,00,000	2,16,000
2	1,50,000	1,50,000
3	1,80,000	2,00,000
4	2,10,000	2,40,000
5	2,20,000	2,30,000

(i) Calculate the net investment required by the new machine.
(ii) If the company's cost of capital is 15%, determine whether the new machine should be purchased. **[4+6]**

(b) Explain the scope of Financial Management. **[6]**

(c) Write a note on Capital Asset Pricing Model. **[4]**

9.(a) In considering the most desirable capital structure of a company, the following estimates of the cost of debt and equity capital (after tax) have been made at various levels of debt equity mix:

Debt as percentage of total capital employed	Cost of debt %	Cost of equity %
0	5.0	12.0
10	5.0	12.0
20	5.0	12.5
30	5.5	13.0
40	6.0	14.0
50	6.5	16.0
60	7.0	20.0

You are required to determine the optimal debt-equity mix for the company by calculating composite cost of capital. **[5]**

(b) PKJ Limited has made plans for the next year 2015-16. It is estimated that the company will employ total assets of ₹ 25,00,000; 30% of assets being financed by debt at an interest cost of 9% p.a. The direct costs for the year are estimated at ₹ 15,00,000 and all other operating expenses are estimated at ₹ 2,40,000. The sales revenue are estimated at ₹ 22,50,000. Tax rate is assumed to be 40%.

Required to calculate:

(i) Net profit margin
(ii) Return on Assets
(iii) Asset turnover
(iv) Return on equity **[10]**

(c) State the assumption of MM Approach. **[5]**