Paper 8- Cost Accounting & Financial Management

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

Sec-A: Answer Question No. 1 which is compulsory Carries 25 Marks

1. Answer the following questions

(A) Each Question carries 2 Marks **[5 ×2 = 10]**

(i) Company A Ltd. consumes maximum 100 Units Per day. Maximum lead time is 30 Days then what is the reorder level?
(ii) X Ltd has 240 employees at the beginning of the year and 310 employees at the year end. No of employees replaced during the year 25. What is the Labour turnover under Replacement method?
(iii) The overheads of a Company at 10,000 units is ₹1,00,000 and Overheads rate the 20,000 units is ₹1,50,000. What is the variable overhead Per Unit?
(iv) A Company's EBIT is ₹1,00,000. Company has no Debt outstanding and Equity is ₹10,00,000 (100000 shares of ₹10 each). Tax Rate is 30%. Compute the EPS?
(v) Current Liabilities of a company is ₹60,000, Current Ratio is 2.5 and Liquid Ratio is 1.5 then what is the Inventory value?

(B) State whether the following statements are True or False **[5 ×1 = 5]**

(i) Cost Control and Cost Reductions are one and the same.
(ii) At EOQ Ordering Cost and Carrying Cost are at Minimum and also equal.
(iii) Cost of Concealed Idle Time is charged to Jobs.
(iv) Preliminary expenses in the Balance Sheet is included under Fixed Assets.
(v) At Internal Rate of Return the Profitability Index will be Zero.

(C) Fill in the Blanks **[5 × 1 = 5]**

(i) Prime Cost is the aggregate of ………………..
(ii) Store Ledger is maintained by …………………department.
(iii) Distribution of all times of Overheads to Product or Departments is known as ………….
(iv) In Financial Management EPS stands for …………………..
(v) NPV is the difference between ………………….

(D) Match the Following **[5 × 1 = 5]**

(i) Sunk Cost	(A) Maximum Permissible Bank Finance
(ii) VED Analysis	(B) Capital Structure
(iii) MM Approach	(C) Not Relevant for Decision Making
(iv) Tandon Committee	(D) Labour Incentive Method
(V) F.W.Taylor	(E) Inventory Control Technique

Sec-B

Answer any three Question from Q. No 2,3,4 and 5. Each Question carries 15 Marks

2. (A) PQR Limited Produces a product which has a monthly demand of 52,000 units. The product requires a Component X which is purchased at ₹15 per unit. For every finished product, 2 units of Component X are required. The ordering cost is ₹350 per order and the carrying cost is 12% p.a.

   Required:
   (i) Calculate the economic order quantity for Component X.
   (ii) If the minimum lot size to be supplied is 52,000 units, what is the extra cost, the company has to incur?
   (iii) What is the minimum carrying cost, the company has to incur? [4+4+4)=12]

   (B) Write a short note on Bill Material [3]

3. (A) The following particulars for the first week of September, 2012 relate to X and Y two workers employed in a factory:

		X	Y
a)	Job Completed --- units	3,600	4,200
b)	Cut of above output rejected and unsalable	540	420
c)	Time allowed	12 Mts/dozen	3Hrs./200 units
d)	Basic wage rate per hour	₹5	₹6
e)	Hours worked	45	50

The normal working hours per week are fixed at 42 hours. Bonus is paid @2/3 of the basic wage rate for gross time worked and gross output produced without deduction for rejected output. The rate of overtime for first 4 hours is paid at time plus 1/3 and for next 4 hours is paid at time plus 1/2.

From the above data calculate for each employed
a) Number of bonus hours and amount of bonus earned
b) Total wages earned including basic wages overtime premium and bonus;
c) Direct wages cost per 100 saleable units. [12]

(B) Differences between Merit Rating and Job Evaluation [3]

4. (A) Your Company uses a historical cost systems and applies overheads on the basis of "Predetermined" rates. The following are the figures from the Trial Balance as at 30.9.2012:-

	Dr.	Cr.
Manufacturing overheads	4,26,544	---
Manufacturing overheads-applied	---	3,65,904
Work-in-progress	1,41,480	---
Finished Goods Stock	2,30,732	---
Cost of Goods Sold	8,40,588	---

Give two methods for the disposal of the under absorbed overheads and show the profit implications of the method. [12]

(B) Write a short note on Machine Hour Rate? [3]

5. (A) X Ltd. Provides you the following figures for the year 2010-11:

	₹
Direct Material	3,20,000
Direct Wages	8,00,000
Production Overheads (25% variable)	4,80,000
Administration Overheads (75% Fixed)	1,60,000
Selling and Distribution Overheads (2/3rd Fixed)	2,40,000
Sales @ 125 per unit	25,00,000

For the year 2011-12, it is estimated that:
1. Output and sales quantity will increase by 20% by incurring additional advertisement expenses of ₹45,200.
2. Material prices will go up 10%.
3. Wage Rate will go up by 5% along with, increase in overall direct labour efficiency by 12%.
4. Variable overheads will increase by 5%.
5. Fixed production overheads will increase by 33 1/3 %

Required:
(a) Calculate the Cost of Sales for the year 2010-2011 and 2011-2012
(b) Find out the new selling price for the year 2011-2012, if the same amount of profit is to be earned as in 2010-2011. [5+5=10]

(B) What are the Limitations of Cost Accounting Systems [5]

Sec-C

Answer any two Questions from Q. No 6, 7 and 8. Each Question carries 15 Marks

6. (A) The balance Sheets of a company as on 31st March, 2008 and 2009 are given below:

Liabilities	31.03.08	31.03.09	Assets	31.03.08	31.03.09
Equity share capital	14,40,000	19,20,000	Fixed Assets	38,40,000	45,60,000
Capital Reserve	….	48,000	Depreciation	(11,04,00) 27,36,000	(13,92,000) 31,68,000
General Reserve	8,16,000	9,60,000	Investment	4,80,000	3,84,000
Profit & Loss a/c	2,88,000	3,60,000	Sundry Debtors	12,00,000	14,00,000
9% debentures	5,50,000	5,90,000	Stock	1,40,000	1,84,000
Sundry Creditors	26,000	34,000	Cash in hand	4,000	……
Bills Payable	1,44,000	1,72,800	Preliminary	96,000	48,000
Proposed Dividend	4,32,000	4,08,000			
Provision for tax unpaid dividend	…..	19,200			
	46,56,000	51,84,000		46,56,000	51,84,000

Additional Information:
During the year ended 31st March, 2009 the Company

1. Sold a machine for ₹1,20,000; the cost of machine was ₹2,40,000 and depreciation provide on it was ₹84,000.
2. Provide ₹4,20,000 as depreciation on fixed assets.
3. Sold some investment and profit credited to capital reserve.
4. Redeemed 30% of the debenture @105.
5. Decided to write off fixed assets costing ₹60,000 on which depreciation amounting to ₹48,000 has been provided.

You are required to prepare Cash flow statement as per AS-3. [12]

(B) What is the significance of Ratio Analysis? [3]

7. (A) From the following data, compute the duration of the operating cycle for each of years:

	Year1	Year 2
Stock:		
Raw materials	20,000	27,000
Work-in-progress	14,000	18,000
Finished goods	21,000	24,000
Purchases	96,000	1,35,000
Cost of goods sold	1,40,000	1,80,000
Sales	1,60,000	2,00,000
Debtors	32,000	50,000
Creditors	16,000	18,000

Assume 360 days per year for computational purposes. [8]

(B) United Industries Ltd. has an investment budget of ₹100 lakhs for 2005-06. It has short listed two projects A and B after completing the market and technical appraisals. The management wants to complete the financial appraisal before making the investment. Further particulars regarding the two projects are given below:

	(₹lakhs)	
Particulars	A	B
Investment required	100	90
Average annual cash inflow before depreciation and tax (estimate)	28	24

Salvage value: Nil for both projects. Estimate life – 10 years for both projects.

The company follows straight line method of charging depreciation. Its tax rate is 50%.
You are required to calculate the NPV for the 2 projects with a cost of Capital of 12%.
Note: P.V of an annuity of Re. 1 for ten years at different discount rate is given below:

Rate %		10	11	12	13	14
Annuity Value of return	6.1446	5.8992	5.6502	5.462	5.2161	5.01

[7]

8. (A) Aries Limited wishes to raise additional finance of ₹10 lacs for meeting its investment Plans. It has ₹2,10,000 in the form of retained earnings available for investment purposes. The following are the further details:

1. Debt/equity mix	30% / 70%
2. Cost of debt upto ₹1,80,000	10% (before tax) beyond ₹1,80,000 16%(before tax)
3. Earnings per share	₹4
4. Dividend pay out	50% of earnings
5. Expected growth rate in dividend	10%
6. Current market price per share	₹44
7. Tax rate	50%

You are required to:

a) To determine the pattern for raising the additional finance.
b) To determine the post-tax average cost of additional debt.
c) To determine the cost of retained earnings and cost of equity, and
d) Compute the overall weighted average after tax cost of additional finance. [10]

(B) A firm has Sales of ₹40 lakhs; Variable cost of ₹25 lakhs; Fixed cost of ₹6 lakhs, 10% debt of ₹30 lakhs; and Equity Capital of ₹45 lakhs. Your are required: Calculate operating and financial leverage? [5]