

Paper 8 – Cost Accounting & Financial Management

MTP_ Inter _Syllabus 2012_ Dec 2017_Set 1

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Time Allowed: 3 Hours

Full Marks: 100

Section-A:

Answer Question No 1 which is compulsory carries 25 Marks

1. Answer the following questions:

(A) Each Question carries 2 Marks

[5x 2 = 10]

- (i) The actual machine hours worked in June' 2015, is for 35,000 units and the predetermined overhead recovery is @ ₹ 3 per unit, when actual overhead is ₹ 1,57,500, then what will be the outcome?
- (ii) Write two objectives of CAS-4.
- (iii) Write the two assumptions of MM approach.
- (iv) How should packing costs be treated in Cost Accounts?
- (v) MN Ltd. has earnings before interest and taxes of ₹ 36 crores. The company has 7% debentures of ₹ 72 crores. Cost of equity is 12.5%. Ignore taxes. Estimate the overall cost of Capital?

(B) State whether the following statements are True or False:

[5 x 1 = 5]

- (i) CAS-7 stands for "Employee Cost".
- (ii) Standards are arrived at on the basis of past performance.
- (iii) Material return note is a document which records the return of unused material.
- (iv) Capital budgeting is an important tool for the management in respect of investment of funds.
- (v) An ideal current ratio is 2.

(C) Fill in the Blanks

[5x 1 = 5]

- (i) Goods received Note is prepared by the _____.
- (ii) Prime cost plus overhead _____.
- (iii) WIP ledger contains the accounts of all the _____ which are under execution
- (iv) _____ stands for manipulation of books of account.
- (v) Working capital means the _____ available for the day to activity.

(D) Match the Following

[5x 1 = 5]

Column I	Column II
1. Creditor of the Company	A. Fund Flow Statement
2. CAS	B. Variance Analysis
3. Labour turnover	C. Separation method
4. Difference between Standard and actual.	D. Overhead
5. Sources and Application of Fund	E. Debenture holder

Section-B

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

2(A) From the following information, calculate the machine hour rate for recovery of overhead for a drilling machine installed in a machine shop. [8]

MTP_ Inter _Syllabus 2012_ Dec 2017_Set 1

- (i) The machine operates for 8 hours a day and 300 days a year.
- (ii) 400 hours of machine time in a year is used for repairs and maintenance.
- (iii) Setting up time of the machine is 200 hours per annum and is to be treated as production time.
- (iv) Annual cost of repairs and maintenance of the machine is ₹ 40,000.
- (v) Power used is 10 units per hour at a cost of ₹ 8 per unit. No power is consumed during repair and setting up time.
- (vi) A coolant is used to operate the machine at ₹ 12,000 per annum.
- (vii) An operator, whose monthly wages is ₹ 8,000, devotes 75% of his time exclusively to operate the machine.
- (viii) Depreciation is ₹ 2,40,000 per annum and insurance is ₹ 25,000 per annum.
- (ix) Other indirect expenses chargeable to the machine are ₹12,000 per month.

(B) PC Company purchases a specialized item and the quantity to be purchased is 2,500 pieces at a price of ₹ 200 per piece. Ordering cost per order is ₹ 200 and carrying cost is 2% per year of the inventory cost. Normal lead time is 20 days and safety stock is nil. Assume yearly working days as 250.

- (i) Calculate the Economic Ordering Quantity.
- (ii) Re-order Inventory Level.
- (iii) If a 2% discount on price is given for order quantity 1,250 pieces or more in a lot, should the company accept the offer of discount? [7]

3(A) Illustrate scrap. How do you treat scrap in Cost Accounts? [7]

3(B) A company uses an old method of machining a part manufactured for sale. The estimates of operating details for the year 2013-14 are as under:

No. of parts to be manufactured and sold 30,000 Raw materials required per part: 10 kg. @ ₹2 kg.

Average wage rate per worker : ₹ 40 per day of 8 hrs.

Average labour efficiency 60%.

Standard time required to manufacture one part: 2 hrs.

Overhead rate ₹ 10 per clock hour.

Material handling expenses - 2% of the value of raw materials.

The company has a suggestion box scheme and an award equivalent to three months' saving in labour cost is passed on to the employee whose suggestion is accepted. In response to this scheme, a suggestion has been received from an employee to use a special Jig in the manufacture of the aforesaid part. The cost of the Jig which has life of one year is ₹ 3,000 and the use of the Jig will reduce the standard time by 12 minutes.

Required:

- (i) Compute the amount of award payable to the employee who has given the suggestion
- (ii) Prepare a statement showing the annual cost of production before and after the implementation of the suggestion to use the Jig and indicate the annual savings.

MTP_ Inter _Syllabus 2012_ Dec 2017_Set 1

(iii) State the assumptions on which your calculations are based. [8]

4(A) State the term Just-in-Time (JIT) and list out its advantages. [4]

4(B) (i) Classify the following overhead items according to function: (i) Drawing office salaries, (ii) Rent of warehouse, (iii) Remuneration of legal advice, (iv) Depreciation of delivery van, (v) Salary of Production Manager, (vi) Uniforms of sanitary workers, (vii) Secondary packing with the name of the company, (viii) Establishment expenses, (ix) Depreciation of patterns and dies, (x) Wages of normal idle time. [4]

4(B) (ii) An engineering company produces a standard metallic product. There are three processes - Foundry, Machining and Assembly. 130 tonnes of raw material at ₹ 500 per tonne were issued to Foundry. The yield at the Foundry is 90% (both standard and actual). The normal and actual yield at the Machining Process is 95%. There is no loss in the Assembly Process. You may consider the losses as occurring at the end of the respective processes. The other details are as follows: [7]

Process	Direct Labour	Overhead
Foundry	200 hours at ₹ 100 per hour	₹ 150 per labour hour
Machining	100 hours at ₹50 per hour	₹ 200 per labour hour
Assembly	100 hours at ₹150 per hour	₹ 100 per labour hour

Prepare a Cost Sheet showing the element wise cost of output and cost per tonne of output.

5.(A)(i) State the treatment of the following items in Cost Accounts: [6]

(i) Market Research

(ii) Obsolete inventory

(iii) Royalty on production of goods.

5.(A)(ii) State the cost units applicable to the following industries: Cement, Goods Transport, Education, BPO. [2]

5.(B) The standard capacity usage and the actual capacity utilization in respect of a machine for a particular month are 90% of total available hours and 80% of standard capacity usage respectively. The total available working time in the month is 200 hours. The following data is obtained from the idle time card:

Time in waiting for material (normal) =	10 hours
Time in waiting for tools (normal) =	6 hours
Sudden break down =	10 hours

The hourly fixed cost of the machine is ₹ 43 and the operator is paid at ₹ 70 per hour. You are required to report the idle time cost to the management. [7]

Section-C

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

MTP_ Inter _Syllabus 2012_ Dec 2017_Set 1

6.(A)(i) Write short note on Global Depository Receipts. **[5]**

6.(A)(ii) A chemical company has a net sales of ₹ 50 crores, cash expenses (including taxes) of ₹ 35 crores, and depreciation of ₹ 5 crores. If debtors decrease over the period by ₹ 6 crores, what will be the cash from operations? **[3]**

6.(B) Information on two projects is given below:

Project	A	B
Cash Inflows (₹ '000) year-end		
1	50	282
2	300	250
3	360	180
4	208	Nil

Evaluate which project is better under each of the following criteria taking discount rate as 10% p.a.

(i) NPV

(ii) Discounted Pay Back period

(iii) Profitability Index **[7]**

7.(A)(i) Classify the following independent items of cash flows under AS-3 **[4]**

1. Cash receipts from future contracts held for trading purpose.
2. Cash receipts from repayment of advances to third parties other than a financial enterprise.
3. Cash interest received from by a financial enterprise.
4. Cash received from disposal of fixed assets.
5. Cash receipts from interests in joint venture.
6. Dividends paid by a non-financial enterprise.
7. Cash payments on account of acquisition of a subsidiary.
8. Cash flows arising from taxes on income, not specifically identifiable.

7.(A)(ii) Write a short note on Foreign Currency Convertible Bonds (FCCBs). **[4]**

7(B) XYZ Ltd. sells its products on a gross profit of 20% of sales. The following information is extracted from its annual accounts for the year ending 31st March, 2014. **[7]**

	₹
Sales (at 3 months credit)	40,00,000
Raw materials	12,00,000
Wages (15 days in arrears)	9,60,000
Manufacturing expenses and general expenses (One month in arrears)	12,00,000
Administration expenses (one month in arrears)	4,80,000
Sales promotion expenses (payable half yearly in advance)	2,00,000

The company enjoys one month credit from the suppliers and maintains 2 months stock of raw materials and 1½ months stock of finished goods. Cash balance is maintained at ₹1,00,000 as a precautionary balance. Assuming a 10% margin, find out the working capital requirement of XYZ Ltd.

8.(A) The Balance – Sheet of XYZ Ltd. for the year ended 31.03.2013 is given below:

Liabilities	₹	Assets	₹
Equity Share Capital	5,00,000	Land & Building	1,00,000

MTP_ Inter _Syllabus 2012_ Dec 2017_Set 1

Preference Share Capital	2,00,000	Machinery	4,00,000
General Reserve	1,00,000	Furniture	50,000
Secured Loans	3,00,000	Inventory	3,00,000
Sundry Creditors	1,00,000	Sundry Debtors	3,00,000
		Cash/Bank Balances	50,000
	12,00,000		12,00,000

Calculate the following ratios from the given Balance Sheet

(i) Current Ratio

(ii) Proprietary Ratio

(iii) Debt-Equity Ratio

(iv) Capital Gearing Ratio

[8]

8.(B) From the following information, work out the average amount of working capital requirement:

	Average period of credit (in weeks)	Estimate for the year (52 weeks) (in ₹)
Purchase of material	6	26,00,000
Wages	1 ½	20,80,000
Rent	26	1,00,000
Other overheads	8	10,40,000
Salaries	4	13,00,000
Credit sales	8	52,00,000

Average amount of holding of stocks and WIP is ₹ 4,00,000 and there should be cash balance of ₹50,000. Assume that all expenses and income are made evenly throughout the year.

[7]