Paper 8- Cost Accounting & Financial Management

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

Section-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) In a factory the monthly requirement for a material is 20,000 units; Ordering cost ₹ 225 per order, Purchase price ₹ 20 per unit and annual carrying cot is 15%. Calculate the economic order quantity.

(ii) A worker has completed his job within 35 hours instead of 40 standard hours. If the wages rate per hour is ₹ 36. Calculate the earnings under rowan bonus plan of the worker.

(iii) The following particulars are furnished to you by M/S Limelight & Co. Ltd in respect of a current machine:

Cost of Machine	₹30,000
Estimated scrap value	₹3,000
Working life of the machine is	5 years

The machine is treated as obsolete after three years of service and sold for ₹6,000. How would you treat the loss of the transaction in cost Account?

(iv) If current ratio is 2.4 : 1 and working capital is ₹25,20,000, find the amount of current assets and current liabilities.

(v) A firm earns a contribution of ₹4,80,000. Its operating leverage and financial leverage are respectively 4 and 5. Find the firm's PAT if the effective tax rate is 25%.

(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) Abnormal Costs are uncontrollable.

(iv) IRR and NPV always give the same profitability ranking.

(v) Liquid Assets do not include Inventory.

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

(i) Direct Expenses incurred for brought out resources shall be determined at ______________.

(ii) Total cost +Profit =________

(iii) In ___________ Systems, basic of wages payment is the quantity of work

(iv) Current Ratio is the ratio of Current Assets to …………………..

(v) The term IRR with relevance to capital budgeting stands for…………………

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

Column I	Column II
1. Direct Expenses	**A.** Capital Budgeting
2. Job Ticket	**B.** Effective and efficient
3. Step Distribution Method	**C.** CAS 10
4. Benefit Cost Ratio	**D.** Overhead
5. Organisation has to be both	**E.** A method of Time Booking

Section-B

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

2. (A) Two fitters, a labourer and a boy undertake a job on piece rate basis for ₹1,290. The time spent by each of them is 220 ordinary working hours. The rates of pay on time-rate basis are ₹ 1.50 per hour for each of the two fitters, ₹1 per hour for the labourer and ₹ 0.50 per hour for the boy. Calculate:

(I) The amount of piece-work premium and the share of each worker, when the piece-work premium is divided proportionately to the wages paid.

(II) The selling price of the above job on the basis of the following additional data: Cost of Direct Material ₹ 2010, Works overhear at 20% of prime cost, Selling Overhead at 15% of Works Cost and Profit at 25% on Cost of sales. **[5+5]**

(B) Royalty paid on sales ₹30,000; Royalty paid on units produced ₹20,000, hire charges of equipment used for production ₹2,000, Design charges ₹15,000, Software development charges related to production ₹22,000. Compute the Direct Expenses. **[5]**

3. (A) Illustrate scrap? How do you treat scrap in Cost Accounts? **[3+4]**

(B) Two components A and B are used as follows:

Normal usage	=50 per week each
Re-order quantity	=A- 300; B-500
Maximum usage	=75 per week each
Minimum usage	=25 per week each
Re-order period:	A - 4 to 6 weeks; B - 2 to 4 weeks

Calculate for each component

(a) Re-order level; (b) Minimum level; (c) Maximum level; (d) Average stock level. **[8]**

4. (A) XYZ Ltd. has three production departments, X Y and Z and two service departments, S_1 and S_2. The following figures are available for a certain production period:

Items of Overheads	Amount (₹)
Indirect Wages	16,000
Indirect Materials	12,000
Depreciation - Machinery	30,000
Depreciation - Building	10,000
Rent, Rates and Taxes	10,000
Electric Power for Lighting	1,000
Electric Power for Machinery	15,000
General Expenses	15,000

	Total	X	Y	Z	S_1	S_2
Direct Material (₹)	60,000	20,000	10,000	20,000	6,000	4,000
Direct Wages (₹)	40,000	15,000	15,000	5,000	3,000	2,000
Floor Area (Sft)	50,000	15,000	10,000	10,000	5,000	10,000
Value of Machinery (₹)	3,00,000	80,000	1,00,000	60,000	30,000	30,000
Horse Power (HP) of Machinery	150	60	50	30	5	5
Number of lights points	50	15	10	10	10	5
Labour Hours	15,000	5,000	5,000	2,000	1,000	2,000

Prepare a statement showing the distribution of overheads among the production and service departments on the most equitable basis. **[10]**

(B) What is meant by the following terms? Given an example of each in a situation where a factory makes use of the same production facility to make products A, B, C and D using the same raw material R.

(i) Relevant cost

(ii) Replacement cost **[2½+2½=5]**

5. (A) Under a scheme of payment by result, a worker takes 8 hours to complete a job. The wages is ₹24 per hour. Material Cost of the job is ₹150 and overheads are recovered at 25% of the total direct wages. Standard time allowed for the job 12 hours. You are required to calculate the factory cost of the job under Rowan system and Halsey system of incentive plan. **[2+2+4=8]**

(B) Distinguish between Financial Accounting and Cost Accounting. **[7]**

Sec-C

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

6. (A) Zed plus Co. Ltd. has made a plan for the coming year. It is estimated that the company will employ total assets of ₹10,00,000,50% of the assets will be financed by taking loans from outside as borrowed capital for which the rate of interest will be 10% per annum.
The direct cost for the year is estimated at ₹5,00,000 and ₹1,00,000 is estimated towards other operating expenses. The sale price of goods will be 140% of the direct costs. Income Tax rate is estimated to be 50%.

You are required to find out the following:

(a) Return on assets,

(b) Net profit margin,

(c) Return on owner's equity,
(d) Asset Turnover. **[10]**

(B) Write short notes on Venture Capital. **[5]**

7. **(A)** M/S Bright Ltd. provides you with the following details:

	Cost per unit (₹)
Raw material	60
Direct labour	20
Overhead	30
Total cost	110
Profit	30
Selling price	140

Average raw material remains in stock for one month. Average material in work-in-process is for half month. Credit allowed to customers - one month and credit allowed by suppliers - one month.
Average time lag in payment of wages: 10days; average time lag in payment of overheads 30 days. 25% of sales are on cash basis. Cash balance expected to be ₹50,000. Finished goods lie in the warehouse for one month.
You are advised to prepare a statement of working capital to finance a level of activity of 54,000 unit of output p.a. Production is carried on evenly throughout the year and wages and overheads accrue sirmilarly.
State your assumptions, if any. **[5+5=10]**

(B) M/S Sun & Moon Co. Ltd. is considering to select one project out of two alternative projects both with life of 5 (Five) years and following particulars are given:

		Project X	Project Y
		(₹)	(₹)
Capital Investment	Year 0	2,00,000	1,00,000
Income	Year I	60,000	50,000
	Year II	40,000	45,000
	Year III	40,000	30,000
	Year IV	35,000	30,000
	Year V	40,000	20,000

The expected rate of return is 14% p.a. The present value of ₹ 1 at 14% p.a. from year 1 to 5 is as under:

Year	1	2	3	4	5
Present value factor	0.88	0.77	0.68	0.59	0.52

You are required to calculate the comparative profitability of the two projects by using net present value method and advise the management suitably. **[5]**

8. **(A)** Explain the concepts of operating leverage and financial leverage. **[5]**

(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:

- A part of land was sold out in 2016, and the profit was credited to Capital Reserve.
- 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.
- An interim dividend of ₹10,000 has been paid in 2016.
- An Amount of ₹1,000 has been received as dividend on investment in 2016.

[10]