Paper 10 – Cost & Management Accounting and Financial Management

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Time Allowed: 3 Hours **Full Marks: 100**

Part-A (Cost and Management Accounting)

Section-I

1. Answer the following questions:

(a) Choose the correct answer from the given four alternatives. **[1x 6 = 6]**

i. Marginal cost includes prime cost plus____________.
(a) Fixed overhead
(b) Variable overhead
(c) Margin of safety
(d) Actual cost

ii. Management Accounting implications are __________
(a) Mandatory by the statue
(b) Optional
(c) Compulsory

iii. All __________ cost are included in the marginal cost.
(a) Fixed
(b) Variable

iv. Budget preparation are classified on the basis of ________________.
(a) Function
(b) Flexibility
(c) Time

v. The formula for material price variance is ________.
(a) (AQ – SQ) x AP
(b) (AP-SP) x SQ
(c) (AP-SP) x AQ
(d) None of the above

vi. Select from the enumerated list the functions of the management accounting.
(a) Control
(b) Reporting to the Management
(c) Coordination
(d) All of the above

(b) Match the statement in column I with the most appropriate statement in column II:

[1 x 4 = 4]

	Column I		Column II
i	Performance Evaluation	A	Breakeven point
ii	Fixed cost / Pv ratio	B	Zero based budgeting
iii	Total Costing	C	Inter Firm Comparison
iv	Decision making	D	Absorption Costing

(c) State whether the following statements are true or false **[1 x 4 = 4]**

(i) Budgetary control aims at maximization of profits through optimum utillisation of resources.
(ii) Ideal time variance is always favorable.
(iii) Management Accounting is a modern tool to the management.

(iv) In cost accounting, marginal cost does include fixed cost.

Section-II

Answer any Three Questions from Q.No 2, 3, 4 and 5. Each Question carries 12 Marks

2(a)

The following information is available for the first and second quarter of the year for Pankaj limited:

Quarter	Production (in units)	Semi- variable Cost
Quarter I	36,000	₹ 2,80,000
Quarter II	42,000	₹ 3,10,000

You are required to calculate the semi variable Cost and calculate Total Fixed Cost and Variable cost per unit. **[6 Marks]**

(b) The following information is available for the years 1 and 2 of Amit Limited: **[6 Marks]**

Year	Year-1	Year-2
Sales	₹ 32,00,000	₹ 57,00,000
Profit/ (Loss)	₹ (3,00,000)	₹ 7,00,000

Calculate PV Ratio, Total Fixed Cost, and Sales required to earn a profit of ₹ 12,00,000.

3(a)

Following details relating to Product S during the month of May are available-

Standard cost per unit of S: 50 kg at ₹ 40/kg	Material price variance: ₹ 9,800 (Adverse)
Actual Production: 100 units	Material Usage Variances: ₹ 4,000 (Favourable)
Actual Material Cost:₹ 42/kg	

Calculate the actual quantity of material used during the month of May. **[4 Marks]**

3(b)

Sagar ltd has furnished the following information for the month of September. Calculate the relevant overhead variances. **[8 Marks]**

Particulars	Budgeted	Actual
Output (units)	30,000	32,500
Hours	30,000	33,000
Fixed overhead	₹ 45,000	₹ 50,000
Variable overhead	₹ 60,000	₹ 68,000
Working days	25	26

4(a)

Rajat limited has prepared the expenses budget for 20,000 units in its factory for a year as detailed below; **[6 Marks]**

Particulars	Per unit
Direct Material	50
Direct Labour	20
Variable overhead	15

Direct expenses	6
Selling expenses (20% fixed)	15
Factory expenses (100 fixed)	7
Administrative expenses (100% fixed)	4
Distribution expenses (85% variable)	12
Total	129

Prepare an expenses budget for the production of 15,000 units and 18,000 units.

4(b)

From the data enumerated below calculate the expected average units cost of making 4 machines and (b) 8 machines. **[6 Marks]**

Direct labour need to make first machine	1000 hrs
Learning curve	90%
Direct labour cost	₹ 15 per hour
Direct material cost	₹ 1,50,000
Fixed cost for either size order	₹ 60,000

5. Answer any three questions out four questions: **[3x4=12 Marks]**

(a) Factors affecting learning curve.

(b) Factors to be considered in Production Budget.

(c) Function of Management Accounting.

(d) Limitation of Marginal Costing.

Part-B (Financial Management)

Section-III

6. Answer the following questions:

(a) Choose the correct answer from the given four alternatives. **[1x6=6]**

(i) ______________ ratio is also termed as Acid test ratio.

(a) Defensive interval ratio

(b) Current ratio

(c) Proprietary ratio

(d) Quick ratio

(ii) From the enumerated list please select instrument which is not dealt in capital market.

(a) Commercial Paper

(b) Debenture

(c) Sweat Equity

(d) None of the above

(iii) From the enumerated list please select instrument which is not dealt in money market.

(a) Equity shares

(b) Treasury Bill

(c) Certificate of Deposit

(d) None of the above

(iv) Rigid working capital is also known as __________.

(a) Variable Working Capital

(b) Seasonal Working Capital

(c) Fixed Working Capital

(d) Temporary Working Capital

(v) From the following select one factor which is sources of fund.
- (a) Payment of dividend
- (b) Increase in working capital
- (c) Non trading Income
- (d) None of the above

(vi) From the following select one factor which is application of fund.
- (a) Issue of share capital
- (b) Decrease in working capital
- (c) Increase in working capital
- (d) None of the above

(b) Match the statement in Column I with the most appropriate statement in column II: **[1x4=4]**

	Column I		Column II
i	High risk and high reward projects financing	A	Service Lease
ii	Relinquish a right	B	Forfait
iii	Unsecured Promissory Note	C	Equity Financing
iv	Operating Lease	D	Commercial Paper (CP)

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

- (i) Cash flow statement reveals the changes in cash position between two balance sheet dates.
- (ii) Gross working capital refers to the total of the current assets.
- (iii) Global Depository Receipt (GDR) are freely traded in the international market and do carry voting rights.
- (iv) The motive behind holding a cash is to meet the business exigencies and to do the regular business transaction.

Section IV

Answer any three Question from Q. No 7, 8, 9 and 10. Each Question carries 12 Marks.

7.(a)

The financial statement of a company contains the following information for the year ending 31st March 2017. **[6 Marks]**

Cash	1,60,000
Sundry Debtor	4,00,000
Short term Investment	3,20,000
Stock	21,60,000
Prepaid Expenses	10,000
Total current assets	30,50,000
Current liabilities	10,00,000
10% Debenture	16,00,000
Equity Share capital	20,00,000
Retained earnings	8,00,000

Statement of profit for the year ended 31st March 2017

Particulars	Amount (₹)
Sales (20% cash sales)	40,00,000
Less: Cost of goods sold	28,00,000
Profit before interest and taxes	12,00,000
Less: Interst	1,60,000
Profit before tax	10,40,000
Less: Tax @ 30%	3,12,000
Profit after tax (PAT)	7,28,000

Calculate

1. Quick ratio
2. Debt Equity Ratio
3. ROCE
4. Average collection period (assuming 360 day year)

7(b)

Amit Co. gives its statement of sources and utillisation of funds as under- **[6 Marks]**

Sources of funds	₹ Lakhs	Application of funds	₹ Lakhs
Equity Share Capital	0.50	Increase in working capital	1.50
Loans at 12%	2.50	Increase in fixed assets	1.50
Reduction in Investment	0.25	Loan as per P& L Account	1.00
Sale of Assets	0.25		
Depreciation for the year	.50		
Total	4.00	Total	4.00

The company current ratio at the beginning of the year was 2. The current liabilities of the company as at 1st January (beginning of the year) stood at ₹ 3 lakhs. It was disclosed that during the year, the turnover to capital employed ratio declined from 1.5 to 1.25. You are required to critically appraise the financial operations of the company during the year.

8.(a).

Compute the maximum permissible bank finance under methods I, II, III of Tandon committee norms from the enumerated details- **[6 Marks]**

Current Liabilities	₹ Lakhs	Current Assets	₹ Lakhs
Creditor for Purchase	400	Raw material	800
Other current liabilities	200	WIP	80
	600		
Bank Borrowing including Bill discounted with bankers	800	Finished goods	360
		Receivables (including bill discounted)	200
		Other current Assets	40
	1,400		1,400

8.(b).

Calculate the degree of operating leverage, degree of financial leverage and the degree of combined leverage for the following firm: **[6 Marks]**

Particulars	P	A	S
Production (in units)	17,500	6,700	31,800

Fixed Cost	₹ 4,00,000	₹ 3,50,000	₹ 2,50,000
Interest on loan	₹ 1,25,000	₹ 75,000	Nil
Selling price per unit	₹ 85	₹ 130	₹ 37
Variable cost per unit	₹ 38.00	₹ 42.50	₹ 12.00

9.(a).

PKj Limited has obtained funds from the following sources, the specific cost are also given against them: **[6 Marks]**

Sources of funds	Amount	Cost of capital
Equity shares	30,00,000	15%
Preference shares	8,00,000	8%
Retained Earnings	12,00,000	11%
Debenture	10,00,000	9%(before tax)

You are required to calculate the weighted average cost of capital assuming that corporate tax rate is 30%.

9.(b)

Pankaj and Co. is evaluating an investment proposal of ₹ 3,06,000 with expected cash flows as ;

Year	CFAT(₹)
1	1,00,000
2	1,20,000
3	1,50,000
4	1,00,000

The company's cost of capital is 10%. Compute the NPV and PI for this project. **[6 Marks]**

10. Write a short note on any three **[3x4=12 Marks]**

(a) Window Dressing.

(b) Importance of Capital Budgeting Decisions.

(c) Functions of Financial Management.

(d) Distinguish between factoring vs forfeiting.