# INTERMEDIATE EXAMINATION

June 2017

***P-10(CMFM)***
***Syllabus-2016***

## Cost & Management Accounting and Financial Management

Time Allowed: 3 Hours

Full Marks: 100

*The figures in the margin on the right side indicate full marks.*
*All working must form part of your answer. Assumptions, if any must be clearly indicated.*
*Please (i) Write answers to all parts of a question together.*
*(ii) Open a new page for answer to a new question.*
*(iii) Attempt the required number of questions only.*

## Part-A
## (Cost and Management Accounting)
## Section-I

Answer the following questions.

**1. (a) Choose the correct answer from the given four alternatives:** 1×6=6

(i) Type of accounting which measures, reports and analyse non-financial and financial information to help in decision making is called:

(A) Financial Accounting

(B) Management Accounting

(C) Cost Accounting

(D) Green Accounting

(ii) Which one of the following is not considered as a method of Transfer Pricing?

(A) Negotiated Transfer Pricing

(B) Market Price Based Transfer Pricing

(C) Fixed Cost Based Transfer Pricing

(D) Opportunity Cost Based Transfer Pricing

(iii) In cost accounting, purpose of variance analysis is to:

(A) understand reasons for variances.

(B) take remedial measures.

(C) improve future performance.

(D) All of the above

(iv) Absorption Costing is also known as:

(A) Total Costing

(B) Committed Costing

(C) Target Costing

(D) Discretionary Costing

(v) Which of the following is not correct with regard to Margin of Safety (MOS)?

(A) MOS = $\frac{Profit}{PV\ Ratio}$

(B) MOS = $Total\ Sales - Sales\ at\ BEP$

(C) MOS = $\frac{Total\ Sales - Sales\ at\ BEP}{Total\ Sales} \times 100$

(D) MOS = $PV\ Ratio \times Sales - Fixed\ Cost$

(vi) Which one of the following is not to be considered for preparing a production budget?

(A) The production plan of the organization

(B) The Sales Budget

(C) Research and Development Budget

(D) Availability of Raw Materials

**(b) Match Column A with Column B:** 1×4=4

| Column 'A' | | Column 'B' | |
|---|---|---|---|
| 1. | Learning Curve | (A) | Negotiated Pricing |
| 2. | Zero Base Budgeting | (B) | Human Phenomenon |
| 3. | Transfer Price | (C) | Fixed Costs are charged to Cost of Production |
| 4. | Absorption Costing | (D) | Discretionary Cost |

**(c) State whether the following statements are True or False:** 1×4=4

(i) Standard Costs are arrived on the basis of costs incurred in the past.

(ii) Experience Curve effects are reinforced when two or more products share a common resource.

(iii) Preparation of a Master Budget precedes preparation of Functional Budgets.

(iv) Other variables remaining constant, a hike in selling price per unit will lower the Break Even Point.

## Section II

Answer *any three* questions from Question No. 2, 3, 4 and 5.

Each Question carries 12 Marks.

**2.** (a) The anticipated sales of Electronic Corporation Ltd. is ₹ 4,00,000 and unit selling price is ₹ 20 each. The per unit cost of direct material is ₹ 9, labour is ₹ 3 and other variable expenses are ₹ 3 per unit. The company is earning a net profit of 5% and to improve the profitability, the following proposals were discussed at the Executive Committee Meeting:

(i) The present administrative setup is on the regional basis and it was felt that centralization will reduce the fixed cost by ₹ 12,000.

(ii) The Production Manager has agreed that he will try to work on a cost reduction programme which will reduce the cost by ₹ 1 per unit but there will be little impact on the quality which will be negligible to the customer.

(iii) The Sales Manager opposed the two proposals and suggests that it may be possible to increase the number of units sold by 20%, provided the selling price is reduced by 5%.

(iv) Alternatively, as per Sales Manager, if the selling price is increased by 10%, the sales number of units will be reduced by 5%.

As the Cost and Management Accountant of the company, evaluate the aforesaid four proposals and also put forward your suggestions to improve the situation.

(b) Calculate Margin of Safety from the following information:

Sales ₹ 30,00,000; Fixed expenses ₹ 9,00,000; Profit ₹ 6,00,000

8+4=12

**3.** (a) In MJ Limited the standard set for material consumption was 100 kg. @ ₹ 2.25 per kg.

In a cost period:

Opening stock was 100 kg. @ ₹ 2.25 per kg.

Purchases made 500 kg. @ ₹ 2.15 per kg.

Consumption 110 kg.

As a Cost and Management Accountant you have to calculate:

(i) Material Usage Variance, and

(ii) Material Price Variance in the following three situations:

(A) When variance is calculated at point of purchase.

(B) When variance is calculated at point of issue on FIFO basis.

(C) When variance is calculated at point of issue on LIFO basis.

(b) From the following information compute the Fixed Overhead Variance, Expenditure Variance and Volume Variance:

| | Budget Expenses (₹) | Actual Expenses (₹) |
|---|---|---|
| Fixed Overheads | 40,000 | 40,800 |
| Units of Production | 20,000 | 20,800 |
| Time for each unit of production | 2 hours | |
| Actual Hours worked | | 40,200 |

6+6=12

**4.** (a) A company is at present working at 90% of its capacity and producing 13,500 units per annum. It operates a flexible budgetory control system. The following figures are obtained from its budget:

| | 90% (₹) | 100% (₹) |
|---|---|---|
| Sales | 15,00,000 | 16,00,000 |
| Fixed expenses | 3,00,500 | 3,00,600 |
| Semi-fixed expenses | 97,500 | 1,00,500 |
| Variable expenses | 1,45,000 | 1,49,500 |
| Units made | 13,500 | 15,000 |

Labour and material costs per unit are constant under present conditions. Profit margin is 10%.

(i) You are required to determine the differential cost of producing 1,500 units by increasing capacity to 100%?

(ii) What would you recommend for an export price for these 1,500 units if overseas prices are much lower than indigenous prices?

(b) A company has two divisions, manufacturing and assembly. At a normal volume of 250,000 units of component YPY per year, production costs per unit are:

| | ₹ |
|---|---|
| Direct materials | 40 |
| Direct labour | 20 |
| Variable factory overhead | 12 |
| Fixed factory overhead | 42 |
| Total | ₹ 114 |

The manufacturing division has been manufacturing and selling 250,000 components per year to outside buyers for ₹ 136 each. However, the division can manufacture 350,000 components per year. The assembly division has been buying the components from outside suppliers for ₹ 130 each. The assembly division has offered to purchase 90,000 units of component YPY from the manufacturing division at the rate of ₹ 104 per unit. Should the manager of Electrical Division accept the offer? Will an internal transfer be of any benefit to the company?

6+6=12

**5. Write short note on *any three* of the following:** 4×3=12

(a) Differential Cost

(b) Angle of Incidence

(c) Principal Budget Factor

(d) Learning Curve

## Part-B
## (Financial Management)
## Section-III

**6. Answer the following questions:**

(a) Choose the correct answer from the given four alternatives: 1×6=6

(i) Which of the following is the main objective of financial management?

(A) Revenue Maximisation

(B) Profit Maximisation

(C) Wealth Maximisation

(D) Cost Minimisation

(ii) Which one of the following activities is outside the purview of financing decision in financial management?

(A) Identification of the source of funds

(B) Measurement of the cost of funds

(C) Deciding on the time of raising the funds

(D) Deciding on the utilization of the funds

(iii) A firm has a capital of ₹ 10 lakhs, sales of ₹ 5 lakhs, gross profit of ₹ 2 lakhs and expenses of ₹ 1 lakh. The Net Profit Ratio is:

(A) 50%

(B) 40%

(C) 20%

(D) 10%

(iv) Which of the following forms of equity financing is especially designed for funding High Risk & High Reward projects?

(A) ADR

(B) GDR

(C) FCCB

(D) Venture Capital

(v) A process through which loans and other receivables are underwritten and sold in a form of asset is known as:

(A) Factoring

(B) Forfeiting

(C) Securitisation

(D) Bill Discounting

(vi) In Net Profit Ratio, the denominator is:

(A) Credit Sales

(B) Net Sales

(C) Cost of Sales

(D) Cost of Goods Sold

**(b) Match Column 'A' with Column 'B'.** 1×4=4

| Column 'A' | | Column 'B' | |
|---|---|---|---|
| 1. | Leverage | (A) | Control Limits |
| 2. | Stochastic Model | (B) | Influence of one force over another |
| 3. | Commercial Paper | (C) | Sold at Discount |
| 4. | Factoring | (D) | Raise Short Term Finance through Receivables |

**(c) State whether the following statements are True or False:** 1×4=4

(i) In case of mutually exclusive capital budgeting decision, all the feasible proposals may be accepted.

(ii) As per the Gordan Model, $K_e = D_1/P_0 + g$, where $K_e$ = Cost of Equity, $D_1$ = Dividend, $P_0$ = Current market price of share and g = growth rate.

(iii) Gross Working Capital is the difference between total current assets and total current liabilities.

(iv) Working Capital Turnover Ratio may be classified under Activity Ratio.

## Section IV

Answer *any three* questions from Question No. 7, 8, 9 and 10.

Each Question carries 12 Marks.

**7.** (a) From the following information, prepare a summarized Statement of Assets and Liabilities as on 31st March, 2017:

| | |
|---|---|
| (i) Working Capital | ₹ 1,20,000 |
| (ii) Reserves & Surplus | ₹ 80,000 |
| (iii) Bank Overdraft | ₹ 20,000 |
| (iv) Proprietary Ratio | 0.75 |
| (v) Current Ratio | 2.50 |
| (vi) Liquid Ratio | 1.50 |

Your workings should form a part of your answer.

(b) From the following Summarised Statement of Assets and Liabilities of XYZ Ltd., prepare a Statement of Changes in the Working Capital.

| | 31st March | | | 31st March | |
|---|---|---|---|---|---|
| **LIABILITIES** | **2015 (₹)** | **2016 (₹)** | **ASSETS** | **2015 (₹)** | **2016 (₹)** |
| Equity Share Capital | 3,00,000 | 4,00,000 | Goodwill | 1,15,000 | 90,000 |
| 8% Preference Share Capital | 1,50,000 | 1,00,000 | Land & Buildings | 2,00,000 | 1,70,000 |
| Profit & Loss Account | 30,000 | 48,000 | Plant & Machinery | 80,000 | 2,00,000 |
| General Reserve | 40,000 | 70,000 | Debtors | 1,60,000 | 2,00,000 |
| Proposed Dividend | 42,000 | 50,000 | Stock | 77,000 | 1,09,000 |
| Creditors | 55,000 | 83,000 | Bills Receivable | 20,000 | 30,000 |
| Bills Payable | 20,000 | 16,000 | Cash in hand | 15,000 | 10,000 |
| Provision for Taxation | 40,000 | 50,000 | Cash at Bank | 10,000 | 8,000 |
| | 6,77,000 | 8,17,000 | | 6,77,000 | 8,17,000 |

Following additional information are available:

(i) Depreciation of ₹ 10,000 and ₹ 20,000 have been charged on Plant & Machinery and Land & Buildings respectively in 2016.

(ii) Interim dividend of ₹ 20,000 has been paid in 2016.

(iii) Income tax of ₹ 35,000 has been paid in 2016. 8+4=12

**8.** (a) From the following data, compute the duration of the Operating Cycle for each of the two years:

| | Year 1 (₹) | 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.

(b) The following information are available in respect of ABC company:

| **Liabilities** | **Amount** ₹ | **Assets** | **Amount** ₹ |
|---|---|---|---|
| Equity share capital | 1,20,000 | Fixed Assets | 3,00,000 |
| Retained Earnings | 40,000 | Current Assets | 1,00,000 |
| 10% Long Term Debt | 1,60,000 | | |
| Current Liabilities | 80,000 | | |
| | 4,00,000 | | 4,00,000 |

The company's total assets turnover ratio is 3, its fixed operating costs are ₹ 2,00,000 and its variable operating cost ratio is 40%. The income tax rate is 50%. Calculate the different types of leverages, given that the face value of share is ₹ 10. 6+6=12

**9.** (a) A company issued 10,000, 10% Preference Share of ₹ 10 each, cost of issue is ₹ 2 per share. Calculate cost of capital, assuming that the shares are issued (a) at par, (b) at 10% premium, and (c) at 5% discount.

(b) FB Chemical Ltd. has three potential projects, all with an initial cost of ₹ 20,00,000 and estimated life of five years. The capital budget for the year will only allow the company to accept one of the three projects. Given the discount rates and the future cash flows of each project, which project should the company accept?

Project 1 has an annual cash flow of ₹ 5,00,000 and discount rate of 6%

Project 2 has an annual cash flow of ₹ 6,00,000 and discount rate of 9%

Project 3 has the following cash inflow and discount rate of 15%

| Year | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|
| Cash Inflows ₹ | 10,00,000 | 8,00,000 | 6,00,000 | 2,00,000 | 1,00,000 |

6+6=12

**10. Write short note on *any three* of the following:** 4×3=12

(a) Net Income Approach of Capital Structure

(b) Capital Asset Pricing Model

(c) Financial Leverage

(d) Window Dressing