Paper 10- Cost & Management Accounting And Financial Management

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

Answer Question No. 1 which is compulsory Carries 25 Marks

1.(a) Match the statement in Column I with the most appropriate statement in Column II.
[1×4 =4]

Column I	Column II
1. Inter firm comparison	**A.** Effective and efficient
2. Benefit Cost Ratio	**B.** Technique for evaluating performance
3. Organisation has to be both	**C.** Decision making
4. Zero based Budgeting	**D.** Capital Budgeting

(b) Choose the correct answer from the given four alternatives. **[1 x3=3]**

(i) A key factor is one which restricts…
- **A.** The volume of production
- **B.** The volume of sales
- **C.** The volume of purchase
- **D.** All of the above

(ii) Which of the following is the difference between actual and standard cost of material caused by the actual quantity of material used exceeding the standard quantity of material allowed?
- **A.** Price variance
- **B.** Mix variance
- **C.** Quantity variance
- **D.** Yield variance

(iii) Division of Accounting is divided into
- **A.** 2
- **B.** 3
- **C.** 4
- **D.** None of the above

(c) Fill in the blanks. **[1×4 =4]**

(i) Standards costing are applied in ____________ industry.

(ii) Decision-making is a process of choosing among ___________ alternatives.

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

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

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

(i) It is optional for a company to have financial accounting.

(ii) Excess of Actual cost over Standards Cost is treated as unfavourable variance.

(iii) Budgetary control does not facilitate introduction of 'Management by Exception'.

(iv) Operating Cycle means time required to Produce One Quantity of a Product.

(e) Answer the following questions. [2x5=10]

(i) In a factory where standard costing is followed 9,600 kg of materials at ₹ 10.50/kg were actually consumed resulting in a price variance of ₹ 4,800 (A) and usage variance of ₹ 4,000 (F). What is the standard cost of actual production?

(ii) If BEP is ₹39,00,000 at 65% level of sales and profit is ₹8,40,000 at 100% level of sales, find out the P/V ratio.

(iii) Mr. X expects to receive ₹ 2,00,000 at the end of three years. What would be the present value if the rate of discount is 10%?

(iv) The current market price and expected year-end dividend of an equity share are ₹90 and ₹4.50 respectively. The dividend growth rate is expected at 7% annually. Compute the cost of capital under the dividend growth model.

(v) Vividha Ltd. has paid a dividend of ₹ 8 per share with annual growth rate of 5%. The expected return on the market portfolio and the risk free rate of return are estimated to be 15% and 10% respectively. Calculate the Required rate of Return, if the market sensitivity index (β) is 1.5.

Section A

I. Answer any one Question from Q. No 2 and 3. Each Question carries 15 Marks

2.(a) A company has two divisions, X and Y. Division X manufactures a component which is used by Division Y to produce a finished product. For the next period, output and costs have been budgeted as follows.

Particulars	Division X	Division Y
Component units	50,000	---
Finished units	---	50,000
Total variable costs – Rupees	2,50,000	6,00,000
Fixed Costs Rupees	1,50,000	2,00,000

The fixed costs are separable for each division. You are required to advise on the transfer price to be fixed for Division X's component under the following circumstances.

A. Division A can sell the component in a competitive market for ₹ 10 per unit. Division Y can also purchase the component from the open market at that price.

B. As per the situation mentioned in (A) above, and further assume that Division Y currently buys the component from an external supplier at the market price of ₹ 10 and there is reciprocal agreement between the external supplier and another Division Z, within the same group. Under this agreement, the external supplier agrees to buy one product unit from Division Z at a profit of ₹ 4 per unit to that division, for every component which Division B buys from the sup. **[10]**

(b) Write a note on Responsibility Accounting. **[5]**

3.(a) A company manufactures scooters and sells it at ₹3,000 each. An increase of 17% in cost of materials and of 20% of labour cost is anticipated. The increased cost in relation to the present sales price would cause at 25% decrease in the amount of the present gross profit per unit. At present, material cost is 50%, wages 20% and overhead is 30% of cost of sales.

You are required to:

(i) Prepare a statement of profit and loss per unit at present and;

(ii) Compute the new selling price to produce the same percentage of profit to cost of sales as before. **[5+5]**

(c) What are the limitations of Inter-firm Comparison? **[5]**

II. Answer any one Question from Q. No 4, 5 and 6. Each Question carries 10 Marks

4.(a) A firm received an order to make and supply eight units of standard product which involves intricate labour operations. The first unit was made in 10 hours. It is understood that this type of operations is subject to 80% learning rate. The workers are getting a wages rate of ₹ 12 per hour.

(i) What is the total time and labour cost required to execute the above order?

(ii) If a repeat order of 24 units is also received from the same customer, what is the labour cost necessary for the second order? **[4+3]**

(b) What are the significance of Management Accounting. **[3]**

5.(a) What are the features of Learning Curve? **[5]**

(b) State the Applications of Marginal Costing. **[5]**

6. The standard set for material consumption was 100kg. @ ₹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.

Calculate: a) usage b) Price variance

(i) When variance is calculated at point of purchase

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

(iii) When variance is calculated at point of issue on LIFO basis **[10]**

Section B

Answer any two Questions from Q. No 7, 8 and 9. Each Question carries 20 Marks

7.(a) Sampa Ltd is evaluating a project costing ₹20 lakhs. The Project generates savings of ₹2.95 lakhs per annum to perpetuity. The business risk of the project warrants a rate of return of 15%.

(i) Calculate Base case NPV of the project assuming no tax.

(ii) Assuming Tax Rate of 30% with 14% Cost of Debt constituting 30% of the cost of the project, determine Adjusted Present Value.

(iii) Find out minimum acceptable Base Case NPV, as well as Minimum IRR.

[2+3+3=8]

(b) Calculate the level of earnings before interest and tax (EBIT) at which the EPS indifference point between the following financing alternatives will occur.

Combination-I

Equity share capital of ₹ 6,00,000 and 12% Debentures of ₹ 4,00,000.

Combination-II

Equity share capital of ₹ 4,00,000, 14% Preference share capital of ₹ 2,00,000 and 12% Debentures of ₹ 4,00,000.

Assume the corporate tax rate is 30% and par value of equity share is ₹ 100 in each case. **[3+4=7]**

(c) Explain the term Foreign Currency Convertible Bonds (FCCBs). **[5]**

8.(a) A company operates at a production level of 10,000 units. The contribution is ₹68 per unit, operating leverage is 7.5, and combined leverage is 30. If tax rate is 30%. Estimate the earnings after tax. **[5]**

(b) List out the needs of Capital Budgeting Decisions. **[6]**

(c) The directors of Virat Limited are contemplating the purchase of a new machine to replace a machine which has been in operation in the factory for the last 5 years.

Ignoring interest but considering tax at 30% of net earnings, suggest which of the two alternatives should be preferred. The following are the details:

Particulars	Existing Machine	New Machine
Purchase price	₹1,40,000	₹2,10,000
Estimated life of machine	10 years	10 years
Machine running hours per annum	2,000	2,000
Units per hour	12	18
Wages per running hour	3	5.25
Power per annum	2,000	4,500
Consumables stores per annum	6,000	7,500
All other charges per annum	8,000	9,000
Materials cost per unit	1.00	1.00
Selling price per unit	2.50	2.50

You may assume that the above information regarding sales and cost of sales will hold good throughout the economic life of each of the machines. Depreciation has to be charged according to straight-line method. **[9]**

9.(a) Explain the procedure involved in the 'Forfeiting' Financial Service. **[5]**

(b) The Balance Sheet of JK Limited as on 31st March, 2015 and 31st March, 2016 are given below:

Balance Sheet as on

(**₹'000'**)

Liabilities	31.03.15	31.03.16	Assets	31.03.15	31.03.16
Share Capital	1,440	1,920	Fixed Assets	3,840	4,560
Capital Reserve	----	48	Less: Depreciation	1,104	1,392
General Reserve	816	960	Net Fixed asset	2,736	3,168
Profit & Loss A/c	288	360	Investment	480	384
9% Debenture	960	672	Cash	210	312
Current Liabilities	576	624	Other Current Assets		
Proposed Dividend	144	174	(Including Stock)	1,134	1,272
Provision for Tax	432	408	Preliminary Expenses	96	48
Unpaid Dividend	----	18			
	4,656	**5,184**		**4,656**	**5,184**

Additional Information:

1. During the year 2015-2016, Fixed Assets with a book value of ₹2,40,000 (accumulated depreciation ₹84,000) was sold for ₹1,20,000.
2. Provided ₹4,20,000 as depreciation.
3. Some investments are sold at a profit of ₹48,000 and profit was credited to Capital Reserve.
4. It decided that stocks be valued at cost, whereas previously the practice was to value stock at cost less 10 per cent. The stock was ₹2,59,200 as on 31.03.15. The stock as on 31.03.16 was correctly valued at ₹3,60,000.
5. It decided to write off Fixed Assets costing ₹60,000 on which depreciation amounting to ₹48,000 has been provided.
6. Debentures are redeemed at ₹105.

Required:

Prepare a Cash Flow Statement. **[10]**

(c) Discuss about the Venture Capital. **[5]**