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. Management accounting is composed of.	**A.** the Tandon Committee
2. Variance Analysis	**B.** Fixed
3. Variable cost per unit	**C.** Management and Accounting
4. some industries covered by	**D.** Technique to assist inter-firm comparison

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

(i) The use of management accounting is
- **A.** Compulsory
- **B.** Optional
- **C.** Mandatory as per the law
- **D.** None of the above

(ii) Decision-making concerns the
- **A.** Past
- **B.** Future
- **C.** Past and future both
- **D.** None of the above

(iii) Which of the following departments is most likely responsible for a price variance in direct materials?
- **A.** Warehousing
- **B.** Receiving
- **C.** Purchasing
- **D.** Production

(c) Fill in the blanks: **[1×4 =4]**

(i) Inter firm comparison is the technique of evaluation of ------------------

(ii) Management Accounting tailors ---------------- information to meet the specific needs of management.

(iii) If Profitability Index is 1, cash inflow and cash outflow would be----------

(iv) A GDR is a ………… Instrument.

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

(i) Standard costing works on the principle of exception.

(ii) Any form of accounting, which enables a business to be conducted more efficiently can be regarded as Management Accounting.

(iii) At breakeven point, contribution available is equal to total fixed cost.

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

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

(i) SHAAN LTD. earned a profit of ₹3,00,000 during the year 2014-15. If the marginal cost and selling price of a product are ₹80 and ₹100 per unit respectively, find out the amount of 'Margin of Safety'.

(ii) Bharat Ltd. is preparing its cash budget for the period. Sales are expected to be ₹ 1,00,000 in April 2016, ₹2,00,000 in May 2016, ₹ 3,00,000 in June 2016 and ₹ 1,00,000 in July 2016. Half of all sales are cash sales, and the other half are on credit. Experience indicates that 70% of the credit sales will be collected in the month following the sale, 20% the month after that, and, 10% in the third month after the sale. Calculate the budgeted collection for the month of July 2016.

(iii) Optimistic Ltd has an EPS of ₹90 per share. Its Dividend Payout Ratio is 40%. Its earnings and dividends are expected to grow at 5% per annum. Find out the cost of Equity Capital if its Market Price is ₹360 per share.

(iv) Consider the following information for Target Ltd.

EBIT	₹1120 Lakhs
PBT	₹320 Lakhs
Fixed Cost	₹700 Lakhs

Calculate the percentage of change in earnings per share, if sales increased by 5%.

(v) A project has an equity beta of 1.2 and is going to be financed by 30% debt and 70% equity. Assume debt beta = 0, R_f= 10% and R_m= 18%. What is the required rate of return?

Section A

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

2.(a) The share of total production and the cost-based fair price computed separately for each of the four units in industry are as follows:

	₹ per unit			
Share of Production	40%	25%	20%	15%
Material Costs	150	180	170	190
Direct Labour	100	120	140	160
Depreciation	300	200	160	100
Other overheads	300	300	280	240
	850	800	750	690
20% return on capital employed	628	430	350	230
Fair Price	1,480	1,230	1,100	920
Capital employed per unit is worked out as follows:				

Net Fixed Assets	3,000	2,000	1,600	1,000
Working Capital	140	150	150	150
Total	3,140	2,150	1,750	1,150

Indicate with reasons, what should be the uniform Price fixed for the product. **[6]**

(b) Distinguish between fixed budget and flexible budget. **[5]**

(c) A mobile manufacturing company finds that while it costs ₹ 6.25 each to make a component X – 2370, the same is available in the market at ₹ 5.75 with an assurance of continued supply. The break-down of cost is:

Direct materials	₹ 2.75 each
Direct labour	₹ 1.75 each
Other variables	₹ 0.50 each
Depreciation and other fixed cost	₹ 1.25 each
Total	₹ 6.25 each

(i) Should you make or buy?
(ii) What would be your decision if the supplier offers the component at ₹ 4.85 each?

[4]

3.(a) Division A is a profit centre that produces three products X, Y and Z and each product has an external market. The relevant data is as:

	X	Y	Z
External market price per unit (₹)	48	46	40
Variable cost of production (division A) (₹)	33	24	28
Labour hours per unit (division A)	3	4	2
Maximum external sales units	800	500	300

Up to 300 units of Y can be transferred to an internal division B.
Division B has also the option of purchasing externally at a price of ₹ 45 per unit.
Determine the transfer price for Y the total labour hours available in division A is:
(i) 3800 hours
(ii) 5600 hours **[4+4]**

(b) 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? **[5+2]**

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

4. A practicing Cost Accountant now spends ₹ 0.90 per k.m. on taxi fares for his client's work. He is considering to other alternatives the purchase of a new small car or an old bigger car.

Item	New Small Car	Old bigger Car
Purchase price (₹)	35,000	20,000

Sale price after 5 years (₹)	19,000	12,000
Repairs and servicing per annum (₹)	1,000	1,200
Taxes and insurance p.a. (₹)	1,700	700
Petrol consumption per liter (K.m.)	10	7
Petrol price per liter (₹)	3.5	3.5

He estimates that he does 10,000 K.m. annually. Which of the three alternatives will be cheaper? If his practice expands he has to do 19,000 Km p.a. which is cheaper? Will cost of the two cars break even and why? Ignore interest and Income-tax. **[10]**

5.(a) Explain the features of Marginal Costing. **[5]**

(b) What are the reasons for using Learning Curve? **[5]**

6. From the following forecast of income and expenditure prepare a Cash Budget for the three months ending on June, 2016:

Month	Sales	Purchase	Wages	Misc.
	(₹)	(₹)	(₹)	(₹)
2016, February	1,20,000	84,000	10,000	7,000
March	1,30,000	1,00,000	12,000	8,000
April	80,000	1,04,000	8,000	6,000
May	1,16,000	1,06,000	10,000	12,000
June	88,000	80,000	8,000	6,000

Additional Information:

I. Sales: 20% realised in the month of sales, discount allowed 2%, balance realised equally in two subsequent months.

II. Purchases: These are paid in the month following the month of supply.

III. Wages: 25% paid in arrears following month.

IV. Misc. Expenses : Paid a month in arrears.

V. Rent: ₹ 1,000 per month paid quarterly in advance due in April.

VI. Income Tax: First installment of advance tax ₹ 25,000 due on or before 15th June to be paid within the month.

VII. Income from Investment: ₹5,000 received quarterly in April, July etc.

VIII. Cash in Hand: ₹5,000 in April 1,2016. **[10]**

Section B

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

7. (a) Aries Limited wishes to raise additional finance of ₹10 lacs for meeting its investment plans. It has ₹2,10,000 in the form of retained earnings available for investment purposes. The following are the further details:

1. Debt/equity mix — 30% / 70%
2. Cost of debt upto₹1,80,000 10% (before tax) beyond ₹1,80,000 16%(before tax)
3. Earnings per share — ₹4
4. Dividend payout — 50% of earnings
5. Expected growth rate in dividend — 10%
6. Current market price per share — ₹44
7. Tax rate — 50%

You are required to:
To determine the pattern for raising the additional finance.
To determine the post-tax average cost of additional debt.
To determine the cost of retained earnings and cost of equity, and Compute the overall weighted average after tax cost of additional finance. **[4+2+2+4]**

(b) A Company's current operating income is ₹4 lakhs. The firm has ₹10lakhs of 10% debt outstanding. Its cost of equity capital is estimated to be 15%.
(v) Determine the current value of the firm using traditional valuation approach.
(vi) Calculate the firm's overall capitalisation ratio as well as both types of leverage ratios (a) B/s (b) B/V. **[4+4]**

8. (a) Rajesh Ltd is considering the purchase of a delivery van, and is evaluating the following two choices:
The company can buy a used van for ₹ 20,000 and after 4 years sell the same for ₹ 2,500 (net of taxes) and replace it with another used van which is expected to cost ₹ 30,000 and has 6 years life with no terminating value.
The company can buy a new van for ₹ 40,000. The projected life of the van is 10 years and has an expected salvage value (net of taxes) of ₹ 5,000 at the end of 10 years.
The services provided by the vans under both the choices are the same. Assuming the cost of capital at 10 percent, which choice is preferable? **[8]**

(b) What are the objectives of financial management? **[5]**

(c) With the help of the following information complete the Balance Sheet of PKJ Ltd.

Equity share capital	₹ 1,00,000
The relevant ratios of the company are as follows:	
Current debt to total debt	40
Total debt to owner's equity	60
Fixed assets to owner's equity	60
Total assets turnover	2 Times
Inventory turnover	8 Times

[7]

9. (a) Difference between factoring and discounting. **[5]**

(b) From the following data, compute the duration of the operating cycle for each of years:

	Year1 (`)	Year2 (`)
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. **[10]**

(c) What are the limitations of Fund Flow Statement? **[5]**