Paper 8- Cost Accounting & Financial Management

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

Sec-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) A Ltd purchased 1000 Kgs of Material-X at ₹12/ per kg on 03-Jun-2016 from supplier Alpha Ltd. It purchased 2000 Kgs of Material-X at ₹12.5 Per kg on 09-Jun-2016 from Alpha Ltd. The Company also purchased the 3000 Kgs Material-X at ₹12.25 Per Kg from another supplier Delta Ltd on 28-Jun-2016. The closing stock of Material X for the month of June'2016 is 2500Kgs and A Ltd follows FIFO method of valuation for material issues, then what is the value of Closing Stock for the month of Jun'2016?

(ii) Standard time allowed to complete a task is 48 Hours. A worker completed the task in 40 Hours. Time rate per hour is ₹15, Compute the total earnings of the worker under Halsey bonus plan?

(iii) In an organization, total no of workers are 100. Working days in a year 300 days. No of working hours per day is 8. The factory overheads incurred by the company for the year is ₹240000. Compute the Factory Overhead recovery rate per hour based on the direct labour hours?

(iv) Mr.VIP needs ₹10,00,000 for buying a Car exactly after one year from today. He can earn 10% on his money if deposited in a Bank. How much does he need to deposit today in Bank?

(v) Optra Ltd Paid dividend of ₹2. Expected growth rate in dividend is 10%. Cost of Equity of Optra Ltd is 15%, then what is the share price of the Optra Ltd?

(B) State whether the following statements are True or False **[5 ×1 = 5]**

(i) Under the average price method of valuing material issues, a new issue price is determined after each purchase

(ii) Wages paid for abnormal idle time are added to wages for calculating prime cost.

(iii) Fixed Overheads per unit remains fixed irrespective of volume of output.

(iv) For an all equity company Cost of Capital is same as Cost of Equity

(v) Commercial Paper is a long term source of Finance.

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

(i) TheOvertime worked at the request of Customer is treated as ……………wages.

(ii) The excess of Total Cost of production of an article over the direct material cost is known as ………. Cost

(iii) Charging of identifiable items of Cost to Cost Centers is known as ……….

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

(v) Profit after Tax + Non Cash Expenses = …………

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

(i) Rowan	(A) Single Rate of overhead
(ii) JIT System	(B) Capital Budgeting
(iii) Blanket Overhead	(C) Capital Structure
(iv) Traditional Approach	(D) Bonus Plan
(V) Discounted Pay back	(E) Inventory Control

Sec-B

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

2 (A) From the following particulars with respect to a particular item of materials of a manufacturing company, calculate the best quantity to order:

Ordering quantities (tonne)	**Price per ton ₹**
Less than 250	6.00
250 but less than 800	5.90
800 but less than 2,000	5.80
2,000 but less than 4,000	5.70
4,000 and above	5.60

The annual demand for the material is 4,000 tonnes.
Stock holding costs are 20% of material cost p.a.
The delivery cost per order is ₹6.00 **[12]**

(B) How do you treat the Packing Cost in Cost Accounting? **[3]**

3 (A) In a manufacturing concern bonus to workers is paid on a slab rate based on cost savings towards labour and overheads. The following are the slab rates:

Upto 10% saving 5% of the earning
Upto 15% Saving 9% of the earning
Upto 20% Saving 13% of the earning
Upto 30% Saving 21% of the earning
Upto 40% Saving 28% of the earning
Above 40% Saving 32% of the earning

The wage rate per hour of workers - P,Q R and S are respectively ₹1.00, ₹1.10, ₹1.20 and ₹1.40. Overheads is recovered on direct wages at the rate of 200%. Standard cost under wages and overhead per unit of production is fixed at ₹30. The workers have completed one unit each in 8, 7, 5½ and 5 hours respectively. Calculate in respect of each worker:
a) amount of bonus earned b) Total earnings; c) Total earnings per hour **[12]**

(B) What are the causes for Labour Turnover? **[3]**

4. (A) The following information relates to the activities of a production department of factory for a certain period.

Material used	36,000	
Direct Wages ₹	30,000	
Labour hours	12,000	
Hours of Machinery-operation		20,000
Overhead Chargeable to the Dept ₹		25,000

On one order carried out in the department during the period the relevant data were:-

Material used ₹	6,000	
Direct Wages ₹	4,950	
Labour hours worked	1,650	Hrs.
Machine Hours		1,200

Calculate the overheads chargeable to the job by four commonly used methods **[12]**

(B) Write a Short note on Supplementary Overhead Rate? **[3]**

5 Following data is available from the cost records of a company for the month of March 2010:

1) Opening stock of job as on 1st March 2010
   Job no. A 99: Direct material ₹ 80, Direct wages ₹ 150 and factory overheads ₹ 200
   Job no. A 77: Direct material ₹ 420, Direct wages ₹ 450 and factory overheads ₹ 400
2) Direct material issued during the month of February 2007 was:
   Job no A 99 ₹ 120
   Job no A 77 ₹ 280
   Job no A 66 Rs .225
   Job no A 55 ₹ 300
3) Direct labour details for March 2010 were

Job no	Hours	Amount (₹)
A 99	400	600
A 77	200	450
A 66	300	675
A 55	100	225

4) Factory overheads are applied to jobs on production according to direct labour hour rate which is ₹ 2 per hour.
5) Factory overhead incurred in March 2010 were ₹ 2100
6) Job numbers A 99 & A 77 were completed during the month. They were billed to the customers at a price which included 15% of the price of the job for selling & distribution expenses and another 10% of the price for profit.

Prepare:

a) Job cost sheet for job number A 77 and A 99
b) Determine the selling price for the jobs
c) Calculate the value of work in process **[6+6+3 = 15]**

Sec-C

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

6 (A) : With the help of the following ratios regarding Indu Films draw the Balance sheet of the company for the year 2011:

Current Ratio	2.5
Liquidity ratio	1.5
Net working capital	₹3,00,000
Stock turn over ratio (cost of sales /closing stock)	6 times
Gross profit ratio	20%
Fixed Assets turn over ratio (on cost of sales)	2 times
Debt collection period	2 months

Fixed Assets to share holders net worth	0.80
Reserve and surplus to capital	0.5

[12]

(B) What are the differences between Cash-flow statement and Funds flow statement? **[3]**

7 (A) The following financial data have been furnished by A Ltd. and B Ltd. for the year ended 31.3.2005.

	A Ltd.	B Ltd.
Operating leverage	3:1	4:1
Financial Leverage	2:1	3:1
Interest charges per annum	₹ 12 lakhs	₹ 10 lakhs
Corporate tax rate	40%	40%
Variable cost as % of sales	60%	50%

Prepare Income statements of the two companies. Also comment on the financial position and structure of the two companies. **[8]**

(B) Bisk-Farm Biscuits Ltd is considering the purchase of a delivery van, and is evaluating the following two choices:

a) 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,

b) 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? **[7]**

8 (A) AB Ltd. estimates the cost of equity and debt components of its capital for different levels of debt: equity mix as follows:

Debt as % of total capital	Cost of Equity	Cost of debt % (before tax)
0	16	12
20	16	12
40	20	16
60	24	20

Suggest the best debt: equity mix for the company. Tax rate applicable to the company is 50%. Show workings **6**

(B) A company plans to manufacture and sell 400 units of a domestic appliance per month at a price of ₹ 600 each. The ratio of costs to selling price are as follows:

	(% of selling price)
Raw materials	30%
Packing materials	10%
Direct labour	15%
Direct expense	5%

Fixed overheads are estimated at Rs 4,32,000 per annum.
The following norms are maintained for inventory management:

Raw materials	30 days
Packing materials	15 days
Finished goods	200 units
Work-in-progress	7 days

Other particulars are given below:

(a) Credit sales represent 80% of total sales and the dealers enjoy 30 working days credit. Balance 20% are cash sales.
(b) Creditors allow 21 working days credit for payment.
(c) Lag in payment of overheads and expenses is 15 working days.
(d) Cash requirements to be 12% of net working capital.
(e) Working days in a year are taken as 300 for budgeting purpose.

Prepare a Working Capital requirement forecast for the budget year. **[9]**