Paper 8- Cost Accounting & Financial Management

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

Section 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) Material with invoice value ` 10,000 was received in the Stores Dept. The transport cost was ` 200. Since the material leaked in transit, damage to other goods of ` 350 had to be paid to the transporter. What would be the material cost?

(ii) Direct materials and direct labour cost of job No. 111 are ` 760 and ` 550 respectively. Overheads are charged @ 60% of direct labour. If the profit is included @ 20% of the price charged to customer, then calculate the price of job No. 111?

(iii) Cost of a machine is ` 30,000. Estimated scrap value at the end of 10 years ` 6,000. Running hours of the machine are 24,000 p.a. Find out the depreciation per hour?

(iv) 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%?

(v) Average collection period of a company is 2 months, Cash sales and average receivables are ` 5,00,000 and ` 6,50,000 respectively. Find the amount of total sales?

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

(i) Cost Accounting is not a branch of Financial Accounting

(ii) Labour Turnover is the change in labour force during a period of time.

(iii) Bincard shows the Quantity of a material at any movement of time

(iv) Cash collected from Sundry Debtors will be shown under Cash from Investing Activities as per AS-3

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

(c) Fill in the Blanks **5 × 1 = 5**

(i) The abnormal idle time cost is charged ……………Account.

(ii) Stores ledger is maintained by…………………department

(iii) Interest on capital is an example for ……………………. Cost.

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

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

(D) Match the Following **5 × 1 = 5**

(i) Point Rating System	(A) Capital Structure
(ii) JIT System	(B) Job Evaluation
(iii) Net Income Approach	(C) EBIT
(iv) Operating Income	(D) Profitability Index
(V) Benefit Cost Ratio	(E) Inventory Control

Sec-B

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

2. (A) Anil company buys its annual requirement of 36,000 units in six installments. Each unit costs `1 and the ordering cost is `25. The inventory carrying cost is estimated at 20% of unit value. Find the total annual cost of the existing inventory policy. How much money can be saved by using E.O.Q [8]

(B) What do you mean by perpetual Inventory system and state its benefits? [8]

3. (A) A workman takes 9 hours to complete a job on daily wages and 6 hours on a scheme of payment by results. His hourly rate is 25 p. the Material cost of the product is `4 and factory overheads are recovered at 150% of the total direct wages. Calculate the factory cost of the product under:
(a) Time rate system (b) Halsey Plan (c) Rowan Plan. [9]

(B) What are the General principles in designing the system of remuneration to Employee? [6]

4. (A) In an Engineering Factory, the following particulars have been extracted for the quarter ended 31st December, 2011. Compute the departmental overhead rate for each of the production departments, assuming that overheads are recovered as a percentage of direct wages.

	Production Departments			Service Departments	
	A	B	C	X	Y
Direct Wages (`)	30,000	45,000	60,000	15,000	30,000
Direct Material	15,000	30,000	30,000	22,500	22,500
No. of Workers	1,500	2,250	2,250	750	750
Electricity KWH	6,000	4,500	3,000	1,500	1,500
Assets Value	60,000	40,000	30,000	10,000	10,000
No. of Light points	10	16	4	6	4
Area Sq. Yards	150	250	50	50	50

The expenses for the period were:

	`
Power	1,100
Lighting	200
Stores Overhead	800
Welfare of Staff	3,000
Depreciation	30,000
Repairs	6,000
General Overheads	12,000
Rent and Taxes	550

Apportion the expenses of Service Dept. Y according to direct wages and those of Service Department X in the ratio of 5: 3: 2 to the production departments. [11]

(B) What are the causes for Under or Over absorption of overheads in Cost Accounts? [4]

5. (A) An advertising agency has received an enquiry for which you are supposed to submit the quotation. Bill of material prepared by the production department for the job states the following requirement of material:

Paper 10 reams @ ` 1800 per ream	
Ink and other printing material	` 5000
Binding material & other consumables	` 3000

Some photography is required for the job. The agency does not have a photographer as an employee. It decides to hire one by paying ` 10000 to him. Estimated job card prepared by production department specifies that service of following employees will be required for this job:

Artist (` 12000 per month)	80 hours
Copywriter (` 10000 per month)	75 hours
Client servicing (` 9000 per month)	30 hours

The primary packing material will be required to the tune of ` 4000. Production overheads 40% of direct cost, while the S&D overheads are likely to be 25% on production cost. The agency expects a profit of 20% on the quoted price. The agency works 25 days in a month and 6 hours a day. [12]

(B) What are the advantages of Cost Accounting system? [3]

Sec- C

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

6 (A) Following are the ratios to the trading activities of National Traders Ltd:

Debtors velocity	3 months
Stock velocity	8 months
Creditors velocity	2 months
Gross profit ratio	25%

Gross profit for a year ended 31st December, 2007 amounts to `4,00,000, closing stock of the year is `10,000 above the opening stock. Bills receivable amount to `25,000 and Bills payable to `10,000.
Find out: (a) Sales (b) Sundry Debtors (c) Closing stock (d) Sundry creditors [10]

(B) What are the factors that determine the requirements of working capital of an organization? [5]

7. (A) XYZ and Co. has three financial plans before it, Plan I, Plan II and Plan III. Calculate operating and financial leverage for the firm on the basis of the following information and also find out the highest and lowest value of combined leverage:

Production	800 Units
Selling Price per unit	` 15
Variable cost per unit	` 10
Fixed Cost : Situation A	` 1,000
Situation B	` 2,000
Situation C	` 3,000

Capital Structure	Plan I	Plan II	Plan III

Equity Capital	` 5,000	` 7,500	` 2,500
12% Debt	5,000	2,500	7,500

[10]

(B) A company's expected annual net operating income (EBIT) is `50,000. The company has ` 2,00,000, 10% debentures. The equity capitalization rate (Ke) of the company is 12.5%. Find the value of the firm and overall cost of capital under Net Income approach. [5]

8. (A) Zenith Industries Ltd. are thinking of investing in a project cost ` 20 lakhs. The life of the project is five years and the estimated salvage value of the project is zero. Straight line method of charging depreciation is followed. The tax rate is 50%. The expected cash-flows before tax are as follows:

Year	1	2	3	4	5
Estimated Cash flow before depreciation and tax (` Lakhs)	4	6	8	8	10

You are required to determined the:
(i) Pay back period for the investment
(ii) Average rate of return on the investment
(iii) NPV at 10% cost of capital
(iv) Profitability Index [12]

(B) Write a Short note on significance of Cash Flow analysis. [3]