Paper 10– Cost &Management Accounting and Financial Management

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

This paper has been divided into two Parts A & B,each carrying 50 marks.
Further each Part has been divided into two sections each.

Part-A
(COST & MANAGEMENT ACCOUNTING)

(50 Marks)

Section-I

Answer the following questions.

1.(a) Choose the most Appropriate alternative for the following **(You may write only the Roman numeral and the alphabet chosen for your answer);** **1 X 6 =6**

(i) Division Accounting is divided into
(a) 2
(b) 3
(c) 4
(d) None of these

(ii) Contribution margin is known as,
(a) Net income
(b) Gross margin
(c) Net profit
(d) None of these

(iii) The P/V ratio of a product is 0.4 and the selling price is 40 per unit.The marginal cost of the product would be
(a) 8
(b) 20
(c) 24
(d) 16

(iv)Budget period depends upon….
(a) The type of budget
(b) The nature of business
(c) The length of trade Cycle
(d) All of these

(v) Which of the following operating measures would a manager want to see decreasing over time?
(a) Merchandise inventory turnover
(b) Total quality cost
(c) Percentage of on-time deliveries
(d) Finished goods inventory turnmover.

(vi) Which of the following factors does not affect Learning Curve?
(a) Method of Production
(b) Labour Strike
(c) Shut Down
(d) Efficiency Rate.

(b) Match the statement under Column I with the most appropriate statement under Column II (you may opt to write only the numeral and the matched alphabet instead of copying the contents into the answer book): **1X4=4**

	Column I		Column II
1	Variance Analysis	(A)	Definite Period
2	Budget is prepared for a	(B)	Avoidable Fixed Cost/PV ratio
3	Breakeven Point	(C)	Difference between Standard and Actual Cost
4	Shut down Point	(D)	Fixed Cost/PV ratio

(c) Statement whether the following statement are True or False (You may write only the Roman numeral and whether True or False without Copying the Statement into answer book);
1X4=4

(i)At breakeven point margin of safety is nil.
(ii)It is optional for a company to have financial accounting.
(iii)Zero based Budgeting cannot be used for decision making.
(iv)Cash Budget Shows the expected sources and utilization of cash.

Section II

2(a) A mobile manufacturing company finds that while it costs ₹ 12.50ech to make component X-2870,the same is available in the market ₹ 11.50 with an assurance continued supply.The Break down of cost is:

Direct Material	₹ 5.50
Direct Labour	₹ 3.50
Other variables	₹ 1.00
Deprecation and fixed cost	₹ 2.50
Total	₹ 12.50

(i) Should you make or buy
(ii) What would be your decision if the supplier offers the component at ₹ 9.70

[6]

(b) From the following data calculate:

(1)B.E.P expressed in amount of sales (₹)

(2)Number of units that must be sold to earn a profit of ₹ 90,000 per year

(3)How many units must be sold to earn a net income of 10% sales.

Sales price ₹ 30per unit; variable manufacturing costs ₹ 16.50 p.u;fixed factory overheads ₹ 10,80,000 p.a selling costs ₹4.50 p.u.Fixed Selling costs ₹ 5,04,000 per year. **[6]**

3(a) A Co. Manufacturing two products operates a standard costing system. The standard OH content of each product in cost center 101 is.

Product A ₹ 4.80 (8 direct labour hours @ 60p. per hour)

Product B ₹ 3.60 (6 direct labour hour @ 60 p. per hour)

The rate of 60p. per hour is arrived at as follows:

Budgeted OH	₹ 1,140
Budgeted Direct labour hour	1,900
Output of product A	100 units
Output of product B	200 units
No opening or closing stock	
Actual direct labour hours worked	2,320
Actual OH incurred	₹1,280

(i) you are required to calculate total OH for the month.

(ii)Show division into: 1) expenditure 2)Volume 3)efficiency Variances. **[6]**

(b) The Cost accountant of a Co .was given the following information regarding the OHs for Feb,2019

a. Overhead Cost Variance ₹ 2,800

b .Overhead Volume Variance ₹2,000 (A)

c. Budgeted Hours for Feb, 2019: 1,200 Hours

d. Budgeted OH for Feb, 2013: ₹ 12,000

e. Actual Rate of Recovery of OH ₹16 per hour

You are required to assist him in computing the following for Feb, 2019

1. OHs expenditure Variance
2. Actual OH's incurred
3. Actual Hours for Actual Production
4. OHs Capacity Variance
5. OHs efficiency Variance
6. Standard Hours for Actual Production **[6]**

4(a) The profit for the year of Push on Ltd. works out 12.5% of the capital employed and the relevant figures are as under:

	(₹)
Sales	7,50,000
Direct Materials	3,75,000
Direct Labour	1,50,000
Variable Overheads	60,000
Capital employed	6,00,000

The new sales manager who has joined the company recently estimates for the next year a profit of about 23 % on capital employed ,provided the volume of sales is increased by 10 % and simultaneously there is an increase in selling price of 4% and overall cost reduction in all the elements of cost by 2%.

Find out by computing in detail the cost profit for the next year, whether the proposal of sales manager can be adopted. **[6]**

(b)The learning curve as a management accounting has now become or going tool in industry, for its application are almost unlimited .When it is used correctly, it can lead to increase business and higher profits; when use without proper knowledge ,it can lead to lost business and bankruptcy. State precisely

(i) your understanding of the learning curve

(ii) The theory of learning curve

(iii) The areas where learing curves may assist in management accounting ; and

(iv) Ilustrate the use of learning curves for calculating the expected average units cost of making.

a) 4 machines b) 8 machines
Using the data below:

Direct labour need to make first machine	1,000 hrs
Learning curve	90%
Direct Labour Cost	₹ 15 per hour
Direct materials cost	₹ 1,50,000
Fixed cost for either size orders	₹ 60,000

[6]

5.Write short notes on any three out of the following : **3X4=12**
(i) Practical application of Differential Costs.
(ii) Performance Budgeting
(iii) Limitations of Uniform Costing
(iv) Distinctive Features of Learning Curve Theory.

Part B

(Financial Management)
(50 Marks)
Section III

6. Answer the following questions:

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

(i) _________ __________ reflects the impact of change in sales on the level of operating profits of the firm.
(A) Operating Leverage
(B) Financial Leverage
(C) Combined Leverage
(D) None of the above

(i) Which one of the following activities is outside the purview of dividend decision in financial management?
(A) Identification of the profit after taxes
(B) Measurement of the cost of funds
(C) Deciding on the pay-out ratio
(D) Considering issue of bonus shares to equity shareholders

(ii) Which of the following is a Profitability Ratio?
(A) Proprietary Ratio
(B) Debt-Equity Ratio
(C) Price-Earning Ratio
(D) Fixed Asset Ratio

(iii) In cash flow statement, the item of interest is shown in
(A) Operating Activities
(B) Financing Activities
(C) Investing Activities
(D) Both B and C

(iv) From the following select one factor which is application of fund.
(a) Issue of share capital
(b) Decrease in working capital
(c) Increase in working capital
(d) None of the above

(v) From the enumerated list please select instrument which is not dealt in capital market.
(a) Commercial Paper
(b) Debenture
(c) Sweat Equity
(d) None of the above

(b) Match the statement under Column I with the most appropriate statement under Column II (you may opt to write only the numeral and the matched alphabet instead of copying the contents into the answer book): **[1×4=4]**

Column I	Column II
(i) Current Ratio	(A) Dividend Irrelevancy Model
(ii) High risk and high reward projects financing	(B) Bearer instrument
(iii) GDR	(C) Equity Financing
(iv) MM Model	(D) Commitment to meet short term liabilities

(c) Statement whether the following statement are True or False (You may write only the Roman numeral and whether True or False without Copying the Statement into answer book);

[1×4=4]

(i) The excess of Current Liabilities over Current Assets is known as Net Working Capital.
(ii) Letter of Credit represents short-term unsecured promissory notes issued by firms which enjoy a fairly high credit rating.
(iii) Profitability Index of a project is the ratio of the present value of future net cash inflows to the present value of cash outflows.
(iv) The price of a share of common stock acts as a barometer indicating how well management is doing on behalf of shareholders.

Section IV
Answer any three Question from Q. No 7, 8, 9 and 10. Each Question carries 12 Marks.

7.(a) The following is the summary having a sale of ₹ 32 lakh.

Sales to net worth (times)	2.3
Current debt to net worth (%)	42
Total debt to net worth (%)	75
Current ratio (times)	2.9
Net sales to inventory (times)	4.7
Fixed assets to net worth (%)	53.2

Performa Balance Sheet

Net worth	---	Fixed assets	---
Long-term debt	---	Cash	---
Current debt	---	Stock	---
		Sundry debtors	568889
	---		---

You are required to Complete the Performa Balance Sheet. **[8]**

(b) Classify the following independent items of cash flows under AS-3
(I) Cash receipts from future contracts held for trading purpose.
(II) Cash receipts from repayment of advances to third parties other than a financial

enterprise.

(III) Cash interest received from by a financial enterprise.
(IV) Cash received from disposal of fixed assets.
(V) Cash receipts from interests in joint venture.
(VI) Dividends paid by a non- financial enterprise.
(VII) Cash payments on account of acquisition of a subsidiary.
(VIII) Cash flows arising from taxes on income, not specifically identifiable. **[4]**

8.(a) S. Ltd. produces a product with the following revenue-cost structure:

	₹ per unit
Raw Material Direct labour Overheads	115 80 37
Total cost Profit	232 58
Selling Price	290

The following additional information is available:

(i) Average raw materials in stock: one month
(ii) Average work in-process: half-a-month—Raw Materials 100%, Direct labour 50%,Overheads 50% complete
(iii) Average finished goods in stock: one month
(iv) Credit allowed by suppliers: one month
(v) Credit allowed to debtors: two months (vi)
(vi) Time lag in payment of wages: half-a-month
(vii) Overheads: one month
(viii) One-fourth of sales are on cash basis
(ix) Cash balance is expected to be ₹ 1,65,000

You are required to prepare a statement showing the Working Capital requirement of the company to finance a level of activity of 60,000 units of annual output. Assume uniform production throughout the year. Wages and overheads accrue uniformly. Debtors are to be taken at cost. **[8]**

(b) The following information is available for ABC & Co.

EBIT ₹11,20,000

Profit before Tax ₹ 3,20,000

Fixed costs ₹ 7,00,000

Calculate % change in EPS if the sales are expected to increase by 5%. **[4]**

9.(a) The capital structure of J Ltd. is as under:

Particulars	₹
Equity shares @ ` 10 each	100,00,000
9% Preference Shares @ `100 each	30,00,000
14% Debentures @ `100 each	70,00,000

The market price of these securities are:	
Equity Shares	35 per share
Preference Share	120 per share
Debentures	110 per debenture

Other information are:

(i) Equity shares have a floatation cost of `5 per share. The next year's expected dividend is ₹ 3 with annual growth of 5%. The company pays all earnings in the form of dividends.

(ii) Preference Shares are redeemable at a premium of 10%, have 2% floatation cost and 10 year maturity.

(iii) Debentures are redeemable at par, have 4% floatation and 10 year maturity.

(iv) Corporate tax rate is 30%.

You are required to calculate the weighted average cost of capital using (i) book value weights. **[7]**

(b) ZZZ Co. has four potential projects all with an initial cost of ₹ 15,00,000. The capital budget for the year will only allow the company to take up only one of the three projects. Given the discount rates and the future cash flows of each project, which project should they accept? **[5]**

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

(a) Combined Leverage

(b) Importance of Cost of Capital in Financial Management

(c) Foreign Currency Convertible Bonds (FCCBs)

(d) Marginal Cost of Capital: