

# P8\_Practice Test Paper\_Syl12\_Dec2013\_Set 1

## Paper 8 : Cost Accounting and Financial Management

Full Marks: 100

Time : 3 hours

This question paper is divided into two sections, Section A- Cost Accounting (60 marks) and Section B - Financial Management ( 40 marks).

From Section A: Question no. 1 is compulsory and answer any 3 from the rest questions in Group A.

From Section B: Question no. 6 is compulsory and answer any 2 from the rest questions in Group B.

### Section A – Cost Accounting (Full Marks: 60)

#### Question No.1: (Compulsory question)

##### Answer the followings:

- (a) List the objective of CAS-4. [2]
- (b) Calculate the Economic ordering quantity from the following information:  
Consumption of materials per annum : 20,000 kg ; Order placing cost per order: ₹ 50  
Cost per kg. of raw materials : ₹ 4; Storage costs - 10% on average inventory. [2]
- (c) Compute the Inventory turnover ratio from the following information:  
Opening Stock - ₹50,000; Closing Stock - ₹80,000; Material Consumed - ₹3,90,000 [2]
- (d) During August 2013, the following information is obtained from the Personnel Department of a manufacturing company. Labour force at the beginning of the month 3900 and at the end of the month 4100. During the month, 155 people left while 90 persons were discharged. 280 workers were engaged out of which only 20 were appointed in the vacancy created by the number of workers separated and the rest on account of expansion scheme. Calculate the Labour Turnover under Flux method. [2]
- (e) Actual hours worked: 5,55,000 out of which 30,000 hours were for training of the workers, 50 % of which is estimated to be productive only. If a company has lost 80,000 labour hours and if the contribution margin is 20% on sales, estimate the profit lost/foregone due to labor turnover, if the contribution per hour is @ ₹500. [2]
- (f) Write short notes on Generally Accepted Cost Accounting Principles (GACAP). [2]

#### Question No.2

- (a) Estimate the value of closing stock from the following information:  
Opening stock of raw materials (10,000 units) ₹1,80,000; Purchase of Raw Materials (35,000 units) ₹7,00,000; Closing Stock of Raw Materials 7,000 units; Freight Inward ₹85,000; Self-manufactured packing material for purchased raw materials only ₹60,000 (including share of administrative overheads related to marketing sales ₹8,000); Demurrage charges levied by transporter for delay in collection ₹11,000; Normal Loss due to shrinkage 1% of materials ; Abnormal Loss due to absorption of moisture before receipt of materials 100 units. [8]
- (b) Component 'Exe' is made entirely in cost centre 100. Material cost is 6 paise per component and each component takes 10 minutes to produce. The machine operator is paid 72 paise per hour, and the machine hour rate is ₹ 1.50. The setting up of the machine to produce the component 'Exe' takes 2 hours 20 minutes.  
On the basis of this information, prepare a cost sheet showing the production and setting up cost, both in total and per component, assuming that a batch of:  
(a) 10 components,

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- (b) 100 components, and  
(c) 1,000 components is produced [8]

### Question No.3

(a) Your company uses a historical cost system and applies overheads on the basis of "pre-determined" rates. The following are the figure from the Trial Balance as at 31/3/10:-

Manufacturing overheads	₹	4,26,544 Dr.
Manufacturing overheads applied	₹	3,65,904 Cr.
Work-in-progress	₹	1,41,480 Dr.
Finished goods stocks	₹	2,30,732 Dr.
Cost of goods sold	₹	8,40,588 Dr.

Give two methods for the disposal of the unabsorbed overheads and show the profit implications of each method. [8]

(b) A manufacturing unit produces two products X and Y. The following information is furnished:

Particulars	Product X	Product Y
Units produced ( Qty)	20,000	15,000
Units Sold (Qty)	15,000	12,000
Machine Hours utilised	10,000	5,000
Design charges	15,000	18,000
Software development charges	24,000	36,000

Royalty paid on sales ₹54,000 [ @ ₹2 per unit sold, for both the products]; Royalty paid on units produced ₹35,000 [ @ Re.1 per unit purchased, for both the products], Hire charges of equipment used in manufacturing process of Product X only ₹5,000, Compute the Direct Expenses as per CAS 10. [8]

### Question No.4

(a) State the treatment of the following items in the cost records: [ 2x 4 = 8]

- (i) Cost related to after-sales service
- (ii) Packing cost;
- (iii) Bad Debts;
- (iv) Royalty on production of goods

(b) 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:-

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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. [8]

### Question No.5

(a) In a factory the expenses of factory are charged on a fixed percentage basis on wages and office overhead expenses are calculated on the basis of percentage of works cost.

	I Order (₹)	II Order (₹)
Material	12,500	18,000
Wages	10,000	14,000
Selling price	44,850	61,880
Percentage of profit on cost	15%	12%

Find the rate of Factory OH and Office OH. [8]

(b) The following data is available in respect of a machine:

Cost of machine	₹ 10,000
Estimated scrap value	₹ 1,000
Working life of the machine	6 years

The machine is discarded because of obsolescence after 4 years of service and sold for ₹ 2,000. What is the resultant loss and how would you treat the same in Cost Accounts? [4]

(c) State the pre-requisites of a Material control system. [4]

### Section B – Financial Management (Full Marks: 40)

**Answer Question no.6 which is compulsory and any two from the rest in this section.**

#### 6. Choose the most appropriate one from the stated options.

- a) A company operates at a production level of 1,000 units. The contribution is ₹60 per unit, operating leverage is 6, combined leverage is 24. If tax rate is 30%, what would be its earnings after tax? [2]
- b) Which of the following assumption is wrong under MM approach?  
i) Capital market is perfect.  
ii) There is no transaction cost.  
iii) The dividend payout ratio is 0%.  
iv) There are no corporate taxes. [1]
- c) A company has paid ₹3 as current dividend; the growth rate of dividend paid by the company is 8%. If the cost of equity is 12%, the price of the company's share in nearest ₹three year hence will be:  
i) ₹100

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- ii) ₹118  
 iii) ₹110  
 iv) ₹102 [2]

- d)** The average daily sales of a company are ₹5 lac. The company normally keeps a cash balance of ₹80000. If the weighted operating cycle of the company is 45 days, its working capital will be  
 i) ₹112.9 lac.  
 ii) ₹113.3 lac  
 iii) ₹5.8 lac  
 iv) ₹225.8 lac. [2]

- e)** Bond issued at a discount and repaid at a face value is called  
 i) Zero –coupon bond  
 ii) Eurobond  
 iii) Yankee bond  
 iv) Income bond [1]

- 7. (a)** Sweetu Ltd's. Operating income is ₹5, 00,000. The firm's cost of debt is 10% and currently firm employs ₹15, 00,000 of debt. The overall cost of capital of the firm is 15%. You are required to determine:  
 i. Total value of the firm  
 ii. Cost of Equity

- (b)** X Ltd. is foreseeing a growth rate of 14% per annum in the next 2 years. The growth rate is likely to fall to 12% for the third year and fourth year. After that the growth rate is expected to stabilize at 10% per annum. If the last dividend paid was ₹2.25 per share and the investors' required rate of return is 18%, find out the intrinsic value per share of X Ltd. as of date. You may use the following table:

Years	0	1	2	3	4	5
Discounting Factor at 18%	1	0.85	0.72	0.61	0.52	0.44

- (c)** What are the differences between Funds Flow Statement and Cash Flow Statement?  
[4+6+6=16]

- 8. (a)** The following information has been extracted from the records of a company

Product cost Sheet	₹ per unit
Raw Materials	45
Direct Labour	20
Overheads	40
Total	105
Profit	15
Selling price	120

- A. Raw materials are in stock on an average of two months  
 B. The materials are in process on an average for 4 weeks. The degree of completion 50%.  
 C. Finished goods stock on an average is for one month.  
 D. Time lag in payment of wages and overheads is  $1\frac{1}{2}$  weeks.  
 E. Time lag in receipt of proceeds from debtors is 2 months.  
 F. Credit allowed by suppliers is one month.  
 G. 20% of the output is sold against cash.  
 H. The company expects to keep a cash balance of ₹1, 00,000.  
 I. Take 52 weeks per annum.

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J. The company is poised for a manufacture of 1, 04,000 units in the year.

You are required to prepare a statement showing the Working Capital requirements of the Company. Using net operating cycle Method.

b) The data relating to two companies are as given below:

Particulars	Company A	Company B
Equity capital	₹6,00,000	₹3,50,000
12% debentures	₹4,00,000	₹6,50,000
Output (units) per annum	60,000	15,000
Selling Price/unit	₹30	₹250
Fixed costs per annum	7,00,000	14,00,000
Variable cost per unit	₹10	₹75

You are required to calculate the Operating Leverage, Financial leverage and combined leverage of two companies.

c) A PX company has a profit margin of 30% and asset turnover of 3 times. What is the company's return on investment? How will this return on investment vary if

- i) Profit margin is increased by 10%?
- ii) Asset turnover is decreased to 2 times?
- iii) Profit margin is decreased by 10% and asset turnover is increase to 4 times?

[5+5+6=16]

9. (a) XYZ Ltd. Is considering two mutually- exclusive projects. Both require an initial cash outlay ₹10,000 each for machinery and have a life of 5 Years.The Company's required rate of return is 10% and it pays tax at 50%. The projects will be depreciated on a straight-line basis. The net cash flows (before taxes) expected to be generated by the projects and the present value (PV) factor (at 10%) are as follows:

	Year				
	1	2	3	4	5
	₹	₹	₹	₹	₹
Project 1	4,000	4,000	4,000	4,000	4,000
Project 2	6,000	3,000	2,000	5,000	5,000
PV factor (at 10%)	0.909	0.826	0.751	0.683	0.621

You are required to calculate

- i) The Pay Back Period of each project;
- ii) The NPV and the profitability index of each project.

(b) Write short notes on any two of the following:

- i) Global Depository Receipt (GDR) and American Depository Receipt (ADR)
- ii) Debt Service Coverage Ratio (DSCR)
- iii) Trade Related Aspects of Intellectual Property Rights (TRIPS). [10+3+3=16]