

P8_Practice Test Paper_Syl12_Dec13_Set 2

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) State the objectives of Cost Accounting. [2]
- (b) Explain Just-in-time (JIT) as a production strategy. [2]
- (c) Analyse the accounting treatment of scrap. [3]
- (d) Discuss the treatment of idle time and overtime wages in cost records [5]

Question No.2:

(a) A work measurement study was carried out in a firm for 10 hours and the following information was generated:

Units produced 700; Idle time 15% ; performance rating 120%; allowance time 10% of standard time. What is the standard time for the task? [6]

(b) Estimate the direct expenses as per CAS-10 from the following information:

Royalty paid on sales ₹ 40,000; royalty paid on units produced ₹ 30,000 ; hire charges of equipment used for production ₹ 5,000; design charges ₹ 10,000; software development charges related to production ₹ 30,000. [6]

(c) Mr. X purchased an asset costing ₹ 50,000, and a spare part costing ₹ 4,000. This spare part is specific to the asset purchased. Also given that the life of the equipment is 4 years, whereas the life of the spare part is 5 years. State the treatment of this spare part as per CAS-6. [4]

Question No.3

(a) Define Labour Turnover. State the causes of Labour turnover. [6]

(b) The management of XYZ Ltd. is worried about the increasing Labour Turnover in the factory and before analyzing the causes and taking remedial steps; they want to have an idea of the profit foregone as a result of Labour Turnover during the last year. Last year's sales amounted to ₹83, 03,300 and the profit/volume ratio was 20%. The total number of actual hours worked by the direct Labour force was 4.45 lakhs. As a result of the delays by the Personnel department in filling vacancies due to Labour Turnover, 1,00,000 potentially productive hours were lost. The Actual Direct Labour hours included 30, 000 hours attributable to training new recruits, out of which, half of the hours were unproductive. The cost incurred consequent on Labour turnover revealed, on analysis the following. Settlement cost due to leaving: ₹43, 820 & Recruitment costs: ₹26,740. Selection costs: ₹12,750, & Training costs: ₹30,490

Assuming that the potential production lost as a consequence of Labour Turnover could have been sold at prevailing prices, find the profit foregone last year on account of Labour Turnover. [10]

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Question No.4

(a) Gross pay ₹10,30,000 (including cost of idle time hours paid to employee ₹25,000); Accommodation provided to employee free of cost [this accommodation is owned by employer, depreciation of accommodation ₹1,00,000, maintenance charges of the accommodation ₹90,000, municipal tax paid for this accommodation ₹3,000], Expenses relating to perquisites provided to the employee ₹ 25,000 of which 40% recovered from his salary; Employer's Contribution to P.F. ₹1,00,000 (including a penalty of ₹2,000 for violation of PF rules), Employee's Contribution to P.F. ₹75,000. Compute the Employee cost as per CAS-7. [8]

(b) Calculate the fixed overheads with the help of least squares method. The semi-variable overheads for six months are as under: [8]

| Month | Machine Hours | Semi-variable overheads |
|----------|---------------|-------------------------|
| January | 200 | 1,400 |
| February | 150 | 1,300 |
| March | 100 | 1,200 |
| April | 300 | 1,600 |
| May | 250 | 1,500 |
| June | 400 | 1,800 |

Question No.5

(a) Distinguish Blanket Overhead rate and Pre-determined overhead rate. [4]

(b) X Ltd. which absorbs overheads at a pre-determined rate, provides the following information: overheads actually incurred Rs.4,50,000; overhead absorbed Rs.1,00,000. It was found that 60% of the unabsorbed overheads were due to defective planning. How would unabsorbed overheads due to defective planning be treated in cost accounts? [6]

(c) State the treatment of the following transactions:

- (i) Depreciation on fixed assets (like warehouse, delivery van) used by distribution office;
- (ii) Cost of primary packing for protecting the product or for convenient handling;
- (iii) Cost of special packing at the request of the customer;
- (iv) Cost of research relating to marketing activities;
- (v) Cost of unsuccessful research;
- (vi) Cost of night shift allowance spent to meet some specific customer order. [1x6=6]

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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) Based on the following information, what will be the amount of Inventory?
Current ratio=2.6: 1 Liquid ratio=1.5:1 Current liabilities=₹40, 000.
- i) ₹ 55,000
 - ii) ₹ 44,000
 - iii) ₹ 22,000
 - iv) ₹ 33, 000
- b) City Ltd has total assets of ₹60 crore and a debt/equity ratio of 0.5. Its sales are ₹27 crore and it has total fixed cost of ₹7 crore. If the company's EBIT is ₹6 crore, its tax rate is 40 per cent and the interest rate on debt is 12 per cent, the ROE of City LTD. Would be
- i) 4.40%
 - ii) 5.40%
 - iii) 6.20%
 - iv) Insufficient information
- c) The degree of operating leverage and degree of financial leverage of Vintex Ltd. Are 2.00 and 1.5 respectively. What will be the percentages in EPS, if the sale increases by 10%?
- i) 10% increase
 - ii) 15% increase
 - iii) 30% increase
 - iv) Insufficient information
- d) What will be the effect on NPV of a one year project if fixed costs are increased from ₹200 to ₹300. When the firm is profit making, pays tax @ 35% and has 12% cost of capital?
- i) NPV decrease by ₹100
 - ii) NPV decrease by ₹89.29
 - iii) NPV decrease by ₹65
 - iv) NPV decrease by ₹58.04

[2×4=8]

7 a) In considering the most desirable capital structure of a company, the following estimates of the cost of debt and equity capital (after tax) have been made at various levels of Debt-equity Mix.

| Debt as % of total capital employed | Cost of debt % | Cost of equity% |
|-------------------------------------|----------------|-----------------|
| 0 | 5.0 | 12.0 |
| 10 | 5.0 | 12.0 |
| 20 | 5.0 | 12.5 |
| 30 | 5.5 | 13.0 |
| 40 | 6.0 | 14.0 |
| 50 | 6.5 | 16.0 |
| 60 | 7.0 | 20.0 |

Calculate the optimal Debt-Equity Mix for the company by calculating composite cost of capital.

b) A publishing house purchases 72000 rims of a special type paper per annum at cost ₹90 per rim. Ordering cost per order is ₹500 and the carrying cost is 5 per cent per year of the inventory cost.

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Normal lead time is 20 days and safety stock is NIL. Assume 300 working days in a year: you are required:

- i) calculate the economic order quantity (E.O.Q)
- ii) Calculate the Reorder Inventory Level.
- iii) If a 1 percent quantity discount is offered by the supplier for purchases in lot of 18000 rims or more, should the publishing house accept the proposal?

[8+8=16]

8 a) The following is the Balance sheet of Birla Ltd.,

| Liabilities | As at 30.6.08 | As at 30.6.09 | Assets | As at 30.6.08 | As at 30.6.09 |
|--|------------------|------------------|---------------|------------------|------------------|
| Share capital (equity shares of ₹100 each) | 10.00 | 20.00 | Plant | 13.00 | 18.00 |
| 10% redeemable shares of ₹100 each | 7.50 | 2.50 | Stock | 8.00 | 9.50 |
| Share premium | 0.50 | 0.25 | Debtors | 15.00 | 14.50 |
| Cap. Red. Reserve | 0.00 | 5.00 | Bank balance | 3.00 | 2.50 |
| Reserve | 8.00 | 4.50 | Miscellaneous | 1.00 | 1.00 |
| P&L A/C | 3.00 | 5.00 | | | |
| Provision for taxation | 5.00 | 6.00 | | | |
| Current Liabilities | 6.00 | 2.25 | | | |
| | 40.00 | 45.50 | | 40.00 | 45.50 |

The following further information is furnished:

- i) The company declared a dividend of 20% for the year ended 30th June 2008 to equity shareholders on 30th September, 2008. Dividend on preference share capital for the year ended 30th June, 2008 was paid on 30th June, 2008.
- ii) The company issued notice to preference shareholders holding preference shares of the face value of ₹5 lakhs for redemption at a premium of 5 % on 1st December, 2008 and the entire proceedings were completed before 31-12-2008 in accordance with the law.
- iii) The company provided depreciation at 10% on the closing balance of plant. During the year one plant whose book value was ₹ 2,00,000 was sold at a loss of ₹ 30,000.
- iv) Miscellaneous expenditure incurred during the year ended 30th June 2009 ₹25, 000 for share issue and other expenses.
- v) A sum of ₹4 lakhs has been provided for taxation during the year.
- vi) Prepare statements of sources and application of funds for the year ended 30th June, 2009. Also prepare a statement showing changes in working capital.

b) Discuss about the functions of finance manager.

[10+6=16]

9 a) Write the basic propositions and the assumptions of the MM Approach.

b) Explain how the combined effects of operating and financial leverages provide the risk profile of an organization.

c) Following are the data on a capital project being evaluated by the management of S Ltd.:

| | |
|--|-----------|
| | Project S |
|--|-----------|

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| | |
|--------------------------|---------|
| Annual cost saving | ₹40,000 |
| Useful Life | 4 years |
| I.R.R | 15% |
| Profitability Index (PI) | 1.064 |
| NPV | ? |
| Cost of project | ? |
| Cost of capital | ? |
| Pay back | ? |
| Salvage value | 0 |

Find the missing values considering the following table of discount factor only:

| Discount factor | 15% | 14% | 13% | 12% |
|-----------------|-------|-------|-------|-------|
| 1 year | 0.869 | 0.877 | 0.885 | 0.893 |
| 2 years | 0.756 | 0.769 | 0.783 | 0.797 |
| 3 years | 0.658 | 0.675 | 0.693 | 0.712 |
| 4 years | 0.572 | 0.592 | 0.613 | 0.636 |
| | 2.855 | 2.913 | 2.974 | 3.038 |

[4+4+8=16]