Paper 8 – Cost Accounting & Financial Management

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Time Allowed: 3 Hours **Full Marks: 100**

Section-A:
Answer Question No 1 which is compulsory carries 25 Marks

1. Answer the following questions:

(A) Each Question carries 2 Marks **[5x 2 = 10]**

(i) A firm earns a contribution of ₹ 4,80,000. Its operating leverage and financial leverage are respectively 4 and 5. Find the firm's PAT if the effective tax rate is 25%.

(ii) Discuss the conditions when supplementary rates are used.

(iii) In a workshop the normal working hours is 8 hours for which ₹450 is paid as wages. However, calculation of wages payable is made on piece rate basis that 30 pieces will be produced per hour. When a worker produces below standard, 90% of the piece rate is paid but when he produces above standard, 110% of piece rate is paid. On a particular day, a worker produces 260 pieces in the allotted time of 8 hours. What will be his earning?

(iv) What is the basis for cost classification as per Cost Accounting Standard 1?

(v) What is the acceptance rule for a project under the internal rate of return parameter?

(B) State whether the following statements are True or False:

[5 x 1 = 5]

(i) CAS-10 stands for "Overhead".
(ii) Fixed cost per unit remains constant irrespective of the number of units of output.
(iii) Material return note is a document which records the return of unused material.
(iv) IRR and NPV always give the same profitability ranking.
(v) Fund flow statement shows the sources and application of fund.

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

(i) __________is discount allowed to the bulk purchaser.
(ii) Ideal time arises only whn workers are paid on _______ basis.
(iii) In ________ costing fixed cost is added to inventory.
(iv) The ideal fixed assets ratio is __________.
(v) Profitability index is also known as _______ ratio.

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

Column I	**Column II**
1. Apportionment of Overheads	A. Cash Flow Statement
2. Organisation has to be both	B. Capital Structure theory
3. Cash and cash equivalent	C. Capital Budgeting
4. Modigalani and Miller method	D. Effective and efficient
5. NPV method	E. Reciprocal Method

Section-B

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

2(A) The Managing Director of All Found Limited is very much perturbed to see that labour turnover is increasing every year. Before taking an appropriate action, he desires to know the profit foregone on account of labour turnover. You are required to calculate the profit foregone on account of labour turnover from the following:

All Found Ltd.

Income Statement for the year ended 31.3-2017

Particulars	₹	₹
Sales		2,00,000
Variable Cost:		
Material	50,000	
Direct Labour	40,000	
Variable Overhead	40,000	1,30,000
Contribution		70,000
Less: Fixed Overhead		20,000
Profit before tax		50,000

The direct labour hours worked in the concern during the period were 20,300 of which 500 hours pertained to the new workers on training. Only 40% of the trainees time was productive. As replacement for the worker left was delayed for some time, 600 productive hours were lost. The direct costs incurred by the Company as a consequence of labour separation and replacement were as follows:
Separation costs – ₹ 2,000; Selection costs –₹ 3,000 and Training costs – ₹ 5,000. **[8]**

(B) The following information relates to the activities of production Dept. M of MTH Ltd. for Sept 2017:

Materials Consumed: ₹ 3,83,000; Direct labour: ₹ 5,74,000; Factory overhead chargeable to Dept. M: ₹ 2,75,760; Labour hours worked: 18,384 hours; Machine hours: 3064 hours;

One job order carried out in Dept. M has the following details:

Material Consumed: ₹ 11,000; Direct Labour Cost = ₹ 19,000; Direct labour hours: 540 hours;

Machine hours worked: 85 hours. Find the amount of factory overheads for the job under the following methods of overhead absorption: % of direct material cost, % of direct labour cost, % of prime cost, direct labour hour rate and machine hour rate. **[7]**

3(A) What is imputed cost? Give an example of imputed cost. Explain its position in a product cost sheet and in the decision making evaluation process. **[5]**

3(B) From the records of an oil distributing company, the following summarized information is available for the month of March 2017:

Sales for the month: ₹19,25,000

Opening Stock as on 1-3-17: 1,25,000 liters @ ₹ 6.50/liter.

Purchases (including freight and insurance):

March 5 1,50,000 litres @ ₹ 7.10/litre

March 27 1,00,000 litres @ ₹ 7.00/litre

Closing stock as on 31 -3-17: 1,30,000 liters

General Administration expenses for the month: ₹ 45,000

On the basis of the above information, work out the following using FIFO and LIFO methods of inventory valuation assuming pricing of issues is being done at the end of the month after all receipts during the month:

(i) Value of closing stock as on 31-3-17

(ii) Cost of goods sold during March '2017

(iii) Profit or loss for March '2017. **[10]**

4(A) Following data is available relating to a company for a certain month:

Particulars	Territories		
	I	II	III
Selling expenses	₹ 7,600	₹ 4,200	₹ 6,240
Distribution costs	₹ 4,000	₹ 1,800	₹ 2,000
No. of units sold	16,000	6,000	10,000
Sales	76,000	28,000	52,000

The company adopts sales basis and quantity basis of application of selling and distribution costs respectively. Compute

(i) the territory-wise overhead recovery rates separately for selling and distribution costs and

(ii) the amounts of selling and distribution costs chargeable to a consignment of 2,000 units of a product, sold in each territory at ₹ 4.50 per unit. **[4+4]**

4(B) The following details have been obtained from the cost records of Pankaj Limited:

	₹
Stock of raw materials on 1st Sept. 2017	75,500
Stock of raw materials on 30th Sept. 2017	91,500
Direct Wages	52,500
Indirect wages	2,750
Sales	2,11,000
Work-in-progress on 1st Sept. 2017	28,000
Work-in-progress on 30th Sept. 2017	35,000
Purchase of raw materials	66,000

Factory rent rates and power	15,000
Depreciation of plant and machinery	3,500
Expenses on purchases	1,500
Carriage outwards	2,500
Advertising	3,500
Office rent and taxes	2,500
Travelers wages and commission	6,500
Stock of finished goods on 1st Sept. 2017	54,000
Stock of finished goods on 30th Sept. 2017	31,000

Prepare a Cost Sheet giving the maximum possible break up of costs and profits. **[8]**

5.(A) Distinguish between "Incentives to indirect workers" and "Indirect incentives to direct workers". **[7]**

5.(B) Distinguish between Financial Accounting and Cost Accounting **[8]**

Section-C

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

6.(A) What are the assumptions of the Modigliani-Miller theory on capital structure and the overall cost of capital? **[7]**

6.(B) M/S Sun & Moon Co. Ltd. is considering to select one project out of two alternative projects both with life of 5 (Five) years and following particulars are given:

		Project X	Project Y
		₹	₹
Capital Investment	Year 0	2,00,000	1,00,000
Income	Year 1	60,000	50,000
	Year 2	40,000	45,000
	Year 3	40,000	30,000
	Year 4	35,000	30,000
	Year 5	40,000	20,000

The expected rate of return is 14% p.a. The present value of ₹ 1 at 14% p.a. from year 1 to 5 is as under:

Year	1	2	3	4	5
Present value factor	0.88	0.77	.68	.59	.52

You are required to calculate the comparative profitability of the two projects by using net present value method and advise the management suitably. **[8]**

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

Raw materials	30%
Packing materials	10%
Direct labour	15%
Direct expense	5%

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

Raw materials	30 days
Packing materials	15 days
Direct labour	200 units
Direct expense	7 days

Other particulars are given below:

- Credit sales represent 80% of total sales and the dealer enjoys 30 working days credit.¬ Balance 20% is cash sales.
- Creditors allow 21 working days credit for payment.
- Lag in payment of overheads and an expense is 15 working days.
- Cash requirements to be 12% of net working capital.
- Working days in a year are taken as 300 for budgeting purpose.

Prepare a working capital requirement forecast for the budget year. **[10]**

7(B) Discuss the Stable Dividend Policy. Why should it be followed? **[5]**

8.(A) The following information is given to you: **[8]**

Gross Profit	₹ 1,08,000
Shareholders' funds	₹ 6,00,000
Gross Profit Margin	25%
Ratio - Credit Sales to total sales	80%
Ratio - Total Turnover to Total Assets	0.3 times
Ratio-Closing Inventory to Total Sales	1/5 times
Average debtors	20 days
Current ratio	1.5
Ratio-Long Term Debt to equity	80%
(Use 360 days per year for calculations)	

Find the following: (a) Fixed Assets turnover ratio (b) Cash/Bank Balances (c) Current Liabilities (d) Closing Inventory (e) Debtors (f) Cash Sales.

8.(B) What do you understand by "Trading on Equity"? State the limitations of Trading on Equity? **[7]**