Paper 10- COST & MANAGEMENT ACCOUNTING AND FINANCIAL MANAGEMENT

Paper 10 - Cost & Management Accounting and Financial Management

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

This paper is divided into two Sections A & B, each carrying 50 marks.
Further each Section has been divided into two parts.

SECTION – A
(Cost and Management Accounting)

PART- I

1. Answer the following questions:

(A) Choose the correct answer from the given four alternatives. **[1x6=6]**

(i) Despite the development of Management Accounting as an effective discipline to improve the managerial performance, it has some limitations. Which of the following is a limitation of management accounting?
(a) Psychological Resistance
(b) Physiological Resistance
(c) Both of the above
(d) None of the above.

(ii) The following is the limitation of management accounting –
(a) Costly Affair
(b) Evolutionary Stage
(c) Psychological Resistance
(d) All of the above

(iii) Which of the following costs incurred by a commercial airline can be classified as variable?
(a) Interest costs on leasing of aircraft
(b) Pilots' salaries
(c) Depreciation of aircraft
(d) None of these three costs can be classified as variable

(iv) Factors to be considered in Production Budget:
(a) Production plan
(b) The capacity of the business concern
(c) Inventory Policy
(d) All of the above

(v) Which of the following factors does not affect Learning Curve
(a) Method of production
(b) Labour strike
(c) Shut down
(d) Efficiency rate

(vi) Standard Price per kg of Material ₹ 2, Actual Material used 2,000 kg, Actual cost of Material ₹3,000. Actual output 2,100 kg. Compute Material Price Variance.

(a) ₹1050 (Favourable)

(b) ₹1142 (Favourable)

(c) ₹1000 (Favourable)

(d) None of the above

(B) Match the following: **[4×1=4]**

	Column 'A'		Column 'B'
1.	Absorption costing	A.	Rigid /inflexible budget.
2.	Differential cost is adopted	B.	Decision making
3.	Fixed budget	C.	Cost per unit reduces, as the production increases.
4.	Zero based budgeting	D.	Marginal Costing

(C) Say True or False for the following question: **[4×1=4]**

(i) Management Accounting is a traditional approach to accounting.

(ii) In marginal costing, managerial decisions are guided by profit.

(iii) Responsibility Accounting is also called Profitability Accounting & Activity Accounting.

(iv) Standard costing system established yardstick against which the efficiency of actual performance is measured**.**

PART - II

Answer any three questions out of four questions

[12x3=36]

2. (a) A Co. has annual fixed costs of ₹ 1,40,000. In 2015 sales amounted to ₹6,00,000, as compared with ₹ 4,50,000 in 2014, and profit in 2015 was ₹ 42,000 higher than that in 2014.

(i) At what level of sales does the company break-even?

(ii) Determine profit or loss on a forecast sales volume of ₹ 8,00,000

(iii) If there is a reduction in selling price by 10% in 2016 and the company desires to earn the same amount of profit as in 2015, what would be the required sales volume? **[4]**

(b) Seagreen Company Ltd., a retail dealer in garments is currently selling 24,000 T-shirts annually. It supplies the following details for the year ended 31st march:

Variable cost per T-shirt	₹500
Selling cost per T-shirt	₹800
Fixed cost :	
Advertising cost for the year	₹16,00,000
General office costs for the year	₹8,00,000
Staff salaries for the year	₹24,00,000

As a Cost Accountant of the firm you are required to answer the following each part independently:

(i) Calculate the break-even point and margin of safety in sales revenue and number of T-shirt sold.

(ii) Assume that 20,000 T-shirts were sold in a year. Find out the net profit of the firm

(iii) If it is decided to introduce selling commission of ₹ 60 per T-shirt, how many T-shirt would require to be sold in a year to earn a net income of ₹3,00,000.

(iv) Assuming that for the year 2019 an additional staff salary of ₹6,60,000 is anticipated and price of a T-shirt is likely to be increased by 15% , what should be the break-even point in number of T-shirts and sales revenue? **[8]**

3. (a) The standard set for material consumption was 200 kg@ ₹4.50 per kg.

In a cost period: Opening stock was 200 kg @ ₹5.00 per kg.

Purchase made 500 kg @ ₹ 4.30 per kg. Consumption 220 kg.

Calculate: (i) Usage (ii) price variance

1) When variance is calculated at a point of purchase.
2) When variance is calculated at a point of issue on FIFO basis
3) When variance is calculated at a point of issue on LIFO basis. **[6]**

(b) A company manufacturing a special type of fencing tile 12" × 8" × ½" used a system of standard costing. The standard mix of the compound used for making the tiles is:

2,400 kg of Material A @ ₹ 0.30 per kg.
1,000 kg of Material B @ ₹ 0.60 per kg.
1,600 kg of Material C @ ₹ 0.70 per kg.

The compound should produce 12,000 square feet of tiles of ½" thickness. During a period in which 1,00,000 tiles of the standard size were produced, the material usage was:

Kg		₹
14,000	Material A @ 0.32 per kg	4,480
6,000	Material B @ 0.65 per kg	3,900
10,000	Material C @ 0.75 per kg	7,500
30,000		15,880

Present the cost figures for the period showing Material Price, Mixture, Sub-usage Variance. **[6]**

4. **(a)** The following data are available in manufacturing company an yearly period :

Variable expenses (at 50% of capacity)	₹ (in lakhs)
Materials	21.7
Labour	20.4
Other expenses	7.9
Semi- variable expenses (at 50% of capacity)	
Indirect labour	7.9
Repairs and maintenance	3.5
Sundry administrative expenses	2.8
Sales department salaries etc.	3.8
Fixed expenses	
Wages & salaries	6.6
Rents, rates & taxes	6.5
Depreciation	9.5
Sundry administrative expenses	7.4

Assume that the fixed expenses remains constant for all levels of production, semi–variable expenses remains constant between 45% and 65% of capacity, increasing by 10% between 65% and 80% capacity and by 20% between 80% and 100% capacity.

Sales at various levels are :	₹ (in lakhs)
50% capacity	100
60% capacity	120
75% capacity	150
90% capacity	180
100% capacity	200

Prepare a flexible budget for the year and forecast the profit at 60%, 75%, 90%, 100% of capacity. **[8]**

(b) A company fixes the inter-divisional transfer prices for its products on the basis of cost plus an estimated return on investment in its divisions. The relevant portion of the budget for the Division JOJO for the year 2018 -19 is given below:

Particulars	Amount (₹)
Fixed Assets	10,00,000
Current Assets (other than debtors)	6,00,000
Debtors	4,00,000
Annual fixed cost for the division	16,00,000
Variable cost per unit of product	10
Budgeted volume of production per year (units)	8,00,000
Desired Return on investment	28%

You are required to determine the transfer price for Division JOJO. **[4]**

5. Short notes (any three questions out of four questions) **[3×4=12]**

(a) Break-even Analysis
(b) Performance Budgeting
(c) Advantages of Uniform Costing
(d) Difference between Standard Costing and Budgetary Control

SECTION- B
(Financial Management)

PART- I

6. Answer the following questions: **[1x6=6]**

(A) Choose the correct answer from the given four alternatives.

(i) When cost of capital of a project is equal to its Internal Rate of Return(IRR)
(a)NPV will be zero.
(b) NPV will be +ve.
(c) NPV will be -ve.
(d)Benefit cost ratio will be zero.

(ii) A process through which loans and other receivables are underwritten and sold in a form of asset is known as:
(a) Factoring
(b) Forfeiting
(c) Securitisation
(d) Bill Discounting

(iii) Which of the following does not help to increase Current Ratio?
(a) Issue of Debentures to buy Stock.
(b) Issue of Debentures to pay Creditors.
(c) Sale of Investment to pay Creditors.
(d) Avail Bank Overdraft to buy Machine.

(iv) A firm has capital of ₹ 10 lakhs, sales of ₹ 5 lakhs, gross profit of ₹ 2 lakhs and expenses of ₹ 1 lakh. The Net Profit Ratio is:
(a) 50%
(b) 40%
(c) 20%
(d) 10%

(v) The excess of Current Assets over Current Liabilities is called:
(a) Net Current Assets.
(b) Net Working Capital.

(c) Working Capital.
(d) All of the above.

(vi) Type of accounting which measures, reports and analyse non-financial and financial information to help in decision making is called:
(a) Financial Accounting.
(b) Management Accounting.
(c) Cost Accounting.
(d) Green Accounting.

(B) Match the statement in Column I with the most appropriate statement in column II: [1x4=4]

	Column I		Column II
1	Zero Base Budgeting	A	Negotiated Pricing
2	Value of share is worth the present value of its future dividend rather than its earnings	B	Myron Gordon
3	Dividend policy has an impact on share valuations	C	John Burr Williams
4	Transfer Price	D	Discretionary Cost

(C) State whether the following statements are True or False [1x4=4]

(i) CVP analysis assumes a linear revenue function and a linear cost function.
(ii) The key issue of the theory of capital structure is to examine whether a business can change its value and cost of capital by changing its capital structure.
(iii) Treasury Bills are short term instruments issued by the Reserve Bank of India to address short term liquidity shortfalls.
(iv) While calculating cost of redeemable debt, it is necessary to consider the repayment of the principal, but the interest can be ignored.

PART – II

Answer any three Questions from Q. No. 7, 8, 9, 10.
Each question carries 12 marks.

7. (a) From the following information prepare a statement of Proprietors' Funds:
(i) Current Ratio = 2.5:1
(ii) Fixed Assets/Proprietors Funds = 0.75
(iii) Liquid Ratio = 1.5 : 1
(iv) Bank Overdraft = ₹ 20,000
(v) Reserves and Surplus = ₹ 1,60,000
(vi) Working Capital = ₹ 2,40,000 **[4]**

(b) Dunlop Ltd. provides the following data:

Comparative trial balance

	31/3/2019	31/3/2018	Increase (decrease)
Debit balance	₹	₹	₹
Working capital	4,00,000	2,00,000	2,00,000
Investment	2,00,000	3,00,000	(1,00,000)
Building & Equipment	10,00,000	8,00,000	2,00,000
Land	80,000	1,00,000	(20,000)
	16,80,000	14,00,000	2,80,000
Credit Balance			
Accumulated depreciation	4,00,000	3,20,000	80,000
Bonds	2,00,000	1,00,000	1,00,000
Reserves	6,80,000	6,80,000	------
Equity shares	4,00,000	3,00,000	1,00,000
	16,80,000	14,00,000	2,80,000

Income Statement for the period ending March 31, 2019

Particulars	₹	₹
Sales		20,00,000
Cost of goods sold		(10,00,000)
		10,00,000
Selling expenses	1,00,000	
Administrative expenses	1,00,000	2,00,000
Operating income		8,00,000
Other charges and credits:		
Gains on sale of building and equipment	10,000	
Loss on sale of investments	(20,000)	
Interest	(12,000)	
Taxes	(3,78,000)	(4,00,000)
Net income after taxes		4,00,000

Notes:

(i) The depreciation charged for the year ended March's 2019 was ₹1,20,000.

(ii) The book value of the building and equipment disposed of was ₹ 20,000.

(iii) Land was sold at no profit no loss basis.

Required:

Prepare a Fund Flow Statement for the period ending March 31, 2019. **[8]**

8. (a) Ziva Ltd. sells goods at a gross profit of 20% . It includes depreciation as a part of cost of production. The following figures for the 12 month-period ending March 31, current year are given to enable you to ascertain the requirements of working capital of the company on a cash cost basis.

In your working, you are required to assume that:

(i) A safety margin of 15% will be maintained;

(ii) Cash is to be held to the extent of 50% of current liabilities;
(iii) There will be no work –in –progress;
(iv) Tax is to be ignored;
(v) Finished goods are to be valued at manufacturing costs. Stocks of raw materials and finished goods are kept at one month's requirements.
Sales at 2 month's credit ₹ 13,50,000.
Materials consumed (suppliers' credit is for 2 months), ₹ 3,37,500
Wages (paid on the last of the month), ₹ 2,70,000
Manufacturing expenses outstanding at the end of the year (cash expenses are paid one month in arrear), ₹ 30,000
Total administrative expenses (paid as above), ₹ 90,000
Sales promotion expenses (paid quarterly in advance), ₹ 45,000 **[6]**

(b) Calculate the operating leverage for each of the four firms P, Q, R and S from the following price and cost data. What conclusion can you draw with respect to levels of fixed cost and the degree of operating leverage result? Explain. Assume number of units sold is 10,000.

	Firms			
	P	Q	R	S
Sales price per unit	₹20	₹32	₹50	₹70
Variables cost per unit	6	16	20	50
Fixed operating cost	1,60,000	80,000	4,00,000	Nil

[6]

9. (a) Jamia Ltd. has on its book the following amounts and specific costs of each type of capital :

Type of capital	Book value	Market value	Specific costs (%)
Debt	8,00,000	7,60,000	5
Preference	2,00,000	2,20,000	8
Equity	12,00,000	24,00,000	15
Retained earnings	4,00,000		13
	26,00,000	33,80,000	

[5]

(b) A plastic manufacturer has under consideration the proposal of production of high quality plastic bowl. The necessary equipment to manufacture the bowl would cost ₹ 2 lakhs and would last 5 years. The tax relevant rate of depreciation is 20% on written down value. There is no other asset in the block. The expected salvage is ₹ 20,000. The bowl can be sold at ₹ 4 each. Regardless of the level of production, the manufacturer will incur cash cost ₹ 50,000 each year if the project is undertaken. The overhead costs allocated to this new line would be ₹ 10,000. The variable costs are estimated at ₹ 2 per bowl. The manufacturer estimates it will sell about 1,50,000 bowl per year; the tax rate is 35%. Should the proposed equipment be purchased? Assume 20% cost of capital and additional working requirement, ₹1,00,000. **[7]**

10. Write short note on any three question out of four question **[3×4=12]**

(a) Window Dressing

(b) Capital Asset Pricing Model

(c) Advantages of Ratio Analysis

(d) Limitations of Funds Flow Statement