Paper 10 - Cost & Management Accounting and Financial Management

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

Part A(Cost and Management Accounting)
Section I

1. **Answer the following questions:**

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

(i) While computation of profit in marginal costing
(A) Total marginal cost is deducted from total sales revenues
(B) Total marginal cost is added to total sales revenues
(C) Fixed cost is added to contribution
(D) None of the above

(ii) If total cost of 100 units is ₹ 5000 and those of 101 units is ₹ 5030 then increase of ` 30 in total cost is
(A) Marginal cost
(B) Prime cost
(C) All variable overheads
(D) None of the above

(iii) R&D budget and Capital expenditure budget are examples of
(A) Short-term budget
(B) Current budget
(C) Long-term budget
(D) None of the above

(iv) While determining material quantity standards, a proper consideration should be assigned to
(A) Normal material wastage
(B) Abnormal material wastage
(C) Both a and b
(D) None of the above

(v) Volume variance arises when
(A) There is rise in overhead rate per hour
(B) There is decline in overhead rate per hour
(C) There is decrease or increase in actual output compared to the budgeted output
(D) None of the above

(vi) In management accounting, an emphasis and focus must be
(A) future oriented
(B) past oriented
(C) communication oriented
(D) bank oriented

(b)Match the statement in Column I with most appropriate statement in Column II [1×4=4]

Column I	Column II
(i)Output Costing	(A) Decision Making
(ii) Variance Analysis	(B)Decision package
(iii)Differential Costing	(C) Management by Exception
(iv)ZBB	(D) Coal Industry

(c)State whether the following statements are True/False? [1×4=4]

(i) Activity Based Costing is a traditional method of charging overhead.
(ii) Abnormal Costs are uncontrollable.
(iii) Ideal standards are achievable in normal course.
(iv) Royalty based on units produced is considered as direct expenses.

Section II

Answer any three Question from Q. No 2, 3, 4 and 5. Each Question carries 12 Marks.

2.(a) The total production cost of HORIZON LTD. for making 6000 units is ₹35,000 and the total production cost for making 15000 units is ₹69,000. Once the production exceeds 10000 units additional fixed costs of ₹ 7,000 are incurred. What will be the full production cost per unit for making 12000 units?

2.(b) M/s Shram Engineering Ltd. has just received an export order for its product which will required use of 50% of the factory's total capacity, which is estimated at 5,00,000 units. The condition of export order is that it has to be accepted in full only.

The factory is currently operating at 60% level to meet the demand of domestic market where sale price per unit is ₹6. The export offer is at ₹ 4.70 per unit, which is less than the total cost of current production per unit as follows:

	₹
Direct Material	2.00
Direct Labour	1.50
Variable Expenses	0.50
Fixed overhead	1.00
Total cost	5.00

The company has the following options:

(i) Accept the export order and cut back domestic sales as necessary.
(ii) Remove the capacity constraint by installing necessary balancing equipment and also by working overtime to meet both domestic and export demand. This decision will increase fixed overhead by ₹ 20,000 and additional cost for overtime work will be for ₹ 35,000.

You are required to prepare a statement of costs & profits under each of above two options and advise the management suitably. [3+9=12]

3.(a) The share of production and the cost-based fair price computed separately for a common product for each of the four companies in the same industry are as follows:

	A	B	C	D
Share of Production (%)	40	25	20	15
Costs:				
Direct materials (` /Unit)	75	90	85	95

Direct Labour (₹ /Unit)	**50**	**60**	**70**	**80**
Depreciation (₹ /Unit)	**150**	**100**	**80**	**50**
Other Overheads(₹ /Unit)	**150**	**150**	**140**	**120**
Total (₹ / Unit)	**425**	**400**	**375**	**345**
Fair Price (₹ /Unit)	**740**	**615**	**550**	**460**
Capital employed per Unit:				
(i) Net Fixed Assets(₹ /Unit)	**1,500**	**1,000**	**800**	**500**
(ii) Working Capital (₹/Unit)	**70**	**75**	**75**	**75**
Total (` /Unit)	**1,570**	**1,075**	**875**	**575**

Required:
What should be the uniform price that should be fixed for the common product?

3.(b) In a factory of ZED LTD., where Standard Costing is followed, the budgeted fixed overheads for a budgeted production of 4800 units is ₹24,000. For a certain period actual (FOH) expenditure was ₹22,000 resulting in a fixed overhead volume variance of ₹ 3,000 (Adv.)
Calculate the actual production of ZED LTD. for the period. [9+3=12]

4.(a) A LTD.; a newly established manufacturing company has an installed capacity to produce 1,00,000 units of a consumer product annually. However its practical capacity is only 90%. The actual capacity utilisation may be substantially lower, as the firm is new to the market and demand is uncertain. The following budget has been prepared for 90% capacity utilisation:

	Cost per unit ₹
Direct Materials	**12**
Direct Labour	**8**
Direct Expense	**5**
Production Overheads	**10 (40% variable)**
Administration Overheads	**5 (100% fixed)**
Selling and Distribution	**6 (50% variable)**

You are required to prepare Flexible Budgets of a Consumer product at 70% and 80% levels of capacity utilization giving clearly the Variable Cost, Fixed Cost and the Total Costs under various heads at all stated levels

4.(b) KYC Ltd received an export offer to produce 4 units of labour intensive product. The work is to be done using existing facilities after regular shift timings. The Overtime rate is Normal rate + 30%. A and B are interested to do the job. A whose is already experienced has normal wage is ₹48 per hour . B who is new has 90% Learning Curve ratio for this work.A will take 20 Hours for 1st unit while B will take 30 hours for the 1st unit. Advise whom should be chosen so that labour cost is minimal. [8+4=12]

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

(a) Analyse B.E.P with the help of a graph.
(b) Principles of Responsibility Accounting
(c) Negotiated Price of Transfer Price.
(d) Limitations of Inter-firm comparison

Part B(Financial Management)
Section III

6.Answer the following questions:

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

(i) Liquidity ratios are expressed in
(A) Pure ratio form
(B) Percentage
(C) Rate or time
(D) None of the above

(ii) Which of the following are sources of funds?
(A) Issue of bonus shares
(B) Issue of shares against the purchase of fixed assets
(C) Conversion of debentures into shares
(D) None of the above

(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) Which of the following would be consistent with a more aggressive approach to financing working capital?
(A) Financing short-term needs with short-term funds.
(B) Financing permanent inventory buildup with long-term debt.
(C) Financing seasonal needs with short-term funds.
(D) Financing some long-term needs with short-term funds.

(v) A risk associated with project and way considered by well diversified stockholder is classified as
(A)expected risk
(B)beta risk
(C)industry risk
(D)returning risk

(vi) A project whose cash flows are more than capital invested for rate of return then net present value will be
(A)positive
(B)independent
(C)negative
(D)zero

(b) Match the statement in Column I with appropriate statement in Column II [1×4=4]

Column I	Column II
(i) DSCR	(A)Commitment to meet short term liabilities
(ii)Current Ratio	(B) Ability of borrower to service loan
(iii)Debt –Equity ratio	(C)Share holders' Funds/ Total tangible Assets
(iv)Proprietory ratio	(D)Total long term Debt/Shareholders' Funds

(c)State whether the following statements are True or False: **[1×4=4]**

(i) Deciding on the total amount of assets needed by the firm is a key step in the investment decision.
(ii) The price of a share of common stock acts as a barometer indicating how well management is doing on behalf of shareholders.
(iii) Companies with high growth rates tend to have high dividend-payout ratios because they want to attract more investors.
(iv) An increase in an asset is a source of funds.

Section IV

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

7.(a) ABC Limited has made plans for the year 2013-2014. It is estimated that the Company will employ total assets of ₹ 25,00,000; 30% of assets being financed by debt at an interest cost of 9%p.a. The direct cost for the year are estimated at ₹ 15,00,000 and all other operating expenses are estimated at ₹ 2,40,000. The sales revenue is estimated at ₹ 22,50,000. Tax rate is assumed to be 50%. Required to calculate:
(i) Net profit margin
(ii) Return on assets

(b) The fixed assets and equities of EM Co. Ltd. are supplied to you both at the beginning and at the end of the year 2016-17:

	1.04.16 ₹	31.03.17 ₹
Plant Less Depreciation	63,500	1,42,500
Investment in Shares of SM Company	1,32,000	2,90,000
Bonds Payable	2,50,000	70,000
Capital Stock	4,00,000	4,00,000
Retained Earnings	2,38,000	4,10,500

You are not in a position to have complete Balance Sheet data or an income statement for the year in spite of the fact that you have obtained the following information:

(i) Dividend of ₹ 37,500 were paid.

(ii) The net income included ₹13,000 as profit on sale of equipment. There has been an increase of ₹ 93,000 in the value of gross plant assets even though equipments worth ₹ 29,000 with a net book value of ₹ 19,000 was disposed off. From the particulars given above, prepare a statement of sources and uses of net working capital.

[4+8=12]

8. a) A dealer, having annual sales of ₹50 lakhs, extends 30 days credit period to its debtors. The variable cost is estimated at 80% of sales and fixed costs are ₹6,00,000.
The dealer intends to change the credit policy for which the following information is given:

Credit Policy	Average Collection	Annual Sales
A	45	56
B	60	60
C	75	62

Rate of Return (Pre-tax) required on investment is 20% [Consider 365 days a year]
You are required to-

Assess the most profitable credit policy with the help of incremental approach. [Calculations must be restricted to two decimal places].

(b) C Limited paid a dividend of ₹ 5 per share for 2016-17. The company follows a fixed dividend payout ratio of 60%. The company earns a return of 20% on its investment. The cost of capital to the company is 14%. What would be the expected market price of its share, using the Walter Model? [8+4=12]

9.(a)
S Ltd's. Operating income is ₹5, 00,000. The firms 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**

9.(b) A bond costing @ ₹800 is redeemable after 5 years @ ₹1,000. No interest is to be received and the discounting rate is 10%. What would be the NPV of bond?

[7+5=12]

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

(a) Features of Financial lease;
(b) Write the basic propositions of the MM Approach;
(c) Explain how the combined effects of operating and financial leverages provide the risk profile of an organization;
(d) Importance of Cost of Capital in Financial Management.