# Paper 10– Cost &Management Accounting
# and
# Financial Management

## Paper-10: - Cost & Management Accounting and Financial Management

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

This paper has been divided into two Parts A & B,each carrying 50 marks.
Further each Part has been divided into two sections each.

**Part-A**
**(COST & MANAGEMENT ACCOUNTING)**

**(50 Marks)**

**Section-I**

Answer the following questions.

1.(a) Choose the most Appropriate alternative for the following **(You may write only the Roman numeral and the alphabet chosen for your answer);** **1 X 6 =6**

(i) The use of management accounting is
(a) Compulsory
(b) Optional
(c) Mandatory as per law
(d) None of the above.

(ii) The selling price is 20 per unit,variable cost 12 per unit,and fixed cost 16,000,the break even-point in units will be
(a) 800 units
(b) 3,000 units
(c) 2,000 units
(d) None of these

(iii) Which of the following departments is most likely responsible for a price variance in direct material?
(a) Warehousing
(b) Receiving
(c) Purchasing
(d) Production

(iv)When are the overhead variances recorded in a standard costing system?
(a) When the cost of goods sold is recorded
(b) When the factory overhead is applied to work-in-process
(c) When the goods are transferred out of work-in-process
(d) when direct labour is recorded.

(v) The comparison of actual results with expected results is referred to as
(a) Feedback
(b) Controlling
(c) a & b
(d) None of these.

(vi) An example of long period budget is…..
(a) R & D budget
(b) Master budget
(c) Sales budget
(d) Personnel budget

**(b)**Match the statement under Column I with the most appropriate statement under Column II (you may opt to write only the numeral and the matched alphabet instead of copying the contents into the answer book): **1X4=4**

| | Column I | | Column II |
|---|---|---|---|
| 1 | Learning Curve | (A) | Negotiated Pricing |
| 2 | Zero Base Budgeting | (B) | Human Phenomenon |
| 3 | Transfer Price | (C) | Fixed Costs are charged to Cost of Production |
| 4 | Absorption Costing | (D) | Discretionary Cost |

**(c)** Statement whether the following statement are True or False (You may write only the Roman numeral and whether True or False without Copying the Statement into answer book); **1X4=4**

(i)A flexible budget is prepared for more than one level of activity.
(ii) Difference between the standard cost and actual cost is called as variance.
(iii) The objective of uniform costing is wealth maximization.
(iv) Standard formats are used in management accounting for preparation of reports.

Section II

**2(a)** A factory for a production of 1,50,000 units. The variable cost per unit is 28 and fixed cost is 4 per unit. The company fixes its selling price to fetch a profit of 15 % on cost.
(i) What is breakeven point
(ii) What is the profit volume ratio
(iii)If it reduces its selling price by 5% how does the revised selling price affect the BEP and the volume ratio.
(iv)If a profit increase of 10% is desired more than the budget what should be the sale at the reduced prices?

**(b)**The following results of a company for the last years are as follows:

| Period | Sales(₹) | Profit(₹) |
|---|---|---|
| 2017 | 3,00,000 | 40,000 |
| 2018 | 3,40,000 | 50,000 |

you are required to calculate:
(i)P/V ratio
(ii)Fixed cost
(ii) Profit when sales are 5,00,000
(iv)Margin of safety at a pofit of 1,00,000

**3(a)**The Standard labour complenment and the actual labour complement engaged in a week for a job are as under

| | | | |
|---|---|---|---|
| a)Standard no. of workers in the gang | 32 | 24 | 12 |
| b) Standard wage rate per hour () | 6 | 4 | 2 |
| c)Actual no. of workers employed in the gang during the week | 56 | 36 | 8 |
| d)Actual wage rate per hour() | 8 | 6 | 4 |

During the 40 hour working week the gang produced 1,800 standard labor hours work.Calculate
i) Labour Efficiency Variance
ii)Mix Variance
iii)Rate Wages Variance
iv)Labour Cost Variance

**(b)** X ltd Uses budgetary control and standard costing system .The following data are available:

| Product | Budgeted | | Actual | |
|---|---|---|---|---|
| | Units to be Sold | Sales value() | units sold | Sales Value() |
| A | 100 | 1,200 | 100 | 1,100 |
| B | 50 | 600 | 50 | 600 |
| C | 100 | 900 | 200 | 1,700 |
| D | 75 | 450 | 50 | 300 |
| | 325 | 3,150 | 400 | 3,700 |

Calculate:
(i) Sales Volume Variance
(ii) Sales Price variance
(iii) Sales Variance

**4(a)** A glass Manufacturing company requires you to calculate and present the budget for the next year from the following information.

| | |
|---|---|
| Sales: Toughened glass | ₹ 3,60,000 |
| Bent toughened glass | ₹ 6,00,000 |
| Direct material cost | 60 % of sales |
| Direct wages | 20 workers @ ₹ 180 p.m |
| Factory Overheads: | |
| Indirect Labour: Works Manager | ₹ 600 per month |
| Foreman | ₹ 480 per month |
| Stores and spares | $2^1/_2$ on sales |
| Depreciation on machinery | ₹ 14,400 |
| Light and Power | ₹ 6,720 |
| Repairs and maintenance | ₹ 9,600 |
| other sundries | 10 % on direct wages |
| Administration, Selling and distribution expenses | ₹ 16,800 per year |

**(b)** A firm received an order to make and supply eight units of standard product which involves intricate labour operations. The first unit was made in 10 hours.It is understood that this type of operations is subject to 80% learning rate.The workers are getting a wages rate of 12per hour.

(i) What is the total time and labour cost required to execute the above order?

(ii) If a repeat order of 24 units is also received from the same customer.what is the labour cost necessary

**5.Write short notes on any three out of the following :** **4X3=12**

**(i)** Zero Based Budgeting
**(ii)** Principal Budget Factor
**(iii)** Transfer Pricing
**(iv)** Factors Affecting Learning Curve

**Part -B**
**Financial Management)**
**(50 Marks)**
**Section III**

**6. Answer the following questions:**

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

**(i)** The capital of PQR Limited is as follows :
9% preference shares of ₹10 each ₹3,00,000
Equity shares of ₹10 each ₹8,00,000
Following further information is available:
Profit after Tax ₹2,70,000
Equity Dividend paid 20%
The market price of equity shares ₹ 40 each
Then the EPS is:
(A) ₹ 3.04

(B) ₹10.00
(C) ₹ 2.84
(D) None of the above

**(ii)** _________ _________may be defined as a % increase in EPS associated with a given percentage increase in the level of EBIT.
(A) Operating Leverage
(B) Financial Leverage
(C) Combined Leverage
(D) None of the above

**(iii)** Which of the following is/are important theory/theories of capital structure?
(A) Net Income Approach
(B) Net Operating Income Approach
(C) The Traditional view
(D) All of the above

**(iv)** ________ _________ are book costs relating to the past
(A) Historical Costs
(B) Future Costs
(C) Composite Cost
(D) Average Cost

**(v)** Computation of cost capital of a firm involves which of the following steps:
(A) Computation of cost of specific sources of a capital, viz., debt, preference capital, equity and retained earnings;
(B) Computation of weighted average cost of capital
(C) Both (A) and (B)
(D) None of the above

**(vi)** From the following select one factor which is not determinants of dividend policy of a company.
(A) Inflation
(B) Owner consideration
(C) Capital market conditions
(D) None of the above

**(b)** Match the statement under Column I with the most appropriate statement under Column II (you may opt to write only the numeral and the matched alphabet instead of copying the contents into the answer book): **[1×4=4]**

| Column I | Column II |
|---|---|
| (i) Unsecured Promissory Note | (a) Weighted average cost of capital |
| (ii) Operating Lease | (b) Zero Based Budgeting |
| (iii) Budgeting starts from scratch | (c) Service Lease |
| (iv) Composite cost | (d) Commercial Paper (CP) |

**(c)** Statement whether the following statement are True or False (You may write only the Roman numeral and whether True or False without Copying the Statement into answer book); **[1×4=4]**

**(i)** According to this model founded by Myron Gordon, the dividend policy of the company has an impact on share valuation.
**(ii)** Retained earnings refer to the distributed profits of a firm.
**(iii)** Pay-back Period is the number of years to recover the original capital invested in a project.
**(iv)** Current ratios are used for measuring the short term solvency of an entity.

**Section IV**

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

**7.(a)** The following accounting information and financial ratios of Bhalu Ltd. relate to the year ended 31st March, 2015:

| | |
|---|---|
| Inventory Turnover Ratio (considering cost of goods sold) | 6 times |
| Creditors Turnover Ratio | 10 times |
| Debtors Turnover Ratio | 12 times |
| Current Ratio | 2.4 |
| Gross Profit Ratio | 25% |

Total sales ₹ 60 lakhs; cash sales 25% of credit sales; cash purchases ₹ 4,60,000; working capital ₹7,14,000; closing inventory is ₹1,60,000 more than opening inventory.

You are required to calculate:

**(i)** Average Inventory
**(ii)** Purchases
**(iii)** Average Debtors
**(iv)** Average Creditors
**(v)** Average Payment Period
**(vi)** Average Collection Period

**[7]**

**(b) Amit Co. gives its statement of sources and utillisation of funds as under-**

| Source of Fund | Amount ₹ | Application of Fund | Amount ₹ |
|---|---|---|---|
| Equity Share Capital | 0.50 | Increase in working capital | 1.50 |
| Loan at 12% | 2.50 | Increase in Fixed Assets | 1.50 |
| Reduction on Investment | 0.25 | Loan as per P&L A/c | 1.00 |
| Sale of Assets | 0.25 | | |
| Depreciation for the year | 0.50 | | |
| Total | 4.00 | Total | 4.00 |

The company current ratio at the beginning of the year was 2. The current liabilities of the company as at 1st January (beginning of the year) stood at ₹ 3 lakhs. It was disclosed that during the year, the turnover to capital employed ratio declined from 1.5 to 1.25. You are required to critically appraise the financial operations of the company during the year. **[5]**

**8.(a)** A company manufactures a small computer component. The component is sold for ₹1,000 and its variable cost is ₹ 700. The company sold on an average, 300 units every month in 2016-17. At present the company grants one month credit to its customers. The company plans to extend the credit to 2 months on account of which the following is expected:

Increase in sales is 25%

Increase in stock is ₹1,50,000

Increase in creditors ₹60,000

Should the company extend the credit terms if —

(A) All customers avail of the extended period of 2 months.

(B) Only new customers avail of 2 months credit, assuming that the increase in sales in due to new customers.

The company expects a minimum rate of return of 30% on its investment. (Consider debtors at sales value) **[8]**

**(b)** Following are the details regarding two companies A Ltd. and B Ltd.:

| Details | A.Ltd. | B.Ltd. |
|---|---|---|
| Internal Rate of Return | 15% | 5% |
| Cost of equity capital | 10% | 10% |
| Earnings per share | ₹8 | ₹8 |

Calculate the value of an equity share of each of these companies according to Walter's model when dividend payout ratio is 75%.

What should be each company's strategy to maximize the market value of its share? **[4]**

**9.(a)** Dharma Limited has obtained funds from the following sources, the specific cost are also given against them:

| Sources of funds | Amount (₹) | Cost of capital |
|---|---|---|
| Equity shares | 30,00,000 | 15% |
| Preference shares | 8,00,000 | 8% |
| Retained Earnings | 12,00,000 | 11% |
| Debenture | 10,00,000 | 9%(before tax) |

You are required to calculate the weighted average cost of capital assuming that corporate tax rate is 30**%.** **[5]**

**(b)** Annu Ltd. is examining two mutually exclusive investment proposals. The management uses Net Present Value Method to evaluate new investment proposals. Depreciation is charged using Straight-line Method. Other details relating to these proposals are:

| Particulars | Proposal X | Proposal Y |
|---|---|---|
| Annual Profit before tax (₹) | 13,00,000 | 24,50,000 |
| Cost of the Project (₹) | 90,00,000 | 180,00,000 |
| Salvage Value (₹) | 1,20,000 | 1,50,000 |

| | | |
|---|---|---|
| Working Life | 4 years | 5 Years |
| Cost of capital | 10% | 10% |
| Corporate Tax Rate | 30% | 30% |

The present value of ₹ 1 at 10% discount rates at the end of first, second, third, fourth and fifth year are 0.9091; 0.8264; 0.7513; and 0.6209 respectively.

You are required to advise the company on which proposal should be taken up by it. **[7]**

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

**(a)** Limitations of Fund Flow Statement;
**(b)** Factoring;
**(c)** Features of Appropriate Capital Structure;
**(d)** Importance of Cost of Capital.