COSTING AND FINANCIAL MANAGEMENT

Answers to questions are to be given only in English except in the case of candidates who have opted for Hindi medium. If a candidate who has not opted for Hindi medium, answers in Hindi, his answers in Hindi will not be valued.

Question Nos. **1** and **6** are compulsory

Attempt **three** questions out of remaining question Nos.**2, 3,4** and **5** attempt **Two** questions from the remaining Question Nos. **7,8** and **9.**

Working notes should form part of the answer

Marks 3+5+2=10

1. (a) XYZ Ltd. Produces and sells sophisticated glass items –'A' and 'B'. In connection 3+5+2 with both the products the following information's are revealed from the cost records for the month February, 2008:

Product	A	B
Output (in units)	60,000	15,000
Sales (Rs.)	37,80,000	20,55,000
Cost Structure:		
Direct material (Rs. per unit)	18.75	45.00
Direct Wages (Rs. per unit)	10.00	13.00
Direct labour hours	30,000 hrs	9,750 hrs.
No.of quantity produced per batch:	240	50
Set up time per batch	2 hrs	5 hrs.
The Indirect costs for the month are as under:		

	Rs.
Cleaning and maintenance wages	2,70,000
Designing Costs	4,50,000
Setup costs	3,00,000
Manufacturing operation's costs	6,37,000
Shipment costs	81,000
Distribution costs	3,91,500
Factory administration costs	2,55,000

At present the company adopts the policy to absorb indirect costs applying direct labour hour basis and enjoying a good position in the market with regard to Product B, but facing a stiff price competition with regarding to Product A. The cost Accountant of the company, after making a rigorous analysis of the data, decided to shift from the absorption technique based on direct labour hours to activity costs drives basis and also to treat cleaning and maintenance wages as direct cost.

The cost accountant identified Rs. 1.20,000 for product A and the balance of cleaning and maintenance wages for product B.

The data relevant to activities and products are as follows:

Activity	cost	Product A	Product B
Designing:	Square feet	30 sq. ft.	70 sq.ft.
Manufacturing operation's :	Moulding machine hours	9,000 hrs.	3,750 hrs
Shipment :	Number of Shipments	100	100
Distribution:	Cubic feet	45,000 cu.ft.	22,500 cu.ft.
Setup of moulding machine:	Setup hours		
Factory administration:	Direct labour hours		

Your are required:

(i) To compute the total manufacturing cost and profits of both the products by applying direct labour basis of absorption, assuming cleaning and maintenance cost as indirect.

(ii) To compute the total manufacturing cost and profits of both the products by applying activity based costing, assuming cleaning and maintenance cost as indirect.

(iii) To compare the results obtained from (i) and (ii) and give your opinion on the decision of cost accountant.

(b) State 'Essentials of good cost accounting system'. 3

(c) Explain the limitations of Uniform costing. 3

(d) Calculate the total wages earned by a workman for a working day of 8 hours under Halsey and Rowan plans 2

- Standard production per hour 20 units
- Actual production of the day 200 units
- Wages rate per hour Rs. 30

2 (a) A Factory incurred the following expenditure during the year 2007" 8

		Rs.
Direct material consumed		12,00,000
Manufacturing Wages		7,00,000
Manufacturing overhead:		
Fixed	3,60,000	
Variable	2, 50,000	6,10,000
		25, 10,000

In the year 2008 following changes are expected in production:

(i) Production will increase due to recruitment of 60% more workers in the factory.

(ii) Overall efficiency will decline by 10% on account of recruitment of new workers.

(iii) There will be an increase of 20% in fixed overhead and 60% in variable overhead.

(iv) The cost of direct material will be decreased by 6%

(v) The company desire to earn a profit of 10% on selling price.

Ascertain the cost of production and selling price.

(b) Explain the term cost audit and discuss the purpose served by it.

(c) Explain implicit costs and explicit costs.

3 (a) PQR a manufacturer – a small scale enterprise produce a single product and have adopted a policy to recover the production overheads of the factory by adopting a single blanket rate based on machine hours. The budgeted production overheads of the factory are Rs. 10,08,000 and budgeted machine hours are 96,000.

For a period of first six months of the financial year 2007-08, following information were extracted from the books:

Actual production overheads	Rs. 6,79,000
Amount included in the production overhead:	
Paid as per curt's order	Rs. 45,000
Expenses of previous year booked in current year	Rs. 10,000
Paid to workers for strike period under an award	Rs. 42,000
Obsolete stores written off	Rs. 18,000

Production and sales data of the concern for the first six months are as under:

Production:

Finished goods	22,000 units
Works-in-progress	
(50% complete in every respect	16,000 units

Sale:

Finished goods	18,000 units

The actual machine hours worked during the period were 48,000 hrs. It is revealed from the analysis of information that 1/4 of the under-absorption was due to defective production policies and the balance was attributable to increase in costs.

Your are required:

(i) To determine the amount of under absorption of production overheads for the period.

(ii) To show the accounting treatment of under-absorption of production overheads, and

(iii) To apportion the unabsorbed overheads over the items.

(b) Discuss the A.B.C analysis of material control. 4

4. (a) The following figures have been extracted from the cost records of a manufacturing company. 10

Stores	Rs.
Opening Balance	63,000
Purchases	3,36,000
Transfer from Work-in-progress	1,68,000
Issues to Work-in-progress	3,36,000
Issues to Repairs and Maintenance	42,000
Deficiencies found in Stock taking	12,600
Work-in-progress:	

Opening Balance	1,26,000
Direct Wages applied	1,26,000
Overhead Applied	5,04,000
Closing Balance	84,000

Finished products:

Entire output is sold at a profit of 10% on actual cost from work-in-progress.

Others: Wages incurred Rs. 1,47,000: Overhead incurred Rs. 5,25,000.

Income from investment Rs. 21,000; loss on sale of Fixed Assets Rs. 42,000.

Draw the stores control account, work-in-progress control account, costing profit and loss account, profit and loss account and reconciliation statement.

(b) Explain "Controllable and Uncontrollable Costs'. 4

5. (a) Modern Construction Ltd. Obtained a contract No. B-37, for Rs. 40 lakhs. The following balances and information relate to the contract for the year ended 31st March, 2008: 5+1+2=8

	1-4-2007 Rs.	31-3-2008 Rs.
• Work-in-progress:		
Work certified	9,40,000	30,00,000
Work uncertified	11,200	32,000
• Material at site	8,000	20,000
• Accrued wages	5,000	3,000

Additional information relating to the year 2007-08 are:

	Rs.
• Materials issued from store	4,00,000
• Materials directly purchased	1,50,000
• Wages paid	6,00,000
• Architect's fees	51,000
• Plant hire charges	50,000
• Indirect expenses	10,000
• Share of general overheads for B-37	18,000
• Materials returned to supplier	15,000
• Fines and penalties paid	12,000

The conractee pays 80% of work certified in cash. You are required to prepare:

(i) Contract Account showing clearly the amount of profits transferred to profit and Loss Account.

(ii) Contractee's Account

(iii) Balance sheet.

(b) Explain any two of the following: 3+3=6

(i) Efficiency audit and Propriety audit.

(ii) Differential cost and Opportunity cost

(iii) Cost centre and Cost unit.

6. (a) A new project is under consideration in Zip Ltd., which requires a capital investment of

Rs.4.50 crore. Interest on term loan is 12% and Corporate Tax rate is 50%. If the Debt Equity ratio insisted by the financing agencies is 2:1, calculate the point of indifference for the project. 4

(b) X Ltd. has the following balances as on 1st April 2007. 8

	Rs.
Fixed Assets	11,40,000
Less :Depreciation	3,99,000
	7,41,000
Stock and Debtors	4,75,00
Bank Balance	66,500
Creditors	1,14,000
Bills payable	76,000
Capital (Shares of Rs. 100 each)	5,70,000

The Company made the following estimates for financial year 2007-08:

(i) The company will pay a free of tax dividend of 10% the rate of tax being 25%

(ii) The company will acquire fixed assets costing Rs. 1,90,000 after selling one machine for Rs. 38,000 Costing Rs. 95,000 and on which depreciation provided amounted to Rs. 66,500.

(iii) Stocks and Debtors, creditors and Bills payables at the end of financial year are expected to be Rs. 5,60,000, Rs. 1,48,200 and Rs. 98,800 respectively.

(iv) The profit would be Rs. 1,04,500 after depreciation of Rs. 1,14,000.

Prepare the projected cash flow statement and ascertain the bank balance of X Ltd., at the end of financial year 2007-08.

(c) Explain Baumal's Model of Cash Management. 4

7 (a) A firm can make investment in either of the following two projects. The firm anticipates its cost of capital to be 10% and the net (after tax) cash flows of the projects for five years are as follows: 8

(Figure in Rs. '000)

Year	0	1	2	3	4	5
Project-A	(500)	85	200	240	220	70
Project-B	(500)	480	100	70	30	20

The discount factors are under:

Year	0	1	2	3	4	5
PVF (10%)	1	0.91	0.83	0.75	0.68	0.62
PVF (20%)	1	0.83	0.69	0.58	0.48	0.41

Required:

(i) Calculate the NPV and IRR of each project.

(ii) State with reasons which project you would recommend.

(iii) Explain the inconsistency in ranking of two projects.

(b) Write short notes on: 2+2=4

(i) Finance function

(ii) Factoring.

8. (a) MNO Ltd. has furnished the following cost data relating to the year ending of 31st March, 2008: 8

	Rs. (in lakhs)
Sales	450
Material consumed	150
Direct wages	30
Factory overheads "(100% variable)	60
Office and Administrative overheads (100% variable)	60
Selling overheads	50

The company wants to make a forecast of working capital needed for the next year and anticipates that:

- Sales will go up by 100%
- Selling expenses will be Rs. 150 laksh.
- Stock holdings for the next year will be-Raw material for two and half months, Work-in-progress for one month, finished goods for half month and Book debts for one and half months.
- Lags in payment will be of 3 months for creditors, I month for wages and half month for factory, Office and Administrative and Selling overheads,

Your are required to:

(i) Prepare statement showing working capital requirements for next year, and

(ii) Calculate maximum permissible bank finance as per Tandom Committee guidelines assuming that core current assets of the firm are estimated to be Rs. 30 lakhs.

(b) Explain 'Global Depository Receipts' and 'American Depository Receipts.' 2+2=4

9. (a) Delta Ltd. currently has an equity share capital of Rs. 10,00,000 consisting of 1,00,000 Equity share of Rs. 10 Each. The company is going through a major expansion plan requiring to raise funds to the tune of Rs. 6,00,000. To finance the expansion the management has following plans: 4+4=8

Plan-I : Issue 60,000 Equity shares of Rs. 10 each

Plan-II : Issue 40,000 Equity shares of Rs. 10 each and 3,000 Rs. 100, 9% Debentures.

Plan-III : Issue 30,000 Equity shares of Rs. 10 each and 3,.000 Rs. 100, 9% Debentures.

Plant-IV : issue 30,000 Equity shares of Rs. 10 each and the balance through 6% preferences shares.

The EBIT of the company is expected to be Rs. 4,00,000 p.a. assume corporate tax rate of 40%.

Required:

(i) Calculate EPS in each of the above plans.

(ii) Ascertain the degree of financial leverage in each plan.

(b) Discuss the meaning and features of 'Commercial paper'. 1+3=4