Shree Guru Kripa's Institute of Management

COST ACCOUNTING AND FINANCIAL MANAGEMENT

Reg. No……..

Total Number of Questions:	7	Total Number of Printed Pages:	8
Time Allowed:	3 Hrs	Maximum Marks:	100

Code – CFM – FM – P03

Question No. **1** is Compulsory.
Answer any **five** questions from the remaining **six** questions.
Working Notes should form part of the Answer.

1 (a) Good Luck Ltd sells 10 different styles of Chappals with identical purchase cost and selling prices. The Company is trying to find out the profitability of opening another store, which will have the following expenses and revenues: (information per pair)

Particulars	Amount
Selling Price	₹ 150.00
Variable Production Cost	₹ 97.50
Salesmen's Commission	₹ 7.50
Total Variable Cost	₹ 105.00

Annual Fixed Expenses are ₹ 18,00,000, made up as Rent ₹ 3,00,000, Salaries ₹ 10,00,000, Advertising ₹ 4,00,000 and Other Fixed Costs ₹ 1,00,000.

Required: **Note:** Consider each part of the question separately.

1. Calculate the Annual BEP in units & in value. Compute profit or loss if 35,000 pairs of Chappals are sold.
2. Sales Commission is proposed to be discontinued, but instead a fixed amount of ₹ 4,50,000 is to be incurred in Fixed Salaries. A reduction in Selling Price of 5% is also proposed. What will be the BEP in units? **5 Marks**

1 (b) The following information has been extracted from the Balance Sheet of Robert & Co Ltd as on 31st March –

Component of Capital	Equity Share Capital	13% Debentures	16% Term Loan	Total
Amount ₹ in Lakhs	400	400	1,200	2,000

Determine the WACC of the Company. It had been paying dividends at a consistent rate of 18% per annum. **5 Marks**

1 (c) Full Cure Inc. hired a building to run a Nursing Home. The building has 8,000 square feet of area consisting of 40 rooms of 180 square feet each. The rest is General Area. The monthly rent has been agreed at ₹ 10 per square foot. Lighting and Heating expenses are ₹ 80,000 per month. The Staff would consist of – (a) Three Doctors at ₹ 40,000 per month each, (b) Nine Nurses at ₹ 12,000 per month each, and (c) Five General Helpers at ₹ 9,600 per month each

It is expected that 85% of the rooms will always remain occupied. If a Margin of 1/3rd on Takings is desired to cover other expenses, ascertain the Rent to be charged assuming a month of 30 days. **5 Marks**

1 (d) XYZ Ltd has an Average Cost of Debt at 12% and Tax Rate is 35%. The Financial Leverage for the Company is 1.50. Calculate Return on Equity (ROE) if its Return on Investment (ROI) is 18%. **5 Marks**

2. The Management of Trends Company Ltd is planning to expand its business and consult you to prepare an estimated Working Capital Statement. The records of the Company reveal the following information for an year:

Particulars	**₹**
Sales – Domestic at one Month's Credit	4,00,000
Export at three Month's Credit (Sales Price 10% below Domestic Price)	1,80,000
Materials used (Suppliers extend two months credit)	1,50,000
Lag in Payment of Wages – ½ Month	1,20,000
Lag in Payment of Manufacturing Expenses (Cash) – 1 Month	1,80,000
Lag in Payment of Administration Expenses – 1 Month	40,000
Sales Promotion Expenses payable quarterly in advance	25,000
Income Tax payable in four instalments of which one falls in the next Financial Year	37,500

Rate of Gross Profit is 20%. Ignore Work–in–Progress and Depreciation.

The Company keeps one Month's Stock of Raw Materials and Finished Goods (each) and believes in keeping ₹ 42,000 available to it including the Overdraft Limit of ₹ 12,500 not yet utilized by the Company. The Management is also of the opinion to make 12% Margin for Contingencies on the computed figures.

Assume Depreciation in ratio of Normal Sale Value of Local and Export Sales.

You are required to prepare the estimated Working Capital Statement for the next year in both Total Approach and Cash Cost Approach. **16 Marks**

3. City Constructions Limited has entered into a big contract at an agreed price of ₹ 1,50,00,000 subject to an Escalation Clause for material and labour as spent out on the contract and corresponding actuals are as follows:

Material	**Standard**		**Actual**	
	Quantity (Tonnes)	**Rate per Tonne**	**Quantity (Tonnes)**	**Rate per Tonne**
A	3,000	₹ 1,000	3,400	₹ 1,100
B	2,400	₹ 800	2,300	₹ 700
C	500	₹ 4,000	600	₹ 3,900
D	100	₹ 30,000	90	₹ 31,500
Labour	**Hours**	**Hourly Rate**	**Hours**	**Hourly Rate**
L_1	60,000	₹ 15	56,000	₹18
L_2	40,000	₹ 30	38,000	₹ 35

Required: **16 Marks**

1. Give your analysis of admissible Escalation Claim, and determine the Final Contract Price payable.

2. Prepare the Contract Account, if the all expenses other than Material and Labour related to the Contract are ₹ 13,45,000.

3. Calculate the following variances and verify them –

- Material Cost Variance
- Material Price Variance
- Material Usage Variance
- Labour Cost Variance
- Labour Rate Variance
- Labour Efficiency Variance.

4 (a) Strong Builders Ltd commenced a contract on November 1, 2010. The Total Contract was for ₹ 3,93,750. It was decided to estimate the Total Profit on the contract and to take to the credit of P & L Account that proportion of estimated profit on cash basis, which work completed bore to the Total Contract. Actual Expenditure for the period November 1, 2010 to October 31, 2011 and estimated expenditure for November 1, 2011 to March 31, 2012 are given below –

Particulars		Nov 1, 2010 to Oct 31, 2011 (Actuals)	Nov 1, 2011 to March 31, 2012 (Estimated)
Materials Issued		67,500	1,23,750
Labour:	Paid	45,000	56,250
	Prepaid	2,500	—
	Outstanding	—	250
Plant Purchased		37,500	—
Expenses:	Paid	20,000	35,000
	Outstanding	5,000	2,500
Plant Returns to Store (Historical Cost)		(on March 31, 2011) 7,500	(on March 31, 2012) 30,000
Work Certified		2,00,000	Full
Work Uncertified		7,500	
Cash received		1,75,000	
Material at site		7,500	3,750

The Plant is subject to annual depreciation at 33% on WDV Method. The Contract is likely to be completed on March 31, 2012.

Required:

Prepare the Contract Account. Determine the Profit on the Contract for the year November 2010 to October 2011 on prudent basis, which has to be credited to P & L Account. **8 Marks**

4 (b) Crown Ltd has just installed Machine A at a cost of ₹ 4 Lakhs. The Machine has a 5–year life with no Residual Value. The Annual Volume of Production is estimated at 3,00,000 units, which can be sold at ₹ 12 per unit. Annual Operating Costs are estimated at ₹ 4 Lakhs (Excluding Depreciation) at this output level. Fixed Costs are estimated at ₹ 6 per unit for the same level of production.

The Company has just come across another model Machine B, capable of giving the same output at an annual operating cost of ₹ 3.60 Lakhs (excluding depreciation). There will be no change in Fixed Costs. Machine B costs ₹ 5 Lakhs, its Residual Value will be Nil after a useful life of 5 years.

Crown Ltd has an offer for sale of Machine A for ₹ 2,00,000. The cost of dismantling and removal will be ₹ 60,000. As the Company has not yet commenced operations, it wants to dispose off Machine A and install Machine B.

The Company will be a zero–tax Company for seven years in view of several incentives and allowances available. The cost of capital is 14% and the PV factors are as under –

Year	1	2	3	4	5
PV Factor at 14%	0.877	0.769	0.675	0.592	0.519

Advise whether the Company should opt for replacement. Will your answer be different if the Company has not installed Machine A and is in the process of selecting either A or B? **8 Marks**

5 (a) A product passes through three processes 'A', 'B', 'C'. The output of Process 'A' and 'B' is transferred to next Process at Cost plus 20% each on Transfer Price and the output of Process C is transferred to Finished Stock at a profit of 25% on Transfer Price.

The following information is available in respect of the year ending 31st March –

Particulars	Process A	Process B	Process C	Finished Stock
Opening Stock	₹ 1,500	₹ 2,700	₹ 4,000	₹ 4,500
Material Stock	₹ 8,000	₹ 6,500	₹ 5,000	–
Wages	₹ 12,500	₹ 10,800	₹ 9,200	–
Manufacturing Overheads	₹ 9,600	₹ 7,200	₹ 6,650	–
Closing Stock	₹ 2,000	₹ 3,200	₹ 3,900	₹ 5,000
Inter–Process Profit included in Opening Stock	NIL	₹ 400	₹ 1,000	₹ 2,000

Stock in Process is valued at Prime Cost. Finished Stock is valued at the price at which it is received from Process 'C'. Sales of the Finished Stock during the period was ₹ 1,40,000.

Required:

- Prepare Process Accounts & Finished Stock Account showing profit element at each stage.
- Show the Profit and Loss Account,
- Also Show the relevant items in the Balance Sheet. **12 Marks**

5 (b) Prepare WIP Control Account from the following data – **4 Marks**

Particulars	Amount
1. Value of Stores Requisition	1,96,000
2. Value of Shop Credit notes	40,000
3. Direct Wages	1,05,000
4. Indirect Wages	30,000
5. POH incurred (excluding indirect wages)	49,000
6.POH absorbed	60,000
7.Factory Cost of goods sent to warehouse	3,36,000
8.Opening Stock of WIP	41,000

6 (a) From the following data contained in Income Statement and Balance Sheet of 'A' Ltd, prepare Cash Flow Statement.

Balance Sheet **12 Marks**

Liabilities and Equity	31.03.20X1	31.03.20X2	Assets	31.03.20X1	31.03.20X2
Share Capital	18,00,000	22,20,000	Fixed Assets:		
Surplus in Profit and Loss A/c	7,59,000	8,19,000	Land	2,40,000	4,80,00
Sundry Creditors	12,00,000	11,70,000	Bldgs & Equipment	18,00,000	28,80,000
Outstanding Expenses	1,20,000	2,40,000	Current Assets:		
Income Tax payable	60,000	66,000	Cash	3,00,000	3,60,000
Accumulated Depreciation on			Debtors	8,40,000	9,30,000
Buildings and Equipments	6,00,000	6,60,000	Stock	13,20,000	4,80,000
			Advances	39,000	45,000
Total	**45,39,000**	**51,75,000**	**Total**	**90,78,000**	**51,75,000**

The original Cost of Equipment sold during the year 20X1–20X2 was ₹ 3,60,000.

Income Statement for the year ended 31st March 20X2 –

	Particulars	Amount
	Net Sales **(A)**	1,26,00,000
Less:	Cash Cost of Sales	99,00,000
	Depreciation	3,00,000
	Salaries and Wages	12,00,000
	Operating Expenses	4,00,000
	Provision for Taxation	4,40,000
	(B)	1,22,40,000
	Net Operating Profit **(A – B)**	3,60,000
Add:	Non–Recurring Income – Profits on Sale of Equipment	60,000
	Total	4,20,000
Add:	Retained Earnings and Profits brought forward	7,59,000
	Total Profits available for distribution	11,79,000
Less:	Dividends declared and paid during the year	3,60,000
	Profit and Loss A/c balance as on March 31, 20X2	**8,19,000**

6 (b) A Machine costing ₹ 2,87,000, excluding installation and erection costs of ₹ 3,000, has an anticipated life of 10 years, with a residual value of ₹ 5,000. It is depreciated on straight–line method. From the given information, compute a machine–hour rate on the basis of anticipated working hours – **4 Marks**

(a) Rent & Rates for Factory is ₹ 20,000 per annum. Area occupied by this machine – 10%.

(b) Insurance for this machine is ₹ 1,500 per annum.

(c) Repairs & Maintenance for the whole factory for the year is ₹ 5,000, 25% of this relates to this machine.

(d) Consumable Stores attributable to this machine for the whole year is ₹ 2,750.

(e) Total of Production Services is ₹ 20,000, 20% of this amount is applicable to this machine.

(f) Power Cost is ₹ 7.5 per working hour.

(g) The year contains 250 working days of 4 hours each, but it is anticipated that the machine will remain idle 20% of this time.

7. Answer the following questions **(ANY FOUR) –** **4 × 4 Marks = 16 Marks**

(a) Write short notes on Accounting Treatment for Material Spoilage.

(b) What do you understand by Seed Capital Assistance?

(c) How is Idle Time Cost treated in Cost Accounts?

(d) List out ANY FOUR Financial Instruments in the International Market.

(e) Distinguish between Fixed Budgets and Flexible Budgets.

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