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| **Roll No………** |  |
| **Total No. of Questions — 7]** | **[Total No. of Printed Pages — 8** |
| **Time Allowed : 3 Hours** | **Maximum Marks : 100** |

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| --- |
| Answers to questions are to be given only in English except in the cases 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. |
| Q.No. 1 is compulsory. |
| Attempt any **five** questions from the remaining **six** questions. |
| Working notes should form part of the answer. |
| Marks |

|  |  |  |  |
| --- | --- | --- | --- |
| 1. | Answer the following: | 4x5=20 |   |
|   | (a) | Compute the sales variances (total, price and volume) from the following figures:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Product** | **Budgetedquantity** | **BudgetedPrice perUnit(Rs.)** | **Actualquantity** | **ActualPrice perunit (Rs.)** |
| P Q R S | 4,000 3,000 2,000 1,000 | 25 50 75 100 | 4800 2800 2400 800 | 30 45 70 105 |

 |   | (0) |
|   | (b) | ABC Limited has received an offer of quantity discounts on its order of materials as under:

|  |  |
| --- | --- |
| **Price per tonneRs.** | **TonnesNos.** |
| 4,800 4,680 4,560 4,440 4,320 | Less than 50 50 and less than 100 100 and less than 200 200 and less than 300 300 and above |

The annual requirement for the material is 500 tonnes. The ordering cost per order is Rs.6,250 and the stock holding cost is estimated at 25% of the material cost per annum.Required:

|  |  |
| --- | --- |
| (i) | Compute the most economical purchase level. |
| (ii) | Compute E.O.Q. if there are no quantity discounts and the price per tonne is Rs.5,250. |

 |   | (0) |
|   | (c) | MNP Limited has made plans for the next year 2010–11. It is estimated that he company will employ total assets of Rs.25,00,000; 30% of assets being financed by debt at an interest cost of 9% p.a. The direct costs for the year are estimated at Rs.15,00,000 and all other operating expenses are estimated to be 40%.Required to calculate:

|  |  |  |  |
| --- | --- | --- | --- |
| (i) | Net profit margin | (ii) | Return on Assets |
| (iii) | [Asset turnover](http://www.futureaccountant.com/exam-question-previous-papers/2009-ipcc_cost-accounting-and-financial-management-november-2010/p239/) | (iv) | Return on equity |

 |   | (0) |
|   | (d) | PQR Ltd. has the following capital structure on October 31, 2010:

|  |  |
| --- | --- |
|  | **Rs.** |
| Equity Share Capital (2,00,000 Shares of Rs.10 each) Reserves & Surplus 12% Preference Shares 9% Debentures | 20,00,000 20,00,000 10,00,000 30,00,000 |
|   | 80,00,000 |

The market price of equity share is Rs.30. It is expected that the company will pay next year a dividend of Rs.3 per share, which will grow at 7% forever. Assume 40% income tax rate.You are required to compute weighted average cost of capital using market value weights. |   | (0) |
| 2. | (a) | PQR Construction Ltd. commenced a contract on April 1, 2009. The total contract was for Rs.27,12,500. It was decided to estimate the total profit and to take to the credit of P/L A/c the proportion of estimated profit on cash basis which work completed bear to the total contract. Actual expenditure in 2009–10 and estimated expenditure in 2010–11 are given below:

|  |  |  |
| --- | --- | --- |
|  | **2009–10Actuals (Rs.)** | **2010–11Estimated(Rs.)** |
| Materials issued Labour: Paid : Outstanding at endPlant purchased Expenses : Paid : Outstanding at the end: Prepaid at the endPlant returned to stores (at historical cost) Material at site Work–in–progress certified Work–in–progress uncertified Cash received | 4,56,000 3,05,000 24,000 2,25,000 1,00,000 – 22,500 75,000 30,000 12,75,000 40,000 10,00,000 | 8,14,000 3,80,000 37,500 – 1,75,000 25,000 – 1,50,000 (on Dec. 31, 2010) 75,000 Full – Full |

The plant is subject to annual depreciation @ 20% of WDV cost. The contract is likely to be completed on December 31, 2010./p>Required:

|  |  |
| --- | --- |
| (i) | Prepare the Contract A/c for the year 2009–10. |
| (ii) | Estimate the profit on the contract for the year 2009–10 on prudent basis which has to be credited to P/L A/c. |

 | 8 | (0) |
|   | (b) | RST Limited is considering relaxing its present credit policy and is in the process of evaluating two proposed policies. Currently, the firm has annual credit sales of Rs.225 lakhs and accounts receivable turnover ratio of 5 times a year. The current level of loss due to bad debts is Rs.7,50,000. The firm is required to give a return of 20% on the investment in new accounts receivables. The company’s variable costs are 60% of the selling price. Given the following information, which is better option?

|  |
| --- |
| (Amount in Rs. Lakh) |
|  | **PresentPolicy** | **PolicyOption I** | **PolicyOption II** |
| Annual credit sales (Rs.) [Accounts](http://www.futureaccountant.com/exam-question-previous-papers/2009-ipcc_cost-accounting-and-financial-management-november-2010/p239/) receivable turnover ratio Bad debt losses (Rs.) | 225 5 7.5 | 275 4 22.5 | 350 3 47.5 |

 | 8 | (0) |
| 3. | (a) | Following information is available regarding Process A for the month of October 2010:Production Record:

|  |  |  |
| --- | --- | --- |
| (i) (ii) (iii) (iv) | Opening work–in–progress (Material : 100% complete, 25% complete for (labour & overheads) Units Introduced Units Completed Units in–process on 31.10.2010 (Material : 100% complete, 50% complete for labour & overheads | 40,000 Units 1,80,000 Units 1,50,000 Units 70,000 Units |
| Cost Record: Opening Work–in–Progress: MaterialLabourOverheadscost incurred during the month: MaterialLabourOverheads | Rs.1,00,000 Rs.25,000 Rs.45,000 Rs.6,60,000 Rs.5,55,000 Rs.9,25,000 |

Assume that FIFO method is used for W.I.P. [inventory valuation](http://www.futureaccountant.com/exam-question-previous-papers/2009-ipcc_cost-accounting-and-financial-management-november-2010/p239/).Required:

|  |  |
| --- | --- |
| (i) | Statement of Equivalent Production |
| (ii) | Statement showing Cost for each element |
| (iii) | Statement of apportionment of Cost |
| (iv) | Process A Account. |

 | 8 | (0) |
|   | (b) | (i) | Calculate the degree of operating leverage, degree of financial leverage and the degree of combined leverage for following firms and interpret the results:

|  |  |  |  |
| --- | --- | --- | --- |
|  | **P** | **Q** | **R** |
| Output (Units) Fixed Cost (RS.) Unit Variable cost(RS.) Unit Selling price (Rs.) Interest Expense (Rs.) | 2,50,000 5,00,000 5 7.50 75,000 | 1,25,000 2,50,000 2 7 25,000 | 7,50,000 10,00,000 7.50 10.0 – |

 | 4 | (0) |
|   |   | (ii) | Discuss the liquidity vs. profitability issue in management of working capital. | 4 | (0) |
| 4. | (a) | Balance Sheets of ABC Limited as on March 31, 2009 and March 31, 2010 are as under:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Liabilities** | **31.3.2009Rs.** | **31.3.2010Rs.** | **Assets** | **31.3.2009Rs.** | **31.3.2010Rs.** |
| Share Capital General Reserve Profit and Loss A/c 10% debentures (Bank Loan (long term) Creditors Outstanding Expenses Proposed dividend Provision for taxation | 40,00,0008,00,000 5,00,000 20,00,00010,00,0008,00,000 40,000 6,00,000 2,00,000 | 40,00,000 9,00,000 7,20,000 16,00,000 12,00,000 11,60,000 50,000 7,20,000 2,40,000 | Land and Building Plant and Machinery Investments (long–term) Stock Debtors Prepaid Expenses Cash and Bank | 30,00,00036,00,0008,00,000 9,60,000 12,00,0001,00,000 2,80,000 | 28,00,000 35,00,000 7,44,000 17,00,000 15,96,000 80,000 1,70,000 |
|   | 99,40,000 | 1,05,90,000 |   | 99,40,000 | 1,05,90,000 |

Additional Information:

|  |  |
| --- | --- |
| (i) | New machinery for Rs.6,00,000 was purchased but an old machinery costing Rs.2,90,000 was sold for Rs.1,00,000 and [accumulated depreciation](http://www.futureaccountant.com/exam-question-previous-papers/2009-ipcc_cost-accounting-and-financial-management-november-2010/p239/) thereon was Rs.1,50,000 |
| (ii) | 10% debentures were redeemed at 20% premium. |
| (iii) | Investments (long term) were sold for Rs.90,000 and its profit was transferred to general reserve. |
| (iv) | Income–tax paid during the year 2009–10 was Rs.1,60,000. |
| (v) | An interim dividend of Rs.2,40,000 has been paid during the year 2009–10. |
| (vi) | Assume the provision for taxation as current liability and proposed dividend as non–current liability. |
| (vii) | Investments (long term) are non–trade investments. |

Required:

|  |  |
| --- | --- |
| (i) | Schedule of changes in working capital. |
| (ii) | Funds flow from operations for the year ended March 31, 2010. |

 | 8 | (0) |
|   | (b) | MNP Ltd sold 2,75,000 units of its product at Rs.37.50 per unit. Variable costs are Rs.17.50 per unit (manufacturing costs of Rs.14 and selling cost of Rs.3.50 per unit). Fixed costs are incurred uniformly throughout the year and amount to Rs.35,00,000 (including depreciation of Rs.15,00,000). There are no beginning or ending inventories.Required:

|  |  |
| --- | --- |
| (i) | Estimate breakeven sales level quantity and cash breakeven sales level quantity. |
| (ii) | Estimate the P/V ratio. |
| (iii) | Estimate the number of units that must be sold to earn an income (EBIT) of Rs.2,50,000. |
| (iv) | Estimate the sales level to achieve an after–tax income (PAT) of Rs.2,50,000. Assume 40% corporate Income Tax rate. |

 | 8 | (0) |
| 5. | (a) | A manufacturing company has disclosed a net loss of Rs.8,75,000 as per their cost accounting records for the year ended March 31, 2010. However, their [financial accounting](http://www.futureaccountant.com/exam-question-previous-papers/2009-ipcc_cost-accounting-and-financial-management-november-2010/p239/) records disclosed a net loss of Rs.7,91,250 for the same period. A scrutiny of the data of both the sets of books of accounts revealed the following information:

|  |  |  |
| --- | --- | --- |
|  |  | **Rs.** |
| (i) | Factory overheads over–absorbed | 47,500 |
| (ii) | Administration overheads under–absorbed | 32,750 |
| (iii) | Depreciation charged in Financial Accounts | 2,25,000 |
| (iv) | Depreciation charged in Cost Accounts | 2,42,250 |
| (v) | Interest on investments not included in Cost Accounts | 62,750 |
| (vi) | Income Tax provided in Financial Accounts | 7,250 |
| (vii) | Transfer fees (credit in Financial Accounts) | 12,500 |
| (viii) | Preliminary expenses written off | 27,500 |
| (ix) | Under–valuation of opening stock in Cost Accounts | 6,250 |
| (x) | Under valuation of closing stock in Cost Accounts | 17,500 |

Required:Prepare a Memorandum Reconciliation A/c. | 8 | (0) |
|   | (b) | Distinguish between the following: | 2x4=8 |   |
|   |   | (i) | Profit maximisation vs Wealth maximisation objective of the firm. |   | (0) |
|   |   | (ii) | Global Depository Receipts and American Depository Receipts. |   | (0) |
| 6. | (a) | A company has to make a choice between two machines X and Y. The two machines are designed differently, but have identical capacity and do exactly the same job. Machine ‘X’ cost Rs.5,50,000 and will last for three years. It costs Rs.1,25,000 per year to run. Machine ‘Y’ is an economy model costing Rs.4,00,000, but will last for two years and costs Rs.1,50,000 per year to run. These are real cash flows. The costs are forecasted in Rupees of constant purchasing power. Opportunity cost of capital is 12%. Ignore Taxes. Which machine company should buy?

|  |  |  |  |
| --- | --- | --- | --- |
|  | **t=1** | **t=2** | **t=3** |
| PVIF0.12, t | 0.8929 | 0.7972 | 0.7118 |
| PVIF0.12, 2PVIF0.12, 3 | = 1.6901= 2.4019 |  |  |

 | 8 | (0) |
|   | (b) | Write short notes on the following: | 2x4=8 |   |
|   |   | (i) | Essential factors for installing a [Cost Accounting system](http://www.futureaccountant.com/exam-question-previous-papers/2009-ipcc_cost-accounting-and-financial-management-november-2010/p239/). |   | (0) |
|   |   | (ii) | Treatment of under–absorbed and over–absorbed overheads in Cost Accounting. |   | (0) |
| 7. | Answer any **four** of the following: | 4x4=16 |   |
|   | (a) | What are the methods of re–apportionment of service department expenses over the production departments? Discuss. |   | (0) |
|   | (b) | How apportionment of joint costs upto the point of separation amongst the joint products using market value at the point of separation and net realizable value method is done? Discuss. |   | (0) |
|   | (c) | Discuss the estimation of working capital need based on operating cycle process. |   | (0) |
|   | (d) | Discuss financial break–even and EBIT–EPS indifference analysis. |   | (0) |
|   | (e) | Discuss the three different methods of calculating labour turnover. |   | (0) |