

Solution of May 2009 Examination Question Paper of November 2009 Examination

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Solution of May 2009 Examination

Paper - 4A : Cost Accounting

Chapter - 1 : Basic Concepts

2009 - May [1] {C} Answer the following :

(ii) Distinguish between product cost and period cost. (2 marks) Answer:

(ii) Product costs are associated with the purchase and sale of goods. In the production scenario, such costs are associated with the acquisition and conversion of materials and all other manufacturing inputs into finished product for sale. Hence under absorption cost, total manufacturing costs constitute inventoriable or product cost.

Periods costs are the costs, which are not assigned to the products but are charged as expense against revenue of the period in which they are incurred. General Administration, marketing, sales and distributor overheads are recognized as period costs.

Chapter - 2 : Material

2009 - May [4] {C} Answer the following :

(i) Discuss accounting treatment of spoilage and defectives in cost accounting. (3 marks)

Answer :

Please refer 2000 - May [3] (c) on page no. 26

Chapter - 3 : Labour

2009 - May [1] {C} Answer the following :

(i) Two workmen, A and B, produce the same product using the same material. A is paid bonus according to Halsey plan, while B is paid bonus according to Rowan plan. The time allowed to manufacture the product is 100 hours. A has taken 60 hours and B has taken 80 hours to complete the product. The normal hourly rate of wages of workman

A is Rs. 24 per hour. The total earnings of both the workers are same.Calculate normal hourly rate of wages of workman B. (2 marks)

Answer :		
	А	В
(i) Time Allowed (Hours)	100	100
Time Taken (Hours)	60	80
Time Saved (Hours)	40	20
Let the rate of wages of the	e worker	
B is Rs. \times per hour		
Normal Wages	1440	$(80 \times X)$
(Time taken x Hourly rate	of wages) (60×24)	$(80 \times X)$
Bonus	480	16 X
	<u>(50% × 40 × 24)*</u>	$\frac{\left(\underline{20}}{100}\right) \times (80 \times X)^{**}$
	1920	<u>96x</u>
According to the problem,		

Total earnings of

A = Total earnings of B
1920 = 96 X
X =
$$\frac{1920}{96}$$
 = Rs. 20

Therefore, hourly rate of wages of the worker is Rs. 20 per hour. * Bonus = Time Saved × 50% × Wage Rate

** Bonus = $\frac{\text{Time taken}}{\text{Time Allowed}} \times \text{Time Save} \times \text{Wage Rate}$

2009 - May [4] {C} Answer the following :

(ii) Discuss accounting treatment of idle capacity costs in cost accounting. (3 marks)

Answer :

Idle Capacity: It represents the difference between practical capacity and the capacity based on long term sales expectancy.

If the actual capacity is different from the capacity based on sales expectancy, then the idle capacity is the difference between the practical capacity and the actual capacity.

.. Idle capacity represents a part of practical capacity which has not been utilized due to regular interruptions and which may not be avoided. Idle capacity cost can be determined as

Idle capacity cost = $\frac{\text{Total OH related to plant}}{\text{Idle capacity}} \times \text{Idle capacity}$

It may be normal or abnormal. The treatment can be done in the following ways :-

1. Arising due to unavoidable reasons (Normal idle capacity):

Generally arises due to lack of demand or due to seasonal nature of the product.

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Treatment ↓

Production OHs are absorbed into the cost of production either by the inflated OH absorption rate or by the supplementary OH rate.

2. Arising due to avoidable reasons (Abnormal idle capacity): It may arise due to lack of proper planning control or due to lack of managements forecasting.

Treatment ↓

The cost of such idle treatment capacity should be changed to costing Profit and Loss A/c.

3. If arises due to trade depression or any other external factors: Then it being normal in nature,

Treatment ↓

The cost should be charged to costing P/L A/c.

Chapter - 4 : Overheads

2009 - May [1] {C} Answer the following :

(vi) Following information is available for the first and second quarter of the year 2008-09 of ABC Limited :

	Production	Semi-variable cost
	(in units)	(Rs.)
Quarter I	36,000	2,80,000
Quarter II	42,000	3,10,000

You are required to segregate the semi-variable cost and calculate :

- (a) Variable cost per units; and
- (b) Total fixed cost.

Answer :

Production (Units)

(2 marks)

		Semi Variable Cost (Rs.)
Quarter I	36,000	2,80,000
Quarter II	42,000	3,10,000
Difference	6,000	30,000
Variable Cost per Unit =	Change in	Semi Variable Cost
variable Cost per Onit -	<u></u>	

Change in Production

<u>Rs .30,000</u>

6,000units

= Rs. 5 per units

Total Fixed Cost = Semi Variable Cost - (Production x Variable Cost per Unit)

Total fixed cost in Quarter I:

 $= 2,80,000 - (36,000 \times 5)$ = 2,80,000 - 1,80,000= 1,00,000 Total fixed cost in Quarter II:

$$= 3,10,000 - (42,000 \times 5) = 3,10,000 - 2,10,000 = 1,00,000$$

Chapter - 6 : Reconciliation of Cost and Financial Accounts

2009 - May [3] {C} (a) A manufacturing company has disclosed a net loss of Rs. 2,13,000 as per their cost accounting records for the year ended March 31, 2009. However, their financial accounting records disclosed a net loss of Rs. 2,58,000 for the same period. A scrutiny of data of both the sets of books of accounts revealed the following information :

(\cdot)		5 000
(1)	Factory overneads underabsorbed	5,000
(ii)	Administration overheads overabsorbed	3,000
(iii)	Depreciation charged in financial accounts	70,000
(iv)	Depreciation charged in cost accounts	80,000
(v)	Interest on investments not included in cost accounts	20,000
(vi)	Income-tax provided in financial accounts	65,000
(vii)	Transfer fees (credit in financial accounts)	2,000
(viii)	Preliminary expenses written off	3,000
(ix)	Over-valuation of closing stock of finished goods	
	in cost accounts	7,000
		(7 1)

Prepare a Memorandum Reconciliation Account. (7 marks) *Answer*:

Particulars	Rs.	Particulars	Rs.
To Net loss as per costing books	2,13,000	By Administrative over- head over absorbed in	2 000
To Factory overheads under absorbed	5,000	By Depreciation over charged in cost books	3,000
provided in cost books	65,000	(80,000 - 70,000)	10,000
To Preliminary expenses written off in financial	2 000	By Interest on investments not included in cost	20.000
To Over-valuation of	3,000	By Transfer fees not	20,000
finished goods in cost	7 000	books By Net loss as per	2,000
UUUKS	7,000	financial books	2,58,000
	2,93,000		2,93,000

Memorandum Reconciliation Account

Chapter - 8 : Contract Costing

2009 - May [4] {C} Answer the following :

(iii) A contract is estimated to be 80% complete in its first year of construction as certified. The contractee pays 75% of value of work

Rs.

certified, as and when certified and makes the final payment on the completion of contract. Following information is available for the first year :

	Rs.
Cost of work-in progress uncertified	8,000
Profit transferred to Profit & Loss A/c at the end	
of year I on incomplete contract	60,000
Cost of work to date	88,000
Calculate the value of work-in-progress certified and amoun	t of contract price

Answer :

As the contract is 80% complete, So 2/3rd of the notional profit on cash basis has been transferred to Profit & Loss A/c in the first year of contract.

: Amount transferred to Profit &	Loss A/c= $\frac{2}{3}$ × Notional Profit x % of cost
received or, 60,000	$=\frac{2}{3}$ x Notional Profit x $\frac{75}{100}$
or, Notional Profit	$=\frac{60,000 \times 3 \times 100}{2}$

 $= \frac{2 \times 75}{2 \times 75}$ = Rs. 1,20,000

Computation of Value of Work Certified:

	Contract Drice	_	Value of work Certifie	d
	Since the Value of Work (therefore	Certif	ied is 80% of the Contr	ract Price,
	Value of Work Certified	=	<u>Rs. 2,00,000</u>	
Less:	Cost of Work Uncertified	=	8,000	
			Rs. 2,08,000	
Add: No	otional Profit	=	<u>Rs. 1,20,000</u>	
Cost of	work to date	=	Rs. 88,000	

=	value of won	x continue
	80%	6
_	Rs. 2,00,000	$= R_{S} 250.000$
	80%	- Ks. 2,50,000

Therefore sales revenue required to achieved a quarterly profit.

Contract Account				
Particulars	Amount Rs.	Particulars	Amount Rs.	
To Cost to date To National Profit	88,000 1,20,000	By Work in Progress - Work Certified - Work uncertified	2,00,000	
	2,08,000		2,08,000	

(3 marks)

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To P/L A/c To Work in Progress	$60,000 \\ 60,000$	By Notional Profit	1,20,000
	1,20,000		1,20,000

Chapter - 9 : Operating and Multiple Costing

2009 - May [1] {C} Answer the following :

(iii) A lorry starts with a load of 24 tonnes of goods from station A. It unloads 10 tonnes at station B and rest of goods at station C. It reaches back directly to station A after getting reloaded with 18 tonnes of goods at station C. The distance between A to B, B to C and then from C to A are 270 kms, 150 kms and 325 kms respectively. Compute 'Absolute tonnes kms' and 'Commercial tonnes-kms'. (2 marks)

Answer :

Absolute tonnes kms

= tonnes (unit of weight) × Km (Unit of distance)

= $(24 \text{ tonnes} \times 270 \text{ kms}) + (14 \text{ tonnes} \times 150 \text{ kms}) + (18 \text{ tonnes} \times 325 \text{ kms})$

= 6480 + 2,100 + 5850

= 14430 tonnes kms

Commercial Tonnes kms

= Average load x Total kms travelled

 $= \left[\frac{24+14+18}{3}\right] \text{tonnes} \times 745 \text{ kms}$

= 13906.67 Tonnes km

Chapter - 11 : Joint Products & By Products

2009 - May [3] $\{C\}$ (b) Describe briefly, how joint costs upto the point of separation may be apportioned amongst the joint products under the following methods :

- (i) Average unit cost method
- (ii) Contribution margin method
- (iii) Market value at the point of separation
- (iv) Market value after further processing

(v) Net realizable value method (9 marks)

Answer :

Methods of apportioning joint cost among the joint products:

(i) Average Unit Cost Method:

- In this method, total process cost (upto the point of separation) is divided by total units of joint products produced.
- On division average cost per unit of production is obtained. The effect of application of this method is that all joint products will have uniform cost per unit.

(ii) Contribution Margin Method:

• In this method joint costs are segregated into two parts - variable and fixed. The variable costs are apportioned over the joint

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products on the basis of units produced (average method) or physical quantities.

- When the products are further processed, then all variable cost incurred be added to the variable cost determined earlier.
- After that contribution is calculated by deducting variable cost from their respective sales values.
- The fixed costs are then apportioned over the joint products on the basis of contribution ratios.

(iii) Market Value at the Time of Separation:

- This method is used for apportioning joint costs to joint products upto the split off point.
- This method is difficult to apply if the market value of the products at the point of separation are not available.
- The joint cost may be apportioned in the ratio of sales values of different joint products.

(iv) Market Value after further Processing:

- Under this method the basis of apportionment of joint costs is the total sales value of finished products at the further processing.
- The use of this method is unfair where further processing costs after the point of separation are disproportionate or when all the joint products are not subjected to further processing.
- (v) Net Realisable Value Method:

• Under this method joint costs is apportioned on the basis of net realisable value of the joint products,

Net Realisable Value = Sale value of joint products (at finished stage)

- (-) estimated profit margin
- (-) selling & distribution expenses, if any
- (-) post split-off cost

Chapter - 12 : Standard Costing

2009 - May [1] {C} Answer the following :

(iv) Following details relating to product X during the month of April, 2009 are available :

Standard cost per unit of X :

Materials : 50 kg @ Rs. 40/kg

Actual production : 100 units

Actual material cost : Rs. 42/Kg

Material price variance : Rs. 9,800 (Adverse)

Material usage variance : Rs. 4,000 (Favourable)

Calculate the actual quantity of material used during the month April, 2009. (2 marks)

Answer :

Material price variance = AQ (Std. price per kg - Actual price per kg) = (-) 9800 = AO (40 - 42)

$$= (-) 9800 = AQ (40 - 4)$$

= (-) 9800 = AQ (- 2)

$$\therefore AQ = \frac{9800}{2} = 4,900$$

Actual quantity of material used during the month of April = 4,900 kg. Chapter - 13 : Marginal Costing

2009 - May [4] {C} Answer the following :

(iv) Product Z has a profit-volume ratio of 28%. Fixed operating costs directly attributable to product Z during the quarter II of the financial year 2009- 10 will be Rs. 2,80,000.

Calculate the sales revenue required to achieve a quarterly profit of Rs. 70,000. (3 marks)

Answer :

P/V ratio = 28%

=

=

Quarterly fixed Cost = Rs. 2,80,000

Desired Profit = Rs. 70,000 Sales revenue required to achieve desired profit

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Fixed Cost + Desired Profit
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$$= \frac{\Gamma I X c u C O S t + D c S I c u \Gamma I O I u}{D (V rotio}$$

$$\frac{2,80,000 + 70,000}{28\%}$$

$$\frac{3,50,000}{28\%} = \text{Rs. } 12,50,000$$

Chapter - 14 : Budgets & Budgetary Control

2009 - May [1] {C} Answer the following :

(v) Discuss the components of budgetary control system. (2 marks) Answer :

Components of budgetary control system: There are a number of bases for classifing the budgets into two or more categories. But the most important and widely used bases are functional classification and classification according to flexibility.

The policy of a business for a defined period is represented by the master budget the details of which are given in a number of individual budgets called functional budgets. The functional budgets are broadly grouped under the following heads:

- (a) Physical Budgets This budget contains information in terms of physical units e.g. Sales Qty, Product Qty, Inventory, Manpower budget.
- (b) Cost Budgets Manufacturing Cost, Administration Cost, sales & distribution cost, R & D Cost.
- (c) Profit Budget A budget which enable in the ascertainment of profit, e.g. Sales budget, profit & loss budget etc.

On the other hand, budgets may be classified into two categories on the basis of flexibility as fixed budgets and flexibility budgets.

2009 - May [2] {C} Following is the sales budget for the first six months of the year 2009 in respect of PQR Ltd :

Months : Jan. Feb. March April May June Sales (units) : 10,000 12,000 14,000 15,000 15,000 16,000 Finished goods inventory at the end of each month is expected to be 20% of budgeted sales quantity for the following month. Finished goods inventory was 2,700 units on January 1, 2009. There would be no work-in-progress at the end of any month.

Each unit of finished product requires two types of materials as detailed below :

Material X: 4 kgs @ Rs. 10/kg

Material Y: 6 kgs @ Rs. 15/kg

Material on hand on January, 1,2009 was 19,000 kgs of material X and 29,000 kgs of material Y. Monthly closing stock of material is budgeted to be equal to half of the requirements of next month's prodcution.

Budgeted direct labour hour per unit of finished product is 3/4 hour.

Budgeted direct labour cost for the first quarter of the year 2009 is Rs.10,89,000.

Actual data for the quarter one, ended on March 31, 2009 is as under :

Actual production quantity : 40,000 units

Direct material cost

(Purchase cost based on materials actually issued to production)

Material X : 1,65,000 kgs @ Rs. 10.20/kg.

Material Y : 2,38,000 kgs @ Rs. 15.10/kg.

Actual direct labour hours worked :	32,000 hours
Actual direct labour cost :	Rs. 13,12,000

Required :

- (a) Prepare the following budgets :
 - (i) Monthly production quantity budget for the quarter one.
 - (ii) Monthly raw material consumption quantity budget from January, 2009 to April, 2009.
 - (iii) Materials purchase quantity budget for the quarter one.
- (b) Compute the following variances :
 - (i) Material cost variance
 - (ii) Material price variance
 - (iii) Material usage variance
 - (iv) Direct labour cost variance
 - (v) Direct labour rate variance
 - (vi) Direct labour efficiency variance. (6 + 9 = 15 marks)

Answer :

(a)	Statement showing monthly production quantity budget:	
	Production Budget for January to March 2009	

Particulars (in Unit)	Jan	Feb	Mar	April
Budgeted Sales (in Unit) <i>Add</i> : Budgeted Closing Stock	10,000	12,000	14,000	15,000
(20% of sales of next month)	2,400	$\frac{2,800}{14,800}$	3,000	3,000
Less: Opening Stock	2,700	2,400	2,800	3,000
Budgeted Output	9,700	12,400	14,200	15,000

Total Budgeted Output for the Quarter ended March 31, 2009

=(9,700+12,400+14,200)

= 36,300 units,

(ii) Monthly Raw Material consumption quantity budget from Jan 2009 to April 2009

Raw Material Consumption Budget (in quantity)

Month	Budgeted Output	Material 'X' @ 4 kg	Material 'Y' @ 6
	(Units)	per unit (Kg)	kg per unit (Kg)
Jan	9,700	38,800	58,200
Feb	12,400	49,600	74,400
Mar	14,200	56,800	85,200
Apr	15,000	60,000	90,000
Total		2,05,200	3,07,800

(iii) Material purchase quantity budget for the quarter: Raw Materials Purchase Budget (in quantity) for the Quarter ended (March 31,2009)

Material X					
	Jan	Feb	Mar	Total	
Raw material required for production (x)	38800	49600	56800	145200	
Add: Closing stock of raw material	24800	28400	30000	83200	
	63600	78000	86800	228400	
<i>Less:</i> Opening stock of raw material X	19000	24800	28400	72200	
Materials to be purchased X	44600	53200	58400	156200	

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Raw Materials Purchase Budget (in quantity) for the Quarter ended (March 31,2009) Material V

	Jan	Feb	Mar	Apr	
Raw material required for production (Y)	58,200	74,400	85,200	2,17,800	
<i>Add:</i> Closing stock of raw material	37,200	42,600	45,000	1,24,800	
	95,400	1,17,000	1,30,200	3,42,600	
Less: Opening stock of raw material Y	29,000	37,200	42,600	108,800	
Materials to be purchased Y	66,400	79,800	87,600	2,33,800	

(b) Calculation of Material Cost Variance:

. ,	Material Variance							
	(1) (2) (3) (4)							
	SP X SQ	SP X SM	SP X AQ used	AP X AQ used				
х	10 × 1,60,000	10 × 1,61,200	10 × 1,65,000	10.20 × 1,65,000				
Y	15 × 2,40,000	15 × 2,41,800	15 × 2,38,000	15.10 × 2,38,000				
	52,00,000	52,39,000	52,20,000	52,76,800				

SM = Std. mix i.e. total actual quantity used in std. mix ratio

Total Actual quantity used = 1,65,000 + 2,38,000

$$= 4,03,000 \text{ kgs.}$$

Std. mix ratio = 4 : 6 i.e. x : y
Std mix for X = $\frac{4}{10} \times 4,03,000$
= 161200 kgs.
Std. mix for y = $\frac{6}{10} \times 4,03,000$
= 2,41,800 kgs.

Std. quantity i.e. std. qty for actual output.

Actual output = 40,000 kg.

 \therefore material x required = 40000 × 4 = 1,60,000

material y required = $40,000 \times 6 = 2,40,000$

Here: SP = Standard Price per kg of RM

- SQ = Standard quantity for actual output.
- SM = Standard mix i.e. Total actual quantity used in standard mix ratio

AQ used = Actual quantity used.

- (i) Material cost variance = 1 4 = 76,800 (Adv.)
- (ii) Material Price variance = 3 4 = 56,800 (Adv.)
- (iii) Material uses variance = 1 3 = 20,000 (Adv.)

Working notes:

Labour Variance

(1)	(2)	(3)	(4)	(5)
$\mathbf{SR} \times \mathbf{ST}$	$\mathbf{SR} \times \mathbf{SM}$	$SR \times ATW$	$SR \times ATP$	$AR \times ATP$
40 × (40,000 × .75)	40 × 32,000	40 × 32,000	40 × 32,000	13,12,000
12,00,000	12,80,000	12,80,000	12,80,000	13,12,000

Budgeted Hours = Budget Production x Budgeted Time per unit Budget Production = 9700 + 12400 + 14200

$$= 36,300 \times \frac{3}{4}$$

$$= 27,225 \text{ hours}$$

$$= \frac{\text{Budgeted labours cost}}{\text{Budgeted hours}}$$

$$= \frac{10,89,000}{27,225}$$

$$= 40 \text{ Rs.}$$
Let Actual time worked = Actual time paid
Here: SR = Standard rate of labour per hour
ST = Standard time for Actual output
SM = Standard mix i.e. total at worked in ltd. mix ratio.
ATW = Actual time worked
ATP = Actual time paid for
(iv) Direct Labour Cost Variance = 1 - 5
= 1,12,000 (Adv)
(iv) Direct Labour rate variance = 4 - 5
= 32,000 (Adv)
(vi) Direct Labour efficiency variance = 1 - 2
= 80,000 (Adv)

Chapter - 1 : Scope and Objectives of Financial Management 2009 - May [5] {C} Answer the following :

(iv) Discuss conflict in profit versus wealth maximisation objective.

(2 marks)

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Answer :

Financial management is basically concerned with procurement and use of funds. In the light of these, the main objectives of financial management are:-

- 1. Profit Maximisation.
- 2. Wealth Maximisation.

Profit Maximisation :

Profit Maximisation is the main objective of business because :

- (i) Profit acts as a measure of efficiency and
- (ii) It serves as a protection against risk.

Agreements in favour of profit maximisation :

- (i) When profit earning is the main aim of business the ultimate objective should be profit maximisation.
- (ii) Future is uncertain. A firm should earn more and more profit to meet the future contingencies.
- (iii) The main source of finance for growth of a business is profit. Hence, profits maximisation is required.
- Profit maximisation is justified on the grounds of rationality as profits act as a measure of efficiency and economic prosperity.

Arguments against profit maximisation :

- (i) It leads to exploitation of workers and consumers.
- (ii) It ignores the risk factors associated with profit.
- (iii) Profit in itself is a vague concept and means differently to different people.
- (iv) It is a narrow concept at the cost of social and moral obligations. Thus, profit maximisation as an objective of financial management has been considered inadequate.
- 2. Wealth Maximisation : Wealth maximisation is considered as the appropriate objective of an enterprise. When the firms maximises the stock holder's wealth, the individual stockholder can use this wealth to maximise his individual utility. Wealth maximisation is the single substitute for a stock holder's utility.

A stock holder's wealth is shown by :

Stock holder's wealth = No. of shares owned × Current stock price per share Higher the stock price per share, the greater will be the stock holder's wealth, the greater will be the stock price per share.

Maximum Utility

Deferre

Refers to

Maximum stock holder's wealth

Maximum stock price per share

Arguments in favour of wealth maximisation:

(i) Due to wealth maximisation, the short term money lenders get their payments in time.

- (ii) The long time lenders too get a fixed rate of interest on their investments.
- (iii) The employees share in the wealth gets increased.

(iv) The various resources are put to economical and efficient use. Argument against wealth maximisation :

- (i) It is socially undesirable.
- (ii) It is not a descriptive idea.
- (iii) Only stock holders wealth maximisation does not lead to firm's wealth maximisation.
- (iv) The objective of wealth maximisation is endangered when ownership and management are separated.

Inspite of the arguments against wealth maximisation, it is the most appropriative objective of a firm.

Chapter - 3 : Financial Analysis and Planning

2009 - May [5] {C} Answer the following :

(iii) How is Debt service coverage ratio calculated? What is its significance? (2 marks)

Answer :

- This ratio is the vital indicator to the lender to assess the extent of ability of the borrower to service the loan in regard to timely payment of interest and repayment of principal amount.
- It shows whether the business is earning sufficient profits to pay not only the interest charges, but also the instalment due of the principal amount.
- Debt service coverage ratio of 1:2 is considered ideal by the financial institutions.
- This ratio will enable the lender to take correct view of the borrower's repayment capacity.
- The ratio is calculated as follows :

Earning available for debt service*

Interest on loan+Instalment of the principal amount

* Where earning available for debt service = Profit after tax + Depreciation + Interest on Loan.

2009 - May [6] {C} Balance Sheets of RST Limited as on March 31, 2008 and March 31, 2009 are as under :

Liabilities	31.3.2008	31.3.2009	Assets	31.3.2008	31.3.2009
	Rs.	Rs.		Rs.	Rs.
Equity Share Capital			Land & Building	6,00,000	7,00,000
(Rs. 10 face value			Plant & Machinery	9,00,000	11,00,000
per share)	10,00,000	12,00,000	Investments (Long-te	rm) 2,50,000	2,50,000
General Reserve	3,50,000	2,00,000	Stock	3,60,000	3,50,000
9% Preference Share			Debtors	3,00,000	3,90,000
Capital	3,00,000	5,00,000	Cash & Bank	1,00,000	95,000
Share Premium A/c	25,000	4,000	Prepaid Expenses	15,000	20,000
Profit & Loss A/c	2,00,000	3,00,000	Advance Tax Paymen	t 80,000	1,05,000
8% Debentures	3,00,000	1,00,000	Preliminary Expenses	40,000	35,000
Creditors	2,05,000	3,00,000			

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Dilla Davahla	45.000	81.000		
Bills Payable	43,000	81,000		
Provision for Tax	70,000	1,00,000		
Proposed Dividend	1,50,000	2,60,000		
	26,45,000	30,45,000	26,45,000	30,45,000

Additional information :

- (i) Depreciation charged on building and plant and machinery during the year 2008-09 were Rs. 50,000 and Rs. 1,20,000 respectively.
- (ii) During the year an old machine costing Rs. 1,50,000 was sold for Rs. 32,000. Its written down value was Rs. 40,000 on date of sale.
- (iii) During the year, income tax for the year 2007-08 was assessed at Rs. 76,000. A cheque of Rs. 4,000 was received alongwith the assessment order towards refund of income tax paid in excess, by way of advance tax in earlier years.
- (iv) Proposed dividend for 2007-08 was paid during the year 2008-09.
- (v) 9% Preference shares of Rs. 3,00,000, which were due for redemption, were redeemed during the year 2008-09 at a premium of 5%, out of the proceeds of fresh issue of 9% Preference shares.
- (vi) Bonus shares were issued to the existing equity shareholders at the rate of one share for every five shares held on 31.3.2008 out of general reserves.
- (vii) Debentures were redeemed at the beginning of the year at a premium of 3%.

(viii) Interim dividend paid during the year 2008-09 was Rs. 50,000. **Required :**

- (a) Schedule of Changes in Working Capital; and
- (b) Fund Flow Statement for the year ended March 31, 2009.

(5 + 10 = 15 marks)

Answer :

(a) Schedule of Changes in Working Capital

Particulars	31.3.08	31.3.09	Effect on Cap	Working ital
			Increase	Decrease
	Rs.	Rs.	Rs.	Rs.
Current Assets:				
Stock	3,60,000	3,50,000	-	10,000
Debtors	3,00,000	3,90,000	90,000	-
Cash and Bank	1,00,000	95,000	-	5,000
Prepaid Expenses	15,000	20,000	5,000	-
Total (A)	7,75,000	8,55,000		
Current Liabilities:				
Creditors	2,05,000	3,00,000	-	95,000
Bills Payable	45,000	81,000	-	36,000
Total (B)	<u>2,50,000</u>	3,81,000		
Net Working Capital (A-B)	5,25,000	4,74,000	-	

Solved SCANNER PCC Group - II Paper 4

Net Decrease in Working Capital	_	51,000	51,00	- 00
	5,25,000	5,25,000	1,46,0	00 1,46,000
(b) Funds Flow Statement	for the yea	r ended 31 ^s	st March	, 2009
Particulars				Rs.
Sources of Fund				
Funds from Operation				7,49,000
Issue of 9% Preference Shares				5,00,000
Sales of Plant & Machinery				32,000
Refund of Income Tax				4,000
Financial Resources Provided ((A)			12,85,000
Applications of Fund				
Purchase of Land and Building				1,50,000
Purchase of Plant & Machinery	7			3,60,000
Redemption of Debentures				2,06,000
Redemption of Preference Shar		3,15,000		
Payment of Tax	1,05,000			
Payment of Interim Dividend				50,000
Payment of Dividend (2007-08	5)			1,50,000
Financial Resources Applied (I	3)			13,36,000
Net Decrease in Working Capi	tal (A-B)			51,000

Working Notes: Estimation of Funds from Operation

Particulars	Rs.	Rs.
Profit and Loss A/c Balance on 31.3.2009		3.00.000
<i>Add:</i> Depreciation on Land and Building	50,000	-,,
Depreciation on Plant and Machinery	1,20,000	
Loss on Sale of Plant and Machinery	8,000	
(40,000 - 32,000)	,	
Preliminary Expenses written off	5,000	
(40,000 - 35,000)		
Transfer to General Reserve	50,000	
Proposed Dividend	2,60,000	
Provision for Taxation	1,06,000	
Interim Dividend paid	50,000	
		6,49,000
		9,49,000
Less: Profit and Loss A/c balance on 31.3.08		2,00,000
Funds from Operation		7,49,000

Solved SCANNER PCC Group - II Paper 4

Rs. Particulars Particulars Rs. 9,00,000 By Depreciation To Balance b/d 1,20,000 To Bank (Purchase) 3,60,000 By Bank (Sale) 32,000 By P/L A/c (Loss on Sale) (Bal. Fig.) 8,000 By Balance c/d 11,00,000 12,60,000 12,60,000 **Provision for Taxation A/c** Rs. Particulars Particulars Rs. To Advance tax 76,000 By Balance c/d 70,000 payment A/c By P/L A/c (additional 1,00,000 To Balance c/d provision for 2007-6,000 08) By P/L A/c (Provision for 08-09) 1,00,000 1,76,000 1,76,000 Advance Tax Payment A/c Particulars Rs. Particulars Rs. To Balance b/d 80,000 By Provision for taxation 76,000 To Bank (paid for A/c (08-09)1,05,000 By Bank (Refund of tax) 4,000 By Balance c/d 1,05,000 1,85,000 1,85,000 8% Debentures A/c Particulars Particulars Rs. Rs. 2,06,000 By Balance b/d To Bank (2,00,000 × 3,00,000 103%)(redempti By Premium on 6,000 redemption of on) To Balance c/d 1,00,000 Debentures A/c 3,06,000 3,06,000

Plant & Machinery A/c

	<u>9% P</u>	ref	erence S	<u>Sh a</u>	re Capital A/c	
Part	ticulars		Rs	3. F	Particulars	Rs.
Го Го	Bank A/c (3,00,000 × 105%)(redemption) Balance c/d		3,15,00 5,00,00	0 0 I	 Balance b/d Premium on redemption of Preference shares A/c By Bank (Issue) 	3,00,000 15,000 5,00,000
			81500	0		815000
		Sect	urities I	Pre	mium A/c	
Part	ticulars		F	ts.	Particulars	Rs.
Го Го Го	 o Premium on redemption of debentures A/c o Premium on redemption of preference shares A/c o Balance c/d 		6,0 15,0 4,0	00 00 00	By Balance b/d	25,000
			25,0	00		25,000
		Ge	eneral F	les	erve A/c	
Part	ticulars		Rs.	Par	rticulars	Rs.
Го Го	Bonus to Shareholders A/c Balance c/d	2,0 2,1	00,000 00,000	By By	Balance b/d P/L A/c (transfer) b/f	3,50,000 50,000
		4,	00,000		Ī	4,00,000
		La	nd & B	uil	ding A/c	J
Part	ticulars		Rs.	Par	rticulars	Rs.
Го Го	Balance b/d Bank (Purchase) (Bal. Fig.)	6, 1,	00,000 50,000	By By	Depreciation Balance c/d	50,000 7,00,000
		7,	50,000			7,50,000

2009 - May [8] {C} Answer the following : (iv) Discuss the composition of Return on Equity (ROE) using the DuPont model. (3 marks)

Solved SCANNER PCC Group - II Paper 4

Answer :

Composition of Return on Equity using the DuPont Model

There are three components in the computation of return on equity using the traditional DuPont model - the net profit margin, asset turnover, and the equity multiplier. By examining each input individually, the sources of a company's return on equity can be discovered and compared to its competitors.

- (i) *Net Profit Margin:* The net profit margin is simply the after-tax profit a company generates for each rupee of revenue.
 - Net profit margin = Net Income + Revenue

Net profit margin is a safety cushion; the lower the margin, lesser the room for error.

 (ii) Asset Turnover: The asset turnover ratio is a measures of how effectively a company converts its assets into sales. It is calculated as follows:

Asset Turnover = Revenue + Assets

The asset turnover ratio tends to be inversely related to the net profit margin; i.e., the higher the net profit margin, the lower the asset turnover.

(iii) Equity Multiplier: It is possible for a company with terrible sales and margins to take on excessive debt and artificially increase its return on equity. The equity multiplier, a measure of financial leverage, allows the investor to see what portion of the return on equity is the result of debt. The equity multiplier is calculated as follows:

Equity Multiplier = Assets + Shareholders' Equity

Computation of Return on Equity

To calculate the return on equity using the DuPont model, simply multiply the three components (net profit margin, asset turnover, and equity multiplier.)

Return on Equity = Net profit margin × Asset turnover × Equity multiplier

Chapter - 4 : Cost of Capital & Capital Structure

2009 - May [5] {C} Answer the following :

 (v) Discuss the concept of Debt-Equity or EBIT-EPS indifference point, while determining the capital structure of a company. (2 marks)
 Answer:

Concept of Debt-Equity or EBIT-EPS Indifference Point while Determining the Capital Structure of a Company

The determination of optimum level of debt in the capital structure of a company is a formidable task and is a major policy decision. It ensures that the firm is able to service its debt as well as contain its interest cost. Determination of optimum level of debt involves equalizing between return and risk.

EBIT-EPS analysis is a widely used tool to determine level of debt in a firm. Through this analysis, comparison can be drawn for various methods of financing by obtaining indifference point. It is point to the EBIT level at which EPS remain unchanged irrespective of debt level equity mix. For example

indifference point for the capital mix (equity share capital and debt) can be determined as follows:

$(EBIT - I_1)(1 - T)$	$(EBIT - I_2)(1 - T)$
E ₁	- <u> </u>
Where,	-
EBIT =	Indifference point
E ₁ =	Number of equity shares in Alternative 1
E ₂ =	Number of equity shares in Alternative 2
I ₁ =	Interest charged in Alternative 1
I ₂ =	Interest charged in Alternative 2
T =	Tax-rate
Alternativ	e 1 = All equity finance
Alternativ	e 2 = Debt-equity finance
2009 - May [7] {C} (a) Th	e capital structure of MNP Ltd. is as under :

9% Debentures	Rs. 2,75,000
11% Preference shares	Rs. 2,25,000
Equity shares (face value : Rs. 10 per share)	<u>Rs. 5,00,000</u>
	Rs.10,00,000

Additional information :

(i) Rs. 100 per debenture redeemable at par has 2% floatation cost and 10 years of maturity. The market price per debenture is Rs. 105.

 Rs. 100 per preference share redeemable at par has 3% floatation cost and 10 years of maturity. The market price per preference share is Rs. 106.

(iii) Equity share has Rs. 4 floatation cost and market price per share of Rs. 24. The next year expected dividend is Rs. 2 per share with annual growth of 5%. The firm has a practice of paying all earnings in the form of dividends.

(vi) Corporate Income- tax rate is 35 %.

Required :

Calculate Weighted Average Cost of Capital (WACC) using market value weights. (9 marks) Answer :

Particulars	Market Value (Rs.)	Weight	Cost	WACC	
9% Debenture 11% Preference share Equity share @ reach	2,88,750 2,38,500 12,00,000	0.167 0.138 0.695	6.11% 11.47% 15.00%	1.020 1.583 10.425	
	17,27,250	1		13.028%	

Calculation of weighted average cost of capital by using market value might.

WACC using market value weight = 13.02%

Working Notes:

Calculation of cost of Redeemable debenture:



(2 marks)

Solved SCANER PCC Group - II Paper 4

Answer :

Benefits to the Originator of Debt Securitization

The benefits to the originator of debt securitization are as follows:

- (a) The assets are shifted off the balance sheet, thus giving the originator recourse to off balance sheet funding.
- (b) It converts illiquid assets to liquid portfolio.
- (c) It facilitates better balance sheet management as assets are transferred off balance sheet facilitating satisfaction of capital adequacy norms.
- (d) The originator's credit rating enhances.

Chapter - 7 : International Financing

2009 - May [5] {C} Answer the following :

(ii) Discuss the concept of American Depository Receipts. (2 marks) *Answer*:

American depository receipt :- Deposit receipt issued by an Indian company in USA is known as American depository receipt (ADRs). Such receipt have to be issued in accordance with the provisions stipulated by the security and exchange commission of USA. An ADR is generally created by the deposit of the securities of a outsider company with a custodian bank in the country of incorporation of issuing company. The custodian bank informs the depository in USA that the ADRs can be issued. ADRs are dollar denominated and are traded in the same way as are security of U.S. company.

ADRs can be traded either by trading existing ADRs or purchasing the shares in the issuer's home market and having new ADRs created, based upon availability and market conditions. When trading in existing ADRs, the trade is executed on the secondary market on the New York Stock Exchange through Depository Trust Company (DTC) without involvement from foreign brokers or custodians.

Chapter - 8 : Capital Budgeting

2009 - May [7] {C} (b) A company is required to choose between two machines A and B. The two machines are designed differently, but have indentical capacity and do exactly the same job. Machine A costs Rs. 6,00,000 and will last for 3 years. It costs Rs. 1,20,000 per year to run.

Machine B is an 'economy' model costing Rs. 4,00,000 but will last only for two years, and cost Rs. 1,80,000 per year to run. These are real cash flows. The costs are forecasted in Rupees of constant purchasing power. Opportunity cost of capital is 10%. Which machine company should buy ? Ignore tax .

 $PVIF_{0.10,1} = 0.9091$, $PVIF_{0.10,2} = 0.8264$, $PVIF_{0.10,3} = 0.7513$. (7 marks) Answer:

Advise to the Management Regarding Buying of Machines Statement Showing Evaluation of Two Machines

8		
Machines	А	В
Purchase cost (Rs.): (i)	6,00,000	4,00,000
Life of machines (years)	3	2
Running cost of machine per year (Rs.): (ii)	1,20,000	1,80,000
Cumulative present value factor for 1-3 years		
@ 10%: (iii)	2.4868	-
Cumulative present value factor for 1-3 years @ 10%: (iii)	2.4868	

Solved SCANNER PCC Group - II Pape	II-23	
Cumulative present value factor for 1-2 years $(a, 10\%)$: (iv)	_	1.7355
Present value of running cost of		
machines (Rs.): (v)	2,98,416	3,12,390
	[(ii) x (iii)]	[(ii) x (iv)]
Cash outflow of machines (\mathbf{R}_{s}): $(\mathbf{v}_{i})=(\mathbf{i})+(\mathbf{v})$	8 98 416	7 12 390

 Cash outflow of machines (Rs.): (vi)=(i)+(v) 8,98,416
 7,12,390

 Equivalent present value of annual
 3,61,273.93
 4,10,481.13

 $(vi) \div (iii)$ $[(vi) \div (iii)]$ [(vi) + (iv)]

Alternatively:

Calculation of Annualized cash outflow of machine 'A'

Year	Cash of	D.F @ 10%	DF
0 1 2 3	6,00,000 1,20,000 1,20,000 1,20,000	1 0.9091 0.8264 0.7513	6,00,000 10,90,92 99,168 90,156
			8,98,416

Annulized cash outflow = $\frac{8,98,416}{2.4868} = 3,61,274/-$

Note:
$$0.9091 + 0.8264 + 0.7513 = 2.4868$$

Calculation of Annualized cash outflow of machine 'B'

Year	Cash of	D.F @ 10%	DF
0 1 2	4,00,000 1,80,000 1,80,000	1 0.9091 0.8264	4,00,000 1,63,638 1,48,752
			7,12,390

Annulized cash outflow = $\frac{7,12,390}{1.7353} = 4,10,481/-$

Note: 0.9091 + 0.8264 = 1.7353

Recomendation: Machine 'A's Annulized cash out flow is lower than machine 'B'. Therefore machine 'A' should be adopted.

Recomendation: The Company should buy Machine A since its equivalent cash outflow is less than Machine B.

2009 - May [8] {C} Answer the following :

(iii) Explain the concept of discounted payback period. (3 marks) *Answer*:

Concept of Discounted Payback Period

Payback period is time taken to recover the original investment from project cash flows. It is also termed as break even period. The focus of the analysis is on liquidity aspect and it suffers from the limitation of ignoring time value of money and profitability.

- Discounted payback period considers present value of cash flows, discounted at company's cost of capital to estimate breakeven period i.e. it is that period in which future discounted cash flows equal the initial outflow.
- The shorter the period, better it is. It also ignores post discounted payback period cash flows.
- It takes care of the time value of money.

Chapter - 10 : Treasury & Cash Management

2009 - May [5] {C} Answer the following :

(i) Write a short note on functions of Treasury department. (3 marks) *Answer*:

Please refer 2002 - Nov [7] (a) on page no. 647

2009 - May [8] {C} Answer the following :

(i) A firm maintains a separate account for cash disbursement. Total disbursements are Rs. 2,62,500 per month. Administrative and transaction cost of transferring cash to disbursement account is Rs. 25 per transfer. Marketable securities yield is 7.5% per annum. Determine the optimum cash balance according to William J Baumol model. . (3 marks)

Answer :

Detemination of Optimal Cash Balance according to William J. Baumol Model

Optimum Cash Balance =
$$\sqrt{\frac{2AB}{C}}$$

Where,

A = Annual disbursement

B = Administrative and transaction cost

$$C = Marketable securities yild.$$

$$C = \sqrt{\frac{2 \times 2,62,500 \times 12 \times 25}{0.075}} = \sqrt{\frac{15,75,00,000}{0.075}} = \sqrt{2,10,00,00,000}$$

Optimum Cash Balance, C, = Rs. 45,826

6. Verification:

Debtors A/c		Credi	tors A/c	Cash A/c		
To bal b/d 3,00,000 By Cash (bal fig)	19,65,000 T	Γo bal b/d	By bal b/d 3,00,000	To bal b/d 3,00,000	By Invests 2,96,600	
To sales 21,60,000 By bal c/	d 4,95,000 T (t T	Fo cash 16,25,000 bal fig) Fotal c /d 4,15,000	By Purchase 17,40,000	To Debtors 19,65,000 To Asset 90,000	By Creditor 16,25,000 By Expenses 23,400 (bal fig) By bal b/d 3,10,000	
24,60,000	24,60,000	20,40,000	20,40,000	23,55,000	23,55,000	

II-25

Chapter - 12 : Management of Receivables

2009 - May [8] {C} Answer the following :

(ii) A firm has a total sales of Rs. 12,00,000 and its average collection period is 90 days. The past experience indicates that bad debt losses are 1.5% on sales. The expenditure incurred by the firm in administering receivable collection efforts are Rs. 50,000. A factor is prepared to buy the firm's receivables by charging 2% commission. The factor will pay advance on receivables to the firm at an interest rate of 16% p.a. after withholding 10% as reserve. Calculate effective cost of factoring to the firm. Assume 360 days in a year. (3 marks)

Answer:

Computation of Effective Cost of F	act	oring	
Average level of Receivables	=	$12,00,000 \times 90/360$	3,00,000
Factoring Commission	=	$3,00,000 \times 2/100$	6,000
Factoring Reserve	=	3,00,000 × 10/100	30,000
Amount Available for			
Advance = Rs. 3,00,000-(6,00)	0+3	30,000)	2,64,000
Factor will deduct his interest	<i>a</i> :	16%:-	
Rs. 2,64,000 x 16 x	90	$-\mathbf{P}_{a}$ 10.560	
$\frac{360 \times 100}{360 \times 100}$		- KS. 10,500	
Advance to be paid = $Rs. 2,6$	54,0	$000 - \text{Rs.} \ 10,560 = \text{Rs.}$	2,53,440
Annual Cost of Factoring to	the	Firm:	Rs.
Factoring Commission (Rs. 6,	000	× 360/90)	24,000
Interest Charges (Rs. 10,560 ×	36	0/90)	42,240
Total			66,240
Firm's Savings on taking Fa	cto	ring Service:	Rs.
Cost of Administration Saved			50,000
Cost of Bad Debts (Rs. 12,00,	000	x 1.5/100) avoided	18,000
Total			<u>68,000</u>
Net Benefit to the Firm (Rs. 68	8,00	00 - Rs. 66,240)	1,760
Effective Cost of Eactoring -	Rs.	. 66,240 × 100	26 136%
Effective Cost of Factoring –		2,53,440	20.13070

Effective Cost of Factoring = 26.136%

Note: In the same manner we can also calculate effective rate of cost saving to the firm.

 $= \frac{1760 \times 100}{2,53,440} = 0.694\%$

Scaner Appendix PCC Gr. II Paper - 4

November - 2009

Paper - 4A : Cost Accounting

Chapter-1 : Basic Concepts

2009 - Nov [1] Answer the following :

- (i) Define the following :
 - (a) Imputed cost
 - (b) Capitalised cost.

Chapter-2 : Material

2009 - Nov [4] Answer the following :

(iii) The following information relating to a type of Raw material is available:

Annual demand	2000 units
Unit price	Rs. 20.00
Ordering cost per order	Rs. 20.00
Storage cost	2% p.a.
Interest rate	8% p.a.
Lead time	Half-month

Calculate economic order quantity and total annual inventory cost of the raw material. (3 marks)

Chapter-3 : Labour

2009 - Nov [4] Answer the following :

(i) Standard Time for a job is 90 hours. The hourly rate of Guaranteed wages is Rs. 50. Because of the saving in time a worker a gets an effective hourly rate of wages of Rs. 60 under Rowan premium bonus system. For the same saving in time, calculate the hourly rate of wages a worker B will get under Halsey premium bonus system assuring 40% to worker.

Chapter-6: Reconciliation of Cost and Financial Accounts

2009 - Nov [1] Answer the following :

- (iii) List the Financial expenses which are not included in cost. (2 marks)
- (vi) When is the reconciliation statement of Cost and Financial accounts not required ? (2 marks)

Chapter-8 : Contract Costing

2009 - Nov [1] Answer the following :

(iv) Mention the main advantage of cost plus contracts. (2 marks)

(2 marks)

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Chapter-9 : Operating and Multiple Costing

2009 - Nov [4] Answer the following :

(ii) Explain briefly, what do you understand by Operating Costing. How are composite units computed ? (3 marks)

Chapter-10 : Process Costing

2009 - Nov [3] (a) XP Ltd. furnishes you the following information relating to process II.

(i) Opening work-in-progress—NIL

(ii) Units introduced 42,000 units @ Rs. 12

(iii) Expenses debited to the process :

. ,			Rs
	Direct material		61.530
	Labour		88,820
	Overheads		1,76,400
(iv)	Normal loss in the process	s = 2% of input.	
(v)	Closing work-in-progress-	—1200 units	
	Degree of completion —	Materials	100%
		Labour	50%
		Overhead	40%
(vi)	Finished output— 39500	units	
(vii)	Degree of completion of a	bnormal loss :	
		Material	100%
		Labour	80%

Overhead 60% (viii) Units scraped as normal loss were sold at Rs. 4.50 per unit.

(ix) All the units of abnormal loss were sold at Rs. 9 per unit.

Prepare :

- (a) Statement of equivalent production.
- (b) Statement showing the cost of finished goods, abnormal loss and closing work-in-progress.
- (c) Process II account and abnormal loss account. (8 marks)

Chapter-12 : Standard Costing

2009 - Nov [3](b) The following information is available from the cost records of Vatika & Co. For the month of August, 2009 :

Material purchased 24,000 kg Rs. 1,05,600 Material consumed 22,800 kg Actual wages paid for 5,940 hours Rs. 29,700 Unit produced 2160 units. Standard rates and prices are :

Direct material rate is Rs. 4.00 per unit

Direct labour rate is Rs. 4.00 per hour

Standard input is 10 kg. for one unit.

Standard requirement is 2.5 hours per unit.

SCANNER PCC Group - II Paper 4

Calculate all material and labour variances for the month of August, 2009. (8 marks)

Chapter-13 : Marginal Costing

2009 - Nov [1] Answer the following :

(v) A company sells two products, J and K. The sales mix is 4 units of J and 3 units of K. The contribution margins per unit are Rs. 40 for J and Rs. 20 for K. Fixed costs are Rs. 6,16,000 per month. Compute the break-even point.
 (2 marks)

2009 - Nov [2] Mega Company has just completed its first year of operations. The unit costs on a normal costing basis are as under :

		Rs.
Direct material 4 kg @ Rs. 4	=	16.00
Direct labour 3 hrs @ Rs. 18	=	54.00
Variable overhead 3 hrs @ Rs. 4	=	12.00
Fixed overhead 3 hrs @ Rs. 6	=	18.00
		100.00
Selling and administrative costs :		
Variable	Rs.	20 per unit
Fixed	Rs.	7,60,000
During the year the company has the fol	llowing act	ivity :
Units produced	=	24,000
Units sold	=	21,500
Unit selling price	= I	Rs. 168
Direct labour hours worked	=	72.000

Actual fixed overhead was Rs. 48,000 less than the budgeted fixed overhead. Budgeted variable overhead was Rs. 20,000 less than the actual variable overhead. The company used an expected actual activity level of 72,000 direct labour hours to compute the predetermine overhead rates.

Required:

- (i) Compute the unit cost and total income under :
 - (a) Absorption costing
 - (b) Marginal costing.
- (ii) Under or over absorption of overhead.
- (iii) Reconcile the difference between the total income under absorption and marginal costing. (15 marks)

Chapter-14 : Budgets & Budgetary Control

2009 - Nov [1] Answer the following :

(ii) Calculate efficiency and activity ratio from the following data :

Capacity ratio	=	75%	
Budgeted output	=	6000 units	
Actual output	=	5000 units	
Standard Time per unit	=	4 hours	(2 marks)
2009 - Nov [4] Answer the follow	ing :		

(iv) List the eight functional budgets prepared by a business. (3 marks)

CANER PCC Group - II Paper 4

Paper - 4B : Financial Management

Chapter-1: Scope and Objectives of Financial Management

2009 - Nov [5] Answer the following :

(iv) Differentiate between Financial Management and Financial Accounting. (2 marks)

2009 - Nov [8] Answer the following :

(i) Explain the two basic functions of Financial Management. (3 marks) **Chapter-3 : Financial Analysis and Planning**

2009 - Nov [5] Answer the following :

- (i) Explain briefly the limitations of Financial ratios. (2 marks)
- (vi) From the informations given below calculate the amount of Fixed assets and Proprietor's fund.

Ratio of fixed assets to proprietors fund = 0.75 Net working capital

Rs. 6,00,000

(2 marks)

2009 - Nov [6] The Balance Sheets of a Company as on 31st March, 2008 and 2009 are given below :

Liabilities	31.3.08		Assets 31.3.		31.3.09
	Rs.	Rs.		Rs.	Rs.
Equity share capital	14,40,000	19,20,000	Fixed assets	38,40,000	45,60,000
Capital reserve		48,000	Less depreciation	11,04,000	13,92,000
General reserve	8,16,000	9,60,000		27,36,000	31,68,000
Profit & Loss A/c	2,88,000	3,60,000	Investment	4,80,000	3,84,000
9% debentures	9,60,000	6,72,000	Sundry debtors	12,00,000	14,00,000
Sundry creditors	5,50,000	5,90,000	Stock	1,40,000	1,84,000
Bills payables	26,000	34,000	Cash in hand	4,000	
Proposed dividend	1,44,000	1,72,800	Preliminary		
Provision for tax	4,32,000	4,08,000	Expenses	96,000	48,000
Unpaid dividend	—	19,200			
	46,56,000	51,84,000		46,56,000	51,84,000

Additional informations :

During the year ended 31st March, 2009 the company :

- (i) Sold a machine for Rs. 1,20,000; the cost of machine was Rs. 2,40,000 and depreciation provided on it was Rs. 84,000.
- (ii) Provided Rs. 4,20,000 as depreciation fixed assets.

- (iii) Sold some investment and profit credited to capital reserve.
- (iv) Redeemed 30% of the debenture @ 105

Decided to write off fixed assets costing Rs. 60,000 on which (v) depreciation amounting to Rs. 48,000 has been provided.

You are required to prepare Cash Flow Statement as per AS-3. (15 marks) Chapter-4 : Cost of Capital & Capital Structure

2009 - Nov [5] Answer the following :

(v) Y Ltd. retains Rs. 7,50,000 out of its current earning. The expected rate of return to the shareholders. If they had invested the funds elsewhere

SCANNER PCC Group - II Paper 4

is 10%. The brokerage is 3% and the shareholders came in 30% tax bracket. Calculate the cost of retained earning. (2 marks)

2009 - Nov [8] Answer the following :

- (iii) What do you understand by Weighted average cost of Capital ?
 - (3 marks)

(2 marks)

 (iv) There are two firms P and Q which are identical except P does not use any debt in its capital structure while Q has Rs. 8,00,000, 9% debentures in its capital structure. Both the firms have earning before interest and tax of Rs. 2,60,000 p.a. and the capitalisation rate is 10%. Assuming the corporate tax of 30%, calculate the value of these firms according to MM Hypothesis. (3 marks)

Chapter-5 : Business Risk, Financial Risk & Leverage

2009 - Nov [5] Answer the following :

(ii) What do you understand by Business Risk and Financial Risk?

2009 - Nov [7] (a) From the following Financial data of Company A and Company B :

Prepare their Income statements.

	Company A	Company B
	Rs.	Rs.
Variable cost	56,000	60% of sales
Fixed cost	20,000	—
Interest expenses	12,000	9,000
Financial Leverage	5:1	—
Operating Leverage		4:1
Income tax rate	30%	30%
Sales		105000
		(8 marks)

Chapter-6 : Types of Financing

2009 - Nov [8] Answer the following :

(ii) Explain the following terms :

(a) Ploughing back of profits

(1.5 marks)

Chapter-8 : Capital Budgeting

2009 - Nov [7](b) A hospital is considering to purchase a diagnostic machine costing Rs. 80,000. The projected life of the machine is 8 years and has an expected salvage value of Rs. 6,000 at the end of 8 years. The annual operating cost of the machine is Rs. 7,500. It is expected to generate revenues of Rs. 40,000 per year for eight years. Presently, the hospital is outsourcing the diagnostic work and is earning commission income is Rs. 12,000 per annum; net of taxes.

Required :

Whether it would be profitable for the hospital to purchase the machine.

Give your recommendation under :

(i) Net Present Value method

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	(ii) Pro PV facto	ofitability ors at 109	/ Index m % are giv	ethod. en below	:			
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8
	0.909	0.826	0.751	0.683	0.621	0.564	0.513	0.467
								(8 marks)
2009 - Nov [8] Answer the following :								
(ii) Explain the following terms :								
(b) Desirability factor. (1.5 marks				.5 marks)				
New Chapter : Financing of working Capital								
2009 - Nov [5] Answer the following :								
(iii) Differentiate between Factoring and Bills discounting. (2 marks)					(2 marks)			

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