

JKB

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 the remaining Question Nos. 2, 3, 4 and 5 and attempt **two** questions from the remaining Question Nos. 7, 8 and 9.

Working notes should form part of the answer.

	Marks		
1. (a) ABC Ltd. manufactures and sells three types of products P, Q and R. The company has been following conventional method of costing and wishes to shift to Activity Based Costing system. Following data are given for a month :	12		
Products	P	Q	R
Sales—No. of units	50,000	1,12,000	54,000
Selling price—Rs. per unit	18.00	14.00	12.00
Prime cost—Rs. per unit	12.00	9.00	8.00
Gross production units/production run	5,040	5,620	6,020
No. of defective units/production run	40	20	20
Set up cost/production run—Rs.	400	600	500
Inspection hours/production run	6	8	8
Machine hours/production run	40	24	60
Overhead costs : Rs.			
Set-up	20,500		
Inspection	1,46,000 ✓		
Machines	2,84,000 ✓		
Selling	3,24,000 ✓		

The following additional information is given :

- (i) No accumulation of inventory is considered. All good units produced are sold.
- (ii) Included in the total selling overhead is advertisement cost of Rs. 1,66,000. This cost is incurred only for products Q and R. However product P needs no advertisement.
- (iii) Product Q needs special packing and Rs. 1,08,000 is the amount on packing which is included in the total selling overhead cost given above.

You are required to present :

- (i) Productwise profitability statement under the conventional system assuming all manufacturing and selling overheads are allocated on the basis of units sold.
 - (ii) Productwise profitability statement as per Activity Based Costing system.
- (b) What is Cost reduction ? Explain its scope. 3
- (c) Distinguish between : 3
- (i) Batch costing and Uniform costing
 - (ii) Normal process loss and Abnormal process loss.
2. (a) Bright Shoe-Polish Company manufacturing black and brown polish in one standard size of tin retailing at Rs. 12.00 and Rs. 13.30 respectively. Following information is supplied to you : 10

Opening stock :

Black polish	2,400 tins
Brown polish	8,000 tins

Closing stock :

Black polish	5,400 tins
Brown polish	3,000 tins

Sales :

Black polish	72,000 tins
Brown polish	30,000 tins

Direct materials :

Polish	Rs. 2,46,000
Tins	Rs. 1,20,000
Direct wages	Rs. 2,04,000
Production overhead	Rs. 3,06,000
Administration and selling overhead	Rs. 1,02,000

The opening stock of black and brown polish was valued at its production cost. The cost of raw materials for brown polish is 10 per cent higher than that for black, but there is no difference in the cost of tins. Direct wages for brown polish are 8 per cent higher than those of black polish and production overheads are considered to vary with direct wages. Administration and selling overhead is absorbed at a uniform rate per tin of polish sold.

Prepare a statement to show the cost and profit per tin of polish.

(b) State 'essentials of Good Cost Accounting system'. 4

3. (a) The following details are available from the books of accounts of a contractor with respect to a particular construction work for the year ended 31st March, 2009 : 9

	Rs.
Contract price	91,00,000
Cash received from contractee (90% of work certified)	71,91,000
Material sent to site	35,82,600
Planning and estimation cost	3,50,000
Direct wages paid	32,62,700
Cost of plant installed at site	7,00,000
Direct expenses	1,68,000
Establishment expenses	2,03,000
Material returned to store	14,840
Head office expenses apportioned	2,50,000
Cost of work uncertified	3,17,000

On 31st March, 2009 :

Material at site	85,400
Accrued direct wages	78,120
Accrued direct expenses	9,310
Value of plant (as revalued)	6,16,000

Required :

(i) Prepare the Contract account for the year ended 31st March, 2009.

(ii) Show the relevant Balance Sheet entries.

(b) What are the essential requisites for the installation of uniform costing system ? 5

4. (a) ABC Pvt. Ltd. has furnished its Profit and Loss account for the year ended 31st March, 2009 and also given a statement showing reconciliation between the profits as per financial records and cost records. The Profit and Loss account is given below :

Profit and Loss account for the year ended 31st March, 2009 (Rs.)			
Particulars	Amount	Particulars	Amount
To Opening Stock :		By Sales	17,80,000
Raw materials	95,500	By Closing stock :	
W.I.P.	45,000	Raw materials	99,000
Finished goods	78,000	W.I.P.	58,000
To Purchases	6,42,000	Finished goods	80,000
To Direct wages	2,22,000	By Dividend received	
To Factory overheads	2,45,000	on shares	1,65,000
To Administrative exp.	1,98,500		
To Selling exp.	3,42,000		
To Goodwill written off	80,000		
To Interest on loans	50,000		
To Legal charges	42,000		
To Net profit	1,42,000		
Total	21,82,000	Total	21,82,000

Reconciliation Statement as at 31st March, 2009 is given below : (Rs.)

	Amount	Amount
Profits as per financial records		1,42,000
Add :		
Raw material—Closing stock	1,500	
W.I.P.—Opening stock	2,000	
Finished goods—Opening stock	3,000	
Finished goods—Closing stock	1,000	
Goodwill written off	80,000	
Interest on loans	50,000	
Legal charges	42,000	1,79,500
		3,21,500
Less :		
Raw material—Opening stock	2,500	
W.I.P.—Closing stock	3,500	
Dividend received on shares	1,65,000	1,71,000
Profits as per cost records		1,50,500

You are required to draw up the following accounts in the cost ledger of ABC Pvt. Ltd. :

- (i) Material control account
- (ii) W.I.P. control account
- (iii) Finished goods control account
- (iv) Cost of sales account
- (v) Costing profit and loss account.

- (b) X Ltd. is reviewing its stock policy, and has the following alternatives available for the evaluation of stock : 5

I Purchase stock twice in a month, 400 units

II Purchase monthly, 800 units

III Purchase every three months, 2,400 units

IV Purchase six monthly, 4,800 units

V Purchase annually, 9,600 units

It is ascertained that the purchase price per unit is Rs. 40 for deliveries upto 2,000 units. A 5% discount is offered by the supplier on the whole order where deliveries are 2,001 to 4,000 units and 10% reduction on the total order for deliveries in excess of 4,000 units. Each purchase order incurs administration costs of Rs. 250. Interest on capital and other storage costs are Rs. 12.50 per unit of average stock quantity held.

Calculate the optimum order size.

- (c) State the areas of activity for which accounting records are to be maintained under Cost Accounting record rules. 3

5. (a) Explain the following : 6

- (i) Opportunity cost and out-of-pocket cost
- (ii) High points and low points method of segregating semi-variable costs
- (iii) Efficiency audit and propriety audit.

- (b) Enumerate the important objectives of Cost accounting. 3

- (c) The standard time for a job is 50 hours. The hourly rate of guaranteed wages is Rs. 9. Because of saving in time, a worker X gets an hourly wages of Rs. 10.80 under Rowan premium bonus system. For the same saving in time, calculate the hourly rate of wages a worker Y will get under Halsey premium bonus system assuming 50 per cent Bonus to worker. 5

6. (a) The following are the summarised Balance Sheet of XYZ Ltd. as on 31st March, 2008 and 2009 : 12

(Rs. in 000')					
Liabilities	31.3.08	31.3.09	Assets	31.3.08	31.3.09
Share capital	3,900	5,200	Plant & machinery	3,978	5,525
Reserve and surplus	1,690	2,600	Land & building	1,040	1,040
12% debenture	—	1,300	Investment	130	130
Sundry creditors	936	1,222	Inventories	676	975
Outstanding rent	52	65	Sundry debtors	728	1,131
Income-tax payable	520	195	Prepaid selling expenses	26	52
			Cash at bank	494	1,677
			Cash in hand	26	52
	<u>7,098</u>	<u>10,582</u>		<u>7,098</u>	<u>10,582</u>

Profit & Loss account for the year ended 31st March, 2009

(Rs. in 000')					
	Rs.		Rs.		
To Opening stock	806	By Sales	6,331		
To Purchases	2,080	By Closing stock	1,105		
To Wages	650				
To Gross profit C/d	3,900				
	<u>7,436</u>		<u>7,436</u>		
To Depreciation	390	By Gross profit B/d	3,900		
To Office expenses	390	By Discount	39		
To Rent	130	By Commission	91		
To Selling & distribution expenses	780	By Dividend	260		
To Income-tax	1,040				
To Net profit C/d	1,560				
	<u>4,290</u>		<u>4,290</u>		
To Dividend	650	By Balance B/d	1,690		
To Balance C/d	2,600	By Net profit B/d	1,560		
	<u>3,250</u>		<u>3,250</u>		

You are required to prepare a Cash flow statement as per AS-3 (revised).

From the following information, kindly indicate which policy the company should adopt :

Credit policy	Average collection period	Annual sales (Rs. lakhs)
A	45 days	56
B	60 days	60
C	75 days	62
D	90 days	63

Costs : Variable cost : 80% of sales

Fixed cost : Rs. 6 lakhs per annum

Required (pre-tax) return on investment : 20%

A year may be taken to comprise of 360 days.

- (b) (i) What is meant by Venture capital financing ? 4
- (ii) Name the various financial instruments dealt with in the International market.

9. (a) The capital structure of a company as on 31st March, 2009 is as follows : 6
- Rs.

Equity capital : 6,00,000 equity shares of Rs. 100 each	6 crore
Reserve and surplus	1.20 crore
12% debenture of Rs. 100 each	1.80 crore

For the year ended 31st March, 2009 the company has paid equity dividend @ 24%. Dividend is likely to grow by 5% every year. The market price of equity share is Rs. 600 per share. Income-tax rate applicable to the company is 30%.

Required :

- (i) Compute the current weighted average cost of capital
- (ii) The company has plan to raise a further Rs. 3 crore by way of long-term loan at 18% interest. If loan is raised, the market price of equity share is expected to fall to Rs. 500 per share. What will be the new weighted average cost of capital of the company ?
- (b) A company operates at a production level of 5,000 units. The contribution is Rs. 60 per unit, operating leverage is 6, combined leverage is 24. If tax rate is 30%, what would be its earnings after tax ? 4
- (c) Discuss the advantages of raising funds by issue of equity shares. 2