

MOCK TEST PAPER –1**INTERMEDIATE (IPC): GROUP – I****PAPER – 3: COST ACCOUNTING AND FINANCIAL MANAGEMENT**

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

Question No. 1 is compulsory.

*Attempt any **five** questions from the remaining **six** questions.*

Working notes should form part of the answer.

Time Allowed – 3 Hours

Maximum Marks – 100

1. Answer the following:

- (a) A manufacturing company disclosed a net profit Rs.10,20,000 as per their cost accounts for the year ended 31st March, 2021. The financial accounts however disclosed a net profit of Rs.6,94,000 for the same period. The following information was revealed as a result of scrutiny of the figures of both the sets of accounts.

	(Rs.)
(i) Factory Overheads under-absorbed	80,000
(ii) Administration Overheads over-absorbed	1,20,000
(iii) Depreciation charged in Financial Accounts	6,50,000
(iv) Depreciation charged in Cost Accounts	5,50,000
(v) Interest on investments not included in Cost Accounts	1,92,000
(vi) Income-tax provided	1,08,000
(vii) Interest on loan funds in Financial Accounts	4,90,000
(viii) Transfer fees (credit in financial books)	48,000
(ix) Stores adjustment (credit in financial books)	28,000
(x) Dividend received	64,000

Prepare a Reconciliation statement.

- (b) A company manufactures 10,000 units of a product per month. The cost of placing an order is Rs.200. The purchase price of the raw material is Rs.20 per kg. The re-order period is 4 to 8 weeks. The consumption of raw materials varies from 200 kg to 900 kg per week, the average consumption being 550 kg. The carrying cost of inventory is 20% per annum.

You are required to calculate:

- (i) Re-order quantity (ii) Re-order level
 (iii) Maximum level (iv) Minimum level
 (v) Average stock level
- (c) Following information are related to four firms of the same industry:

Firm	Change in Revenue	Change in Operating Income	Change in Earning per Share
P	25%	23%	30%
Q	27%	30%	26%

R	24%	36%	20%
S	20%	30%	20%

Find out:

- (i) Degree of operating leverage, and
 - (ii) Degree of combined leverage for all the firms.
- (d) A needs a sum of Rs. 10,00,000 at the end of 10 years. You know that the best you can do is to deposit some lump sum amount today at 6% rate of interest or to make equal payments into a bank account, starting a year from now on which you can earn 6% interest. Find out
- (i) What amount to be deposited today or
 - (ii) What amount must be deposited annually? **(4 × 5 Marks = 20 Marks)**
2. (a) MP Ltd. produces a product-X, which passes through three processes, I, II and III. In Process-III a by-product arises, which after further processing at a cost of Rs.85 per unit, product Z is produced. The information related for the month of September 2020 is as follows:

	Process-I	Process-II	Process-III
Normal loss	5%	10%	5%
Materials introduced (7,000 units)	1,40,000	-	-
Materials added	62,000	1,36,000	84,200
Direct wages	42,000	54,000	48,000
Direct expenses	14,000	16,000	14,000

Production overhead for the month is Rs.2,88,000, which is absorbed as a percentage of direct wages.

The scraps are sold at Rs.10 per unit

Product-Z can be sold at Rs.135 per unit with a selling cost of Rs.15 per unit

No. of units produced:

Process-I- 6,600; Process-II- 5,200, Process-III- 4,800 and Product-Z- 600

There is no stock at the beginning and end of the month.

You are required to prepare accounts for Process-I, II and III.

(8 Marks)

- (b) T Ltd. has furnished the following ratios and information relating to the year ended 31st March, 2021.

Sales	Rs. 600 Lakh
Return on Net worth	25%
Rate of Income tax	40%
Share Capital to reserves	7:3
Current Ratio	2
Net-Profit to Sales (after tax)	6.25%
Inventory Turnover	12
(Based on cost of goods sold and closing stock)	
Cost of goods sold	Rs. 180 Lakh
Interest on Debentures (@ 15%)	Rs. 6,00,000

Trade receivables	Rs. 20 Lakh
Trade Payables	Rs. 20 Lakh

You are required to:

- Calculate the operating expenses for the year ended 31st March, 2021.
- Prepare a Balance Sheet as on 31st March, 2021.

Note- Balance sheet may be prepared in traditional T Format.

(8 Marks)

3. (a) The information of Z Ltd. for the year ended 31st March 2021 is as below:

	Amount (Rs.)
Direct materials	17,50,000
Direct wages	12,50,000
Variable factory overhead	9,50,000
Fixed factory overhead	12,00,000
Other variable costs	6,00,000
Other fixed costs	4,00,000
Profit	8,50,000
Sales	70,00,000

During the year, the company manufactured two products, X and Y, and the output and cost were:

	X	Y
Output (units)	8,000	4,000
Selling price per unit (Rs.)	600	550
Direct material per unit (Rs.)	140	157.50
Direct wages per unit (Rs.)	90	132.50

Variable factory overheads are absorbed as a percentage of direct wages and other variable costs are computed as:

Product X – Rs.40 per unit and Product Y- Rs.70 per unit.

For the FY 2021-22, it is expected that demand for product X and Y will fall by 20% & 10% respectively. It is also expected that direct wages cost will raise by 20% and other fixed costs by 10%. Products will be required to be sold at a discount of 20%.

You are required to:

- Prepare profitability statement for the FY 2020-21 and
- Prepare a budget for the FY 2021-22.

(8 Marks)

- (b) KL Limited requires Rs. 50,00,000 for a new plant. This Plant is expected to yield earnings before interest and taxes of Rs. 10,00,000. While deciding about the financial plan, the company considers the objective of maximising earnings per share. It has three alternatives to finance the project- by raising debt of Rs. 5,00,000 or Rs. 20,00,000 or Rs. 30,00,000 and the balance, in each case, by issuing equity shares. The company's share is currently selling at Rs. 150, but is expected to decline to Rs. 125 in case the funds are borrowed in excess of Rs. 20,00,000. The funds can be borrowed at the rate of 9 percent upto Rs. 5,00,000, at 14 percent over Rs. 5,00,000 and upto Rs. 20,00,000 and at 19 percent over Rs. 20,00,000. The

tax rate applicable to the company is 40 percent. Which form of financing should company choose? Show EPS Amount upto two decimal points. **(8 Marks)**

4. (a) The following information has been obtained from the records of a manufacturing unit:

	Rs.	Rs.
Sales 80,000 units @ Rs. 50		40,00,000
Material consumed	16,00,000	
Variable Overheads	4,00,000	
Labour Charges	8,00,000	
Fixed Overheads	7,20,000	35,20,000
Net Profit		4,80,000

Calculate:

- The number of units by selling which the company will neither lose nor gain anything.
 - The sales needed to earn a profit of 20% on sales.
 - The extra units which should be sold to obtain the present profit if it is proposed to reduce the selling price by 20% and 25%.
 - The selling price to be fixed to bring down its Break-even Point to 10,000 units under present conditions. **(8 Marks)**
- (b) MT Limited is considering to purchase a new plant worth Rs. 1,60,00,000. The expected net cash flows after taxes and before depreciation are as follows:

Year	Net Cash Flows (Rs.)
1	28,00,000
2	28,00,000
3	28,00,000
4	28,00,000
5	28,00,000
6	32,00,000
7	40,00,000
8	60,00,000
9	40,00,000
10	16,00,000

The rate of cost of capital is 10%.

You are required to calculate:

- Pay-back period
- Net present value at 10% discount factor
- Profitability index at 10% discount factor
- Internal rate of return with the help of 10% and 15% discount factor

The following present value table is given for you:

Year	Present value of Rs. 1 at 10% discount rate	Present value of Rs. 1 at 15% discount rate
1	0.909	0.870

2	0.826	0.756
3	0.751	0.658
4	0.683	0.572
5	0.621	0.497
6	0.564	0.432
7	0.513	0.376
8	0.467	0.327
9	0.424	0.284
10	0.386	0.247

(8 Marks)

5. (a) Discuss the Net Realisable Value (NRV) method of apportioning joint costs to by-products.
- (b) Differentiate between Service costing and Product costing.
- (c) Distinguish between 'Funds Flow' and 'Cash Flow'.
- (d) Distinguish between 'Profit Maximization' and 'Wealth Maximization' objective of a firm.

(4 × 4 = 16 Marks)

6. (a) The following information is available from the cost records of a Company for the month of December, 2020:

(1) Material consumed	22,000 pieces	Rs. 1,87,000
(2) Actual wages paid for	5,150 hours	Rs. 51,500
(3) Fixed Factory overhead incurred		Rs. 92,000
(4) Fixed Factory overhead budgeted		Rs. 84,000
(5) Units produced	1,900	
(6) Standard rates and prices are:		
Direct material	Rs. 9 per piece	
Standard input	10 pieces per unit	
Direct labour rate	Rs. 12 per hour	
Standard requirement	2.5 hours per unit	
Overheads	Rs. 16 per labour hour	

You are required to calculate the following variances:

- (i) Material price variance
- (ii) Material usage variance
- (iii) Labour rate variance
- (iv) Labour efficiency variance
- (v) Fixed overhead expenditure variance
- (vi) Fixed overhead efficiency variance
- (vii) Fixed overhead capacity variance.

(8 Marks)

- (b) The following information is provided by the HK Limited for the year ending 31st March, 2021.

Raw material storage period	25 days
Work-in-progress conversion period	12 days

Finished Goods storage period	30 days
Debt collection period	45 days
Creditors payment period	15 days
Annual Operating cost	Rs. 42,00,000

(including depreciation of Rs. 4,20,000)

[1 year = 360 days]

You are required to calculate:

- (i) Operating Cycle period.
- (ii) Number of Operating Cycle in a year.
- (iii) Amount of working capital required for the company on a cash cost basis.
- (iv) The company is a market leader in its product, there is virtually no competitor in the market. Based on a market research it is planning to discontinue sales on credit and deliver products based on pre-payments. Thereby, it can reduce its working capital requirement substantially. What would be the reduction in cash working capital requirement due to such decision? **(8 Marks)**

7. Answer any **four** of the following:

- (a) How idle capacity cost is accounted for in Cost Accounting?
- (b) State the method of costing and also the unit of cost for the following industries:
 - (i) Hotel
 - (ii) Toy-making
 - (iii) Steel
 - (iv) Ship Building
- (c) "Operating risk is associated with cost structure, whereas financial risk is associated with capital structure of a business concern." Critically examine this statement.
- (d) What is venture capital financing? State the factors which are to be considered in financing any risky project.
- (e)
 - (i) Discuss the Discretionary Cost Centres.
 - (ii) State any four advantages of Electronic Cash Management System. **(4 × 4 = 16 Marks)**