

Total No. of Questions : 7
Time Allowed : 3 Hours

Total No. of Pages: 5
Maximum Marks : 100

All questions are compulsory. Working notes should form part of the answer wherever appropriate, suitable assumptions should be made.

Question1. Answer the following:

- (a) What do you understand by over absorbed overheads?
- (b) If activity ratio of a company is 104% and its capacity ratio is 96%, find out its efficiency ratio.
- (c) Distinguish between Fixed Budget and Functional Budget.
- (d) Aries Co. has recorded the following data in the two most recent periods:

Total cost of production (Rs.)	Volume of Production (Units)
14,600	800
19,400	1200

What is the best estimate of the firm's fixed costs per period?

- (e) The standard and actual figures of product 'Z' are as under:

	<i>Standard</i>	<i>Actual</i>
Material quantity	50 units	45 units
Material price per unit	Re. 1.00	Re. 0.80

Calculate material price variance.

(5×2 =10 Marks)

Question 2

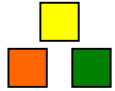
KINGFISHER Airways owns a single jet aircraft and operates between Bombay and New Delhi. Flights leave Bombay on Mondays and Thursdays and depart from New Delhi on Wednesdays and Saturdays. KINGFISHER Airways cannot afford any more flights between Bombay and New Delhi. Only tourist class seats are available on its flights. An analyst has collected the following information:

Seating capacity per plane	360
Average Passengers per flight	100
Flights per week	4
Flights per year	208
Average one-way fare	Rs. 10,000
Variable fuel costs	Rs. 1,40,000 per flight
Food service to passengers (not charged to passengers)	Rs. 400 per passenger
Commission paid to travel agents paid by KINGFISHER Airways on each ticket booked on KINGFISHER Airways (Assume that all KINGFISHER tickets are booked by travel agents)	8% of fare
Fixed annual lease costs allocated to each flight	Rs. 5,30,000 per flight
Fixed ground services (maintenance, check-in baggage handling) costs allocated to each flight	Rs. 70,000 per flight
Fixed salaries of flights crew allocated to each flight	Rs. 40,000 per flight

For the sake of simplicity, assume that fuel costs are unaffected by the actual number of passengers on a flight.

Required:

- (a) What is the operating income that KINGFISHER Airways makes on each one-way flight between Bombay and New Delhi?
- (b) The market research department of KINGFISHER Airways indicates that lowering the average one-way fare to Rs. 9,600 will increase the average number of passengers per flight to 106. Should KINGFISHER Airways lower its fare?
- (c) Travel India, a tour operator, approaches KINGFISHER Airways to charter its jet aircraft twice each month, first to take Travel India International tourists from Bombay to New Delhi and then bring the tourists back from New Delhi to Bombay. If KINGFISHER Airways accepts the offer, it will be able to



offer only 184 (208 minus 24) of its own flights each year. The terms of the charter are:

- (i) For each one-way flight Travel India will pay KINGFISHER Rs. 7,50,000 to charter the plane and to use its flight crew and ground service staff.
- (ii) Travel India will pay for fuel costs.
- (iii) Travel India will pay for all food costs.

On purely financial considerations, should KINGFISHER Airways accept the offer from Travel India Tours and Travel?

(15 Marks)

Question 3

(a) A construction company under-taking a number of contracts, furnished the following data relating to its uncompleted contracts as on 31st March, 2006 :

	(Rs. in lacs) Contract Numbers			
	723	726	729	731
Total Contract Price	23.20	14.40	10.08	28.80
Estimated Costs on completion of contract	20.50	11.52	12.60	21.60
Expenses for the year ended 31.3.06 :				
Direct Materials	5.22	1.80	1.98	0.80
Direct Wages	2.32	4.32	3.90	2.16
Overheads (Excluding Depreciation)	1.06	2.60	2.62	1.05
Profit Reserve as on 1.4.05	1.50	—	—	—
Plant issued at Cost	5.00	3.50	2.75	3.00
Materials at Site on 1.4.05	0.75	—	—	—
Materials at Site on 31.3.06	0.45	0.20	0.08	0.05
Work Certified till 31.3.05	4.65	—	—	—
Work Certified during the year 2005-06	12.76	13.26	7.56	4.32
Work Uncertified as on 31.3.06	0.84	0.24	0.14	0.18
Progress payments received during the year	9.57	9.0	5.75	3.60

Depreciation @ 20% per annum is to be charged on plant issued. While the Contract No.723 was carried over from last year, the remaining contracts were started in the 1st week of April, 2005. Required:

- (i) Determine the profit/loss in respect of each contract for the year ended 31st March, 2006.
- (ii) State the profit/loss to be carried to Profit & Loss A/c for the year ended 31st March, 2006.

(7 Marks)

(b) J.K. Ltd. manufactures NXE by mixing three raw materials. For every batch of 100 kgs. of NXE, 125 kgs. of raw materials are used. In April, 2009, 60 batches were prepared to produce an output of 5,600 kgs. of NXE. The standard and actual particulars for April, 2009, are as follows :

Raw Materials	Standard		Actual		Quantity of Raw Materials Purchased Kg.
	Mix %	Price per kg. Rs.	Mix %	Price per Kg. Rs.	
A	50	20	60	21	5,000
B	30	10	20	8	2,000
C	20	5	20	6	1,200

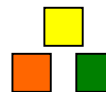
Calculate all variances.

(9 Marks)

Question 4

Answer any three of the following:

(a) The cost accountant of Y Ltd. has computed labour turnover rates for the quarter ended 31st March, 2002 as 10%, 5% and 3% respectively under 'Flux method', 'Replacement method' and 'Separation method'.



If the number of workers replaced during that quarter is 30, find out the number of :

- (i) workers recruited and joined, and
- (ii) workers left and discharged.

(b) The following data are available in respect of material X for the year ended 31st March, 2008:

Opening Stock	Rs.90,000
Purchases during the year	2,70,000
Closing stock	1,10,000

Calculate:

- (i) Inventory turnover ratio; and
- (ii) The number of days for which the average inventory is held.

(c) Department L production overheads are absorbed using a direct labour hour rate. Budgeted production overheads for the department were Rs. 480,000 and the actual labour hours were 100,000. Actual production overheads amounted to Rs. 516,000. Based on the above data, and assuming that the production overheads were over absorbed by Rs. 24,000, what was the overhead absorption rate per labour hour?

(3×3=9 Marks)

Question 5 Answer the following:

- (i) Write a short note on functions of Treasury department.
- (ii) Discuss conflict in profit versus wealth maximization objective.
- (iii) Royal Sporting Company has Rs. 50 lakhs in inventory and Rs. 20 lakhs in accounts receivable. Its average daily sales is Rs. 1,00,000. The company's payables deferral period is 30 days. You are required to calculate the length of the company's cash conversion period?
- (vi) Assume that a company is expected to pay a dividend of Rs. 5.00 per share this year. The company along with the dividend is expected to grow at a rate of 6%. If the current market price of the share is Rs. 60 per share, calculate the estimated cost of equity?
- (v) You are considering borrowing Rs.10,000 for 3 years at an annual interest rate of 6%. The loan agreement calls for 3 equal payments, to be paid at the end of each of the next 3 years. (Payments include both principal and interest.). Calculate the annual payment that will fully pay off (amortize) the loan.

(5×2=10 Marks)

Question 6

The following data is available from the books of Rise High Ltd :

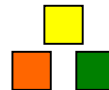
Balance Sheets (in Rs.)

Liabilities	31.3.20X1	31.3.20X2	Assets	31.3.20X1	31.3.20X2
Equity share capital	10,00,000	11,00,000	Land and buildings	8,00,000	8,55,000
Securities premium	-	30,000	Furniture and fittings	90,000	76,500
General reserve	4,00,000	5,01,000	Stock	5,32,500	5,96,300
Bills payable	60,000	20,000	Debtors	1,87,300	1,84,200
Creditors	2,07,200	1,57,400	Cash in hand	18,200	13,400
Outstanding exps.	30,000	35,000	Cash at bank	1,15,200	1,62,000
Provision for IT	2,52,000	2,68,000	Bills receivable	30,000	50,000
Proposed dividend	1,00,000	1,10,000	Adv income-tax paid	2,55,000	2,70,000
	_____	_____	Preliminary expenses	21,000	14,000
Total	20,49,200	22,21,400	Total	20,49,200	22,21,400

Profit and Loss Account for the year ended 31st March, 20X2

Particulars

Sales	Rs. 46,37,200
Less : Cost of goods sold	(37,21,200)
Gross profit	9,16,000
Less : Sundry operating expenses	(3,17,500)
Depreciation on land and buildings	(45,000)
Depreciation on furniture, fixtures and fittings	(8,500)



Loss on disposal of furniture	(2,000)
Preliminary expenses, amortised	(7,000)
Net profit before income-tax	5,36,000
Less : Provision for income-tax	2,68,000
Net profit after income-tax	2,68,000
Less : Provision for income-tax(1999-2000)	(2,000)
Interim dividend	(55,000)
Proposed dividend	(1,10,000)
Transfer to general reserve	<u>(1,01,000)</u>
	NIL

Additional information :

Liability for income-tax for the previous accounting year ending 31.3.20X1 was fixed at Rs. 2,54,000 and hence, a refund of Rs. 1,000 was received out of the advance tax paid for that year. Book value of furniture sold during the year was Rs. 3,000.

You are required to prepare a cash flow statement for the year ended 31st March, 20X2.

(15 Marks)

Question 7

(a) A Company had the following Balance Sheet as on March 31, 2006 :

Liabilities and Equity	Rs. (in Crores)	Assets	Rs. (in Crores)
Equity Share Capital (one crore shares of Rs.10 of)	10	Fixed Assets(Net)	25
Reserves and Surplus	2	Current Assets	15
15% Debentures	20		
Current Liabilities	8		
Total	40	Total	40

The additional information given is as under:

Fixed Costs per annum (excluding interest) :Rs. 8 crores

Variable operating costs ratio :65%

Total Assets turnover ratio :2.5

Income-tax rate : 40%

Required :

Calculate the following and comment:

- (i) Earnings per share
- (ii) Operating Leverage
- (iii) Financial Leverage
- (iv) Combined Leverage.

(6 marks)

(b)Zubair Electronics is considering the proposal of taking up a new project which requires an investment of Rs. 400 lakhs on machinery and other assets. The project is expected to yield the following earnings (before depreciation and taxes) over the next five years:

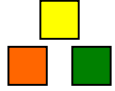
Year	Earnings (Rs. in lakhs)
1	160
2	160
3	180
4	180
5	150

The cost of raising the additional capital is 12% and assets have to be depreciated at 20% on 'Written Down Value' basis. The scrap value at the end of the five years' period may be taken as zero. Income-tax applicable to the company is 50%.

You are required to calculate the net present value of the project and advise the management to take appropriate decision. Also calculate the Internal Rate of Return of the Project.

Note: Present value of Re. 1 at different rates of interest is as follows:

Year	10%	12%	14%	16%
1	0.91	0.89	0.88	0.86
2	0.83	0.80	0.77	0.74



3	0.75	0.71	0.67	0.64
4	0.68	0.64	0.59	0.55
5	0.62	0.57	0.52	0.48

(10 Marks)

Question 8 Answer the following:

(a) Distinguish between Financial Lease and Operating Lease.

(b) Write short note on "Trading on Equity".

(c) Write short note on "Packing Credit".

(9 Marks)