INSTITUTE OF COST AND MANAGEMENT ACCOUNTANTS OF PAKISTAN

12th Comprehensive Examination

Saturday, the 22nd May 2010

Time Allowed – 2 Hours **Maximum Marks – 60**

(i) Attempt both the cases 1 and 2 that carry 30 marks each.

(ii) Answers must be neat, relevant and brief.

(iii) In marking the question paper, the examiners take into account the clarity of exposition, logic of arguments, effective presentation, language and use of clear diagram or chart where appropriate.

(iv) Read the instructions printed on the top cover of answer script CAREFULLY before attempting the paper.

(v) Use of non-programmable scientific calculator of any model is allowed.

(v) DO NOT write your Name, Reg. No. or Roll No. anywhere inside the answer script.

(vi) Question No.1 – "Multiple Choice Question" printed separately, is an integral part of this question paper.

Marks

CASE # 1

A company has the following divisions:

Marketing, Manufacturing, Materials Management, Despatch & Warehousing, Research & Engineering, Finance & Secretarial, Personnel & General Administration.

All the divisional heads after many meetings and due deliberations, submitted the budget for the year 2010-11 showing a pre-tax profit of Rs.22,500,000 through the Managing Director, for consideration of board of directors.

The directors are not satisfied with the figures of profit shown in the budget. They feel that the profit can be improved by at least 25% and ask the divisional heads to have another look at the budget as the budget for 2010-11 has been prepared simply on the previous year basis.

Meanwhile, the Finance Manager finds that the profit figure shown in the budget has not taken into account the carry over effects of following actions taken in previous year:

(i) The effect of salaries and wages increase in total would be Rs.500,000 comprising Rs.20,000 in each of the division namely Marketing, Material Management, Finance & Secretarial, and Rs.400,000 in Manufacturing division, Rs.30,000 in Research & Engineering division and Rs.10,000 in Personnel & General Administatration division.

(ii) Machine tools reconditioning programme undertaken would increase the profit by Rs.400,000.

(iii) Sale price increase would add Rs.300,000 to profit.

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Marks

(iv) Net impact of other actions would result in a saving of Rs.450,000. Actions taken in Manufacturing, Research & Engineering, Personnel & General Administration contributed to cost saving of Rs.470,000, Rs.20,000 and Rs.210,000 respectively, while correspondingly cost increases resulted in Marketing, Materials Management, Despatch & Warehousing to an extent of Rs.30,000, Rs.200,000 and Rs.20,000 respectively.

Scanning the indications of environmental changes in 2010-11, the Marketing Manager envisages a market demand which would increase the sales by Rs.3,300,000, out of which, one third would be clean profit. On the other hand, Materials Manager envisages an inevitable rise in material cost of Rs.800,000.

Even when these (carry over effects and environmental changes) are incorporated, as the profit comes no where near the target set by the Board, the Managing Director in concurrence with the divisional heads drew out the following management action plan to improve the profit:

(i) An increase in sales price will result in a profit of Rs.700,000.

(ii) A deeper market penetration to bring in an additional sale of Rs.9,000,000 with one third clean profit.

(iii) Reduction in material usage would save Rs.500,000.

(iv) Improvement in manpower utilisation would bring in a saving of Rs.550,000.

(v) Expenditure towards additional sales promotion would be Rs.150,000 and expenditure towards training in manufacturing division would be Rs.200,000 and in marketing Rs.50,000.

(vi) Other actions taken in the divisions would result in net saving of Rs.700,000 as per the following details:

			Amount in Rs.
Cost savings:	Manufacturing operations	700,000	
	Despatch & Warehousing	60,000	
	Research & Engineering	20,000	780,000
Additional cost:	Marketing	40,000	
	Finance & Secretarial	20,000	
	Personal & General Administration	20,000	80,000
Net saving			700,000

Required:

Keeping the pre-tax profit of Rs.22,500,000 given in the budget as the base, prepare the following:

(a) A summary statement for the directors detailing the improvement on profit, showing aforesaid details under the three heads i.e., carry over effect of actions in previous year, environmental changes in budgeted year (2010-11), and changes resulting from management action plan. 06

(b) A profit impact summary by divisional accountability, showing three heads [as stated in (a) above], to enable each divisional head to know his contribution or otherwise, towards profit improvement, for which he is responsible. 24

CASE # 2

Marks

A company has annual installed capacity of 625,000 dispensers of 200 tablets each of producing Ponstan tablets, its present capacity utilisation is 80%. Following is cost structure for manufacturing the tablets:

Material ingredients:	Rs./ dispenser
X	25
Y	15
Z	30
Packing material	10
Direct labour	50
Factory overheads (including depreciation of Rs.10)	30
Administrative overheads	20
Selling overheads	25
Total cost per dispenser	205
Profit margin	45
Total	250
Mark up for Research & development	25
Selling price	275

The material ingredient 'Y' is obtained from the company's own developed unit near the plant. In addition to above costs and price, following information is also available:

(i) Desired holding period of material ingredients:
Three (3) months for 'X', one (1) month for 'Y', 2½ months for 'Z' and 1½ months for packing material.

(ii) The product is in process for a period of ½ month (assume full units of materials ingredient, namely 'X' 'Y' and 'Z' required in the beginning; other conversion costs are to be taken at 50% completed).

(iii) Finished goods are in stock for a period of one (1) month before they are sold.

(iv) The credit period allowed to customers is three (3) months.

(v) Average time lag in payment of wages is approximately ½ month and of overheads, one (1) month.

(vi) Average time lag for payment of research & development expenses is 1½ months.

(vii) The credit period extended by various suppliers are as under:
Two (2) months for material 'X', one (1) month for material 'Z' and for packing material, ½ month.

(viii) Minimum desired cash balance is Rs.2,500,000.

Required:

Determine the net working capital requirement of the company for the current year. (You may state your assumptions, if any). 30

THE END