

INSTITUTE OF COST AND MANAGEMENT ACCOUNTANTS OF PAKISTAN



14th Comprehensive Examination

Sunday, the 28th November 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) Multiple Choice Questions (MCQs) printed separately, is an integral part of this question paper.

CASE # 1

Marks

Fabiantech manufactures its own cellular modem circuit boards, an important part of the cellular modem. Following information about the costs of making circuit boards in 2010 and expected costs in 2011 is compiled:

	(Rupees)	
	Current Costs in 2010	Expected Costs in 2011
Variable manufacturing costs:		
Direct material cost per circuit board	3,600	3,400
Direct manufacturing labour cost per circuit board	1,000	900
Variable manufacturing cost per batch for setups, material handling, and quality control	32,000	30,000
Fixed manufacturing cost (that can be avoided if circuit boards are not made)	6,400,000	6,400,000
Fixed manufacturing overhead costs of plant depreciation, insurance, and administration (that cannot be avoided even if circuit boards are not made)	16,000,000	16,000,000

M/s Fabiantech manufactured 8,000 circuit boards in 2010 in 40 batches of 200 each. In 2011, M/s Fabiantech anticipates a requirement of 10,000 circuit boards. The circuit boards would be needed in 80 batches of 125 each.

M/s Managecom, a giant vendor has approached M/s Fabiantech for supplying circuit boards to them in 2011 at Rs.6,000 per circuit board on a delivery schedule M/s Fabiantech decides.

Required:

- (a) Calculate the total expected manufacturing cost per unit of making circuit boards in 2011. 10
- (b) Suppose the capacity currently used to make circuit boards will become idle if M/s Fabiantech purchases circuit boards from M/s Managecom. On the basis of financial considerations alone, should M/s Fabiantech make circuit boards or buy them from M/s Managecom? Show your calculations in support of your recommendations. 10
- (c) Now suppose that if M/s Fabiantech purchases circuit boards from M/s Managecom, its best alternative use of the capacity currently used for circuit boards is to make and sell special circuit boards to M/s Teltech, another manufacturers.

M/s Fabiantech estimates the following incremental revenues and costs for special circuit boards:

Total expected incremental future revenues	Rs.40,000,000
Total expected incremental future costs	Rs.43,000,000

On the basis of financial considerations alone, should M/s Fabiantech make circuit boards or buy them from M/s Managecom? Show your calculations in support of your recommendations.

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CASE # 2

Marks

Following information is available of a departmental store:

- (i) The store will surely have a cash balance of Rs.300,000 at December 31, 2010 which is the minimum desired level for cash. Funds can be borrowed in multiples of Rs.15,000 (Ignore interest on such borrowings) to maintain this level of cash balance.
- (ii) Sales are 75% for credit and 25% for cash.
- (iii) With respect to credit sales, 60% are collected in the month after the sale, 30% in the second month, and 10% in the third. Bad debt losses are insignificant.
- (iv) Actual and estimated sales are:

(Rupees)			
October 2010	900,000	March 2011	600,000
November 2010	1,050,000	April 2011	900,000
December 2010	1,200,000	May 2011	750,000
January 2011	450,000	June 2011	600,000
February 2011	600,000	July 2011	900,000

- (v) Payments for purchases of merchandise are 80% of the following month's anticipated sales.
- (vi) Wages and salaries in Rupees are:

January	90,000	May	120,000
February	120,000	June	105,000

- (vii) Rent is Rs.6,000 a month.
- (viii) Interest of Rs.22,500 is due on the last day of each calendar quarter.
- (ix) No quarterly cash dividends are planned.
- (x) A tax prepayment of Rs.150,000 for 2011 income will become due in April.
- (xi) A capital investment of Rs.90,000 is planned in June, to be paid at the time of investment.
- (xii) It is assumed that prices and costs will remain constant.

Required:

- (a) Prepare a cash budget for the departmental store for the first six months of 2011. 23

- (b) Using the following additional information, prepare a forecast income statement for the first half of 2011 for the departmental store. (Note that the store maintains a safety stock of inventory): 07
 - (i) Inventory at December 31, 2010 was Rs.600,000.
 - (ii) Depreciation is on straight-line basis on assets worth Rs.750,000 with an average remaining life of ten (10) years having no salvage value.
 - (iii) The tax rate is 35%.

THE END