INSTITUTE OF COST AND MANAGEMENT ACCOUNTANTS OF PAKISTAN

15th Comprehensive Examination

Saturday, the 12th February 2011

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

(a) The budgeted figures for the year 2011-12 of a manufacturing company are as under:

			Rupees
		Product A	Product B
Selling price	(per unit)	24	48
Variable costs	(per unit)	8	16
Contribution margin	(per unit)	16	32
Fixed costs apportioned		400,000	800,000
Units sold		17,500	7,500

Required:

(i) Calculate the break-even points for each product and for the company as a whole. 4

(ii) Offer your comments on (i) above. 1

(b) The summarized profitability of Alpha Beta Company for the year just ended, is as follows:

		Rs.'000'
Sales (50,000 units)		5,000
Direct materials	1,750	
Direct wages	1,000	
Fixed production overhead	1,000	
Variable production overhead	250	
Administration overhead	900	
Selling and distribution overhead	600	5,500
Profit/ (loss)		(500)
(Admin & selling expenses are fixed)		

The above results were discussed in a recent board meeting. Chairman asked for suggestions to aviod operating loss. In response following alternative proposals have been received:

(i) To achieve the break-even sales a commission @ 10% of sales may be offered to the salesmen.

(ii) A reduction of selling price by 10% may increase sales volume by 30%.

(iii) To increse the productivity an increase in direct wages rates from Rs.20 to Rs.25 per hour may be given. It is hoped that this would increase production and sales by 20% but advertising cost would increase by Rs.250,000.

(iv) Increase in sales by additional advertising of Rs.1,500,000, with an increased selling price of 20%, setting a profit margin of 10%.

Required:

As management accountant evaluate each alternative proposals (i) to (iv) and comment briefly thereof. 25

Marks

CASE # 2

Financial Position and other data of a manufacturing company are given below:

1. Balance Sheet at end of last year:

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
Accounts payable (related to June purchases only)	40,000	Cash	300,000
Tax payable (related to June income only)	25,000	Accounts receivable (related to June sales only)	250,000
Share capital	1,100,000	Inventories:	
Retained earnings	1,026,800	Raw materials (9,600 kgs x Rs.3)	28,800
		Finished goods (1,800 units x Rs.35)	63,000
		Fixed assets at cost	2,000,000
		Accumulated depreciation	(450,000)
			1,550,000
	2,191,800		2,191,800

2. Sales forecast for the first quarter of the next year has been provided by marketing department as under:

Month	Sales (Units)
July	9,000
August	12,000
September	16,000
Selling price Rs.50 per unit	

3. The management maintains closing inventory at 20% of the following month's sales.
4. Manufacturing costs are as follows:

	Rs./ Unit
Direct materials: (5 kgs x Rs.3 per kg)	15
Direct labour	5
Variable overheads	9
Total fixed overheads (per annum) Rs.720,000	

5. Normal capacity is 120,000 units per annum. Assume absorption costing system.
6. Each unit of final product requires 5 kgs. of raw materials. Assume management desires closing raw material inventory at 20% of the following month's requirements of production.
7. Variable selling and administrative expenses are Rs.5 per unit sold.
8. Fixed selling and administrative expenses would be Rs.20,000 per month.
9. All sales are on credit. Payments received within 10 days from the date of sale are subject to a 2% cash discount. In the past, 60% of the sales were collected during the month of sale and 40% are collected during the following month. 50% of collections during the month of sale are collected during the discount period. Accounts receivable are recorded at the gross amount and cash discounts are treated as a reduction in arriving at net sales during the month they are taken.
10. Tax rate is 35%.
11. Additional information:
    - (i) All purchases are on credit and two-third (2/3) are paid for in the month of purchase and one-third (1/3), in the following month.
    - (ii) Fixed manufacturing costs include depreciation of Rs.20,000 per month.
    - (iii) Taxes are paid in the following month.
    - (iv) All other costs and expenses are paid during the month in which they are incurred.

Required:

Prepare Income Statement for the month of July and Balance Sheet at the end of July. Show clearly the calculations relating to production units, manufacturing cost, purchase quantity of raw material, selling & administrative expenses, cost of goods sold and cash balance. 30

THE END