INSTITUTE OF COST AND MANAGEMENT ACCOUNTANTS OF PAKISTAN

19th Comprehensive Examination

Saturday, the 11th February 2012

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.
(vi) DO NOT write your Name, Reg. No. or Roll No. anywhere inside the answer script.
(vii) Multiple Choice Questions (MCQs) printed separately, is an integral part of this question paper.
(viii) Question paper must be returned to the invigilator before leaving the examination hall.

Marks

CASE # 1

A firm desires to launch a new project for manufacturing of a unique component. At full capacity of 24,000 units, the cost per unit will be estimated as follows:

	Rs.
Material	800
Labour and variable expenses	400
Fixed manufacturing and administrative expenses	200
Depreciation	100
	1,500

The selling price per unit is expected at Rs. 2,000 and the selling expenses per unit will be Rs. 100 including 80% variable expenses.
Production and sales for the first two years are expected to be as follows:

Year	Production Units	Sales Units
1	15,000	14,000
2	20,000	18,000

To assess working capital requirement, the following additional information is given:

(a)	Stock of raw material	–	3 month's average consumption.
(b)	Work-in-process	–	Nil
(c)	Debtors	–	1 month average cost of sales.
(d)	Creditors for supply of materials	–	2 months average purchases of the year.
(e)	Creditors for expenses	–	1 month average of all expenses during the year.
(f)	Minimum desired cash balance	–	Rs. 200,000
(g)	Stock of finished goods is taken at average cost.		

Required:

Prepare a projected statement of working capital requirements for two years. 30

PTO

Marks

CASE # 2

A manufacturing company has just completed a project with a capacity to manufacture 50,000 units per month and the same is ready for commercial production.

It has got an offer from another manufacturer to produce its products with brand name by using the facility created. The management is considering either of the two options, i.e., (A) to produce its own brand or (B) to manufacture for others, to be accepted.

The following data is available:

(i) Average selling price per unit is Rs. 3,500.

(ii) Cost of material is 75% of selling price. However, the company has engaged a firm to carry out value engineering and indications are that it may come down by 3% during upcoming 3 to 6 months.

(iii) Power and fuel upto 15,000 units of production per month, Rs. 325 per unit. At 30,000 units of production per month Rs. 225 per unit (the power and fuel cost per unit reduces on prorata basis with increase in production).

(iv) Indirect material and consumables costing Rs. 25 per unit.

(v) Fixed costs per month:

- Employment cost Rs. 5.0 million
- Overheads (factory and administrative) Rs. 1.5 million
- Overhead (selling and distribution) Rs. 2.0 million

(vi) Variable selling and distribution cost works out to 6% of sale price.

(vii) Working capital requirement at 18% interest rate at different production levels are as under:

- 15,000 units per month – Rs. 100 million
- 20,000 units per month – Rs. 120 million
- 30,000 units per month – Rs. 200 million

The price offered by the manufacturer for carrying out conversion job is Rs. 700 per unit. The other manufacturer would provide all material other than indirect material and consumables.

Required:

(a) Work out a budget showing profitability under the two alternatives (A and B above) for three levels of production at 15,000 units per month, 20,000 units per month and Rs. 30,000 units per month. 20

(b) Find out the best course of action as a short-term measure and as a long-term measure. 10

THE END