**INSTITUTE OF COST AND MANAGEMENT ACCOUNTANTS OF PAKISTAN**

# 22nd Comprehensive Examination

**Saturday, the 1st September 2012**

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

*(i) Attempt both the cases 1 and 2 carrying 30 marks each.*
*(ii) Answers must be neat, relevant and brief.*
*(iii) In marking the question paper, the examiners take into account 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

Kafeel Limited manufactures product ‘E’. The company operates a single shift of 8 hours in 300-day year. The capital employed in the business is Rs. 180 million.

The company at present produces 9,000 units of product ‘E’ at maximum capacity. The manufacturing operations of the company comprise four (04) production departments. However, the capacity utilisation of all four (04) departments are not equal and the present capacity utilisation of each department is as under:

| Department | Capacity Utilisation (%) |
|---|---|
| G | 75 |
| P | 100 |
| R | 70 |
| S | 50 |

The present return on capital of the company has decreased to 10% from the earlier rate of 15% due to increase in cost of production.

As the company cannot operate more than one shift, the management is considering two (02) alternative proposals to increase the return on capital employed.

**Alternative-I:**

To hire out the surplus capacity of departments ‘G’, ‘R’ and ‘S’. The cost and revenue are estimated as under:

Rupees

| Department | Hire Charges per Hour | Incremental Cost per Hour |
|---|---|---|
| G | 2,500 | 2,000 |
| R | 1,800 | 1,500 |
| S | 1,600 | 1,200 |

**Alternative-II:**

To increase the installed capacity of the company to 12,000 units by adding plant and machinery in department ‘P’ at a capital cost of Rs. 40 million. The production of additional units would fetch an incremental revenue of Rs. 1,600 per unit. The surplus capacity in other department(s) after meeting the increased volume to be hired out as per the estimates of Alternative-I.

**Required:**

Evaluate the two (02) proposals and suggest to the management, which one of the two (02) proposals is to be accepted. **30**

(Show your workings of hours spent by each department, spare capacity for Alternative-I & II, number of units produced per hour and return on capital employed in both alternatives.)

Marks

# CASE # 2

Sunshine Textile's financial statements for the year ended June 30, 2012 are shown below:

**Sunshine Textile**
**Balance Sheet**
**as of June 30, 2012**

Rs. '000'

| | | | |
|---|---|---|---|
| Cash | 2,160 | Accounts payable | 8,640 |
| Accounts receivable | 12,960 | Accruals | 5,760 |
| Inventories | 18,000 | Notes payable | 4,200 |
| Total current assets | 33,120 | Total current liabilities | 18,600 |
| Net fixed assets | 25,200 | Term certificates | 7,000 |
| | | Ordinary shares | 7,000 |
| | | Retained earnings | 25,720 |
| | 58,320 | | 58,320 |

**Sunshine Textile**
**Income Statement**
**for the year ended June 30, 2012**

| | Rs. '000' |
|---|---|
| Sales | 72,000 |
| Operating costs | 64,800 |
| Earnings before interest and taxes | 7,200 |
| Interest | 920 |
| Earnings before taxes | 6,280 |
| Taxes (35%) | 2,198 |
| Net income | 4,082 |
| Dividends (45%) | 1,837 |
| Addition to retained earnings | 2,245 |

Following additional information is available:

- Sales for the year 2012-13 are projected to increase by 15% over 2011-12 sales.
- The company was operating at full capacity in 2011-12, that it cannot sell off any of its fixed assets.
- Any required financing will be borrowed as notes payable.
- Assets, spontaneous liabilities, and operating costs are expected to increase by the same percentage of sales increase.
- Sunshine Textile will use the percent of sales method to develop a pro-forma balance sheet and income statement for the year 2012-13.
- An interest rate of 10% on the balance of debt at the beginning of the year is used.

**Required:**

**(a)** Determine the additional retained earnings as on June 30, 2013, using the pro-forma income statement for the year 2012-13. **11**

**(b)** Prepare a pro-forma balance sheet as on June 30, 2013. Show also the working of additional fund needed (AFN). **19**

**THE END**