

INSTITUTE OF COST AND MANAGEMENT ACCOUNTANTS OF PAKISTAN



2nd Comprehensive Examination

Sunday, The 25th November, 2007

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 calculators of any model is allowed.
- (vi) DO NOT write your Name, Reg. No. or Roll No. anywhere inside the answer script.
- (vii) Question No. 1 – “Multiple Choice Question” printed separately, is an integral part of this question paper.

CASE # 1

Marks

Balance Sheet and Extracts from profit and loss account of ABC Limited are given below:

ABC Limited
Balance Sheet as at June 30, 2007.

Particulars	Rupees in million	
	June 30, 2007	June 30, 2006
Liability & Equities:		
Current Liabilities	1,969	1,897
Shareholders contributions	1,188	736
Loan Contributions	1,785	1,541
Total Liabilities and Equities	4,942	4,174
Assets:		
Fixed Assets	1,733	1,450
Cash & bank balances	245	235
Debtors	748	584
Stock	1,433	1,203
Other current assets	783	702
Total Assets	4,942	4,174

Extract from profit & loss account for the year ended June 30, 2007:

Particulars	Rupees in million	
	June 30, 2007	June 30, 2006
Sales	11,082	6,941
Less: Cost of Goods Sold	10,430	6,272
Gross Profit	652	669
Less: Operating Expenses	567	376
EBIT	85	293
Financial Charges	56	52
Profit before Tax	29	241
Tax	12	96
Profit after tax	17	145

The management was studying the above figures and desired to ascertain the financial position of the company. Comments in this respect were needed to comprehend the above position.

To enable the company to achieve the above objective, it was decided to carry out an in-depth study of various quantitative analysis techniques.

Suggested to be used, included inventory turnover, financial leverage, ROI, ROE and collection Index.

Required:

You are required to carry out the analysis, taking into consideration the above aspects and present brief comments on the financial position of ABC Ltd.

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CASE # 2

A Company is organized into two divisions. Division X produces a component, which is used by division Y in making a final product. The final product is sold for Rs. 5,400 each. Division X has capacity to produce 2,500 units and division Y can purchase the entire production. The variable cost of division X in manufacturing each component is Rs. 2,565.

Division X informed that due to installation of new machine, its depreciation cost had gone up and hence wanted to increase the price of component to be supplied to division Y to Rs. 2,970, however, division Y can buy the component from the outside market at Rs. 2,700 each. The variable cost of division Y in manufacturing the final product by using the component is Rs. 2,025 (excluding component cost).

The management wishes to ascertain the position of each division and the company. However, the following aspects need to be considered:

1. If there is no alternate use for the production facility of X, will the company benefit, if division Y buys from outside suppliers at Rs. 2,700 per component?

2. If internal facilities of X are not otherwise idle and the alternate use of the facilities will bring annual cash saving of Rs. 506,250 to division X, should division Y purchase the component from suppliers?
3. If there is no alternative use for the production facilities of division X and the selling price for the component in the outside market drops by Rs. 202.50 per unit, should division Y purchase from outside supplier?
4. What would be the transfer price fixed for the component in each of the above circumstances?

Required:

Evaluate each of the above aspects.

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THE END