

30TH COMPREHENSIVE EXAMINATION – AUGUST 2014

Marks

CASE # 1

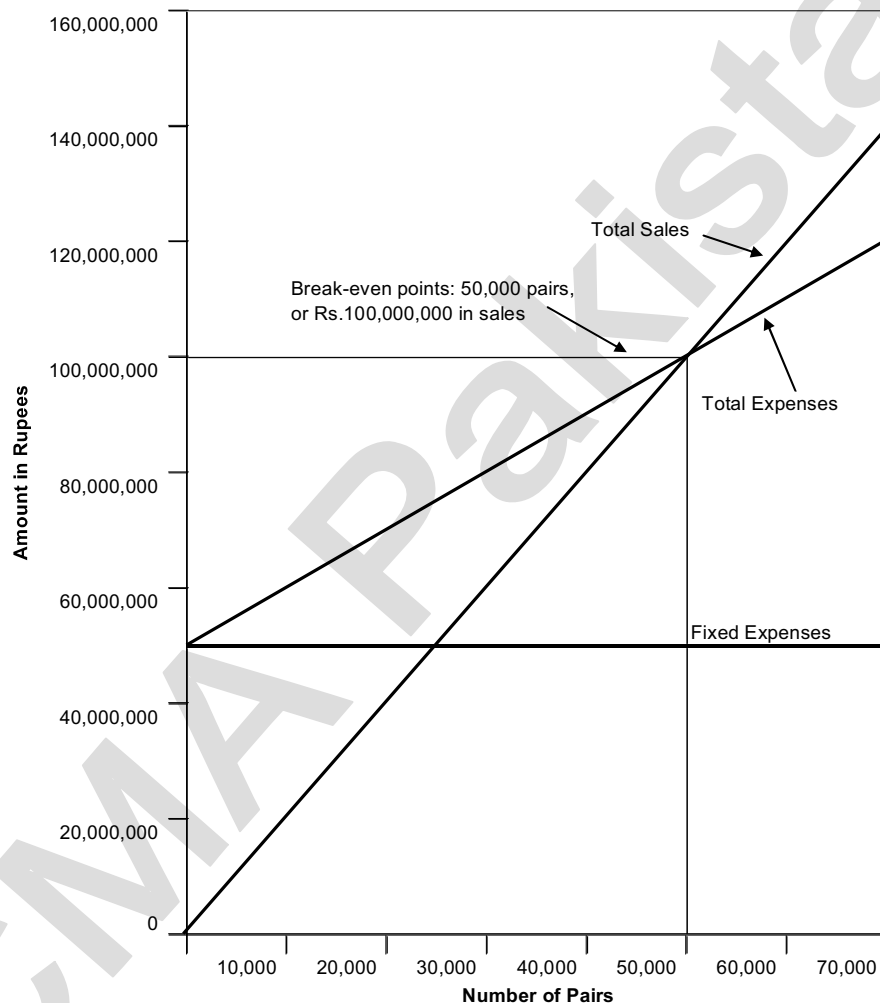
(a) Number of pairs (P) of shoes to be sold to break-even:

$$\text{Break-even point in unit sales} = \frac{\text{Fixed expenses}}{\text{CM per unit}} = \frac{\text{Rs.60,000,000}}{\text{Rs.1,200 per pair}} = \mathbf{50,000 \text{ pairs}} \quad 4$$

$$\text{Break-even point in Rs. sales} = \frac{\text{Fixed expenses}}{\text{CM ratio}} = \frac{\text{Rs.60,000,000}}{0.60} = \mathbf{100,000,000 \text{ in sales}} \quad 2$$

6

(b) Cost-volume-profit (CVP) graph for the store:



Showing total sales @ 1 mark

Showing total expenses @ 1 mark

Showing breakeven @ 1 mark

Presentation of the graph @ 4 marks

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(c) Number of pairs (P) of shoes to earn a Rs.9,000,000 target profit:

$$\text{Unit sales to attain target profit} = \frac{\text{Fixed expenses} + \text{Target profit}}{\text{CM per unit}} \quad 2$$

$$= \frac{\text{Rs.60,000,000} + \text{Rs.9,000,000}}{\text{Rs.1,200 per pair}} = \mathbf{57,500 \text{ pairs}} \quad 2$$

4

(d) Incremental contribution margin/ operating income:

	Rupees	
Rs.20,000,000 increased sales x 60% CM ratio	12,000,000	1
Less: Incremental fixed salary cost	8,000,000	1
Increased net operating income	4,000,000	1

Yes, positions should be converted to full-time basis. 1

(e) (i) Margin of safety:

$$\begin{aligned} \text{In Rupees} &= \text{Actual sales} - \text{Break-even sales} \\ &= \text{Rs.125,000,000} - 100,000,000 \\ &= \mathbf{\text{Rs.25,000,000}} \end{aligned} \quad \begin{array}{l} 1 \\ 1 \end{array}$$

$$\text{In percentage} = \frac{\text{Margin of safety}}{\text{Actual sales}} = \frac{\text{Rs.25,000,000}}{\text{Rs.125,000,000}} = \mathbf{20\%} \quad 2$$

(ii) Degree of operating leverage:

$$\text{Degree of operating leverage} = \frac{\text{Contribution margin}}{\text{Net operating profit}} = \frac{\text{Rs.75,000,000}}{\text{Rs.15,000,000}} = \mathbf{5} \quad 3$$

(iii) Expected percentage increase:

5 x 20% sales increase = 100% increase in net operating income. 1

Thus, net operating income would double next year, going from Rs.15,000,000 to Rs.30,000,000. 1

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CASE # 2

Schedule of projected sales and collections from October 2013 to March 2014: Rs. '000'

	July-13	Aug-13	Sept-13	Oct-13	Nov-13	Dec-13	Jan-14	Feb-14	Mar-14	
Sales										
Cash sales 25%	1,237.5	1,443.8	1,650.0	618.8	825.0	825.0	1,237.5	1,031.3	825.0	1
Credit sales 75%	3,712.5	4,331.3	4,950.0	1,856.3	2,475.0	2,475.0	3,712.5	3,093.8	2,475.0	1
Total	4,950.0	5,775.0	6,600.0	2,475.0	3,300.0	3,300.0	4,950.0	4,125.0	3,300.0	1

Cash Budget
From October 2013 to March 2014
Rs. '000'

	Oct-13	Nov-13	Dec-13	Jan-14	Feb-14	Mar-14	
Beginning cash balance	1,650.00	3,803.25	4,017.75	2,499.75	1,662.38	2,196.98	1
CASH COLLECTIONS:							
Cash sales 25%	618.75	825.00	825.00	1,237.50	1,031.25	825.00	1
Last month's							
Credit sale – 70%	3,465.00	1,299.38	1,732.50	1,732.50	2,598.75	2,165.63	3
2 Months' old							
Credit sale – 20%	866.25	990.00	371.25	495.00	495.00	742.50	3
3 Months' old							
Credit sale - 10%	371.25	433.13	495.00	185.63	247.50	247.50	3
Total receipts	5,321.25	3,547.50	3,423.75	3,650.63	4,372.50	3,980.63	1
DISBURSEMENTS:							
Purchases	2,640.00	2,640.00	3,960.00	3,300.00	2,640.00	3,960.00	3
Wages & Salaries	495.00	660.00	825.00	825.00	660.00	577.50	1
Rent	33.00	33.00	33.00	33.00	33.00	33.00	1
Interest	–	–	123.75	–	–	123.75	1
Tax	–	–	–	825.00	–	–	1
Capital investment	–	–	–	–	–	495.00	1
Total disbursement	3,168.00	3,333.00	4,941.75	4,983.00	3,333.00	5,189.25	1
Cash balance without borrowing	3,803.25	4,017.75	2,499.75	1,167.38	2,701.88	988.35	1
Borrowing needed to maintain minimum balance				495.00		742.50	2
Loan repaid	–	–	–	–	(495.00)	–	1
Interest paid	–	–	–	–	(9.90)	–	1
Cash balance after borrowing/repayment	3,803.25	4,017.75	2,499.75	1,662.38	2,196.98	1,730.85	1

THE END