Sr. No. **0001**

# INSTITUTE OF COST AND MANAGEMENT ACCOUNTANTS OF PAKISTAN

## 4th Comprehensive Examination

**Sunday, the 25th May, 2008**

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

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**(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.**

**(v) DO NOT write your Name, Reg. No. or Roll No. anywhere inside the answer script.**

**(vi) Question No.1 – “Multiple Choice Question” printed separately, is an integral part of this question paper.**

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**Marks**

## CASE # 1

The Sunshine Mercantile Corporation is a wholesaler and ends its fiscal year on December 31, 2007. As the company’s accountant, you have been requested in early January of the current year to assist in the preparation of cash budget. The following information is available regarding company’s operation: -

**1.** Management believes that the pattern of the last year is a reasonable basis for estimating sales for the current year. Sales in the last year were as follows: -

| | (Rupees) | | (Rupees) |
|---|---|---|---|
| January | 360,000 | February | 420,000 |
| March | 600,000 | April | 540,000 |
| May | 480,000 | June | 400,000 |
| July | 350,000 | August | 550,000 |
| September | 500,000 | October | 400,000 |
| November | 600,000 | December | 800,000 |

**2.** Balance of debtors as on 31.12.2007 was Rs.380,000. Collections are made as follows:-

| | |
|---|---|
| During the month of sale | 60% |
| In the subsequent month | 30% |
| In the second subsequent month | 9% |
| Uncollectable | 1% |

PTO

Marks

**3.** Purchase cost of goods average 60% of the selling price. Value of stock as on 31.12. 2007 was Rs.858,000 of which, Rs.30,000 is obsolete. Arrangement has been made to sell the obsolete inventory in January at 50% of the normal selling price in cash.

The company wishes to maintain inventory on the 1st of each month at a level of next 3 months' sales including the budget month. All purchases are paid on the 10th of the following month. Balance of creditors on 31.12. 2007 was Rs.370,000.

**4.** Recurring fixed expenses are Rs.120,000 per month including depreciation of Rs.20,000. Variable expenses amount to 10% of sales. Payments for expenses are made as follows:-

| | **During the month** | **Following month** |
|---|---|---|
| Fixed expenses | 55% | 45% |
| Variable expenses | 70% | 30% |

**5.** Annual rates and taxes (not included in item 4 above) amount to Rs.10,000 and are paid in 2 equal installments on 31st March and 30th September.

**6.** Cash dividends of Rs.80,000 will be paid on the 15th day of the last month of the year.

**7.** Advertising cost to be paid @ Rs.10,000 in February and Rs.15,000 in March.

**8.** Equipment replacements are made @ Rs.3,000 per month. The equipments have an average expected life of 6 years. Depreciation on equipment is included in the depreciation of Rs.20,000 mentioned in item 4 above.

**9.** Income tax for last year was Rs. 230,000. Advance tax paid is Rs. 210,000. Balance tax to be paid in May. Tax is payable in advance in three (03) equal installments in June, September and December on the basis of 50% of estimated profit.

**10.** On 31.12. 2007 the company had a bank loan balance of Rs.80,000. The loan requires a principal payment of Rs. 20,000 on the last day of each month plus interest at ½% per month on the unpaid balance at the beginning of the month. The entire balance is due on 31.03.2008. Cash balance on 31.12.2007 is Rs.100,000.

**Required:**

Prepare a cash budget for each of the first six month of the current year for Sunshine Mercantile Corporation. Show your workings. **30**

Marks

# CASE # 2

Hub Construction Company Ltd., is in the civil engineering industry with head quarters located in Hub Industrial Zone some 22 kms from Karachi city, undertakes contracts throughout Pakistan. The company has had its tender for a job in Gwadar accepted at Rs.1,440,000 and work is due to begin in May 2008. However, the company has also been asked to undertake a contract in the Ghuzdar. The price offered for this contract is Rs.1,760,000. Both of the contracts cannot be taken simultaneously because of limited staff, site management personnel and on plant available. An escape clause enables the company to withdraw from the contract in Gwadar, provided notice is given before the end of January and an agreed penalty of Rs.140,000 is paid.

The following estimates have been submitted by the company's quantity surveyor:

**COST ESTIMATES**

| Material | GWADAR (Rupees) | GHUZDAR (Rupees) |
|---|---|---|
| In stock at original cost, material 2510 | 108,000 | – |
| In stock at original cost, material 3015 | – | 124,000 |
| Firm orders placed at original cost, material 2510 | 152,000 | – |
| Not yet ordered-current cost, material 2510 | 300,000 | – |
| Not yet ordered-current cost, material 3608 | – | 356,000 |
| Labour-hired locally | 430,000 | 550,000 |
| SITE Management | 170,000 | 170,000 |
| Staff accommodation and travel for site management | 34,000 | 28,000 |
| Plant on SITE-depreciation | 48,000 | 64,000 |
| Interest on capital – 8% | 25,600 | 32,000 |
| **Total local contract costs** | **1,267,600** | **1,324,000** |
| Head quarter's costs allocated at the rate of 5% on total contract costs | 63,380 | 66,200 |
| | **1,330,980** | **1,390,200** |
| Contract price | 1,440,000 | 1,760,000 |
| **Estimated profit** | **109,020** | **369,800** |

**Notes:**

**1.** Materials 2510, 3015 and 3608 are three building materials. Material 2510 is not in common use and would not realize much money if resold. However, it could be used in other contracts but only as a substitute for another material currently quoted at 10% less than the original cost of Material 2510. The price of Material 3015, a material in common use, has doubled since it was purchased; its net realizable value if resold would be its new price less 15% to cover disposal costs. Alternatively it could be kept for use in other contracts in the following financial year.

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**Marks**

**2.** In Pakistan the construction industry has not yet recovered from the recent recession, the company is confident that the manual labour, both skilled and un-skilled, could be hired locally on a sub-contracting basis to meet the needs of each of the contracts.

**3.** The plant which would be needed for the Ghuzdar contract has been owned for some years and Rs.64,000 is the year's depreciation on a straight-line basis. If the Gwadar contract is undertaken, less plant facilities will be required but the surplus plant facilities will be hired out for the period of the contract at a rental of Rs.30,000.

**4.** It is the company's policy to charge all contracts with notional interest at 8% on estimated working capital involved in contracts. Progress payments would be receivable from the contractor.

**5.** Salaries and the general costs of operating the small head quarters amount to labour Rs.540,000 each year. There are usually ten contracts being supervised at the same time.

**6.** Each of the two contracts is expected to last from May 2008 to April 2009 which coincidentally, is the company's financial year.

**7.** Site management is treated as fixed costs.

**Required:** You are required as the management accountant to:

(a) present comparative statements showing the net benefit to the company of undertaking the more advantageous of the two contracts. **15**

(b) explain the reasoning behind the inclusion to (or omission from) your comparative financial statements of each item given in the estimates and the notes (relating) thereto. **15**

**THE END**