INSTITUTE OF COST AND MANAGEMENT ACCOUNTANTS OF PAKISTAN

21st Comprehensive Examination

Saturday, the 7th July 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.

CASE # 1

Marks

A cold drink manufacturer produces and distributes cold drinks. It operates its distribution division as a cost centre. Budgeted cost for the year ending June 30, 2013 is as follows:

	Rs.
Cash operating costs	4,200,000
Depreciation on fleet of vehicles (8 x Rs.105,000)	840,000
Apportioned corporate costs	600,000
	5,640,000

Distribution division has started operation on July 1, 2011 maintaining a fleet of delivery vehicles. Each vehicle of the fleet was acquired at a cost of Rs.480,000 and had an estimated economic life of four (04) years. Salvage value of each vehicle at the ends of four years (June 30, 2015) was estimated at Rs.60,000.

A distributor which has countrywide network for the distribution of food and beverages has offered the manufacturer a 3-year distribution contract at a cost of Rs.3,900,000 per year. The contract will start from July 2012.

If the manufacturer accepts the offer, it will close its own distribution division, and will sell the delivery vehicles. Current disposal price of each vehicle is estimated at Rs.150,000. The manufacturer will avoid cash operating cost of Rs.4,200,000.

Analysts are forecasting a net profit of Rs.1,320,000 for 2012-13 as against an estimated profit of Rs.1,260,000 for 2011-12, the forecast assumes that the company will continue operation of its distribution division.

Ignore income-tax and time value of money.

Required:

(a) Tabulate a comparison of all relevant cost for next three (03) years (2012 – 13 to 2014 – 15) for the two alternatives (i) use of own distribution division (ii) use of the distributor. Recommend whether the manufacturer should accept the offer of the distributor or not. **18**

(b) Why might the manufacturer be reluctant to accept the offer of the distributor? Suitable assumptions may be made where appropriate. **12**

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CASE # 2

Marks

The common-size statement of financial position as on June 30, 2012 and income statement for the year ended June 30, 2012 of Lotus Publications are given below. Cash balance as on June 30, 2012 was Rs.20,000 and interest paid during the year 2011-12 was Rs.90,000:

Cash	5	Accounts payable	8
Marketable securities	3	Notes payable	5
Accounts receivable	9	Wages payable	2
Inventory	12	Current liabilities	15
Current assets	29	Long-term debts	30
Net fixed assets	71	Ordinary shares	30
		Retained earnings	25
Total assets	100	Total liabilities and shareholders' equity	100

Sales		100.0
Cost of goods sold		65.0
Gross profit		35.0
General, selling and administrative expenses		21.0
Operating profit		14.0
Interest	6.0	
Taxes	2.8	8.8
Net profit		5.2

Required:

(a) Prepare the statement of financial position and income statement in Rupees as of June 30, 2012 for Lotus Publications. **12**

(b) Calculate the following ratios for Lotus Publications as of June 30, 2012: **10**

• Current ratio	• Fixed-asset turnover
• Quick ratio	• Operating profit margin
• Debt-equity ratio	• Net profit margin
• Times interest earned	• Return on assets
• Average collection period	• Return on equity
• Inventory turnover	

(c) What does each of the following ratios indicate? Mention in one or two sentences only. (Methods of calculations are not required). **08**

(i) Current ratio
(ii) Debt-equity ratio
(iii) Times interest earned
(iv) Average collection period
(v) Inventory turnover
(vi) Fixed-asset turnover
(vii) Operating profit margin
(viii) Price earning ratio

THE END