



23rd Comprehensive Examination

Saturday, the 17th November 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.

CASE # 1

Marks

ABC Company manufactures seats for automobiles, vans, trucks, and boats. The company has a number of plants in Pakistan including a plant in Peshawar. Seat covers made of upholstery fabric are sewn at the Peshawar plant.

The plant manager also serves as the regional production manager for the company. His budget as the regional manager is charged to the plant.

ABC Company has received a bid from an outside vendor to supply the equivalent of the entire annual output of the plant for Rs. 42 million. Plant manager was astonished at the low bid from outside because the budget for plant's operating costs for the coming year was set at Rs. 48.6 million. If this offer is accepted, the plant will be closed down.

The budget for the plant's operating costs for the coming year is presented below:

Annual Budget for Operating Costs

	Amount in Rs.
Materials	16,000,000
Labour:	
Direct	13,400,000
Supervision	800,000
Indirect plant	3,800,000
	18,000,000
Overhead:	
Depreciation – equipment	2,600,000
Depreciation – building	4,200,000
Pension expense	3,200,000
Plant manager and staff salaries	1,200,000
Corporate expenses*	3,400,000
	14,600,000
Total budgeted costs	48,600,000

* Fixed corporate expenses allocated to plants and other operating units based on total budgeted wage and salary costs.

Additional facts regarding the plant's operations are as follows:

- Purchase orders for bulk quantities have been placed with major suppliers to ensure the receipt of sufficient materials for the coming year. If these orders are cancelled as a consequence of the plant closing, termination charges would amount to 25% of the cost of direct materials.

- Approximately 350 employees will lose their jobs if the plant is closed. This includes all of the direct labourers and supervisors, management and staff, and other skilled workers classified as indirect plant workers. Nearly all the production workers would have difficulty in matching the Peshawar plant's base pay of Rs. 25 per hour, which is the highest in the area. A clause in contract with the union may help some employees; the company must provide employment assistance and job training to its former employees for 12 months after the plant is closed. The estimated cost to administer this service would be Rs. 1.6 million.
- Some employees would probably choose early retirement because ABC Company has an excellent pension plan. In fact, Rs. 1.4 million of the annual pension expense would continue whether the plant is open or not.
- Plant manager and his regional staff would not be affected by closing of the plant. They would still be responsible for running three plants in other areas.
- If the plant were closed, the company would realize around Rs. 4 million salvage value for the equipment in the plant. If the plant remains open, there are no plans to make any significant investment in new equipment or buildings. The old equipment is adequate for the job and should last indefinitely.

Required:

- (a) Ignoring the costs, identify the advantages to ABC Company of continuing to obtain seat covers from its own Peshawar plant. **04**
- (b) ABC Company plans to prepare a financial analysis that will be used in deciding whether or not to close the plant. Management has asked you to workout the following:
- (i) The annual budgeted costs that are relevant to the decision regarding closing the plant. **05**
- (ii) The annual budgeted costs that are not relevant to the decision regarding closing the plant and explain why they are not relevant. **09**
- (iii) Any nonrecurring costs that would arise due to the closing of the plant and explain how they would affect the decision. **04**
- (c) Looking at the data you have prepared in (b) above, should the plant be closed? Show computations to support your answer. **05**
- (d) Identify any revenues or costs not specifically mentioned in this case that ABC Company should consider before taking a decision. **03**

CASE # 2

The following information and ratios for the year ended June 30, 2012 of a competitor are available to the management of your company who desires to prepare financial statements on the bases of these information:

Current assets to stock	3:2	Stock turnover ratio	5.0
Current ratio	3.0	Fixed asset turnover ratio	1.2
Acid test ratio	1.0	Total liabilities to net worth	2.75
Financial leverage	2.2	Net working capital (Rs.)	200,000
Earnings per share (Rs.)	10	Net profit to sales	10%
Book value per share (Rs.)	40	Variable cost	60%
Average collection period (days) (assume 360 days in the year)	30	Long-term loan interest	12%
		Taxation	Nil

Required:

Prepare income statement and balance sheet for the year ended and as on June 30, 2012 respectively.

30**THE END**