



Time Allowed: 2 Hours

Maximum Marks: 60

Roll No.:

- (i) Attempt both the cases 1 and 2 carrying 30 marks each.
- (ii) **Answers must be neat, relevant and brief.**
- (iii) Use of non-programmable scientific calculator of any model is allowed.
- (iv) Read the instructions printed on the top cover of answer script CAREFULLY before attempting the paper.
- (v) 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.
- (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

Mr. Shakeel has recently opened the Comfort Shoe Store, specialized in selling fashionable shoes. Mr. Shakeel has completed a course in management accounting and believes that various concepts and techniques of management accounting may be applied to make his business more profitable. He is particularly interested in adopting the cost-volume-profit (CVP) approach to decision making. For this purpose, he extracted the following data:

	<b>Rupees</b>
Sales price per pair of shoes	2,000
Variable expenses per pair of shoes	800
Contribution margin per pair of shoes	1,200
Fixed expenses per year:	<b>Rs. '000'</b>
Building rental	12,000
Equipment depreciation	3,000
Selling	30,000
Administrative	15,000
Total fixed expenses	60,000

#### Required:

- (a) Calculate the number of pairs of shoes that must be sold to break-even. What does this represent in total amount of sales in rupees? 06
- (b) Prepare a CVP graph for the store from a zero level of activity to 70,000 pairs of shoes sold per year. Indicate the break-even point on the graph. 07
- (c) How many pairs of shoes must be sold to earn a target profit of Rs. 9,000,000 for the first year? 04
- (d) Mr. Shakeel now has full-time and part-time salespersons working in the store. It will cost him an additional Rs. 8,000,000 per year to convert the part-time positions to full-time positions. Mr. Shakeel believes that the change would bring in an additional sales of Rs. 20,000,000 per year. Should he convert the positions of salespersons from part-time to full-time? Use the incremental approach. (Do not prepare income statement) 04

(e) Refer to the original data, actual operating results for the first year are as follows:

	Rs. '000'
Sales	125,000
Less: Variable expenses	50,000
Contribution margin	75,000
Less: Fixed expenses	60,000
Net operating income	15,000

- (i) Calculate margin of safety in rupees and in percentage. 04
- (ii) Calculate the degree of operating leverage. 03
- (iii) Mr. Shakeel is confident that with some effort he can increase sales by 20% next year. What would be the expected percentage increase in net operating income? Use the degree of operating leverage concept to compute your answer. 02

### CASE # 2

Mr. Qaisar Khan has acquired a space in the centre of the city and started business, namely Khan Sports. Business has been good but Mr. Qaisar frequently faced cash problem. This situation caused late payments on certain orders, which, in turn, created problems with suppliers. Mr. Qaisar desires to maintain the moderate level of liquidity for its day-to-day working capital requirement and meeting the contingencies. To assess and maintain the desired liquidity, financial controller decided to prepare cash budget and compiled the following information:

(i) Sales, actual and estimated, are as under:

Month	Rs. '000'	Month	Rs. '000'
July 2013	4,950	December 2013	3,300
August 2013	5,775	January 2014	4,950
September 2013	6,600	February 2014	4,125
October 2013	2,475	March 2014	3,300
November 2013	3,300	April 2014	4,950

- (ii) Sales are 25% for cash and 75% for credit.
- (iii) Collections against credit sales are:
  - 70% in the month after the sale,
  - 20% in the second month, and
  - 10% in the third month.
- (iv) Bad debt losses are insignificant.
- (v) Cash purchases of goods are 80% of the following month's anticipated sales.

(vi) Wages and salaries (Rupees) for the period from October 2013 to March 2014 are as under:

October	November	December	January	February	March
495,000	660,000	825,000	825,000	660,000	577,500

(vii) Rent is Rs. 33,000 per month.

(viii) Interest of Rs. 123,750 is due at the end of each calendar quarter.

(ix) A tax prepayment amounting to Rs. 825,000 on the income of 2014 is due in January 2014.

(x) A capital investment of Rs. 495,000 is planned in March 2014.

(xi) The company shall have a cash balance of Rs. 1,650,000 as at September 30, 2013 which is the minimum desired level for cash. Funds must be borrowed in multiples of Rs. 82,500 on monthly basis. Borrowings taking place at the beginning of the month and repayments are made at the end of the month. Interest @ 12% per annum is paid at the time of repayment of the principal and computed on the portion of principal repaid at that time.

**Required:**

Prepare cash budget for the six months from October 2013 to March 2014 of Khan Sports.

**30**

**THE END**