

INSTITUTE OF COST AND MANAGEMENT ACCOUNTANTS OF PAKISTAN



10th Comprehensive Examination

Sunday, the 22nd November 2009

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.
- (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.

CASE # 1

Karex Company Limited manufactures a product called Maxol in addition to other products by using the same machines in mixing and blending departments. The cost data are as under:

- Direct Material:
 - Pentol 4 kg @ Rs.30 per kg used in Mixing Deptt.
 - Mentol 8 kg @ Rs.12.50 per kg added in Blending Deptt.
- Direct Labour:
 - 2 hours @ Rs.20 per hour in Mixing Deptt.
 - 3 hours @ Rs.15 per hour in Blending Deptt.
- Overheads:

	<u>Mixing Deptt.</u>	<u>Blending Deptt.</u>
Bases of overheads recovery	Per rupee of Material Pentol	Per labour hour
Recovery rates at 80% of practical capacity:	Rs.	Rs.
Variable	4.00	10.00
Fixed	11.00	15.00
<u>Depreciation component of fixed overhead rate</u>	4.00	0.50

- Other relevant data:

Plant and equipment (net)	35 million	0.6 million
Total depreciation per month	400,000	5,000

PTO

The working capital requirement of product Maxol based on a target output of 1,000 unit per month is estimated at Rs.620,000.

Required:

- (a) Indicate the bottom line selling price of production Maxol assuming that:
- (i) Price is adequate to ensure contribution equivalent to 30% on investment made. 25
- (ii) The product is a new product about to be introduced in market. 02
- (b) Calculate the selling price in a situation where product is well established in the market so as to yield return of 18% on investment. 03

CASE # 2

Construct a common-size balance sheet of Jet Electro for the year 2008-09 and compare it with the common-size balance sheet for the industry as given below:

	Rs. In million		
	Jet Electro		Industry
	Amount	%	%
Cash	20	---	4.5
Marketable securities	8	---	5.0
Accounts receivable (net)	22	---	3.2
Inventory	18	---	2.5
Prepaid expenses	2	---	0.6
Total current assets	70	---	15.8
Plant and equipment (net)	366	---	84.2
Total assets	436	---	100.0
Accounts payable	16	---	6.2
Salaries & wages payable	4	---	2.0
Notes payable	30	---	3.3
Taxes payable	4	---	0.8
Other payable	4	---	0.9
Total current liabilities	58	---	13.2
Long-term debt	120	---	27.7
Deferred taxes	6	---	1.3
Total long-term liabilities	126	---	29.0
Ordinary shares	84	---	18.1
Additional paid-in capital	76	---	19.1
Retained earnings	92	---	20.6
Total shareholders equity	252	---	57.8
Total liabilities and shareholders' equity	436	---	100.0

Required:

- (a) Identify the accounts which have been deviated from the industry norm. 18
- (b) Are these deviations necessarily undesirable? Discuss the reasons for these deviations. 12

THE END