INSTITUTE OF COST AND MANAGEMENT ACCOUNTANTS OF PAKISTAN

9th Comprehensive Examination

Sunday, the 9th August 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

Marks

A manufacturer produces 7,500 units per month. Due to increase in demand and consequent extension of delivery dates and dissatisfaction among customers, the management decided to increase the output to 11,500 units per month in the next year (against anticipated demand of 14,500 units). Given below is the data of per unit costs and sales value on the basis of current production level of 7,500 units:

	Rs.	Rs.
Direct material	180	
Direct labour	120	
Fixed overhead (Rs.1,200,000)	160	
Variable overhead	240	700
Selling and distribution expenses:		
Fixed (Rs.480,000)	64	
Variable	90	154
General administrative expenses (fixed Rs.1,440,000)	192	
Profit margin	30	222
Sales value		1,076

PTO

Marks

If the proposal to increase in output is adopted, then following changes are expected:

- Additional capital outlay of Rs.3,600,000 would be required on which financial charges would amount to 10% per annum.
- There will be an increase of 25% in fixed overheads.
- An increase of 20% in fixed selling and distribution expenses is expected.
- 10% increase in general administrative expenses is also expected besides the financial charges.
- In the coming year there will be an increase of 5% in different items of expenses, except fixed expenses irrespective of the production level.
- If it is decided to maintain the present level of sales, an increase of 2% in sales price is possible and impact of this increase should be taken for the level of production at 7,500 units per month.

Required:

Prepare a comparative (total and per unit) cost statement showing anticipated margin of profit for the present output of 7,500 units and proposed output of 11,500 units. **30**

CASE # 2

The balance sheet as at June 30, 2009 and income statement for the year ended June 30, 2009 of a firm are given below for using their figures as per requirement:

Balance Sheet

ASSETS	Rs.	LIABILITIES AND SHAREHOLDERS' EQUITY	Rs.
Cash	500,000	Notes payable, bank	2,000,000
Accounts receivable	2,500,000	Accounts payable	1,000,000
Inventory	3,500,000	Accrued wages and taxes	1,000,000
Fixed assets, net	8,500,000	Long-term debt	6,000,000
		Preference shares capital	2,000,000
		Ordinary shares capital	1,000,000
		Retained earnings	2,000,000
Total assets	15,000,000	Total liabilities & shareholders' equity	15,000,000

Income Statement

	Rs.	Rs.
Net sales:		
Credit		8,000,000
Cash		2,000,000
Total		10,000,000
Cost and Expenses:		
Cost of goods sold	6,000,000	
Selling, general and administrative expenses	1,100,000	
Depreciation	700,000	
Interest	600,000	8,400,000
Net income before taxes		1,600,000
Taxes on income		600,000
Net income after taxes		1,000,000
Less: Dividends on preference shares		120,000
Net income available to ordinary shareholders		880,000
Add: Retained earnings as at July 1, 2008		1,300,000
Less: Dividends paid on ordinary shares		(180,000)
Retained earnings as at June 30, 2009		2,000,000

Required:

(a) Complete the following table for use to evaluate the firm's position: **15**

RATIO	2007	2008	2009	INDUSTRY NORMS
1. Current ratio	250%	200%	....	225%
2. Acid-test ratio	100%	90%	....	110%
3. Receivable turnover	5.0	4.5	....	6.0
4. Inventory turnover	4.0	3.0	....	4.0
5. Long-term debt/ total capitalization	35%	40%	....	33%
6. Gross profit margin	39%	41%	....	40%
7. Net profit margin	17%	15%	....	15%
8. Return on equity	15%	20%	....	20%
9. Return on investment	15%	12%	....	12%
10. Total asset turnover	0.9	0.8	....	1.0
11. Interest coverage ratio	5.5	4.5	....	5.0

PTO

Marks

(b) Evaluate the position of the company using information from the table worked out in (a) above. Refer specific ratio levels and trends as evidence. **6**

(c) Indicate which ratios would be of most interest to you and what your decision would be in each of the following situations:

(i) The firm wants to buy goods from you on 90 days credit valuing Rs.250,000. **2**

(ii) The firm wants you being a large insurance company, to pay off its note at the bank and assume it on a 10-year maturity basis at a current rate of 14%. **5**

(iii) There are 100,000 shares outstanding, and the stock is selling for Rs.40 a share. The company offers you 50,000 additional shares at this price. **2**

THE END