SUGGESTED SOLUTION

CA INTERMEDIATE NOV'19

SUBJECT- COSTING & FM

Test Code - CIM 8300

BRANCH - () (Date :)

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ANSWER-1

(i) Contract Account

Particulars	(Rs.'000)	(Rs.'000)	Particulars	(Rs.'000)	(Rs. '000)
To Material purchased		6,800	By Material returned		150
To Direct wages	3,450		By work – in – progress:		
Less : Prepaid wages	(50)	3,400	Value of work certified (Rs. 9,440 ÷ 0.8)	11,800	
To Salaries	200		Cost of work uncertified	500	
Add : Outstanding	100				12,300
		300	" Material stolen at Site		50
" Depreciation on Plant		75	" Material at site		175
{(Rs. 1,200 × 15%) × (5 ÷ 12)}					
" Costing P & L A/c. (Notional profit) (bal. figure)		2,100			
		12,675			12,675

(6 marks)

(ii) Balance Sheet (extract) as on 31st March, 2018

Liabilities		(Rs.'000)	Assets		(Rs.'000)
Capital			Plant at site		1,125
Add : Notional Profit	2,100		Work in Progress		
Outstanding Salary		100	Work certified	11,800	
			Work uncertified	500	
				12,300	
			Cash & Bank (in transit)	9,440	2,860
			Prepaid Direct wages		50
			Material at site		175

(4 marks)

ANSWER-2

(i) $$\frac{\text{Fixed Assets}}{\text{Total Current Assets}} = \frac{5}{7}$$

$$\text{Or, Total Current Assets} = \frac{\text{Rs.}40,00,000 \text{ x } 7}{5} = \text{Rs.}56,00,000$$

(ii) $$\frac{\text{Fixed Assets}}{\text{Capital}} = \frac{5}{4} \qquad \text{Or, Capital} = \frac{\text{Rs.}40,00,000 \text{ x } 4}{5} = \text{Rs.}32,00,000$$

(iii) $$\frac{\text{Capital}}{\text{Total Liabilities*}} = \frac{1}{2} = \quad \text{Or, Total liabilities} = \text{Rs. } 32,00,000 \times 2 = \text{Rs. } 64,00,000$$

*It is assumed that Total liabilities does not include capital.

(iv) $\frac{\text{Net Profit}}{\text{Capital}} = \frac{1}{5}$ = Or, Net Profit = Rs. 32,00,000 × 1/5 = Rs. 6,40,000

(v) $\frac{\text{Net Profit}}{\text{Sales}} = \frac{1}{5}$ = Or, Sales = Rs. 6,40,000 × 5 = Rs. 32,00,000

(vi) Gross Profit = 25% of Rs. 32,00,000 = Rs. 8,00,000

(vii) Stock Turnover = $\frac{\text{Cost of Goods Sold (i.e. Sales - Gross Profit}}{\text{Average Stock}} = 10$

$= \frac{\text{Rs.32,00,000-Rs.8,00,000}}{\text{Average Stock}} = 10$

Or, Average Stock = Rs. 2,40,000 Or, $\frac{\text{Opening Stock + Rs.4,00,000}}{2} = \text{Rs.2,40,000}$

Or, Opening Stock = Rs. 80,000 **(4 marks)**

Trading Account

Particulars	**(Rs.)**	**Particulars**	**(Rs.)**
To Opening Stock To Manufacturing exp./ Purchase (Balancing figure)	80,000 27,20,000	By Sales	32,00,000
To Gross Profit b/d	8,00,000	By Closing Stock	4,00,000
	36,00,000		**36,00,000**

(2 marks)

Profit and Loss Account

Particulars	**(Rs.)**	**Particulars**	**(Rs.)**
To Operating Expenses (Balancing figure) To Net Profit	1,60,000 6,40,000	By Gross Profit c/d	8,00,000
	8,00,000		**8,00,000**

(1 mark)

Balance Sheet

Capital and Liabilities	**(Rs.)**	**Assets**	**(Rs.)**
Capital Liabilities	32,00,000 64,00,000	Fixed Assets Current Assets: Closing Stock Other Current Assets (Bal. figure)	40,00,000 4,00,000 52,00,000
	96,00,000		**96,00,000**

(3 marks)

ANSWER-3

A.

Cost control	Cost Reduction
1. Cost control aims at maintaining the costs in accordance with the established standards.	1. Cost reduction is concerned with reducing costs. It challenges all standards and endeavours to better them continuously.
2. Cost control seeks to attain lowest possible cost under existing conditions.	2. Cost reduction recognises no condition as permanent, since a change will result in lower cost.
3. In case of cost control, emphasis is on past and present	3. In case of cost reduction, it is on present and future.
4. Cost control is a preventive function	4. Cost reduction is a corrective function. It operates even when an efficient cost control system exists.
5. Cost control ends when targets are achieved.	5. Cost reduction has no visible end.

(5 marks)

B.

(i) **Controllable costs :** Cost that can be controlled, typically by a cost, profit or investment centre manager is called controllable cost. Controllable costs incurred in a particular responsibility centre can be influenced by the action of the executive heading that responsibility centre. For example, direct costs comprising direct labour, direct material, direct expenses and some of the overheads are generally controllable by the shop level management. **(2.5 marks)**

(ii) **Uncontrollable Costs -** Costs which cannot be influenced by the action of a specified member of an undertaking are known as uncontrollable costs. For example, expenditure incurred by, say, the tool room is controllable by the foreman in – charge of that section but the share of the tool – room expenditure which is apportioned to a machine shop is not to be controlled by the machine shop foreman. **(2.5 marks)**

ANSWER-4

Particulars		Rs.	Particulars	Rs.
To Materials issued		90,000	By Material sold	18,125
To wages paid	75,000		By plant sold	2,875
Add : Outstanding	6,250	81,250	By plant at site c/d	7,750
To plant		25,000	By Material at site c/d	4,250

To sundry expenses 7,250 Less : Prepaid 625	6,625	By work – in – Progress c/d Work certified 2,18,750 (Rs. 1,75,000 ÷ 80%)	
To Establishment charges	14,625		
To costing P & L A/c. (Rs. 18,125 – Rs. 15,000)	3,125	Work uncertified 27,375	2,46,125
To Notional Profit (Profit for the year	58,500		
	2,79,125		**2,79,125**

(5 marks)

Calculation of Estimated Profit

			Rs.	**Rs.**
1)	Material consumed	(90,000 + 3,125 – 18,125)	75,000	
	Add: Further consumption		85,750	1,60,750
2)	Wages:		81,250	
	Add : Further cost	(87,325 – 6,250)	81,075	
	Add : Outstanding		8,300	1,70,625
3)	Plant used	(25,000 – 2,875)	22,125	
	Add: Further plant introduced		31,250	
	Less : Closing balance of plant		(3,750)	49,625
4)	Establishment charges		14,625	
	Add : Further charges for nine months	(14,625× 9/12)	10,969	25,594
5)	Sundry expenses		7,250	
	Add : Further expenses		6,875	14,125
6)	Reserve for contingencies			10,800
	Estimated profit	(balancing figure)		68,481
	Contract price			5,00,000

(5 marks)

ANSWER-5

1. Dividend yield on Ordinary shares:

Dividend per share = 20% of paid-up value.

= Rs.20

therefore, Dividend yield = (DPS/Market Price) x 100

= (.20/4) x 100 = 5%

2. Cover for Preference and Equity Dividends:

(a) Pref. Div. cover	= PAT/Pref. Div.
	= Rs. 5,42,00/42,000 = 12.9 times
(b) Eq.Div. cover	= (PAT-Pref. Div.)/Equity Dividend
	= Rs.5,00,000/3,20,000 = 1.56 times

3. Earning Yield = EPS/Market Price

= (Rs.5,00,00/Rs.16,00,000) / Rs.4

= 7.8%

4. Price/Earnings Ratio = Market price/EPS

= Rs.4/.31 =12.9

5. Net Cash Flow:

Profit after Tax	5,42,000
+ Depreciation	1,20,000
- Dividends on Pref. Shares	42,000
- Dividend on Equity shares	3,20,000
Net Cash Flow	3,00,000

(2 marks x 5 = 10 marks)