

December 11, 2002

MANAGEMENT ACCOUNTING
PE-2 Paper 1

(MARKS 100)
(3 hours)

- Q.1(a) Distinguish between the sales value at split-off method and estimated net realizable value method of allocating joint costs. (04)
- (b) Give three reasons why the sales value at split-off point method is preferred for allocating joint costs. (03)
- (c) ABC Ltd. produces two joint products, COCO and SODA. A further product, CRUST, is also made as a by-product of one of the processes for making SODA. Each product is sold in bottles of one litre capacity.

It is now December 2002. You are a cost accountant for ABC Ltd. You have been instructed to allocate the company's joint costs for the year October 2001 to September 2002 between COCO and SODA, but not to the by-product CRUST.

During the year, 2 million litres of a raw material, Neckter, costing Rs 3 million were processed in Department Alpha with no wastage. The processing costs were Rs 1.675 million.

50% of the output of Department Alpha was unfinished COCO, for which there was no external market. It was transferred to Department Beta, where it was further processed at an additional cost of Rs 8.1 million. Normal wastage by evaporation was 16% of the input of unfinished COCO. The remaining good output of finished COCO was sold for Rs 10 per litre in the outside market.

The other 50% of the output from the joint process in Department Alpha was in the form of processed Neckter. It was all transferred to Department Gamma, as there was no outside market for processed Neckter. In Department Gamma it was further processed, with no wastage, at cost of Rs 30.9 million.

72% of the output of Department Gamma was in the form of unfinished SODA, for which there was no external market. It was transferred to Department Delta, where it was subjected to a finishing process at a further cost of Rs 719,000. Normal spoilage of 16 2/3% of the input to the finishing process was observed. The spoiled material was disposed off without charge, as effluent. The remaining finished SODA was sold in the outside market for Rs 60 per litre.

The remaining 28% of the output of Department Gamma was in the form of finished CRUST, the by-product. It was sold in outside market for Rs 8 per litre, but due to its dangerous nature special delivery costs of Rs 70,000 were incurred in respect of it.

Required:

- i. To allocate the appropriate joint costs between COCO and SODA on the basis of relative sales value, treating net realizable value of CRUST as an addition to the sales value of SODA. (06)
- ii. To prepare a statement showing profit or loss attributed to each of three products and the total profit or loss for the year on basis of the information above and allocating joint

(3)

- Q.4 (a) In a recent meeting of the board of directors of Rohsan Limited, the chairman proposed the acquisition of Ujala Limited. During his presentation the chairman stated that ‘As a result of this takeover we will diversify our operations and our earnings per share will rise by 13 per cent, bringing great benefits to our shareholders’.

No bid has yet been made, and Roshan Limited currently owns only 2 per cent of Ujala Limited.

A bid would be based on a share-for share exchange, which would be one Roshan Limited share for every six Ujala shares. Financial data for the two companies include:

	Rs in million	
	Roshan	Ujala
Turnover	560	420
Profit before tax	120	100
Profit available to ordinary shareholders	78	65
Dividend	32	34
Retained earnings	<u>46</u>	<u>31</u>
Issued ordinary share (Rs in million)	200	150
Market price per share (Rs.)	320	45
Par value per share (Rs.)	50	10

Required:

- (i) Explain whether you agree with the chairman of Roshan Limited when he says that the takeover would bring ‘great benefits to our shareholders’. Support your explanation with relevant calculations. State clearly any assumption that you make. (11)
- (ii) On the basis of information provided, calculate the likely post-acquisition share price of Roshan Limited if the bid is successful. (04)
- (b) State the circumstances under which dilution of earnings per share might be acceptable as the result of takeover or merger. (05)

Q.5 Briefly explain the following:

- (a) Decision Support System (03)
- (b) Expert System (03)
- (c) Difference between intranet and extranet (03)

- Q.6 (a) Define the term Business Process Reengineering (BPR) and the main stages of BPR. (03)
- (b) How can Information Technology be used in BPR? (03)

(4)

- Q.7 PDQ Ltd. is an unquoted company aiming for a stock exchange listing. Its directors have commissioned a firm of consultants to conduct a wide-ranging review of the company's public image and market position. Although this is not predominantly a financial review, the consultants need to examine the company's financial performance. The company has the following summary information for the last five years.

	Year 1	Year 2	Year 3	Year 4	Year 5
	Rs. in million				
Turnover	51.2	58.3	63.9	75.2	78.2
Cost of sales	20.5	22.2	24.3	30.1	30.5
Salaries/wages	15.4	16.8	17.2	15.8	15.2
Other costs	6.1	7.9	9.9	16.3	17.9
Profit before interest and tax	9.2	11.4	12.5	13.0	14.6
Interest	1.5	1.6	1.3	0.3	0.2
Tax	2.5	3.2	3.7	4.2	4.8
Profit after interest and tax	5.2	6.6	7.5	8.5	9.6
Dividend payable	2.1	2.6	3.0	3.4	4.8
Average debtors	10.5	11.7	13.3	14.8	15.2
Average creditors	3.8	4.2	5.1	6.7	6.9
Shareholders' fund	26.3	30.2	34.7	59.8	64.6
Long-term debt	15.0	15.0	12.0	3.5	2.5
No. of shares in issue (millions)	6.0	6.0	6.0	8.0	8.0
P / E ratio:					
* Company	8.0	8.5	9.0	9.2	9.5
* Industry	8.5	9.0	9.1	9.0	9.1
No. of employees	1,720	1,750	1,820	1,720	1,690
Average total assets	41.2	45.2	46.7	63.3	67.1

Notes

- Each P/E ratio is the average for the year.
- The increased equity in year 4 was the result of a 1-for-3 rights issue at Rs 10 per share, which took place at the beginning of the year. Some of the money raised was used to reduce debt.

For the past five years, PDQ Ltd. has stated its objectives as: 'To maximize shareholder wealth whilst recognizing the responsibility of the company to its other stakeholders',

As one of the consultants working on this assignment, you have been asked to assess whether the company has achieved its objectives in the five-year period under review and to discuss the key factors, which have determined your assessment.

Required:

- Discuss whether the company has met its objectives, based solely on the information available. (14)
- Explain what other financial information you would need in order to provide your client with a more accurate assessment. (05)

(THE END)