

## TTL365 COSTING AND ITS APPLICATION TO TEXTILES

Major (08-05-2007)

### Part I

- 1) Briefly discuss the economics of Under-spinning. (3)
- 2) How do purchase of inventory on credit, bank overdraft paid through the issue of debentures and issue of fresh equity shares affect the working capital? (3)
- 3) How do the factors end breakage rate, yarn count (English) and condition of machine affect the work load allocation of ring frame tender? (3)
- 4) Comparing two industries engaged in different manufacturing activities for net profit margins often misleads while overall profitability is a good measure. Comment on this. (3)
- 5) A mill of 60,000 spindles is balanced for 40s Ne. Due to market situation, it is forced to produce 20s, 30s and 60s. Suggest the spindle allocation for the new product mix. The production rates per 8 spindle hours for 20s, 30s, 40s and 60s are 250, 160, 120 and 65 g respectively (3)
- 6) The following financial data is available for a company. What is the acid test ratio of the company? (3)

Items	Rs
Share capital	1,00,00,000
Outstanding 10 year loan	5,00,00,000
Bills payable	3,00,000
Cash	50,00,000
Creditors	25,00,000
Inventory	75,00,000
Marketable securities	12,00,000
Bank overdraft	10,00,000
Debtors	25,00,000
Pre-paid expenses	5,00,000
Mortgages	20,00,000
Tax payable	12,00,000
Book value of machines	10,00,00,000

- 7) The share capital of the company was Rs 1,00,00,000 with paid up value of Rs. 10 per share as on Feb 2006. The company issued bonus shares in the ratio of 1:2 (one for every 2 held) with effect from April 1st 2006. In the year 2006-2007, the PBT of the company was Rs 40, 00,000. The corporate tax is 25%. Mr. Swain bought 10 shares of the company for Rs. 1000 on Dec 2006 and sold them for Rs 1500 on April 2007. What is PE ratio on the day of selling? (3)

## Part II

- 8) How does increase of spindle speed of ring frame affect the cost of production? Discuss the issue in terms of the factors involved. (6.3)
- 9) Compare the two companies for their efficiency in managing the finances (6.3)

	A	B
Sales turnover, RsRs	1,00,00,000	1,00,00,000
Total purchase,	75,00,000	60,00,000
% of sales on credit	60	60
% purchase by credit	40	50
Opening Debtors, Rs	7,00,000	15,00,000
Opening creditors, Rs	15,00,000	18,00,000
Ending debtors, Rs	13,00,000	25,00,000
Ending creditors, Rs	5,00,000	12,00,000

- 10) The operating results of a weaving company are summarized below:

	Rs. Lakhs
Sales (40,000 m)	48.00
Less trade discount	2.40
Net sales	45.60
Cost of direct materials	14.40
Cost of direct labour	12.60
Factory overhead	6.30
Administrative expenses	3.60
Selling expenses	4.50

During next year the anticipations are that units sold to increase by 25%; material price to increase by 15%; direct wages to increase by 12%; Factory Overheads will be limited to Rs 6.56 lakhs; Administrative and selling expenditures are estimated to increase by 8% and 14% respectively. In both the years there are no closing inventories of fabrics. It is expected that there is no change in trade discount rate. The targeted PBT is Rs 6 lakhs. Find the unit selling price and present the budgeted operating results for the next year. (6.3)