INTERMEDIATE EXAMINATION

December 2014 *I–P8(CMA)*

Syllabus 2008

Cost & Management Accounting

Time Allowed: 3 Hours Full Marks: 100

The figures in the margin on the right side indicate full marks.

Question No. 1 *is compulsory and answer* any five *form the rest.*

Working notes should form part of your answer.

1. (a) Match the statement in Column I with the appropriate statement in Column II: 1×5=5

Column I	*Column II*
(i) HIFO	(A) Direct Material Cost
(ii) Cost Object	(B) Labour Incentive Scheme
(iii) Standard Costing	(C) Activity Based Costing
(iv) Primary Packing Material	(D) Issue of Material
(v) Time & Motion Study	(E) Predetermined Cost

(b) State whether the following statements are 'True' or 'False': 1×5=5

(i) Idle time variance is always favourable.

(ii) Under-absorption of overhead results in higher amount of profit.

(iii) An increase in variable cost increases contribution.

(iv) What was once a by-product of an industry may become main product at a later date.

(v) Replacement cost is the cost of replacing existing assets at present or at a future date.

(c) Fill in the blanks suitably: 1×5=5

(i) If the actual output is more than the normal output, the difference between the two is _____ _____.

(ii) Under _____ _____, employees receive a constant proportion of value added.

(iii) For identifying slow moving stocks, it is necessary to compute the _____ _____ ratio.

(iv) Material usage variance is the sum of _____ and _____.

(v) Where production is as per requirement of customer, the costing method used in such industries is _____.

(d) In the following cases, one out of four answers is correct. You are required to indicate the correct answer (= 1 mark) and give brief workings (= 1 mark): 2×5=10

(i) A hospital is open for 365 days, but bed occupancy is 25 patients per day for 120 days and 20 beds occupied for another 80 days. Extra beds occupied during the year is 400. The patient-days of the hospital is

(a) 4,000 (c) 3,500

(b) 5,000 (d) 4,600

(ii) A company manufactures two products using common handling facility. The total budgeted material handling cost is ₹ 60,000. Other details are:

Particulars	Product A	Product B
Number of units produced	30	30
Material moves per product line	5	15

Under Activity Based Costing System, material handling cost to be allocated to Product A per unit is

(a) ₹ 1,000 (c) ₹ 1,500

(b) ₹ 500 (d) ₹ 2,500

(iii) A Ltd. has fixed costs of ₹ 6,00,000 per annum. It manufactures a single product which sells for ₹ 200/unit. Its contribution is to Sales ratio is 40%. A Ltd.'s break-even in units is

(a) 7,500 (c) 3,000
(b) 8,000 (d) 1,500

(iv) The following data are given for an industry using batch costing.

Annual consumption of components—2400 units
Setting up cost per batch—₹ 100
Manufacturing cost/unit—₹ 200
Carrying cost/unit—6% per annum

Economic Batch quantity would be

(a) 300 units (c) 200 units
(b) 400 units (d) 250 units

(v) A worker has a time rate of ₹ 15/hour. He has taken 48 hours to finish a job where Standard time is 60 hours. His total wages including Rowan Bonus for the week is

(a) ₹ 792 (c) ₹ 840
(b) ₹ 820 (d) ₹ 864

2. (a) State briefly the usefulness of Break-even analysis. 5

(b) A product of XYZ Ltd. Co. passes through two processes A and B. 10,000 units at a cost of ₹ 1·10 were issued to process A. Other direct expenses were as follows:

Particulars	Process A	Process B
Sundry Materials (₹)	2,000	2,000
Direct Labour (₹)	4,500	8,000
Direct Expenses (₹)	1,500	1,500

Wastage of process A was 5% and in process B 4%.

Wastage of process A was sold at ₹ 0·25 per unit and that of process B at ₹ 0·50 per unit. Overhead charges were 160% of direct labour.

Prepare Process A/c 'A' and Process A/c 'B'. 5+5=10

3. (a) Z Ltd. has two autonomous divisions: A and B with objective to maximize divisional profits. Divn. A produces X and transfer to Divn. B. B sells X in the external market after incurring processing cost (variable) of ₹ 8 per unit.

The demand of X in the external market varies with the selling price as given below:

Demand in units in a month	Selling price per unit ₹
2000	50
3000	45
4000	40

A incurs variable cost of ₹ 20 per unit of X and fixes Transfer Price at ₹ 30 per unit.

(i) Find divisional contributions and contribution of Z Ltd. at the Transfer Price of ₹ 30 per unit.
(ii) Examine how the company's profits would change if the Transfer price is changed to ₹ 25 per unit. 4+6=10

(b) What is scrap? How do you treat scrap in Cost Accounts? 5

4. (a) Gupta Enterprises is operating at 60% capacity level producing and selling 60,000 units @ ₹ 100 per unit. Other relevant particulars are given below:

	Cost per unit (₹)
Material	40
Conversion Cost (variable)	20
Dealer's margin (10% of sales)	10

Fixed cost for the period is ₹ 12,00,000.

As there is a stiff competition, it is not possible to sell all the products at the existing cost price structure. The following alternative proposals are considered:

First proposal (i) Decrease selling price by 20%.

Second proposal (ii) Increase dealers' margin from 10% to 20%.

Select the better alternative.

Also calculate the sales volume required to maintain the same amount of profit under the alternative, which is considered better assuming that volume of sales will not be a limiting factor under such an alternative.

Also assume that fixed cost will remain constant. 3+3+2+2=10

(b) Write short notes on application of marginal costing in fixing selling price in the short run. 5

5. (a) Zed Manufacturing Co. Ltd. submits the following information:

(i) The units to be sold during six months ended December, 2012:

July	5,600
August	8,300
September	10,200
October	9,500
November	9,200
December	9,800

(ii) Expected sales for January, 2013—6,400 units,

(iii) Stock of finished goods at the begining of July, 2012—3,800 units.

(iv) Stock of finished goods (units) at the end of each month will be equal to 25% of the sales units of that month plus 25% of the sales units of the next month.

(v) There will be no opening or closing work in progress.

(vi) Direct material cost per unit ₹ 15. Direct labour cost per unit ₹ 10 and overhead 150% of direct labour.

Based on the above information prepare monthly production budget for each of the months ended December, 2012.

Also prepare production cost budget for the said six months period. 4+4+2=10

(b) Mention the prerequisites for implementation of Budgetary Control System. 5

6. (a) Nanu Bank operated for years under the assumption that profitability can be increased by increasing rupee volumes. But that has not been the case. Cost analysis has revealed the following:

Activity	Activity Cost (₹)	Cost/Activity Driver	Activity Capacity Used		
			Checking Accounts	Personal Loans	Gold Visa
(i) Providing ATM Services	5,50,000	No. of transactions	2,80,000	Nil	1,60,000
(ii) Computer Processing	55,00,000	No. of transactions	35,00,000	5,00,000	10,00,000
(iii) Issuing Statements	44,00,000	No. of transactions	14,00,000	2,00,000	6,00,000
(iv) Customer Inquires	19,80,000	Telephone Calls	8,50,000	2,34,000	5,00,000
Units of product			1,50,000	25,000	40,000

You are required to

(i) Calculate cost driver rates for each activity.

(ii) Calculate the cost of per unit for each product-checking Accounts, Personal Loans and Gold Visa, by using the cost driver rates computed in above (i). 4+6=10

(b) What are the objectives of Standard Costing technique? 5

7. (a) A company manufactures an Engineering product utilising 90% capacity and produces 10800 units at a selling price of ₹ 500 per unit.

The following per unit Cost data are given:

	(₹)
Raw Materials	200
Direct Labour Cost	60
Variable Overhead	40
Variable Factory Overhead	40
Dealers commission	20% on selling price
Fixed Cost	5,50,000 per annum

The company was able to sell the entire products in the market to meet the demand of Local customers. Local market demand was for 10,800 units only.

Now, one of the dealers is willing to purchase additional 1200 units provided selling price is reduced to ₹ 400 per unit and he is also willing to sacrifice 50% of his normal commission. Since the company has balance capacity of 10%, Management has expressed willingness to consider the proposal. Fixed costs will remain unaltered.

Management wants your views about the proposal. 4+4+2=10

(b) State the tools and techniques which are normally used for cost reduction. 5

8. Write short notes on *any three* of the following: 5x3=15

(a) Group Bonus Plan

(b) Cost Plus Contract

(c) Operating Costing

(d) Material Control

(e) Supply Chain Analysis