

## **Paper 8- Cost Accounting**

**Paper 8 - Cost Accounting**

Full Marks :100

Time allowed: 3 hours

**Question No 1 is Compulsory. Answers any five Questions from the rest.  
Working Notes should form part of the answer.**

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

Column I	Column II
1. Direct Labour rate variance	A. Sales Value
2. Advertisement	B. CAS 14
3. Inherent features of process industry	C. Automobile garages
4. Pollution Control Cost	D. Work in progress
5. Job costing is used in	E. (Standard Rate minus Actual Rate) x Actual hour

**(b) Choose the correct answer from the given four alternatives: [1 x10=10]**

- (i) What is prime cost
- A. Total direct costs only
  - B. Total indirect costs only
  - C. Total non-production costs
  - D. Total production costs
- (ii) Cost Price is not fixed in case of
- A. Cost plus contracts
  - B. Escalation clause
  - C. De escalation clause
  - D. All of the above
- (iii) The technique of differential cost is adopted when
- A. To ascertain P/V ratio
  - B. To ascertain marginal cost
  - C. To ascertain cost per unit
  - D. To make choice between two or more alternative courses of action
- (iv) Job costing is used in
- A. Furniture making
  - B. Repair shops
  - C. Printing press
  - D. All of the above
- (v) The allotment of whole items of cost of centres or cost unit is called
- A. Cost allocation
  - B. Cost apportionment
  - C. Overhead absorption
  - D. None of the above
- (vi) Direct material is a –
- A. Adiministration Cost
  - B. Selling and Distribution cost

## Postal Test Paper\_P8\_Inter\_Syllabus 2016\_Set 3

---

- C. All of these
- D. None of these

(vii) Standards cost is used

- A. To ascertain the breakeven point
- B. To establish cost-volume profit relationship
- C. As a basis for price fixation and cost control through variance analysis.
- D. As a basis for price flexuation and cost uncontrol through variance analysis.

(viii) A manufacturing Industry produces product P, Royalty paid on sales is ₹ 23,500 and design charges paid for the product is 1,500. Compute the Direct Expenses.

- A. 25,000
- B. 22,000
- C. 26,500
- D. D None of these

(ix) Cost of service under operating costing is ascertained by preparing:

- A. Cost sheet
- B. Process account
- C. Job cost sheet
- D. Production account

(x) Budgets are shown in ..... Terms

- A. Qualitative
- B. Quantitative
- C. Materialistic
- D. both (b) and (c)

**(c) Fill in the blanks:**

**[1×5 =5]**

- (i) If the actual loss in a process is less than the normal loss, the difference is known as \_\_\_\_\_.
- (ii) In \_\_\_\_\_ Systems, basic of wages payment is the quantity of work.
- (iii) Variable cost per unit is \_\_\_\_\_.
- (iv) The net balance of \_\_\_\_\_ represents net profit or net loss.
- (v) Standard cost is a \_\_\_\_\_ cost.

**(d) State whether the following statements are TRUE or FALSE:**

**[1×5 =5]**

- (i) CAS 9 is for Direct Expenses as issued by the Cost Accounting Standards Board (CASB) of the Institute of Cost Accountants of India.
- (ii) Sales budget, normally, is the most important budget among all budgets.
- (iii) At breakeven point, contribution available is equal to total fixed cost.
- (iv) Profit is result of two varying factors sales sales and variable cost.
- (v) Operating costing is applied to ascertain the cost of products.

## Postal Test Paper\_P8\_Inter\_Syllabus 2016\_Set 3

- 2.(a) Two fitters, a labourer and a boy undertake a job on piece rate basis for ₹1,290. The time spent by each of them is 220 ordinary working hours. The rates of pay on time-rate basis are ₹ 1.50 per hour for each of the two fitters, ₹1 per hour for the labourer and ₹ 0.50 per hour for the boy.

**Calculate:**

- (i) The amount of piece-work premium and the share of each worker, when the piece-work premium is divided proportionately to the wages paid.
- (ii) The selling price of the above job on the basis of the following additional data:  
Cost of Direct Material ₹ 2010, Works overhead at 20% of prime cost, Selling Overhead at 15% of Works Cost and Profit at 25% on Cost of sales. **[5+5]**

- (b) Explain the scope of CAS 5. **[5]**

- 3.(a) The Dynamic company has three divisions. Each of which makes a different product. The budgeted data for the coming year are as follows:

	A (₹)	B (₹)	C (₹)
Sales	1,12,000	56,000	84,000
Direct Material	14,000	7,000	14,000
Direct Labour	5,600	7,000	22,400
Direct Expenses	14,000	7,000	28,000
Fixed Cost	28,000	14,000	28,000
	61,600	35,000	93,400

The Management is considering to close down the division C'. There is no possibility of reducing fixed cost. Advise whether or not division C' should be closed down. **[9]**

- (b) What are the causes of Labour Rate Variance. **[6]**

- 4.(a) Manar lodging home is being run in a small hill station with 50 single rooms. The home offers concessional rates during six off- season months in a year. During this period, half of the full room rent is charged. The management's profit margin is targeted at 20% of the room rent. The following are the cost estimates and other details for the year ending on 31st March 2016. [Assume a month to be of 30 days].

I. Occupancy during the season is 80% while in the off- season it is 40% only.

II. Expenses:

- Staff salary [Excluding room attendants] ₹2,75,000
- Repairs to building ₹ 1,30,500
- Laundry and linen ₹ 40,000
- Interior and tapestry ₹ 87,500
- Sundry expenses ₹ 95,400

III. Annual depreciation is to be provided for buildings @ 5% and on furniture and equipments @ 15% on straight-line basis.

IV. Room attendants are paid ₹ 5 per room day on the basis of occupancy of the rooms in a month.

V. Monthly lighting charges are ₹ 120 per room, except in four months in winter when it is ₹ 30 per room and this cost is on the basis of full occupancy for a month.

VI. Total investment in the home is ₹ 100 lakhs of which ₹ 80 lakhs relate to buildings and balance for furniture and equipments.

You are required to work out the room rent chargeable per day both during the season and the offseason months on the basis of the foregoing information. **[10]**

- (b) A chemical process yields 60% of the material introduced as main Product - A and by Product B 15% by - Product - C 20% and 5% being the wastage.

## Postal Test Paper\_P8\_Inter\_Syllabus 2016\_Set 3

The ratio of absorption of Raw material and Labour in the process products is as follows:

- I. One unit of product C requires half the raw material required for one unit of product - B, one unit of product - A requires 1 ½ time the raw material required for product - B.
  - II. Product A requires double the time needed for the production of one unit of B and one unit of C
  - III. Product C requires half the time required for the production of one unit of product B
  - IV. Overheads are to be absorbed in the ratio of 6:1:1.
  - V. Cost Data: Input 1,000 units of cost ₹4,600 Direct labour ₹4,100 Overheads ₹6,000
- Calculate cost of distribution between the above products. [5]

5.(a) Pass the journal entries for the following transactions in a double entry cost accounting system:

Particulars	₹
a. Issue of material : Direct	5,50,000
Indirect	1,50,000
b. Allocation of wages and salaries : Direct	2,00,000
Indirect	40,000
c. Overheads absorbed in jobs : Factory	1,50,000
Administration	50,000
Selling	30,000
d. Under/over absorbed overheads : Factory (Over)	20,000
Admn . (Under)	10,000

[10]

(b) How do you treat following items in cost accounting?

[2½ + 2½]

- (i) Packing Cost
- (ii) Tools Cost

6.(a) From the following forecast of income and expenditure prepare a Cash Budget for the three months ending on June, 2016:

Month	Sales	Purchase	Wages	Misc.
	(₹)	(₹)	(₹)	(₹)
2016, February	1,20,000	84,000	10,000	7,000
March	1,30,000	1,00,000	12,000	8,000
April	80,000	1,04,000	8,000	6,000
May	1,16,000	1,06,000	10,000	12,000
June	88,000	80,000	8,000	6,000

Additional Information:

- I. Sales: 20% realised in the month of sales, discount allowed 2%, balance realised equally in two subsequent months.
- II. Purchases: These are paid in the month following the month of supply.
- III. Wages: 25% paid in arrears following month.
- IV. Misc. Expenses : Paid a month in arrears.
- V. Rent: ₹ 1,000 per month paid quarterly in advance due in April.
- VI. Income Tax: First installment of advance tax ₹ 25,000 due on or before 15<sup>th</sup> June to be paid within the month.
- VII. Income from Investment: ₹5,000 received quarterly in April, July etc.
- VIII. Cash in Hand: ₹5,000 in April 1, 2016. [10]

(b) Explain the features of Marginal Costing. [5]

## Postal Test Paper\_P8\_Inter\_Syllabus 2016\_Set 3

---

7.(a) Difference between Job Costing and Process Costing.

[5]

(b) As newly appointed Cost Accountant, you find that the selling price of Job No. 9669 has been calculated on the following basis:

Particulars	₹
Materials	12.08
Direct Wages – 22 hours at 25 paise per hour	5.50
Department A – 10 hours, B – 4 hours C – 8 hours	
	17.58
Plus 33% on Prime Cost	5.86
	23.44

An analysis of the previous year's profit and loss account shows the following:

Particulars	₹	Particulars	₹
Materials Used	77,500	Factory Overheads:	
Direct Wages:		A	2,500
A	5,000	B	4,000
B	6,000	C	1,000
C	4,000	Selling Costs	30,000

**You are required to:**

- (i) Draw up a Job Cost Sheet;
- (ii) Calculate and enter the revised costs using the previous year's figures as a basis;
- (iii) Add to the total job cost 10% for profit and give the final selling price.

[10]

8. Write Short Note on the following (Any three)

[5x3=15]

- (a) Opportunity Cost
- (b) Scope of Cost Accountancy
- (c) Advantages of Job Costing.
- (d) Break Even Point
- (e) Objectives of the Budget