Paper 8- Cost Accounting

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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. Variance Analysis	**A.** Costing Profit and loss account
2. Transit insurance	**B.** Income credited only in cost accounts
3. Master budget denotes the summary of	**C.** Functional Budget
4. Notional rent charged to	**D.** Value of goods in transit
5. Abnormal loss is transferred to	**E.** Management by Exception

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

(i) What will be the accounting entry for absorption of factory overhead?
- **A.** Dr. Works in progress control A/c
  Cr Factory overhead control A/c
- **B.** Dr. Factory overhead
  Cr. Factory overhead control A/c
- **C.** No entry is required
- **D.** Dr. Works in progress control A/c
  Cr Factory overhead control A/c

(ii) Standard price of material per kg `20, standards consumption per unit of production is 5 kg. Standard material cost for producing 100 units is
- **A.** ₹ 20,000
- **B.** ₹ 12,000
- **C.** ₹ 8,000
- **D.** ₹ 10,000

(iii) Most of the expenses are direct in
- **A.** Job costing
- **B.** Batch costing
- **C.** Contact costing
- **D.** None of the above

(iv) In which of the following incentive plan of payment, wages on time basis are not Guaranteed?
- **A.** Halsey plan
- **B.** Rowan plan
- **C.** Taylor's differential piece rate system
- **D.** Gantt's task and bonus system

(v) Continuous stock taking is a part of
- **A.** ABC analysis
- **B.** Annual stock taking
- **C.** Perpetual Inventory

D. None of these

(vi) In a process 8000 units are introduced during a period. 5% of input is normal loss. Closing work in progress 60% complete is 1000 units. 6600 completed units are transferred to next process. Equivalent production for the period is:

A. 9000 units
B. 7440 units
C. 5400 units
D. 7200 units

(vii) Royalty paid on sales ₹89,000 and Software development charges related to product is ₹22,000. Calculate Direct Expenses.

A. 1,11,100
B. 1,11,000
C. 111,110
D. 1,10,000

(viii) If sales are ₹150,000 and variable cost are ₹50,000. Compute P/V ratio.

A. 66.66%
B. 100%
C. 133.33%
D. 65.66%

(ix) The budget that is prepared first of all is …

A. Master budget
B. Budget, with key factor
C. Cash Budget
D. Capital expenditure budget

(x) Standard deals with the principles and methods of determining the manufacturing Cost of excisable goods

A. CAS 12
B. CAS 15
C. CAS 22
D. CAS 2

(c) Fill in the blanks. **[1×5 =5]**

(i) Statement of cost per unit of equivalent production shows the per unit cost ________.

(ii) A budget is a projected plan of action in __________________.

(iii) Goods Received Note is prepared by the ______________________.

(iv) Cost of normal idea time is charged to _______________.

(v) The _____________ is usually the co-ordinator of the standards committee.

(d) State whether the following statements are TRUE or FALSE: **[1×5 =5]**

(i) Contact costing is variant of job costing.

(ii) Marginal Costing follows the behaviours wise classification of costs.

(iii) Cost control accounts are prepared on the basis of double entry system.

(iv) Material cost variance and labour cost variance are always equal.

(v) Cash discounts are generally excluded completely from the costs.

2.(a) Distinguish between fixed budget and flexible budget. **[5]**

(b) The standard labour complement and the actual labour complement engaged in a week for a job are as under:

	Skilled workers	Semi-skilled workers	Unskilled workers
a. Standard no. of workers in the gang	32	12	6
b. Standard wage rate per hour (₹)	3	2	1
c. Actual no. of workers employed in the gang during the week	28	18	4
d. Actual wage rate per hour (₹)	4	3	2

During the 40 hour working week the gang produced 1,800 standard labour hours of work. **Calculate:**

(i) Labour Efficiency Variance
(ii) Mix Variance
(iii) Rate of Wages Variance
(iv) Labour Cost Variance **[10]**

3.(a) Distinguish between Financial Accounting and Cost accounting. **[7]**

(b) In a tailoring shop the standard output of a tailor making collars of a shirt is 20 units per hour for an 8 hour shift. The output of Tailor X for one week is as under:

Day	Units
Monday	150
Tuesday	160
Wednesday	180
Thursday	180
Friday	190
Saturday	200

You are required to calculate the earnings of Tailor X for the week under:

(i) Halsey Premium Plan with a guaranteed wage rate of ₹10 per hour and a premium of 60% of the time saved over standard. **[4]**

(ii) Taylor Differential Rate system with the following rates of payment: ₹ 0.50 per unit at standard and up to 20% over standard, ₹ 0.40 per unit at production below standard and ₹0.60 per unit when daily output exceeds standard by 20%. **[4]**

4.(a) Present the following information to show to management:

(i) The marginal product cost and the contribution p.u.
(ii) The total contribution and profits resulting from each of the following sales mix results.

Particulars	Product	Per unit ₹
Direct Materials	A	10
Direct Materials	B	9
Direct wages	A	3
Direct wages	B	2

Fixed Expenses – ₹ 800
(Variable expenses are allotted to products at 100% Direct Wages)
Sales Price ----- A ₹ 20
Sales Price ----- B ₹ 15

Sales Mixtures: **(a)** 100 units of Product A and 200 of B.
(b) 150 units of Product A and 150 of B.
(c) 200 units of Product A and 100 of B.

[10]

(b) Explain the factors to be considered in preparing Sales Budget. **[5]**

5.(a) A pharmaceutical drug manufacturing company's three products A, B and C emerge at a single split off stage in department P. Product A is further processed in department Q, product B in department R and product A and product C in department S. There is no loss in further Processing of any of the three products. The cost data for a month are as under:

Cost of raw materials introduced in department P	₹ 12,68,800
Direct Wages Department	₹
P	3,84,000
Q	96,000
R	64,000
S	36,000

Factory overheads of ₹ 4,64,000 are to be apportioned to the departments on direct wage basis.

During the month under reference, the company sold all three products after processing them further as under:

Products	A	B	C
Output sold kg.	44,000	40,000	20,000
Selling Price per kg. ₹	32	24	16

There are no Opening or Closing Stocks if these products were sold at the split off stage, that is, without further processing, the selling prices would have been ₹ 20, ₹ 22 and ₹ 10 each per kg respectively for A, B and C.

Required:

(i) Prepare a statement showing the apportionment of joint costs to joint products:

(ii) Present a statement showing product-wise and total profit for the month under reference as per the company's current processing policy.

(iii) What processing decision should have been taken to improve the profitability of the company?

(iv) Calculate the product-wise and total profit arising from your recommendation in **(iii)** above. **[3+3+2+3]**

(b) Write a short note on the following, with reference to contract accounting.

(i) Surveyor's Certificate and Retention Money

(ii) Escalation Clause **[2+2]**

6.(a) From the following information, calculate the machine hour rate for recovery of overhead for a drilling machine installed in a machine shop.

I. The machine operates for 8 hours a day and 300 days a year.

II. 400 hours of machine time in a year is used for repairs and maintenance.

III. Setting up time of the machine is 200 hours per annum and is to be treated as production time.

IV. Annual cost of repairs and maintenance of the machine is ₹40,000.

V. Power used is 10 units per hour at a cost of ₹ 8 per unit. No power is consumed during repair and setting up time.

VI. A coolant is used to operate the machine at ₹12,000 per annum.

VII. An operator, whose monthly wages is ₹8,000, devotes 75% of his time exclusively to operate the machine.

VIII. Depreciation is ₹2,40,000 per annum and insurance is ₹ 25,000 per annum.

IX. Other indirect expenses chargeable to the machine are ₹12,000 per month. **[8]**

(b) PC Company purchases a specialized item and the quantity to be purchased is 2,500 pieces at a price of ₹ 200 per piece. Ordering cost per order is ₹ 200 and carrying cost is 2% per year of the inventory cost. Normal lead time is 20 days and safety stock is nil. Assume yearly working days as 250.

(i) Calculate the Economic Ordering Quantity.

(ii) Re-order Inventory Level.

(iii) If a 2% discount on price is given for order quantity 1,250 pieces or more in a lot, should the company accept the offer of discount? **[2+2+3]**

7.(a) A transport company has a fleet of three trucks of 10 tonnes capacity each plying in different directions for transport of customer's goods. The trucks run loaded with goods and return empty. The distance travelled, number of trips made and the load carried per day by each truck are as under:

Truck No.	One way Distance Km	No. of trips per day	Load carried per trip / day tonnes
1	16	4	6
2	40	2	9
3	30	3	8

The analysis of maintenance cost and the total distance travelled during the last two years is as under :

Year	Total distance travelled	Maintenance Cost ₹
1	1,60,200	46,050
2	1,56,700	45,175

The following are the details of expenses for the year under review:

Diesel	:	₹ 10 per litre. Each litre gives 4 km per litre of diesel on an average.
Driver's salary	:	₹ 2,000 per month
Licence and taxes	:	₹ 5,000 per annum per truck
Insurance	:	₹ 5,000 per annum for all the three vehicles.
Purchase Price per truck	:	₹ 3,00,000 Life 10 years. Scrap value at the end of life is ₹ 10,000.
Oil and sundries	:	₹ 25 per 100 km run.
General Overhead	:	₹ 11,084 per annum

The vehicles operate 24 days per month on an average.

Required:

(i) Prepare an Annual Cost Statement covering the fleet of three vehicles.

(ii) Calculate the cost per km. run.

(iii) Determine the freight rate per tonne km. to yield a profit of 10% on freight **[4+4+4]**

(b) Distinguish between Job Costing and Contract Costing. **[3]**

8. Write short note on the fallowing (Any three) **[5 x3=15]**

(a) Advantages of Budgetary Control

(b) Procedure for Job Cost Accounting.

(c) The reasons for difference in profit as per financial accounts and cost accounts

(d) Essential pre-requisites and advantages of integrated accounting system

(e) Limitations of Absorption Costing