

MTP_Intermediate_Syllabus 2012_Jun2014_Set 2

Paper – 10: Cost & Management Accountancy

Time Allowed: 3 Hours

Full Marks: 100

QUESTION 1, which is compulsory. Attempt all of them.
Section-A has three questions. Attempt any two of them.
Section-B has two questions. Attempt any one of them.
Section-C has three questions. Attempt any two of them.
(Working Notes should form part of the answer.)

Question.1

- (a) A factory transferred out 8,800 completed units during Dec 2013. Opening Stock was 400 units 75% completed, closing stock was 800 units 50% completed. Assuming FIFO method, what is the equivalent production in December 2013? [2]
- (b) A company prepares a budget for a production of 2,00,000 units. Variable cost per unit is ₹ 15 and the fixed cost is ₹ 2 per unit. The company fixes its selling price to fetch a profit of 10% on cost. What is the break-even point? (Both in units and ₹) [3]
- (c) List the non-cost considerations in a shut-down or continue decision. [3]
- (d) Deerbound Manufacturing transferred ₹ 30,00,000 of raw materials into production during the most recent year. Direct labour and factory overhead for the period totaled ₹ 20,00,000. Beginning work in process was ₹ 6,70,000 and ending work in process was ₹ 8,50,000. Finished goods inventory decreased by ₹ 50,000. If gross profit was ₹ 16,00,000, how much was sales for the period? [2]
- (e) A company, manufacturing Cotton Textile, wrote off in the same year, the expenditure in replacement of Copper Rollers used for printing fabrics and Stainless Steel frames used for Dying Yarn whose life are more than one year. State whether the Cost Auditor can qualify the report for these? [2]
- (f) A person is doing Internal Audit on one of the factories manufacturing 'Cement' in a company. He was proposed for appointment as Cost Auditor in another factory of the same company manufacturing cement for the same period. Is this appointment as Cost Auditor 'In Order'? [2]
- (g) What are the conditions for price discrimination? [2]
- (h) What is Law of Demand? [4]

Section A– Answer any two questions from this section

Question.2

- (a) ABC Ltd., a manufacturing company having a capacity of 60,000 units, has prepared a following Cost Sheet:

Particulars	₹
Direct material (per unit)	12.50
Direct wages (per unit)	5.00

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Semi-variable cost	30,000 fixed plus 0.50 per unit
Factory overhead (per unit)	10.00 (50% fixed)
Selling and Administration overhead (per unit)	8.00 (25% variable)
Selling price (per unit)	40.00

During the last year the sales volume achieved by the company was 50,000 units. The Company has launched an expansion program as under –

- (i) Capacity will be increased to 1,00,000 units.
- (ii) Cost of investment on expansion is ₹ 5 lakhs, which is proposed to be financed through Financial Institution at 12% p.a.
- (iii) Depreciation rate of new investment is 10% based on Straight-Line method.
- (iv) Additional fixed overhead will be ₹ 2 lakhs up to 80,000 units, and will increase by ₹ 80,000 more beyond 80,000 units

After the expansion, the company has two alternatives for operating the expanded plan as under –

- (i) Sales can be increased upto 80,000 units by spending ₹ 50,000 on special advertisement campaign to explore new market.
- (ii) Sales can be increased upto 1,00,000 units subject to the following –
 - (a) Reduction of selling price by ₹ 4 per unit on all the units sold.
 - (b) The direct material cost would go down by 4% due to discount on bulk buying
 - (c) Increasing the variable selling and administration expenses by 4%.

Required:

- (i) Construct a Flexible Budget at the level 50,000 units, 80,000 units and 1,00,000 units of production and select the best profitable level of operation.
- (ii) Calculate Break Even Point both before and after expansion. [8+4]

(b) The following information are provided to you for a month in respect of a workshop:

- (i) Overhead cost variance – ₹ 1,400 adverse
- (ii) Overhead volume variance – 1,000 adverse
- (iii) Budgeted hours - 1,200 hrs.
- (iv) Budgeted overhead – ₹ 6,000
- (v) Actual rate of recovery of overheads - ₹ 8 per hour

You are required to compute:

- (1) Overhead expenditure variance
- (2) Actual overheads incurred
- (3) Actual hours for actual production
- (4) Overheads capacity variance
- (5) Overheads efficiency variance
- (6) Standard hours for actual production
- (7) And also reconcile. [6+2]

Question.3

- (a) An amount of ₹ 19,80,000 was incurred on a contract work upto 31.03.2014. Certificates have been received to date to the value of ₹ 24,00,000 against which ₹ 21,60,000 has been received in cash. The cost of work done but not certified amounted to ₹ 45,000. It is estimated that by spending an additional amount of ₹ 1,20,000 (including provision for contingencies) the work can be completed in all respects in another two months. The agreed contract price of the work is ₹ 25 lakhs. Compute a conservative estimate of the profit to be taken to the profit & Loss Account. Illustrate at least four methods of computing the profit. [8]

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- (b) ABC Ltd. produces three joint products X, Y and Z. The products are processed further. Pre-separation costs are apportioned on the basis of weight of output of each joint product. The following data are provided for month just concluded:
Cost incurred up to separation point is ₹10,000.

	Product X	Product Y	Product Z
Output (in litre)	100	70	80
	₹	₹	₹
Cost incurred after separation point	2,000	1,200	800
Selling price per Litre:			
After further processing	50	80	60
At pre separation point (estimated)	25	70	45

You are required to:

- (i) Prepare a statement showing profit or loss made by each product using the present method of apportionment of pre-separation cost, and
 - (ii) Advise the management whether, on purely financial consideration, the three products are to be processed further. [3+3]
- (c) What is Inter Firm Comparison? Enumerate some of its advantages. [1+5=6]

Question.4

- (a) What are the limitations of ZBB? [4]
- (b) Zenith Transport Company has given a route of 40 kilometers long to run bus. The bus costs the company a sum of ₹ 1,00,000. It has been insured at 3% p.a. and the annual tax will amount to ₹ 2,000. Garage rent is ₹ 200 per month. Annual repairs will be ₹ 2,000 and the bus is likely to last for 5 year. The driver's salary will be ₹ 300 per month and the conductor's salary will be ₹ 200 per month in addition to 10% of takings as commission (to be shared by the driver and the conductor equally.)
Cost of stationary will be ₹ 100 per month. Manager-cum-accountant's salary is ₹ 700 per month. Petrol and oil will be ₹ 50 per 100 kilometer. The bus will make 3 up and down trips carrying on an average 40 passengers on each trip.
Assuming 15% profit on takings, calculate the bus fare to be charged from each passenger. The bus will run an average 25 days in a month. [7]

- (c) A factory has a key resource (bottleneck) of Facility A which is available for 31,300 minutes per week. Budgeted factory costs and data on two products, A and B, are shown below:

Product	Selling price/Units	Material cost/Unit	Time in Facility A
A	₹40	₹20.00	5 minutes
B	₹40	₹17.50	10 minutes

Budgeted factory cost per week:

	₹
Direct labour	25,000
Indirect labour	12,500
Power	1,750
Depreciation	22,500
Space Costs	8,000
Engineering	3,500
Administration	5,000

Actual production during the last week is 4,750 units of product A and 650 units of product B. Actual factory cost was ₹78,250.

Calculate:

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- (i) Total factory costs (TFC)
- (ii) Cost per factory minute
- (iii) Return per factory minute for both products
- (iv) TA ratios for both product
- (v) Throughput cost per the week
- (vi) Efficiency ratio [1.5x6=9]

Section B – Answer any one question from this section

Question.5

- (a) As a Cost Auditor, suggest different measures to rectify imbalance in production facilities. [5]
- (b) Para 9 of the Companies (Cost Audit Report) Rules 2011 requires disclosure of “Cost of Production” and “Cost of Sales” at a company level. How the same would be available when all the products/ activities are not covered under cost audit? [3]
- (c) How are Cost Accounting Record Rules different from Cost Accounting Standards? [3]
- (d) Distinguish between “Notes” and “Qualifications” in Cost Audit Report. Give suitable examples. [5]

Question.6

- (a) Under what conditions, will the appointment of Cost Auditor for conducting Cost Audit be appointed in firm's name? Who will authenticate such reports and how? [2+2]
- (b) A company is exporting 80% of its sales and 20% is domestic sale. Can this company be exempted from the mandatory cost audit? [3]
- (c) Your Firm has been appointed an Auditor of ABC Co. The Company has also appointed a Cost Auditor and therefore, the Management had requested your firm not to review Cost Records. Comment [3]
- (d) What are the time limits for submission of cost audit report? [6]

Section C – Answer any two from this section

Question.7

- (a) Determine breakeven point & profitable range of output if $p = 20 - 0.02x$ and $c = 320 + 10x + 0.03x^2$ [1.5+1.5=3]
- (b) What are the factors influencing Elasticity of Demand? [9]

Question.8

- (a) Describe the effects of each of the following managerial decisions or economic influences on the value of the firm:
 - (i) The firm is required to install new equipment to reduce air pollution.
 - (ii) Through heavy expenditures on advertising, the firm's marketing department increases sales substantially.

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- (iii) The production department purchases new equipment that lowers manufacturing costs.
(iv) The firm raises prices. Quantity demanded in the short run is unaffected, but in the longer run, unit sales are expected to decline. (2+2+2+2 = 8)

(b) Define the cost function from the given information. [4]

Volume of activity	Output Level (Units)	Total Cost
High	2500	8000
Low	1200	4100

Question.9

(a) Why does demand curve slopes downward? [4]

(b) What are the criteria of a good forecasting method? [8]