Paper 8- Cost Accounting

Cost Accounting

Full Marks: 100 **Time allowed: 3 hours**

Section- A

Answer the following questions:

1.(a) Choose the correct answer from the given four alternatives: **[10 ×1 = 10]**

(i) Batch Costing is suitable for-

A. Sugar Industry
B. Chemical Industry
C. Pharma Industry
D. Oil Industry

(ii) Which of the following is considered as accounting record?

A. Bin Card
B. Bill of material
C. Store Ledger
D. None of these

(iii) Idle time is

A. Time spent by workers in factory
B. Time spent by workers in office
C. Time spent by workers off their work
D. Time spent by workers on their job

(iv) Time keeping refers to

A. Time spent by workers on their job
B. Time spent by workers in factory
C. Time spent by workers without work
D. Time spent by workers on their job

(v) Directors remuneration and expenses form a part of

A. Production overhead
B. Administration overhead
C. Selling overhead
D. Distribution overhead

(vi) In Reconciliations Statements Expenses shown only in cost accounts are.

A. Added to financial profit
B. Deducted from financial profit
C. Ignored
D. Deducted from costing profit

(vii) The most suitable cost system where the products differ in type of material and work performed is

A. Operating Costing
B. Job costing
C. Process costing
D. All of these.

(viii) Equivalent production of 1,000 units, 60% complete in all respects, is :

A. 1000 units
B. 1600 units
C. 600 units
D. 1060 units

(ix) Contribution is ₹ 300,000 and sales is ₹1,500,000. Compute P/V ratio.

A. 15%
B. 20%
C. 22%
D. 17.5%

(x) Standard price of material per kg is ₹ 20, standard usage per unit of production is 5 kg. Actual usage of production 100 units is 520 kgs, all of which was purchase at the rate of ₹ 22 per kg. Material usage variance is

A. ₹ 400 (F)
B. ₹ 400 (A)
C. ₹ 1,040 (F)
D. ₹ 1,040 (A)

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

Column I		Column II	
(i)	Royalties	(A)	Total sales less BEP sales
(ii)	Research and Development Cost	(B)	Direct allocation
(iii)	Donations	(C)	Appropriations only in financial accounts
(iv)	Job costing is used in	(D)	Automobile garages
(v)	Margin of Safety	(E)	CAS 18

(c) State whether the following statements are True' or 'False': [1x5=5]

(i) In India, if a worker works for more than 8 hours on any day or for more than 40 hours in a week, he is treated to be engaged in overtime.
(ii) At breakeven point, contribution available is equal to total fixed cost.
(iii) Standards costing are more profitability employed in job order industries than in process type industries.
(iv) Generally, budgets are prepared to coincide with the financial year so that comparison of the actual performance with budgeted estimates would facilitate better interpretation and understanding.
(v) Weighted average method of pricing issue of materials involves adding all the different prices and dividing by the number of such prices.

(d) Fill in the blanks suitably: **[1x5=5]**

(i) Transfer of surplus material from one job or work order is recorded in _____.

(ii) In a company there were 1200 employee on the rolls at the beginning of a year and 1180 at the end. During the year 120 persons left services and 96 replacements were made. The labour turnover to flux method is _____ %.

(iii) The difference between practical capacity and the capacity based on sales expectancy is known as _____.

(iv) Under integrated accounting system, the accounting entry for payment of wages is to debit _____ and to credit cash.

(v) Standard means a criterion or a yardstick against which actual activity can be compared to determine the _____ between two.

Answer:

1.(a)

i.(C), ii.(C) iii.(C), iv.(B), v.(B), vi.(B), vii.(B), viii.(C), ix.(B), x.(B).

1.(b)

i.(B), ii.(E) iii.(C), iv.(D), v.(A).

1.(c)

i.(False), ii.(True), iii.(False), iv.(True), v.(False).

1.(d)

i. Material Transfer Note, ii. 9.08 iii. idle capacity,

iv. Wages control Accounts, v. difference.

Section B

Answers any *five Questions*, working Notes should form part of the answer.

2. (a) From the following data for the year ended 31st Dec, 2017, calculate the inventory turnover ratio of the two items, and put forward your comments on them.

	Material A Amount (₹)	Material B Amount (₹)
Opening stock on 1-1-2017	25,000	15,000
Purchase during the year 2017	72,000	57,000
Closing on 31-12-2017	6,000	11,000

[7]

(b) A worker under the Halsey method of remuneration has a day rate of ₹12 per week of 48 hours, plus a cost of living bonus of 10 p. per hour worked. He is given 8 hours task to perform, which he performs in 6 hours, he is allowed 30% of the time saved as premium bonus. What would be his earnings under Halsey Plan and Rowan Plan. [8]

Answer

(a) Material Inventory Turnover Ratio = (Cost of Material used/Average Stock)

For A = [(25,000+72,000-6000)] / [(25,000+6,000)/2] =5.87

For B = [(15,000+57,000-11000)] / [(15,000+11,000)/2] =4.69

Material Inventory turnover ratio indicates the efficiency of the management with which they are able to utilize their inventory. It indicates the existence or non-existence of non moving items, dormant items, slow moving items etc. in inventory. If the ratio is high, the efficiency is said to be high and on the other hand if the ratio is low, the efficiency is said to be low.

In view of above, in the instant case, we may say that Material A used better than Material B.

(b) Computation of earnings of worker under Halsey Plan:

Earnings under Halsey Plan = Hours worked × Rate per hour + (30% × Time Saved × Rate per hour)

= (6 x 0.25) + 30/100 (8-6) x 0.25	= 1.65
(+) Cost of Living Bonus (6 x 0.1)	= 0.60
Earnings under Halsey Plan	= ₹2.25

Computation of earnings of worker under Rowan Plan:

Earnings under Rowan Plan =

Hours worked × Rate per hour +[(Time saved /Time allowed) × Hours worked × Rate per hour)]

= (6 × 0.25) + (8-6 / 8) × 6 × 0.25	= 1.88
(+) Cost of Living Bonus (6 × 0.1)	= 0.60
	= ₹2.48

Earnings under Halsey Plan = ₹ 2.25

Earnings under Rowan Plan = ₹ 2.48

3. (a) The following information relates to the activities of a production department of factory for a certain period.

	Amount (₹)
Material used	56,000
Direct Wages	40,000
Labour hours	12,000
Hours of Machinery-operation	20,000
Overhead Chargeable to the Dept	25,000

On one order carried out in the department during the period the relevant data were:-

Material used (₹)	6,000
Direct Wages (₹)	4,950
Labour hours worked	1,650 Hrs.
Machine Hours	1,200

Calculate the overheads chargeable to the job by four commonly used methods. [7]

(b) The following particulars relate to a processing machine treating a typical material. You are required to calculate the machine hour rate.

The cost of the machine	₹1,00,000
Estimated life	10 years
Scrap value	₹10,000
Working time (50 weeks of 44 hrs. each)	2,200 hrs.
Machine maintenance per annum	200 hrs
Setting up time estimated @ 5% of total productive time	
Electricity is 16 units per hour @ 10 paise per unit.	
Chemicals required weekly	₹20
Maintenance cost per year	₹1,200

Two attendants control the operations of the machine together with 6 other machines, their combined weekly wages are ₹140. Departmental overhead allocated to this machine per annum ₹ 2,000. [8]

Answer: (a)

The four commonly used methods of absorbing or recovering overheads are as follows:

1. % of overheads on material = (25,000 / 56,000) x 100 = 44.64%
2. % of overheads on direct wages = (25,000 / 40,000) x 100 = 62.5%
3. Overhead rate per labour hour = 25,000 / 12,000 = 2.083
4. Machine hour rate method = 25,000 / 20,000 = 1.25

The overheads chargeable to job under the above methods is as follows:

1. Material = 6,000 x 44.64% = 2,678.4
2. Wages = 4,950 x 62.5% = 3093.75
3. Labour hour rate = 1650 x 2.083 = ₹ 3,437
4. Machine hour rate = 1,200 x 1.25 = ₹ 1,500

(b)

Annual Working hours: 50 weeks x 44 hrs.	2,200
Less : Maintenance time	200
Productive hours	2,000
Less : 5% Setting up time(5% of 2000)	100
Effective hours	1,900

Computation of Machine Hour Rate

Amount (₹)

Particulars		**Rate per hr.**
Standing Charges Chemical Solution Attendants wages Departmental overheads	 (50 x 20) = 1,000 (140 x 50 x 1/7) = 1,000 = 2,000 = 4,000	
Rate per hour	4,000/2,200	1.82
Machine Expenses Depreciation Maintenance Power	 [(1,00,000 – 10,000)/10]÷ 1900 = 4.74 (1,200 / 1,900) = 0.63 (16 x 0.1) = 1.60	 6.97
Machine Hour Rate =		8.79

4.(a) The following are the costing records for the year 2017 of a manufacturer:

Production 20,000 units; Cost of Raw Materials ₹ 2,00,000; Labour Cost ₹ 1,20,000; Factory Overheads ₹ 80,000; Office Overheads ₹ 40,000; Selling Expenses ₹10,000, Rate of Profit 25% on the Selling Price.

The manufacturer decided to produce 25,000 units in 2017. It is estimated that the cost of raw materials will increase by 20%, the labour cost will increase by 10%, 50% of the overhead charges are fixed and the other 50% are variable. The selling expenses per unit will be reduced by 20%. The rate of profit will remain the same.

Prepare a Cost Statement for the year 2017 showing the total profit and selling price per unit. [8]

(b) A transistor manufacturer, who commenced his business on 1st June, 2017 supplies you with the following information and asks you to prepare a statement showing the profit per transistor sold. Wages and materials are to be charged at actual cost, works overhead at 75% of wages and office overhead at 30% of works cost. Number of transistors manufactured and sold during the year was 540.

Other particulars:	
Materials per set	**₹ 240**
Wages per set	**₹ 80**
Selling price per set	**₹ 600**

If the actual works expenses were ₹32,160 and office expenses were ₹61,800, prepare a Reconciliation Statement. [7]

Answer: (a)

Statement of Cost (Cost Sheet)
(Output 20,000 units)

Particulars	Cost per unit (Amount in ₹)	Total Cost (Amount in ₹)
Raw Materials	10	2,00,000
Labour	6	1,20,000
PRIME COST	16	3,20,000
Add: Factory Overhead	4	80,000
WORKS COST	20	4,00,000
Add: Office Overhead	2	40,000
COST OF PRODUCTION	22	4,40,000
Add: Selling Expenses	.5	10,000
COST OF SALES	22.5	4,50,000
Add: Profit (25% on Selling Price or 33.33% on Cost of Sales)	7.50	1,50,000
SELLING PRICE	30.00	6,00,000

Statement of Cost (Cost Sheet)
(Output 25,000 units)

Particulars	Cost per unit (Amount in ₹)	Total Cost (Amount in ₹)
Raw Materials (₹10 x 120% x 25,000)	12	3,00,000
Labour (₹6 x 110% x 25,000)	6.6	1,65,000
PRIME COST	18.6	4,65,000
Add: Factory Overhead (₹80,000 x 50% + ₹2 x 25,000)	3.6	90,000
WORKS COST	22.2	5,55,000
Add: Office Overhead (₹40,000 x 50% + ₹1 x 25,000)	1.8	45,000
COST OF PRODUCTION	24	6,00,000
Add: Selling Expenses (₹.5 x 80% x 25,000)	0.4	10,000
COST OF SALES	24.4	6,10,000
Add: Profit (25% on Selling Price or 33.33% on Cost of Sales)	8.132	2,03,313
SELLING PRICE	32.532	8,13,313

Answer: (b)

Cost Sheet (or) Statement of Cost and Profit

Particulars	Unit (Amount ₹)	Total (Amount ₹)
Material	240	1,29,600
Wages	80	43,200
Prime cost	320	1,72,800
(+) Works overhead (75% of wages)	60	32,400
Work Cost	380	2,05,200
(+) Office overheads (30% of work cost)	114	61,560
Total Cost	494	2,66,760
(+) Profit	106	57,240
Sales	600	3,24,000

Dr. **Trading and Profit & Loss Account** **Cr.**

Particulars	Amount ₹	Particulars	Amount ₹
To, Materials A/c	1,29,600	By, Sales A/c	3,24,000
To, Wages A/c	43,200		
To, Works Overheads A/c	32,160		
To, Gross Profit	1,19,040		
	3,24,000		3,24,000
To, Office Expenses	61,800	By, Gross Profit b/d	1,19,040
To, Net Profit	57,240		
	1,19,040		1,19,040

Statement of Reconciliation

Particulars	Amount ₹
Profit as per Financial Accounts	57,240
(-) Over recovery of works overheads (32,160 - 32,400)	(240)
(+) Under recovery of office expenses (61,800 - 61,560)	240
Profit as per Cost Accounts	57,240

5.(a) A work order for 100 units of a commodity has to pass through four different machines of which the machine hour rates are:

Machine P – ₹ 1.25, Machine Q – ₹ 2.50, Machine R – ₹ 3 and Machine S – ₹ 2.25

Following expenses have been incurred on the work order – Materials ₹ 8,000 and Wages ₹ 500.

Machine - P has been engaged for 200 hours. Machine - Q for 160 hours, Machine - R for 240 hours and Machine - S for 132 hours.

After the work order has been completed, materials worth ₹ 400 are found to be surplus and are returned to stores.

Office overhead used to be 40% of works costs, but on account of all-round rise in the cost of administration, distribution and sale, there has been a 50% rise in the office overhead expenditure.

Moreover, it is known that 10% of production will have to be scrapped as not being upto the specification and the sale proceeds of the scrapped output will be only 5% of the cost of sale.

If the manufacturer wants to make a profit of 20% on the total cost of the work order, find out the selling price of a unit of commodity ready for sale. [8]

(b) A company of builders took to a multi-storied structure for ₹ 40,00,000 estimating the cost to be ₹ 36,80,000. At the end of the year, the company had received ₹ 14,40,000 being 90% of the work certified; work done but not certified was ₹40,000. Following expenditures were incurred.

	₹
Materials	**4,00,000**
Labour	**10,00,000**
Plant	**80,000**

Materials costing ₹ 20,000 were damaged. Plant is considered as having depreciated at 25%. Prepare Contract Account and show all the possible figures that can reasonably be credited to Profit and Loss Account. [7]

Answer (a)

Statement showing the selling price of a unit

Particulars		Amount(₹)
Materials used (₹ 8,000 – ₹400)		7,600
Direct Wages		500
Prime Cost		8,100
Works Overhead at machine hour rate:		
Machine - P For 200 hours @ ₹ 1.25 per hour	250	
Machine - Q For 160 hours. @ ₹ 2.50 per hour	400	
Machine - R For 240 hours. @ ₹ 3 per hour	720	
Machine - S For 132 hours. @ ₹ 2.25 per hour	297	1,667
Works Cost		9,767

Administration Overhead at 60% of works cost		5,860
		15,627
Less: Sale proceeds of Scrap (5% of 10% of ₹ 15,627)		78
Total Cost of the work order		15,549
Profit at 20% of total Cost		3,110
Selling Price of 100 units		18,659
Selling Price of a unit		186.59

Note: It was known before that 10% of production will have to be scrapped, therefore, inputs must have been made taking this factor into consideration. No other adjustment is necessary except deducting the value of scrap from the cost of production.

Answer (b)

Dr. Contract Account Cr.

Particulars	Amount(₹)	Particulars		Amount(₹)
To, Material	4,00,000	By, Costing P & L A/c		20,000
To, Labour	10,00,000	By, W.I.P A/c		
To, Depreciation	20,000	Work certified	16,00,000*	
To, Notional Profit	2,40,000	Work uncertified	40,000	16,40,000
	16,60,000			16,60,000

* (14,40,000/90)x 100= 16,00,000

(i) 3,20,000 x (1,420/3,680) = 1,23,478

(ii) 3,20,000 x (1,420/3,680) x 90/100 = 1,11,130

(iii) 3,20,000 x 16/40 = 1,28,000

(iv) 3,20,000 x (16/40) x (90/100) = 1,15,200

6. (a) From the following information prepare process account.

Opening stock		Degree of completion
800 Units @ ₹7 per unit	**₹ 5,600**	**Material I - 100% Material II - 60% Labour and Overheads 40%.**
Transfer from Process NO - I 12,000 units costing Transfer to next process	** ₹16,350 9,700 units**	
Normal process loss	**10%**	
Closing stock	**1,800 units**	

Degree of Completion: For units scrapped:- Material 100% Labour and Overheads 50%.
For closing stock: Material 60%; Labour and overheads 50%
Scrap realized Rs.1.00 per unit
Other information: Material ₹10,500; Labour ₹ 20,760; Overheads ₹16,670 **[9]**

(b) In the course of manufacture of the main product 'P' by products 'A' and 'B' also emerge. The joint expenses of manufacture amount to ₹ 1,19,550. All the three products are processed further after separation and sold as per details given below:

	Main product	By products	
	P	A	B
Sales	90,000	60,000	40,000
Cost incurred after separation	6,000	5,000	4,000
Profit as percentage on sales	25	20	15

Total fixed selling expenses are 10% of total cost of sales which are apportioned to the three products in the ratio of 20: 40: 40.

(i) Prepare a statement showing the apportionment of joint costs to the main product and the two by products.

(ii) If the by-product A is not subjected to further processing and is sold the point of separation for which there is a market, at ₹58,500 without incurring any selling expenses. Would you advise its disposal at this stage. Show the workings. [6]

Answer (a)

Statement of Equivalent Production

Input	Output	Units	Material-I		Material - II		Labour		Overheads	
			%	Units	%	Units	%	Units	%	Units
800	Opening Stock	800	-	-	40	320	60	480	60	480
12000	Normal Loss									
	(800+12000-1800) x 10%	1100	-	-	-	-	-	-	-	-
	Finished Units (9700-800)	8900	100	8900	100	8900	100	8900	100	8900
	Closing Stock	1800	100	1800	60	1080	50	900	50	900
		12600		10700		10300		10280		10280
	Add: Abnormal Loss	200		200	100	200	50	100	50	100
12800		12800		10900		10500		10380		10380

Statement of Cost per unit

Particulars	Cost (₹)	Equivalent Cost (₹)	Cost per unit (₹)
Material-I	16350	10900	1.5
Material-II	10500	10500	1.0
Labour	20760	10380	2.0
Overhead (16,670-1,100)	15570	10380	1.5

Value of Abnormal Loss

Element	Units	Cost per unit (₹)	Total Cost (₹)
Material-I	200	1.5	300
Material-II	200	1.0	200
Labour	100	2.0	200
Overhead	100	1.5	150
			850

Value of Closing Stock

Element	Units	Cost per unit (₹)	Total Cost (₹)
Material-I	1800	1.5	2,700
Material-II	1080	1.0	1,080
Labour	900	2.0	1,800
Overhead	900	1.5	1,350
			6,930

Dr. Process Account Cr.

Particulars	Units	₹	Particulars	Units	₹
To, Opening Stock A/c	800	5,600	By, Normal Loss A/c	1100	1,100
To, Transfer from Process-I A/c	12000	16,350	By, Closing Stock A/c	1800	6,930
To, Material A/c		10,500	By, Abnormal Loss A/c	200	850
To, Labour A/c		20,760	By, Transfer to Next Process A/c @ ₹ 6.206 per unit	9700	61,000
To, Overheads A/c		16,670			
	12800	69,880		12800	69,880

Answer (b)

(i) Statement showing computation of share of joint expenses:

	Particulars	Main Product P	By Product A	By Product B	Total Amount
		₹	₹	₹	₹
(i)	Sales	90,000	60,000	40,000	1,90,000
(ii)	Profit	22,500	12,000	6,000	40,500
(iii)	Cost of sales (I - II)	67,500	48,000	34,000	1,49,500
(iv)	Selling expenses	2,990	5,980	5,980	14,950
(v)	Manufacturing cost (III - IV)	64,510	42,020	28,020	1,34,550
(vi)	Separate costs	6,000	5,000	4,000	15,000
(vii)	Share of joint expenses (V – VI)	58,510	37,020	24,020	1,19,550

		₹
Sales at split off (A)	=	58,500
(-) Joint Cost (A)	=	37,020
	=	21,480

(ii) It is better to sell By-Product 'A' at split off point because it gives more profit ₹ 21,480 against profit after processing ₹ 12,000.

7. (a) ABC Ltd. furnishes you the following information relating to the half year ended 30th June, 2017.

Fixed expenses	**₹ 45,000**
Sales value	**₹1,50,000**
Profit	**₹ 30,000**

During the second half the year the company has projected a loss of ₹10,000.

Calculate:

(1) The B.E.P and M/S for six months ending 30th June, 2017.

(2) Expected sales volume for the second half of the year assuming that the P/V Ratio and Fixed expenses remain constant in the second half year also.

(3) The B.E.P and M/S for the whole year for 2017. [7]

(b) The standard set for material consumption was 100kg. @ ₹ 2.25 per kg.

In a cost period:

Opening stock was 100 kg. @ ₹ 2.25 per kg.

Purchases made 500 kg. @ ₹ 2.15 per kg.

Consumption 110 kg.

Calculate: a) Usage b) Price variance

1) When variance is calculated at point of purchase

2) When variance is calculated at point of issue on FIFO basis

3) When variance is calculated at point of issue on LIFO basis [8]

Answer (a)

(1) P/V ratio = (Fixed cost + Profit) / Sales

P/V ratio: = [(45,000 + 30,000) / 1,50,000] x 100 = 50%

BE sales for I half year = 45,000 / 50% = ₹ 90,000

Margin of safety for I half year = 1,50,000 – 90,000 = ₹ 60,000

For II half year:

(2) P/V ratio = (Fixed cost + Profit) / Sales

0.5 = [45,000 + (-) 10,000] / Sales

0.5 sales = 35,000

⇒ Sales = ₹ 70,000

(3) BE sales for 2017 = (45,000 + 45,000) x 50%

= 1,80,000

Margin of safety for 2017 = (1,50,000 + 70,000) – 1,80,000

= ₹ 40,000

Answer (b)

a) Computation of Material Usage Variance

Material Usage Variance = SQSP – AQSP

= SP (SQ – AQ)

= 2.25(100-110)

= 22.50 (A)

b) Computation of Price variance:

1) When Variance is calculated at the point of purchase:

Price variance = AQSP – AQAP

= (110 x 2.25) – (110 x 2.15)

= 11 (F)

2) When variance is calculated at the point of issue on FIFO basis

Price variance = AQSP – AQAP

= (110 x 2.25) – ([100 x 2.25]+[10 x 2.15])

= 1 (F)

3) When variance is calculated at the point of issue on LIFO basis

Price variance = AQSP – AQAP

= (110 x 2.25) – (110 x 2.15)

= 247.50-236.50

= 11 (F)

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

(a) Conversion Cost
(b) Periodical Stock Verification
(c) Accounting treatment of scrap
(d) Performance Budgeting.

Answer (a) Conversion Cost:

This term is defined as the sum of direct wages, direct expenses and overhead costs of converting raw material to the finished products or converting a material from one stage of production to another stage. In other words, it means the total cost of producing an article less the cost of direct materials used. The cost of indirect materials and consumable stores are included in such cost. The compilation of conversion cost is useful in a number of cases. Where cost of direct materials is of fluctuating nature, conversion cost is used to cost control purpose or for any other decision making. In contracts/jobs where raw materials are on account of the buyers conversion cost takes the place of total cost in the books of the producer. Periodic comparison/review of the conversion cost may give sufficient insight as to the level of efficiency with which the production unit is operating.

(b) Periodical Stock Verification

This system envisages physical stock verification at a fixed date/period during the year. Generally under this system the activity takes place at the end of the accounting period or a date close to such date. Usually the system is opened in the following manner :-

(i) A period of 5/7 days, depending on the magnitude of the work is chosen during which all the items under stock are verified physically and such period is known as 'cut-off' period. During this period there are no movements of stock items and neither 'receipts' nor are 'issues permitted.

(ii) The items are physically counted/measured depending on their nature and are noted down in records which are signed by the auditors if they are present in stock verification.

(iii) The bin cards balances are also checked and initiated. Generally the physical balances and bin card balances of various items should be same unless shortage/excesses are there or the recording/ balancing in the cards are incorrect.

(iv) After the physical verification is completed work sheets are countersigned by the godown supervisors and the stock verified.

(v) Thereafter reconciliation statement is prepared item wise where the physical balances and bin card balances are different.

(vi) Then the balance as per bin cards and as per stores ledger is also compared and necessary adjustments are made to show the correct position of stock at the year end.

(vii) Finally the shortages/excess statement is prepared by the concerned departments and are placed before the higher management for their approval for adjustments.

(c) Accounting treatment of scrap

(i) Sales Credited to Revenue:

In this method, the scrap is not cost and its value does not, therefore, appear separately in the Cost Accounts. Only a quantitative record of the scrap returned to storeroom from the shops is maintained and the sale value realised from time to time is credited to the Profit and Loss Account as miscellaneous revenue.

(ii) Credit to Overhead:

In this method and in the following method the scrap is assigned a cost. The cost is usually the sale value of the scrap less selling and distribution costs. If the scrap has no ready market but has only utility or use value, and is taken as a credit to manufacturing overhead. The effect of this credit is to reduce the overhead recovery rate. When predetermined overhead rates are in use, it is more expedient to credit an estimated allowance for the scrap instead of the amount of actual scrap.

(iii) Credit to Jobs:

The scrap is assigned a cost and is traced to the job which yielded the scrap. This affords a reasonable amount of credit to the jobs and widely different.

(iv) Transfer to Other Jobs:

Scrap arising in one job may be issued for utilization in another job. Such transfers of scrap from one job to another should be affected through Material Transfer Notes. Alternatively, scrap may be returned to store room and subsequently issued to another job for utilization. The latter method is more appropriate when some further processing is required on the scrap before it can be utilized for other jobs.

(d) Performance Budgeting.

Performance Budgeting is synonymous with Responsibility Accounting which means thus the responsibility of various levels of management is predetermined in terms of output or result keeping in view the authority vested with them. The main concepts of such a system are enumerated below:

(i) It is based on a classification of managerial level for the purpose of establishing a budget for each level. The individual in charge of that level should be made responsible and held accountable for its performance over a given period of time.

(ii) The starting point of the performance budgeting system rests with the organisation chart in which the spheres of jurisdiction have been determined. Authority leads to the responsibility for certain costs and expenses which are forecast or present in the budget with the knowledge of the manager concerned.

(iii) The costs in each individual's or department's budget should be limited to the cost controllable by him.

(iv) The person concerned should have the authority to bear the responsibility.