

PTP_Intermediate_Syllabus 2008_Jun2015_Set 3

Paper – 8: Cost & Management Accounting

Time Allowed: 3 Hours

Full Marks: 100

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

Question.1

(a) Match the statement in Column I with appropriate statement in Column II [1x5]

Column I	Column II
(i) By Product Cost Accounting	(A) Method of maintaining store record
(ii) Material Requisition	(B) Basis for remuneration employees
(iii) Perpetual inventory	(C) Reverse Cost Method
(iv) Angle of incidence	(D) Production Order
(v) Merit rating	(E) Profitability Rate

(b) State whether the following statements are TRUE or FALSE: [1x5]

- (i) If an expense can be identified with a specific cost unit, it is treated as direct expense.
- (ii) ABC analysis is made on the basis of unit prices of materials.
- (iii) A Production Budget is prepared before Sales Budget.
- (iv) Just-in-time deals with controlling defects in time.
- (v) The relationship of value, function and cost can be expressed as $\text{Cost} = \text{Value}/\text{Function}$.

(c) Fill in the blanks: [1x5]

- (i) Margin of safety is _____ or _____.
- (ii) Material usage variance is the sum of _____ and _____.
- (iii) Two broad methods of Costing are _____ and _____.
- (iv) Efficiency is basically a ratio of _____ and _____.
- (v) A cost which does not involve any cash outflow is called _____ or _____.

(d) In the following cases, one out of four answers is correct. You are required to indicate the correct answer (= 1 mark) and give workings (=1 mark): [2x5=10]

- (i) Sales of two consecutive months of a company are ₹ 3,80,000 and ₹ 4,20,000. The company's net profit for these months amounted to ₹ 24,000 and ₹ 40,000 respectively. There is no change in P/V ratio or fixed costs. The P/V ratio of the company is
 - (A) 33.33%
 - (B) 40%
 - (C) 25%
 - (D) None of these
- (ii) The repair and maintenance of machinery in a factory is found to be a semi variable cost having some relationship with the no. of machine hours run. It was ₹ 17,500 during October, 2014 for 7,500 machine hours worked and ₹ 15,400 for November, 2014 when only 5,400 machine hours worked. The budgeted cost of repairs and maintenance for December 2014 when 6,200 machine hours are expected to be worked will be ₹ _____

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- (A) 17,200
- (B) 16,800
- (C) 16,200
- (D) 17,000

(iii) A factory operates a standard cost system, where 2,000 kgs of raw materials @ ₹ 12 per kg were used for a product, resulting in price variance of ₹ 6,000(A) and usage variance of ₹ 3,000(F). Then standard material cost of actual production was_____

- (A) ₹20,000
- (B) ₹30,000
- (C) ₹21,000
- (D) ₹27,000

(iv) Selling price of a product is ₹ 5 per unit, variable cost is ₹ 3 per unit and fixed cost is ₹ 10,000. Then B.E point in units will be:_____

- (A) 10,000
- (B) 5,000
- (C) 7,500
- (D) None of the above

(v) The set up cost of a machine is ₹ 120. A certain order requires 9,000 components to be made in the machine for execution of the order. Cost of production of the component is ₹ 40 each and it requires 15% of the cost for storing it for a year. Then the economic Batch Quantity is_____ unit.

- (A) 300
- (B) 250
- (C) 400
- (D) 600

Question.2

(a) The standard hours for job X is 100 hours. The job has been completed by A in 60 hours, B in 70 hours and C in 95 hours. The bonus system applicable to the job is as follows:

Percentage of time saved to time allowed	Bonus
Saving up to 10%	10% of time saved
From 11% to 20%	15% of time saved
From 21% to 40%	20% of time saved
From 41% to 100%	25% of time save

The rate of pay is ₹ 10 per hour. Calculate the total earnings of each worker and also the rate of earnings per hour. [3+3=6]

(b) A factory is currently working at 50% capacity and produces 5,000 units at a cost of ₹ 90 per unit as per details given below :

Materials	₹ 50
Labour	₹ 15
Factory Overhead	₹ 15 (₹ 6 fixed)
Administration Overhead	₹ 10 (₹ 5 fixed)

The current selling price is ₹ 100 per unit.

At 60% working, material cost per unit increases by 2% and selling price per unit falls by 2%.
At 80% working, material cost per unit increases by 5% and selling price per unit falls by 5%.

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Calculate the current profit at 50% working. Estimate profits of the factory at 60% and 80% working. Which capacity of production would you recommend? [3+2+2+2=9]

Question.3

- (a) Harry Ltd. commenced work on 1st April, 2013 on a contract of which the agreed price was ₹ 5 lakhs. The following expenditure was incurred during the year up to 31st March, 2014.

Particulars	Amount ₹
Wages	1,40,000
Plant	35,000
Materials	1,05,000
Head office expenses	12,500

Materials costing ₹ 10,000 proved unsuitable and were sold for ₹ 11,500 and a part of plant was scrapped and sold for ₹ 1,700. Of the contract price ₹ 2,40,000 representing 80% of work certified had been received by 31st March, 2014 and on that date the value of the plant on the job was ₹ 8,000 and the value of materials was ₹ 3,000. The cost of work done but not certified was ₹ 25,000.

It was decided to (i) Estimate what further expenditure would be incurred in completing the contract, (ii) Compute from the estimate and the expenditure already incurred, the total profit that would be made on the contract and (iii) Ascertain the amount of profit to be taken to the credit of Profit and Loss Account for the year ending on 31st March, 2014. While taking profit to the credit of Profit and Loss A/c. that portion of the total profit should be taken which the value of work certified bears to the contract price. Details of the estimates to complete the contact are given below:

- (i) That the contract would be completed by 30th September, 2014.
 - (ii) The wages to complete would amount ₹ 84,750.
 - (iii) That material in addition to those in stock on 31st March, 2014 would cost ₹ 50,000.
 - (iv) That further ₹ 15,000 would have to be spent on plant and the residual value of the plant on 30th September, 2014 would be ₹ 6,000.
 - (v) The head office expenses to the contract would be at the same annual rate as in 2013-14.
 - (vi) That claims, temporary maintenance and contingencies would require ₹ 9,000.
- Prepare contract account for the year ended 31st March, 2014 and show your calculations of the sum to be credited to Profit and Loss A/c. for the year. [8+2]

- (b) Illustrate "Relevant Cost". [5]

Question.4

- (a) Ribald Transport Company has given a route of 40 kilometers long to run bus. The bus costs of 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 years. 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 kilometers. 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 on average 25 days in a month. [10]

- (b) Distinguish between Standard Costing and Budgetary Control. [5]

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Question.5

- (a) State the fundamental principles of process costing. [2]
- (b) A company prepares a budget for a production of 2,00,000 units. Variable cost per units is ₹ 15 and the fixed cost is ₹ 2 per unit. The company fixes its selling price to fetch a profit of 10% on cost.
- (i) What is the break- even point? (both in units and ₹)
 - (ii) What is profit volume ratio?
 - (iii) If it reduces its selling price by 5%, how does the revised selling price affect the break-even point and profit volume ratio?
 - (iv) If a profit increase of 10% is desired more than the budget, what should be the sales at the reduced price? [4+1+3+2=10]
- (c) The extracts from the payroll of M/s. Kumar Bros. is as follows:-

Number of employees at the beginning of 2014	150
Number of employees at the end of 2014	200
Number of employees resigned	20
Number of employees discharged	5
Number of employees replaced due to resignation and discharges	20

Calculate the Labour Turnover Rate for the factory by

- (i) Separation Method
- (ii) Replacement Method
- (iii) Flux Method.

[1+1+1=3]

Question.6

- (a) From the following forecast of income and expenditure prepare a Cash Budget for three months ending on June, 2014:

Month	Sales (₹)	Purchase (₹)	Wages (₹)	Misc. (₹)
2014 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 in the 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 15th 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, 2014. [10]

- (b) Explain JIT (Just In Time). [5]

Question.7

A group of workers consisting of 30 men above 30 years of age, 15 females above 30 years of age, and 10 youth of age between 20-30 are paid standard hourly rates as follows:

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Males ₹80/- per hour
Females ₹60/- per hour
Youth ₹40/-per hour

In a normal working week of 40 hours, the group is expected to produce 2,000 units of output. During a week, the group consisting of 40 males, 10 females and 5 youth produced 1,600 units. They were paid wages @ ₹70/- for males, ₹65/- for females and ₹30/- for youth per hour. 4 hours were lost due to abnormal idle time. The Actual and Standard Hrs are as follows:

	Standard Hrs	Actual Hrs
Male	1200	1600
Female	600	400
Youth	400	200
	2200	2200

Calculate;

- (i) Wage variance
- (ii) Wages rate variance;
- (iii) Labour efficiency variance;
- (iv) Labour mix variance;
- (v) Labour idle time variance.

[2+3+3+4+3=15]

Question.8 Write Short notes on the following (any three)

[3x5=15]

- (a) Supply chain Analysis
- (b) Limitation of Market Based Transfer Pricing
- (c) Benchmarking
- (d) ABC System of Store Control
- (e) Managerial Decision Making