INTERMEDIATE EXAMINATION

June 2015

I–P8(CMA)

Syllabus 2008

Cost and Management Accounting

Time Allowed: 3 Hours

Full Marks: 100

The figures in the margin on the right side indicate full marks.

Question No. 1 *is compulsory and Answer* **any five** *from the rest.*

Working notes should form part of your answer.

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

Column I	*Column II*
(i) VED Analysis	(A) Contract Costing
(ii) Reverse cost Method	(B) Inventory Control
(iii) Key Factor	(C) Group Bonus Plan
(iv) Escalation clause	(D) Cost Method for by-product Accounting
(v) Pristman system	(E) By-Product Cost Accounting
	(F) Absorption Costing
	(G) Process Costing
	(H) Budgeting

(b) State whether the following statements are 'True' or 'False': 1×5=5

(i) The allocation of joint cost on by-products affects the total profit or loss.

(ii) For decision making, absorption costing is more suitable than marginal costing.

(iii) Overhead and conversion cost are inter-changeable terms.

(iv) Only one set of accounting records is kept in integrated accounting system of financial and Cost Accounts.

(v) Profit Planning and control is not a part of budgetary control mechanism.

(c) Fill in the blank suitably: 1×5=5

(i) __________ Cost is the difference in total cost that results from two alternative courses of action.

(ii) __________ is must for meaningful inter-firm comparison.

(iii) Idle time variance is always __________ .

(iv) Generally an item of expense, when identified with a specific cost unit is treated as __________.

(v) In 'make or buy' decisions, it is profitable to buy from outside only when the suppliers price is below the firm's own __________.

(d) In the following cases, one out of the four answers is correct. You are required to indicate the correct answer (= 1 mark) and give brief workings (= 1 mark): 2×5=10

(i) A JBC machine was used on a contract site for the period of 7 months and depreciation on it was charged to the contract ₹ 78,750. If the working life of the machine is 5(five) years and salvage value is ₹ 25,000, then the cost of JBC machine will be:

(a) ₹ 7,00,000 (c) ₹ 6,75,000

(b) ₹ 4,18,750 (d) ₹ 3,93,750

(ii) In a factory the monthly requirement for a material is 20,000 units, ordering cost ₹ 225 per order, purchase price ₹ 20 per unit and annual carrying cost is 15%, then economic order quantity will be:

(a) 3000 units (c) 6000 units

(b) 2683 units (d) 1732 units

(iii) In a company, opening stock of material was 14,000 units, closing stock required to be maintained. 14000 units and sale is expected to be maintained at 28,000 units, what would be the production units during the period?

(a) 56,000 (c) 28,000

(b) 14,000 (d) 30,000

(iv) When in a company, Sale price per unit is ₹ 69.50, Variable cost ₹ 35.50 and Fixed cost is 18,02,000, the break-even volume would be:

(a) 58,500 units (c) 63,250 units

(b) 53,000 units (d) 28,750 units

(v) The actual machine hours worked in June' 2014, is for 35,000 units and the predetermined overhead recovery is @ ₹ 3 per unit, when actual overhead is ₹ 1,57,500, the outcome will be:

(a) ₹ 52,500 under absorbed (c) ₹ 1,57,500 over absorbed

(b) ₹ 53,500 over absorbed (d) ₹ 1,05,000 under absorbed

2. (a) M/s. Sun & Moon Company Ltd. is experiencing high labour turnover in recent years. Management of the company would like you to submit a statement on the loss suffered by the company due to such labour turnover. Following facts are available from the records:

Sales ₹ 800 lakhs, Direct Materials ₹ 200 lakhs, Direct Labour ₹ 48 lakhs on 4,80,000 labour hours, other variable expenses ₹ 80 lakhs, Fixed Cost ₹ 90 lakhs.

Direct Labour hours include 10,000 Labour hours spent on trainees and replacement, only 50% of which were productive.

Further during the year 15,000 Labour hours of potential work could not be availed of, because of delayed replacement. Cost incurred due to separation and replacement amounted to ₹ 2 lakhs.

With these information, you are required to prepare a statement showing actual profit against profit which would have been realised had there been no labour turnover. 2+3+1+1+3=10

(b) Write a note on 'Just-in-Time' Inventory. 5

3. (a) M/s Starlight Co. Ltd. specialises in the manufacturing of small components. Cost structure is given below:

Material	₹ 60 (per unit)
Labour	₹ 100 (per unit)
Variable cost	75% of Labour Cost

Fixed over head of the Co, ₹ 3 lakhs per annum. Unit price of small component is ₹ 260.

(i) Determine the number of components that have to be manufactured and sold in a year in order to break-even.

(ii) How many components have to be manufactured and sold to make a profit of ₹ 1 lakh (one lakh) per year?

(iii) If the sale price is reduced by ₹ 20 per unit, how many components have to be sold to break-even? 3+3+4=10

(b) What are the limitations of zero-based budgeting? 5

4\. (a) The net profit of Dhura Ltd. shown by cost accounts for the year ended 31st March 2015 was ₹ 10,35,000 and by financial accounts for the same period was ₹ 5,00,200.

A scrutiny of the figures of the financial accounts and the cost accounts revealed the following facts:

	(₹)	
(i) Administrative overhead under recovered in cost accounts	14,800	
(ii) Factory overhead-over-recovered in cost accounts	20,000	
(iii) Depreciation-over charged in financial accounts	40,000	
(iv) Interest on Investment	20,000	
(v) Loss due to obsolescence charged in financial accounts	24,000	
(vi) Abnormal Labour wastage charged in financial accounts	2,00,000	
(vii) Income Tax provided in financial accounts	2,80,000	
(viii) Bank Interest credited in financial accounts	4,000	
(ix) Stocks adjustment credited in financial accounts	28,000	
(x) Loss due to depreciation in stock values charged in financial accounts	48,000	10

(b) State the essentials of a good costing system. Reconcile the above. 5

5\. (a) Prince Hotel has three types of rooms viz. super deluxe, deluxe and semi-deluxe. Detail information are given below:

(i) There are 20 super deluxe rooms, 80 deluxe rooms and 180 semi-deluxe rooms.

(ii) The rent/tariff of super deluxe rooms is to be fixed as twice the deluxe rooms and that of semi-deluxe rooms as 2/3rd of the deluxe rooms.

(iii) Normally 80% of super deluxe; 75% of deluxe and 70% of semi-deluxe rooms are occupied in summer of 7(seven) months. In winter of 5(five) months 40% of super deluxe, 50% of deluxe and 60% of semi-deluxe rooms are occupied.

Normal days in a month may be taken as 30 days.

(iv) Total actual expenses for the year ended 31st March 2015 are ₹ 473,85,000.

Your are required to suggest what rent should be charged for each type of room if profit is 25% on gross receipts/room rent. 6+4=10

(b) What is inter-process profit? Explain it clearly. 5

6. (a) M/s Zenith Co. Ltd., operating at normal capacity produces 1,00,000 units of a product which supplies the following particulars:

	(₹) Per unit
Direct Material	32
Direct Labour	12
Variable overhead	16
Fixed overhead	15
	₹ 75

Sale price per unit ₹ 100.

In addition, selling and distribution cost of ₹ 5 per unit is incurred for selling each unit of product.

As the company faces recession in the market, the Marketing Department desires to produce only 5000 units.

But, management is of the opinion to shut down the plant.

If the plant is shutdown the loss due to fixed cost could be avoided for ₹ 4,00,000, but the committed unavoidable cost would be estimated at ₹ 2,95,000.

Required: Advise whether the plant should be shut down or not. 4+4+2=10

(b) What is Integrated Accounting System? What are its advantages? 2+3=5

7. (a) Draw-up a Flexible Budget for over head expenses of M/s Black & White Co. Ltd, on the basis of the following data and determine the over head rate at 70%, 80% and 90% of plant capacity level (based on direct labour hours).

	at 80% capacity (₹)
Variable overhead:	
Indirect labor	12,000
Indirect Material	4,000
Semi-variable overheads	
Power (30% fixed, 70% variable)	20,000
Repairs & Maintenance (60% Fixed, 40% variable)	2,000
Fixed overhead	
Depreciation	11,000
Insurance	3,000
Others	10,000
Total overheads expenses	62,000

Estimated direct labour hours 1,24,000 hrs. 3+3+4=10

(b) State the accounting treatment of abnormal process loss and abnormal process gain. 3+2=5

8. Write short notes on *any three* of the following: 5×3=15

(a) VED Analysis.
(b) Material handling cost.
(c) Cost Reduction.
(d) Opportunity Cost.
(e) Cost-volume-Profit Analysis.