**REVISED SYLLABUS 2008**

# REVALIDATION TEST PAPER

# INTERMEDIATE
## Group II

**THE INSTITUTE OF COST AND WORKS ACCOUNTANTS OF INDIA**
**DIRECTORATE OF STUDIES**

**PAPER-8**

# COST AND MANAGEMENT ACCOUNTING

**REVALIDATION TEST PAPER-RV/08/CMA/2010**

**Time Allowed-3 Hours** **Full Marks-100**

Answer Question No I which is compulsory and any five from the rest

**Q.1)**

**(a) State whether the following statements are True (T) or False (F)-Give reasons:**

(i) ABC analysis is made on the basis of unit prices of materials.
(ii) Cost of tube used for packing tooth paste is indirect material cost.
(iii) Value analysis helps in cost control.
(iv) No distinction is made between direct and indirect materials in Process Costing.
(v) Cost industry makes use of output costing. 10

**(b) Match the following correctly:**

| | |
|---|---|
| Merit rating | Pure finance not included in cost |
| Flexible budget | Profitability rate |
| Differential cost analysis | Evaluation of a job |
| Debenture interest | Liquidity |
| Angle of incidence | Considers costs by behavior |
| | Decision taking |
| | Budgetary control |
| | Basis for remunerating employees |

5

**(c) Choose the correct answer from the answers given for each of the following questions. Indicate workings briefly**:

(i) A worker has a time rate of Rs. 15/hr. He makes 720 units of a component (standard time:5 minutes/unit in a week of 48 hours. His total wages including Rowan bonus for the week is ___________.

(A) Rs. 792 (B) Rs. 820 (C) Rs. 840 (D) Rs. 864.

(ii) A television company manufactures several components in batches. The following data relates to on component:
Annual demand:32,000 units; Set-up cost per batch:Rs. 120.
Annual rate of interest: 12%; Cost of production per unit: Rs. 16.
The Economic Batch Quantity is ___________ units
(A) 2,500 (B) 4,000 (C) 3,000 (D) 2,000

(iii) A company has annual turnover of Rs. 200 lakhs and an average C/S ratio of 40%. It makes 10% profit to sales before charging depreciation and interest which amount to Rs.10 lakhs and Rs. 15 lakhs respectively The annual fi xed cost of the company is ___________.
(A) Rs. 85 lakhs (B) Rs. 75 lakhs (C) Rs. 60 lakhs (D) Rs. 55 lakhs.

(iv) Sales for two consecutive months of a Company are Rs. 3,80,000 and Rs.4,20,000. The Company's net profits for these months amounted to Rs. 24,000 and Rs. 40,000 respectively. There is no change in C/S ratio or fixed costs. The C/S ratio of the Company is ___________.
(A) 1/3 (B) 2/5 (C) 1/4 (D) None of these.

(v) In activity based costing, costs are accumulated by

(A) Cost objects (B) Cost benefi t analysis
(C) Cost Pool (D) None of the above

**10**

**2(a)** What is idle time? Explain the causes for idle time. 5

(b)A worker takes 6 hours to complete a job under a scheme of payment by results. The standard time allowed for the job is 9 hours. His wage rate is Rs.15 per hour. Material cost of the job is Rs.120 and the overheads are recovered at 15% of the total direct wages. Calculate the factory cost of job under A] Rowan and B] Halsey system of incentive system.

10

3(a) Distinguish between 'allocation and apportionment' of overheads. 5

(b)A machine was purchased on 1st January, 2007 for Rs. 5 lakhs. The total cost of all machinery inclusive of the new machine was Rs. 75 lakhs. The following further particulars were available.

Expected life of the machine – 10 years
Scrap value at the end of the life – Rs. 5,000
Repairs and maintenance for the machine during the year Rs. 2,000
Expected number of working hours of the machine per year 4,000
Insurance premium annually for all machines Rs. 4,500
Power consumption for the machine per hour @ Rs. 5 @ per unit = 25 units
Area occupied by the machine – 100 sq feet
Area occupied by other machines – 1,500 sq. feet
Rent per month of the department Rs. 800
Lighting charges for 20 points for the whole department out of which three points are for the new machine – Rs.120 per month
Compute the machine hour rate for the machine. 10

4(a) A factory has two production processes. Normal loss in each process is 10% and scrapped units sell for Re. 0.50 each from process 1 and Rs. 3 each from process 2. Relevant information for costing purposes relating to period 5 are as follows :

| Direct materials added : | *Process 1* | *Process 2* |
|---|---|---|
| Units | 2,000 | 1,250 |
| Cost | Rs. 8,100 | Rs. 1,900 |
| Direct labour | Rs. 4,000 | Rs. 10,000 |
| Production overhead | 150% of direct labour cost | 120% of direct labour cost |
| Output to Process 2/finished goods | 1,750 units | 2,800 units |
| Actual production overhead | Rs. 17,800 | |

Workout cost per unit of output and losses. 10

(b) State the fundamental principles of Process Costing. 5

5(a) New India Engineering Co. Ltd., produces three components A, B and C. The following particulars are provided :

| | PRODUCT | | |
|---|---|---|---|
| | **A** **Rs.** | **B** **Rs.** | **C** **Rs.** |
| Per Unit | | | |
| Sale Price | 60 | 55 | 50 |
| Direct Material | 20 | 18 | 15 |
| Direct Labour | 15 | 14 | 12 |
| Variable overhead expenditure | 13 | 13 | 17 |
| Fixed Cost is Rs. 1,00,000 per year. | | | |
| Estimated Sales (in No. of Units) | 2000 | 2000 | 2000 |

Due to break-down of one of the machines, the capacity is limited to 12,000 machine hours only and this is not sufficient to meet the total sales demand.

You are required to work out

(i) what will be most profitable product mix that should be produced, and
( ii) the total contribution from the revised product mix. 10

(b) Define Operating Costing and mention at least five activities where it is applicable. 5

Q6(a) State the distinguishing features of standard cost. 5

(b) The following information was obtained from the records of a manufacturing unit using standard costing system :

| **Particulars** | **Standards** | **Actual** |
|---|---|---|
| Production | 4000 units | 3800 units |
| Working days | 20 | 21 |
| Fixed overheads | Rs. 40,000 | Rs. 39,000 |
| Variable overheads | Rs. 12,000 | Rs. 12,000 |

Calculate :

(a) Variable overhead variance;
(b) Fixed overhead expenditure variance;
(c) Fixed overhead volume variance;
(d) Fixed overhead efficiency variance;
(e) Fixed overhead calandar variance. 10

7(a)
X Ltd. manufactures Product A, which yields two by-products B and C. The actual joint expenses of manufacture for a period were Rs.8, 000.

It was estimated that the profi ts on each product as a percentage of sales would be 30%, 25% and 15% respectively. Subsequent expenses were as follows:

| **Particulars** | **Product A** | **Product B** | **Product C** |
|---|---|---|---|
| Materials | Rs.100 | Rs.75 | Rs.25 |
| Direct wages | 200 | 125 | 50 |
| Overheads | 150 | 125 | 75 |
| Total | 450 | 325 | 150 |
| Sales | Rs. 6,000 | Rs. 4,000 | Rs. 2,500 |

Prepare a statement showing the apportionment of the joint expenses of manufacture over the different products. Also presume that selling expenses are apportioned over the products as a percentage to sales. 10

(b) Define by product and joint products.What is the difference between them? Give examples. 5

8. Write short notes on any three from the following 3*5

(a) Cost Plus Contract
(b) Equivalent Production
(c) Flexible Budget
(d) Cost Driver
(e) Performance Budgeting