

**INTERMEDIATE EXAMINATION****SET - 1****MODEL ANSWERS****TERM – DECEMBER 2024****PAPER – 8****SYLLABUS 2022****COST ACCOUNTING****Time Allowed: 3 Hours****Full Marks: 100**

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

SECTION – A (Compulsory)**1. Choose the correct option:****[15 x 2 = 30]**

- (i) What is the primary objective of cost accounting?
- Maximize profits
 - Record financial transactions
 - Provide financial statements
 - Facilitate cost control and decision-making
- (ii) If the direct materials consumed are ₹30,000, direct labour is ₹20,000, and factory overhead is 15,000, what is the total manufacturing cost?
- 50,000
 - 65,000
 - 35,000
 - 20,000
- (iii) The sum of direct labour and factory overhead is termed _____.
- Prime Cost
 - Conversion Cost
 - Cost of goods manufactured
 - Direct Cost
- (iv) A company employs three drivers to deliver goods to its customers. The salaries paid to these drivers are:
- a part of prime cost
 - a direct production expense
 - a production overhead
 - a selling and distribution overhead
- (v) What does CAS-11 emphasize regarding the treatment of abnormal administrative costs?
- Inclusion in cost calculations
 - Exclusion from cost calculations
 - Separate disclosure in footnotes
 - Attestation by external auditors
- (vi) Which of the following is a scientific and accurate method for calculating factory overhead absorption?
- Percentage of prime cost method
 - Machine hour rate method
 - Percentage of direct material cost method
 - Percentage of direct labour cost method
- (vii) A company calculates the prices of jobs by adding overheads to the prime cost and adding 30% to total costs as a profit margin. Job number Y256 was sold for ₹1,690 and incurred overheads of ₹694. What was the prime cost of the job?



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- a. 489
 - b. 606
 - c. 996
 - d. 1,300
- (viii) Which of the following does not form part of prime cost?
- a. GST paid on raw materials (input credit can be claimed)
 - b. Cost of transportation paid to bring materials to factory
 - c. Cost of packing
 - d. Overtime premium paid to workers
- (ix) Job costing is:
- a. Suitable where similar products are produced on a mass scale
 - b. Method of costing used for non-standard and non-repetitive products
 - c. Applicable to all industries regardless of the products or services produced
 - d. None of the above
- (x) Normal capacity of a plant refers to the difference between:
- a. Maximum capacity and practical capacity
 - b. Maximum capacity and actual capacity
 - c. Practical capacity and estimated idle capacity as revealed by long term sales trend
 - d. Practical capacity and normal capacity
- (xi) A flexible budget requires a careful study of:
- a. Fixed, semi-fixed and variable expenses
 - b. Past and current expenses
 - c. Overheads, selling and administrative expenses.
 - d. None of these.
- (xii) Marginal Costing technique follows the _____ basis of classification of costs.
- a. Element wise
 - b. Function Wise
 - c. Behaviour wise
 - d. Identifiability wise
- (xiii) What characterizes a non-integrated cost accounting system?
- a. Unified ledger system
 - b. Separate cost and financial accounts
 - c. Sole reliance on cost principles
 - d. Complex reconciliation processes
- (xiv) Administration overheads are usually absorbed as a percentage of _____.
- a. Works Cost
 - b. Prime Cost
 - c. Cost of goods sold
 - d. Cost of production
- (xv) If the time saved is less than 50% of the standard time, then the wages under Rowan and Halsey premium plan on comparison gives:
- a. Equal wages under two plans
 - b. More wages to workers under Halsey Plan than Rowan Plan
 - c. More wages to workers under Rowan Plan than Halsey Plan
 - d. None of the above



Answer:

(i)	(ii)	(iii)	(iv)	(v)	(vi)	(vii)	(viii)	(ix)	(x)	(xi)	(xii)	(xiii)	(xiv)	(xv)
d	b	b	d	b	b	b	d	b	c	a	c	b	a	b

SECTION-B

(Answer any five questions out of seven questions given. Each question carries 14 Marks.)

[5x14=70]

2. (a) An advertising agency has received an enquiry. Bill of material prepared by the production department for the job states the following requirement of material:

Paper 10 reams @ ₹1,800 per ream

Ink and other printing material ₹5,000

Binding material & other consumables ₹3,000

Some photography is required for the job. The agency does not have a photographer as an employee. It decides to hire one by paying ₹10,000 to him. Estimated job card prepared by production department specifies that the service of the following employees will be required for this job:

Artist (₹12,000 per month) 80 hours

Copywriter (₹10,000 per month) 75 hours

Client servicing (₹9,000 per month) 30 hours

The primary packing material will be required to the tune of ₹4,000. Production overheads are 40% of direct costs, while the selling & distribution overheads are likely to be 25% on Production Costs. The agency expects a profit of 20% on the quoted price. The agency works 25 days in a month and 6 hours a day. You are required to illustrate the quotation which is supposed to be submitted. [7]

- (b) The Purchase Department of S Ltd. has received an offer of quantity discounts on its orders of materials as under:

Price per tonne (₹)	Tonnes
1,180	500 and less than 1,000
1,160	1,000 and less than 2,000
1,140	2,000 and above

The annual requirement for the material is 5,000 tonnes. The delivery cost per order is ₹1,000 and the stock holding cost is estimated at 20% of material cost per annum. Calculate and advise the Purchase Department the most economical purchase level. [7]

Answer:

- (a) Quotation for a printing job:

Items	Amount (₹)	Amount (₹)
Direct Material		
Paper	10 × 1,800 = 18,000	
Ink and other printing material	5,000	

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Binding material & consumables	3,000	
Primary packing material	4,000	30,000
Direct Labour		
Photographer's Charge	10,000	
Artist (WN 1)	6,400	
Copywriter (WN 2)	5,000	
Client Servicing (WN 3)	1,800	23,200
Prime Cost		53,200
Add: Production Overhead	40% × 53,200	21,280
Factory Cost		74,480
Add: Selling & Distribution Overhead	25% × 74,480	18,620
Cost of Sales		93,100
Add: Profit (WN 4)		23,275
Price to be quoted		1,16,375

Working Notes:

- Charge per month ₹ 12,000
Working Hours per month (25 × 6) 150 hours
Actual Hours worked 80
∴ Labour charge for Artist = $12,000 \times 80/150 = ₹ 6,400$
- Charge per month ₹ 10,000
Working Hours per month (25 × 6) 150 hours
Actual Hours worked 75
∴ Labour charge for Copywriter = $10,000 \times 75/150 = ₹ 5,000$
- Charge per month ₹ 9,000
Working Hours per month (25 × 6) 150 hours
Actual Hours worked 30
∴ Labour charge for Client servicing = $9,000 \times 30/150 = ₹ 1,800$
- Cost of Sales + Profit = Price to be quoted
or, $93,100 + 20\% \times \text{Price to be quoted} = \text{Price to be quoted}$
or, $\text{Price to be quoted} = 93,100 \times 100/80 = ₹ 1,16,375$
Profit = $1,16,375 - 93,100 = ₹ 23,275$

(b) Statement showing the most economic purchase level:

Particulars			
1. Order Size (units in tonne)	500	1,000	2,000
2. No. of orders (Annual requirement ÷ order size)	10	5	2.5
	₹	₹	₹
3. Value of order (Order size × Price per tonne)	5,90,000	11,60,000	22,80,000
4. Average inventory (Value per order ÷ 2)	2,95,000	5,80,000	11,40,000
5. Ordering Cost	10,000	5,000	2,500



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(No. of order × ordering cost per order) i.e. (₹1,000)			
6. Carrying cost (20% of item 4)	59,000	1,16,000	2,28,000
7. Total (5+6)	69,000	1,21,000	2,30,500
8. Add: Annual Cost of material (Annual demand × Price per tonne)	59,00,000	58,00,000	57,00,000
9. Total annual cost	59,69,000	59,21,000	59,30,500

₹59,21,000 is the total minimum cost at 1,000 order size. Therefore, the most economical purchase level is 1,000 tonnes.

3. (a) In a manufacturing unit, overhead was recovered at a predetermined rate of ₹25 per man-day. The total factory overhead incurred and the man-days actually worked were ₹41,50,000 and 1,50,000 respectively. Out of the 40,000 units produced during a period of 30,000 units were sold. There were also 30,000 uncompleted units which may be reckoned at 66.67% complete. On analysing the reasons, it was found that 40% of the unabsorbed overheads were due to defective planning and the rest were attributable to increase overhead costs. Calculate the unabsorbed overhead and how would it be treated in Cost Accounts. [7]
- (b) From the accounts of A Co. Ltd. the following Manufacturing, Trading and Profit and Loss Account for the year ended 31st December, 2023, is extracted:

Particulars	₹	Particulars	₹
To Raw Materials:		By Raw Materials:	
Opening stock	59,000	Closing stock	64,000
Raw Materials Purchases	3,73,000		
To Wages paid	5,62,000	By Work-in-Progress:	
		Materials	8,000
		Wages	11,000
		Factory exp.	6,600
To Wages accrued	34,000	By Cost of goods manufactured	13,19,900
		(18,000 units)	
To Factory expenses	3,81,500		
	14,09,500		14,09,500
To Cost of goods manufactured	13,19,900	By Sales (15,200 units)	18,24,000
To Administration expenses	2,45,000	By Finished Stock	2,35,200
		(2,800 units)	
To Selling and Distribution Expenses	3,28,000	By Interest on Investments	2,600
To Preliminary expenses written-off	18,000	By Dividend earned	11,000
To Goodwill written-off	17,000		
To Net Profit transferred to Appropriation A/c	1,44,900		
	20,72,800		20,72,800

The following procedure is adopted in connection with the costing of the product:

- (A) Factory expenses are allocated to production at 60% of direct labour cost.
- (B) Administration expenses are applied at ₹12 per unit over the units produced.
- (C) Selling and distribution expenses are charged so as to work out at 20% of selling price.

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Prepare Costing Profit and Loss Account and the Statement of Reconciliation between the profit or loss as per the two accounts. [7]

Answer:**(a)** Calculation of Unabsorbed Overhead:

Particulars		Amount ₹
Overhead Incurred		41,50,000
Less: Overhead Absorbed	25 x 1,50,000	37,50,000
Under Absorption		4,00,000

The under absorption of ₹ 4,00,000 being considerable whether due to defective planning or due to increase in prices, would be disposed of by applying supplementary overhead rate in the following manner:

$$\begin{aligned}\text{Supplementary Overhead Rate} &= ₹ 4,00,000 \div (30,000 + 10,000 + 30,000 \times 2/3) \\ &= ₹ 4,00,000 \div 60,000 \text{ units} \\ &= ₹ 20 \div 3 \text{ per unit}\end{aligned}$$

Finished Goods Sold = 30,000 units

Work in Progress = 30,000 units; equivalent finished goods = 30,000 × 2/3 = 20,000 units

So, under absorbed overhead will be absorbed by

Cost of Goods Sold	= 30,000 × 20/3	= ₹ 2,00,000
Closing Stock of Finished Goods	= 10,000 × 20/3	= ₹ 66,667
Work in Progress	= 20,000 × 20/3	= ₹ 1,33,333
Total		= ₹ 4,00,000

(b) Costing profit and loss account

Particulars	₹	₹	₹
Material consumed:			
Opening Stock	59,000		
Add: Purchase	3,73,000		
	4,32,000		
Less: Closing stock	64,000	3,68,000	
Wages: Paid	5,62,000		
Accrued	34,000	5,96,000	
Prime cost			9,64,000
Factory expenses (60% of wages)			3,57,600
Works cost (for units finished and Work-in-progress)			13,21,600
Less: Work-in-progress			25,600
Works cost of units finished			12,96,000
Administration expenses @₹12 per unit on (15,200 + 2,800) units			2,16,000
Cost of goods produced			15,12,000
Less: Finished Stock- 2,800 units @ ₹84			2,35,200

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			12,76,800
Selling and Distribution Expenses (20% of ₹18,24,000)			3,64,800
Cost of Sales (15,200 units)			16,41,600
Sales			18,24,000
Profit			1,82,400

Note: Cost per unit = ₹15,12,000 ÷ 18,000 units = ₹84.

Reconciliation Statement

Particulars	₹	₹	₹
Profit as per Cost Accounts			1,82,400
Add: Items not credited in Cost Accounts:			
Interest on Investments	2,600		
Dividend earned	11,000		
		13,600	
Selling and Distribution expenses			
Over-recovered (3,64,800-3,28,000)		36,800	
			50,400
			2,32,800
Less: Items not charged in Cost Accounts:			
Preliminary expenses written-off	18,000		
Goodwill written-off	17,000		
		35,000	
Factory expenses under-recovered (3,81,500 - 3,57,600)		23,900	
Administration expenses under-recovered (2,45,000 - 2,16,000)		29,000	
			87,900
Profit as per Financial Accounts			1,44,900

4. (a) Mr. Nikhil started transport business with a fleet of 10 taxis. The various expenses incurred by him are given below:

(A) Cost of each taxi	₹ 1,20,000
(B) Salary of office staff	₹ 6,500 p.m.
(C) Salary of garage staff	₹ 3,500 p.m.
(D) Rent of garage	₹ 10,000 p.m.
(E) Driver's salary per taxi	₹ 5,000 p.m.
(F) Road tax and repairs per taxi	₹ 30,000 p.a.
(G) Insurance premium @ 5% of cost p.a.	

The life of a taxi is 3,00,000 Km. and at the end of which it is estimated to be sold at ₹30,000. A taxi runs on an average of 5,000 km. per month of which 20% it runs empty. Petrol consumption is 10 Km. per liters of petrol costing ₹70 per liters. Oil and other sundry expenses amount to ₹50 per 100 Km.

Calculate the effective cost of running a taxi per Km. If the hire charge is ₹15 per Km, determine the profit Mr. Nikhil may expect to make in the first year of operation. [7]

- (b) A company undertook a contract for construction of a large building complex. The construction work commenced on 1st April, 2023 and the following data are available for the year ended 31st March, 2024.

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Particulars	(₹ '000)
Contract Price	35,000
Work Certified	20,000
Progress Payments Received	15,000
Materials Issued to Site	8,500
Planning & Estimating Costs	1,000
Direct Wages Paid	4,020
Materials Returned From Site	270
Plant Hire Charges	2,000
Wage Related Costs	500
Site office costs	650
Head Office Expenses apportioned	350
Direct Expenses incurred	1,000
Work Not Certified	150

The contractors own a plant which originally cost ₹30 lacs have been continuously in use in this contract throughout the year. The residual value of the plant after 5 years of life is expected to be ₹5 lacs. Straight line method of depreciation is in use.

As on 31st March, 2024 the direct wages due and payable amounted to ₹2,50,000 and the materials at site were estimated at ₹5,00,000. Required:

(i) Prepare the contract account for the year ended 31st March, 2024.

(ii) Calculate the profit to be taken to the profit and loss account of the year.

[7]

Answer:

(a) Operating Cost Sheet:

Particulars	Workings	Per month	Per Km (₹)
Fixed costs per taxi:			
1. Salary of Office staff	[6,500 ÷ 10]	650	
2. Salary of garage staff	[3,500 ÷ 10]	350	
3. Garage rent	[10,000 ÷ 10]	1,000	
4. Driver's Salary		5,000	
5. Road tax and repairs	[30,000 ÷ 12]	2,500	
6. Insurance	[(5% on 1,20,000) ÷ 12]	500	
Fixed cost per taxi		10,000	
Fixed cost per effective Km	[10,000 ÷ 4,000(W.N 1)]		2.50
Variable costs:			
1. Depreciation	(1,20,000-30,000)/2,40,000[W.N 2]		0.375
2. Petrol per month Per effective Km.	(70 × 5,000)/10 = ₹ 35,000 ₹ 35,000 ÷ 4,000 Km		8.75
3. Oil and other sundries per month Per effective Km.	[50 × 5,000/100] = ₹ 2,500 ₹ 2,500 ÷ 4,000 Km		0.625
Operating cost per effective Km.			12.25

Calculation of profit in First Year:



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Particulars	Amount (₹)
Hire Charges per Km.	15.00
Operating cost effective per Km	12.25
Profit per effective km	2.75

Profit for one year (4,80,000 km [W.N 3] @ 2.75 per km) = ₹ 13,20,000

Working Notes:

- Effective Km. per month = 5,000 – 20% of 5000 = 4,000 km
- Effective Km of life of a taxi = [3,00,000 – 20% of 3,00,000] = 2,40,000 km
- Effective km for first year of operation for all the 10 taxis = 4,000 × 12 × 10 = 4,80,000 km

(b)

Contract Account for the year ended 31st March, 2024

Dr.			Cr.		
Particulars		Amount (₹ '000)	Particulars		Amount (₹ '000)
To Materials issued		8,500	By Materials returned		270
To Direct Wages paid	4,020		By Materials at Site		500
Add: Accrued	250	4,270	By W.I.P A/c		
To Wages related costs		500	- Work certified	20,000	
To Direct expenses incurred		1,000	- Work uncertified	150	20,150
To planning & Estimating Costs		1,000			
To Plant Hire charges		2,000			
To Site Office Costs		650			
To Head Office expenses apportioned		350			
To Depreciation on plant (WN 1)		500			
To Notional profit c/d		2,150			
		20,920			20,920
To Profit & Loss A/c (WN 2)		1,075	By Notional Profit b/d		2,150
To Reserve c/d		1,075			
		2,150			2,150

Working Notes:

- Calculation of Depreciation on plant:

	Amount ('000)
Original Cost of plant	3,000
Less: Residual Value	500
Chargeable cost of plant	[a] 2,500
Life of the plant	[b] 5 years
Annual Depreciation	[a÷b] 500

- Profit to be transferred to profit & loss Account:

% of Completion = Work Certified /Contract Price ×100



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Since the completion of contract is greater than 50% but not greater than 90%, $\frac{2}{3}$ rd of the Notional Profit in the ratio of Cash received to work certified will be transferred to profit & Loss A/c.

$$= \frac{2}{3} \times \text{Notional profit} \times \frac{\text{Cash received}}{\text{Work Certified}}$$

$$= \frac{2}{3} \times 2,150 \times \frac{15,000}{20,000} = 1,075.$$

5. (a) In manufacturing the main Product 'A', a company processes the resulting waste material into two By-Products B and C. Prepare a comparative profit and loss statement of the three products, using reversal cost method of By-Products from the following data:

(i) Total cost up to separation point was ₹68,000

	A	B	C
(ii) Sales (all production)	₹ 1,64,000	₹ 16,000	₹ 24,000
(iii) Estimated net profit % to Sale Value	-	20%	30%
(iv) Estimated Selling Expenses as % of Sales Value	20%	20%	20%
(v) Costs after separation	-	₹ 4,800	₹ 7,200

[7]

- (b) Prepare Sales Overhead Budget for the month of January, February and March for the estimates given below:

Advertisement	₹ 3,000
Salaries of the Sales Department	₹ 4,000
Expenses of the Sales Department	₹ 2,000
Counter Salesmen's Salaries and Dearness Allowance	₹ 6,000

Counter Salesmen's commission is 2% on their sales.

Travelling salesmen's commission at 10% on their sales and expenses at 5% on their sales. The sales during the period were estimated as follows:

Month	Counter Sales (₹)	Travelling Salesmen's Sales (₹)
January	1,00,000	20,000
February	1,50,000	30,000
March	1,75,000	40,000

[7]

Answer:

- (a) Allocation of Joint Cost to Product B and Product C

	Product B (₹)	Product C (₹)
Sales	16,000	24,000
Less: Profit	$20\% \times 16,000 = 3,200$	$30\% \times 24,000 = 7,200$
Total cost	12,800	16,800
Less: Selling Expense	$20\% \times 16,000 = 3,200$	$20\% \times 24,000 = 4,800$
	9,600	12,000
Less: Cost after separation	4,800	7,200
Share in Joint Cost	4,800	4,800

$$\therefore \text{Share in Joint Cost of Product A} = 68,000 - (4,800 + 4,800) = ₹ 58,400$$



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Comparative Profit and Loss Statement

Particulars	Product A (₹)	Product B (₹)	Product C (₹)	Total (₹)
Sales (A)	1,64,000	16,000	24,000	2,04,000
Joint Cost	58,400	4,800	4,800	68,000
Cost After Separation	-	4,800	7,200	12,000
Selling Expenses	32,800	3,200	4,800	40,800
Total Cost (B)	91,200	12,800	16,800	1,20,800
Profit (A – B)	72,800	3,200	7,200	83,200

Selling Expense of Product A = 20% × 1,64,000 = ₹32,800.

(b) Sales Overhead Budget (For the month of January, February and March)

Particulars	January	February	March
Variable Overheads:			
Commission to counter salesmen @ 2% on their sales	2,000	3,000	3,500
Travelling salesmen's commission @ 10% on their sales	2,000	3,000	4,000
Travelling salesmen's expenses @ 5% on their sales	1,000	1,500	2,000
Total variable overheads [A]	5,000	7,500	9,500
Fixed Overheads			
Advertisement	3,000	3,000	3,000
Salaries of Sales department	4,000	4,000	4,000
Expenses of Sales Department	2,000	2,000	2,000
Salaries to the counter salesmen	6,000	6,000	6,000
Total Fixed Overhead [B]	15,000	15,000	15,000
Total Sales overhead [A]+[B]	20,000	22,500	24,500

6. The Standard labour complement and the actual labour complement engaged in a week for a job are as under:

	Skilled workers	Semi-Skilled workers	Unskilled workers
a) Standard no. of workers in the gang	32	12	6
b) Standard wage rate per hour (₹)	3	2	1
c) Actual no. of workers employed in the gang during the week	28	18	4
d) Actual wage rate per hour (₹)	4	3	2

During the 40 hour working week the gang produced 1,800 standard labour hours of work. Calculate the following:

- 1) Labour Efficiency Variance 2) Mix Variance
 3) Rate of Wages Variance 4) Labour Cost Variance

[14]

Answer:

Analysis of Given Data

Standard Data				Actual Data			
	Hours	Rate	Value (₹)		Hours	Rate	Value (₹)



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Skilled	32×40=1,280	3	3,840	Skilled	28×40=1,120	4	4,480
Semi-skilled	12×40=480	2	960	Semi-skilled	18×40=720	3	2,160
Unskilled	6×40=240	1	240	Unskilled	4×40= 160	2	320
	2,000		5,040		2000		6,960

Computation of Required Values

	SRSH(1)	SRRSH(2)	SRAH(3)	ARAH(4)
skilled	3,840	3×1,152=3,456	3×1,120=3,360	4,480
Semi-skilled	960	2×432 = 864	2×720=1,440	2,160
unskilled	240	1×216 = 216	1×160= 160	320
	5,040	4,536	4,960	6,960

Computation of SH

SH = (SH for that worker/ SH for all the worker)× AQ for that worker

For Skilled Worker = $(1,280/2000) \times 1,800 = 1,152$

For Semiskilled worker = $(480/2000) \times 1,800 = 432$

For Unskilled worker = $(240 /2000) \times 1,800 = 216$

Where,

(1)SRSH = Standard Cost of Standard Labour = ₹4,536

(2)SRRSH = Revised Standard Cost of Labour = ₹ 5,040

(3)SRAH = Standard Cost of Actual Labour = ₹ 4,960

(4)ARAH = Actual Cost of Labour = ₹ 6,960

Computation of Labour Variances:

a. Labour Sub-Efficiency Variance = (1) – (2) = ₹504 (F) [(5,040–4,536)]

b. Labour Mix or Gang Variance = (2) – (3) = ₹ 424 (A) [(4,536– 4,960)]

c. Labour Efficiency Variance = (1) – (3) = ₹ 80 (F) [(5,040– 4,960)]

d. Labour Rate Variance = (3) – (4) = ₹ 2,000 (A) [(4,960 – 6,960)]

e. Labour Cost Variance = (1) – (4) = 1,920 (A) [(5,040– 6,960)]

7. (a) A company manufactures scooters and sells it at ₹5,000 each. An increase of 17% in cost of materials and of 20% of labour cost is anticipated. The increased cost in relation to the present sales price would cause at 25% decrease in the amount of the present gross profit per unit.

At present, material cost is 50%, wages 20% and overhead is 30% of cost of sales.

You are required to:

(i) Prepare a statement of profit and loss per unit at present.

(ii) Calculate the new selling price to produce the same percentage of profit to cost of sales as before. [7]

- (b) Explain, the treatment of the Idle Time as per CAS-7. [7]

Answer:

- (a) (i) Let the total cost per unit at present be ₹ X and Profit per unit be ₹ Y

Particulars	Present Cost Structure (₹)	Percentage increase/decrease	Anticipated Cost Structure (₹)



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Material	0.50X	17% increase = $0.50X \times 117\%$	0.585X
Labour	0.20 X	20% increase = $0.20X \times 120\%$	0.24X
Overhead	0.30X		0.30X
Total (Cost of Sales)	X		1.125X
Profit	Y	25% decrease = $Y \times 75\%$	0.75Y
Sales	5000		5000

So, two equations are: $X + Y = 5,000$ (i)

And $1.125X + 0.75Y = 5,000$ (ii)

Multiplying equation (i) by 1.125 and subtracting equation (ii) from (i)

$$\begin{aligned}
 1.125X + 1.125Y &= 5,625 \\
 (-) 1.125X + 0.75Y &= 5,000 \\
 \hline
 0.375Y &= 625
 \end{aligned}$$

or, $Y = 1,667$ or, Profit = ₹ 1,667

by putting the value of $Y = 1,667$ in equation (i)

or, $X + 1,667 = 5,000$

or, $X = 3,333$

or Total Cost = ₹ 3,333

Statement of profit and loss per unit at present

Particulars	Present Cost Structure (₹)
Material	1,666
Labour	667
Overhead	1,000
Total (Cost of Sales)	3,333
Profit	1,667
Sales	5000

Profit as a % of cost = 50%

(ii) The new selling price to produce the same percentage of profit to cost of sales as before: -

Particulars	Cost Structure (₹)
Material	1,950
Labour	800
Overhead	1,000
Total (Cost of Sales)	3,750
Profit	1,875
Sales	5,625

Therefore, the new selling price to produce the same percentage of profit to cost of sales as before is ₹5,625.

(b) Treatment of Idle Time

As per CAS-7, Idle Time Cost shall be assigned direct to the cost object or treated as overheads depending on the economic feasibility and specific circumstances causing such idle time.

Treatment of different categories of Idle Time is as below: -



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- i. Unavoidable idle time above would be for insignificant periods. In Cost Accounts, this is allowed to remain merged in the Production Order or Standing Order Number on which the worker was otherwise employed.
- ii. Normal Idle Time is booked to factory or works overhead. For the purpose of effective control, each type of idle time, i.e., idle time classified according to the causes is allocated to a separate Standing Order Number.
- iii. Abnormal Idle Time would usually be heavy in amount involves longer periods and would mostly be beyond the control of the management. Payment for such idle time is not included in cost and is adjusted through the Costing Profit and Loss Account or included in Profit and Loss Account, when the accounts are integrated.

Tendency to conceal Idle Time should be discouraged. It is a non-effective time and the resultant loss of profit due to reduced production activity but also increases the cost per unit of production as the fixed costs continue to be incurred, irrespective of the reduced quantum of production due to loss of labour time. Idle Time should, therefore, be highlighted prominently so that action can be taken to remove the causes thereof. Although for obvious reasons, it is not possible to record minor details vigilance is necessary for finding out long-term idleness among the workers.

8. (a) Distinguish between Cost Accounting and Management Accounting. [4]
(b) Analyze the costs based on the behaviour along with examples. [5]
(c) Explain in detail CAS 6 - Material Cost. [5]

Answer:

- (a) Cost accounting is that branch of accounting which aims at generating information to control operations with the aim of maximizing profits and efficiency of the company. Conversely, management accounting is the type of accounting which assist management in planning and decision-making and thus is also referred as decision accounting.

Following is a tabular representation of the differences between two accounting systems.

Basis of Comparison	Cost Accounting	Management Accounting Meaning
Meaning	The recording, classifying and summarising of cost data of an organisation is known as cost accounting	The accounting in which the both financial and non-financial information are provided to managers is known as Management Accounting.
Information Type	It is Quantitative in nature.	It is both Quantitative and Qualitative in nature.
Objective	Ascertainment of cost of production.	Providing information to managers to make decisions, and forecast strategies.
Scope	Concerned with ascertainment, allocation, distribution and accounting aspects of cost.	Managerial decision making.
Specific Procedure	There is a Specific procedure	No. Thus the scope of management accounting is much broad.
Target	Recording of cost data (past and present).	It gives more stress on the analysis of future projections.



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(b) Classification based on Behaviour – Fixed, Semi-variable or Variable:

Costs are classified based on behaviour as fixed cost, variable cost and semi-variable cost depending upon response to the changes in the activity levels.

Fixed Cost: Fixed cost is the cost which does not vary with the change in the volume of activity in the short run. These costs are not affected by temporary fluctuation in activity of an enterprise. These are also known as period costs. Example: Rent, Depreciation...etc.

Variable Cost: Variable cost is the cost of elements which tends to directly vary with the volume of activity. Variable cost has two parts (i) Variable direct cost (ii) Variable indirect costs. Variable indirect costs are termed as variable overheads. Example: Direct labour, Outward Freight...etc

Semi-Variable Costs: Semi variable costs contain both fixed and variable elements. They are partly affected by fluctuation in the level of activity. These are partly fixed and partly variable costs and vice versa. Example: Factory supervision, Maintenance...etc.

(c) CAS 6 - Material Cost:

CAS 6 aims to standardize the determination and reporting of material costs, promoting consistency and transparency in cost accounting practices. It provides guidelines for valuation, assignment, presentation, and disclosure of material costs in cost statements, contributing to effective cost management and decision-making.

Objective: The primary objective is to establish uniformity and consistency in determining material costs with reasonable accuracy.

Scope: CAS 6 applies to cost statements requiring classification, measurement, assignment, presentation, and disclosure of material costs, including those requiring attestation.

Principles of Measurement: Details principles for the valuation of material receipts and issues, including the treatment of abnormal costs, waste, spoilage, and the inclusion of imputed costs.

Assignment of Costs: Outlines the basis for assigning costs to products or services, covering materials, direct expenses, and indirect materials

Disclosures: Specifies information to be disclosed in cost statements, including quantity and rates of major items, valuation basis, changes in accounting principles, excluded abnormal costs, demurrage or detention charges, subsidies/grants, and costs from related parties.