Paper – 10: Cost & Management Accountancy

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

QUESTION 1, which is compulsory. Attempt all of them.
Section-A has three questions. Attempt any two of them.
Section-B has two questions. Attempt any one of them.
Section-C has three questions. Attempt any two of them.
(Working Notes should form part of the answer.)

Question.1

(a) A Company Operates throughput accounting system. The details of product A per unit are as under:

Selling price	₹40
Material Cost	₹10
Conversion Cost	₹15
Time on Bottleneck resources	10 minutes

What will be the return per hour for product A? **[2]**

(b) The budgeted fixed overhead for a budgeted production of 20,000 units is ₹ 40,000. For a certain period, the actual production was 21,000 units and the actual expenditure came to ₹ 34,000. Calculate the Volume Variance. **[2]**

(c) A television Company manufactures several component in batches.
The following data relate to one component:

Annual demand	32,000 units
Set up cost/batch	₹120
Annual rate of interest	12%
Cost of production per unit	₹16

Calculate the Economic Batch Quantity (EBQ). **[2]**

(d) What is Sunk Cost? **[2]**

(e) Depreciation charged in costing books is ₹ 12,500 and in financial books is ₹ 11,200. What will be the financial profit when costing profit is ₹ 5,000? **[2]**

(f) How will you treat Cenvat availed as credit on purchased raw materials in the Cost Accounting Records ? **[2]**

(g) Are there any sectors exempted under Companies (Cost Accounting Records) Rules 2011? **[2]**

(h) Find the Elasticity of Demand for

$$P = \frac{10}{x+2^{2}}$$ **[3]**

(i) What are the types of elasticity of Demand? **[3]**

Section A – Answer any two questions from this section

Question.2

(a) A company prepares a budget for a production of 1,00,000 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]**

(b) Difference Between Activity Based Costing And Activity Based Management. **[4]**

(c) Define Throughput Accounting. What are the steps to be followed to increase the Throughput? **[1+5=6]**

Question.3

(a) XYZ Ltd. produces article 'A' from a material which passes through namely M and N. The details relating to a month are as under:

	Process M	**Process N**
Materials introduced (units)	10,000	
Transferred to next process (units)	9,000	
Work-in-process:		
At the beginning of the month (units)	-------	600
At the end of the month (units)	1,000	400
Expenses:		
Work-in-process at the beginning of the month	-------	9,400
Material introduced at the beginning of the process	1,20,000	------
Labour and Overheads	27,600	18,200

State of completion of work-in-process:

Process M: Closing WIP 20% complete in respect of labour and overheads.

Process N: Opening WIP 33 1/3% complete in respect of labour and overheads.

Closing WIP: 25% complete in respect of labour and overheads.

The finished output 'A' emerging out of process N is sold at ₹ 20 per unit.

Required:

Prepare Process Cost Accounts for Process M and N (Show the workings of equivalent units and cost per equivalent unit in each process). **[3+3+2+2]**

(b) Define Non-Integrated Accounting System. State the features of it. **[1+4=5]**

(c) The net profits shown by financial accounts of a company amounted to ₹ 20,000 whilst the profits disclosed by company's cost account for that period were ₹ 30,290. On reconciling the figures, the following differences were noted.

- **(i)** Director's fee not charged in cost accounts ₹ 650
- **(ii)** A provision for bad and doubtful debts ₹ 570
- **(iii)** Bank interest (cr.) ₹ 50
- **(iv)** Income-tax ₹ 8,300

(v) Overheads in the cost accounts were estimated at ₹ 8,500. The charge shown by the financial books was ₹ 8,320.

(vi) Work was started during the year on a new factory and expenditure ₹ 20,000 were incurred.

Depreciation of 5% was provided in financial accounts.

Prepare a Statement reconciling the figures shown by the cost and financial accounts.

[5]

Question.4

(a) The following standards have been set to manufacture a product:

Direct Material	₹
2 units of A @ ₹ 4 per unit	8.00
3 units of B @ ₹ 3 per unit	9.00
15 units of C @ ₹1 per unit	15.00
	32.00
Direct labour 3 hrs. @ ₹8 her hour	24.00
Total standard prime cost	56.00

The company manufactured and sold 6,000 units of the product during the year. Direct material costs were as follows:

12,500 units of A at ₹ 4.40 per unit
18,000 units of B at ₹ 2.80 per unit
88,500 units of C at ₹ 1.20 per unit

The company worked 17,500 direct labour hours during the year. For 2,500 of these hours the company paid at ₹ 12 per hour while for the remaining the wages were paid at standard rate. Calculate materials price variances and usage variances and labour rate and efficiency variances. **[2.5x4=10]**

(b) ABC Ltd. manufactures a single product for which market demand exists for additional quantity. Present sale of ₹ 60,000 per month utilises only 60%capacity of the plant. Sales Manager assures that with a reduction of 10% in the price he would be in a position to increase the sales by about 25% to 30%.

The following data are available .

(a) Selling price ₹ 10 per unit.
(b) Variable Cost ₹ 3 per unit.
(c) Semi-variable cost ₹ 6,000 fixed plus ₹ 0.50 per unit.
(d) Fixed Cost ₹20,000 at present level estimated to be ₹24,000 at 80% output.

You are required to submit the following statements to the board showing:

(a) The operating profits at 60%, 70% and 80% levels at current selling price and at proposed selling price.

(b) The percentage increase in the present output which will be required to maintain the present profit margin at the proposed selling price. **[6+4]**

Section B – Answer any one question from this section

Question.5

(a) For what purposes the Cost Auditor refers to Financial Records while conducting the Cost Audit of an entity? **[4]**

(b) A company under Cost Audit maintains its records on standard costing system. Is this acceptable for Cost Audit? What are the requirements in regard to variances and their treatment in cost preformed? **[2+3]**

(c) Why Cost Audit Report is not made public? State whether a Member of Parliament have access to the Cost Audit Report? **[4+3]**

Question.6

(a) What is the time limit within which the Central Government can seek clarification from the Cost Auditor? **[2]**

(b) How will you treat the following items in Cost Accounting Records?

(i) Interest received on security deposit with the Electricity Board.

(ii) Voluntary Retirement Compensation paid to workers, included under wages

(iii) Cenvat availed as credit on purchased raw materials

(iv) Profit on sale of fertilizers to cane-growers by a sugar company. **[1.5x4=6]**

(c) "It is not possible to merge Cost Audit with Financial Audit to have a Composite Audit." Discuss. **[8]**

Section C – Answer any two questions from this section

Question.7

(a) What are the pricing policies for introduction stage of a new product? **[8]**

(b) What is going rate pricing? **[4]**

Question.8

(a) The cost function 'c' of a firm = $\frac{1}{3}x^3 - x^2 + 5x + 3$. Find the level at which the marginal cost and the average variable cost attain their respective minimum. **[4]**

(b) A radio manufacturer produces 'x' sets per week at total cost of ₹ $x^2 + 78x + 2500$. He is a monopolist and the demand function for his product is $x = \frac{(600 - p)}{8}$, when the price is 'p' per set. Show that maximum net revenue is obtained when 29 sets are produced per week what is the monopoly price. **[4]**

(c) What are the components of time series? **[4]**

Question.9

(a) K Ltd. sells output in a perfectly completive market. The average variable cost function of K Ltd. is

$$AVC = 300 - 40Q + 2Q^2$$

K Ltd has an obligation to pay ₹ 500 irrespective of the output produced.
What is the price below which K Ltd. has to shut down its operation in the short run? **[5]**

(b) How income elasticity helps in business decision? **[7]**