

PAPER – 10: COST & MANAGEMENT ACCOUNTANCY

MTP_ Intermediate_Syllabus 2012_Jun2015_Set 1

The following table lists the learning objectives and the verbs that appear in the syllabus learning aims and examination questions:

	Learning objectives	Verbs used	Definition
LEVEL B	KNOWLEDGE	List	Make a list of
	What you are expected to know	State	Express, fully or clearly, the details/facts
		Define	Give the exact meaning of
		COMPREHENSION	Describe
	What you are expected to understand	Distinguish	Highlight the differences between
		Explain	Make clear or intelligible/ state the meaning or purpose of
		Identify	Recognize, establish or select after consideration
		Illustrate	Use an example to describe or explain something
		APPLICATION	Apply
	How you are expected to apply your knowledge	Calculate	Ascertain or reckon mathematically
		Demonstrate	Prove with certainty or exhibit by practical means
		Prepare	Make or get ready for use
		Reconcile	Make or prove consistent/ compatible
		Solve	Find an answer to
		Tabulate	Arrange in a table
	ANALYSIS	Analyse	Examine in detail the structure of
	How you are expected to analyse the detail of what you have learned	Categorise	Place into a defined class or division
		Compare and contrast	Show the similarities and/or differences between
		Construct	Build up or compile
Prioritise		Place in order of priority or sequence for action	
Produce		Create or bring into existence	

Paper – 10: Cost & Management Accountancy

Time Allowed: 3 Hours

Full Marks: 100

This paper contains 4 questions. All questions are compulsory, subject to instruction provided against each question. All workings must form part of your answer. Assumptions, if any, must be clearly indicated.

1. Answer all questions

[2x10=20]

- (a) In a factory repairs and maintenance expenses were ₹1,50,000 at 60% capacity level out of these 40% was fixed. Calculate the repairs and maintenance expenses for the capacity level of 80%.
- (b) SHAAN LTD. earned a profit of ₹3,00,000 during the year 2014-15. If the marginal cost and selling price of a product are ₹80 and ₹100 per unit respectively, find out the amount of 'Margin of Safety'.
- (c) OPTIMA LTD. is committed to supply 24,000 bearings per annum to BKT Ltd. on a steady basis. It is estimated that it costs ₹2.40 as inventory holding cost per bearing per annum and that the set - up cost per run of bearing manufacture is ₹648. Calculate the optimum run (batch) size for hearing manufacture.
- (d) A factory transferred out 8,800 completed units during November' 2014. Opening stock was 400 units 75% completed; closing stock was 800 units 50% completed. Assuming FIFO method, estimate the equivalent production in November 2014.
- (e) List out any three the limitations of Inter-firm comparison.
- (f) Whether the Companies (Cost Records and Audit) Rules, 2014 are applicable to foreign companies, State.
- (g) Whether Cost Auditor of the company has to directly submit his Cost Audit Report to the Central Government?
- (h) MES CAB LTD. is operating in a perfectly competitive market. The price elasticity of demand and supply of the product estimated to be 6 and 4 respectively. The equilibrium price of the product is ₹120. If the Government imposes a specific Tax of ₹10 per unit, what will be the new equilibrium price
- (i) List out the components of time series.
- (j) The cost function of a firm is given by $c=x^3-4x^2+9x$, find at what level of output Average Cost is minimum and what level will it be.

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2. Answer any two questions from a, b and c.

[2x20=40]

(a)

- (i) A Construction Company undertook a contract at an estimated price ₹108 lacks, which includes a budgeted profit of ₹18 lacks. The relevant data for the year ended 31.3.2015 are as under

	(₹ 000's)
Materials issued to site	5,000
Direct wages paid	3,810
Plant hired	600
Site office costs	370
Materials returned from site	100
Direct expenses	500
Work certified	10,000
Progress payment received	7,200

A special plant was purchased specifically for this contract at ₹10,00,000 and after use on this contract till the end of 31.03.2015, it was valued at ₹7,00,000. The cost of materials at site at the end of the year was estimated at ₹18,00,000. Direct wages accrued as on 31.03.2015 was ₹1,00,0000.

Prepare the Contract Account for the year ended 31st March, 2015 and compute the profit to be taken to the Profit & Loss account. [8]

- (ii) Gouresen Company Private limited, manufacturing "Bimjal" pressure cookers has drawn up the following budget for the year 2014-2015:

Raw materials	₹20,00,000
Labour, stores, power and other variable costs	6,00,000
Manufacturing overheads	7,00,000
Packing and variable distribution costs	4,00,000
General overheads including selling	3,00,000
	40,00,000
Income from sales	50,00,000
Budgeted profit	10,00,000

The General Sales Manager suggests to reduce selling price by 5% and expects to achieve an additional volume of 50%. There is sufficient manufacturing capacity. More intensive manufacturing programme will involve additional costs of ₹50,000 for production planning. It will also be necessary to open an additional sales office at the cost of ₹1,00,000 per annum.

The Sales Manager, on the other hand, suggests to increase selling price by 10%, which it is estimated will reduce sales volume by 10%. At the same time, saving in Manufacturing Overheads and General Overheads at ₹50,000 and ₹1,00,000 per annum respectively is expected on this reduced volume.

Which of these two proposals would you accept and why?

[7+1]

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- (iii) State the principle reasons which give rise to variances between actual and standard in standard costing. [4]

(b)

- (i) The XYZ Company has the following budget for the year ended 2014-15:

Sales (1,00,000 units @ ₹20)	₹20,00,000
Variable cost	10,00,000
Contribution	10,00,000
Fixed Cost	4,00,000
Net Profit	6,00,000

From the above set of information find out:

- (I) The adjusted profits for 2014-15 if the following two sets of changes are introduced and also suggest which plan should be implemented.

Plan A	%	Plan B	%
Increase in price	20	Decrease in price	20
Decrease in volume	25	Increase in volume	25
Increase in variable cost	10	Decrease in variable cost	10
Increase in fixed cost	5	Decrease in fixed cost	5

- (II) The P/V ratio and break-even point under the two plans referred above. [4+5]

- (ii) "If the products are truly joint products, the cost of process can be applied to these products:

- I. On the basis of the weight or other physical quantity of each product.
- II. In respect of the marginal cost of the process on the basis of physical quantities and in respect of the fixed costs of the process on the basis of the contribution made by the various products.
- III. On the basis of the selling values of the different products."

Using the following figures in respect of the joint production of A and B for a month, show the apportionment of joint costs and profits made, on the above three bases.

Total Cost

Direct Materials	₹26,000
Direct Labour	10,000
Variable Overhead	8,000
Fixed Overhead	22,000

Sales A – 100 tonnes @ ₹600 per tone

B – 120 tonnes @ ₹200 per tone

[4+4+3]

(c)

- (i) From the following particulars pass the journal entries in an integral accounting system:

- I. Issued materials ₹3,00,000 of which ₹2,80,000 (standard ₹2,40,000) is direct materials:
- II. Net wages paid ₹70,000 deduction being ₹12,000 (standard ₹75,000)
- III. Gross salaries payable for the period is ₹26,000 (standard ₹25,000). Deductions ₹2,000.

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IV. Sales (Credit) ₹8,00,000.

V. Discount allowed ₹5,000.

[5x2=10]

- (ii) From the following, prepare variance analysis of a particular department for a month:
Variable overhead items

Variable overhead items	Actual (₹)
Materials handling	8,325
Idle time	850
Rework	825
Overtime premium	250
Supplies	4,000
	14,250

Fixed overhead items	Actual (₹)
Supervision	1,700
Depreciation Plant	2,000
Depreciation Equipment	5,000
Rates	1,150
Insurance	350
	10,200

Normal capacity 10,000 standard hours, budgeted rate ₹1.70 standard hour for variable overhead and ₹ 1.00 per standard hour for fixed overhead. Actual level: 8,000 standard hours. [4+6]

3. Answer any two questions from a, b and c.

[2x8=16]

(a)

- (i) As a Cost Auditor, list out the area which you will verify in the area of 'overheads and indirect expenditure'. [4]

- (ii) As a Cost Auditor, list out the area which you will verify in the area of work-in-progress. [4]

- (b) Describe the duty liabilities of a Cost Auditor of a Company relating to reporting of frauds identified during audit. [8]

- (c) Which persons cannot be appointed or reappointed as Cost Auditor of a company. [8]

4. Answer any three questions from a, b, c and d.

[3x8=24]

(a)

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- (i) Discuss briefly the degree of price discrimination as distinguished by famous Economist Prof. Pigou. [3]
- (ii) The Demand function is $X = 200 + 8p + 20 p^2$, where X is demand for the commodity at price 'p' compute marginal quantity demand, average quantity demand and hence elasticity of demand. At $p = 4$ [1+1+1]
- (iii) State the term Temporary Monopoly. [2]
- (b)**
- (i) List out the assumptions of COURNOT'S SOLUTION to Duopoly pricing. [4]
- (ii) Describe the effects of each of the following managerial decisions or economic influences on the value of the firm:
- I. The production department purchases new equipment that lowers manufacturing costs.
 - II. The firm raises prices. Quantity demanded in the short run is unaffected, but in the longer run, unit sales are expected to decline. [2+2 = 4]
- (c)** List out the criteria of a good forecasting method. [8]
- (d)**
- (i) The market for tri-cycles for small kids is competitive and each tri-cycle is priced at ₹230. The cost function of a firm is given by $TC = 130q - 10q^2 + q^3$. Calculate the q_0 and p_0 . [3]
- (ii) A Chemical Company produces two compounds A and B. the following table gives the units of ingredients C and D per kg of compounds A and B as well as minimum requirements of C and D and costs/kg of A and B. Using the simplex method, find the quantities of A and B which would give a supply of C and D at a minimum cost.
- | | | Table Compound | | Minimum requirement |
|--------------|---|----------------|---|---------------------|
| | | A | B | |
| Ingredient | C | 1 | 2 | 80 |
| | D | 3 | 1 | 75 |
| Cost per kg. | | 4 | 6 | |
- [3]
- (iii) Name the three method of pricing of a Product. [2]