Paper 8- Cost Accounting

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Full Marks : 100 **Time allowed: 3 hours**

Section A
Question 1 is compulsory. Answer all questions under each sub division

1. Answer the following questions:

(a) Choose the correct answer from the given four alternatives: **[10×1=10]**

(i) Selling and Distribution overheads are absorbed on the basis of
(a) Rate per unit
(b) Percentage on works cost
(c) Percentage on selling price of each unit
(d) Any of the above

(ii) In process, conversion cost means
(a) Cost of direct material, direct labour, direct expenses
(b) Direct labour, direct expenses, indirect material, indirect labor, indirect expenses
(c) Prime cost plus factory overheads
(d) All costs up to product reaching the consumer, less direct material costs

(iii) Budget are shown in _____ terms
(a) Qualitative
(b) Quantitative
(c) Materialistic
(d) Both(b) and(c)

(iv) Cost of Idle time arising due to non availability of raw material is
(a) Charged to costing profit and loss A/c
(b) Charged factory overheads
(c) Recovered by inflating the wage rate
(d) Ignored

(v) CAS 21 stands for
(a) Capacity Determination
(b) Joint Cost
(c) Direct Expenses
(d) None of these

(vi) In Reconciliations Statement Expenses shown only in cost account are
(a) Added to financial profit
(b) Deduction from financial profit
(c) Ignored
(d) Deduction from costing profit

(vii) In a job cost system, costs are accumulated
(a) On a monthly basis
(b) By Specific Job
(c) By Department or process
(d) By kind of material used

(viii) Difference between standard cost and actual cost is called as
(a) Wastage
(b) Loss
(c) Variance
(d) Profit

(ix) A firm has fixed expenses ₹ 85,000, sales ₹ 4,00,000 and profit ₹ 75,000.The P/V ratio of the firm is
(a) 18.75%
(b) 21.25%
(c) 40.00%
(d) 88.24%

(x) There is a loss as per financial accounts ₹ 25,500, donations not shown in cost accounts ₹5,500.What would be the profit or loss as per cost accounts.
(a) Loss ₹31,000
(b) Profit ₹ 31,000
(c) Loss ₹ 20,000
(d) Profit ₹20,000

(b) Match the statement in Column I with the most appropriate statement in Column II: [1×5 =5]

Column I		Column II	
(i)	Cost of Utilities	(A)	CAS 19
(ii)	Joint Cost	(B)	CAS-21
(iii)	Quality Control	(C)	CAS-22
(iv)	Royalty And Technical Know How Fee	(D)	CAS 8
(v)	Manufacturing Cost	(E)	CAS-20

(c) State whether the following statements are True' or 'False': [1x5=5]

(i) Cash Discount is generally excluded completely from cost.
(ii) Cost control accounts are prepared on the basis of double entry system.
(iii) Goodwill written off appears only in cost accounts.
(iv) Finance Cost shall form part of Direct Expenses.
(v) By- product may undergo further processing before sale.

(d) Fill in the blanks suitably: [1x5=5]

(i) If the actual loss in a process is less than the normal loss, the difference is known as _____.

(ii) In hospital the cost unit is _____.

(iii) A cost which does not involve any cash outflow is called _____ or _____.

(iv) Margin of safety is sales -- _____.

(v) CAS-2 Deals with Cost Accounting Standard on _____determination.

Answer:

1(a)

i.(d)	ii.(b)	iii.(d)	iv.(a)	v.(d)
vi.(a)	vii.(b)	viii.(c)	ix.(c)	x.(c)

1(b)

i.(D)	ii.(A)	iii.(B)	iv.(E)	v.(C)

1(c)

i.(T)	ii.(T)	iii.(F)	iv.(F)	v.(T)

1(d)

i.(Abnormal gain)	ii.(per bed)	iii.(Notional Cost,Inputed Cost)	iv.(Fixed Cost)	v.(Capacity Determination)

Section B

Answer any five questions out of seven questions

2. (a) From the following details you are required to value the closing inventory: [10+5=15]

At the end of week 5

(i) FIFO method, (ii) LIFO method and (iii) Weighted Average method of pricing issues.

Opening Balance: Nil
Week 1 Received 2,400 units @ ₹12 per unit;
Week 2 Received 3,600 units @ ₹13 per unit:
Week 3 Issued 1,200 units
Week 4 Received 1,200 units @ ₹14 per unit;
Week 5 issued 3,600 units.

(b) The Standard hours for job Y is 200 hours. The Job has been completed by Amar in 120 hours, Akbar in 140 hours and Anthony in 190 hours. The bonus system applicable to the job is as follows:

Percentage of time saved to time allowed	**Bonus**
Saving up to 10%	10% of time saved
From 11 % to 20%	15% of time saved
From 21% to 40 %	20% of time saved
From 41 % to 100%	25% of time saved

The rate of pay ₹10 per hour. Calculate the total earring of each worker and also the rate of earnings per hour.

Answer:2(a)

Week	Receipts		FIFO				LIFO			
			Issue		Closing Stock		Issue		Closing Stock	
	Qty	Rate(₹)	Qty	Rate(₹)	Qty	Rate(₹)	Qty	Rate(₹)	Qty	Rate(₹)
1	2,400	12			2,400	12			2,400	12
2	3,600	13			2,400 3,600	12 13			2,400 3,600	12 13
3			1,200	12	1,200 3,600	12 13	1,200	13	2,400 2,400	12 13
4	1,200	14			1,200 3,600 1,200	12 13 14			2,400 2,400 1,200	12 13 14
5			1,200 2,400	12 13	1,200 1,200	13 14	1,200 2,400	14 13	2,400	13
Value of Closing Stock					32,400				31,200	

Weighted Average method of pricing issues.

Week	Particulars	Qty	Rate(₹)	Value(₹)
1	Receipts	2,400	12	28800
2	Receipts	3,600	13	46800
	Balance	6,000	12.6	75600
3	Issue	1,200	12.6	15120
	Balance	4,800	12.6	60480
4	Receipts	1,200	14	16800
	Balance	6,000	12.88	77280
5	Issue	3,600	12.88	46368
Closing Balance		2,400		30,912

(b)Statement Showing Total Earning and Rate of Earning per hour

	Particulars	Amar	Akbar	Anthony
A	Standard hours of job (hours)	200	200	200
B	Actual Time taken on the Jobs (hours)	120	140	190
C	Time Saved (hours)	80	60	10
D	Percentage of time saved to time allowed [C X 100/A)	40%	30%	5%
E	Bonus Hours (as per working Note) (hours)	13	9	1
F	Total Hours to be paid [B + E]	133	149	191
G	Total Earnings @ ₹ 10 per hour (₹)	1,330	1,490	1,910
H	Rate of Earning per hour [Total earning/Actual Time]	11.0833	10.642	10.053

Working Note: Calculation of Bonus as Percentage of time saved:
Amar: 20 X 10% + 20 X 15 % + 40 X 20% = 13 hours
Akbar 20 X 10 % +20 X 15% + 20 X 20% = 9 hours
Anthony 10 X 10%=1hours

3. (a) How would you treat overtime in cost record as per CAS-7. **[6+9=15]**

(b) The following represent the Trading and Profit and Loss Account of a manufacturer of a standard fire extinguisher:

Dr. Cr.

Particulars	Amount (₹)	Particulars	Amount (₹)
To,Mateial used	58,300	By Sales A/c	1,50,000
To, Productive Wages A/c	37,220	By Stock of Finished Goods A/c	3,625
To, Factory Expenses A/c	28,110		
To Gross Profit c/d	41,055	By Work -in-Progress	
		Material	5,600
		Labour	3,120
		Overheads	2,340
	1,64,685		1,64,685
To, Administration expenses A/c	27,300	By Gross Profit b/d	41,055
To Net Profit	13,755		
	41,055		41,055

3,100 Extinguishers were manufactured during the year, and 3,000 were sold during the same period. The cost records showed that Factory overheads work out at ₹16.50 and Administrative overheads at ₹18.125 per article produced: the Cost Accounts showing an estimated total profit of ₹14,062.5 for the year.
From the forgoing information you are required to prepare

(a) Factory Overhead Control of Account
(b) Administration overheads Control Account in costing books and
(c) An account showing reconciliation between the total net profit as per the Cost Accounts and the net profit shown in Financial Books.

Answer:3(a)

Treatment of overtime in Cost Records :

As per CAS-7, Overtime Premium shall be assigned directly to the cost object or treated as overheads depending on the economic feasibility and specific circumstances requiring such overtime. When overtime is worked due to exigencies or urgencies of the work, the Basic/normal payment is treated as Direct Labor Cost and charged to Production or cost unit on which the worker is employed. Whereas the amount of premium (extra amount) is treated as overhead. If overtime is spent at the request of the customer , then the entire amount (including over time premium) is treated as direct wages and should be charged to the job. When the overtime is worked due to lack of capacity as general policy of the company then the total amount paid is treated as direct wages which is computed at the estimated rate based on the figures of the previous years. Overtime worked on account of the abnormal conditions such as flood, earthquake, etc., should not be charged to cost, but to Costing Profit and Loss Account if integrated accounts are maintained. It will thus be seen that overtime involves payment of increased wages and should be resorted to only when extremely essential.

Dr. Factory Overhead Control Account Cr.

Particulars	Amount	Particulars	Amount
To, GLA A/C	28,110.0	By,FG Control (3,100*16.50)	51,150
To Over Recovery	25,380.0	By,WIP	2,340
	53,490.0		53,490

Dr. Administration Overhead Control Account Cr.

Particulars	Amount	Particulars	Amount
To, GLA A/C	27,300.0	By, FG Control (3,100*18.125)	56,187.5
To Over Recovery	28,887.5	By, WIP	
	56,187.5		56,187.5

4.(a) B Ltd is committed to supply 36,000 bearings per annum to CD Ltd. **[8+7=15]**
On a steady basis. It is estimated that it costs 15 paisa as inventory holding cost per bearing per month and that the set-up cost per run of bearing manufacture is 486.
(i) What would be the optimum run size for bearing manufacture?
(ii) What is the minimum inventory holding cost at optimum run size?
(iii) Assuming that the company has a policy of manufacturing 9000 bearing per run, how much extra costs would the company be incurring as compared to the optimum run suggested in (i)?

(b) The product of a manufacturing concern passes through two processes A and B and then to finished stock. It is ascertained that in each process normally 5% of total weight is lost and 10 % is scrap which from processes A and realizes ₹96 per ton and ₹240 per ton respectively. the following are the figures relating to both the processes.

	Process A	Process B
Material in tons	1,200	84
Cost of Materials per ton in rupees	150	240
Wages in rupees	33,600	12,000
Manufacturing Expenses in rupees	9,600	6,300
Output in tons	996	936

Prepare Process Cost Accounts showing cost per ton of each process. There was no stock of work in progress in any process.

Answer:4(a)

(i)

Optimum Production Run Size(Q)= $\sqrt{\frac{2AS}{C}}$

Where, A=No. of units to be produced within one year
S=Set-up cost per unit per annum
C=Carrying cost per unit per annum

$$=\sqrt{\frac{2X36,000X486}{0.15X12}} = 4,409 \text{ (approx)}$$

(ii) Minimum Inventory Holding Cost, if run size is 4,409 units
=Avergae inventory X carrying cost per unit
=(4,409/2)X(.15 X 12)
=₹3,968.10

(iii) Statement showing Total Cost of Production Run sizes of 4,409 and 9,000 bearings

A	Annual Requirements	36,000	36,000
B	Run Size	4409	9000
C	No. of Run (A/B)	8.16	4
D	Set up cost per run(₹)	486	486
E	Total Set up Cost(C X D)(₹)	3965.76	1944
F	Average Inventory (B/2)	2204.5	4500
G	Carrying cost per unit p.a	1.8	1.8
H	Total carrying cost(F X G)(₹)	3968.1	8100
I	Total Cost(₹)	7933.86	10044

(b)

Dr. Process A Account Cr.

Particulars	Tons	Amount(₹)	Particulars	Tons	Amount(₹)
To,Material	1,200	1,80,000	By Normal loss-Weight Loss	60	
To,wages		33,600	Sale of Scrap	120	11,520
To,Expenses		9,600	By Abnormal loss	24	4,981
			By Process B A/c	996	206,699
	1,200	2,23,200		1,200	2,23,200

Dr. Process B Account Cr.

Particulars	Tons	Amount(₹)	Particulars	Tons	Amount(₹)
To, Process A A/c	996	206,699	By Normal loss-Weight Loss	54	
To,Material	84	5,880	Sale of Scrap-Approx	108	25,920
To,Wages		12,000	By Abnormal loss		
To,Expenses		6,300	By Process B A/c	936	208,978
To Abnormal Gain	18	4,019			
	1098	230,879		1098	234,898

5.(a) A hotel has a capacity of 150 single rooms and 30 double rooms. **[8+7=15]**

The average occupancy of both single and double rooms is expected to be 80% throughout the year of 365 days. The rent for the double rooms has been fixed at 125 % of the rent of the single room. The costs are as under:

Variable costs: single room ₹ 330 each day: Double room ₹ 525 each per day.
Fixed cost: ₹74,46,000

Calculate the rent chargeable for single and double rooms per day in such a way that the hotel earns a margin of safety of 20 % on hire of room.

(b) A company is manufacturing building bricks and fire bricks. Both the products require two processes. Brick forming and Heat treatment. The requirements for the two bricks are:

	Building Bricks	**Fire Bricks**
Forming per 200 bricks	6 hrs	4 hrs
Heat treatment per 200 bricks	4 hrs	10 hrs

Total costs of the two departments in one month were:

Forming	₹ 42,400
Heat Treatment	₹ 97,600

Production during the month was:

Building Bricks	2,60,000 No's
Fire Bricks	1,40,000 No's

Prepare statement of manufacturing costs for the two varieties of bricks.

Answer:5(a)

Total occupancy of single room in a year = 150 X 365 x 80 % = 43,800

Total occupancy of double room in a year = 30 X 365 X 80 % = 8,760

Total cost for the year:

Variable cost:	(₹)
For single room 43,800 X 330 =	1,44,54,000
For double room 8,760 X 525 =	45,99,000
	1,90,53,000
Fixed cost	74,46,000
Total Cost	2,64,99,000
Add: Margin of Safety @ 20%	52,99,800
Total Revenue	3,17,98,800

Effective no of rooms= 43,800 x1 + 8,760 *1.25=54,750

Rate for single room= 3,17,98,800/54,750 = ₹ 580.80

Rate for double room = 580.80 X1.25= ₹ 726

(b) Statement showing Number Hours

Particulars	Building Bricks	Fire Bricks	Total
Forming (2,60,000/200) X 6 (1,40,000/200) X 4	7,800	2,800	10,600
Heat Treatment (2,60,000/200) X 4 (1,40,000/200) X 10	5,200	7,000	12,200
Total	13,000	9,800	22,800

Cost of forming per hour = 42,400/10,600 = 4
Cost of Heat treatment per hour = 97,600/12,200 = 8

Statement showing computation of manufacturing costper two varieties of bricks

Particulars	Building Bricks	Fire Bricks	Total
Forming (7,800 X 4) (2,800 X 4)	31,200	11,200	42,400
Heat Treatment (5,200 X 8) (7,000 X 8)	41,600	56,000	97,600
Total	72,800	67,200	140,000

6.(a) A company produces single product which sell ₹40 per unit. **[8+7=15]**
Variable cost is 30 per unit and fixed overhead for the year ₹12, 60,000.
Required:
(i) Calculate sales value needed to earn a profit of 10% on sales.
(ii) Calculate sales price per unit to bring BEP down to 1, 20,000 units.
(iii) Calculate margin of safety sales if profit is ₹ 60,000.

(b) PKN ltd wants to buy a new machine to replace one which I having frequent breakdown. It received offers for two models M1 and M2. Further details regarding these models are given below:

	M1	M2
Installed Capacity (units)	1,00,000	1,00,000
Fixed Overhead per annum(₹)	24,00,000	10,00,000
Estimated profit at the above capacity(₹)	16,00,000	10,00,000

The product manufactured using this type of machine (M1 or M2) is sold ₹100 per unit.
You are required to determine:

(i) Break-even level of sales for each model.

(ii) The level of sales at which both the models will earn the same profit.

(iii) The model suitable for different level of demand for the product.

Answer 6(a)

(i) Let the units to be sold to earn a profit of 10 % on sales

Sales Value = 40x
V.C = 30x
Profit=10 % x 40x=4x

Sales = V.C + Profit + Fixed Overheads
or, 40X=30X+4X+12,60,000
or, 6 X=12,60,000
x=12,60,000/6 =2,10,000 units

Sales value = 2,10,000 X 40 = ₹84,00,000

(ii) BEP= Fixed Overheads/Contribution per unit
or,1,20,000 = 12,60,000/Contribution per unit
or, Contribution per unit =12,60,000/1,20,000
= ₹10.50

Selling price per unit to bring BEP to 1,20,000 units= V.C per unit + Contribution per unit
= 30+10.50 = ₹ 40.50

(iii)P/V ratio =Contribution/Sales X 100 = 10.50/40 X 100 = 26.25 %

Margin of Safety =Profit / P/V ratio = 60,000 /26.25% =₹ 2,28,571

(b)

Particulars	M1(₹)	M2(₹)
Estimated Profit	16,00,000	10,00,000
Add: Fixed Overhead	24,00,000	10,00,000
Estimated Contribution	40,00,000	20,00,000
Installed capacity (No of units)	1,00,000	1,00,000
Contribution p.u	40	20
Selling Price p.u	100	100

(i) BEP (units) =-Fixed cost/Contribution p.u
M1=24,00,000/40 =60,000 units
M2 =10,00,000/20 =50,000 units

(ii) Cost BEP(units) =24,00,000-10,00,000/40-20 =70,000 units

(iii)

No of Units	Model to be Chosen
Less then 70,000 Units	M2
=70,000 units	Any of the two
More than 70,000	M1

The option having lower V.C per unit is a better option ,if the expected sales volume is more than the level of COST BREAK EVEN (i.e 70,000) & the proposal having lower fixed cost if would be better if the expected sales level is below the level of COST BREAK EVEN POINT.

7.(a) The details regarding the composition and the weekly wage rate of labour force engaged on a job scheduled to be completed in 30 days are as follows: **[8+7=15]**

Category of worker	Standard		Actual	
	No of worker	weekly wage Rate per Worker(₹)	No of worker	weekly wage Rate per Worker(₹)
Skilled	75	60	70	70
Semi- skilled	45	40	30	50
Un skilled	60	30	80	20

The work is actually completed in 32 days

Calculate the following labour Variances;

(i) Labour Cost Variance;

(ii) Labour Rate Variance;

(iii) Labour efficiency Variance;

(iv) Labour Revised Efficiency Variance;

(v) Labour Mix Variance.

(b) Draw up a flexible budget for overhead expenses on the basis of the following data and determine the overhead rates at 70%,80% and 90%

Plant Capacity	**At 80% capacity**(₹)
Variable Overhead:	
Indirect labour	18,000
Stores including spares	6,000
Semi Variable:	
Power(30% Fixed: 70% Variable)	30,000
Repairs(60% Fixed: 40% Variable)	3,000
Fixed Overheads;	
Depreciation	16,500
Insurance	4,500
salaries	15,000
Total Overheads	93,000
Estimated Direct labour Hours	2,48,000

Answer: 7(a)

Computation of Standard and Actual Time(in days)

Category	Standard Time(ST)	Actual Time(AT)
Skilled	75 X30=2,250	70 X 32 =2,240
Semi Skilled	45 X 30 =1,350	30 X 32 =960
Un Skilled	60 X 30=1,800	80 X 32=2,560

Computation of standard Cost and Actual Cost

Category of worker	Standard			Actual			Revised Time RST
	Time ST	Rate SR(₹)	Cost SC(₹)	Time(AT)	Rate AR (₹)	Cost AC (₹)	
Skilled	2,250	60	1,35,000	2,240	70	1,56,800	2,400
Semi Skilled	1,350	40	54,000	960	50	48,000	1,440
Un Skilled	1,800	30	54,000	2,560	20	51,200	1,920
			2,43,000	5,760		2,56,000	5,760

Computation of Revised Standard Time (RST)
Skilled Worker :2,250/5,400 X 5,760 =2,400 hours
Semi-Skilled worker :1,350/5,400 X 5,760 =1,440 hours
Unskilled Worker :1,800/5,400 x 5,760 =1,920 hours

Computation of Variances
(i) Labour Cost Variance = TSC-TAC =2,43,000 -2,56,000 = 13,000(A)

Variance	**Skilled Worker(₹)**	**Semi Skilled Worker(₹)**	**Un Skilled Worker(₹)**	**Total**
Labour Rate Variance=AT(SR-AR)	2,240(60-70) =22,400(A)	960(40-50) =9,600(A)	2,560(30-20) =25,600(F)	6,400(F)
Labour Efficiency Variance =SR(ST-AT)	60(2,250-2,240) =600(F)	40(1,350-960) =15,600(F)	30(1,800-2560) =22,800(A)	6,600(A)
Labour Revised Efficiency Variance = SR(ST- RST)	60(2,250-2,400) =9,000 (A)	40(1,350-1,440) =3,600 (A)	30(1,800-1,920) =3,600(A)	16,200(A)
Labour Mix Variance = SR(RST-AT)	60(2,400-2,240) =9,600(F)	40(1,440 -90) =19,200(F)	30(1,920-2,560) =19,200(A)	9,600(F)

(b) Flexible Budget at Different Capacities and Determination of Overhead Rates

Particulars	**70%(₹)**	**80%(₹)**	**90%(₹)**
Variable Overheads:			
Indirect Labour	15,750	18,000	20,250
Stores Including spares	5,250	6,000	6,750
Power(70%)	18375	21,000	23,625
Repairs(40%)	1,050	1,200	1,350
Total(A)	40,425	46,200	51,975
Fixed Overheads:			
Depreciation	16,500	16,500	16,500
Insurance	4,500	4,500	4,500
Salaries	15,000	15,000	15,000
Power(30%)	9,000	9,000	9,000
Repairs(60%)	1,800	1,800	1,800
Total (B)	**46,800**	**46,800**	**46,800**
Total Overhead(C)=(A+B)	**87,225**	**93,000**	**98,775**
Labour Hours(D)	2,17,000	2,48,000	2,79,000
Overhead rate per hour(C/D)	0.404	0.375	0.354

8. Write short notes on any three of the following: **[5X3=15]**

(a) Just-in-Time(JIT);
(b) Differentiate between Operation Cost & Operating Cost;
(c) Difference Between Job Evaluation and Merit Rating;
(d) Responsibility Accounting.

Answer:8

(a)Just-in-Time: Just in time (JIT) is a production strategy that strives to improve a business return on investment by reducing in -process inventory and associated carrying costs. Inventory is seen as incurring costs, or waste, instead of adding and storing value, contrary to traditional accounting. In short, the Just -in-Time inventory system focuses on "the right material, at the right time, at the right place, and in the exact amount" without the safety net of inventory.

The advantages of Just -in-Time system are as follows:

• increased emphasis on supplier relationships. A company without inventory does not want a supply system problem that creates a part shortage. This makes supplier relationships extremely important.

• supplies come in at regular intervals throughout the production day. Supply is synchronized with production demand and the optimal amount of inventory is on hand at any time. When parts move directly from the truck to the point of assembly, the need for storage facilities is reduced.

•reduces the working capital requirements, as very little inventory is maintained.

•minimizes storage space.

•reduces the chance of inventory obsolescence or damage

(b) Operation Cost:
Operation cost is the cost of a specific operation involved in a production process or business activity. The cost unit in this method is the operation, instead of process. When the manufacturing method of a concern consists of a number of distinct operations, operating costing is suitable.

Operating Cost:
Operating cost is the cost incurred in conducting a business activity. It refers to the cost of concerns which do not manufacture any product but which provide services. Industries and establishments like power house, transport and travel agencies, hospitals, schools etc. which undertake services rather than the manufacture of products, ascertain operating costs. The cost units used are Kilo Watt Hour (KWH), Passenger Kilometre and Bed in the Hospital etc.

Operation costing method constitutes a distinct type of costing but it may also be classed as a variant of process cost since costs in this
method are usually compiled for a specified period

(c) Difference between Job Evaluation and Merit Rating

Job Evaluation	Merit Rating
Job Evaluation is the assessment of relative worth of jobs in a business	Merit rating is the assessment of relative worth of the man behind the job.
Job Evaluation rated the jobs.	Merit rating rates the employees.
The objective of job evaluation is to set up a rational wage and salary structure.	Merit rating provides a scientific basis for determining fair wages for each worker based on his ability and performance
Job Evaluation simplifies wage administration by rationalizing and bringing uniformity in the wage rates	Merit rating helps in determining fair rate of pay to different workers on the basis of their relative performances.

(d) Responsibility Accounting:

It is a system of accounting that recognizes various responsibility centres throughout the organization and reflects the plans and actions of each of these centres by assigning particular revenues and costs of the one having the pertinent responsibility.

It is a system in which the person holding the supervisory posts as president, function head, foreman, etc. are given a report showing the performance of the company or department or section as the case may be. The report will show the data relating to operational results of the area and the items of which he is responsible for control. Responsibility accounting follows the basic principles of any system of cost control and standard costing. It differs only in the sense that it lays emphasis on human beings and fixes responsibilities for individuals. It is based on the belief that control can be exercised by human beings, so responsibilities should be fixed for individuals.

Principles of Responsibility Accounting:
(i) A target is fixed for each department or responsibility centre.
(ii) Actual performance is compared with the target.
(iii) The variances from plan are analysed so as to fix the responsibility.
(iv) Corrective action is taken by higher management and is communicated.