

## Paper 8- Cost Accounting

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Full Marks: 100

Time allowed: 3 hours

### Section-A

Section A contains Question Number 1. All parts of this question are compulsory.

1. Answer the following questions

(a) Choose the most appropriate alternative for the following (you may write only the Roman numeral and the alphabet chosen for your answer): [1x10=10]

- (i) Joint Cost is suitable for \_\_\_\_\_
- (a) Infrastructure Industry
  - (b) Ornament Industry
  - (c) Oil Industry
  - (d) Fertilizer Industry
- (ii) Which of the following is considered as normal loss of material?
- (a) Pilferage
  - (b) Loss due to accident
  - (c) Loss due to careless handling of material
  - (d) None of these
- (iii) Under the high wage plan, a worker is paid
- (a) At a time rate higher than the usual rate
  - (b) According to his efficiency
  - (c) At a double rate for overtime
  - (d) Normal wages plus bonus
- (iv) A manufacturing industry produces product P, Royalty paid on sales is ₹ 23,500 and design charges paid for the product is ₹ 1,500. Compute the Direct Expenses.
- (a) ₹ 25,000
  - (b) ₹ 22,000
  - (c) ₹ 26,500
  - (d) None of these
- (v) When overtime is required for meeting urgent orders, overtime premium should be
- (a) Charged to profit and loss A/c
  - (b) Charged to overhead costs

- (c) Charged to respective jobs  
(d) Ignored
- (vi) What will be the accounting entry for absorption entry for absorption of factory overhead?
- (a) Dr. Works in progress control A/c  
Cr. Factory overhead control A/c
- (b) Dr. Factory overhead  
Cr. Factory overhead control A/c
- (c) Dr. Overhead adjustment A/c  
Cr. Factory overhead control A/c
- (d) None of the above
- (vii) In Reconciliations Statements, transfers to reserves are \_\_\_\_\_.
- (a) Added to financial profit  
(b) Deducted from financial profit  
(c) Ignored  
(d) Deducted from costing profit
- (viii) Standard deals with the determination of averages/equalized transportation cost
- (a) CAS 6  
(b) CAS 22  
(c) CAS 9  
(d) CAS 5
- (ix) If sales are ₹ 150,000 and variable cost are ₹ 50,000. Compute P/V ratio.
- (a) 66.66%  
(b) 100%  
(c) 133.33%  
(d) 65.66%
- (x) The basic difference between a fixed budget and flexible budget is that a fixed budget \_\_\_\_\_
- (a) Is concerned with a single level of activity, while flexible budget is that a prepared for different levels of activity  
(b) Is concerned with fixed costs, while flexible budget is concerned with variable costs  
(c) Is fixed while flexible budget changes  
(d) None of these

(b) Match the statement in column I with the most appropriate statement in column II

[5×1=5]

	Column I		Column II
(i)	Notional Rent charged to	A.	CAS 22
(ii)	Manufacturing cost	B.	Income credited only in cost accounts
(iii)	Process of classifying material	C.	CAS 15
(iv)	Selling and Distribution Overheads	D.	Sunk cost
(v)	Historical cost	E.	FSN Analysis

(c) State whether the following statements are 'True' or 'False'

[5×1=5]

- (i) Standard costing and budgetary control techniques are complementary to each other.
- (ii) The objective of CAS 10 is to bring uniformity and consistency in the period and methods of determining the direct expenses with reasonable accuracy.
- (iii) Factory overhead cost applied to a job is usually based on a pre-determined rate.
- (iv) Stock ledger contains the accounts of all items of finished goods.
- (v) No distinction is made between co products and joint products.

(d) Fill in the blanks:

[5×1=5]

- (i) Material transfer note is a \_\_\_\_\_ for transferring the materials from one job to other job.
- (ii) Charging of fair share of overhead expenses to cost centre or a department is called \_\_\_\_\_ .
- (iii) Purchases for special job is debited to \_\_\_\_\_ Accounts.
- (iv) \_\_\_\_\_ is applicable to engineering concerns, construction companies, ship-building, furniture making, hardware and machine manufacturing industries, repair shops, automobile garages and several such other industries.
- (v) There are two ways to treat the costs of the beginning inventory: \_\_\_\_\_ and \_\_\_\_\_

### Section – B

Answer any five questions from question numbers 2 to 8.

Each question carries 15 marks

2. (a) From the following particulars with respect to a particular item of materials of a manufacturing company, calculate the best quantity to order:

Ordering quantities (tonne)	Price per ton Amount (₹)
Less than 250	5.00
250 but less than 800	4.90
800 but less than 2,000	4.80
2,000 but less than 4,000	4.70
4,000 and above	4.60

The annual demand for the material is 4,000 tonnes. Stock holding costs are 20% of material cost p.a. The delivery cost per order is ₹ 5.00 [8]

2. (b) From the following data of Solar System Ltd., work out the predetermined MHR for departments Mars and Jupiter of a factory:

	Total ₹	Dept. Mars ₹	Dept. Jupiter ₹
Spare parts	9,000	4,000	5,000
Power costs	16,000	-	-
Consumable stores	6,000	3,000	3,000
Insurance on machinery	6,000	-	-
Depreciation on machinery	30,000	10,000	20,000
Indirect labour	42,000	-	-
Building Maintenance	7,000	-	-

The final estimates are to be prepared on the basis of above figures after taking into consideration the following factors:

- An increase of 10% in the price of spare parts.
- An increase of 20% in the consumption of spare parts for department Jupiter only.
- Increase in the straight line method of depreciation from 10% on the original value of machinery to 12%
- 15% general increase in wage rates.

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The following information is available:

	Dept. Mars	Dept. Jupiter
Estimated DLH	80,000	1,20,000
Ratio of K.W. Rating	3	2
Estimated MH	25,000	30,000
Floor space (sq.ft)	15,000	20,000

[7]

3. (a) List the scope of CAS -5

[6]

3. (b) The Net profit of Dhronacharya Ltd., appeared at 41,800 as per financial records for the year ending 31<sup>st</sup> March, 2019. A scrutiny of the figures from both the sets of accounts revealed the following facts:

		(₹)
Stores adjustment (credit) in financial books		230
Value of opening stock in	: Cost accounts	24,800
	: Financial accounts	26,300
Value of closing stock in	: Cost accounts	25,000
	: Financial accounts	23,000
Interest charged in cost accounts		2,000
Imputed rent charged in cost accounts		1,000
Goodwill written off		4,850
Loss on sale of furniture		750
Selling and distribution expenses not charged in cost accounts		10,000
Donations to Prime Minister's Relief Fund		5,700
Transfer to Debenture Redemption Fund		8,900
Transfer to Dividend Equalization Fund		20,000
Works overhead under – recovered in costs		1,500
Administrative Overheads over-recovered in costs		800
Depreciation charged in financial accounts		5,600
Depreciation recovered in costs		6,300
Interest on investments not included in costs	3,000	
Loss due to obsolescence charged in financial accounts		3,000
Income tax reserve made in financial accounts	20,000	
Bank interest and transfer fee credited in financial books		370

You are required to prepare a statement showing the reconciliation statement and find out the profit as per cost accounts.

[9]

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4. (a) A shop floor supervisor of a factory presented the following cost for Job No.425 to determine selling price

	(₹)
Material	5,000
Direct wages (180 hours @ ₹20 per hour)	
Dept. X – 70 hrs	
Dept. Y – 60 hrs	
Dept. Z – 50 hrs	3,600
Chargeable expenses (special stores items)	1,000
	9,600
Add: 33 1/3% for expenses	3,200
Total cost	12,800

### Profit and Loss Account for the previous year

Particulars	(₹)	(₹)	Particulars	(₹)	(₹)
Materials used		12,00,000	Sales (Less returns)		20,00,000
Direct wages:					
Dept. X	70,000				
Dept. Y	90,000				
Dept. Z	80,000	2,40,000			
Special stores items		32,000			
Overheads:					
Dept. X	42,000				
Dept. Y	54,000				
Dept. Z	32,000	1,28,000			
Gross Profit c/d		4,00,000			
		20,00,000			20,00,000
Selling Expenses		1,60,000	Gross profit b/d		4,00,000
Net Profit		2,40,000			
		4,00,000			4,00,000

It is also noted that average hourly rates for the three departments X, Y and Z are similar. You are required to calculate and enter revised cost of Job No.425 using the actual figures for the previous year as the basis. Add 25% to the total cost to determine the selling price. Give necessary notes. [8]

4. (b) CRI Ltd., manufactures certain grades of products known as Main product M, By product A and By product B. In the course of manufacturing product M (main product), by-products A and B emerge. The joint expenses of manufacture amount to ₹ 2,37,600.

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All the three products are processed further after separation and sold as per details given below:

Product – M

(By-products)

		Product A	Product B
Sales (₹)	3,00,000	1,20,000	80,000
Cost incurred after separation (₹)	30,000	25,000	10,000
Profit as percentage on sales	25	20	15

Total fixed selling expenses are 10% of total cost of sales which are apportioned to three products in the ratio of 20:40:40.

Required:

- (i) Prepare a statement showing the apportionment of joint costs to the products (M, A and B)
- (ii) If the product A (by product) is not subject to further processing and is sold at the point of separation, for which there is a market at ₹ 95,440 without incurring any selling expenses, would you advise its disposal at this stage? Show the workings. **[7]**

5. (a) Gupta Holiday Homes has hired a building at a rent of ₹ 20,000 per month along with 5% of total taking. It has three types of suites for its customers, viz., single room, double rooms and triple rooms. Following information is given:

Type of suite	Number	Occupancy percentage
Single room	100	100%
Double rooms	75	80%
Triple rooms	50	60%

The rent of double room suite is to be fixed at 3 times of the single room suite and that of triple room suite as twice of the double room suite. The other expenses for the year 2019 are as follows:

	(₹)
Staff salaries	20,22,100
Room attendant's wages	5,50,000
Lighting, heating and power	2,25,000
Repairs and renovation	1,30,000
Laundry charges	80,500
Interior decoration	70,000
Sundries	1,60,000

Provide profit @ 25% on total taking and assume 360 days in a year. You are required to calculate the rent to be charged for each type of suite. **[8]**

5. (b) Pioneer Constructions Ltd., obtained a contract for ₹ 50 lakhs. The following balances and information relate to the contract for the year ended 31<sup>st</sup> March, 2019:

	1.4.2018	31.03.2019
Work-in-progress		
Work certified	9,38,800	40,00,000
Work uncertified	11,200	33,000
Materials at site	10,000	21,000
Accrued wages	5,000	3,000

Additional information relating to the year 2018-2019 are:

	(₹)
Material issued from share	4,00,000
Material directly purchased	6,49,000
Wages paid	6,00,000
Architect's fees	51,000
Plant hire charges	52,000
Indirect expenses	72,000
Share of general overheads for contract	18,000
Materials returned to store	25,000
Materials returned to supplier	16,000
Fines and penalties paid	12,000

The contractee pays 80% of work certified in cash. You are required to prepare:

- (i) Contract Account showing the amount of profits transferred to profit and Loss A/c
- (ii) Extract of Balance Sheet [7]

6. (a) Kohinoor Ltd has furnished the following data for the month of March 2019:

Particulars	
Variable cost per unit	₹ 19
Fixed factory overhead	₹ 5,20,000
Fixed selling overhead	₹ 2,00,000
Sales price per unit	₹ 25

- a) What is the break-even point expressed in rupee sales?
- b) How many units must be sold to earn a target net income of ₹ 1,20,000 per month?
- c) How many units must be sold to earn a net income of 25% on cost?
- d) What should be the selling price per unit if break-even point is to be brought down to 1,60,000 units? [8]

6. (b) LMN company is at present working at 90% of its capacity and producing 13,500 units per annum. It operates a flexible budgetary control system. The following figures are obtained from its budget.

	90%	100%
	Amount (₹)	Amount (₹)
Sales	15,00,000	16,00,000
Fixed expenses	3,00,500	3,00,600
Semi-fixed expenses	97,500	1,00,500
Variable expenses	1,45,000	1,49,500
Units made	13,500	15,000

Labour and material costs per unit are constant under present conditions. Profit margin is 10%.

- (a) You are required to determine the differential cost of producing 1,500 units by increasing capacity to 100%
- (b) What would you recommend for an export price for these 1,500 units taking into account that overseas prices are much lower than indigenous prices? [7]
7. (a) A chemical company gives you the following standard and actual data of its chemical No. 1234. You are required to calculate variances (material)

**Standard Data**

450	Kg of Material A @ ₹ 20 per kg	9,000
360	Kg of Material B @ ₹ 10 per kg	3,600
810		12,600
	2,400 Skilled hours @ ₹ 2	4,800
	1,200 unskilled hours @ ₹ 1	1,200
		6,000
90	Normal loss	
720		18,600

**Actual Data**

450	Kg of Material A @ ₹ 19 per kg	8,550
360	Kg of Material B @ ₹ 11 per kg	3,960
810		12,510
	2,400 Skilled hours @ ₹ 2.25	5,400
	1,200 unskilled hours @ ₹ 1.25	1,500
		6,900
50	Normal loss	
760		19,410

[8]

7. (b) A department of company ABC attains sale of ₹ 6,00,000 at 80% of its normal capacity and its expenses are given below:

	(₹)
Administration costs:	
Office salaries	85,000
General expenses	2 % of sales
Depreciation	6,500
Rates and taxes	9,000
Selling costs:	
Salaries	8 % of sales
Travelling expenses	2 % of sales
Sales office expenses	1% of Sales
General expenses	3% of Sales
Distribution costs:	
Salaries	15,000
Rent	1% of Sales
Other expenses	4% of Sales

Draw up a flexible budget at 90% and 100%

[7]

**8. Short Note (any three)**

[3×5=15]

- (a) Direct Material Cost
- (b) Objectives of Cost Accounting
- (c) Disclosure requirements as per CAS-10 (Limited Revision 2017)[any five]
- (d) Requisites of a good Cost Accounting System