



## Paper 8- Cost Accounting

## Paper-8: - Cost Accounting

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); 1 X 10 =10

(i) Depreciation is a example of -

- (a) **Fixed Cost**
- (b) Variable Cost
- (c) Semi Variable Cost
- (d) None of these

(ii) Continuous stock taking is a part of -

- (a) ABC analysis
- (b) Annual Stock taking
- (c) **Perpetual Inventory**
- (d) None of these

(iii) Labour turnover is measured by

- (a) **Number of workers replaced average number of workers**
- (b) Number of worker left/number in the beginning plus number at the end
- (c) Number of workers joining/number in the beginning of the period
- (d) All of these

(iv) A manufacturing industry produces product P, Royalty paid on sales is ₹ 47,00 and design charges paid for the product is ₹ 3,000.Compute the Direct Expenses.

- (a) **50,000**
- (b) 44,000
- (c) 47,000
- (d) None of these

(v) Warehouse expense is an example of

- (a) Production overhead
- (b) Selling overhead
- (c) **Distribution overhead**
- (d) None of these

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(vi) Standards deals with the principles and methods of determining depreciation and amortization cost-

- (a) CAS 9
- (b) CAS 12
- (c) CAS 15
- (d) **CAS 16**

(vii) In Reconciliation Statement Expenses shown only in cost accounts are.

- (a) Added to financial profit
- (b) **Deducted from financial profit**
- (c) Ignored
- (d) Added to costing profit

(viii) Operating costing is applicable to:

- (a) Hospitals
- (b) Cinemas
- (c) Transport
- (d) **All of the above**

(ix) If sales are ₹ 3,00,000 and variable cost are ₹ 1,00,000.compute P/V ratio.

- (a) **66.67%**
- (b) 100 %
- (c) 133.33%
- (d) 33.33%

(x) Cost of service under operating costing is ascertained by preparing.

- (a) **Cost sheet**
- (b) Process account
- (c) Job cost sheet
- (d) Production account

(b) Match the statement in column I with the most appropriate statement in Column II **1X5=5**

	Column I	3	Column II
(i)	Notional Cost	(A)	FSN Analysis
(ii)	Process of classifying Material	(B)	Income credited only in cost account
(iii)	Warehouse rent	(C)	Imputed cost
(iv)	Notional Rent charged to	(D)	Floor area occupied
(v)	In hospital the cost companies, the cost unit is	(E)	Per bed

**Answer:**

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(i)C	(ii)A	(iii)D	(iv)B	(v)E
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(c) State whether the following statements are 'True' or 'False'

1x5=5

- (i) A budget manual is the summary of all functional budgets.
- (ii) Margin of safety = Profit/P/V ratio
- (iii) Contact costing is variant of job costing
- (iv) Cost control accounts are prepared on the basis of double entry system.
- (v) Wages paid for abnormal idle time are added to wages for calculating prime cost.

**Answer:**

(i)F	(ii)T	(iii)T	(iv)T	(v)F
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(d) Fill in the blanks

1X5=5

- (i) Profit is the resultant two varying factors viz \_\_\_\_\_ and \_\_\_\_\_.
- (ii) Store Ledger is kept and maintained in \_\_\_\_\_
- (iii) Penalties/damages paid to statutory authorities' \_\_\_\_\_ be form part of Direct Expenses.
- (iv) Direct Material + \_\_\_\_\_ + Direct Expenses = Prime Cost
- (v) The key factor in a budget does not remain the \_\_\_\_\_ every year.

**Answer:**

(i) Sales ,Cost	(ii) Cost Office	(iii) Shall Not	(iv) Direct wages	(v) same
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## Section –B

Answer any five questions from question numbers 2 to 8.

Each question carries 15 marks

**2(a)** From the details given below, calculate:

- (i) Re-ordering level
- (ii) Maximum level
- (iii) Minimum level
- (iv) Danger level

Re-ordering quantity is to be calculated on the basis of following information:

- (a) Cost of placing a purchase order is ₹ 40
- (b) Number of units to be purchased during the year is 5,000
- (c) Purchase price per unit inclusive of transportation cost is ₹ 100
- (d) Annual cost of storage per units is ₹ 10
- (e) Details of lead time: Average 10 days, Maximum 15 days, Minimum 6 days.  
For emergency purchases 4 days
- (f) Rate of consumption: Average: 30 units per day, Maximum: 40 units per day

**[8]**

(b) From the following particulars given below compute Machine hour rate for a machine.

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- a. Cost ₹ 48,000
- b. Scrap value ₹ 8,000
- c. Estimated Working life 40,000 hours
- d. Estimated cost of repairs and maintenance during the whole life ₹ 4,000
- e. Standard charges of the shop for 4 weekly period ₹ 6,000
- f. Working hours in 4 weekly period 100 hours
- g. No. of machines in the shop each of which is liable for equal charge are 30 machines.
- h. Power used per hour 4 units @ 20p. per unit

[7]

**Answer:2(a)**

$$EOQ = \sqrt{\frac{2 \times 5,000 \times 40}{10}} = 200 \text{ units}$$

Min Rate of Consumption = (30 X 2) - 40 = 20 units

(i) Re-order Level (ROL) = Maximum usage per period X Maximum Re-order Period  
 = (40 X 15) = 600 units per day

(ii) Maximum Level = ROL + ROQ - (Min Rate of Consumption X Min Re-order Period)  
 = 600 units + 200 units - (20 units per day X 6 days)  
 = 680 units

(iii) Minimum level = ROL - (Average Rate of Consumption X Average Re-order Period )  
 = 600 - (30 units per day X 10 days)  
 = 300 units

(iv) Danger Level = Average Consumption X Lead time for Emergency Purchases  
 = 30 units per day X 4 days  
 = 120 units

**(b) Computation of Machine Hour Rate**

Particulars		Rate per hour
<b>Standing Charges</b>		
Standing Charges	[6,000 / (100 X 30)]	2
<b>Machine Expenses</b>		
Depreciation	[(48,000 - 8,000) / 40,000]	0.5
Repairs	[4,000 / 40,000]	0.1
Power	[4 X .2]	0.8
<b>Machine Hour Rate</b>		<b>3.4</b>

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**3(a)** Discuss- Objectives & Functions of the CASB.

**[6]**

**(b)** The net profits of a manufacturing company appeared at ₹ 1,29,000 as per financial records for the year ended 31st December, 2016. The cost books however, showed a net profit of ₹ 1,72,920 for the same period. A careful scrutiny of the figures from both the sets of accounts revealed the following facts.

	₹
(i) Income-tax provided in financial books	40,000
(ii) Bank Interest (Cr) in financial books	500
(iii) Work overhead under recovered	3,100
(iv) Depreciation charged in financial records	11,200
(v) Depreciation recovered in cost	12,000
(vi) Administrative overheads over-recovered	1,700
(vii) Loss due to obsolescence charged in financial accounts	5,600
(viii) Interest on Investments not included in cost accounts	8,000
(ix) Stores adjustments (Credit in financial books)	480
(x) Loss due to depreciation in stock value	6,700

Prepare Reconciliation Statement.

**[9]**

**Answer 3(a)**

The objectives of the CASB are to develop high quality Cost Accounting Standards to enable the management to take informed decisions and to enable regulators to function more effectively by integrating, harmonizing and standardizing Cost Accounting Principles and Practices.

The following will be the functions of the CASB :-

- (a) To issue the framework for the Cost Accounting Standards.
- (b) To equip the Cost & Management Accounting professionals with better guide lines on cost Accounting Principles.
- (c) To assists the members in preparation of uniform cost statements under various statutes.
- (d) To provide from time to time interpretations on Cost Accounting Standards.
- (e) To issue application guidance relating to particular standard.
- (f) To propagate the Cost Accounting Standards and to persuade the users to adopt them in the preparation and presentation of general purpose Cost Statement.
- (g) To persuade the government and appropriate authorities to enforce Cost Accounting Standards, to facilitate the adoption thereof, by industry and corporate entities in order to achieve the desired objectives of standardization of Cost Accounting Practices.
- (h) To educate the users about the utility and the need for compliance of Cost Accounting Standards.

**3(b)**

Statement showing reconciliation of profit shown by cost and financial accounts  
as on 31-12-2018

Particulars	Amount(₹)	Amount(₹)
Profit as per Financial Accounts		1,29,000
Add: Income Tax provided in financial books only	40,000	
Works overhead under recover	3,100	

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Loss to obsolescence considered. Financial A/c only	5,600	
Loss due to depreciation in stock	<u>6,700</u>	
		55,400
		1,84,400
Less: Bank interest credited in financial books.	500	
Over recovery of depreciation	800	
Administration overhead over recovered	1,700	
Interest on investment not included in cost books	8,000	
Stores adjustment	480	11,480
Profit as per Cost Accounts		<u>1,72,920</u>

**4(a)** The data pertaining to Heavy Engineering Ltd. using are as follows at the end of 31.3.2018. Direct material ₹ 11,25,000; Direct wages ₹ 9,37,500; Selling and distribution overhead ₹ 6,56,250 ; Administrative overhead ₹ 5,25,000, Factory overhead ₹4,50,000 and Profit ₹6,09,000.

(i) Prepare a cost sheet showing all the details.

(ii) For 2017-18, the factory has received a work order. It is estimated that the direct materials would be ₹ 15,00,000 and direct labour cost ₹ 9,37,500. What would be the price of work order if the factory intends to earn the same rate of profit on sales, assuming that the selling and distribution overhead has gone up by 15%? The factory recovers factory overhead as a percentage of direct wages and administrative and selling and distribution overheads as a percentage of works cost, based on the cost rates prevalent in the previous year.

**[8]**

(b) In a factory producing joint products of two varieties, the following data are extracted from the books:

	TOTAL(₹)
Sales of products X and Y	15,00,000
Direct Material	4,50,000
Direct Labour	2,20,000
Variable Overhead(150 % on Labour)	3,30,000
Fixed Overhead	4,00,000

The analysis of sales reveals that the percentage of sale of product X is  $66\frac{2}{3}\%$

Management contemplates to process further joint products so that they could be sold at higher rates. Facilities for this are available. The additional expenditure for the further process and total sales anticipated at higher selling prices are given below. Make recommendations presenting the affect of the proposal.

	Product X (₹)	Product Y(₹)	Total(₹)
Sales after further processing	12,00,000	6,00,000	18,00,000
Additional material	1,00,000	40,000	1,40,000
Additional direct labour	40,000	16,000	56,000

**Answer:**

**4(a)** (i) Statement of Cost

Particulars	Amount(₹)
Direct Material	11,25,000
Direct Wages	9,37,500
Prime Cost	20,62,500
Factory Overhead (60 % of wages)	5,62,500
Work Cost	26,25,000
Administration Overhead (20 % works cost)	5,25,000
Cost of Production	31,50,000
Selling & Distribution Overheads (25 % of Works Cost)	6,56,250
Cost of Sales	38,06,250
Profit (1/5 of Cost)	7,61,250
Sales	45,67,500

(ii) Estimated price of work order

Particulars	Amount(₹)
Direct Material	15,00,000
Direct Wages	9,37,500
Prime Cost	24,37,500
Factory Overhead (60 % of wages)	5,62,500
Work Cost	30,00,000
Administration Overhead (20 % works cost)	6,00,000
Cost of Production	36,00,000
Selling & Distribution Overheads (40 % i.e 25 % +15 % of Works Cost)	12,00,000
Cost of Sales	48,00,000
Profit (1/5 of Cost)	9,60,000
Sales	57,60,000

**(b)**

	Particulars	X(₹)	Y(₹)	Total(₹)
(i)	Sales after further processing	12,00,000	6,00,000	18,00,000
(ii)	Sales at split off	10,00,000	5,00,000	15,00,000
(iii)	Incremental sales	2,00,000	1,00,000	3,00,000
(iv)	Incremental/Additional/Further processing/Separate cost: Material	1,00,000	40,000	1,40,000

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	Labour	40,000	16,000	56,000
	Variable Overhead	60,000	24,000	84,000
(v)	Incremental Profit/Loss	--	20,000	20,000

**5(a)** Mr. Sohan Singh has started transport business with a fleet of 10 taxis. The various expenses incurred by him are given below:

- (i) Cost of each taxi ₹ 1,12,500
- (ii) Salary of office Staff ₹ 2,250 p.m.
- (iii) Salary of Garage's Supervisor ₹ 3,000 p.m.
- (iv) Rent of Garage ₹ 1,500 p.m
- (v) Drivers Salary (per taxi) ₹ 600 pm.
- (vi) Road Tax and Repairs per taxi ₹ 3,240 p.a.
- (vii) Insurance premium @ 4% 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 ₹ 22,500. A taxi runs on an average 4,000 Km. per month of which 20% it runs empty, petrol consumption 9 Km. per litre of petrol costing ₹ 9.45 per litre. Oil and other sundry expenses amount to ₹ 15 per 100 Km.

Calculate the effective cost of running a taxi per kilometre. If the hire charge is ₹ 2.70 per kilometre, find out the profit that Mr. Shoan may expect to make in the first year of operation.

**[8]**

(b) Kapur Engineering Company undertakes long term contract which involves the fabrication of pre stressed concrete block and the reaction of the same on consumer's life.

The following information is supplied regarding the contract which is incomplete on 31 st March, 2019

Cost Incurred	Amount()
Fabrication cost to date:	
Direct material	4,20,000
Direct Labour	1,35,000
Overheads	1,12,500
Erection cost to date	22,500
<b>Total</b>	<b>6,90,000</b>
Total Contract price	12,28,500
Cash received on account	9,00,000
Technical estimate of works completed to date:	
Fabrication: Direct materials	80%
Direct labour and overheads	75%
Erection	25%

You are required to prepare a statement for submission to the management indicating

- (i) The estimated profit on the completion of the contract.
- (ii) The estimated profit to date on the contract

**[7]**

**Answer:**

**5(a)** Statement showing Computation of Effective Cost and Profit for the Year

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Particulars	Amount(₹)	Amount(₹)
Fixed Cost		
Salary of Staff	2,250	
Salary of garage supervisor	3,000	
Rent of garage	1,500	
Driver Salary (10 X 600)	6,000	
Road tax and repairs ( 3,240 x 10/12)	2,700	
Insurance premium (1,12,500 X 4% x 10/12)	3,750	19,200
Fixed cost of 10 taxi's per month		
Cost per taxi = 19,200/10=1,920		
Cost Per km = 1,920/4,000=0.48		0.48
Running Cost		
Depreciation [(1,12,500- 22,500)/3,00,000]		0.30
Petrol (9.45/9)		1.05
Oil & sundry expenses ( 15/100)		0.15
		1.98
Effective cost per km =1.98 x(100/80)		2.475

$$\begin{aligned} \text{Profit for the year} &= (2.70 - 2.475) \times 10 \times 3,200 \times 12 \\ &= ₹86,400 \end{aligned}$$

**(b)** Statement showing computation of profit on completion of contract and profit to date

Particulars	Incurred to date(₹)	To be incurred(₹)	Total(₹)
Material	4,20,000	1,05,000	5,25,000
Labour	1,35,000	45,000	1,80,000
Overhead	1,12,500	37,500	1,50,000
Erection	22,500	67,500	90,000
Total			9,45,000
Profit			2,83,500
Contract Price			12,28,500

$$\begin{aligned} \text{Profit to date} &= 2,83,500 \times (9,00,000 / 12,28,500) = 2,07,692 \quad (\text{or}) \\ &= 2,83,500 \times (6,90,000 / 9,45,000) = 2,07,000 \end{aligned}$$

**6(a)** The following results of a company for the last two years are as follows:

Year	Sales(₹)	Profit(₹)
2018	3,00,000	40,000

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2019	3,40,000	50,000
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You are required to calculate:

- (I) P/V Ratio
- (II) B.E.P
- (iii) The sales required to earn a profit of 80,000
- (iv) Profit when sales are 5,00,000

[8]

**(b)** A company manufactures scooters and sells it at `3,000 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 and;
- (ii) Compute the new selling price to produce the same percentage of profit to cost of sales as before.

[7]

**Answer: 6(a)**

$$\begin{aligned} \text{(i) P/V ratio} &= (\text{Change in profit} / \text{Change in sales}) \times 100 \\ &= (10,000/40,000) \times 100 \\ &= 25\% \end{aligned}$$

$$\text{Fixed Cost} = (\text{Sales} \times \text{PV ratio}) - \text{Profit} = (3,00,000 \times 25\%) - 40,000 = ₹ 35,000$$

$$\text{(ii) B.E.P} = \text{Fixed Cost} / \text{PV ratio} = (35,000/25\%) = ₹ 1,40,000$$

$$\begin{aligned} \text{(iii) Sales required to earn a profit of 80,000} &= \frac{\text{Fixed cost} + \text{Desired profit}}{\text{P/V ratio}} \\ &= (35,000 + 80,000) / 25\% = ₹ 4,60,000 \end{aligned}$$

$$\begin{aligned} \text{(iv) Profit at sales 5,00,000} &= (\text{Sales} \times \text{P/v ratio}) - \text{Fixed Cost} \\ &= (5,00,000 \times 25\%) - 35,000 = ₹ 90,000 \end{aligned}$$

**(b)** Let X and Y be the cost and profit respectively.

$$X + Y = 3,000 \rightarrow (1)$$

$$\text{Material} = X \times 50/100 = 0.5X$$

$$\text{Labour} = X \times 20/100 = 0.2X$$

$$\text{Overheads} = X \times 30/100 = 0.3X$$

After increase of cost:

$$\text{Material} = 0.5 X \times 117/100 = 0.585 X$$

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$$\begin{aligned} \text{Labour} &= 0.2X \times 120/100 = 0.240 X \\ \text{Overheads} &= \underline{0.300 X} \\ &= \underline{1.125 X} \end{aligned}$$

$$\text{Profit} = Y \times 75/100 = 0.75Y$$

$$\therefore \text{New Equation } 1.125X + 0.75Y = 3,000 \rightarrow (2)$$

$$\text{Multiplying Eq. (1) by } 0.75 \quad 0.75X + 0.75Y = 2,250$$

$$0.375X = 750$$

$$X = 750/0.375 = ₹2,000$$

$$Y = 3,000 - 2,000 = ₹ 1,000$$

Statement of cost & profit per unit at present:

	Amount (₹)
Material = 2,000 x 50%	= 1,000
Labour = 2,000 x 20%	= 400
Overheads = 2,000 x 30%	= <u>600</u>
	= 2,000
(+) profit @ 50% of cost	= <u>1,000</u>
	= <u>3,000</u>

Computation of new selling price to get same percentage of profit:

	Amount (₹)
Material = 1,000 x 117/100	= 1,170
Labour = 400 x 120/100	= 480
Overheads	= <u>600</u>
Cost	= 2,250
(+) Profit @ 50%	= <u>1,125</u>
New selling price	= <u>3,375</u>

**7(a)** Using the following information calculate each of three labour variance for each department.

	Dept X	Dept Y
Gross wages direct (₹)	56,160	38,740
Standard hours produced	17,280	12,030
Standard rate per hour (₹)	3	3.40
Actual hours worked	16,400	12,790

**[8]**

**(b)** You are required to prepare a Selling Overhead Budget from the estimates given below:

	Amount(₹)
Advertisement	2,000
Salaries of the Sales Dept	2,000

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Expenses of the sales Dept.(Fixed)	1,500
Salesmen's remuneration	6,000
Salesman's and Dearness Allowance- Commission @ 1% on sales affected	

Carriage Outwards: Estimated @ 5% on sales

Agents Commission : 7½% on sales

The sales during the period were estimated as follows:

(a) ₹1,60,000 including Agent's Sales ₹16,000

(b) ₹ 1,80,000 including Agent's Sales ₹ 20,000

(c) ₹2,00,000 including Agent's Sales ₹21,000

[7]

### Answer:7(a)

Computation of Required Values

	SRSH(1)	SRAH(2)	ARAH(3)
Dept X	3 X 17280 = ₹ 51,840	3 X 16,400 = ₹49200	₹56,160
Dept Y	3.4 X 12030 = ₹40902	3.4 x 12790 = ₹43,486	₹38,740

1. SRSH=Standard Cost of Standard Labour

2.SRAH=Standard Cost of Actual Labour

3.ARAH = Actual Cost of Labour

	Dept X(₹)	Dept Y(₹)
Labour Efficiency Variance =(1)-(2)	2,640 (F)	2,584(A)
Labour Rate Variance =(2)-(3)	6,960(A)	4,746(F)
Labour Cost Variance =(1)-(3)	4,320(A)	2,180(F)

### (b) Selling Overhead Budget

(₹)

Sales	1,60,000	1,80,000	2,00,000
(A) Fixed Overhead:			
Advertisement	2,000	2,000	2,000
Salaries of the Sales Dept	2,000	2,000	2,000
Expenses of the sales Dept.(Fixed)	1,500	1,500	1,500
Salesmen's remuneration	6,000	6,000	6,000
Total(A)	11,500	11,500	11,500
(B) Variable Overhead:			
Commission	1,440	1,600	1,790
Carriage outwards (5% on sales)	8,000	9,000	10,000
Agents Commission	1,200	1,500	1,575
Total(B)	10,640	12,100	13,365
Grand Total(A+B)	22,140	23,600	24,865

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8. Answer any three out of the following four question:

5 X 3 = 15

- (a) Cost Control vs Cost Reduction
- (b) Objectives of Cost Accountancy
- (c) Advantages of perpetual inventory system
- (d) Limitation of Standard Costing (any five)

**Answer:**

**8(a)**

Cost Control	Cost Reduction
(a) Cost Control represents efforts made towards achieving target or goal.	(a) Cost Reduction represents the achievement in reduction of cost.
(b) The process of Cost Control is to set up a target, ascertain the actual performance and compare it with the target, investigate the variances, and take remedial measures.	(b) Cost Reduction is not concern with maintenance of performance according to standard.
(c) Cost Control assumes the existence of standards or norms which are not challenged.	(c) Cost Reduction assumes the existence of concealed potential savings in standards or norms which are therefore subjected to a constant challenge with a view to improvement by bringing out savings.
(d) Cost Control is a preventive function. Costs are optimized before they are incurred.	(d) Cost Reduction is a corrective function. It operates even when an efficient cost control system exists. There is room for reduction in the achieved costs under controlled conditions.
(e) Cost Control lacks dynamic approach.	(e) Cost Reduction is a continuous process of analysis by various methods of all the factors affecting costs, efforts and functions in an organization. The main stress is upon the why of a thing and the aim is to have continual economy in costs.

**8(b)** The following are the main objectives of Cost Accounting :-

- (i) To ascertain the Costs under different situations using different techniques and systems of costing
- (ii) To determine the selling prices under different circumstances
- (iii) To determine and control efficiency by setting standards for Materials, Labour and Overheads
- (iv) To determine the value of closing inventory for preparing financial statements of the concern
- (v) To provide a basis for operating policies which may be determination of Cost Volume relationship, whether to close or operate at a loss, whether to manufacture or buy from

market, whether to continue the existing method of production or to replace it by a more improved method of production....etc

**8(c)** Advantages of perpetual inventory system:

- (i) The system obviates the need for the physical checking of all items of stock and stores at the end of the year.
- (ii) It avoids the dislocation of the routine activities of the organisation including production and despatch.
- (iii) A reliable and detailed check on the stores is maintained.
- (iv) Errors, irregularities and loss of stock through other methods are quickly detected and through necessary action recurrence of such things in future is minimised.
- (v) As the work is carried out systematically and without undue haste the figures are readily available.
- (vi) Actual stock can be compared with the authorised maximum and minimum levels, thus keeping the stocks within the prescribed limits. The disadvantages of excess stocks are avoided and capitalised up in stores materials cannot exceed the budget.
- (vii) The recorder level of various items of stores are readily available thus facilitating the work of procurement of stores.
- (viii) For monthly or quarterly financial statements like Profit and Loss Account and Balance Sheet the stock figures are readily available and it is not necessary to have physical verification of the balances.

**8(d)** Limitations of standard costing:

1. Establishment of standard costs is difficult in practice.
2. In course of time, sometimes even in a short period the standards become rigid.
3. Inaccurate, unreliable and out of date standards do more harm than benefit.
4. Sometimes, standards create adverse psychological effects. If the standard is set at high level, its non achievement would result in frustration and build-up of resistance.
5. Due to the play of random factors, variances cannot sometimes be properly explained, and it is difficult to distinguish between controllable and non-controllable expenses.
6. Standard costing may not sometimes be suitable for some small concerns. Where production cannot be carefully scheduled, frequent changes in production conditions result in variances. Detailed analysis of all of which would be meaningless, superfluous and costly.
7. Standard costing may not, sometimes, be suitable and costly in the case of industries dealing with non-standardized products and for repair jobs which keep on changing in accordance with customer's specifications.
8. Lack of interest in standard costing on the part of the management makes the system practically ineffective. This limitation, of course, applies equally in the case of any other system which the management does not accept wholeheartedly.