PAPER – 8 : COST ACCOUNTING

SUGGESTED ANSWERS

SECTION - A

1.

(i) (D)
(ii) (D)
(iii) (D)
(iv) (B)
(v) (B)
(vi) (C)
(vii) (C)
(viii) (B)
(ix) (B)
(x) (A)
(xi) (D)
(xii) (C)
(xiii) (C)
(xiv) (A)
(xv) (C)

SECTION – B

2. (a)

Estimated Cost Sheet for the Year 2023

Particulars	Total Cost	Cost per Unit ₹
Direct Material	22,50,000	7,500
Direct Labour	29,70,000	9,900
Prime Cost	52,20,000	17,400
Factory Overhead	13,05,000	4,350
Factory Cost	65,25,000	21,750
Office Overhead	13,50,000	4,500
Cost of Production	78,75,000	26,250
Selling & Distribution Overhead	6,75,000	2,250
Total Cost	85,50,000	28,500
Profit	21,37,500	7,125
Selling Price	1,06,87,500	35,625

2. (b)

Total Profit Forgone as a result of Labour Turnover ₹ 3,79,500

3. (a)

(i) Different Capacities

- Maximum Capacity: = 2,920 hours
- Practical Capacity: = 2,092 hours
- Normal Capacity = 2,000 hours
- Actual capacity = 1,825 hours

(ii) & (iii) Computation of Hourly Rate for Recovery of Overhead Rates for Each of Capacities

Particulars of capacity	Base capacity hours	Capacity utilized (hours)	Idle capacity hours	Fixed overhead (₹)	Fixed overhead rate per hours (₹)
Maximum	2,920	1,825	1,095	5,84,000	200.00
Practical	2,092	1,825	267	5,84,000	279.16
Normal	2,000	1,825	175	5,84,000	292.00
Actual	1,825	1,825	-	5,84,000	320.00

3. (b)

Journal Entries

	Dr	Cr.
Particulars	**Amount (₹)**	**Amount (₹)**
Material Control A/C Dr.	8,00,000	
To Creditors A/C		8,00,000
Work in Progress Cont. A/C Dr.	6,00,000	
To Material Control A/C		6,00,000
Wages Control A/C Dr.	4,80,000	
To Cash A/C		4,80,000
Factory Overhead Control A/C Dr.	1,44,000	
To Wages Control A/C		1,44,000
Work in Progress Control A/C Dr.	3,36,000	
To Wages Control A/C		3,36,000
Factory Overhead Control A/C Dr.	3,80,000	
To Cash A/C		3,80,000
Work in Progress Control A/C Dr.	3,60,000	
To Factory Overhead Control A/C		3,60,000
S & D O.H. Control A/C Dr.	80,000	
To Cash A/C		80,000
Cost of Sales A/C Dr.	80,000	
To S & D O.H. Control A/C		80,000
Finished goods Control A/C Dr.	8,00,000	
To WIP Control A/C		8,00,000
Debtors A/C Dr.	11,60,000	
To Profit & Loss A/C		11,60,000
Cash A/C Dr.	2,76,000	
To Debtors A/C		2,76,000

4. (a)

(i) Profit for the year = ₹ 40,52,000

(ii) Contribution Per Patient Day: = ₹ 1,010.48

(iii) Break Even Point (BEP): = 7,440 Patient Days

4. (b)

Contract Account

(For the year ended 31st March, 2023)

Particulars	₹	Particulars	₹
To Materials Cost	3,85,000	By Materials at site	35,400
To Labour Cost	4,45,600	By Balance c/d	10,49,000
To Foreman's Salary	67,300		
To Supervisor's Salary	36,000		
To Depreciation on Machine	14,000		
To Other Expenses	1,36,500		
	10,84,400		10,84,400
To Balance b/d	10,49,000	By Work-in-Progress:	12,62,250
To Notional Profit c/d	2,13,250		
	12,62,250		12,62,250
To Profit & Loss a/c	1,06,625	By Notional Profit b/d	2,13,250
To Work-in-Progress a/c	1,06,625		
	2,13,250		2,13,250

5. (a)

Process X Account

Dr. **Cr.**

Particulars	Units	₹	Particulars	Units	₹
To Input of raw materials	1,000	30,000	By Normal wastage	50	1,000
To Other Materials		26,000	By Process Y A/c	950	95,000
To Direct Wages		20,000			
To Overheads		20,000			
	1,000	96,000		1,000	96,000

Process Y Account

Dr. **Cr.**

Particulars	Units	₹	Particulars	Units	₹
To Process X A/c	950	95,000	By Normal Wastage	95	3,800
To Other materials		19,800	By Abnormal Wastage	15	3,000
To Direct wages		30,000	By Process Z A/c	840	1,68,000
To Overheads		30,000			
	950	1,74,800		950	1,74,800

Process Z Account

Dr. **Cr.**

Particulars	Units	₹	Particulars	Units	₹
To Process Y A/c	840	1,68,000	By Normal Wastage	126	6,300
To Other materials		29,620	By Finished stock A/c	750	2,85,000
To Direct wages		40,000			
To Overheads		40,000			
To Abnormal gain	36	13,680			
	876	2,91,300		876	2,91,300

5. (b)

(i) Material Cost Variance = ₹ 3,985 (A)

(ii) Material Price Variance = ₹ 2,235 (A)

(iii) Material Quantity Variance = ₹ 1,750 (A)

(iv) Material Mix Variance = ₹ 525(A)

(v) Material Yield Variance = ₹ 1,225(A)

6.

Situation (a):

Net Profit = ₹ 4,70,000

Situation (b):

Net Profit = ₹ 4,08,000

7. (a)

(i) Quarterly Production Budget:

First	Second	Third	Fourth
42,400	51,600	63,600	66,400

(ii) Break Even Point (BEP) = 88,000 units

Break Even Point will be achieved in Second quarter.

7. (b)

(i) <u>Objectives and Functions of CASB:</u>

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 are the <u>functions of the CASB:</u>

(a) To issue the framework for the Cost Accounting Standards.

(b) To equip the Cost and Management Accounting professionals with better guidelines on Cost Accounting Principles.

(c) To assist 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 statements.

(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 need for compliance of Cost Accounting Standards.

(ii) <u>Scope of CAS – 4:</u>

This statement on Cost of Production for Captive Consumption should be applied to cost statements which require classification, measurement, assignment, presentation and disclosure of related cost for determination of the following under the relevant provisions of GST Act/Rules:

- Determination of cost of production of goods,
- Determination of cost of acquisition of goods,
- Determination of cost of supply of goods,
- Determination of cost of provision/supply of services, and
- Determination of value of supply of goods or services as per open market value or as per goods or services of like kind and quality.

8. (a)

<u>Responsibility Centre:</u>

CIMA official terminology defines responsibility centre as departmental or organisational function whose performance is the direct responsibility of a specific manager. Responsibility centre refers to a particular segment or unit of an organisation for which a particular manager, employee, or department is held responsible and accountable for its business goals and objectives. It refers to the part of company where a manager has authority and responsibility. A responsibility centre is a functional entity within a business that tends to have its own goals and objectives, policies and procedures, thereby giving managers specific responsibility for revenues, expenses incurred, funds invested, etc.

<u>Types of Responsibility Centres:</u>

(i) **Cost Centre** – Under this center, the manager is held responsible only for the costs, including a production department, maintenance department, human resource department, etc.

(ii) **Profit Centre** – Under this center, the manager is responsible for all costs and revenues. Here, the manager would have all the responsibility to make decisions that would affect both the revenue and costs.

(iii) **Revenue Centre**–This segment is primarily responsible for attaining sales revenue. The performance of this center is evaluated by comparing the actual revenue attained with the budgeted revenue.

(iv) **Investment Centre** – Apart from looking into the profits, this center looks into returns on the funds invested in the group's operations. Thus, investment center is also a profit center with additional responsibilities for capital investment and possibly for financing, and whose performance is measured by its return on investment.

8. (b)

<u>Bill of Material:</u>

Bill of Material is a complete schedule of parts and materials required for a particular order prepared by the drawing office and issued together with necessary blue prints of drawings. For standard products, printed copies of material bill are kept with blank spaces for any special details of modification to be filled in for a particular job/order. The schedule details everything, even to bolts and nuts, sizes and weights.

Purpose of Bill of Material:

(i) It provides a quantitative estimate of budget of material required for a given job, process or operation which might be used for control purposes.
(ii) It substitutes material requirements and expedite issue of materials.
(iii) The store keeper can draw up a program of material purchases and issue for a given period.
(iv) It provides the basis for charging material cost to the respective job/process.

8. (c)

Overtime Wages / Overtime Premium:

As per CAS -7, the overtime and overtime premium is defined as, "Overtime is the time spent beyond the normal working hours which is usually paid at a higher rate than the normal time rate. The extra amount payable beyond the normal wages and salaries for beyond the normal working hours is called Overtime Premium". Hence, payment of overtime consists of two elements, viz., the normal (i.e., usual) amount and the extra payment, i.e., the premium.

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 Labour 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.
- When overtime is spent at the request of the customer, the entire amount (including overtime premium) is treated as direct wages and is charged to the job.
- When 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.