

PAPER – 8 : COST ACCOUNTING

SUGGESTED ANSWERS

SECTION – A

1. (a)

- (i) (C)
- (ii) (C)
- (iii) (A)
- (iv) (B)
- (v) (C)
- (vi) (D)
- (vii) (A)
- (viii) (B)
- (ix) (D)
- (x) (C)

1. (b)

- (i) (D)
- (ii) (G)
- (iii) (E)
- (iv) (F)
- (v) (C)

1. (c)

- (i) True
- (ii) False
- (iii) True
- (iv) False
- (v) False

1. (d)

- (i) Sales, Cost
- (ii) Number of Units
- (iii) Sales Demand / Market demand
- (iv) CAS – 14 (Unlimited Revision 2017)
- (v) Operating Costing

SECTION – B

2. (a)

(i) Wages under guaranteed hourly rate basis:

Worker – I ₹ 15200

Worker – II ₹ 5000

Worker – III ₹ 32400

(ii) Wages under piece work earning basis:

Worker – I ₹ 24150

Worker – II ₹ 7500

Worker – III ₹ 36000

(iii) Wages under Premium bonus basis:

Worker – I ₹ 16050

Worker – II ₹ 6000

Worker – III ₹ 35640

2. (b)

Total expense of Dept. S ₹ 11000

Total expense of Dept. T ₹ 15000

Particulars	MP	BQ	NR	S	T
	₹	₹	₹	₹	₹
Total as per Primary Distribution	25000	31000	28000	8000	13900
Distribution of expenses of Dept. S in the ratio 3: 2: 4: 1	3300	2200	4400	– 11000	1100
Distribution of expenses of Dept. T in the ratio 8: 3: 5: 4	6000	2250	3750	3000	– 15000
	34300	35450	36150	–	–

3. (a)

Objective

The objective of this Standard (CAS-4) is to bring uniformity and consistency in the principles and methods of determining the cost of production or acquisition or supply of goods or provision of services as required under the provisions of GST Acts / Rules.

Scope

This standard (CAS-4) should be applied to cost statements which require classification, measurement assignment, presentation, and disclosure of related costs for determination of the following under the relevant provisions of GST Acts/Rules.

- Determination of cost of production of goods;
- Determination of cost of acquisition of goods;
- Determination of cost of supply of goods;
- 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.

3. (b)

(i) Profit as per Cost Accounts = ₹ 480000

(ii) Profit and Loss Account (Amount in ₹)

To Materials	1600000	By Sales	4000000
To Wages	800000	By Finished Stock	240000
To Factory Overheads	720000	By Work-in-Progress	112000
To Admn. Overheads	416000	By Dividend Received	10000
To Selling and Distribution Overheads	288000	By Interest Received	5000
To Goodwill (Written off)	320000		
To Interest on Capital	32000		
To Net Profit	191000		
	4367000		4367000

(iii) Reconciliation Statement for the year ended March 31, 2023 (Amount in ₹)

Profits as per Cost Accounts		480000
Add: Over-recovery of Factory Overheads	80000	
Over-recovery of Selling and Distribution overheads	32000	
Under Valuation of Finished goods in Cost A/c's	43200	
Interest and dividend Received	15000	170200
Less: Under- recovery of Administration overheads	107200	
Goodwill written off	320000	
Interest on Capital	32000	(459200)
Profit as per Financial Accounts		191000

4. (a)

(i) to (v)

Cost Sheet for the Month of August 2023

Particulars	(₹)
Prime Cost	280000
Cost of production / Works cost	370000
Cost of goods sold	360000
Cost of Sales	400000
Add: Profit	100000
Sales	500000

4. (b)

(i) Net Income for each of the products if the joint costs are apportioned on the basis of sales Value:

$$P = ₹ 124185$$

$$Q = ₹ (10780)$$

$$R = ₹ 15367$$

$$S = ₹ 14588$$

(ii) Net Income of each of the products if the company decides to sale the products at the Split off Point:

$$P = ₹ 34185$$

$$Q = ₹ (5780)$$

$$R = ₹ 15367$$

$$S = ₹ 6988$$

(iii) Incremental Profit by Further Processing:

P = ₹ 90000

Q = ₹ (5000)

R = ₹ -

S = ₹ 7600

Advice:

On comparing the profitability of four products, it is advisable to sell the Product P and S after further processing and Product Q and R, at Split off point resulting in enhancement of Profit of the Company.

5. (a)

(i) Profit per Patient day = ₹ 43.65

(ii) Breakeven Point = 9547 Patient days

5. (b)

(i) & (ii)

Contract Account

Particulars	(₹)	Particulars	(₹)
To Material Issued	948000	By Machine	745270
To Direct Wages	349200	By Works cost	2357200
To Administrative Charges	720000		
To Supervisor's salary	300000		
To Machine	785270		
	3102470		3102470
To Works cost	2357200	By Value of work certified	2100000
Costing P&L A/c. (Notional Profit)	332100	By Cost of work uncertified	589300
	2689300		2689300

6. (a)

(i) Break-even Sales = ₹ 6400000 or 16000 Toys

Margin of Safety = 8000 Toys or ₹ 3200000

(ii) Required number of Toys = 21250

(iii) Break-even point in number of Toys = 13000 Toys

6. (b)

(i) Activity level at Break - Even-Point = 50%

(ii) Number of units to be sold to earn at a net income of 8% of Sales = 27273 units

(iii) Activity level= 88.33%

(iv) Selling price per unit = ₹ 26.875

7(a) :

(i) Material Cost Variances= ₹ 300 (F)

(ii) Material Price Variance = ₹ 26,200 (A)

(iii) Material Mix Variance = ₹ 13,000 (F)

(iv) Yield Variance = ₹ 13,500 (F)

(v) Usage Variance = ₹ 26,500 (F)

7. (b)

(i)

Budgeted Production 80% of 1000 i.e. 800 Units

Particulars	Amount in ₹
Variable Cost	
Wages	1600
Consumable stores	1200
Maintenance	800
Power & Fuel	800
Fixed Cost	
Maintenance	500
Power & Fuel	1000
Depreciation	4000
Insurance	1000
Total Cost	10900

(ii) Computation of Total Cost per Unit

	Capacity		
Particulars	60%	80%	100%
Production (Units)	600	800	1000
Variable Cost per Unit (₹)	5.50	5.50	5.50
Fixed Cost per Unit (₹)	10.83	8.13	6.5
Total Cost per Unit (₹)	16.33	13.63	12.00

8. (a)**Objectives of Cost Accounting:**

The following are the main objectives of Cost Accounting

- To ascertain the Costs under different situations using different techniques and systems of costing
- To determine the selling prices under different circumstances
- To determine and control efficiency by setting standards for Materials, Labour and Overheads
- To determine the value of closing inventory for preparing financial statements of the concern
- To provide a basis for operating policies which may be determination of Cost Volume relationship.
- To achieve real and permanent reduction in the unit cost of goods manufactured or services rendered without impairing their suitability for the use intended or diminution in the quality of the product.

8. (b)**Economic Order Quantity (EOQ):**

Economic Order Quantity is the size to order for which both ordering and carrying costs are minimum.

Assumptions underlying EOQ:

- Ordering cost per order and carrying cost per unit per annum are known and they are fixed.
- Anticipated usage of material in units is known.
- Cost per unit of the material is constant and is known as well.
- The quantity of material ordered is received immediately i.e. lead time is Zero.

8. (c)

The important areas of Managerial decisions opened up by the Marginal Costing Technique are as follows:

- (i) Make or Buy decisions
- (ii) Exploring foreign markets -
- (iii) Accept an order or not
- (iv) Determination of selling price in different conditions.
- (v) Replace one product with some other product.
- (vi) Optimum utilisation of labour or machine hours.
- (vii) Evaluation of alternative choices.
- (viii) Subcontract some of the production processes or not
- (ix) Expand the business or not.
- (x) Diversification
- (xi) Shut down or continue

8. (d)

Industry or Product	Cost Units
Automobile	Number
Gas	Cubic Feet
Brick Works	1000 Bricks
Power	Kilo – Watt hour (kWh)
Steel	Tonne
Transport (By Road)	Passenger-Kilometer
Chemical	Litre, Gallon, Kilogram, Tonne etc.
Oil	Barrel, Tonne, litre
Cement	Tonne / per bag etc.
Brewing	Barrel