INTERMEDIATEEXAMINATION

GROUP II

(SYLLABUS 2012)

SUGGESTED ANSWERS TO QUESTIONS

JUNE 2016

Paper-10: COST AND MANAGEMENT ACCOUNTANCY

Time Allowed: 3 Hours **Full Marks:100**

The figures in the margin on the right side indicate full marks.

All workings must form part of your answer. Assumptions, if any, must be clearly indicated.

Please: (1) Write answers to all parts of a question together.

(2) Open a new page for answer to a new question.

(3) Attempt the required number of questions only.

SECTION – A
(25 marks)

All questions are compulsory.

1. (a) Materials cost and factory cost are ₹ 2,38,000 and ₹ 4,30,000 respectively. If the factory overhead is absorbed at 60% of direct labour cost, then find the direct labour cost and factory overhead separately. 2

(b) If BEP is ₹ 39,00,000 at 65% level of sales and profit is ₹ 8,40,000 at 100% level of sales, find out the P/V ratio. 2

(c) If the fixed cost per unit is ₹ 40 at 40% level of capacity what should be fixed cost per unit at 80% level of capacity? 2

(d) Standard cost of material for output of 2,600 units is ₹ 71,500 and actual output is 2,550 units. If material mix variance is ₹ 1,095 adverse, find out material usage variance. 2

(e) The budgeted annual sales of a firm are ₹80 lakhs and 25% of the sales are cash sales. If the average amount of debtors of the firm is ₹ 5 lakhs, what will be the average collection period of credit sales? 2

(f) Sheena Ltd. is committed to supply 25,000 instruments per annum to Karishma Ltd. on regular basis. It is estimated that inventory holding cost per instrument per month amounts to 20 paise and that set up cost per run of instrument manufacturing is ₹ 330. What should be the optimum run size for instrument manufacturing? 2

(g) A company has 1,000 units of obsolete items which are carried in inventory at the original purchase price of ₹ 36,000, although their market value as scrap is only ₹ 4,000. If the items are re-worked for ₹ 12,000,they can be sold for ₹ 22,000. Find the relevant cost for selling the items. 2

2. (a) State whether there is any sequence of filing compliance report and cost audit report for a company which is required to file both. 1

(b) A company is covered under the Companies (Cost Accounting Records) Rules, 2014. But some of its products are not covered under cost audit. Dose the company need to file compliance report? 2

(c) A person is making internal audit in one of the factories manufacturing "Washing Powder" in a company. He is proposed for appointment as cost auditor for the same period in another factory manufacturing "Washing Powder" under the same company. Is the appointment as cost auditor in order? 2

3. Cost function is: $C=\frac{4}{5}x+\frac{16}{5}$, where x is output in units and C is cost in rupees.

Calculate:

(a) Cost when output is 5 units 2

(b) Average cost of 15 units 2

(c) Marginal cost 2

Answers:

1. (a)

(Amount in rupees)

Material cost	2,38,000
Direct Labour cost	?
Factory overhead: 60% of Direct Labour Cost	?
Factory cost	4,30,000
Direct Labour cost + factory Overhead	=4,30,000-2,38,000=1,92,000
Direct Labour cost + 60% of Direct labour cost	=1,92,000
Direct Labour cost = 192000×100/160	=1,20,000
Factory Overhead=60% of Direct Labour cost	=1,20,000×60%=72,000

(b)MOS (100-65) = 35% × 39,00,000 / 65% = 21,00,000.

P/V = Profit/ MOS = 8,40,000/21,00,000 = 40%

(c) Fixed cost per unit = (40 × 40)/80 = ₹ 20

(d) Material Usage Variance = Material Yield variance + Material Mix variance.
Material Yield variance = Std. Mat. Cost per unit × (Actual Output - Std. Output)
= (71,500/2,600) × (2,550-2,600) = 27.5 × 50 = 1,375 (adv)
Material Usage Variance = 1,375 (adv)+ 1,095 (Adv) = ₹ 2,470(Adv)

(e) Credit Sales = 80-25% = 60(Rs. lakhs). Monthly Credit Sales = 60/12 = 5 (₹ Lakhs). Debt collection period in months = Average Debtors/ Monthly Credit Sales = 5/5 = 1 month.

(f) $EBQ=\sqrt{\frac{2\times A\times S}{C}}$

A = 25,000

S = 330

C = 0.2 × 12 = 2.40

$EBQ=\sqrt{\frac{2\times 25000\times 330}{2.4}}$ = 2622 units.

(g)Opportunity cost = scrap value = ₹ 4,000

Future cost of re-working = ₹ 12,000

Relevant cost for sale = 4,000+12,000 = ₹ 16000

2. (a) No. There is no sequence of filing as compliance report and cost audit report are mutually exclusive to each other.

(b) Every company covered under companies (Cost accounting Record) Rules, 2014 is required to file a Compliance Report, irrespective of whether all or any of its products are covered under cost audit. Thus the compliance report shall include product groups covered under cost audit as well as product groups not covered under cost audit.

(c) A cost Auditor can be appointed separately for each factory, if a person is working asInternal Auditor of one factory, there is no objection if the same person is working as Cost Auditor of another factory of the same company, even though both factories are manufacturing the same product.

3. $C = \frac{4}{5}x + \frac{16}{5}$

(a) Cost when output is 5 units

$= \frac{4}{5} \times 5 + \frac{16}{5}$

$= ₹ 7.20$

(b) Average cost of 15 units

Average cost = C/x

$= \frac{4}{5} + \frac{16}{5x}$

$= \frac{4}{5} + \frac{16}{5 \times 15}$

$= ₹ 1.01$

(c) Marginal cost = $\frac{dc}{dx}$

$= \frac{4}{5} = ₹ 0.80$

SECTION – B

(15×5 =75 marks)

***Answer Question no 4,5 and 6* and *anytwo* from the rest.**

4. (a) A radio manufacturer produces x sets per week at total cost of $x^2 + 78x + 2500$. He is a monopolist and demand function for the product is x= (618 - P)/8, when price in rupees is P per set. Find the optimal (profit maximizing) production per week. Also find monopoly price per set, total revenue, total cost and total profit at the optimal production. 10

(b) Total revenue in rupees (R) from sale of x units is given by the equation $R = 90x - 3x^2$. Calculate the point price elasticity of demand, when marginal revenue is ₹12. 5

Answers:

(a) $C = x^2 + 78X + 2500$

Marginal cost = MC = $\frac{dc}{dx} = 2x + 78$

x = (618 - P)/8

P = 618 – 8x

Total Revenue = R = x × P = $618X - 8x^2$

$MR = \frac{dR}{dx} = 618 - 16x$

At optimal production MC = MR

$2x + 78 = 618 - 16x$

$18x = 540$

$X = 540/18 = 30$

$P = 618 - 8 \times 30 = 378$

$R = 30 \times 378 = 11340$

$C = 30^2 + 78 \times 30 + 2500 = 900 + 2340 + 2500 = 5740$

Total Profit = R - C = 5600

(b) $R = 90x - 3x^2$

$MR = 90 - 6x = 12$

$X = 13$

$P = R/x = 90 - 3X$

$P/x = 90/x - 3$

$dP/dx = 3$ (-ve sign ignored)

$dx/dP = 1/3$

$Ep = (dx/dP) \times P/x = 1/3 \times (90/x - 3)$

$= 1/3 \times (90/13 - 3)$

$=17/13$

5. (a) What are the disqualifications for appointment as a Cost Auditor? State the duties of Cost Auditor. 5+4

(b) Answer *any two* of the following sub-parts: 3 × 2 = 6

(i) Under what circumstances a company can apply for exemption from application of the Companies (Cost Audit Report) Rules,2014?

(ii) What do you understand by Performance Appraisal Report (Form III)?

(iii) State whether overall annual turnover/individual turnover definition will include other operational income like job work income, scrap sale, trading turnover, export benefits, sales of services etc.

(iv) State whether maintenance of cost accounting records and cost audit thereof, subject to threshold limits prescribed, are applicable to products which are for 100% captive.

Answers:(a)

<u>Disqualifications of the Cost Auditor:</u>

The following persons cannot be appointed or reappointed as cost auditor of a company-

(i) A body corporate

(ii) An officer or employee of the company

(iii) A person who is a partner, or who is in the employment, of an officer or employee of the company;

(iv) A person who is indebted to the company for an amount exceeding one thousand rupees or who has given any guarantee or provided any security in connection with the indebtedness of any third person to the company for an amount exceeding one thousand rupees;

(v) A person holding any security of that company after a period of one year from the date

of commencement of the Companies (Amendment) Act,2000.(Explanation: "security" means an instrument which carries voting rights);

The duties of the cost auditor:

(i) To ensure that the proper books of accounts as required by Cost Accounting Records Rules have been kept by the company so far as it appears from the examination of those books and proper returns for the purpose of his audit have been received from branches not visited by him;
(ii) To ensure that the Cost Audit Report and the detailed cost statements are in the form prescribed by the Cost Audit Report Rules by following sound professional practices i.e, the report should be based on verified data and observations may be framed after the company has been afforded an opportunity to comment on them;
(iii) The underline assumption and basis for allocation and absorption of indirect expenses are reasonable and are as per the established accounting principles;
(iv) If the auditor is not satisfied in any of the aforesaid matters, he may give a qualified report along with the reasons for the same;

Alternative answer of disqualification of a Cost Auditor:
As per Companies Act 2013

(i) A body corporate;
(ii) An officer or employee of the company;
(iii) A person who is a partner, or who is in the employment, of an officer or employee of the company;
(iv) A person who, or his relative, or his partner is indebted, in excess of such amount as may be prescribed (the sum prescribed is Rs. 5 lakh) to the company, or its subsidiary company, or its holding company, or associate company, or a subsidiary of such holding company.
(v) A person who, or his relative, or his partner has given a guarantee or provided any security in connection with the indebtedness of third person, in excess of such amount as may be prescribed (the sum prescribed is Rs. 1 lakh), to the company, or its subsidiary company, or its holding company, or associate company, or a subsidiary of such holding company.

(b)

(i) Under no circumstances a company can apply for exemption from application of the Companies(Cost Audit Report) rules 2014.
(ii) Performance Appraisal Report (Form iii therein)
It is mandatory to submit Performance Appraisal Report to company management which cannot be a NIL report.
Vide sub-rule 5 of Rule 4 of the Companies (Cost Audit Report) Rules, 2011, every cost auditor, who submits a cost audit report shall also furnish Performance Appraisal Report, duly authenticated by the cost auditor, to the Board/Audit Committee of the company in the prescribed format (Form III). There cannot be NIL report since list of the areas to be covered in the report as per report as per (Form III) are relating to company's operations being audited by the cost auditor. However, the frequency of this report viz. half yearly/annual (or even quarterly) is to be decided by the Company Management.
The contents of the Performance Appraisal Report as given in Form III are "indicative",depending on the nature of business and activity of the company, the management and the cost auditor in consultation with each other can add or delete the

indicative areas to be covered under the performance Appraisal Report. The intention of the law appears to assign a role to the cost auditor to provide an independent view of the performance of the company to enable the management to take corrective steps wherever necessary. The institute is also going to bring out a Guidance note on the subject.

(iii) The turnover shall include other operational income like Job work income, scrap sale, trading turnover, export benefits, sales of services etc.,

(iv) The Companies (Cost Records and Audit) Rules,2014 has specified different products and services for which maintenance of cost accounting records and cost audit thereof, subject to threshold limits prescribed, is mandatory.

In case a Product is manufactured and 100% captively consumed for production of same other product, which is also covered under these Rules and is subject to cost audit, then the cost of such captively consumed product would form part of the final product which is also under cost audit and as such a separate cost audit report for the captively consumed product will not be necessary.

However, if the product is partly for captive consumption and partly sold, or if the product is 100% captive consumed for production of some other product, which is not covered under these Rules, then Cost Audit would be applicable for such captive consumed product(s).

6. (a) What do you understand by transfer pricing? State the objectives of inter-division transfer pricing. 2+4

(b) Answer any one of the following sub-parts: 4×1= 4

(i) Find primal from the Dual
Min. W: =$7Y_1 + 9Y_2 + 14Y_3$
Subject to
$2Y_1 + 3Y_2 \geq 4$
$3Y_1 + 2Y_2 + 5Y_3 \geq 5$
$3Y_2 + 4Y_3 \geq 7$
And $Y_1, Y_2, Y_3 \geq 0$

(ii) State the four-fold classification of government's intervention in Indian Economy.

(c) Answer any one of the following sub-parts: 5 × 1= 5

(i) Graphically explain the equilibrium of a firm under perfect competition in the short run.

(ii) Draw an expansion path through an isoquant map and explain.

Answers:

(a) A "Transfer Price" is that notional value at which goods and services are transferred between divisions in a decentralized organization. Transfer prices are normally set for intermediate products, which are goods, and services that are supplied by the selling division to the buying division. In large organizations, each division is treated as a "profit center" as a part and parcel of decentralization. Their profitability is measured by fixation of "transfer price" for inter divisional transfers.

Objectives of Inter Company Transfer Pricing:

The following are the main objectives of intercompany transfer pricing scheme:

1. To evaluate the current performance and profitability of each individual unit: This is

necessary in order to determine whether a particular unit is competitive and can stand on its working. When the goods are transferred from one department to another, the revenue of one department becomes the cost of another and such inter transfer price affects the reported profits.

2. To improve the profit position: Intercompany transfer price will make the unit competitive so that it may maximize its profits and contribute to the overall profits of the organization.
3. To assist in decision making: Correct intercompany transfer price will make the costs of both the units realistic in order to take decisions relating to such problems as make or buy, sell or process further, choice between alternative methods of production.
4. For accurate estimation of earnings on proposed investment decisions: When finance is scarce and it is required to determine the allocation of scarce resources between various divisions of the concern taking into consideration their competing claims, then this technique is useful.

(b) (i) Max $Z = 4X_1 + 5X_2 + 7X_3$

Subject to

$2X_1 + 3X_2 \leq 7$

$3X_1 + 2X_2 + 3X_3 \leq 9$

$5X_2 + 4X_3 \leq 14$

And $X_1, X_2, X_3 \geq 0$

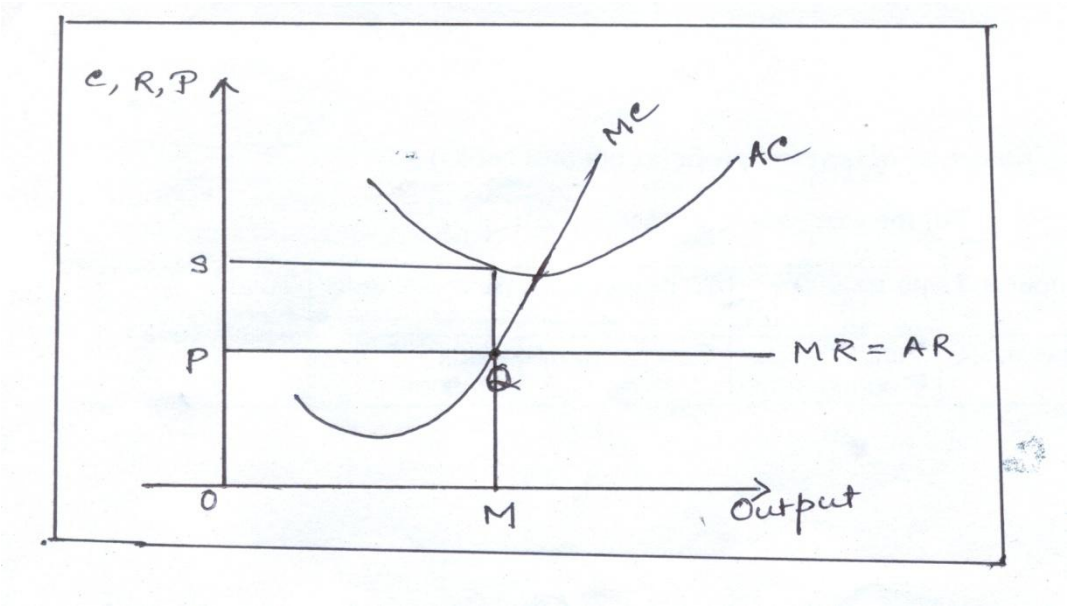
(ii) The four- fold classification of government's intervention in Indian economy can be stated as follows:

1) **Government as regulator:**The government regulates the economy through legal framework. Various legislations have been passed(such as Industrial Development and Regulation Act, Income Tax Act, Factories Act, Companies Act, etc.) to achieve the various objectives of the economy.
2) **Government as entrepreneur:** Public sector enterprises are set up where government acts as promoter. In heavy engineering, steel, electricity, transport, insurance, banking we find public sector enterprises and government organizations.
3) **Government as promoter of business:**Basically government sees that appropriate financial institutions are set up to meet the requirements of the enterprises. IFCI, IDBI, ICICI etc. are set up.
4) **Government as economic planner:**Government plans at various levels and dimensions to accelerate economic growth.

(c)

(i) **Equilibrium of the firm under perfect competition:** In the short period the firm can get abnormal profit. The following diagram explains how the firm can get abnormal profits and reaches the equilibrium condition.

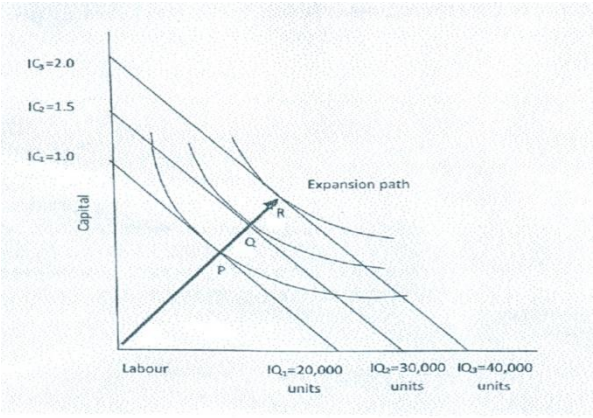
In the diagram on X-axis output and on Y- axis cost, revenue and price are shown. At point Q. SMC and MR are equal and therefore Q is an equilibrium point. At this equilibrium point SAC is more than AR. In this diagram the output determined asOM and the price as OP. OPQM is total revenue and OSRM is the total cost. Here the total cost more than the total revenue. So the firms incur the loss. PQRS are the losses.



(ii) Where the slope of an isoquant is equal to that of an isocost is the place of the lowest point of cost of production. This can be observed by superimposing the isocosts on isoquant curves. It is evident that the producer can, with a total outlay of ₹1.5 lakh, reach the highest isoquant curve IQ_2. If he wants to reach IQ_3, he has to bring in additional resources, which is let us assume not possible. He cannot compromise with IQ_1, as it means lower output. There is no input combination on IQ_2 other than point Q, which is cheaper than ₹ 1.5 lakh. So the obvious choice for the producer is the Q combination of inputs only on IQ_2.

The points of tangency P,Q and R on each of the isoquant curves represent the least cost combination of inputs, yielding the maximum level of output. Any output lower or higher than this will result in a higher cost of production.

The substitution of one input for another continues until the producer reaches the point of P, Q or R where the MRTS between the inputs is equal to the ratio between the prices of the inputs. Expansion path refers to the line representing the least cost combination of inputs P, Q, R for different levels of output. Expansion path indicates how production can be expanded along this path if the factor prices are given. The expansion path is also called "scale line" as it indicates how to adjust the scale of operations as the firm changes its output. The scale line is a ready reckoner to decide on the issues relating to expansion or contraction of output, given the relative prices of inputs.



7. (a) Vishakha Ltd. commences a business of manufacturing Mobile Sets on 1st April 2015 and asked you to prepare a statement showing profit per mobile sold (charging labour and material at actual cost, works overheads at 100% of labour cost and office overheads at 25% of works cost) and a statement showing the reconciliation between profits as per cost accounts and profits as per profit and loss Accounts for the year ended on 31st March, 2016.

Two types of mobiles are manufactured by the company with nofinished or semi-finished stock on 31st march, 2016. The relevant particulars are as under:

Mobile types	**M**	**K**
Produced and sold in 2015-16('000 units)	**160**	**95**
Average cost of material per mobile ₹	**280**	**320**
Average cost of labour per mobile ₹	**480**	**580**
Selling price per mobile ₹	**1800**	**2400**

The works expenses were (₹00000) 1680 and office expenses were (₹00000) 622.11

(b) Narrate the accounting treatment of scrap. 4

Answers:(a) Statement of cost and profit(as per cost books)
For the year ending 31st March,2016

	M: output and sale 160000 units		K: output and sale 95000 units		Total ₹00000
	Cost per unit ₹	Total ₹00000	Cost per unit ₹	Total ₹00000	
Prime cost	760	1216	900	855	2071
Works OH 100% on labour	480	768	580	551	1319
Works cost	1240	1984	1480	1406	3390
Office OH 25% of works cost	310	496	370	351.50	847.50
Total cost	1550	2480	1850	1757.50	4237.50
Profit	250	400	550	522.50	922.50
Selling price	1800	2880	2400	2280	5160

Total profit as per cost books = (₹00000) 922.50

Profit and Loss Account(as per financial books)
For the year ending 31st March, 2016

	(₹00000)		(₹00000)
Material used: M: 448 K: 304	752	Sale M: 2880 K: 2280	5160
Labour: M: 768 K: 551	1319		
Works expenses	1680		
Office expenses	622		
Net Profit	787		
	5160		5160

Reconciliation Statement

	(₹00000)	(₹00000)
Profit as per Cost Books		922.50

Add: Office OH overcharged in cost accounts Office Overhead (Cost Books) Office Expenses (Financial Books)	 847.50 622	 225.50
		1148
Less: works OH undercharged in cost accounts: Works Expenses (Financial Books) Works OH (Cost Books)	 1680 1319	 361
Profit as per Financial Accounts		787

(b) Accounting treatment of Scrap is as follows:

1. **Credited to the costing Profit & loss:**
   In this method the scrap is not cost, and its value does not, therefore appear separately in cost account. Only a quantitative record of the scrap is maintained and sales value realized from time to time is credited to costing profit & loss account.
2. **Credited to Overhead:**
   In this method the scrap is assigned a cost the cost is usually the sale value of the scrap less selling and distribution cost. The value of scrap is credited to manufacturing overhead which reduce the overhead recovery rate.
3. **Credit to jobs:**
   The scrap is assigned a cost and is traced to the jobs which yield the scrap. This affords a reasonable amount of credit to the job and widely differs.
4. **Transfer to other job:**
   Scrap arising in one job may be issued for utilization in another job.

8. Garur Ltd. manufactures several products and it uses a single overhead rate based on direct labour cost. The overheads incurred by the company for the year ending on 31st March 2016:

	₹
Machine operation expenses	**20,25,000**
Machine maintenance expenses	**3,75,000**
Salaries of technical staff	**12,75,000**
Wages and salaries of stores staff	**5,25,000**

During the period Garur Ltd. introduced activity based costing system and the following activities were identified:

- **Stores activity-receiving materials**
- **Production activity-set up of machines for production run**
- **Quality inspection**

It is determined that:

- **The machine operation and machine maintenance expenses should be apportioned between stroes and production activity in 3:7 ratios.**
- **The technical staff salaries should be apportioned between stores activity, production activity and quality inspection in 6:64:30 ratios.**

The consumption of activities during the year is as under:

- **Direct labour hours worked 40,000**
- **Direct wages rate ₹ 60 per hour**
- **Production set-up 4,992**
- **Material and component consignments received from suppliers 1,500**
- **Number of quality inspection carried out 2,500**

The data relating to two products manufactured by Garur Ltd. during the year are as under:

Product	**P-1**	**P-2**
Direct material costs ₹	**45,000**	**3,200**

Direct labour hours	**960**	**100**
Direct material consignments received	**48**	**52**
Production runs	**36**	**24**
Number of quality inspections done	**30**	**10**
Quantity produced (units)	**12,000**	**4,000**

You are required:

(i) Calculate the cost of product P-1 and P-2 based on the existing system of single overhead recovery rate.

(ii) Determine the cost of product P-1 and P-2 using activity based costing. 5+10

Answers:

(i)

Computation of cost of Product P-1 and P-2
(Based on the Existing System of "Single Overhead Recovery Rate")

	Product P-1	Product P-2
Units	12000	4000
Direct Material Cost	₹ 45,000	₹ 3,200
Direct Labour Cost	57,600 (960 hours × ₹ 60)	6,000 (100 hours × ₹ 60)
Overheads @ 175% of Direct Labour Cost	1,00,800	10,500
Total Cost of Products	2,03,400	19,700
Cost per unit	16.95	4.925

(ii)

Statement Showing Computation of Cost of Products P-1 and P-2
(Using "Activity Based Costing System")

	Product P-1	Product P-2
Units	12000	4000
Direct Materials Cost (₹)	45,000	3,200
Direct Labour Cost (₹)	57,600	6,000
Receiving Cost (Refer to W.N.3)	42,288 (48 × 881)	45,812 (52 × 881)
Setup Cost (Refer to W.N.3)	18,000 (36 × 500)	12,000 (24 × 500)
Inspection Cost (Refer to W.N.3)	4,590 (30 × 153)	1,530 (10 × 153)
Total Cost of Products (₹)	1,67,478	68,542
Cost per unit (₹)	13.9565	17.1355

Working Notes

1. Overhead Rate basis on Direct Labour Cost

$$= \frac{\text{Total Overhead Incurred by the Company}}{\text{Total Direct Labour Cost}} \times 100$$

$$= \frac{₹4200000}{(40000\text{hrs} \times ₹60)} \times 100 = 175\% \text{ on direct labour cost.}$$

2. Apportionment of overheads to activities

Overheads	Total expenses	Stores	Production	Quality inspection
Machine operation expenses(3:7:0)	20,25,000	6,07,500	14,17,500	
Machine maintenance expenses(3:7:0)	3,75,000	1,12,500	2,62,500	
Salaries of technical staff (6:64:30)	12,75,000	76,500	8,16,000	3,82,500
Wages and salaries of stores staff	5,25,000	5,25,000		
	42,00,000	13,21,500	24,96,000	3,82,500

3. Calculation of activity based cost driver rates

	Stores	Production	Quality inspection
Total overheads	13,21,500	24,96,000	3,82,500
Units of activities	1,500	4992	2,500
Rate per activity cost driver	881	500	153

9. in a factory, following the job Costing Method, an abstract from the work-in-process, as at 30th September, 2015 were prepared as under:

Job. No	Materials ₹	Direct labour hours	₹	Factory overheads applied ₹
115	**1,325**	**400**	**800**	**640**
118	**810**	**300**	**500**	**400**
120	**765**	**250**	**475**	**380**
	2,900		**1,775**	**1,420**

Materials used in October were as follows:

Materials requisition no.	Job no.	Cost ₹
54	**118**	**300**
55	**118**	**425**
56	**118**	**515**
57	**120**	**665**
58	**121**	**910**
59	**124**	**720**
		3,535

A summary of labour hours deployed during October is as under:

Job no.	No. of hours Shop-A	No. of hours Shop-B
115	**25**	**25**
118	**90**	**30**
120	**75**	**10**
121	**65**	**-**
124	**20**	**10**
	275	**75**
Indirect labour:		
Waiting for material	**20**	**10**
Machine breakdown	**10**	***5***

Idle time	**5**	**6**
Overtime Premium	**6**	**5**
	316	**101**

A shop credit slip was issued in October that the Material issued under Requisition No. 54 is returned to Stores for being unsuitable. A Material Transfer Note was issued in October indicating that the material issued under Requisition No. 55 for Job 118 was directed to Job 124. The hourly rate in shop-A per labour hour is ₹ 3 while at Shop-B it is ₹ 2 per hour. The factory overhead is applied at the same rate on direct labour as in September.
In October, Jobs 115, 118 and 120 were completed. It is practice of the management to put 10% on the factory cost to cover administration and selling overheads and invoicing the job to the customer on a total cost plus 20% basis. You are asked to compute the factory cost of the completed jobs and their invoice prices. 10+5

Answers:

Calculation of selling price of the job

Job No.	115	118	120
	₹	₹	₹
Costs in September:			
Material	1325	810	765
Labour	800	500	475
Overheads	640	400	380
Total(A)	2,765	1,710	1,620
Cost in October:			
Material	-	515	665
Labour			
(25×3)+(25×2)	125		
(90×3)+(30×2)		330	
(75×3)+(10×2)			245
Overheads (80%)	100	264	196
Total(B)	225	1,109	1,106
Total Factory Cost(A+B)	2,990	2819	2726
Add: Admn. Overheads 10%	299	281.9	272.6
	3,289	3,100.9	2,998.6
Profit 20%	657.80	620.18	599.72
Selling Price	3,946.80	3,721.08	3,598.32