

**PAPER – 8 : COST ACCOUNTING**

**SUGGESTED ANSWERS**

**SECTION – A**

**1.**

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

**SECTION – B**

**2. (a)**

**Statement of Profit Showing Quotation Price**

	₹	₹
Direct Materials	62,000	
Direct labour	39,800	
Prime Cost		1,01,800
Production Overheads		40,720
Factory Cost		1,42,520
Selling & Distribution Overhead		28,504
Cost of Sales		1,71,024
Profit		42,756
Quotation Price		<u>2,13,780</u>

**2. (b)**

	Particulars	Workers		
		R	S	T
(i)	Bonus Hours	30	12	16
	Amount of Bonus (₹)	450	288	288
(ii)	Overtime Premium (₹)	408.33	1133.33	160
	Basic Wages (₹)	2,200	3,520	2,640
	Total Wages (₹)	3,058.33	4,941.33	3,088
(iii)	Direct Wages Cost per 100 Saleable units (₹)	63.72	126.05	48.25

**3. (a)****(i) Total Overheads of Production Departments:**

A = ₹ 3,19,895

B = ₹ 3,06,608

C = ₹ 4,11,497

**(ii) Overhead Rate Per Hour of Production Departments:**

A = ₹ 25.69

B = ₹ 38.06

C = ₹ 50.60

**3. (b)****Journal**

Particulars		Dr.	Cr.
		₹	₹
Work in Progress Control A/c	Dr	5,00,000	
Factory Overheads Control A/c	Dr	2,50,000	
To Material Control A/c			7,50,000
Work in Progress Control A/c	Dr	3,00,000	
Factory Overheads Control A/c	Dr	50,000	
To Wages Control A/c			3,50,000
Work in Progress Control A/c	Dr	2,80,000	
Finished Goods Control A/c	Dr	1,00,000	
Cost of Sales A/c	Dr	50,000	
To Factory Overheads Control A/c			2,80,000
To Administration Overheads Control A/c			1,00,000
To Selling Overheads Control A/c			50,000
Costing Profit and Loss A/c	Dr	15,000	
To Administration Overheads Control A/c			15,000
Factory Overheads Control A/c	Dr	30,000	
To Costing Profit and Loss A/c			30,000

**4. (a)****Room Rent to be Charged:**

Rent per day per Single Room = ₹ 504.46 or ₹ 504

Rent per day per Double Room = ₹ 630

Rent per day per Triple Room = ₹ 756

**Alternative:**

Rent per day per Single Room = ₹ 573.25 or ₹ 573

Rent per day per Double Room = ₹ 716

Rent per day per Triple Room = ₹ 860

4. (b)

**Contract Account**  
(For the year ended 31st March, 2023)

Dr.		Cr.	
Particulars	₹	Particulars	₹
To Materials Cost	2,51,000	By Materials at site	35,400
To Labour Cost	5,65,600	By Balance c/d (Total Cost)	10,49,000
To Foreman's Salary	81,300		
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	(Certified and Uncertified)	
	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 (Reserve)	1,06,625		
	2,13,250		2,13,250

5. (a)

**Statement showing monthly profitability with and without further processing**

Products	Without Further Processing			Further Processing P into S		
	P	Q	Total	S	Q	Total
Sales Volume (kg)	47,500	95,000	1,42,500	47,500	95,000	1,42,500
Sales Value (₹)	5,70,000	19,00,000	24,70,000	7,12,500	19,00,000	26,12,500
Less: Joint Cost (₹)	5,10,000	17,00,000	22,10,000	6,95,000	17,00,000	23,95,000
Profit (₹)	60,000	2,00,000	2,60,000	17,500	2,00,000	2,17,500

**Recommendation:**

Total profit without further processing is ₹ 2,60,000 and with further processing is ₹ 2,17,500 only. Therefore, further processing of P into S is not recommended.

5. (b)

- (i) Labour Cost Variance = ₹ 3,360 (A)
- (ii) Labour Rate Variance = ₹ 1,540 (A)
- (iii) Labour Efficiency Variance = ₹ 1,820 (A)
- (iv) Labour Revised Efficiency Variance = ₹ 3,088.50 (A)
- (v) Labour Mix Variance = ₹ 1,268.50 (F)

6.

**Statement of Profitability**

	₹	₹
Contribution:		
Local sales -A	1,62,000	
-B	72,000	
Export sales -B	48,000	
Total Contribution		2,82,000
Fixed Cost		1,44,000
Net Profit		1,38,000

Advise: The company should accept offer received from UK and export 3,000 units resulting net profit of ₹ 1,38,000.

7. (a)

**Cash Budget**  
(For October to December, 2023)

Particulars	Oct. (₹)	Nov. (₹)	Dec. (₹)
Cash Balance	2,70,000	2,54,000	3,24,000
<b>Receipts :</b>			
Cash sales	1,60,000	1,64,000	1,78,000
Collection from debtors	12,60,000	13,50,000	14,40,000
Total Receipts	16,90,000	17,68,000	19,42,000
<b>Payments :</b>			
Cash purchases	96,000	80,000	1,00,000
Payment to Creditors	8,10,000	8,64,000	7,20,000
Wages	3,30,000	3,60,000	3,80,000
Expenses	1,20,000	1,40,000	1,60,000
Advance income tax	—	—	2,00,000
Plant	80,000	—	—
<b>Total Payments</b>	14,36,000	14,44,000	15,60,000
<b>Cash Balance</b>	2,54,000	3,24,000	3,82,000

7. (b)

**(i) Advantages of adopting Cost Accounting Standards:**

- (a) Providing a structural approach to measurement of cost in manufacturing process or service industry.
- (b) Integrating, harmonizing and standardizing cost accounting principles and practices.
- (c) Providing guidance to users to achieve uniformity and consistency in classification, measurement, assignment, and allocation of costs to products and services.
- (d) Arriving at the basis of computing the cost of product, activity, or service where required by legal or regulatory bodies.
- (e) Enabling practicing members to make use of Cost Accounting Standards in the attestation of General Purpose Cost Statements.
- (f) Assisting in clear and uniform understanding of all related issues by various user organizations, government bodies, regulators, research agencies, and academic institutions.

**(ii) Functions of the CASB:**

- (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 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 need for compliance of Cost Accounting Standards.

**8. (a)**

**Essentials of a Good Cost Accounting System:**

- (i) Cost accounting system should be tailor made, practical, simple and capable of meeting the requirement of a business concern.
- (ii) The data to be used by the cost accounting system should be accurate, otherwise it may distort the output of the system.
- (iii) Necessary co-operation and participation of executives from various departments of the concern is essential for developing a good system of cost accounting.
- (iv) The cost of installing and operating the system should not be too high and ultimately pass the cost-benefit analysis test.
- (v) The system of costing should not sacrifice the utility by introducing meticulous and unnecessary details.
- (vi) A carefully phased programme should be prepared by using network analysis for the introduction of the system.
- (vii) Management should have a faith in the costing system and should also provide a helping hand for its development and success.

**8. (b)**

**Advantages of ABC Analysis:**

The advantages of ABC analysis are as follows:

- (i) Closer and stricter control of those items which represent a major portion of total stock value is maintained.
- (ii) Investment in inventory can be regulated and funds can be utilized in the best possible manner. 'A' class items are ordered as and when need arises, so that the working capital can be utilized in a best possible way.
- (iii) With greater control over the inventories, savings in material cost can be realised.
- (iv) It helps in maintaining enough safety stock for 'C' category items.
- (v) Scientific and selective control helps in the maintenance of high stock turnover ratio.

## **8 (c)**

### **Idle Time as Per CAS-7:**

Idle Time cost represents the wages paid for the time lost during which the worker does not work, i.e., time for which wages are paid but no work is done. As per CAS-7, idle time is defined as “the difference between the time for which the employees are paid/payable and the employees time booked against the cost object”. Idle time happens because due to various causes, for which he is not responsible, the worker remains idle but full wages is paid to him. Even for workers who are paid on the basis of output, idle time payment may be required to be made.

### **Treatment of Idle Time in Cost Accounts:**

As per CAS-7, Idle time cost shall be assigned directly to the cost object or treated as overheads depending on the economic feasibility and specific circumstances causing such idle time. Treatment of different categories of idle time is as follows:

- (i) Unavoidable idle time –This is allowed to remain merged in the production order or standing order number on which the worker was otherwise employed.
  - (ii) Normal idle time – It is booked to factory or works overhead. For the purpose of effective control, each type of idle time, i.e., idle time classified according to the causes is allocated to a separate standing order number.
  - (iii) Abnormal idle time – It would usually be heavy in amount, involves longer periods and would mostly be beyond the control of the management. Payment for such idle time is not included in cost and is adjusted through costing profit and loss account or included in profit and loss account, when the accounts are integrated.
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