

Paper 8 – Cost Accounting

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Full Marks: 100

Time allowed: 3 hours

Question No 1 is Compulsory.

Answer any five Questions from the rest.

Working Notes should form part of the answer.

1. (a) Match the statement in Column I with the most appropriate statement in Column II :

[1×5 =5]

Column I	Column II
1. Production Strategy	A. Per contract
2. Variable cost per unit	B. Not shown in cost sheet but credited to profit & loss account
3. In contract costing , the cost unit is	C. CAS 19
4. Joint Cost	D. JIT
5. scrap value of abnormal loss of finished output	E. Fixed

(b) Choose the correct answer from the given four alternatives:

[1 x10=10]

- (i)** Which of the following is a long-term budget?
- A. Master Budget
 - B. Flexible Budget
 - C. Cash Budget
 - D. Capital Budget
- (ii)** Excess of actual cost over standard cost is known as
- A. Abnormal effectiveness
 - B. Unfavorable variance
 - C. Favorable variance
 - D. None of these.
- (iii)** Variable cost
- A. Remains fixed in total
 - B. Remains fixed per unit
 - C. Varies per unit
 - D. Nor increase or decrease
- (iv)** The most suitable cost system where the products differ in type of material and work performed is
- A. Operating Costing
 - B. Job costing
 - C. Process costing
 - D. All of these.
- (v)** Operating costing is applicable to:
- A. Hospitals
 - B. Cinemas

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- C. Transport undertaking
- D. All of the above

(vi) What entry will be passed under integrated system for purchase of stores on credit?

- A. Dr. Stores
Cr. Creditors
- B. Dr Stores ledger control A/c
Cr Creditors
- C. Dr Stores Ledger control A/c
Cr General Ledger adjustment A/c
- D. No entry

(vii) Equivalent production of 1,000 units, 60% complete in all respects, is :

- A. 1000 units
- B. 1600 units
- C. 600 units
- D. 1060 units

(viii) Standards deals with the determination of averages/equalized transportation cost-

- A. CAS 6
- B. CAS 22
- C. CAS 9
- D. CAS 5

(ix) Charging to a cost center those overheads that result solely for the existence of that cost Center is known as

- A. Allocation
- B. Apportionment
- C. Absorption
- D. Allotment

(x) In Reconciliations statements Expenses shown only in cost accounts are

- A. Added to financial profit
- B. Deducted from financial profit
- C. Ignored
- D. Deducted from costing profit

(c) Fill in the blanks:

[1×5 =5]

- (i) Margin of safety is _____.
- (ii) The difference between actual and absorbed factory overhead is called _____.
- (iii) The method of costing used in undertaking like gas companies cinema houses, hospitals etc is known as _____.
- (iv) A budget is a projected plan of action in _____.
- (v) In Absorption Costing _____ cost is added to inventory.

(d) State whether the following statements are TRUE or FALSE.

[1×5 =5]

- (i) Idle time represents the wages paid for the time cost during which the workers not work.
- (ii) A flexible budget recognizes the difference between fixed, semi-fixed and variable cost and is designed to change in relation to the change in level of activity.
- (iii) Multiple Costing is suitable for the banking Industry.

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- (iv) ABC Analysis is based on the principle of management by exception.
 (v) Variable cost per unit is variable.

2. a) S Ltd. Furnishes you the following information relating to the half year ended 30th June, 2018.

Fixed expenses	₹ 45,000
Sales value	₹ 1,50,000
Profit	₹ 30,000

During the second half the year the company has projected a loss of ₹10,000. Calculate:

- (i) The B.E.P and M/S for six months ending 30th June, 2015.
 (ii) Expected sales volume for the second half of the year assuming that the P/V Ratio and Fixed expenses remain constant in the second half year also.
 (iii) The B.E.P and M/S for the whole year for 2018. **[2+3+2]**

(b) Budgeted production and production costs for the year ending 31st December are as follows:

	Product – X	Product – Y
Production (units)	2,20,000	2,40,000
Direct material/unit	₹ 12.5	₹ 19.0
Direct wages/unit	₹ 4.5	₹ 7.0
Total factory overheads for each type of product (variable)	₹ 6,60,000	₹ 9,60,000

A company is manufacturing two products X and Y. A forecast about the number of units to be sold in the first seven months is given below:

Month	Jan	Feb	Mar	April	May	June	July
Product – X	10,000	12,000	16,000	20,000	24,000	24,000	20,000
Y	28,000	28,000	24,000	20,000	16,000	16,000	18,000

It is anticipated that:

- a) There will be no Work-in-progress at the end of any month.
 b) Finished units equal to half the sales for the next month will be in stock at the end of each month (including December of previous year).

Prepare for 6 months ending 30th June a Production Budget and a summarized cost of production budget. **[8]**

3.(a) Illustrate scrap? How do you treat scrap in Cost Accounts? **[3+4]**

(b) M/s Tubes Ltd. are the manufacturers of picture tubes for T.V. The following are the details of their operation during the year 2018:

Average monthly market demand	2,000 Tubes
Ordering Cost	₹ 100 per order
Inventory Carrying Cost	20% per annum
Cost of tubes	₹ 500 per tube
Normal usage	100 tubes per week
Minimum usage	50 tubes per week

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Maximum usage	200 tubes per week
Lead time to supply	6-8 weeks

Compute from the above:

- (i) Economic order quantity. If the supplier is willing to supply quarterly 1,500 units at a discount of 5% is it worth accepting?
 - (ii) Re-order level
 - (iii) Minimum level of stock
 - (iv) Maximum level of stock
- [8]**

4. (a) List out the industries where Batch Costing is applied? **[5]**

(b) Manar lodging home is being run in a small hill station with 50 single rooms. The home offers concessional rates during six off- season months in a year. During this period, half of the full room rent is charged. The management's profit margin is targeted at 20% of the room rent. The following are the cost estimates and other details for the year ending on 31st March 2016. [Assume a month to be of 30 days].

(i) Occupancy during the season is 80% while in the off- season it is 40% only.

(ii) Expenses:

- Staff salary [Excluding room attendants] ₹ 2,75,000
- Repairs to building ₹ 1,30,500
- Laundry and linen ₹ 40,000
- Interior and tapestry ₹ 87,500
- Sundry expenses ₹ 95,400

(iii) Annual depreciation is to be provided for buildings @ 5% and on furniture and equipments @ 15% on straight-line basis.

(iv) Room attendants are paid ₹ 5 per room day on the basis of occupancy of the rooms in a month.

(v) Monthly lighting charges are ₹ 120 per room, except in four months in winter when it is ₹ 30 per room and this cost is on the basis of full occupancy for a month.

(vi) Total investment in the home is ₹ 100 lakhs of which ₹ 80 lakhs relate to buildings and balance for furniture and equipments.

You are required to work out the room rent chargeable per day both during the season and the offseason months on the basis of the foregoing information. **[10]**

5. (a) Royalty paid on sales ₹30,000; Royalty paid on units produced ₹20,000, hire charges of equipment used for production ₹2,000, Design charges ₹15,000, Software development charges related to production ₹22,000. Compute the Direct Expenses. **[5]**

(b) A company produced a simple product in three sizes A, B and C. Prepare a statement showing the selling and distribution expenses apportioned over these three sizes applying

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Direct Labour	3,000
Variable Overheads	2,000
Fixed Overheads	2,000
Sales A 100 Qtls	₹ 80 per qtl
Sales B 150 Qtls	₹ 40 per qtl

[8]

(b) Difference between Job Costing and Process Costing

[7]

7. (a) 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.

[9]

(b) List down any six principle of measurement of Direct Expenses.

[6]

8. Write Short note on the following (any three)

[3x5=15]

- Flexible Budget
- Causes of Labour Turnovers
- Just-in-Time
- Economic Batch Quantity
- Limitations of Break-even Analysis