



INTERMEDIATE EXAMINATION

SET - 2

MODEL ANSWERS

TERM – DECEMBER 2024

PAPER – 8

SYLLABUS 2022

COST ACCOUNTING

Time Allowed: 3 Hours

Full Marks: 100

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

SECTION – A (Compulsory)

1. Choose the correct option:

[15 x 2 = 30]

- (i) The difference between absorption costing and marginal costing is in regard to the treatment of:
- Direct materials
 - Fixed overhead
 - Prime cost
 - Variable overhead
- (ii) When sales and production (in units) are same then profits under:
- Marginal costing is lower than that of absorption costing
 - Marginal costing is higher than that of absorption costing
 - Marginal costing is equal to that of absorption costing
 - None of the above
- (iii) Sales budget is a _____.
- expenditure budget
 - functional budget
 - master budget
 - None of these
- (iv) P/V ratio will increase if there is _____.
- a decrease in fixed cost
 - an increase in fixed cost
 - a decrease in selling price per unit.
 - a decrease in variable cost per unit.
- (v) In a period, 11280 kilograms of material were used at a total standard cost of ₹46,248. The material usage variance was ₹492 adverse. What was the standard allowed weight of material for the period?
- 11600 kg
 - 11160 kg
 - 12190 kg
 - 10590 kg
- (vi) If sales are ₹1,50,000 and variable cost are ₹50,000. Compute P/V ratio.
- 66.66%
 - 100%
 - 133.33%
 - 65.66%



- (vii) If the actual loss in a process is less than the normal loss, the difference is known as:
- Abnormal Gain
 - Abnormal Loss
 - Normal Gain
 - Normal Loss
- (viii) A company makes a product, which passes through a single process. Details of the process for the last period are as follows:
Materials 10,000 kg at 50 paisa per kg
Labour ₹1,000
Production overheads 200% of labour
Normal losses are 10% of input in the process, and without further processing any losses can be sold as scrap for 20 paisa per kg.
The output for the period was 8,400 kg from the process. There was no work in progress at the beginning or end of the period. The value of the abnormal loss for the period is _____.
- ₹ 200
 - ₹ 220
 - ₹ 80
 - None of the Above
- (ix) Cost Price is not fixed in case of _____.
- Escalation clause
 - Cost plus contracts
 - De-escalation clause
 - All of the above
- (x) In Reconciliation Statements, overheads Under Recovered in cost accounts are _____.
- Deducted from financial profit / added to costing profit
 - Added to financial profit / deducted from costing profit.
 - Deducted from financial profit/ deducted from costing profit.
 - Added to financial profit / added to costing profit
- (xi) A firm operates an integrated cost and financial accounting system. The accounting entries for indirect wages incurred would be:
- Debit Wages control account Credit Overhead control account
 - Debit Work in progress account Credit Wages control account
 - Debit Overhead control account Credit Wages control account
 - Debit Wages control account Credit Work in progress account
- (xii) In which of the following incentive plan of payment, wages on time basis are not guaranteed?
- Halsey Plan
 - Rowan Plan
 - Taylor's differential piece rate system
 - Gantt's task and bonus system



- (xiii) A company pays royalty to State Government on the basis of production, it is treated as:
- Direct expenses
 - Factory overheads
 - Direct Material Cost
 - Administration Cost
- (xiv) Equivalent production of 1,000 units, 60% complete in all respect, is:
- 1,000 units
 - 1,600 units
 - 600 units
 - 1,060 units
- (xv) If the direct materials consumed are ₹30,000, direct labour is ₹20,000, and factory overhead is ₹15,000, what is the total manufacturing cost?
- ₹50,000
 - ₹65,000
 - ₹30,000
 - ₹20,000

Answer:

(i)	(ii)	(iii)	(iv)	(v)	(vi)	(vii)	(viii)	(ix)	(x)	(xi)	(xii)	(xiii)	(xiv)	(xv)
b	c	b	d	b	a	a	a	b	b	c	c	a	c	b

SECTION-B

(Answer any five questions out of seven questions given. Each question carries 14 Marks)

[5x14=70]

2. (a) The following figures were extracted from the Trial Balance of a company as on 31st December, 2023.

Particulars	Debit Amount (₹)	Credit Amount (₹)
Inventories		
Raw Material	1,40,000	
Work in Progress	2,00,000	
Finished Goods	80,000	
Office Appliances	17,400	
Plant and Machinery	4,60,500	
Buildings	2,00,000	
Sales		7,68,000
Sales Returns	14,000	
Material Purchased	3,20,000	
Freight on materials	16,000	

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Purchase Returns		4,800
Direct Labour	1,60,000	
Indirect Labour	18,000	
Factory Supervision	10,000	
Factory repairs and upkeep	14,000	
Heat, Light & Power	65,000	
Rates & Taxes	6,300	
Miscellaneous Factory Expenses	18,700	
Sales Commission	33,600	
Sales Travelling	11,000	
Sales Promotion	22,500	
Distribution Department Salaries and Wages	18,000	
Office Salaries	8,600	
Interest on borrowed funds	2,000	

Further details are given as follows:

Closing inventories are Material ₹1,80,000, Work in Progress ₹1,92,000 and Finished Goods ₹1,15,000.

Accrued expenses are Direct Labour ₹8,000, Indirect Labour ₹1,200 and Interest ₹2,000.

Depreciation should be provided as 5% on Office Appliances, 10% on Machinery and 4% on Buildings.

Heat, light and power are to be distributed in the ratio of 8: 1: 1 among factory, office and distribution respectively.

Rates & Taxes apply 2/3rd to the factory and 1/3rd to office.

Depreciation on building to be distributed in the ratio of 8: 1: 1 among factory, office and distribution respectively.

Illustrate and prepare a Cost Sheet and Condensed Profit & Loss Account for the Year. [7]

- (b) Two workmen, Vishnu and Shiva, produce the same product using the same material. Their normal wage rate is also the same. Vishnu is paid bonus according to the Rowan System, while Shiva is paid bonus according to Halsey System. The time allowed to make the product is 100 hours. Vishnu takes 60 hours while Shiva takes 80 hours to complete the product. The factory overhead rate is ₹10 per man-hour actually worked. The factory cost for the product for Vishnu is ₹7,280 and for Shiva it is ₹7,600.

You are required to:

- calculate the normal rate of wages;
- calculate the cost of materials;
- prepare a statement comparing the factory cost of the products as made by the two men. [7]

**INTERMEDIATE EXAMINATION****SET - 2****MODEL ANSWERS****TERM – DECEMBER 2024****PAPER – 8****SYLLABUS 2022****COST ACCOUNTING****Answer:****(a)**

Particulars	Amount (₹)	Amount (₹)
Direct Material		
Opening Stock of Raw Material	1,40,000	
Add: Purchases	3,20,000	
Add: Freight	16,000	
Less: Returns	4,800	
Less: Closing Stock	1,80,000	2,91,200
Direct Labour	1,60,000	
Add: Accrued	8,000	1,68,000
Prime Cost		4,59,200
Add: Factory Overhead		
Indirect Labour	18,000	
Add: Accrued indirect labour	1,200	
Factory supervision	10,000	
Factory Repairs & upkeep	14,000	
Heat, Light & Power ($8/10 \times 65,000$)	52,000	
Rates & Taxes ($2/3 \times 6,300$)	4,200	
Miscellaneous Factory Expenses	18,700	
Depreciation on Plant & Machinery ($10\% \times 4,60,500$)	46,050	
Depreciation on Buildings ($8/10 \times 4\% \times 2,00,000$)	6,400	
	1,70,550	
Add: Opening WIP	2,00,000	
Less: Closing WIP	(1,92,000)	1,78,550
Factory Cost		6,37,750
Add: Administration Overhead		
Heat, Light & Power ($1/10 \times 65,000$)	6,500	
Rates & Taxes ($1/3 \times 6,300$)	2,100	
Depreciation on Buildings ($1/10 \times 4\% \times 2,00,000$)	800	
Depreciation on office appliances ($5\% \times 17,400$)	870	
Office salaries	8,600	18,870
Cost of Production		6,56,620
Add: Opening Stock of Finished Goods	80,000	
Less: Closing Stock of Finished Goods	1,15,000	(35,000)
Cost of Goods Sold		6,21,620
Add: Selling & Distribution Overhead		
Heat, Light & Power ($1/10 \times 65,000$)	6,500	
Depreciation on Buildings ($1/10 \times 4\% \times 2,00,000$)	800	
Sales Commission	33,600	
Sales Travelling	11,000	
Sales Promotion	22,500	
Distribution department salaries & wages	18,000	92,400
Cost of Sales		7,14,020



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Condensed Profit and Loss Account for the year ended 31-12-2023

Particulars	₹	₹	Particulars	₹	₹
To Cost of Sales		7,14,020	By Sales	7,68,000	7,54,000
			Less: Sales Return	14,000	
To Interest on Borrowings	2,000	4,000			
Add: Accrued	2,000				
To net profit (balance fig.)		35,980			
		7,54,000			7,54,000

(b) Let Cost of Material be 'M' and Wage Rate per hour be 'R'

Particulars	Vishnu (Rowan Plan)	Shiva (Halsey Plan)
Material	M	M
Labour	$60 \times R + 40/100 \times 60 \times R = 84 R$	$80 \times R + 50/100 \times 20 \times R = 90 R$
Prime Cost	M + 84 R	M + 90 R
Add: Overhead	$60 \times 10 = 600$	$80 \times 10 = 800$
Factory Cost	7,280	7,600
	$M + 84R + 600 = 7,280$ or, $M + 84R = 6,680$	$M + 90R + 800 = 7,600$ or, $M + 90R = 6,800$

So, Equation (1) => $M + 84R = 6,680$

And, Equation (2) => $M + 90R = 6,800$

Equation (2) – Equation (1)

or, $6R = 120$

or, $R = 20$

A) Wage Rate per hour = ₹20 per hour

putting $R = 20$ in equation (1) => $M = 6,680 - 84 \times 20 = 6,680 - 1,680 = 5,000$

B) Material Cost = ₹5,000

C) Statement comparing the factory cost of the products as made by the two workmen

Particulars	Vishnu (₹)	Shiva (₹)
Material	5,000	5,000
Wages	1,680	1,800
Overhead	600	800
Factory Cost	7,280	7,600

Computation of Wages

Vishnu	Shiva
Rowan Plan = $T \times R + TS/TA \times T \times R$	Halsey Plan = $T \times R + 50/100 \times TS \times R$
$T = 60$ hrs, $TA = 100$ hrs, $TS = 100 - 60 = 40$ hrs	$T = 80$ hrs, $TS = 100 - 80 = 20$ hrs

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3. (a) A manufacturing unit produces two products X and Y. the following information is furnished:

Particulars	Product X	Product Y
Units produced (quantity)	20,000	15,000
Units sold (quantity)	15,000	12,000
Machine Hours utilized	10,000	5,000
Design charges	15,000	18,000
Software development charges	24,000	36,000

Royalty paid on sales ₹54,000 [$\text{@ } ₹2$ per unit sold, for both the products]; Royalty paid on units produced ₹35,000 [$\text{@ } ₹1$ per unit produced, for both the products], Hire charges of equipment used in manufacturing process of Product X only ₹ 5,000, Calculate the amount of direct expenses. [7]

(b) Apply the following particulars to pass journal entries in an integral accounting system:

- I. Issued materials ₹3,00,000 of which ₹2,80,000 (standard ₹2,40,000) is direct materials.
- II. Net wages paid ₹70,000 deductions being ₹12,000 (standard ₹75,000)
- III. Gross salaries payable for the period is ₹26,000 (standard ₹25,000). Deductions ₹2,000.
- IV. Sales (Credit) ₹8,00,000.
- V. Discount allowed ₹5,000.

[7]

Answer:

(a) Computation of Direct Expenses

Particulars	Product X (₹)	Product Y (₹)
Royalty paid on sales	$15,000 \times 2 = 30,000$	$12,000 \times 2 = 24,000$
Add: Royalty paid on units produced	$20,000 \times 1 = 20,000$	$15,000 \times 1 = 15,000$
Add: Hire charges of equipment used in manufacturing process of Product X only	5,000	-
Add: Design charges		0
Add: Software development charges related to production	15,000	18,000
	24,000	36,000
	94,000	93,000

Note:

1. Royalty on production and royalty on sales are allocated on the basis of units produced and units sold respectively. These are directly identifiable and traceable to the number of units produced and units sold. Hence, this is not an apportionment.
2. No adjustments are made related to units held, i.e., closing stock.

(b) Journal Entries

Particulars	Dr. (₹)	Cr. (₹)
I. Work-in-progress Led. Control A/c Dr.	2,40,000	
Production Overheads Control A/c Dr.	20,000	
Material Usage Variance A/c Dr.	40,000	
To Stores Ledger Control A/c		3,00,000
(Being the issue of materials)		



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II. Wages Control A/c Dr. Labour Rate Variance A/c Dr. To Cash A/c To Expenses Creditors A/c (Being the provision for salaries payable)	75,000 7,000	70,000 12,000
III. Salaries Control A/c Dr. Labour Rate Variance A/c Dr. To salaries payable A/c To Expenses Creditors A/c (Being the provision for salaries payable)	25,000 1,000	24,000 2,000
IV. Debtors Ledger Control A/c Dr. To Sales A/c (Being the discount allowed to debtors)	8,00,000	8,00,000
V. Discount A/c Dr. To Debtors Ledger Control A/c (Being the discount allowed to debtors)	5,000	5,000

4. (a) In a factory following the Job Costing Method, an abstract from the work in process as at 30th September, was prepared as under.

Job No.	Materials	Direct Labour	Factory Overheads Applied (₹)
115	1,325	400 Hrs ₹ 800	640
118	810	250 hrs ₹ 500	400
120	765	300 hrs ₹ 475	380
	2900	₹ 1,775	1420

Materials used in October were as follows:

Material requisitions 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 at Labour Hours deployed during October is as under

Job No.	No. of hours	
	Shop A	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	10	5

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Breakdown		
Idle Time	5	6
Overtime Premium	6	5
	316	101

A shop credit slip was issued in October, which material issued under requisition No. 54 was returned back to stores as being not suitable. A material transfer note issued in October indicated that 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 as in September: Jobs 115, 118 and 120 were completed in October.

You are asked to calculate the factory cost of the completed jobs and the invoice price of these three jobs. It is practice of the management to put a 10% on the factory cost to cover administration and selling overheads and invoice the job to the customer on a total cost plus 20% basis. [7]

- (b) A product passes through three processes— A, B and C. 10,000 units at a cost of ₹1.10 were issued to Process A. The other direct expenses were as follows:

	PROCESS-A	PROCESS-B	PROCESS-C
Sundry materials	1,500	1,500	1,500
Direct labour	4,500	8,000	6,500
Direct expenses	1,000	1,000	1,503

The wastage of process: A was 5% and in process B 4%.

The wastage of process 'A' was sold at ₹0.25 per unit and that of 'B' at ₹0.50 per unit and that of C at ₹1.00.

The overhead charges were 160% of direct labour. The final product was sold at ₹10 per unit fetching a profit of 20% on sales. Prepare the Process Account A, B & C and calculate the percentage of wastage in Process 'C'. [7]

Answer:

- (a) Calculation of selling price of the Job

Job No.	115	118	120
	₹	₹	₹
Costs in September:			
Material	1,325	810	765
Labour	800	500	475
Overheads	640	400	380
Total (A)	2,765	1,710	1,620
Costs in October:			
Material	-	515	665
Labour			
(25 x 3)+(25 x 2)	125		



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(90 x 3)+(30 x 2)		330	
(75 x 3)+(10 x 2)			245
Overheads (80%)	100	264	196
Total (B)	225	1,109	1,106
Total Factory Cost (A+B)	2,990	2,819	2,726
Add: Admn. Overheads" 10%	299.0	281.9	272.6
	3,289.0	3,100.9	2,998.6
Profit 20%	651.80	620.18	599.72
Selling Price	3,946.80	3,721.08	3,598.32

(b)

PROCESS-A- Account

Dr.

Cr.

Particulars	Units	₹	Particulars	Units	₹
To, Material introduced A/c	10000	11,000	By Normal Loss A/c (10000 x 5%) x 0.25	500	125
To, Additional Material A/c		1,500	By Transfer to Process-B A/c @ ₹ 2.64 per unit	9500	25075
To, Direct Labour A/c		4,500			
To, Direct Expenses A/c		1,000			
To, Overheads A/c		7,200			
	10000	25,200		10000	25,200

PROCESS-B- Account

Dr.

Cr.

Particulars	Units	₹	Particulars	Units	₹
To, Transfer from Process–A A/c	9500	25,075	By, Normal Loss A/c (9,500 x 4%) x 0.5	380	190
To, Direct Material A/c		1,500	By, Transfer to Process-C A/c @ ₹ 5.283	9120	48,185
To, Direct Labour A/c		8,000			
To, Direct Expenses A/c		1,000			
To, Overheads A/c		12,800			
	9,500	48,375		9,500	48,375

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Dr.

Cr.

Particulars	Units	₹	Particulars	Units	₹
To, Transfer from Process–B A/c	9120	48,185	By, Normal Loss A/c	696	696
To, Direct Material A/c		1,500	By, Transfer to Finished Stock A/c @ ₹8/- per unit	8424	67,392
To, Direct Labour A/c		6,500			
To, Direct Expenses A/c		1,503			
To, Overheads A/c		10,400			
	9120	68,088		9120	68,088

Working Notes:

Sale Price per unit	10
(-) Profit @ 20%	<u>2</u>
Cost per unit	<u>8</u>
Let the No. of units of loss in Process 'C' be 'x'	
Scrap value = $X \times 1 = ₹X$	
$68,088 - x = 8(9,120-x)$ units	
$68,088 = 72,960 - 7x$	
$7x = 4,872$	
$X = 696$ units	
Percentage of Normal wastage = $696/9120 \times 100 = 7.63\%$	

5. (a) **VIBRANT LTD.**, a manufacturing company, produces one main Product A and two by- products M and N.

For the month of May, 2024, following details are available: Total Cost up to separation point ₹2,20,000.

Product/By-Product	A	M	N
Cost after separation		₹ 35,000	₹ 24,000
No. of units produced	4,000	1,800	3,000
Selling price per unit	₹100	₹40	₹30
Estimated net profit as percentage to sales value		20%	30%
Estimated selling expenses as percentage to sales value	20%	15%	15%

There is no beginning or closing inventories.

Required:

Prepare a statement showing:

- (i) Allocation of joint cost; and
(ii) Product wise and overall profitability of the company for May, 2024.

[7]



COST ACCOUNTING

(b) The Standard set for material consumption was 100 kg @ ₹4.50 per kg.

In a cost period:

Opening stock was 100 kg @ ₹4.50 per kg.

Purchases made 500kg @ ₹4.30 per kg.

Consumption 110 kg

Calculate: i) Usage ii) Price variance

1) When variance is calculated at point of purchase

2) When variance is calculated at point of issue on FIFO basis

3) When variance is calculated at point of issue on LIFO basis

[7]

Answer:

(a)

VIBRANT LTD.

Appointment of Joint Costs at the point of separation:

Total cost up to point of separation					₹ 2,20,000
By product			M	N	
Less: Cost of by-products by working Backward					
Sales realization	M	N	72000	90000	
	₹	₹			
Less: Net Profit [20% and 30% of sales]	14,400	27,000			
Less: Selling expenses (15% of sales)	10,800	13,500	60,200	64,500	
Less: Cost after separation	35,000	24,000			
Joint expenses			11,800	25,500	37,300
Joint cost of Product-A					1,82,700

Profit & Loss Statement for May 2024

Particular	A	M	N	Total
No. of Units produced:	4,000	1,800	3,000	
	₹	₹	₹	
Sales (A)	4,00,000	72,000	90,000	5,62,000
Cost of Sales:				
Pre-separation cost	1,82,700	11,800	25,500	2,20,000
Post-separation cost	-	35,000	24,000	59,000
Cost of production	1,82,700	46,800	49,500	2,79,000
Selling expenses	80,000	10,800	13,500	1,04,300
Cost of Sales(B)	2,62,700	57,600	63,000	3,83,300
Profit (A- B)	1,37,300	14,400	27,000	1,78,700
Profit as a % Sales	34.32%	20%	30%	31.80%



(b)

i. Computation of Material Usage Variance

$$\text{Material Usage Variance} = \text{SQSP} - \text{AQSP} = \text{SP} (\text{SQ} - \text{AQ}) = 4.50(100 - 110) = ₹45(A)$$

ii. Computation of Price variance

When variance is calculated at point of purchase Price variance = $\text{AQSP} - \text{AQAP} = (110 \times 4.50) - (110 \times 4.30) = ₹22 (F)$

When variance is calculated at point of issue on FIFO basis Price variance = $\text{AQSP} - \text{AQAP} = (110 \times 4.50) - [(100 \times 4.50) + (10 \times 4.30)] = ₹2 (F)$

When variance is calculated at point of issue on LIFO basis Price variance = $\text{AQSP} - \text{AQAP} = (110 \times 4.50) - (110 \times 4.3) = ₹22(F)$

6. MAXWEL Ltd. produces a single product 'Boost'. The following figures relate to boost for the period 2022 - 2023.

Activity Level	50%	100%
Sales and production (units)	400	800
	₹	₹
Sales	8,00,000	16,00,000
Production costs:		
- Variable	3,20,000	6,40,000
- Fixed	1,60,000	1,60,000
Selling and distribution costs:		
- Variable	1,60,000	3,20,000
- Fixed	2,40,000	2,40,000

The normal level of activity for the year is 800 units. Fixed costs are incurred evenly throughout the year, and actual fixed costs are the same as budgeted. There were no stocks of Boost at the beginning of the year.

In the first quarter, 220 units were produced and 160 units were sold.

Calculate:

(a) What would be the fixed production costs absorbed by Boost if absorption costing is followed?

(b) What would be the under/over-recovery of overheads during the period?

(c) What would be the profit as per absorption costing?

(d) What would be the profit as per marginal costing?

[14]

Answer:

Fixed production costs absorbed

Particulars	(₹)
Budgeted fixed production costs	1,60,000
Budgeted output (normal level of activity 800 units)	
Therefore, the absorption rate: $1,60,000/800 = ₹200$ per unit	
During the first quarter, the fixed production cost absorbed by Boost would be $(220 \text{ units} \times ₹200)$	44,000

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Under / over recovery of overheads during the period

Particulars	(₹)
Actual fixed production overhead (1/4 quarters of ₹1,60,000)	40,000
Absorbed fixed production overhead	44,000
Over-recovery of overheads	4,000

Profit for the Quarter (Absorption Costing)

Particulars	(₹)	(₹)
Sales revenue (160 units × ₹ 2,000): (A)		3,20,000
Less: Production costs:		
- Variable cost (220 units × ₹800)	1,76,000	
- Fixed overheads absorbed (220 units × ₹ 200)	44,000	2,20,000
Less: Opening Stock		-----
Add: Closing Stock (₹ 2,20,000/220 units × 60 units)		60,000
Cost of Goods sold		1,60,000
Less: Adjustment for over-recovery of fixed production overheads		4,000
Add: Selling & Distribution Overheads:		
-Variable (160 units × ₹400)	64,000	
- Fixed (1/4th of ₹ 2,40,000)	60,000	1,24,000
Cost of Sales (B)		2,80,000
Profit {(A) – (B)}		40,000

Profit for the Quarter (Marginal Costing)

Particulars	(₹)	(₹)
Sales revenue (160 units × ₹ 2,000): (A)		3,20,000
Less: Production costs:		
- Variable cost (220 units × ₹ 800)	1,76,000	
Add: Opening Stock		-----
Less: Closing Stock (₹ 1,76,000/220 units × 60 units)	48,000	
Variable cost of goods sold		1,28,000
Add: Selling & Distribution Overheads:		
-Variable (160 units × ₹ 400)		64,000
Total Variable Cost (B)		1,92,000
Contribution {(C) = (A) – (B)}		1,28,000
Less: Fixed Costs:		
- Production cost	(40,000)	
- Selling & distribution cost	(60,000)	(1,00,000)
Profit		28,000

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7. (a) Prepare a Cash Budget for the three months ending 30th June, 2024 from the information given below:

i.

MONTH	SALES (₹)	MATERIAL S (₹)	WAGES (₹)	OVERHEADS (₹)
February	14,000	9,600	3,000	1,700
March	15,000	9,000	3,000	1,900
April	16,000	9,200	3,200	2,000
May	17,000	10,000	3,600	2,200
June	18,000	10,400	4,000	2,300

ii. Credit terms are:

Sales / Debtors: 10% sales are on cash, 50% of the credit sales are collected next month and the balance in the following month.

Creditors: Materials 2 months

Wages 1/4 month

Overheads 1/2 month.

iii. Cash and bank balance on 1st April, 2024 is expected to be ₹6,000.

iv. Other relevant information are:

(A) Plant and machinery will be installed in February 2024 at a cost of ₹96,000. The monthly instalment of ₹2,000 is payable from April onwards.

(B) Dividend @ 5% on preference share capital of ₹2,00,000 will be paid on 1st June.

(C) Advance to be received for sale of vehicles ₹ 9,000 in June.

(D) Dividends from investments amounting to ₹ 1,000 are expected to be received in June. [7]

(b) Explain the significance of cost accounting standards. [7]

Answer:

(a) Cash Budget for the 3 Months Ending 30th June 2024

(Amount in ₹)

Particulars	April	May	June
Opening Balance	6,000	3,950	3,000
Add: Receipts:			
Cash Sales	1,600	1,700	1,800
Collection from debtors [see note (1)]	13,050	13,950	14,850
Advance for sale of vehicles	-	-	9,000
Dividends from Investments	-	-	1,000
Total (A + B)	20,650	19,600	29,650
Less: Payments			
Materials	9,600	9,000	9,200
Wages (see note 2)	3,150	3,500	3,900
Overheads	1,950	2,100	2,250
Installment of Plant & machinery	2,000	2,000	2,000
Preference Dividend	-	-	10,000
Total (C)	16,700	16,600	27,350
Closing Balance (A+ B – C)	3,950	3,000	2,300



Working Notes:

(i) Computation of collection from Debtors

Month	Total Sales	Credit Sales	Feb.	Mar.	Apr.	May	June
Feb.	14,000	12,600	-	6,300	6,300	-	-
March	15,000	13,500	-	-	6,750	6,750	-
Apr.	16,000	14,400	-	-	-	7,200	7,200
May	17,000	15,300	-	-	-	-	7,650
					13,050	13,950	14,850

(ii) Wages payment in each month is to be taken as three – fourths of the current month plus one- fourth of the previous month.

(b) The significance of CAS can be categorically stated as;

1. Consistency: CAS plays a crucial role in promoting consistency in cost accounting practices. By providing a standardized set of rules and procedures, CAS ensures that organizations consistently apply cost accounting principles across different periods and business units. This consistency is essential for meaningful comparisons and trend analysis.
2. Comparability: CAS facilitates comparability by establishing uniform standards for cost determination. When organizations adhere to the same set of principles, it becomes easier to compare costs between entities within the same industry. This comparability is valuable for benchmarking and assessing performance relative to industry norms.
3. Transparency: Transparency is one of the key objectives of CAS. These standards require organizations to disclose relevant cost information in a clear and understandable manner. This transparency enhances the understanding of cost structures, helping stakeholders, including management, investors, and regulatory authorities, make informed decisions.
4. Improved Decision-Making: CAS contribute to improved decision-making by providing accurate and reliable cost information. Managers can make informed choices regarding pricing, resource allocation, and cost control strategies. The availability of consistent and transparent cost data enhances the decision-making process at various levels within an organization.
5. Regulatory Compliance: CAS often serves as a basis for regulatory compliance. In certain industries, adherence to CAS is mandated by regulatory authorities. By complying with these standards, organizations ensure that their cost accounting practices align with legal requirements, fostering trust and accountability.
6. Resource Allocation and Efficiency: With standardized cost accounting practices, organizations can allocate resources more efficiently. CAS assist in identifying the true cost of products and services, enabling management to allocate resources based on accurate and relevant information.

8. (a) Explain the Limitations of cost accounting System? [4]

(b) Distinguish between Selling Overheads and Distribution Overheads. [5]

(c) Describe the Objective and Functions of Cost Accounting Standard Board (CASB). [5]

Answer:

(a) Limitations of Cost Accounting System:

Like any other system of accounting, Cost Accountancy is not an exact science but an art which has developed through theories and accounting practices based on reasoning and commonsense. Many of the theories cannot be proved nor can they be disproved. They grownup in course of time to become

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conventions and accepted principles of Cost Accounting. These principles are by no means static, they are changing from day to day and what is correct today may not hold true in the circumstances tomorrow. Large number of Conventions, Estimates and Flexible factors: No cost can be said to be exact as they incorporate a large number of conventions, estimations and flexible factors such as: -

- Classification of costs into its elements.
- Materials issue pricing based on average or standard costs.
- Apportionment of overhead expenses and their allocation to cost units/centers.
- Arbitrary allocation of joint costs.
- Division of overheads into fixed and variable.

Cost Accounting lacks the uniform procedures and formats in preparing the cost information of a product/ service. Keeping in view this limitation, all Cost Accounting results can be taken as mere estimates.

(b) Selling overheads and distribution overheads are distinguished on the basis of the following points:

1. Focus:

Selling Overheads: Primarily focus on sales and promotional activities aimed at convincing customers to make purchases.

Distribution Overheads: Primarily focus on the logistics and physical distribution of products to customers.

2. Nature of Expenses:

Selling Overheads: Include costs related to the sales team, advertising, and promotional efforts.

Distribution Overheads: Include costs associated with warehousing, packaging, and transportation.

3. Timing of Expenses:

Selling Overheads: Often incurred before the sale, during the marketing and persuasion stage.

Distribution Overheads: Incurred during the physical movement and delivery of products.

4. Impact on Sales:

Selling Overheads: Directly impact the sales process by influencing customer purchasing decisions.

Distribution Overheads: Impact the efficiency and reliability of product delivery, contributing to customer satisfaction.

(c) 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 will be the functions of the CASB:

1. To issue the framework for the Cost Accounting Standards.
2. To equip the Cost & Management Accounting professionals with better guidelines on cost Accounting Principles.
3. To assist the members in preparation of uniform cost statements under various statutes.
4. To provide from time to time interpretations on Cost Accounting Standards.
5. To issue application guidance relating to particular standard.
6. To propagate the Cost Accounting Standards and to persuade the users to adopt them in the preparation and presentation of general purpose Cost Statement.



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7. 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.
8. To educate the users about the utility and the need for compliance of Cost Accounting Standards.