Paper 10 - Cost & Management Accountancy

Section A

1. **Answers all the Question:**

(i) The standard set of material consumption was 100kg. @ ₹2.25 per kg.
In a cost period:
Opening stock was 100kg.@ ₹2.25 per kg.
Purchase made 500kg. @₹2.15 per kg.
Consumption 110 kg.
Calculate usage variance and price variance. **(2+2)**

(ii) What is Inter Firm Comparison? **(2)**

(iii) If Sales are ₹ 2,00,000, fixed cost ₹30,000, and the PV ratio is 40%, the profit will be how much. **(2)**

(iv) A factory has a key resource (bottleneck) of Facility A which is available for 31,300 minutes per week. Budgeted factory costs and data on two products, A and B, are shown below:

Product	Selling price/Units	Material cost/Unit	Time in Facility A
A	₹40	₹20.00	5 minutes
B	₹40	₹17.50	10 minutes

Calculate:
Return per factory minute for both products. **(2)**

(v) A company has produced all accounting records within the stipulated time for your audit. It however is unable to produce audited financial accounts, as financial audit is not yet completed. As a cost Auditor, how would you deal with? **(2)**

(vi) A company has not maintained cost accounting records though having the obligation under section 209(1)(d) of the Companies Act. 1956. The management is of the opinion that necessary steps could be taken after the cost audit order is received from the Government. Are the directors of the company absolved of the obligation to maintain cost accounting records? **(2)**

(vii) What are the exceptions of Laws of Demand? **(2)**

(viii) What are the types of elasticity of Demand? **(2)**

(ix) Explain the role of Management's accountant in product pricing. **(2)**

Section A-Answer any two questions from this section

2.

(a) A Company manufacture its sole product by passing the raw material through three distinct process in its factory. During the month of April 2013, the company purchased 96,000 kg of raw material at ₹5 per kg & introduced the same in process 1. Further particulars of manufacture for the month are given below:-

	Process I	Process II	Process III
Material consumed	₹33,472	₹27,483	₹47,166
Direct labour	80,000	72,000	56,000
Overhead	1,20,000	1,08,000	84,000
Normal Waste in process as % of input	3%	1%	1%
Sale value of waste (₹/kg)	2	3	5
Actual output during the month (kg)	93,000	92,200	91,500

Prepare the three process accounts relating to abnormal; loss/gain, if any. **(15)**

(b) What is meant by 'Relevant Cost? Explain with the help of illustration. **(3+2)**

3.

(a) The following figures are available. Find out the missing figures, given appropriate formulae –

Particulars	₹	₹
Budgeted Profit		15,000
Less: Adverse variance: Contribution Price variance	10,600	
Direct Material variance	1,000	
Fixed Overhead variance	600	12,200
		2,800
Add: Favourable Variance: Contribution Quantity Variance	1,800	
Direct Wages Variance	600	
Variable Overhead Variance	1,800	4,200
Actual Profit		7,000

There is no inventory. Also, production units = sales units for both actual and budget.
Other information:

Standard selling Price	₹ 18 per unit	Actual Labour Hours at Actual rate	₹ 63,000
Standard Variable Cost	₹ 15 per unit	Actual Labour Hours at Standard rate	₹61,950
Standard Contribution	₹3 per unit	Variable Overhead Standard rate	₹2
Actual selling Price	₹ 17 per unit	Standard Hours of Production	4 per unit
Budgeted sales	10,000 units	Variable Overhead at Standard rate	₹ 84,800
Std Material Cost p.u	Re.1(5 kg. at 20	Variable Overhead Expenditure	400 (A)
Material Usage variance	paise/kg)	Variance	₹ 15,000
	400(Adv0	Budgeted Fixed overhead	

Find out the following:

(a) Actual sales Units	**(e)** Actual Variable Overhead in rupees
(b) Actual sales Rupees	**(f)** Variable Overhead Efficiency Variance
(c) Actual Quantity of Raw Materials used	**(g)** Actual Fixed Overheads
(d) Labour Efficiency variance	**(h)** Operating Profit Variance

(2x8=16)

(b) Write Short note on Write Short notes on Uniform Costing. **(4)**

4.

(a) Write short note on Cost Plus Contract. **(5)**

(b) A Company produces three products X, Y and Z, details of which are shown below:

Particulars	X	Y	Z
Selling Price per unit (₹)	1200	1100	1300

Direct material cost per unit (₹)	600	700	850
Variable overhead (₹)	300	200	150
Maximum demand (₹)	30000	25000	40000
Time required on the bottleneck resource (hours per unit)	5	4	3

There are 32,00,000 bottleneck hours available each month.

Required:

Calculate the optimum product mix based on the throughput concept. **(7)**

(c) A Multinational Company runs a public Medical Health Centre. For this purpose, it has hired a building at a rent of ₹10,000 per month with5% of total taking. The Health Centre has 3 types of wards for its patients namely- General ward, Cottage ward, and Deluxe ward. State the rent to be charged to each bed-day for different type of ward on the basis of the following information.

(i) The number of beds of each type is general ward 100, Cottage ward 50, Delux ward 30.

(ii) The rent of cottage ward bed is to be fixed at2.5 times of the general ward bed and that of Deluxe ward bed as twice of the Cottage ward bed.

(iii) The Occupancy of each type of ward is as follows-

General ward 100%, Cottage ward 80% and Deluxe ward 60%. But, in General ward, there were occasions when beds are full, extra beds were hired at charges of ₹20 per bed. The total hire charges for the extra beds incurred for the whole year amount to ₹12,000.

(iv) The Health Centre engaged a Heart Specialist from outside and on an average fees paid to him was ₹15,000 per trip. He makes three trips in the whole year.

(v) The other expenses for the year were as under-

Salary of Supervisors, Nurses, Ward Boys	4,25,000
Repairs and maintenance	90,000
Salary of Doctors	13,50,000
Food supplied to patients	40,000
Laundry charges for their bed linens	80,000
Medicines supplied	74,000
Cost of Oxygen, X-ray etc. other than directly borne for treatment of patients	49,500
General Administration Charges	63,000

(vi) Provide profit at 20% on total taking.

(vii) The Health Centre imposes 8% Service Tax on rent received.

(viii) 360 days may be taken in a year. **(8)**

Section B

5. Answer any two question

(a) The following figures are extracted from the Financial Accounts of Pradhan Ltd. For the year ended 31.3.2013

	₹	₹

Sales (20,000 units)		50,00,000
Materials		20,00,000
Wages		10,00,000
Factory Overheads		9,00,000
Administrative Overheads		5,20,000
Selling and Distribution Overheads Finished Goods (1,230 units)		3,60,000
Work-in-progress:		3,00,000
Materials	60,000	
Labour	40,000	
Factory overheads	40,000	1,40,000
Goodwill written off		4,00,000
Interest paid on capital		40,000

In the costing records, Factory overheads is charged at 100% of wages, Administration overhead 10% of factory cost and selling and distribution overhead at the rate of ₹20 per unit sold. Prepare a statement reconciling the profit as per cost records with the profit as per Financial Records. **(8)**

(b) Explain the rights and power, and duties of a Cost Auditor. **(8)**

(c) (i) Whether a Cost Auditor can be appointed as Internal Auditor of the company? Whether there is any restriction on the cost auditor to accept assignments from a company where he is the cost auditor? **(4)**

(ii) How total number of companies for which a cost auditor can accept appointment is to be computed keeping in mind restrictions imposed under Section 224(1B) of the Companies Act 1956? **(4)**

Section C

6. Answer any two questions.

(a) (i) What are the factors which influences the pricing policy of a product? **(8)**

(ii) What do you understand by Skimming Pricing Policy of a product? **(4)**

(b) A firm assumes a cost function $c(x) = x\left(\frac{x^2}{10} + 200\right)$, x is a monthly output in thousands of units. Its revenue function is given by $R(x) = \left(\frac{2,200 - 3x}{2}\right)x$ Find i) If the firm decides to produce 10,000 units per month, the firms cost and Marginal cost. ii) If the firm decides to produce Marginal cost of 320, the level of output per month, and cost of the firm. iii) The marginal revenue function. iv) If a decision is taken to produce 10,000 units each month, the total revenue and marginal revenue of the firm. v) If the firm produces with a marginal revenue of 1040, the firm's monthly output and monthly revenue. vi) The firm's profit function and marginal profit function. vii) The output required per month to make the marginal profit =0, and find the profit at this level of output. viii) Find the marginal revenue and the marginal cost at the output obtained in (ix) above comment upon the result. **(12)**

(c) (i) A company is planning to market a new model of a doll. Rather than setting the selling price of the doll based only on production cost estimation management polls the retailers of the doll to see how many dolls they will buy for various prices. From this survey, it is determined at the unit demand function (the relationship between the amount 'x' each retailer would buy and the price he would pay) is x = 30,000 – 1500P. The fixed cost of the production of the dolls are found to be ₹28,000/- and cost of Material & labour to produce each doll is estimated to be ₹8 per unit. What price should the company charge retailer in order to obtain a maximum profit? Also find the maximum profit. **(7)**

(ii) Explain the concept of Penetration pricing policy of a new product. **(5)**