Paper 8- Cost Accounting

Paper-8: Cost Accounting

Full Marks: 100 **Time allowed: 3 hours**

Section A

Answer the following questions:

1. Choose the correct answer from the given four alternatives: **[10 ×1 = 10]**

(i) Cost Unit of Hospital Industry is
- **(a) Tonne**
- **(b) Student per year**
- **(c) Kilowatt Hour**
- **(d) Patient Day**

(ii) Which of the following is considered as normal loss of material?
- **(a) Pilferage**
- **(b) Loss due to accident**
- **(c) Loss due to careless handling of material**
- **(d) None of these**

(iii) Idle time is
- **(a) Time spent by workers in factory**
- **(b) Time spent by workers in office**
- **(c) Time spent by workers off their work**
- **(d) Time spent by workers on their job**

(iv) Warehouse expense is an example of
- **(a) Production overhead**
- **(b) Selling overhead**
- **(c) Distribution overhead**
- **(d) None of above**

(v) Which of the following items is not included in preparation of cost sheet?
- **(a) Carriage inward**
- **(b) Purchase returns**
- **(c) Sales Commission**
- **(d) Interest paid**

(vi) Operating costing is applicable to:
- **(a) Hospitals**
- **(b) Cinemas**
- **(c) Transport undertaking**
- **(d) All of the above**

(vii) If sales are ₹90,000 and variable cost to sales is 75%. Contribution is
- **(a) ₹21,500**
- **(b) ₹22,500**
- **(c) ₹23,500**
- **(d) ₹67,500**

(viii) P/V Ratio will increase if the

(a) There is a decrease in fixed cost
(b) There is an increase in fixed cost
(c) There is a decrease in selling price per unit
(d) There is a decrease in variable cost per unit.

(ix) Difference between standard cost and actual cost is called as

(a) Wastage
(b) Loss
(c) Variance
(d) Profit

(x) Sales Budget is a …

(a) Expenditure budget
(b) Functional budget
(c) Master budget
(d) None

(b) Match the statement in Column I with the most appropriate statement in Column II: **[1×5 =5]**

Column I		Column II	
(i)	Job Ticket	(A)	A Technique of Inventory Control
(ii)	Escalation Clause	(B)	BEP Chart
(iii)	VED Analysis	(C)	Contract Costing
(iv)	Angle of Incidence	(D)	Labour Cost Plus Factory Overhead
(v)	Conversion Cost	(E)	A Method of Time Booking

(c) State whether the following statements are True' or 'False': **[1x5=5]**

(i) A flexible budget is one, which changes from year to year

(ii) Variances are calculated for both material and labour.

(iii) Multiple Costing is suitable for the banking Industry.

(iv) Contact costing is variant of job costing

(v) Closing stock of finished goods should be valued on the basis of cost of sales.

(d) Fill in the blanks suitably: **[1x5=5]**

(i) Administration overheads are usually absorbed as a percentage of _____

(ii) Variable cost per unit is _____

(iii) Bin card shows ____ details of materials.

(iv) Sum of material price variance and material usage variance is equal to _____ variance.

(v) Contribution earned on Break-even sales equals to _____ of the firm.

Answer:

1. (a) <u>Multiple Choice</u>

(i) (d) Patient Day

(ii) (d) None of these

(iii) (c) Time spent by workers off their work

(iv) (c) Distribution overhead

(v) (d) Interest paid

(vi) (d) All of the above

(vii)(b)₹22,500

(viii) (d) There is a decrease in variable cost per unit.

(ix) (c) Variance

(x) (b) Functional budget

(b) Matching:

Column I		Column II	
(i)	Job Ticket	**(E)**	A method of Time Booking
(ii)	Escalation Clause	**(C)**	Contract Costing
(iii)	VED Analysis	**(A)**	A Technique of Inventory Control
(iv)	Angle of Incidence	**(B)**	BEP Chart
(v)	Conversion Cost	**(D)**	Labour cost plus Factory overhead

(c) True & False

(i) False
(ii) True
(iii) False
(iv) True
(v) False

(d) Fill in the blanks

(i) Work Cost
(ii) Fixed
(iii) Quantitative
(iv) Material Cost
(v) Fixed Cost

Section B

Answers any five Questions, working notes should form part of the answer.

2.(a) AJC From the following particulars furnished by H/N Bright & Co. Ltd prepares a statement indicating the pricing of issues on the basis of Simple Average Method.

2017, April

March 1 - Purchased 200 units @ ₹20 each.

March 2 - Purchased 100 units @ ₹18 each.

March 5 - Issued 250 units to job P vide M/R No. 10

March 7 - Purchased 200 units @ ₹ 16 each
March 10 - Purchased 300 units @ ₹ 14 each.
March 13 - Issued 200 units to job Q vide M/R No. 16
March 18 - Issued 200 units to job R vide M/R No. 18
March 20 - Purchased 100 units @ ₹ 13 each
March 24 - Issued 150 units to job X vide M/R No. 20.

[9]

Answer:

STORES LEDGER ACCOUNT

Receipts				Issue			Balance	
Date	**Qty.**	**Price (₹)**	**Value (₹)**	**Qty.**	**Price (₹)**	**Value (₹)**	**Qty.**	**Value (₹)**
2017								
March - 1	200	20	4,000	-	-	-	200	4,000
March - 2	100	18	1,800	-	-	-	300	5,800
March - 5	-	-	-	250	19	4,750	50	1,050
March - 7	200	16	3,200	-	-	-	250	4,250
March-10	300	14	4,200	-	-	-	550	8,450
March-13	-	-	-	200	16	3,200	350	5,250
March-18	-	-	-	200	15	3,000	150	2,250
March- 20	100	13	1,300	-	-	-	250	3,550
March- 24	-	-	-	150	13.5	2025	100	1,525

Working Notes:

1. Calculation of price for issue on 5th March, 2017
   = 20 + 18/2 = 19
2. Price for issue on 13th March
   18 + 16 + 14/3 = 16
3. Price for issue on 18th March
   16 + 14/2 = 15
4. Price for issue on 24th March
   14 + 13/2 = 13.5

(b) A factory has three production departments A, B and C and also two service departments 'X' and 'Y'. The primary distribution of the estimated overheads in the factory has just been completed. These details and the quantum of service rendered by the service departments, to the other departments are given below:

	A	**B**	**C**	**X**	**Y**
Primary distribution(₹)	**2,40,000**	**2,10,000**	**2,50,000**	**1,40,000**	**96,000**
Service rendered by					
Dept 'X'	**30%**	**20%**	**35%**	**-**	**15%**
Dept 'Y'	**25%**	**40%**	**25%**	**10%**	**-**

Prepare a statement showing the distribution of service dept. overheads to the production departments, by the simultaneous equation method. [6]

Answer:

Let, P and N be the total overheads of the service departments 'X' and 'Y' respectively. Then,

P=1,40,000+0.10N i.e.,	10P-N	=14,00,000
N=96,000+0.15P and	-0.15P+N	=96,000
(By adding)	9.85P	14,96,000

	P=14,96,000/9.85	=₹1,51,878
By substitution,	N=96,000+0.15X1,51,875	
	=96,000+22,782	=₹1,18,782

Statement showing the distribution of service dept. overheads to the production departments

	(Production Depts.)			
Distribution of overheads of	**A(₹)**	**B(₹)**	**C(₹)**	**Total (₹)**
1,40,000 Deptt X(85% of ₹1,51,878)	45,563	30,376	53,157	1,29,096
96,000 Deptt Y(90% of ₹ 1,18,782)	29,696	47,513	29,695	1,06,904
2,36,000				
Total	75,259	77,889	82,852	2,36,000

3.(a) How do you treat the Idle Time as per CAS-7? . [6]

Answer:

Treatment of Idle Time

As per CAS-7, Idle Time Cost shall be assigned direct 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 below:-

(i) Unavoidable idle time above would be for insignificant periods. In Cost Accounts, 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 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 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 the Costing Profit and Loss Account or included in Profit and Loss Account, when the accounts are integrated.

(iv) Tendency to conceal Idle Time should be discouraged. It is a non-effective time and the resultant loss of profit due to reduced production activity but also increases the cost per unit of production as the fixed costs continue to be incurred, irrespective of the reduced quantum of production due to loss of labour time. Idle Time should, therefore, be highlighted prominently so that action can be taken to remove the causes thereof. Although for obvious reasons, it is not possible to record minor details, vigilance is necessary for finding out long-term idleness among the workers.

(b) The financial records of Modern Manufacture Ltd. reveal the following for the year ended 31-12-2016:

	₹ in '000
	₹
Sales (20,000 units)	**4,000**
Materials	**1,600**
Wages	**800**
Factory Overheads	**720**
Office and Administrative Overheads	**416**
Selling and Distribution Overheads	**288**

Finished Goods (1,230 units)		**240**
Work-in-progress	**48**	
Labour	**32**	
Overheads (Factory)	**32**	**112**
Goodwill written off		**320**
Interest on Capital		**32**

In the Costing records, factory overhead is charged at 100% wages, administration overhead 10% of factory cost and selling and distribution overhead at the rate of ₹ 16 per unit sold.

Prepare a statement reconciling the profit as per cost records with the profit as per financial records of the company. [9]

Answer:

Profit & Loss Account of Modern Manufacturers for the year ended 31-12-2016

			(₹ in 000)
To Materials	1,600	By Sales (20,000 units)	4,000
To Wages	800		
To Factory Overheads	720	By Finished Goods	240
To Office and Admn. Overheads	416	1230 units	
To Selling & Distribution Overheads	288	Work-in-Progress	112
To Goodwill written off	320		
To Interest on Capital	32		
To Net Profit	176		
	4,325		4,352

Profit as per Cost Record

	₹ In '000)
Materials	1,600
Wages	800
Prime Cost	2,400
Factory Overhead (100% of wages)	800
Gross Factory Cost	3,200
Less: Closing WIP	112
Factory Cost (21,230 units)	3,088
Add: Office & Administrative Overhead (10% of Factory Cost)	308.80
Total Cost of output	3,396.80
Less: Closing stock (1,230 units) of Finished Goods (See Working Note 1)	196.80
Cost of Production of 20,000 units	3,200.00
Selling and Distribution overhead (@ ₹ 16 p u.)	320.00
Cost of sales (20,000 units)	3,520.00
Sales Revenue (20,000 units)	4,000.00
Profit	480.00

Reconciliation Statement

	₹('000)	₹ ('000)
Profit as per Cost Accounts		480
Add: Factory overhead Overabsorbed (800-720)	80	
Selling and Distribution Overhead Overabsorbed (320-288)	32	
Closing stock overvalued in Financial Accounts (240-196.8)	43.20	155.2
		635.20
Less: Office & Administrative Overhead underabsorbed (416-308.80)	107.20	
Goodwill written off	320.00	
Interest on Capital	32.00	459.20
Profit as per Financial Accounts		176.00

Working Note:

1. Cost per unit of finished goods=Total cost of output/Total number of units produced
   =₹ 3396.80 Thousand/ 21,230 units
   = ₹ 160
   Cost of 1230 units=₹160 x 1,230
   = ₹ 1,96,800

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. **[8]**

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
	2,900	1,775	1,420

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

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 compute the factory cost of the completed 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 what would be the invoice price of these three jobs?

Answer:

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		
(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) 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: [7]

	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. Find out the percentage of wastage in Process 'C'

Answer:

Dr. PROCESS-A- Account 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

Dr. PROCESS-B- Account 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

Dr. PROCESS-C- Account 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%	2
Cost per unit	8

Let the No. of units of loss in Process 'C' be 'x'
Scrap value = X × 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 = $\frac{696}{9120} \times 100 = 7.63\%$

5.(a) Hera Transport Service Company is running four (4) buses between two cities, which are 40 kilometers apart. Seating capacity of each bus is 40 passengers. The following particulars are furnished by the company for March 2017:

Particulars	Amount (₹)
Salaries of Office Staff	**1,50,000**
Wages of drivers, conductors and cleaners	**3,60,000**
Diesel oil & other Lubricants	**3,50,000**
Repairs & Maintenance	**1,00,000**
Insurance, Taxation etc.	**2,60,000**
Depreciation	**2,50,000**
Interest & Other Expenses	**2,00,000**
Total	**16,70,000**

Passengers carried were 80% of seating capacity. All buses run on all days of the month. Each bus made one round trip per day.
Find out the cost per passenger – Kilometer. [8]

Answer:

Operating Cost Statement
March 2017

	Particulars	Amount (₹)	Amount (₹)
(A)	Operating & Running Cost:		
	Wages of Drivers, Conductors, and Cleaner	3,60,000	
	Diesel Oil & Other Lubricants	3,50,000	7,10,000
(B)	Maintenance Charges:		
	Repair & Maintenance	1,00,000	1,00,000
(C)	Fixed Charges:		
	Insurance & Taxation etc.	2,60,000	
	Depreciation	2,50,000	
	Interest & Other exp.	2,00,000	
	Salaries & Office Staff	1,50,000	8,60,000
	Total (A+B+C)		16,70,000

*Cost per passenger kilometer:
= ₹ 16,70,000 ÷ 3,07,200
= ₹ 5.44

* Passengers kilometers are computed as below:
Number of buses x distance in one round trip x seating capacity available x percentage of seating capacity actually used x number of days in a month.
4 x 40 x 2 x 40 x 80% x 30 days = 3,07,200

(b) New Construction Ltd. is engaged in a contract during the year. Following information is available at the year end.

Particulars	Amount Contract (₹)
Contract price	**6,00,000**
Material delivered direct to site	**1,20,000**
Materials issued from stores	**40,000**
Materials returned to stores	**4,000**
Materials at site at the end of year	**22,000**
Direct labour payments	**1,40,000**
Direct expenses	**60,000**
Architect's fees	**2,500**
Establishment charges	**24,500**
Plant installed at cost	**80,000**
Value of plant at the end of year	**65,000**
Accrued wages at the end of year	**10,000**
Accrued expenses at the end of year	**6,000**
Cost of contract not certified by architect	**23,000**
Value of contract certified by architect	**4,20,000**
Cash received from contractor	**3,78,000**

During the period, materials amounting to ₹9,000 have been transferred to another contract to another place.
You are required to show the Contract A/c. **[7]**

Answer:

In the Book of new Construction ltd.

Dr. Contract Account for the year ended.... Cr.

Particular		Amount (₹)	Particular	Amount (₹)
To Material delivered to Site		1,20,000	By Materials returned to Store	4,000
To Material from Store		40,000	By Material c/d	22,000
To Labour	1,40,000		By Material Transferred	9,000
Add. Accrued	10,000	1,50,000	By Cost of Contract c/d (Balancing figure)	3,83,000
To Direct Expenses	60,000			
Add. Accrued	6,000	66,000		
To Depreciation on Plant (80,000 - 65,000)		15,000		
To Architect's Fees To Establishment Charges		2,500 24,500		
		4,18,000		4,18,000
To Cost of Contract b/d		3,83,000	By Work-in-Progress A/C – Work Certified	4,20,000
To Notional Profit c/d (Balancing Figure)		60,000	-Work Uncertified	23,000
		4,43,000		4,43,000

To Costing Profit & loss A/c (Working Note)	36,000	By Notional profit b/d	60,000
To Work-in-Progress A/c (Balancing figure)	24,000		
	60,000		60,000

Working Note:

$$\text{Profit Transferred} = \frac{2}{3} \times \text{Notional Profit} \times \frac{\text{Cash received}}{\text{Work Certified}}$$

$$= \frac{2}{3} \times 60,000 \times \frac{3,78,000}{4,20,000} = 36,000$$

6.(a) The sales turnover and profit during two periods were as follows: **[5]**

Period	Sales (₹)	Profit (₹)
1	2,00,000	20,000
2	3,00,000	40,000

What would be probable trading results with sales of ₹1,80,000? What amount of sales will yield a profit of ₹ 50,000?

Answer:

P/V ratio = (Change in profit / Change in sales) x 100

= (20,000 / 1,00,000) x 100 = 20%

Fixed cost = (Sales x P/V ratio) – Profit

= (2,00,000 x 0.2) – 20,000 = ₹ 20,000

Sales required to earn desired profit $= \frac{\text{Fixed Cost} + \text{Desired Profit}}{\text{P/V Ratio}}$

= (20,000 + 50,000) / 20% = ₹ 3,50,000

(b) Mr. Young has ₹1,50,000 investment in a business. He wants a 15% profit on his money. From an analysis of recent cost figures he finds that his variable cost of operating is 60% of sales; his fixed costs are ₹75,000 per year. Show supporting computations for each answer.

(i) What sales volume must be obtained to break-even? **[10]**

(ii) What sales volume must be obtained to his 15% return on investment?

(iii) Mr. Young estimates that even if he closed the doors of his business he would incur ₹25,000 expenses per year. At what sales would be better off by locking his sales up?

Answer:

P/V ratio (V. cost ratio 60%) = 40%

(i) Break even sales = 75,000 / 40% = ₹ 1,87,500

(ii) Required sales to get desired income = (75,000 + 22,500) / 40% = ₹ 2,43,750

= ₹ 2,43,750

(iii) Shut down sales $= \frac{\text{Fixed Cost} - \text{Shut Down Cost}}{\text{P/V Ratio}}$

= (75,000 – 25,000) / 40%

= ₹ 1,25,000

7. (a) A manufacturing concern which has adopted standard costing furnishes the following information.

Standard
Material for 70 Kg of finished product of 100 Kg
Price of materials Re.1 per kg
Actual

Output	**2,10,000 kg.**
Material used	**2,80,000 kg.**
Cost of materials	**₹ 2,52,000**

Calculate:

(i) Material Usage Variance
(ii) Material Price Variance
(iii) Material cost Variance **[6]**

Answer:

Computation of Required Values

(1) SQSP (₹)	(2) AQSP (₹)	(3) AQAP (₹)
[2,10,000 x 100/70] x 1	2,80,000 x 1	
3,00,000	2,80,000	0 2,52,000

Computation of Required Variances:

(i) Material Usage Variance = (1) – (2) = ₹ 20,000 (F)

(ii) Material Price Variance = (2) – (3) = ₹ 28,000(F)

(iii) Material Cost Variance = (1) – (3) = ₹ 48,000(F)

(b) Prepare a Cash Budget for the three months ending 30th June, 2016 from the information given below:

(a)

MONTH	SALES (₹)	MATERIALS (₹)	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**

(b) 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
Overheads1/2 month.
(c) Cash and bank balance on 1st April, 2016 is expected to be ₹ 6,000.
(d) Other relevant information are:
(i) Plant and machinery will be installed in February 2016 at a cost of ₹ 96,000. The monthly installment of ₹2,000 is payable from April onwards.

(ii) Dividend @ 5% on preference share capital of ₹ 2,00,000 will be paid on 1st June.
(iii) Advance to be received for sale of vehicles ₹ 9,000 in June.
(iv) Dividends from investments amounting to ₹ 1,000 are expected to be received in June. **[9]**

Answer:

Cash Budget for the 3 Months Ending 30th June 2016 (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.

8. Write short notes on any three of the following: **[5x3=15]**

(a) Cost Centre
(b) Limitations of cost accounting System
(c) Cost Accounting Standard on Packing Material Cost
(d) Standard costing Vs Budgetary Control

Answer:

(a) Cost Centre

CIMA defines a cost centre as "a location, a person, or an item of equipment (or a group of them) in or connected with an undertaking, in relation to which costs ascertained and used for the purpose of cost control". The determination of suitable cost centres as well as analysis of cost under cost centres is very helpful for periodical comparison and control of cost. In order to obtain the cost of product or service, expenses should be suitably

segregated to cost centre. The manager of a cost centre is held responsible for control of cost of his cost centre. The selection of suitable cost centres or cost units for which costs are to be ascertained in an undertaking depends upon a number of factors such as organization of a factory, condition of incidence of cost, availability of information, requirements of costing and management policy regarding selecting a method from various choices. Cost centre may be production cost centres operating cost centres or process cost centres depending upon the situation and classification.

Cost centres are of two types-Personal and Impersonal Cost Centre. A personal cost centre consists of person or group of persons. An impersonal cost centre consists of a location or item of equipment or group of equipments.

(b) 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 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/centres.
- 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.

(c) CAS-9: Cost Accounting Standard on Packing Material Cost:

This standard deals with the principles and methods of determining the Packing Material Cost. This standard deals with the principles and methods of classification, measurement and assignment of Packing Material Cost, for determination of the cost of product, and the presentation and disclosure in Cost Statements. Packing Materials for the purpose of this standard are classified into primary and secondary packing materials.

Objective

The objective of this standard is to bring uniformity and consistency in the principles and methods of determining the packing material cost with reasonable accuracy.

Scope

This standard should be applied to cost statements, which require classification, measurement, assignment, presentation and disclosure of Packing Material Cost including those requiring attestation.

(d) Standard costing Vs Budgetary Control

The difference may be summarized as follows:

- A system of Budgetary Control may be operated even if no Standard Costing system is in use in the concern.
- While standard is a unit concept, budget is a total concept.
- Budgets are the ceilings or limits of expenses above which the actual expenditure should not normally rise; if it does, the planned profits will be reduced. Standards are minimum targets to be attained by actual performance at specified efficiency.
- Budgets are complete in as much as they are framed for all the activities and functions of a concern such as production, purchase, selling and distribution, research and development, capital utilisation, etc. Standard Costing relates mainly to the function of production and the related manufacturing costs.
- A more searching analysis of the variances from standards is necessary than in the case of variations from the budget.
- Budgets are indices, adherence to which keeps a business out of difficulties. Standards are pointers to further possible improvements