Paper 8- Cost Accounting

Cost Accounting

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

Section- A

Answer the following questions:

(i) Depreciation is a example of-
- **(a) Fixed Cost**
- **(b) Variable Cost**
- **(c) Semi Variable Cost**
- **(d) None**

(ii) Continuous stock taking is a part of-
- **(a) ABC analysis**
- **(b) Annual stock taking**
- **(c) Perpetual Inventory**
- **(d) None of these**

(iii) Cost of idle time arising due to non availability of raw material is
- **(a) Charged to costing profit and loss A/c**
- **(b) Charged to factory overheads**
- **(c) Recovered by inflating the wage rate**
- **(d) Ignored**

(iv) 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**

(v) The allotment of whole items of cost of centres or cost unit is called
- **(a) Cost allocation**
- **(b) Cost apportionment**
- **(c) Overhead absorption**
- **(d) None of the above**

(vi) 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.**

(vii) Job costing is used in

(a) Furniture making

b) Repair shops

(c) Printing press

(d) All of the above

(viii) In a process 8000 units are introduced during a period. 5% of input is normal loss. Closing work in progress 60% complete is 1000 units. 6600 completed units are transferred to next process. Equivalent production for the period is:

(a) 9000 units

(b) 7440 units

(c) 5400 units

(d) 7200 units

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

(a) Wastage

(b) Loss

(c) Variance

(d) Profit

(x) Standard cost of material for a given quantity of output is ₹ 15,000 while the actual cost of material used is ₹ 16,200. The material cost variance is:

(a) ₹ 1,200 (A)

(b) ₹ 16,200 (A)

(c) ₹ 15,000 (F)

(d) ₹ 1,200 (F)

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

Column I		Column II	
(i)	Prime Cost	(A)	CAS 19
(ii)	Angle of incidence	(B)	Passenger/ Kilometer
(iii)	Operating Costing	(C)	Direct Cost
(iv)	Joint Cost	(D)	Constant
(v)	Variable cost per unit	(E)	Profitability Rate

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

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

(ii) The allocation of joint cost on by-products affects the total profit or loss.

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

(iv) For decision making, absorption costing is more suitable than marginal costing.

(v) Overhead and conversion cost are inter-changeable terms.

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

(i) Variable cost per unit is _____

(ii) Profit ÷ P/v Ratio = _____

(ii) Budget is a quantitative and / or a _____statement.

(iii) Fixed cost per unit _____varies with the no. of units.

(iv) An activity level of 1000 hours cost is ₹10,000 and an activity level for 2000 hours the total cost is ₹16,000. The cost at 3000 hours of level of activity is _____

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

Section B

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

2.(a) From the following particulars furnished by SPRT 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]

(b) A company manufactures a special product which requires a component 'X'. The following particulars are collected for the year 2017.

1.	Annual demand of 'X'	8,000 units
2.	Cost of placing an order	₹ 200 per order
3.	Cost per unit of 'X'	₹ 400
4.	Carrying cost % p.a.	20%

The company has been offered a quantity discount of 4% on the purchase of 'X' provided the order size is 4,000 components at a time.

Required:

(i) Compute the economic order quantity.

(ii) Advise whether the quantity discount offer can be accepted. **[6]**

3. (a) A work measurement study was carried out in a firm for 10 hours and the following information was generated.

Units produced	**:**	**400**
Idle time	**:**	**12%**
Performance rating	**:**	**125%**
Allowance time	**:**	**10% of standard time.**

What is the standard time for task? [7]

(b) For a department the standard overhead rate is ₹2.5 per hour and the overhead allowances are as follows:

Activity Level (Hours)	Budget overhead Allowance (₹)
3,000	10,000
7,000	18,000
11,000	26,000

Calculate:

i) Fixed cost

ii) The standard activity level on the basis of which the standard overhead rate has been worked out.

[8]

4. (a) The following balances are shown in the Cost Ledger of Spark Ltd. as on 1st October, 2017:

Particulars	Dr. (₹)	Cr.(₹)
Work in progress Account	7,056	
Factory overheads suspense Account	360	
Finished stock Account	5,274	
Stores Ledger Control Account	9,450	
Administration Overheads Suspense A/C	180	
General Ledger Adjustment Account		22,320

Transactions for the year ended 30th September, 2017

Particulars	₹
Stores issued to production	45,370
Stores purchased	52,400
Material purchased for direct issued to production	1,135
Wages paid (including indirect labour ₹ 2,520)	57,600
Finished goods sold	1,18,800
Administration expenses	5,400
Selling expenses	6,000
Factory overheads	15,600
Store issued for Capital work-in-Progress	1,500
Finished goods transferred to warehouse	1,08,000
Store issued for factory repairs	2,000
Factory overheads recovered to production	16,830
Administration overheads charged to production	4,580
Factory overheads applicable unfinished work	3,080
selling overheads allocated to sales	5,500
Stores lost due to fire in store (not insured)	150
Administration expenses on unfinished work	850
Finished goods stock on 30.9.2017	14,274

You are required to record the entries in the cost ledger for the year ended 30th September, 2017 and prepare a Trial Balance as on that date. [12]

(b) A customer has been ordering 60,000 special design metal columns at the columns at the rate of 18,000 per order during the past years. The production cost comprises ₹120 for material, ₹60 for labour and ₹20 for fixed overheads. It costs ₹1500 to set up for one run of 18,000 column and inventory carrying cost is 15% since this customer may buy at least 5000 columns this year, the company would like to avoid making five different production runs. Find the most economic production run. **[3]**

5 (a) A contractor commenced the work on a particular contract on 1st April, 2017 he usually closes his books of accounts for the year on 31st December of each year. The following information is revealed from his costing records on 31st December, 2017.

	₹
Materials sent to site	43,000
Jr. Engineer	12,620
Labour	1,00,220

A machine costing ₹30,000 remained in use on site for 1/5th of year. Its working life was estimated at 5 years and scrap value at ₹2,000

A supervisor is paid ₹2,000 per month and had devoted one half of his time on the contract.

All other expenses were ₹14,000 the materials on site were ₹2,500.

The contract price was ₹4,00,000. On 31st December, 2017 2/3rd of the contract was completed however, the architect gave certificate only for ₹2,00,000. On which 80% was paid. Prepare Contract Account. **[6]**

(b) 'Him 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 2017. [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] ₹ 3,55,000**
- **Repairs to building ₹ 1,30,500**
- **Laundry and linen ₹ 45,000**
- **Interior and tapestry ₹ 1,05,500**
- **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 off-season months on the basis of the foregoing information. **[9]**

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

Period	Sales (₹)	Profit (₹)
1	3,50,000	20,000
2	4,50,000	40,000

What would be probable trading results with sales of ₹2,80,000? What amount of sales will yield a profit of ₹1,00,000? [7]

(b) Mr. Tom has ₹2,00,000 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 ₹80,000 per year. Show supporting computations for each answer.

(i) What sales volume must be obtained to break-even?

(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 ₹28,000 expenses per year. At what sales would be better off by locking his sales up? [8]

7 (a) A company manufactures scooters and sells it at ₹6,000 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. [7]

(b) The standard labour complement and the actual labour complement engaged in a week for a job are as under:

Skilled workers	Semi-skilled workers		Unskilled workers
a) Standard no. of workers in the gang	32	12	6
b) Standard wage rate per hour (₹)	3	2	1
c) Actual no. of workers employed in the gang during the week	28	18	4
d) Actual wage rate per hour (₹)	4	3	2

During the 40 hour working week the gang produced 1,800 standard labour hours of work. Calculate

1) Labour Efficiency Variance

2) Mix Variance

3) Rate of Wages Variance

4) Labour Cost Variance [8]

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