Paper 2- Fundamentals of Accounting

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

Section – A

1. (a) Choose the correct answer from the given four alternatives: [30 ×1 = 30]

(i) Which of the following is not a Fixed Asset?
- (a) Building.
- (b) Bank balance.
- (c) Plant.
- (d) Goodwill.

(ii) According to AS-2, inventories should be valued at
- (a) Realization value.
- (b) Lower of Historical cost and Net Realizable value
- (c) Lower of Historical cost and Replacement cost
- (d) Replacement cost.

(iii) Ledger contains various_________in it.
- (a) transactions
- (b) entries
- (c) accounts
- (d) None of the above

(iv) Capital expenditure is an expenditure which
- (a) Will benefit the next accounting periods also
- (b) Results in the acquisition of a permanent asset
- (c) Involves permanent capital outlay
- (d) All of the above

(v) Cash account is a ______________.
- (a) Personal A/c
- (b) Nominal A/c
- (c) Real A/c
- (d) Dummy

(vi) Nominal A/c represents-
- (a) Profit/Gain
- (b) Loss/Expenses
- (c) None
- (d) Both (a) and (b)

(vii) Which of the following is not an intangible asset?
- (a) Goodwill
- (b) Trade mark
- (c) Patent
- (d) Land

(viii) Rent outstanding for the month of December'18 will appear on-
(a) Debit side of Cash book
(b) Credit side of cash book
(c) Either side
(d) Nowhere.

(ix) Credit balance as per Cash book mean-
(a) Surplus cash
(b) Bank overdraft
(c) Terms deposits with bank
(d) None of these

(x) A second hand car is purchased for ₹2,00,000 and sold at ₹1,40,000 after two years. If depreciation is charged @ 10% on SLM method, find the profit or loss on sale of the car.
(a) ₹ 20,000 Loss
(b) ₹ 20,000 Profit
(c) ₹ 10,000 Loss
(d) ₹ 10,000 Profit

(xi) Debit balance in a Personal A/c means
(a) Amount due from anyone
(b) Amount due to anyone
(c) Discount allowed to anyone
(d) Goods sold by cash

(xii) Debts for which there is neither any possibility of becoming bad nor any doubt about its realization, will arise in future is called _______________.
(a) Bad Debts
(b) Doubtful Debts
(c) Good Debts
(d) None of the above

(xiii) Which of the following is/are current asset/s?
(a) Sundry Debtors
(b) Stock
(c) Prepaid Insurance
(d) All of the above

(xiv) If the Closing Stock in the Trading A/c is overcastted by ₹12,400 the amount of Gross Profit and Net Profit —
(a) will be higher by ₹12,400
(b) will be lower by ₹12,400
(c) will not be affected
(d) none of the above

(xv) Cash book does not record
(a) Credit purchases
(b) Credit sales
(c) Outstanding expenses

(d) All the these

(xvi)Subsidy of ₹40,000 received from the government per working capital is —
(a) Revenue Receipt
(b) Revenue Expense
(c) Capital Receipt
(d) Capital Expense

(xvii) Gross profit is equal to
(a) sales – cost of goods sold
(b) sales – closing stock + purchase
(c) opening stock + purchases – closing stock
(d) none of the above

(xviii) Assets appearing in the books having no real value are known as —
(a) Fictitious assets
(b) Tangible Asset
(c) Current Asset
(d) None of the Above

(xix)The equality of debit and credit of the ____________ does not mean that the individual accounts are also accurate.
(a) Trial Balance
(b) Ledger
(c) Journal
(d) None of the above

(xx) Goods bought from Mr. P the payment for which is due after a month is recorded in ________
(a) Cash book
(b) Purchase book
(c) Sales book
(d) Sales return book

(xxi)For charging depreciation, on which of the following assets, the depletion method is adopted?
(a) plant & machinery
(b) land & building
(c) patent
(d) Wasting assets like mines and quarries

(xxii) Sales to Amlan of ₹4,500 in credit not recorded in the books would affect -
(a) Amlan's's Account
(b) Sales Account
(c) Sales Account and Amlan's Account
(d) Cash Account

(xxiii) A consignor is entitled to _______________
(a) Commission on Sales
(b) Reimbursement of expenses
(c) None of the above
(d) All of the above

(xxiv) Joint Bank A/c is a----------
(a) Nominal A/c

(b) Personal A/c
(c) Real A/c
(d) None of the above

(xxv) At the time of dishonour of an endorsed bill which one or these accounts would be credited by the drawee
(a) Bill Payable Account
(b) Drawer
(c) Bank
(d) Bill Dishonored Account

(xxvi) Recording of Capital contributed by the owner as liability ensures the adherence of principle of
(a) Double Entry
(b) Going Concern
(c) Business Entity
(d) Materiality

(xxvii) Which of the following term is true above consignment?
(a) sale of goods
(b) hypothecation of goods
(c) shipment of goods
(d) mortgage of goods

(xxviii) Transaction means an event which
(a) Can be measured in terms of money
(b) Changes the financial position of a person
(c) Can be recorded in Books of Accounts
(d) All of the Above

(xxix) Which one of the following is not prepared by non-profit organizations
(a) Profit and loss account
(b) Income & Expenditure account
(c) receipts and payments account
(d) Balance sheet

(xxx) Goods costing ₹1,80,000 sent out to consignee to show a profit of 20% on the invoice price. Invoice price of the good will be ___________
(a) ₹2,25,000
(b) ₹1,80,000
(c) ₹45,000
(d) ₹2,16,000

Answer:

(i)	(b)	**(xi)**	(a)	**(xxi)**	(d)
(ii)	(b)	**(xii)**	(c)	**(xxii)**	(c)
(iii)	(c)	**(xiii)**	(d)	**(xxiii)**	(c)
(iv)	(d)	**(xiv)**	(a)	**(xxiv)**	(c)
(v)	(c)	**(xv)**	(d)	**(xxv)**	(b)
(vi)	(d)	**(xvi)**	(a)	**(xxvi)**	(c)
(vii)	(d)	**(xvii)**	(a)	**(xxvii)**	(c)
(viii)	(d)	**(xviii)**	(a)	**(xxviii)**	(d)
(ix)	(b)	**(xix)**	(a)	**(xxix)**	(a)

(x)	(a)	**(xx)**	(b)	**(xxx)**	(a)

(b) State whether the following statements are True (or) False. (Answer any twelve) [12×1=12]

(i) Overcastting of purchases journal would affect purchases account.
(ii) If a cheque is returned dishonored, it is recorded in Bank column on the credit side of cash book.
(iii) Trial balance contains the balances of only personal and real accounts.
(iv) The balance of liabilities / gains account will be shown in the debit column of trail balance.
(v) Dilapidation is specially suited to mines, oil wells, quarries, sandpits and similar assets of a wasting character.
(vi) Under Straight Line method, depreciation decrease every year.
(vii) Oral bill of exchange is also valid.
(viii) Capital is equal to Asset – Liability.
(ix) Incomplete record of accounting is also known as Single Entry System.
(x) Interest on capital of proprietor or partners is to be provided and treated as business expense.
(xi) A bank reconciliation statement is a part of Balance Sheet.
(xii) Cash Book is a Special Journal.

Answer:

(i) True;
(ii) True;
(iii) False;
(iv) False;
(v) False;
(vi) False;
(vii) True;
(viii) True;
(ix) True;
(x) True;
(xi) False;
(xii) True.

(c) Match the following: [6 × 1 = 6]

	Column 'A'		Column 'B'
1.	**Credit sale of goods**	**A.**	**Bank Statement**
2.	**Prepaid Insurance**	**B.**	**No Depreciation**
3.	**Equal installment method**	**C.**	**Representative Personal Account**
4.	**Bank pass book**	**D.**	**Non-profit concern**
5.	**Land**	**E.**	**Nominal Account**
6.	**Memorandum joint venture account is**	**F.**	**Straight Line Method**

Answer:

	Column 'A'		Column 'B'
1.	Credit Sale of goods	D.	Non-profit concern
2.	Prepaid Insurance	C.	Representative Personal Account
3.	Equal installment method	F.	Straight Line Method

4.	Bank pass book	A.	Bank Statement
5.	Land	B.	No Depreciation
6.	Memorandum joint venture account is	E.	Nominal Account

Answer any four questions out of six questions [4×8=32]

2. State with reasons whether the following are Capital Expenditure or Revenue Expenditure:

(i) A machine purchased for ₹2,00,000 and incurred ₹3,000 for its carriage and ₹2,000 for its installation.
(ii) Repainting charges paid for the factory shed ₹22,000.
(iii) Major repairs incurred on old machine ₹24,050.
(iv) Amount of ₹1,000 spent for removal of stock to the factory site.
(v) Compensation of ₹2,500 paid to a worker who got injured while working in the factory.
(vi) Amount of ₹8,000 reimbursed to the employees for their uniforms.

[2+1+2+1+1=1=8]

Answer:

Sl. No	Capital / Revenue	Explanation
(i)	Capital Expenditure	The purchase cost of machine is incurred for acquiring capital asset that is expected to provide benefits of enduring nature, while the carriage and installation expenses are incurred to put the capital asset to use which will provide benefits of enduring nature.
(ii)	Revenue Expenditure	It is incurred for proper maintenance of an existing Capital Asset.
(iii)	Capital Expenditure	It is incurred for improving the productive capacity of the existing capital asset and is expected to provide future economic benefits of enduring nature.
(iv)	Revenue Expenditure	It is incurred for carrying out the regular production activities.
(v)	Revenue Expenditure	It is paid to a regular worker and is incidental to the operations of the entity.
(vi)	Revenue Expenditure	It is incurred for the regular workforce and is incidental to the operations of the entity.

3. Spring Transport Ltd. of Ambala purchased 4 Trucks at ₹5,00,000 each on 1 April, 2016. The company writes off depreciation @ 20% p.a. on original cost and observes calendar year as its accounting year.
On 1 October, 2018 one of the trucks got involved in an accident and was completely destroyed. Insurance company paid ₹2,00,000 in full settlement of the claim. On the same day the company purchased a used truck for ₹1,80,000 and spent ₹20,000 on its overhauling. Prepare Truck Account for three years ending on 31 December, 2018. [8]

Answer:

Dr. Trucks Account Cr.

Date	Particulars	₹	Date	Particulars	₹
1.4.16	To Bank A/c [Purchase of 4 trucks: ₹5,00,000×4]	20,00,000	31.12.16	By Depreciation A/c [₹20,00,000× 20%× 9/12]	3,00,000
			31.12.08	By Balance c/d	1,700,000
		20,00,000			20,00,000

Date	Particulars	Amount	Date	Particulars	Amount
1.1.17	To Balance b/d	17,00,000	31.12.17	By Depreciation A/c [₹20,00,000×20%]	4,00,000
			31.12.17	By Balance c/d	13,00,000
		17,00,000			17,00,000
1.1.18	To Balance b/d	13,00,000	1.10.18	By Depreciation A/c [WN: 1]	75,000
1.10.18	To Bank A/c [Purchase & Overhaul: ₹1,80,000 + ₹20,000]	2,00,000	1.10.18	By Bank A/c [Insurance claim received]	2,00,000
			1.10.18	By Loss ofTruck by Accident A/c [WN: 1]	50,000
			31.12.18	By Depreciation A/c [WN: 2]	3,10,000
				By Balance c/f	8,65,000
		15,00,000			15,00,000

Working Note:

1. Loss of Truck by Accident:

Particulars	₹
Original cost on 1.4.16	5,00,000
Less: Depreciation from 1.4.16 to 1.1.18 i.e., 1 yr. 9 months [₹5,00,000 × 20% × 21/12]	1,75,000
∴ WDV on 1.1.18	3,25,000
Less: Depreciation @ 20% p.a. for 9 months [₹5,00,000 ×20% × 9/12]	75,000
∴ WDV on 1.10.18	2,50,000
Insurance Claim Received	2,00,000
∴ Loss by Accident: (₹2,50,000 - ₹2,00,000)	50,000

2. Depreciation for 2018

Depreciation on 31.12.2018 is to be calculated on trucks existing on 31.12.2018 as follows:

Particulars	₹
On 3 trucks purchased on 01.04.2016 [5,00,000 × 20% ×3]	3,00,000
On 3 trucks purchased on 01.04.2018 [2,00,000 × 20% ×3/12]	10,000
∴ Depreciation for 2018	3,10,000

4. From the following particulars prepare a Bank Reconciliation Statement to find out the causes of difference in two balances as on January 31st, 2019 for Karthik Ltd. [8]

Particulars	Amount (₹)
The bank balance as per Cash Book on 31st January, 2019	**12,000**
Bank charges are debited in the pass book only	**300**
Cheques issued but not cashed prior to 31st January, 2019	**11,68,000**
Cheques paid into bank but not cleared before 31st January, 2019	**22,17,000**
Interest on investments collected by the bank and credited in the pass book	**12,00,000**

Solution:

In the books of Karthik Ltd.
Bank Reconciliation Statement
As on January 31st, 2019

Particulars	Amount (₹)	Amount (₹)
Bank balance as per Cash Book		12,000
Add:		
• Cheques issued but not yet presented	11,68,000	
• Interest on investments collected by the bank and credited in the pass book	12,00,000	23,68,000
		23,80,000

Less: • Bank charges debited in Pass Book but not entered in Cash Book • Cheque paid into bank but not cleared	300 22,17,000	 22,17,300
Bank balance as per Pass Book		**1,62,700**

5. 31st March, 2018, the accountant of Mittal Ltd. has failed to balance his books of account. The difference has been carried to Suspense Account. Subsequently the following errors are discovered before finalization of accounts. Give Journal Entries to rectify these errors:

(i) Cash discount allowed for ₹1,200 and discount received for ₹800 have been posted to the wrong side of the discount account in the ledger.

(ii) An amount of ₹4,000 withdrawn by the proprietor for his personal use had been debited to travelling expenses account.

(iii) Return Inward Book was overcast by ₹600.

(iv) A cheque of ₹6,912 received from Mr. R after allowing him a discount of ₹92, was endorsed to Mr. P in full settlement for ₹7,000. The cheque was finally dishonoured but no entries for dishonour were passed in the books. [4×2=8]

Answer:

Books of Mittal Ltd.
Journal

Date	Particulars		Dr.(₹)	Cr.(₹)
2018 March, 31	Discount Allowed A/c To Discount Received A/c To Suspense A/c (Being, the amount of discount allowed and discount received posted to the wrong side of the concerned account, now rectified)	Dr.	1,200	 800 400
	Drawings A/c To, Travelling Expenses A/c (Being, amount withdrawn by the proprietor for the personal use wrongly debited to Travelling Expenses Account, now rectified)	Dr.	4,000	 4,000
	Suspense A/c To Return Inwards A/c (Being return Inward Book overcast ₹600, now rectified)	Dr.	600	 600
	Mr. R A/c Discount Allowed A/c To Mr. P A/c To Discount Allowed A/c (Being cheque of Mr. R endorsed to Mr. P, returned dishonoured, but no entries passed, now recorded)	Dr. Dr.	7,004 88	 7,000 92

6. On 31st March 2017 the following Trial Balance was prepared from the books of Mr. Pathak:

Particulars	Dr.(₹)	Cr.(₹)	Particulars	Dr.(₹)	Cr.(₹)
Debtors and Creditors	**30,600**	**10,000**	**Carriage Outward**	**1,000**	**—**
Bills Receivable	**5,000**	**—**	**Bad debts**	**950**	**—**
Plant and Machinery	**75,000**	**—**	**Bad debts provision**	**—**	**350**
Purchases (Adjusted)	**2,00,000**	**—**	**Office charges**	**1,500**	**—**
Capital Account	**—**	**70,000**	**Cash at Bank**	**5,300**	**—**
Freehold Premises	**50,000**	**—**	**Cash in hand**	**800**	**—**

Salaries	21,000	—	Bills Payable	—	7,000
Wages	24,400	—	General Reserve	—	20,000
Postage and Stationery	1,750	—	Sales	—	3,41,700
Carriage Inward	1,750		Closing stock	30,000	—
				4,49,050	4,49,050

The following adjustments are required:

a. **Pathak gets a salary of ₹12,000 p.a.**
b. **Allows interest on capital @ 10% p.a.**
c. **Bad debts provision is 2 ½ % on Debtors.**
d. **10% of net profit to be carried to General Reserve.**
e. **It was discovered in April 2016 that the stock as on 31st March 2016 were overcast by ₹ 1,000.**
   However no entry was passed in April 2016.
f. **Depreciate Plant and Machinery @ 10% and Freehold Premises @ 2% p.a.**

Prepare the Trading and Profit and Loss Account of the firm for the year ended 31 st March 2017 and a Balance Sheet as at the date. [5+3=8]

Answer:

Books of Mr. Pathak

Dr. Trading and Profit & Loss A/c for the year ended 31.3.17 Cr.

Particulars	₹	₹	Particulars	₹	₹
To Purchases (Adjusted) Less: Over valuation of Op. Stock	2,00,000 1,000	1,99,000	By Sales		3,41,700
To Wages		24,400			
To Carriage Inwards		1,750			
To Gross Profit c/d		1,16,550			
		3,41,700			3,41,700
To Salaries		21,000	By Gross Profit b/d		1,16,550
To Postage & Stationery		1,750	By Bad Debts Provision		350
To Carriage Outward		1,000			
To Bad Debts		950			
To Office Charges		1,500			
To Bad Debt Provision		765			
To Salary to Pathak		12,000			
To Interest on Capital [10% on 70,000]		7,000			
To Depreciation Plant and Machinery Freehold Premises	 7,500 1,000	8,500			
To Balance c/d		62,435			
		1,16,900			1,16,900
To Over-valuation of		1,000	By Balance b/d		62,435

Opening Stock To Gen. Res. [10% X (₹62,435 - ₹1,000)] To Capital A/c [Net Profit transferred]		6,144 55,291			
		62,435			62,435

Balance Sheet as at 31.3.17

Liabilities	₹	₹	Assets	₹	₹
Capital Add: Proprietor's Salary Net Profit Interest on Capital	70,000 12,000 55,291 7,000	1,44,291	Freehold Premises Less: Depreciation @ 2%	50,000 1,000	49,000
			Plant and Machinery Less: Depreciation @ 10%	75,000 7,500	67,500
General Reserve Add: Transfer from P/L A/c	20,000 6,144	26,144	Stock-in-Trade		30,000
Creditors Bills Payable		10,000 7,000	Debtors Less: Bad Debt Provision	30,600 765	29,835
			Bills Receivable		5,000
			Cash at Bank Cash in hand		5,300 800
		68,000			68,000

7. Mr. A sends 100 sets of mobile costing ₹10,000 each to Mr. B. The invoice price of each set is determined by adding 50% on cost. Compute the commission earned by Mr. B under each of the following independent cases.

(a) Consignee was entitled to an ordinary commission of 10% and del credere commission @ 5%. A customer to whom three sets were sold on credit basis, become insolvent and only 50% of the due was realised by consignee. All goods were sold at invoice price and on credit basis.

(b) Consignee was entitled to 10% commission on invoice price of each set sold plus 20% on any surplus over invoice price. However, if the goods are sold below the invoice price but covering the cost, the deficit from invoice price is to be adjusted against the commission due.
Mr. B sold 82 sets at invoice price, 5 sets at an invoice price plus 10%. However, one unit was sold at a price of ₹14,600. **[4×2=8]**

Answer:

Here,

Cost (per unit) = ₹10,000
∴ Invoice price (per unit) = Cost + 50% there off = ₹10,000 + 50% = ₹15,000

Goods sent on consignment (at invoice price) = 100 x ₹15,000 = ₹15,00,000

Commission earned by consignee:
Situation (a)

Particulars	₹
Total Sales	15,00,000
Ordinary Commission (₹15,00,000 × 10%)	1,50,000
Del credere Commission (₹15,00,000 × 5%)	75,000
	2,25,000
Less: Bad debt [3 ×₹15,000 × 50%]	22,500
∴ Commission earned by consignee	2,02,500

Situation (b)

Particulars	₹
Ordinary Commission @ 10% on invoice price [{(82 + 5 + 1) × ₹15,000} × 10%]	1,32,000
Add: Commission @ 20% *on* surplus price of 5 sets [5 × (₹15,000 × 10%) × 20%]	1,500
	1,33,500
Less: Deficit in selling price borne by consignee [₹15,000 - ₹14,600]	400
∴ Commission earned by consignee	1,33,100

Section – B

8. Choose the correct answer: [12×1=12]

(i) ___________ costs are constant for a given level of output and then increase by a fixed amount at a higher level of output.
(a)Step
(b)Discretionary
(c)Committed
(d)None of the above

(ii) ____________ costs and notional costs have the same meaning
(a) Sunk
(b) Imputed
(c) Fixed
(d) None of the above

(iii) Cost unit applicable at a Chemical industry is _____________:
(a) Cost per kg/ tone
(b) Cost per meal
(c) Cost per hour
(d) Cost per foot

(iv) Cost sheet is a _____________ designed to show the output of a particular accounting period along with break-up of costs
(a) Statement
(b) Account
(c) Both (a) and (b)
(d) None of the above

(v) Prime cost = ₹50,000. Direct labour = 70% of prime cost
Calculate the amount of Direct Material.
(a) ₹15,000
(b) ₹35,000
(c) ₹71,430
(d) ₹85,000

(vi) The method of costing applied in Canteen is ___________.
- **(a) Process costing**
- **(b) Job costing**
- **(c) Batch costing**
- **(d) Operating / Service Costing**

(vii)Factory overheads are also know as ________overheads.
- **(a) Works**
- **(b) Administration**
- **(c) Selling**
- **(d) None of the above**

(viii) Cost reduction is
- **(a) Long term phenomena**
- **(b) It challenges the standards**
- **(c) It is carried out without compromising the quality**
- **(d) All of the above**

(ix) Cost accounting is a separate _________of accounting.
- **(a) Method**
- **(b) Branch**
- **(c) Process**
- **(d) None of the above**

(x) Standard Cost means
- **(a) Actual Cost**
- **(b) What cost should be**
- **(c) Notional Cost**
- **(d) None of the above**

(xi) Which of the following items is excluded from cost Accounts?
- **(a) Income tax**
- **(b) interest on debentures**
- **(c) cash discount**
- **(d) All of these**

(xii)Which of the following is not an out of pocket cost?
- **(a) Loose Tools**
- **(b) Wages**
- **(c) Depreciation**
- **(d) None of the above**

Answer:

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

Answer any one question out of two questions [8×1=8]

9. Vishal Ltd., manufacturer of a standard article, gives you the following cost data:

Element of Cost	% of Sales
Raw Materials	**30**

Wages	**20**
Rent,Rates etc.	**5**
Fuel	**10**
General Expenses	**15**

There has been increase in costs of different elements: Fuel 50%, Materials 30%; Wages 25%, Rent 20%.
The company must consult you as to what percentage it must add to the selling price in order to obtain the same percentage of profit on sales as before. Give yours answer considering the sales as ₹1,50,000. [4+4=8]

Answer:

Former Elements of Costs

Particulars	%	Amount (₹)
Materials	30	45,000
Wages	20	30,000
Rent,Rates etc.	5	7,500
Fuel	10	15,000
General Expenses	15	22,500
Total Cost	80	1,20,000
Profit (20% of sales or 25% of costs)	20	30,000
Selling Price	**100**	**1,50,000**

Increased Cost of Production

Particulars	Amount (₹)
Materials { ₹45,000 + (30% of ₹45,000)}	58,500
Wages {₹30,000 + (25% of ₹30,000)}	37,500
Rent,Rates etc.{₹7,500 + (20% of ₹7,500)}	9,000
Fuel {₹15,000 + (50% of ₹15,000)}	22,500
General Expenses	22,500
Total Cost	1,50,000
Profit (20% of sales or 25% of costs)	37,500
Selling Price	**1,87,500**

Thus, in order to maintain the same percentage of profit, the selling price should be increased by 25% i.e. [(37,500/1,50,000)×100].

10. The managing director of a small manufacturing concern consults you as to the minimum price at which he can sell the output of one of the departments of the company. Particulars for this department for the next year if he expects to earn the same percentage of profit on cost, to be earned during the next year, as he had earned in the previous year. The following is the data for the previous year:

Particulars	₹	Particulars	₹
Production and Sales (100 units)	**39,000**	**Works Overhears**	**7,000**
Materials	**13,000**	**Office Overheads**	**2,800**
Direct Labour	**7,000**	**Selling Overheads**	**3,200**
Direct Charges	**1,000**	**Profit**	**5,000**

You ascertain that 40% of the works overheads fluctuate directly with production and 70% of the selling overheads fluctuate with sales. It is anticipated that the department

would produce 500 units per annum and that direct labour charges per unit will be reduced by 20% while fixed works overhead charges will increase by ₹3,000. Office overheads and fixed selling overheads charges *are* expected to show an increase of 25% but otherwise no changes are anticipated. [3+5=8]

Answer:

Statement of Cost (Output 100 units)

Particulars		Cost per unit ₹	Total ₹
Materials		130	13,000
Direct Labour		70	7,000
Direct Charges		10	1,000
Prime Cost		210	21,000
Add: Factory Overheads:			
Variable	(40% of ₹ 7,000)	28	2,800
Fixed	(60% of ₹ 7,000)	42	4,200
Factory Cost		280	28,000
Add: Office Overheads		28	2,800
Office Cost		308	30,800
Add: Selling Overheads :			
Variable	(70% of ₹ 3,200)	22.40	2,240
Fixed	(30% of ₹ 3,200)	9.60	960
Total Cost		340	34,000
Profit		50	5,000
Sales		**390**	**39,000**

Statement of Cost (Output 500 units)

Particulars	Cost per unit ₹	Total ₹
Material	130	65,000
Direct Labour (less 20% per unit)	56	28,000
Direct Charges	10	5,000
Prime Cost	196	98,000
Add: Factory Overheads :		
Variable	28.00	14,000
Fixed (increase by ₹3,000)	14.40	7,200
Factory Cost	238.40	1,19,200
Add: Office Overheads: (25% *increase* in total)	7.00	3,500
Cost of Production	245.40	1,22,700
Add: Selling Overheads:		
Variable	22.40	11,200
Fixed (25% increase in total)	2.40	1,200
Total Cost	270.20	1,35,100
Profit (5,000/ 34,000 x 100) (i.e., 14.7% on cost)	39.74	19,870
Sales	309.94	1,54,970