

PTP_Intermediate_Syllabus 2008_Dec2014_Set 3

Paper – 8: Cost & Management Accounting

Time Allowed: 3 Hours

Full Marks: 100

Question No 1 is Compulsory. Answers any five Questions from the rest.
Working Notes should form part of the answer.

Question:1

- (a) Match the statement in Column I with appropriate statement in Column II [1x5]

Column I	Column II
(i) Machine hour rate	(A) Process Costing
(ii) Non Integrated Accounts	(B) Reverse Cost Method
(iii) Equivalent Production	(C) Cost Ledger Accounts
(iv) By-Product Cost Accounting	(D) Absorption of Factory Overhead
(v) Control of Inventory	(E) JIT System

- (b) State whether the following statements are TRUE or FALSE: [1x5]

- (i) Future costs are not relevant in making management decisions.
- (ii) Opportunity Cost is the value of benefit sacrificed in favor of an alternative course of action.
- (iii) Cost of floppy disk used for office computer is administration overhead.
- (iv) Marginal cost includes prime cost plus variable overhead.
- (v) Costing is defined as technique and process of ascertaining costs.

- (c) Fill in the blanks: [1x5]

- (i) When P/V ratio is 20% and margin of safety ratio is 30%, profit is % of sales.
- (ii) Costing is a must for meaningful inter-firm comparison.
- (iii) Costs are the future costs affected by decision taken.
- (iv) In activity based costing, costs are accumulated by
- (v) A is the notional value at which goods and services are transferred between divisions in a decentralised organization.

- (d) In the following cases, You are required to indicate the correct answer and give workings: [2x5=10]

- (i) The standard and actual data for product 'MNP' are given as under:
Standard 40 hours @ ₹20 per hour. Actual 45 hours @ ₹22 per hour, so labour efficiency variance is
(A) ₹90 Adverse
(B) ₹100 Favourable

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- (C) ₹90 Favourable
(D) ₹100 Adverse
- (ii) If the minimum stock level and average stock level of raw material X are 6,000 and 11,000 units respectively, find out its re-order quantity.
(A) 5,000 units
(B) 6,000 units
(C) 10,000 units
(D) 11,000 units
- (iii) A truck capable of carrying 5 tonnes of goods normally carries 80% of the load on the outward journey and 40% of the load on inward journey. The journey is 300 kms for one side. It takes two days to complete the return trip. In a year of 300 days compute the tonnes-km.
(A) 2,70,000
(B) 3,00,000
(C) 3,30,000
(D) 3,50,000
- (iv) Compute the Inventory turnover ratio from the following information:
Opening Stock - ₹50,000; Closing Stock - ₹80,000; Material Consumed - ₹3,90,000
(A) 1.6 times
(B) 3 times
(C) 4.88 times
(D) 5.54 times
- (v) A company is currently operating at 80% capacity level. The production under normal capacity level is 1,50,000 units. The variable cost per unit is ₹14 and the total fixed costs are ₹8,00,000. If the company wants to earn a profit of ₹4,00,000, then the price of the product per unit should be
(A) ₹37.50
(B) ₹38.25
(C) ₹24.00
(D) ₹35.00

Question.2

- (a) A company produces a single product in three sizes X, Y and Z. Prepare a statement showing the selling and distribution expenses apportioned over these three sizes, on the bases indicated, and express the total apportioned to each size as:
- I. cost per unit sold, and
 - II. a percentage of sales turnover.

The expenses and bases of apportionment are:

Expenses	Amount (₹)	Basis of apportionment
Sales salaries	20,000	Direct charge
Sales commission	60,000	Sales turnover
Sales office expenses	20,960	Number of orders
Advertising : Specific	2,20,000	Direct charge
General	50,000	Sales turnover
Packing	30,000	Size of product
Delivery expenses	40,000	Size of product
Warehouse expenses	10,000	Size of product

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Credit Collection expenses	12,960	Number of orders
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Data relating to the three sizes are as follows:

	Total	X	Y	Z
No. of salesmen, all paid same salary	20	8	10	2
Number of orders	1,600	700	800	100
% of specific advertising	100	30	40	30
Number of units sold	8,240	3,440	3,200	1,600
Sales turnover	₹20,00,000	5,80,000	8,00,000	6,20,000
Capacity in cu ft per unit		5	8	17

[5+5]

(b) List out ten functional budgets.

[5]

Question.3

(a) The product of a manufacturing concern passes through two processes, A and B and then to finished stock. It is ascertained that in each process, normally 5% of the total weight is lost and 10% is scrap from which processes A and B realize ₹80 per tonne and ₹200 per tonne respectively. The following are the figures relating to the processes:

Particulars	Process A	Process B
Materials (tones)	1,000	70
Cost of Materials ₹/tone	125	200
Wages (₹)	28,000	10,000
Manufacturing Expenses (₹)	8,000	5,250
Output (tones)	830	780

There was no stock or WIP in any process.

Prepare the Process Cost A/c of Process B assuming no inter-process profit mark-up on transfers to Process B.

[7]

(b) Pass Journal Entries in the cost books maintained on non-integrated system, for the following:

Issue of materials	Direct ₹6,00,000; Indirect ₹1,00,000
Allocation of wages	Direct ₹2,20,000; Indirect ₹20,000
Under /Over absorbed overheads	Factory (over) ₹20,000 Administration (under) ₹10,000

[8]

Question.4

(a) The following is an extract of stores ledger of a particular item of stock with incomplete information for September 2014. You are required to fill in the rate column of issues correct to two decimal places. Also fill in the values under the 'Balance column' wherever indicated with a "?". Identify the method of stock issue followed by the company. How would you treat the value of the shortages on 30th September in Cost Accounts?

Date	Receipts		Issues		Balance	
	Quantity (Kg)	Rate (₹/Kg)	Quantity (Kg)	Rate (₹/Kg)	Quantity (Kg)	Value (₹)
September 2014						
1					50,000	1,25,000

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7	5,000	2.4				
10			30,000			62,000
15			20,000			
20	15,000	2.6				
25	10,000	2.5				
29			20,000			
30			200			?
shortage-abnormal loss						
30			400			?
shortage-abnormal loss						
31					9,400	?

[8]

- (b) Two workmen, X and Y, produce the same product using the material. X is paid bonus according to Halsey plan, while Y is paid bonus according to Rowan plan. The time allowed to manufacture the product is 100 hours. X has taken 60 hours and Y has taken 80 hours to complete the product. The normal hour rate of wages of workman X is ₹20 per hour. The total earnings of both the workers are same. Calculate the normal hour rate of wages of workman Y. [3]
- (c) What are the Pre-requisites for Installation of a Uniform Costing System? [4]

Question.5

- (a) GREEN ENVIRON LTD. has two divisions—M and N. Division-M manufactures product A-15 which it sells in outside market as well as to Division-N which processes it to manufacture Z-25. The Manager of Division-N has expressed the opinion that transfer price is too high. The two Divisional Managers are about to enter into discussions to resolve the conflict and Manager of Division-M to supply him with some information prior to discussions. Division-M has been selling 50,000 units to outsiders and 10,000 units to Division-N, all at ₹25 per unit. It is not anticipated that these demand will change. The variable cost is ₹15 per unit and the fixed costs are ₹3 lakhs. Divisional investment in assets is ₹12 lakhs. The Manager of Division-M anticipates that Division-N will want a transfer price of ₹22. If he does not sell to Division-N, ₹40,000 of fixed costs and ₹2,00,000 of assets can be avoided. The Manager of Division-M would have no control over the proceeds from the sale of the assets and is judged primarily on his rate of return.
- Required:**
- I. Should the Manager of Division-M transfer its products at ₹22 to Division-N?
 - II. What is the lowest price that the Division-M should accept? [7+2=9]
- (b) What are the steps that need to be undertaken for making reporting of variances more effective? Name some variance reporting ratios. [5+1]

Question.6

- (a) A review, made by the top management of THAKAR LTD. which makes only one product, of the result of first quarter of the year revealed the following:

Sales in units	10,000
Loss in ₹	10,000

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Fixed cost (for the year ₹1,20,000) in ₹	30,000
Variable cost per unit in ₹	8

The Finance Manager who feels perturbed suggests that the company should at least break even in the second quarter with a drive for increased sales. Towards this, the company should introduce a better packing which will increase the cost by ₹0.50 per unit.

The Sales Manager has an alternate proposal. For the second quarter additional sales promotion expenses can be increased to the extent of ₹5,000 and a profit of ₹5,000 can be aimed at for the period with increased sales.

The Production Manager feels otherwise. To improve the demand, the selling price per unit has to be reduced by 3 per cent. As a result the sales volume can be increased to attain a profit level of ₹4,000 for the quarter.

The Managing Director asks you as a Cost Accountant to evaluate these three proposals and calculate the additional Sales Volume that would be required in each case, in order to help him take a decision. [2+8=10]

- (b) State a joint product and a by-product? How are they different? [2+3]

Question.7

- (a) List out the utility of Financial Accounting. [6]

- (b) The following are the figures relating to a factory for two successive years:

	Year I (₹)	Year II (₹)
Sales	10,00,000	16,80,000
Marginal Cost of Sales	6,00,000	8,00,000
Contribution	4,00,000	8,80,000

During Year II, the selling price increased by 20% and the company implemented a cost reduction programme very aggressively. You are required to analyse the increase in contribution due to:

- I. Increase in selling price
 - II. Increase in sales volume
 - III. Reduction in cost
- [3+3+3]

- Question.8 Write short notes on (any three) of the following: [5x3=15]

- (a) 'Flexible budget'.
- (b) FSND Analysis
- (c) Incremental Pricing
- (d) Cost Indifference Point
- (e) Application of service costing