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) Differential cost analysis	(A) ABC analysis
(ii) JIT System	(B) Cost Control
(iii) Standard Costing	(C) Considers cost by behavior
(iv) Flexible budget	(D) Decision Making
(v) Pareto distribution	(E) Inventory Management

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

(i) An automobile service unit uses batch costing.
(ii) An increase in variable cost reduces contribution.
(iii) The stock turnover ratio indicates the slow moving stocks.
(iv) The marginal costing method conforms with the accounting standards.
(v) The flux rate method of labour turnover considers employees replaced.

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

(i) Under ABC System, the aggregate of closely related tasks is called …………………………

(ii) In ……………………………contract with escalation clause, the contractor can claim for increase in prices of inputs to the agreed extent.

(iii) The cost of abnormal waste should be excluded from the total cost and charged to ……………………………………

(iv) ……………………… arises when the actual process loss is less than the normal predetermined process loss.

(v) In accounting of joint products under market value method, joint costs will be apportioned to the products in the ratio of ………………………………… of the respective individual products.

(d) In the following cases, one out of four answers is correct. You are required to indicate the correct answer (= 1 mark) and give workings (=1 mark): **[2x5=10]**

(i) 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) ₹ 36.00

(ii) Budgeted sales for the next year is 5,00,000 units. Desired ending finished goods inventory is 1,50,000 units and equivalent units in ending W-I-P inventory is 60,000 units. The opening finished goods inventory for the next year is 80,000 units, with 50,000 equivalent units in beginning W-I-P inventory. How many equivalent units should be produced
(A) 5,80,000
(B) 5,50,000
(C) 5,00,000
(D) 5,75,000

(iii) Normal rate per hour for worker A in a factory is ₹ 5.40. Standard time per unit for the worker is one unit. Normal piece rate per unit for the worker is
(A) ₹ 0.90
(B) ₹ 0.09
(C) ₹ 0.11
(D) None of the above

(iv) In a manufacturing company, the production passes through four processes – A, B, C & D sequentially and the output of each process is the input of the subsequent process. The following is the loss of the four processes :

A	-	12%
B	-	14%
C	-	16%
D	-	15%

The output in process D is 6,754.44 kg., the input of process A is
(A) 12,500 kgs.
(B) 11,400 kgs.
(C) 10,475 kgs.
(D) 12,800 kgs.

(v) A Company maintains a margin of safety of 25% on its current sales and earns a profit of ₹30 lakhs per annum. If the Company has a p/v ratio of 40%, its current sales amount to
(A) ₹200 lakhs
(B) ₹300 lakhs
(C) ₹325 lakhs
(D) None of the above

Question.2

(a) State the advantages of integrated accounting. [5]

(b) The finishing shop of a company employs 50 direct workers Each worker is paid ₹ 300 as wages per week of 40 hours When necessary, overtime is worked up to a maximum of 15 hours per week per worker at time rate plus one-half as premium. The current output on an average is 6 units per man hour which may be regarded as standard output. If bonus scheme is introduced, it is expected that the output will increase to 8 units per man hour.
The company is considering introduction of either Halsey Scheme or Rowan Scheme of Wage Incentive system. The budgeted weekly output is 15,000 units. The selling

price is ₹ 8 per unit and the direct Material Cost is ₹ 5 per unit. The variable overheads amount to ₹ 0.40 per direct labour hour and the fixed overhead is ₹ 6,000 per week.
Prepare a Statement to show the effect on the Company's weekly Profit of the proposal to introduce (a) Halsey Scheme, and (b) Rowan Scheme [5+5=10]

Question.3

(a) What do you understand by Batch Costing? In which industries it is applied? [2+3]

(b) A company runs a hotel. For this purpose, it has hired a building at a rent of ₹ 12,000 per month along with 5% of total taking. It has three types of suites for its customers, viz., Normal, Executive and Luxury.
Following information is given:

Type of suite	Number	Occupancy percentage
Normal	90	100%
Executive	60	80%
Luxury	25	60%

The rent of Executive suite is to be fixed at twice of the Normal suite and that of Luxury suite as 2.5 times of the Executive suite.
The other expenses for the year 2014 are as follows:

	₹
Staff salaries	11,40,000
Room attendants' wages	3,60,000
Lighting, heating and power	1,72,000
Repairs and renovation	98,800
Laundry charges	64,400
Interior decoration	59,200
Sundries	1,22,400

Provide profit @ 25% on total taking and assume 365 days in a year.
You are required to calculate the rent to be charged for each type of suite. [4+3+3]

Question.4

(a) Distinguish between Contribution and Profit. [4]

(b) Sharma Ltd. has to spent ₹ 75,000 on a research project and it expects that when completed in a further year the results of that research can be sold for ₹ 1,00,000. In trying to decide whether to proceed, the business identifies the additional expenses necessary to complete the research:

Materials: ₹ 30,000. This materials (Already in store and paid for is very toxic and will have to be disposed of in sealed containers at a cost of ₹ 2,500).

Labour: ₹ 20,000. The research project uses highly skilled labour taken from the production department of the company. If they were working on normal production, the company could earn ₹25,000 additional contribution to profit in the next year after paying the skilled labour.

Research staff: ₹ 30,000. The research unit will close down after the project has been completed and voluntary retirement pay has already been agreed at ₹ 12,500.

General overheads: ₹ 20,000. The research unit is apportioned a share of the total fixed costs of the business.

The Management Accountant of the Company has presented the following analysis recommended against continuation, since the analysis that the company would lose ₹ 25,000 more by continuing the project that by abandoning now.

The Managing Director seeks your opinion as the group Management Accountant about the analysis presented by the Management Accountant.

	Abandon now		Complete the project
Sales	-		₹ 1,00,000
Costs to date	₹75,000	₹ 75,000	
Additional costs :			
Material		30,000	
Labour		20,000	
Research staff		30,000	
Overheads		20,000	
Loss in contribution		25,000	2,00,000
Net loss	75,000		1,00,000

[11]

Question.5

(a) In a factory three products P, Q and R are produced from a single process. Each product can be sold at the end of each process or can be further processed independently to produce separate products, which are marketed under different names X, Y, Z respectively.

Details for a period are given below:

Product	Initial Output (Units)	Sales Price (₹)	Further processing cost (₹)	Rejection rate
P	5,000	24 per unit	14 per unit	-
Q	8,000	10 per unit	6 per unit	-
R	10,000	30 per unit	16 per unit	-
X		44 per unit	-	5%
Y		18 per unit	-	10%
Z		48 per unit	-	8%

Initial total process cost 4 lakhs.
Further processing costs are incurred at the commencement of the second stage of operations.
You are required to
Calculate the apportionment of total cost of products P, Q and R using sales value and state whether further process should be undertaken for each product or not.

[2+3=5]

(b) List the essential of Inter Firm Comparison. [6]

(c) Fixed Costs are irrelevant in decision making. List out the exceptions. [4]

Question.6

(a) The cost sheet of a company based on a budget volume of sales of 4,00,000 units per quarter is as under : (₹ Per unit)

Direct materials	6.00
Direct wages	3.00
Factory overheads (50% fixed)	8.00
S/ Adm. Overheads (1/3 variable)	4.50
Selling price	24.00

When the budget was discussed it was felt that the company would be able to achieve only a volume of 3,00,000 units of production and sales per quarter. The company therefore decided that an aggressive sales promotion campaign should be launched to achieve the following improved operations:

Proposal I:
- Sell 5,00,000 units per quarter by spending ₹ 2,50,000 on advertising.
- The factory fixed costs will increase by ₹ 4,00,000 per quarter.

Proposal II :
Sell 6,00,000 units per quarter subject to the following conditions :
- An overall price reduction of ₹ 2 per unit are allowed on all sales.
- Variable selling and administration costs will increase by 6%.
- Direct material costs will be reduced by 1.5% due to purchase price discounts.
- The fixed factory costs will increase by ₹ 2,50,000 more.

You are required to prepare a Flexible Budget at 3,00,000, 5,00,000 and 6,00,000 units of output per quarter and calculate the profit at each of the above levels of output. [10]

(b) Write short note on 'Cost centre' and 'Cost unit'. [5]

Question.7

(a) Goulash Ltd. Showed a net loss of ₹ 6,30,000 as per the Financial Accounts for the year ended 31st March, 2015. The Cost Accounts however disclosed of ₹ 5,00,000 loss for the same period. On Security of two accounts the following are available:

	₹
Factory overheads under-recovered	70,000
Administration overheads over-recovered	30,000
Depreciation charged to financial accounts	1,50,000
Depreciation charged in cost accounts	1,20,000
Interest on investment not included in cost accounts	30,000
Income tax provided in financial accounts	1,00,000
Stores adjustments (credit in financial accounts)	10,000

You are required to prepare Memorandum Reconciliation Account for the year ended 31st March, 2015. [4]

(b) From the following details, prepare Store Ledger under Simple Average Method of pricing the issues.
January 2015
1st: Received 500 units @₹20 per unit
10th: Received 300 units @₹24 per unit

15th: Issued 700 units
20th: Received 400 units @₹28 per unit
25th: Issue 300 units
27th: Received 500 units @₹22 per unit
31st: Issued 300 units. [4]

(c) Distinguish between Cost Accounting and Financial Accounting. [7]

Question.8 Write Short notes on: any three [3x5=15]

(a) Cost Volume Profit Analysis
(b) Departmental overhead rate
(c) Opportunity cost
(d) Budget Manual
(e) Role of costs in pricing