

INTERMEDIATE EXAMINATION

December 2019

P-3(CAU)
Syllabus 2016

Cost Accounting

Time Allowed: 3 Hours

Full Marks: 100

The figures in the margin on the right side indicate full marks.

All sections are compulsory. Each section contains instructions regarding the number of questions to be answered within the section.

All working notes must form part of the answer.

Wherever necessary, candidates may make appropriate assumptions and clearly state them.

No present value factor table or other statistical table will be provided in addition to this question paper.

Section-A

Section-A contains Question Number 1. All parts of this question are compulsory.

1. Answer the following questions:

(a) **Choose the correct answer from the given alternatives (You may write only the Roman numeral and the alphabet chosen for your answer):** 1×10=10

(i) Costs which are ascertained after they have been incurred are known as

- (A) Sunk Costs
- (B) Imputed Costs
- (C) Historical Costs
- (D) Opportunity Costs

(ii) Prime cost plus variable overheads is known as

- (A) Factory Cost
- (B) Marginal Cost
- (C) Cost of Production
- (D) Total Cost

(iii) In which of the following methods, issue of materials are priced at pre-determined rate?

- (A) Specific price method
- (B) Standard price method
- (C) Inflated price method
- (D) Replacement price method

(iv) For reducing the labour cost per unit, which of the following factors is the most important?

- (A) Low wage rates
- (B) Longer hours of work
- (C) Higher input-output ratio
- (D) Strict control and supervision

(v) Maximum possible productive capacity of a plant when no operating time is lost is its

- (A) Normal capacity
- (B) Practical capacity
- (C) Theoretical capacity
- (D) Capacity based on sales expectancy

(vi) In job costing, which of the following documents is used to record the issue of direct materials to a job?

- (A) Goods Receipt Note
- (B) Purchase Order
- (C) Purchase Requisition Note
- (D) Material Requisition Note

- (vii) The main purpose of accounting of joint products and by-products is to
- (A) determine the profit/loss on each product line.
 - (B) determine the selling price.
 - (C) comply with the statutory requirements.
 - (D) identify the cost and load it on the main product.
- (viii) During a period 2560 labour hours were worked at a standard rate of ₹ 7.50 per hour. The direct labour efficiency variance was ₹ 825 (A). How many standard hours were produced?
- (A) 2400
 - (B) 2450
 - (C) 2500
 - (D) 2550
- (ix) PQR Ltd. manufactures a single product which it sells for ₹ 40 per unit. Fixed cost is ₹ 60,000 per year. The contribution to sales ratio is 40%. PQR Ltd.'s Break Even Point in units is
- (A) 3500
 - (B) 3700
 - (C) 3750
 - (D) 4000
- (x) The fixed-variable cost classification has a special significance in the preparation of
- (A) Cash budget
 - (B) Master budget
 - (C) Flexible budget
 - (D) Capital budget
- Please Turn Over

(b) Match the statement in Column I with the most appropriate statement in Column II (You may opt to write only the Roman numeral and the matched alphabet instead of copying contents into the answer books): 1×5=5

	Column I		Column II
(i)	Notional cost	(A)	Replacement method
(ii)	Labour turnover	(B)	Cost of utilities
(iii)	CAS-10	(C)	Production strategy
(iv)	Contract costing	(D)	Direct expenses
(v)	JIT	(E)	Costing department
		(F)	Imputed cost
		(G)	Escalation clause
		(H)	Decision package

(c) State whether the following are 'True' or 'False' (You may write only the Roman numeral and whether 'True' or 'False' without copying the statements into the answer books): 1×5=5

- (i) Profit is the result of two varying factors sales and variable cost.
- (ii) Bin card is a record of both quantities and value.
- (iii) Overtime premium is directly assigned to cost object.
- (iv) In Reconciliation statements, expenses shown only in financial accounts are added to financial profit.
- (v) P/V ratio remains constant at all levels of activity.

(d) Fill in the blanks (You may write only the Roman numeral and the content filling the blanks): 1×5=5

- (i) _____ costs are historical costs which are incurred in the past.
- (ii) In Absorption costing, _____ cost is added to inventory.
- (iii) CAS-2 deals with Cost Accounting Standard on _____ determination.
- (iv) _____ is the summary of all functional budgets.
- (v) Standard costing is one of the _____ techniques.

Section-B

Answer any five questions from question numbers 2 to 8.

Each question carries 15 marks.

15×5=75

2. (a) ZION LTD uses three types of materials A, B and C for production of Product-P for which the following data apply:

Raw Material	Usage per unit of Product (kgs)	Re-order quantity (kgs)	Price per kg (₹)	Delivery period (in weeks)			Re-order level (kgs)	Minimum level (kgs)
				Minimum	Average	Maximum		
A	10	10000	0.10	1	2	3	8000	?
B	4	5000	0.30	3	4	5	4750	1550
C	6	10000	0.15	2	3	4	?	2000

Weekly production varies from 175 to 225 units, averaging 200 units of the said product.

What would be the following quantities?

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- (i) Minimum stock of A,
 - (ii) Maximum stock of B,
 - (iii) Re-order level of C,
 - (iv) Average stock level of A.
- (b) In a manufacturing unit of EXOTICA LTD overhead was recovered at a pre-determined rate of ₹ 30 per man-day. The total factory overhead incurred and the man-days actually worked were ₹ 5,20,000 and 12,500 respectively.
- Out of the 40000 units produced during a period, 30000 units were sold. There were also 30000 uncompleted units which may be reckoned at 60% complete.
- On analysing the reasons, it was found that 50% of the unabsorbed overheads were due to defective planning and the rest were attributable to increased overhead costs.
- How would unabsorbed overhead be treated in Cost Accounts?

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3. (a) What are the objectives and scope of Cost Accounting Standard (CAS-4) (Revised 2018) on "Cost of Production/Acquisition/Supply of Goods/Provision of Services"? 6
- (b) Pass the Journal entries for the following transactions in a double entry cost accounting system: 9

Particulars	Amount (₹)
(i) Issue of material:	
Direct	6,50,000
Indirect	2,50,000
(ii) Allocation of wages and salaries:	
Direct	2,60,000
Indirect	40,000
(iii) Overheads absorbed in jobs:	
Factory	1,50,000
Administration	30,000
Selling	50,000
(iv) Under/over absorbed overheads:	
Factory (over)	25,000
Administration (under)	12,500

(Narration is not required)

4. (a) SARATHI & CO is manufacturing building bricks and fire bricks. Both the products require two processes: Brick forming and Heat treatment. The requirements for the two bricks are:

	Building Bricks	Fire Bricks
Forming per 100 bricks	6 hours	4 hours
Heat treatment per 100 bricks	4 hours	10 hours

Total costs of the two departments in one month were:

Forming	₹ 42,400
Heat treatment	₹ 97,600

Production during the month was:

Building Bricks	130000 numbers
Fire Bricks	70000 numbers

Required:

Prepare statement of manufacturing cost for the two varieties of bricks. 7

- (b) REACON LTD is engaged in process Engineering Industry. During a month 4000 units of input were introduced in Process B at a cost of ₹ 20,000. The normal loss was estimated at 10% of input. The process costs were direct materials ₹ 10,425, direct wages ₹ 20,400 and factory overhead 50% of direct wages. At the end of the month 3200 units were produced and transferred to Process C, 500 units were scrapped and realised @ ₹ 5 per unit. Scrapped units were 50% processed. 300 units were incomplete and the stage of completion was material 75%, wages and overhead 50%.

Required:

- (i) Find out equivalent production, cost per completed unit, value of work-in-progress and
- (ii) Prepare Process B account. 8

5. (a) HOTEL IREVNA INN, has a capacity of 200 single rooms and 40 double rooms. The average occupancy of both single and double rooms is expected to be 80% throughout the year of 365 days. The rent for double room has been fixed at 125% of the rent of a single room. The costs are as under:

Variable Costs :	Single Rooms	₹ 110 each per day
	Double Rooms	₹ 175 each per day
Fixed Costs:	Single Rooms	₹ 60 each per day
	Double Rooms	₹ 125 each per day

Required:

Calculate the rent chargeable for each single room and double room per day in such a way that the hotel earns a margin of safety of 20% on rent of rooms. 7

Please Turn Over

- (b) OMEGA LTD undertook a contract for the construction of a building at a contract price of ₹ 45,00,000. During the first year, the following amounts were spent against which a sum of ₹ 16,87,500 (representing 90% of the work certified) was received by the contractor:

	(₹)
Materials used	7,87,500
Wages paid to the workers	4,50,000
Overhead expenses	1,12,500

During the second year, the contractor spent the following amounts:

	(₹)
Materials used	11,25,000
Wages paid to the workers	9,00,000
Overhead expenses	2,25,000

In the second year, the contract was completed and a sum of ₹ 26,25,000 was received by the contractor.

You are required to prepare the Contract Account and the Contractee Account for both the years and determine the profits. 8

- (a) PANCHAL LTD, a toy manufacturer earns an average net profit of ₹ 1.80 per piece on a selling price of ₹ 16.50 by producing and selling 12000 pieces or 60% of the capacity. His cost of sales per toy is as under:

	Amount (₹)
Direct material	4.25
Direct wages	1.60
Works Overheads (40% fixed)	7.15
Sales Overheads (30% fixed)	0.90

During the current year, he intends to produce the same number of toys but anticipates that fixed cost will go up by 10%. Direct wages and material will increase by 6% and 4% respectively but he has no option of increasing the selling price. Under this situation, he obtains an offer for further sale of 20% of the capacity.

Required:

What minimum price you will recommend for acceptance of the offer to ensure the manufacturer an overall profit of ₹ 30,100? 8

(Show your calculations upto 3 decimal points.)

- (b) The following data pertaining to sales and profit are extracted from the records of READYAAH LTD. for two years:

	Sales	Profit
Year 2017	₹ 12,00,000	₹ 80,000
Year 2018	₹ 14,00,000	₹ 1,30,000

Required:

Calculate the following:

- (i) P/V Ratio
- (ii) Break Even Point
- (iii) Profit when sales are ₹ 18,00,000
- (iv) Sales required to earn a profit of ₹ 1,20,000
- (v) Margin of safety in the year 2018.

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7. (a) SUNRISE LTD, a manufacturing Company using Standard costing furnishes the following information:

The standard mix to produce one unit of product A is as under:

Material P 2 kg @ ₹ 20 per kg

Material Q 3 kg @ ₹ 25 per kg

Material R 4 kg @ ₹ 15 per kg

During the month of March 2019, 20 units of product A were actually produced and consumption of material was as under:

Material P 35 kg @ ₹ 22 per kg

Material Q 60 kg @ ₹ 24 per kg

Material R 90 kg @ ₹ 16 per kg

Please Turn Over

Required:

Calculate the following Material Variances:

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- (i) Material Cost Variance
- (ii) Material Price Variance
- (iii) Material Quantity Variance
- (iv) Material Mix Variance
- (v) Material Yield Variance

(Calculate upto 2 decimal points.)

(b) The monthly (September 2019) budgets for Production overhead Costs of TANISHA LTD for two levels of Activity were as follows:

Particulars	Capacity Level	
	60%	100%
Budgeted Production (Units)	15000	25000
	₹	₹
Wages	60,000	1,00,000
Consumable Stores	45,000	75,000
Maintenance	55,000	75,000
Power and Fuel	80,000	1,00,000
Depreciation	2,00,000	2,00,000
Insurance	50,000	50,000
	4,90,000	6,00,000

Required:

- (i) Prepare Production overhead Costs Budget of 80% and 90% Capacity level for September, 2019 and
- (ii) Compute the total Cost, both fixed and variable overheads per unit of output at 80% and 90% Capacity level.

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8. Answer *any three* out of the following four questions:

5×3=15

- (a) Explain the concept of Opportunity Cost and Imputed Cost with suitable examples.
 - (b) State the limitations of Cost Accounting System.
 - (c) Describe the main objectives of Material Control System.
 - (d) Write a brief note on Principal Budget Factor.
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