



INTERMEDIATE EXAMINATION
MODEL QUESTION PAPER
PAPER – 8
COST ACCOUNTING

SET - 2
TERM – JUNE 2025
SYLLABUS 2022

Time Allowed: 3 Hours

Full Marks: 100

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

SECTION – A (Compulsory)

1. Choose the correct option:

[15 x 2 = 30]

- (i) In the context of cost elements, which category includes the cost of raw materials, direct labour, and direct expenses?
 - a. Prime Cost
 - b. Conversion Cost
 - c. Overhead Cost
 - d. Indirect Cost
- (ii) Absorption costing is also referred as _____.
 - a. Historical costing
 - b. Traditional costing
 - c. Full costing
 - d. All of the above terms
- (iii) Danger Level = _____ × Maximum Re-Order Period for emergency purchases
 - a. Normal Rate of Consumption
 - b. Maximum Rate of Consumption
 - c. Minimum Rate of Consumption
 - d. Consumption during Lead Time
- (iv) If the gross profit is ₹ 40,000, selling expenses are ₹ 10,000, and administrative expenses are ₹ 5,000, what is the net profit?
 - a. ₹ 40,000
 - b. ₹ 35,000
 - c. ₹ 25,000
 - d. ₹ 15,000
- (v) Opening Stock ₹ 10,000, Closing Stock ₹ 16,000 and Material Consumed ₹ 78,000. What will be the inventory turnover ratio?
 - a. 8 Times
 - b. 5Times
 - c. 3 Times
 - d. 6 Times
- (vi) Which method of absorption of factory overheads do you suggest in a concern which produces only one uniform type of product?
 - a. Percentage of direct wages basis
 - b. Direct labour rate
 - c. Machine hour rate
 - d. A rate per units of output



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- (vii) Normal capacity of a plant refers to the difference between:
- Maximum capacity and practical capacity
 - Maximum capacity and actual capacity
 - Practical capacity and estimated idle capacity as revealed by long term sales trend
 - Practical capacity and normal capacity
- (viii) CAS 20 specifically deals with:
- Joint Costs
 - Royalty and Technical Know How Fee
 - Quality Control
 - Manufacturing Cost
- (ix) _____ nominee required from the regulate like CAG, RBI to the CASB Board.
- 4
 - 3
 - 2
 - 6
- (x) In Reconciliation Statements, expenses shown only in financial accounts are:
- Added to financial profit
 - Deducted from financial profit
 - Ignored
 - Added to costing profit
- (xi) A company calculates the prices of jobs by adding overheads to the prime cost and adding 30% to total costs as a profit margin. Job number Y256 was sold for ₹1,690 and incurred overheads of ₹ 694. What was the prime cost of the job?
- ₹ 489
 - ₹ 606
 - ₹ 996
 - ₹ 1,300
- (xii) The Absolute Tonne-Km is an example of:
- Composite unit for bus operation
 - Composite unit of transport sector
 - Composite unit for oil and natural gas
 - Composite unit in power sector
- (xiii) The technique of differential cost is adopted when:
- To ascertain P/V ratio
 - To ascertain marginal cost
 - To ascertain cost per unit
 - To make choice between two or more alternative courses of action

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- (xiv) Standard price of material per kg ₹ 20, standards consumption per unit of production is 5 kg. Standard material cost for producing 100 units is:
- ₹ 20,000
 - ₹ 12,000
 - ₹ 8,000
 - ₹ 10,000
- (xv) The operations to produce a unit of product L require 9 active hours. Budgeted idle time of 10% of total hours paid for is to be incorporated into the standard times for all products. The wage rate is ₹ 4 per hour. The standard labour cost of one unit of product L is:
- ₹10
 - ₹36
 - 39.6
 - 40

SECTION - B

(Answer any five questions out of seven questions given. Each question carries 14 Marks) [5x14=70]

2. (a) The following financial parameters of ZONB Ltd. are available for the month of September 2024.
- Direct Labour Cost: ₹ 1,20,000 (120% of Factory overheads)
- Raw Materials Purchased: ₹ 1,65,000
- Sales: ₹ 5,00,000
- Cost of Sales : ₹ 4,00,000
- Accounts shows the following figures:

	1st September 2024 (₹)	30th September 2024 (₹)
Inventory:		
Raw material	20,000	35,000
Work-in-progress	20,000	30,000
Finished goods	50,000	60,000
Other details:		
Selling expenses		22,000
General & Admin expenses		18,000

General & Admin expenses are not relating to the production activity.

Illustrate a Cost Sheet for the month of September 2024 showing:

- Prime cost
- Work cost
- Cost of goods sold
- Cost of sales and profit earned

[7]

**INTERMEDIATE EXAMINATION****SET - 2****MODEL QUESTION PAPER****TERM – JUNE 2025****PAPER – 8****SYLLABUS 2022****COST ACCOUNTING**

- (b) ZINTES LTD. a manufacturing company has its factories at two locations. Rowan plan is in use at location A and Halsey plan at location B. Standard time and basic rate of wages are same for a job which is similar and is carried out on similar machinery. Time allowed is 60 hours.
- Job at location A is completed in 36 hours while at B, it has taken 48 hours. Conversion costs at respective places are ₹1224 and ₹1500. Overheads amount to ₹20 per hour.

- (i) Calculate the normal wage rate, and
(ii) Compare conversion costs.

[7]

3. (a) In a machine department of a factory there are five identical machines.

Space of the department	10,000 Sq. mts.
Space occupied by the machine	2,000 Sq. mts.
Cost of the machine	₹ 20,000
Scrap value of the machine	₹ 300
Estimated life of the machine	13 years
Depreciation charged at	7 1/2% p.a.
Normal running of the machine	2,000 hours
Power consumed by the machine as shown by the meter	₹ 3,000 p.a.

Estimated repairs and maintenance throughout the working life of the machine ₹5,200. Sundry supplies including oil, waste etc. charged direct to the machine amount to ₹ 600 p.a.

Other expenses of the department are:

	Amount (₹)
Rent and Rates	9,000
Lighting (to be apportioned according to workers employed)	400
Supervision	1,250
Other charges	5,000

It is ascertained that the degree of supervision required by the machine is 2/5th and 3/5th being devoted to other machines.

There are 16 workers in the department of whom 4 attended to the machine and the remaining to the other machines.

Prepare the machine hour rate for one of the machines.

[7]

- (b) The net profit of X Ltd., appeared at ₹ 41,800 as per financial records for the year ending 31st March, 2024. A scrutiny of the figures from both the sets of accounts revealed the following facts:

₹

Works overhead under-recovered in costs		1,500
Administrative overheads over-recovered in costs		850
Depreciation charged in financial accounts		5,600
Depreciation recovered in costs		6,250
Interest on investments not included in costs	3,000	
Loss due to obsolescence charged in financial accounts		2,850

**INTERMEDIATE EXAMINATION****SET - 2****MODEL QUESTION PAPER****TERM – JUNE 2025****PAPER – 8****SYLLABUS 2022****COST ACCOUNTING**

Income tax reserve made in financial accounts	20,150	
Bank interest and transfer fee credited in financial books		370
Stores adjustment (credit) in financial books		230
Value of opening stock in : Cost accounts	24,800	
: Financial accounts		26,300
Value of closing stock in : Cost accounts	25,000	
: Financial accounts		23,000
Interest charged in cost accounts		2,000
Imputed rent charged in cost accounts		1,000
Goodwill written off		5,000
Loss on sale of furniture		600
Selling and distribution expenses not charged in cost accounts		10,000
Donations to Prime Minister's Relief Fund		5,100
Transfer to Debenture Redemption Fund		9,000
Transfer to Dividend Equalisation Fund		20,500

Prepare a statement showing the reconciliation statement and find out the profit as per cost Accounts. [7]

4. (a) JANATA TRANSPORT LTD. a Transport Company is running 4 buses between two towns which are 50 kms. away. Seating capacity of each bus is 40 passengers. The following information is obtained from its books for November, 2024:

Particulars	₹
Wages of drivers, conductors and cleaners	24,000
Salaries of office and supervisory staff	10,000
Diesel, oil and other lubricants	40,000
Repairs and maintenance	8,000
Taxes, insurance etc.	16,000
Depreciation of buses	26,000
Interest and other charges	20,000

Actual passengers carried were 75% of the seating capacity. All the 4 buses ran on all the days of the month. Each bus made one to and fro round trip per day.

Prepare the Operating Cost Statement and determine the cost per passenger km. for each bus. [7]

- (b) A contractor, who prepares his accounts on 31st March each year, commenced a Contract No. 220 on 1st July, 2023. The following information is revealed from his costing records on 31st March, 2024:

Particulars	(₹)
Materials sent to site	2,51,000
Labour	5,65,600
Foreman's salary	81,300

A machine costing ₹2,60,000 remained in use on site for 146 days. Its working life is estimated at 7 years and final scrap value at ₹ 15,000. A supervisor is paid ₹ 8,000 per month and has devoted one half of his time on the contract. All other expenses amount to ₹ 1,36,500. Materials at site on 31st March, 2024

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cost ₹ 35,400. The contract price is ₹ 20,00,000. On 31st March, 2024 two-third of the contract was completed, however, the architect gave certificate only for 50% of the contract price and ₹ 7,50,000 had so far been paid on account.

Prepare Contract Account and state how much profit or loss should be included on 31st March, 2024 in financial accounts. [7]

5. (a) 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 realized @ ₹ 5 per unit. Scrapped units were 50% processed. 300 units were incomplete and the stage of completion was material 75%, wages and overhead 50%.

(i) Calculate the equivalent production, cost per completed unit, value of work- in-progress and

(ii) Prepare Process B account. [7]

- (b) A glass manufacturing company requires you to calculate and Prepare the Master Budget for the year 2023-24 from the following information:

Annual Sales : Toughened glasses A	₹ 30,00,000
Toughened glasses B	₹ 50,00,000
Direct material cost	60% of sales
Direct wages	20 workers @ ₹ 1,500 p.m.
Factory overheads & indirect labour: Works manager	₹ 5,000 p.m.
Foreman	₹ 4,000 p.m.
Stores and spares	2.50% of sales
Depreciation on machinery	₹ 1,26,000
Light and power	₹ 50,000
Repairs and maintenance	₹ 80,000
Other sundries	10% of direct wages
Administration, selling & distribution expenses	₹ 1,40,000 p.a.

(Present the fixed and variable overheads separately showing item wise breakup)

[7]

6. The standard labour component and the actual labour component engaged in a week for a job are as under:

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

[14]

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7. (a) Two businesses AB Ltd and CD Ltd sell the same type of product in the same market. Their budgeted profits and loss accounts for the year ending 30th June, 2024 are as follows:

Amount (₹)

	AB Ltd		CD Ltd	
Sales		1,50,000		1,50,000
Less: Variable costs	1,20,000		1,00,000	
Fixed Cost	15,000	1,35,000	35,000	1,35,000
Profit		15,000		15,000

Calculate the BEP of each business and Compare which business is likely to earn greater profits in the following conditions:

(i) Heavy demand for the product

(ii) Low demand for the product

[7]

- (b) Describe classification of costs determined under CAS-1.

[7]

8. (a) Explain the concept of Opportunity Cost and Imputed Cost with suitable examples.

[4]

- (b) Discuss the requisites of Material Control System.

[5]

- (c) Describe how overtime is treated in cost records as per CAS-7.

[5]



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- ₹10
 - ₹36
 - 39.6
 - 40

Answer:

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

SECTION - B

(Answer any five questions out of seven questions given. Each question carries 14 Marks) [5x14=70]

2. (a) The following financial parameters of ZONB Ltd. are available for the month of September 2024.
Direct Labour Cost: ₹ 1,20,000 (120% of Factory overheads)
Raw Materials Purchased: ₹ 1,65,000
Sales: ₹ 5,00,000
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	1st September 2024 (₹)	30th September 2024 (₹)
Inventory:		
Raw material	20,000	35,000
Work-in-progress	20,000	30,000
Finished goods	50,000	60,000
Other details:		
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General & Admin expenses		18,000

General & Admin expenses are not relating to the production activity.

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Illustrate a Cost Sheet for the month of September 2024 showing:

- (i) Prime cost
- (ii) Work cost
- (iii) Cost of goods sold
- (iv) Cost of sales and profit earned [7]

- (b) **ZINTES LTD.** a manufacturing company has its factories at two locations. Rowan plan is in use at location A and Halsey plan at location B. Standard time and basic rate of wages are same for a job which is similar and is carried out on similar machinery. Time allowed is 60 hours. Job at location A is completed in 36 hours while at B, it has taken 48 hours. Conversion costs at respective places are ₹1224 and ₹1500. Overheads amount to ₹20 per hour.

- (i) Calculate the normal wage rate, and
- (ii) Compare conversion costs. [7]

Answer:

(a)

Cost Sheet for the month of September 2024:

Particulars	(₹)
Opening Stock of Raw Material	20,000
Add : Purchases	1,65,000
Less : Closing Stock of Raw Material	(35,000)
Raw Material Consumed	1,50,000
Add : Direct Labour Cost	1,20,000
Prime Cost	2,70,000
Add : Factory Overheads	1,00,000
Gross Work Cost	3,70,000
Add : Opening Work – in – progress	20,000
Less : Closing Work – in – progress	(30,000)
Works Cost	3,60,000
Cost of Production	3,60,000
Add : Opening Stock of finished goods	50,000
Less : Closing Stock of finished goods	(60,000)
Cost of Goods sold	3,50,000
Add : General and administration expenses	18,000
Add : Selling Expenses	22,000
Cost of Sales	3,90,000
Profit	1,10,000
Sales	5,00,000

**INTERMEDIATE EXAMINATION****SET - 2****MODEL ANSWERS****TERM – JUNE 2025****PAPER – 8****SYLLABUS 2022****COST ACCOUNTING****Alternative:**

Cost of Goods sold	3,50,000
Add : General and administration expenses	18,000
Add : Selling Expenses	22,000
Add : Distribution overhead	10,000
Cost of Sales	4,00,000
Profit	1,00,000
Sales	5,00,000

- (b) (i) Let ₹ X per hour be the normal wage rate. Wage rate at location A will be ₹ 36x and at location B - it will be ₹ 48x, on the basis of actual time taken, as against 60 hours permitted. For time saved, bonus will be payable as under:

Location A:

$$\begin{aligned}\text{Bonus under Rowan system} &= \text{Time saved/Time allowed} \times \text{Hrs. worked} \times \text{Rate per hour} \\ &= 24/60 \times ₹ 36 \times \\ &= ₹ 14.4x\end{aligned}$$

$$\begin{aligned}\text{Total wages} &= ₹ 36x + ₹ 14.4x \\ &= 50.4x\end{aligned}$$

$$\begin{aligned}\text{Overheads @ ₹ 20 per hour worked} &= 36 \text{ hrs.} \times ₹ 20 \\ &= ₹ 720\end{aligned}$$

$$\text{Therefore, total conversion cost is } (50.4x + ₹ 720) = ₹ 1,224 \text{ or } 50.4x = ₹ 504$$

$$\text{Or } x = ₹ 504/50.4 = ₹ 10$$

$$\text{So, Bonus} = 14.4x = 14.4 \times ₹ 10 = ₹ 144$$

Location B:

$$\text{Bonus under Halsey plan} = 50\% \text{ of time saved} \times \text{rate per hour} = 50\% \text{ of } ₹ 12x = ₹ 6x$$

$$\text{Total wages} = ₹ 48x + ₹ 6x = ₹ 54x$$

$$\text{Overheads @ ₹ 20 per hour} = 48 \text{ hrs.} \times ₹ 20 = ₹ 960$$

$$\text{Total conversion cost is } (54x + ₹ 960) = ₹ 1,500 \text{ or } 54x = ₹ 540$$

$$\text{Hence, } x = ₹ 540/54 = ₹ 10$$

$$\text{Bonus} = 6x = 6 \times ₹ 10 = ₹ 60$$

(ii) Comparative conversion cost:

Location→	A (Rowan)	B (Halsey)
Amount→	₹	₹
Wages @ ₹10 per hour worked	360	480
Bonus	144	60
Overheads	720	960
Total	1,224	1,500

**INTERMEDIATE EXAMINATION****SET - 2****MODEL ANSWERS****TERM – JUNE 2025****PAPER – 8****SYLLABUS 2022****COST ACCOUNTING**

3. (a) In a machine department of a factory there are five identical machines.

Space of the department	10,000 Sq. mts.
Space occupied by the machine	2,000 Sq. mts.
Cost of the machine	₹ 20,000
Scrap value of the machine	₹ 300
Estimated life of the machine	13 years
Depreciation charged at	7 1/2% p.a.
Normal running of the machine	2,000 hours
Power consumed by the machine as shown by the meter	₹ 3,000 p.a.

Estimated repairs and maintenance throughout the working life of the machine ₹ 5,200. Sundry supplies including oil, waste etc. charged direct to the machine amount to ₹ 600 p.a.

Other expenses of the department are:

	Amount (₹)
Rent and Rates	9,000
Lighting (to be apportioned according to workers employed)	400
Supervision	1,250
Other charges	5,000

It is ascertained that the degree of supervision required by the machine is 2/5th and 3/5th being devoted to other machines.

There are 16 workers in the department of whom 4 attended to the machine and the remaining to the other machines.

Prepare the machine hour rate for one of the machines.

[7]

- (b) The net profit of X Ltd., appeared at ₹ 41,800 as per financial records for the year ending 31st March, 2024. A scrutiny of the figures from both the sets of accounts revealed the following facts:

₹

Works overhead under-recovered in costs		1,500
Administrative overheads over-recovered in costs		850
Depreciation charged in financial accounts		5,600
Depreciation recovered in costs		6,250
Interest on investments not included in costs	3,000	
Loss due to obsolescence charged in financial accounts		2,850
Income tax reserve made in financial accounts	20,150	
Bank interest and transfer fee credited in financial books		370
Stores adjustment (credit) in financial books		230
Value of opening stock in : Cost accounts	24,800	
: Financial accounts		26,300
Value of closing stock in : Cost accounts	25,000	
: Financial accounts		23,000



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Interest charged in cost accounts		2,000
Imputed rent charged in cost accounts		1,000
Goodwill written off		5,000
Loss on sale of furniture		600
Selling and distribution expenses not charged in cost accounts		10,000
Donations to Prime Minister's Relief Fund		5,100
Transfer to Debenture Redemption Fund		9,000
Transfer to Dividend Equalisation Fund		20,500

Prepare a statement showing the reconciliation statement and find out the profit as per cost Accounts. [7]

Answer:

(a)

Computation of Machine Hour Rate

Particulars		Cost per annum Amount (₹)	Total Amount (₹)
Standing Charges			
Rent and Rates	₹ 9,000 ÷ 5	1,800	
Lighting	(4/16) × ₹ 400	100	
Supervision	₹ 1,250 × (2/5)	500	
Other Charges	₹ 5,000 ÷ 5	1,000	
Total Standing Charges			3,400
Machine Expenses			
Depreciation	₹ 20,000 × 7.5%	1,500	
Repair Maintenance	₹ 5,200 ÷ 13 years	400	
Sundries		600	
Power		3,000	
Total Machine Expenses			4,500
Total Cost p.a.			8,900
Machine Hours			2,000
Machine Hour Rate	₹ 8,900 ÷ 2,000		₹ 4.45 per hour

(b)

Reconciliation Statement

Particulars	₹	₹
Profit as per Financial Accounts		41,800
Add:		
Works Overhead under-recovered in Cost Accounts	1,500	

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Expenses and losses debited in Financial Accounts but excluded from Cost Accounts:		
Income Tax Reserve	20,150	
Loss on sale of Furniture	600	
Loss due to obsolescence	2,850	
Goodwill written off	5,000	
Selling and Distribution expenses not charged in Cost Accounts	10,000	
Donation to Prime Minister's Relief Fund	5,100	
Transfer to Debenture Redemption Fund	9,000	
Transfer to Dividend Equalisation Fund	20,500	
Under valuation of Opening Stock in Cost Accounts	1,500	
Over valuation of Closing Stock in Cost Accounts	2,000	<u>78,200</u>
		1,20,000
Less:		
Administrative Overheads over-recovered in Cost Accounts	850	
Depreciation over-charged in Cost Accounts	650	
Incomes and gains credited in Financial books but not shown in Cost Accounts:		
Interest on Investments	3,000	
Bank interest and transfer fees	370	
Stores adjustments	230	
Imputed rent charged in Cost Accounts	1,000	
Interest charged in Cost Accounts	2,000	<u>8,100</u>
Profit as per Cost Accounts		<u>1,11,900</u>

4. (a) **JANATA TRANSPORT LTD.** a Transport Company is running 4 buses between two towns which are 50 kms. away. Seating capacity of each bus is 40 passengers. The following information is obtained from its books for November, 2024:

Particulars	₹
Wages of drivers, conductors and cleaners	24,000
Salaries of office and supervisory staff	10,000
Diesel, oil and other lubricants	40,000
Repairs and maintenance	8,000
Taxes, insurance etc.	16,000
Depreciation of buses	26,000
Interest and other charges	20,000

Actual passengers carried were 75% of the seating capacity. All the 4 buses ran on all the days of the month. Each bus made one to and fro round trip per day.

Prepare the Operating Cost Statement and determine the cost per passenger km. for each bus. [7]

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- (b) A contractor, who prepares his accounts on 31st March each year, commenced a Contract No. 220 on 1st July, 2023. The following information is revealed from his costing records on 31st March, 2024:

Particulars	(₹)
Materials sent to site	2,51,000
Labour	5,65,600
Foreman's salary	81,300

A machine costing ₹2,60,000 remained in use on site for 146 days. Its working life is estimated at 7 years and final scrap value at ₹ 15,000. A supervisor is paid ₹ 8,000 per month and has devoted one half of his time on the contract. All other expenses amount to ₹ 1,36,500. Materials at site on 31st March, 2024 cost ₹ 35,400. The contract price is ₹ 20,00,000. On 31st March, 2024 two-third of the contract was completed, however, the architect gave certificate only for 50% of the contract price and ₹ 7,50,000 had so far been paid on account.

Prepare Contract Account and state how much profit or loss should be included on 31st March, 2024 in financial accounts. [7]

Answer:

(a) Operating Cost Statement

Particulars		Amount in ₹
(A)	Fixed Costs or Fixed Charges:	
	Wages of Drivers, Conductors and Cleaners	24,000
	Salary of Office and Supervisory Staff	10,000
	Taxes, Insurance etc.	16,000
	Interest and other charges	20,000
	Depreciation of buses	<u>26,000</u>
	Total Fixed Costs	<u>96,000</u>
(B)	Variable Costs or Running Charges:	
	Diesel, Oil and other Lubricants	40,000
	Repairs and Maintenance	<u>8,000</u>
	Total Variable Costs or Running Charges	<u>48,000</u>
(C)	Total Operating Charges or Cost (A + B)	1,44,000
(D)	Effective Passenger kms.	3,60,000
(E)	Cost per Passenger km. (C/D)	0.40

Note: Depreciation can also be shown as Variable Cost or Running Charges as per study module.

Working Note:

Calculation of Effective Passenger kms.:

kms. in one round trip = 50 x 2 = 100 kms

Passenger kms. = Buses x Trip kms. x Trips x Days x Passengers x Capacity
= 4 x 100 x 1 x 30 x 40 x 75%
= 3,60,000 Passenger kms.

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Cost of Machine	₹ 2,60,000
Less: Scrap Value	₹ <u>15,000</u>
Cost of Machine to be written off	₹ <u>2,45,000</u>

Depreciation of 1 Year = ₹ 2,45,000/7 = ₹ 35,000

Depreciation for 146 days = ₹ 35,000 (146/365) = ₹14,000

(ii) Calculation of Cost of Work Uncertified:

Cost of 2/3rd completed work = ₹ 10,49,000

Total Cost of completed Contract = ₹ 10,49,000 × 3/2 = ₹ 15,73,500

Part of uncertified work = 2/3 – 1/2 = 1/6

Therefore, Cost of uncertified work = ₹ 15,73,500 × 1/6 = ₹ 2,62,250

(iii) Profit Transferred to Profit and Loss Account:

Notional Profit × 2/3 × 7,50,000/10,00,000 = ₹ 1,06,625

Contract Account

Dr.

(for the year ended 31st March, 2024)

Cr.

Particulars	₹	Particulars	₹
To Materials	2,51,000	By Materials at site	35,400
To Labour	5,65,600	By Balance c/d (Total Cost)	10,49,000
To Foreman's Salary	81,300		
To Supervisor's Salary (₹8,000 × 1/2 × 9)	36,000		
To Depreciation on Machine	14,000		
To other Expenses	<u>1,36,500</u>		
	<u>10,84,400</u>		<u>10,84,400</u>
To Balance b/d	10,49,000	By Work-in-Progress:	
To Notional Profit c/d	2,13,250	Certified ₹ 10,00,000	
		Uncertified ₹ <u>2,62,250</u>	<u>12,62,250</u>
	<u>12,62,250</u>		<u>12,62,250</u>
To profit & Loss Account	1,06,625	By Notional Profit b/d	2,13,250
To Work-in-Progress A/c (Reserve)	1,06,625		
	<u>2,13,250</u>		..



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5. (a) 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 realized @ ₹ 5 per unit. Scrapped units were 50% processed. 300 units were incomplete and the stage of completion was material 75%, wages and overhead 50%.

- (i) Calculate the equivalent production, cost per completed unit, value of work- in-progress and
(ii) Prepare Process B account. [7]

- (b) A glass manufacturing company requires you to calculate and Prepare the Master Budget for the year 2023-24 from the following information:

Annual Sales : Toughened glasses A	₹ 30,00,000
Toughened glasses B	₹ 50,00,000
Direct material cost	60% of sales
Direct wages	20 workers @ ₹ 1,500 p.m.
Factory overheads & indirect labour: Works manager	₹ 5,000 p.m.
Foreman	₹ 4,000 p.m.
Stores and spares	2.50% of sales
Depreciation on machinery	₹ 1,26,000
Light and power	₹ 50,000
Repairs and maintenance	₹ 80,000
Other sundries	10% of direct wages
Administration, selling & distribution expenses	₹ 1,40,000 p.a.

(Present the fixed and variable overheads separately showing item wise breakup) [7]

Answer:

(a)

- (i) Statement of Equivalent Production:

Input	Particulars of output	Units	Equivalent Production					
			Material I (Input)		Material II (Added)		Labour & Overhead	
			%	Units	%	Units	%	Units
4,000	Fully completed and transferred to process C	3,200	100	3,200	100	3,200	100	3,200
	Normal Wastage	400	---	---	---	---	---	---
	Abnormal Wastage	100	100	100	50	50	50	50
	WIP at end	300	100	300	75	225	50	150
4,000	Total	4,000		3,600		3,475		3,400



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Statement of Cost

Elements of Cost	Amount (₹)	Equivalent Production (Nos.)	Unit Cost (₹)
Material I (Input)(₹ 20,000–₹ 2,000)	18,000	3,600	5.00
Material II (Added)	10,425	3,475	3.00
Wages	20,400	3,400	6.00
Overheads	10,200	3,400	3.00
Total	59,025	-	17.00

Statement of Evaluation

Elements of Cost	Unit Cost (₹)	Work in Progress		Abnormal Loss	
		E.P.	Cost (₹)	E.P.	Cost (₹)
Material I	5.00	300	1,500	100	500
Material II	3.00	225	675	50	150
Wages	6.00	150	900	50	300
Overheads	<u>3.00</u>	150	<u>450</u>	50	<u>150</u>
Total	<u>17.00</u>		3,525		<u>1,100</u>

(ii)

Process B Account

Dr.

Cr.

Particulars	Units	₹	Particulars	Units	₹
To Input	4,000	20,000	By Normal Wastage	400	2,000
To Materials Added		10,425	By Abnormal Wastage	100	1,100
To Wages		20,400	By Work-in-Progress	300	3,525
To Overheads		<u>10,200</u>	By Process C (3,200×₹ 17)	<u>3,200</u>	<u>54,400</u>
	<u>4,000</u>	<u>61,025</u>		<u>4,000</u>	<u>61,025</u>

(b)

Master Budget for the year 2023-2024

Particulars	₹	₹	₹
Sales:			
Toughened glasses	30,00,000		
Bent Toughened glasses	50,00,000		
Total Sales (A)			80,00,000
Less: Cost of Sales:			
Direct Material (60% of Sales)	48,00,000		
Direct Wages (20 * ` 1,500 * 12)	3,60,000		
Prime Cost		51,60,000	

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Factory Overheads (Variable)			
Store and Spares (2.5% on Sales)	2,00,000		
Light and Power	50,000		
Repairs and Maintenance	80,000	3,30,000	
Fixed: Works Manager's salary	60,000		
Fore men's Salary	48,000		
Depreciation of Machinery	1,26,000		
Sundries	36,000	2,70,000	
Work Cost (B)			57,60,000
Gross Profit (A-B)			22,40,000
Less: Administration, Selling and Distribution Overheads			1,40,000
Net Profit			21,00,000

6. The standard labour component and the actual labour component engaged in a week for a job are as under:

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

[14]

Answer:

Analysis of the Given data

Workers	Standard		Actuals	
Skilled	32 × 40 = 1,280 hours	@ ₹ 3 per hour	28 × 40 = 1,120 hours	@ ₹ 4 per hour
Semi-Skilled	12 × 40 = 480 hours	@ ₹ 2 per hour	18 × 40 = 720 hours	@ ₹ 3 per hour
Unskilled	6 × 40 = 240 hours	@ ₹ 1 per hour	4 × 40 = 160 hours	@ ₹ 2 per hour
Input	2,000 hours	2,000 hours		
Output	2,000 hours	1,800 hours		

SH - Standard Labour Hours for Actual output

Skilled = $1,280/2,000 \times 1,800 = 1,152$ hours

Semi-Skilled = $480/2,000 \times 1,800 = 432$ hours

Unskilled = $240/2,000 \times 1,800 = 216$ hours

SR - Standard Rate per hour

Skilled = ₹ 3 per hour Semi-Skilled = ₹ 2 per hour Unskilled = ₹ 1 per hour



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AH - Actual Hours Paid

Skilled = 1,120 hours Semi-Skilled = 720 hours Unskilled = 160 hours

AR - Actual Rate

Skilled = ₹ 4 per hour Semi-Skilled = ₹ 3 per hour Unskilled = ₹ 2 per hour

RSH - Revised Standard Hours for Actual Input

Skilled = $1,280/2,000 \times 2,000 = 1,280$ hours

Semi-Skilled = $480/2,000 \times 2,000 = 480$ hours

Unskilled = $240/2,000 \times 2,000 = 240$ hours

i. Labour Cost Variance = $SH \times SR - AH \times AR$

Skilled = $(1,152 \times 3) - (1,120 \times 4) = ₹ 1,024 (A)$

Semi-Skilled = $(432 \times 2) - (720 \times 3) = ₹ 1,296 (A)$

Unskilled = $(216 \times 1) - (160 \times 2) = ₹ 104 (A)$

₹ 2,424 (A)

ii. Labour Rate Variance = $(SR - AR) \times AH$

Skilled = $(3 - 4) \times 1,120 = ₹ 1,120 (A)$

Semi-Skilled = $(2 - 3) \times 720 = ₹ 720 (A)$

Unskilled = $(1 - 2) \times 160 = ₹ 160 (A)$

₹ 2,000 (A)

iii. Labour Efficiency Variance = $(SH - AH) \times SR$

Skilled = $(1,152 - 1,120) \times 3 = ₹ 96 (F)$

Semi-Skilled = $(432 - 720) \times 2 = ₹ 576 (A)$

Unskilled = $(216 - 160) \times 1 = ₹ 56 (F)$

₹ 424 (A)

iv. Labour Mix Variance = $(RSH - AH) \times SR$

Skilled = $(1,280 - 1,120) \times 3 = ₹ 480 (F)$

Semi-Skilled = $(480 - 720) \times 2 = ₹ 480 (A)$

Unskilled = $(240 - 160) \times 1 = ₹ 80 (F)$

₹ 80 (F)

v. Labour Yield Variance = $(SH - RSH) \times SR$

Skilled = $(1,152 - 1,280) \times 3 = ₹ 384 (A)$

Semi-Skilled = $(432 - 480) \times 2 = ₹ 96 (A)$

Unskilled = $(216 - 240) \times 1 = ₹ 24 (A)$

₹ 504 (A)

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7. (a) Two businesses AB Ltd and CD Ltd sell the same type of product in the same market. Their budgeted profits and loss accounts for the year ending 30th June, 2024 are as follows:

Amount (₹)

	AB Ltd		CD Ltd	
Sales		1,50,000		1,50,000
Less: Variable costs	1,20,000		1,00,000	
Fixed Cost	15,000	1,35,000	35,000	1,35,000
Profit		15,000		15,000

Calculate the BEP of each business and Compare which business is likely to earn greater profits in the following conditions:

(i) Heavy demand for the product

(ii) Low demand for the product

[7]

- (b) Describe classification of costs determined under CAS-1.

[7]

Answer:

- (a) Statement showing computation of P/V Ratio, BEP and determination of Profitability in different conditions:

Particulars	AB Ltd (₹)	CD Ltd (₹)
Sales	1,50,000	1,50,000
Less: Variable Cost	1,20,000	1,00,000
Contribution	30,000	50,000
Less: Fixed Cost	15,000	35,000
P/V Ratio = Contribution/Sale×100	$30,000/1,50,000 \times 100 = 20\%$	$50,000/1,50,000 \times 100 = 33 \frac{1}{2}\%$
BE Sales = Fixed Cost ÷ P/V Ratio	$= 15,000 \div 20\% = ₹75,000$	$35,000 \div 33 \frac{1}{2}\% = ₹1,05,000$

- (i) When there is heavy demand for the product – Product produced by CD Ltd is profitable because the P/V Ratio is higher than AB Ltd.

- (ii) When there is low demand for the product – Product produced by AB Ltd is profitable because fixed cost is less than CD Ltd. This is also revealed from the break even sales. The break even sales for AB Ltd is less than CD Ltd because the fixed cost of AB Ltd is less in comparison to CD Ltd.

- (b) As per Cost Accounting Standard 1 (CAS-1), the basis for cost classification is as follows:

- I. Nature of expense - Costs should be gathered together in their natural grouping such as Material, Labour and Other Direct expenses. Items of costs differ on the basis of their nature. The elements of cost can be classified in the following three categories. 1. Material 2. Labour 3. Expenses
- II. Relation to Object – Traceability - If expenditure can be allocated to a cost centre or cost object in an economically feasible way then it is called direct otherwise the cost component will be termed as indirect. According to this criterion for classification, material cost is divided into direct material cost and indirect material cost, Labour cost is divided into direct labour and indirect labour cost and expenses into direct expenses and indirect expenses. Indirect cost is also known as overhead.

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- III. Functions/Activities - A business enterprise performs a number of functions like manufacturing, selling, research...etc. Costs may be required to be determined for each of these functions and on this basis functional costs may be classified into the following types: - (1) Production or Manufacturing Costs (2) Administration Costs (3) Selling & Distribution cost (4) Research & Development costs.
- IV. Behaviour - Costs are classified based on behaviour as fixed cost, variable cost and semivariable cost depending upon response to the changes in the activity levels.
- V. Management decision making - Ascertainment of cost is essential for making managerial decisions. On this basis costing may be classified into the following types. Some Examples are Marginal Costing, Differential Cost, Opportunity Cost, Replacement Cost, Relevant Costs, Imputed Costs, Sunk Costs etc.
- VI. Production Process - Batch Costing, Process Costing, Operation Cost, Operating Cost, Contract Costing etc.
- VII. Time Period Details can be discussed as below: A cost item is related to a specific period of time and cost can be classified according to the system of assessment and specific purpose like , Historical Costs, Predetermined Costs, Standard Costs, Estimated Costs.
- Techniques of Costing—
- A. Marginal Costing
 - B. Standard Costing
 - C. Budgetary Control
 - D. Uniform Costing

8. (a) Explain the concept of Opportunity Cost and Imputed Cost with suitable examples. [4]
- (b) Discuss the requisites of Material Control System. [5]
- (c) Describe how overtime is treated in cost records as per CAS-7? [5]

Answer:

- (a) **Opportunity Cost:** Opportunity cost is the value of alternatives foregone by adopting a particular strategy or employing resources in specific manner. It is the return expected from an investment other than the present one. These refer to costs which result from the use or application of material, labour or other facilities in a particular manner which has been foregone due to not using the facilities in the manner originally planned. Resources (or input) like men, materials, plant and machinery, finance etc., when utilized in one particular way, yield a particular return (or output). If the same input is utilized in another way, yielding the same or a different return, the original return on the forsaken alternative that is no longer obtainable is the opportunity cost. For example, if fixed deposits in the bank, are proposed to be withdrawn for financing project, the opportunity cost would be the loss of interest on the deposits. Similarly, when a building leased out on rent to a party is got vacated for own purpose or a vacant space is not leased out but used internally, say, for expansion of the production programme, the rent so foregone is the opportunity cost.

Imputed Cost: Imputed cost is hypothetical or notional cost, not involving cash outlay and computed only for the purpose of decision-making. In this respect, imputed cost is similar to opportunity cost.



Interest on funds generated internally, payment for which is not actually made is an example of imputed cost. When alternative capital investment projects are being considered out of which one or more are to be financed from internal funds, it is necessary to take into account the imputed interest on own funds before a decision is arrived.

(b) Requisites of Material Control System:

- (a) Coordination and cooperation between the various departments concerned viz. purchase, receiving, inspection, storage, issues and Accounts and Cost departments
- (b) Use of standard forms and documents in all the stages of control
- (c) Classification, coordination, standardization and simplification of materials
- (d) Planning of requirement of material
- (e) Efficient purchase organization
- (f) Budgetary control of purchases
- (g) Planned storage of materials, physical control as well as efficient book control through satisfactory storage control procedures, forms and documents
- (h) Appropriate records to control issues and utilization of stores in production
- (i) Efficient system of Internal Audit and Internal Checks
- (j) System of reporting to management regarding material purchase, storage and utilization.

(c) Treatment of overtime in Cost Records: As per CAS-7, Overtime Premium shall be assigned directly to the cost object or treated as overheads depending on the economic feasibility and specific circumstances requiring such overtime.

When overtime is worked due to exigencies or urgencies of the work, the basic/normal payment is treated as Direct Labour Cost and charged to Production or cost unit on which the worker is employed. Whereas the amount of premium (extra amount) is treated as overhead.

If overtime is spent at the request of the customer, then the entire amount (including over time premium) is treated as direct wages and should be charged to the job.

When the overtime is worked due to lack of capacity as general policy of the company then the total amount paid is treated as direct wages which is computed at the estimated rate based on the figures of the previous years.

Overtime worked on account of the abnormal conditions such as flood, earthquake, etc., should not be charged to cost, but to Costing Profit and Loss Account if integrated accounts are maintained.

It will thus be seen that overtime involves payment of increased wages and should be resorted to only when extremely essential.