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TEST PAPER - 02

(Chapters Covered - Direct Expenses, Overhead, CAS, Cost Book Keeping)

COST ACCOUNTING

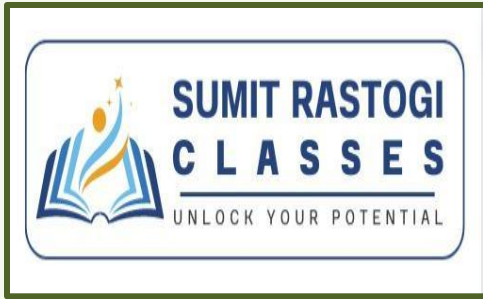
Time Allowed: 3 Hours

Full Marks: 100

**Section A contains Question Number 1. All parts of this question are compulsory.
Working notes should form part of the relevant answer.**

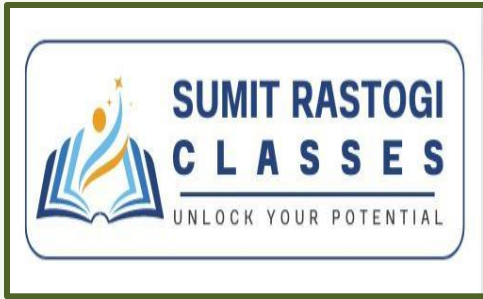
SECTION-A

1. Choose the correct answer from the given alternatives (you may write only the Roman number and the alphabet chosen for your answer) (2×15 = 30 Marks)
- (i) _____ deals with the principles and methods of determining the production or operation overheads.
- (a) CAS-5
 - (b) CAS-3
 - (c) CAS-16
 - (d) CAS-9
- (ii) B Ltd. pays 10 per unit royalty to the designer of a product which it manufactures and sells. The royalty charge would be classified in the company's accounts as a:
- (a) Production overhead
 - (b) Administrative overhead
 - (c) Selling overhead
 - (d) Direct expense
- (iii) T Ltd. uses pre-determined overhead rate of ₹15 per labour hour. The actual Labour hours are 5750 and the actual overhead cost is ₹85,000. There is:
- (a) ₹1,000 under absorption
 - (b) ₹1,250 over absorption
 - (c) ₹1,250 under absorption
 - (d) ₹1,000 over absorption



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- (iv) **Selling and distribution overheads are absorbed on the basis of:**
- (a) Percentage on selling price of each unit
 - (b) Rate per unit
 - (c) Percentage on works cost
 - (d) Any of the above
- (v) **Calculate the Direct Expenses as per CAS-10 from the following information: Royalty paid on sales: ₹1,25,000; Royalty paid on production: ₹1,00,000; Design charges ₹26,000; Machine shop expenses ₹45,000; Software development charges related to production: ₹55,000.**
- (a) ₹2,55,000
 - (b) ₹3,51,000
 - (c) ₹2,65,000
 - (d) ₹1,56,000
- (vi) **Warehouse Expense is an example of:**
- (a) Selling overhead
 - (b) Production overhead
 - (c) Distribution overhead
 - (d) Administration overhead
- (vii) **Which of the following items should be added to costing profit to arrive at financial profit?**
- (a) Income tax paid
 - (b) Over absorption of works overhead
 - (c) Interest paid on bonds
 - (d) All of the above
- (viii) **Under Non-Integrated Accounting System, the account made to complete Double Entry is:**
- (a) Work-in-progress control account
 - (b) Finished goods control account
 - (c) Stores ledger control account
 - (d) General ledger control account



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- (ix) BETA LTD. made a profit of ₹2,00,000 during the year ending March 31, 2022 as per costing records. If interest on investments, and Income Tax paid were ₹15,000 and ₹90,000 respectively, what will be the profit as per financial records?
- (a) ₹3,09,000
(b) ₹1,17,000
(c) ₹1,25,000
(d) None of the above

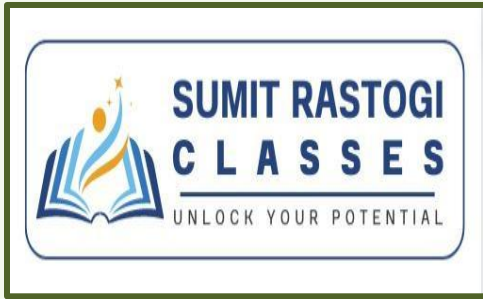
- (x) Which of the following items is not included in the preparation of Cost Sheet?
- (a) Interest paid
(b) Purchase returns
(c) Carriage inward
(d) Sales commission

- (xi) SANUM P.I.C. producing product-ZEMO provides the following information:

Royalty paid on Sales	35,000
Design Charges paid for the product	8,000
Higher Charges for Equipment used for production	3,000

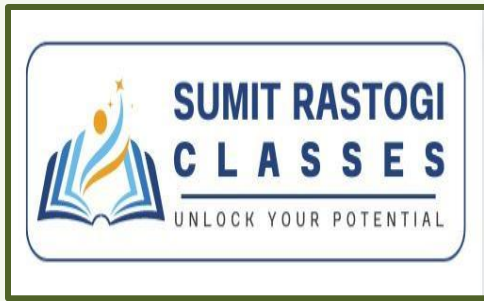
Direct Expenses will be:

- (a) 58,000
(b) 46,000
(c) 55,000
(d) None of these
- (xii) When you attempt a reconciliation of profits as per Financial Accounts and Cost Accounts, the following is done:
- (a) Add the under absorption of overheads in Cost Accounts if you start from the profits as per Financial Accounts.
(b) Add the under absorption of overheads in Cost Accounts if you start from the profits as per Cost Accounts.
(c) Add the over absorption of overheads in Cost Accounts if you start from the profits as per Financial Accounts.
(d) Add the over absorption of overheads in Cost Accounts if you start from the profits as per Cost Accounts.



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- (xiii) Find the actual overhead for the month of October 2024, when actual machine hours worked is 10000 and there is under-recovery of overhead of ₹30,000 by using machine hour rate is ₹30.
- (a) ₹3,00,000
 - (b) ₹30,000
 - (c) ₹3,30,000
 - (d) ₹33,000
- (xiv) The objective of CAS _____ is to bring uniformity and consistency in the period and methods of determining the direct expenses with reasonable accuracy.
- (a) 10
 - (b) 50
 - (c) 30
 - (d) 60
- (xv) What entry will be passed under integrated system for purchase of stores on credit?
- (a) Dr. Stores Ledger Control A/c Cr. Creditors
 - (b) Dr. Purchases Cr. Creditors
 - (c) Dr. Stores Cr. Creditors
 - (d) Dr. Stores Ledger Control A/c Cr. General Ledger Adjustment A/c



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SECTION-B

Answer any five questions from question number 2 to 8.

14x5=70

2(a) ALPHA LTD. has three Production Departments and two Service Departments. The overhead distribution sheet of the company showed the following totals:

Production Department:	Amount (₹)
P	75,500
Q	72,000
R	96,500
Service Department:	
X	46,250
Y	15,750

Other information is as follows:

- (a) Working hours of production departments are P-6226 hours, Q-4028 hours and R-4066 hours.
- (b) Services rendered by service departments are as under:

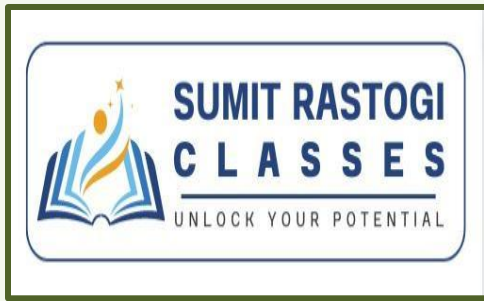
	P	Q	R	X	Y
Department X	20%	30%	40%	-	10%
Department Y	40%	20%	30%	10%	-

Required:

- (i) Calculate the total overhead of production departments distributing the cost of service departments by **Simultaneous Equation Method**.
- (ii) Calculate the **Overhead Rate Per Hour** of production departments. (7 Marks)

2 (b) ROS Ltd. showed a Net Loss of ₹ 35,400 as per their Cost Accounts for the year ended 31st March, 2022. However, the Financial Accounts disclosed a net profit of ₹67,800 for the same period. The following information was revealed as a result of scrutiny of the figures of cost accounts and financial accounts:

S.No.	Particulars	Amount (₹)
(i)	Administrative overhead under recovered	25,500
(ii)	Factory overhead over recovered	1,35,000
(iii)	Depreciation under charged in Cost Accounts	26,000
(iv)	Dividend received	20,000
(v)	Loss due to obsolescence charged in Financial Accounts	16,800
(vi)	Income Tax provided	43,600
(vii)	Bank interest credited to Financial Accounts	13,600
(viii)	Value of Opening Stock:	
	In Cost Accounts	1,65,000
	In Financial Accounts	1,45,000



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(ix)	Value of Closing Stock: In Cost Accounts In Financial Accounts	1,25,500 1,32,000
(x)	Goodwill written-off in Financial Accounts	25,000
(xi)	Notional rent of own premises charged in Cost Accounts	60,000
(xii)	Provision for doubtful debts in Financial Accounts	15,000

Prepare a Reconciliation Statement by taking Costing Net Loss as the base. (7 Marks)

3 (a) P. Ltd. products P-I and P-II. The following information is furnished:

Particulars	Product P-I	Product P-II
Opening Stock (Tonnes)	25,000	21,000
Sales (Tonnes)	4,15,000	3,10,000
Closing Stock (Tonnes)	32,000	28,000
Machine hours utilized (Hours)	10,000	6,000
Design Charges (₹)	10,80,000	6,50,000
Software Development Charges (₹)	16,50,000	9,00,000

Royalty is paid on units produced @ ₹20 per tonne for both the products. Wages are paid to machine operators @ ₹75 per machine hour. Hire charges of equipment used in manufacturing process of only product P-II ₹6,15,000.

You are required to calculate the direct expenses of P-I and P-II as per CAS. (7 Marks)

3 (b) The summary as per primary distribution is as follows:

Production Departments

A	:	₹2,500
B	:	₹2,300
C	:	₹1,700

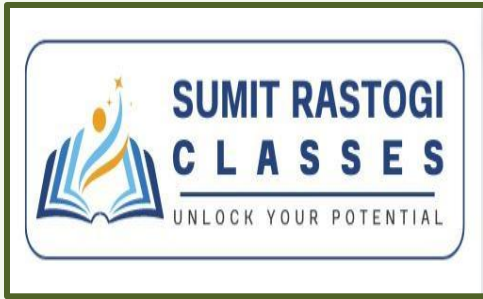
Service Departments

X	:	₹700
Y	:	₹900

Expenses of service departments are distributed in the ratios of:

X department:	A- 20%,	B- 40%,	C- 30%	Y- 10%
Y department:	A- 40%,	B- 20%,	C- 20%	X- 20%

Show the Distribution of Service Costs among A, B and C under Repeated Distribution Method. (7 Marks)



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4 (a) The following information is available from the financial books of BG Mfg. Co. having a normal production capacity of 1,20,000 units for the year ended 31-03-2021:

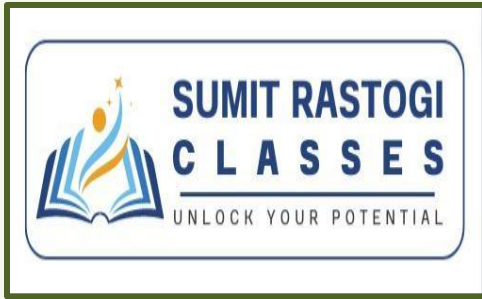
- Sales ₹20,00,000 (100,000 units).
- There was no opening and closing stock of finished units.
- Direct material and direct wages cost were ₹ 10,00,000 and ₹ 5,00,000 respectively.
- Actual factory expenses were ₹ 3,00,000 of which 60% are fixed.
- Actual administrative expenses related with production activities were ₹90,000 which are completely fixed.
- Actual selling and distribution expenses were ₹60,000 of which 40% are fixed.
- Interest and dividends received ₹30,000.

REQUIRED:

- (i) Find out profit as per financial books for the year ended 31-03-2021;
 - (ii) What is the amount of profit as per cost accounts for the year ended 31st March, 2021 assuming that the indirect expenses are absorbed on the basis of normal production capacity;
 - (iii) What is the amount of Factory expenses under charged in cost Accounts?
- (7 Marks)**

4 (b) M/s. POR Engineering Ltd. is having 25 different types of automatic machines in its plant. It furnishes the following information in respect of Machine B for the year 2022-23:

- | | |
|---|-----------------|
| (i) Cost of machine | ₹5,00,000 |
| Life of the machine | 10 years |
| Scrap Value | NIL |
| (ii) Overhead expenses: | |
| Factory rent | ₹2, 00,000 p.a. |
| Heating and lighting | ₹1,60,000 p.a. |
| Supervision | ₹6, 00,000 p.a. |
| Reserve equipment of Machine B | ₹20,000 p.a. |
| Area of the factory | 80,000 sq. ft. |
| Area occupied by Machine B | 3,000 sq. ft. |
| (iii) Wages of operator is ₹240 per day of 8 hours including all fringe benefits. He attends to one machine when it is under set up and two machines while under operation | |
| (iv) Estimated production hours | 3,600 p.a. |
| Estimated set up time | 400 p.a. |
| (v) Power Charges | 2.50 per hour |



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REQUIRED:

Prepare a Schedule of Comprehensive machine hour rate and find the cost of the following jobs:

	JOB 1120	JOB 1150	
Set up time (hours)	80	40	
Operation time (hours)	130	160	(7 Marks)

5(a) The following information has been obtained from the records of MJ Limited, a manufacturer of Air-conditioner:

- | | |
|---|-------|
| (i) Materials per machine | 1,500 |
| Wages per machine | 900 |
| Number of machines manufactured and sold | 80 |
| Sale price per machine | 4,250 |
| (ii) Works expenses to be charged at 60% of the wages | |
| (iii) Office expenses to be charged at 20% of works cost | |
| (iv) There was no stock of machines or work-in-progress at the beginning or at the end of the period. | |

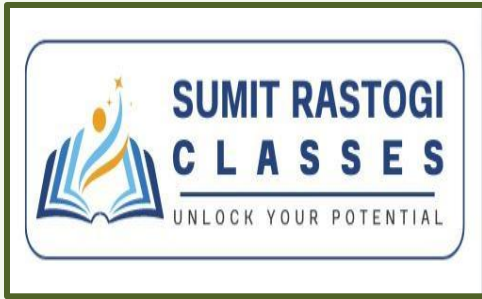
As a Cost and Management Accountant Prepare a Statement showing the profit per machine sold. Also Prepare a Statement Showing the Actual Profit. Works expenses were ₹43,000 and office expenses were ₹48,000 as per the financial records.

You are also required to reconcile the Profit as per Cost Accounts and Financial Account. (9 Marks)

5(b) Compute total direct expenses of product X from the following information, giving appropriate explanatory notes:

Particulars	Figures
Production	20,000 Units
Sales	16,000 Units
Labour hours	10,000 Hrs.
Labour rate per hour	₹8
Royalty per unit of sale	₹2
Royalty per unit of production	₹1
Design Charges	₹12,000
Interest on loan for purchase of machine	₹5,000
Hire charges of equipment used for manufacturing product X	₹6,000
Penalty for violating Patent	₹4,000

(5 Marks)



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6(a) PITAB LTD. manufactures a single product and absorbed the Production Overhead at a Pre-Determined rate of 10 per machine hour.

Total Production Overhead Expenses incurred and the actual Machine hours for the department for the month of September, 2022 were ₹2,00,000 and 10000 hours, respectively. Of the amount of ₹2,00,000, ₹30,000 became payable due to an award of the Labour Court and 10,000 was in respect of expenses of the previous year booked in the current month (September). Actual production was 40,000 units of which 30,000 units were sold.

On analyzing the reasons, it was found that 60% of the under-absorbed overhead was due to defective planning and the rest was attributed to the normal cost increase.

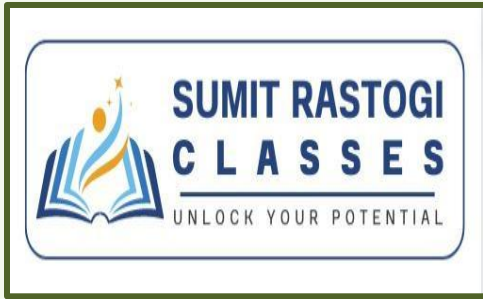
REQUIRED:

How would you treat the under-absorbed overhead in the Cost Accounts? (6 Marks)

6(b) Journalize the following transactions assuming that cost and financial accounts are integrated (Narration is not required):

Particulars	Amount (₹)
Raw Material Purchased	8,00,000
Direct Materials Issued to Production	6,00,000
Wages Paid (30% Indirect)	4,80,000
Wages Charged to Production	3,36,000
Manufacturing Expenses Incurred	3,80,000
Manufacturing Overhead Charged to Production	3,60,000
Selling And Distribution Cost	80,000
Finished Products (At Cost)	8,00,000
Sales	11,60,000
Receipts from Debtors	2,76,000

(8 Marks)



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7(a) What are the various Advantages of Cost Accounting Standards? (6 Marks)

7(b) M/s. Lotus Inc. manufactures the fountain pen called 'Pluto'. In the manufacturing of 'Pluto', the overheads were recovered at a pre-determined rate of ₹25 per man-day.

The other information for the month of April, 2023 is as under:

Total Factory Overheads Incurred	83,00,000
Man-Days Actually Worked	2,97,200
Total Units Manufactured	80,000
Units Sold During the Month	60,000
Incomplete Units (60% Complete)	60,000

REQUIRED:

You, as a qualified cost accountant, are asked to suggest how would unabsorbed overheads be treated in Cost Accounts?

(8 Marks)

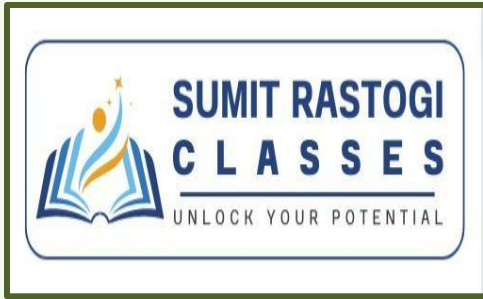
8(a) Distinguish between Cost Allocation and Cost Apportionment. (4 Marks)

8(b) Discuss the objectives and functions of Cost Accounting Standards Board (CASB).

(5 Marks)

8(c) What is Integrated Accounting System? What are its advantages?

(5 Marks)



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ANSWERS OF TEST PAPER - 02

(Chapters Covered - Direct Expenses, Overhead, CAS, Cost Book Keeping)

COST ACCOUNTING

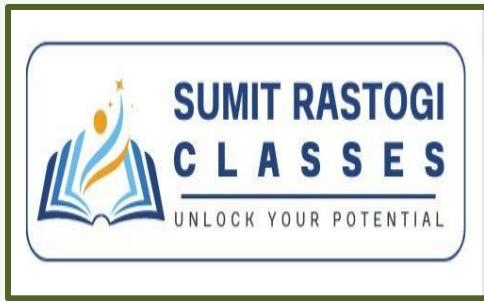
SECTION-A

ANS. 1

- (i) (b) CAS-3
- (ii) (d) Direct Expense
- (iii) (b) ₹1,250 Over Absorption
- (iv) (d) Any of the Above
- (v) (b) ₹3,51,000
- (vi) (c) Distribution Overhead
- (vii) (b) Over Absorption of Works Overhead
- (viii) (d) General Ledger Control Account
- (ix) (c) 1,25,000
- (x) (a) Interest Paid
- (xi) (b) 46,000
- (xii) (a) Add the under absorption of overheads in Cost Accounts if you start from the profits as per Financial Accounts.

OR

- (d) Add the Over absorption of overheads in Cost Accounts if you start from the profits as per Cost Accounts.
- (xiii) (c) ₹3,30,000
- (xiv) (a) 10
- (xv) (a) Dr. Stores Ledger Control A/c & Cr. Creditors A/c



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SECTION-B

ANS. 2 (a) Simultaneous Equation Method

Let Total Cost of Service Department X be ₹ "X" and

Let Total Cost of Service Department Y be ₹ "Y"

$$X = ₹46,250 + 0.10 Y$$

$$Y = ₹15,750 + 0.10 X$$

Solving Equation 1 & 2, we get

$$Y = ₹20,581$$

Substituting the value of Y in Equation (1), We get

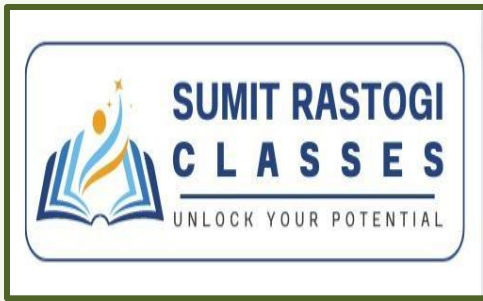
$$X = ₹48,308$$

Calculation of Total Overheads of Production Departments

Department	P (₹)	Q (₹)	R (₹)	X (₹)	Y (₹)
Overheads	75,500	72,000	96,500	46,250	15,750
X	9,662	14,492	19,323	(48,308)	4,831
Y	8,233	4,116	6,174	2,058	(20,581)
Total	93,395	90,608	1,21,997	-	-

ANS. 2 (b) Reconciliation Statement

Particulars	Amount (₹)
Net loss as per Costing Records	(-) 35,400
- Administrative overhead under recovered in Costing	25,500
+ Factory overhead over recovered in Costing	1,35,000
- Depreciation under charged	26,000
+ Dividend received	20,000
- Loss due to obsolescence	16,800
- Income tax provided	43,600
+ Bank Interest credited in financial books	13,600
+ Difference in valuation of stock	26,500
- Goodwill written off	25,000
+ Notional rent charged in cost accounts	60,000
- Provision for doubtful debts	15,000
Net loss as per Financial Records	(-) 67,800



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ANS. 3 (a)

Computation of Units Produced

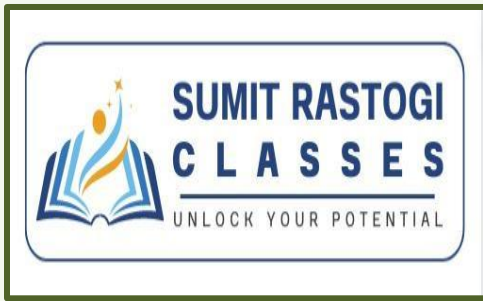
Particulars	Product P-I	Product P-II
Sales (Tonnes)	4,15,000	3,10,000
Add: Closing Stock (Tonnes)	32,000	28,000
Less: Opening Stock (Tonnes)	25,000	21,000
Production (Tonnes)	4,22,000	3,17,000

Computation of Direct Expenses as per CAS-10

Particulars	Product P-I	Product P-II
Royalty paid on units produced	84,40,000	63,40,000
Add: Hire charges for equipment used in P-II	-	6,15,000
Add: Design Charges	10,80,000	6,50,000
Add: Software Development Charges	16,50,000	9,00,000
Direct Expenses	1,11,70,000	85,05,000

ANS. 3 (b) Distribution of Service Department Overheads

Department	A (₹)	B (₹)	C (₹)	X (₹)	Y (₹)
Overheads	2,500	2,300	1,700	700	900
X	140	280	210	(700)	70
Y	388	194	194	194	(970)
X	39	78	58	(194)	19
Y	8	4	4	3	(19)
X	1	1	1	(3)	-
Total	3,076	2,857	2,167	-	-



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ANS. 4 (a)

(i)

Profit & Loss Account (Financial Books)

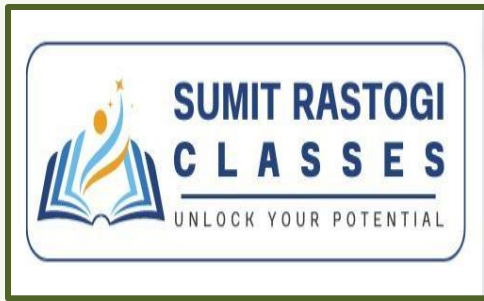
Particulars	Amount (₹)	Particulars	Amount (₹)
To Material Consumed	10,00,000	By Sales (1,00,000 units)	20,00,000
To Wages	5,00,000	By Interest and dividend	30,000
To Factory Expenses	3,00,000		
To Administration Expenses	90,000		
To Selling & Distribution Expenses	60,000		
To Net Profit (Balance)	80,000		
	20,30,000		20,30,000

(ii)

Statement of Profit as per Cost Accounts

Particulars	Amount (₹)
Material consumed	10,00,000
+ Wages	5,00,000
Prime Cost	15,00,000
+ Factory Expenses:	
• Variable (3,00,000 × 40%)	1,20,000
• Fixed (3,00,000 × 60%) × 1,00,000/1,20,000	1,50,000
Factory Cost	17,70,000
+ Administration Expenses (90,000 × 1,00,000/1,20,000)	75,000
Cost of Production	18,45,000
+ Selling & Distribution Expenses:	
• Variable (60,000 × 60%)	36,000
• Fixed (60,000 × 40%) × 1,00,000/1,20,000	20,000
Total Cost	19,01,000
+ Profit (Balance)	99,000
	20,00,000
Sales	20,00,000

(iii) Factory expenses under charged in cost accounts = 3,00,000 – 2,70,000 = ₹30,000



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ANS. 4 (b)

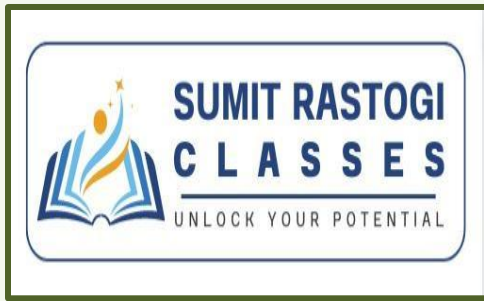
Computation of Machine Hour Rate

Particulars	Amount (₹)	Set-up Per Hour (₹)	Production Per Hour (₹)
Standing Charges:			
Factory Rent (2,00,000 × 3,000/80,000)	7,500		
Heating and Lighting (1,60,000 × 3,000/80,000)	6,000		
Supervision (6,00,000/25)	24,000		
Reserve Equipment	20,000		
Total	57,500	57,500/4,000 = 14.375	57,500/4,000 = 14.375
Machine Expenses:			
Depreciation (5,00,000/10) / 3,600		-	13.89
Operator's Wages (240/8)	240/8	30	15.00
Power		0	2.50
Machine Hour rate		44.375	45.765

Calculation of Cost of Jobs

Particulars	Job 1120 (₹)	Job 1150 (₹)
Set-up costs (80 × 44.175) (40 × 44.375)	3,550	1,775
+ Production costs (130 × 45.765) (160 × 45.765)	5,949	7,322
Total Costs	9,499	9,107

Note: Since, Depreciation has been absorbed on 3,600 hours. No Depreciation and Power has been considered in machine hour rate during Set-up.



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ANS. 5 (a) Statement of Profit as per Cost Accounts

Particulars	Amount (₹)	Amount (₹)
Material consumed	1,20,000	1,500
+ Wages	72,000	900
Prime Cost	1,92,000	2,400
+ Works expenses (60% × 72,000)	43,200	540
Works Cost	2,35,200	2,940
+ Office expenses (20% × 2,35,200)	47,040	588
Total Cost	2,82,240	3,528
+ Profit (Balance)	57,760	722
Sales	3,40,000	4,250

Profit & Loss Account (Financial Books)

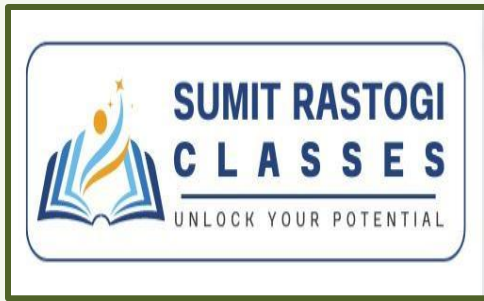
Particulars	Amount (₹)	Particulars	Amount (₹)
To Material consumed	1,20,000	By Sales	3,40,000
To Wages	72,000		
To Work expenses	43,000		
To Office expenses	48,000		
To Net profit	57,000		
	3,40,000		3,40,000

Reconciliation Statement

Particulars	Amount (₹)
Profit as per Cost accounts	57,760
Add: Over absorbed work expenses	200
Less: Under absorbed office expenses	960
Profit as per Financial Accounts	57,000

ANS. 5 (b) Computation of Direct Expenses

Particulars	Amount (₹)
Royalty paid on sales (16,000 × 2)	32,000
Add: Royalty paid on production (20,000 × 1)	20,000
Add: Design Charges	12,000
Add: Hire charges of equipment used for manufacturing product X	6,000
	70,000



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ANS. 6 (a) Amount of Under Absorbed Factory Overheads

Particulars	Amount (₹)
Total Factory overheads incurred	2,00,000
Amount paid according to Labour Court Award	(30,000)
Net Overheads incurred	1,70,000
Expenses of Previous years	(10,000)
Overheads absorbed = 10,000 × 10	(1,00,000)
Under Absorbed overheads	60,000

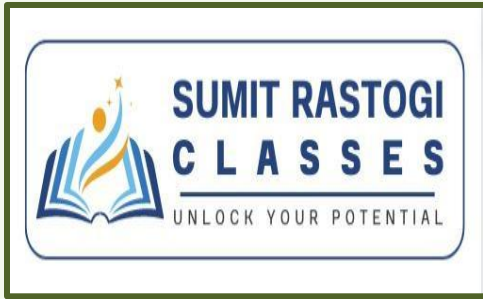
Treatment:

- Under absorbed overheads due to Defective Planning = 60,000 x 60% = ₹ 36,000 charged to **Costing P&L A/c**
- Under absorbed overheads due to increase in Price = 60,000 x 40% = ₹ 24,000, shall be charged to Finished Goods Stock and Cost of Sales (**Costing P&L A/c**) using **Supplementary Overheads Rates**.

Supplementary Overhead Rate	= 24,000/40,000	=	₹0.60
Overheads absorbed in finished goods stock	= 0.60 × 10,000	=	₹6,000
Overheads absorbed in cost of sales (Costing P&L A/c)	= 0.60 × 30,000	=	₹18,000

ANS. 6 (b) Journal Entry

S.No.	Particulars	Debit (₹)	Credit (₹)
(i)	Material Control A/c To Cash A/c	Dr. 8,00,000	8,00,000
(ii)	Work in Progress Control A/c To Material Control A/c	Dr. 6,00,000	6,00,000
(iii)	Wages Control A/c To Cash A/c	Dr. 4,80,000	4,80,000
(iv)	Work in Progress Control A/c Factory Overheads Control A/c To Wages Control A/c	Dr. Dr. 3,36,000 1,44,000	4,80,000
(v)	Factory Overheads Control A/c To Cash A/c	Dr. 3,80,000	3,80,000
(vi)	Work in Progress Control A/c To Factory Overheads Control A/c	Dr. 3,60,000	3,60,000
(vii)	Selling & Distribution Overheads Control A/c To Cash A/c	Dr. 80,000	80,000
(viii)	Cost of Sales A/c To Selling & Distribution Overheads Control A/c	Dr. 80,000	80,000
(ix)	Finished Goods Control A/c To Work in Progress Control A/c	Dr. 8,00,000	8,00,000
(x)	Debtors A/c To Profit & Loss A/c	Dr. 11,60,000	11,60,000
(xi)	Cash A/c To Debtors A/c	Dr. 2,76,000	2,76,000



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ANS. 7 (a) Advantages of Cost Accounting Standards

- (a) Providing a structured approach to measurement of cost in manufacturing process or service industry;
- (b) Integrating, harmonizing, and standardizing cost accounting principles and practices;
- (c) Providing guidance to users to achieve uniformity and consistency in classification, measurement, assignment, and allocation of costs to products and services;
- (d) Arriving at the basis of computing the cost of product, activity, or service where required by legal or regulatory bodies;
- (e) Enabling practicing members to make use of Cost Accounting Standards in the attestation of General Purpose Cost statements; and
- (f) Assisting in clear and uniform understanding of all the related issues by various user organizations, government bodies, regulators, research agencies, and academic institutions.

ANS. 7 (b) Amount of Under Absorbed Factory Overheads

Overheads incurred	83,00,000
Less: Overheads absorbed (2,97,200 man-days × ₹25)	<u>74,30,000</u>
Under absorption	<u>8,70,000</u>

Treatment:

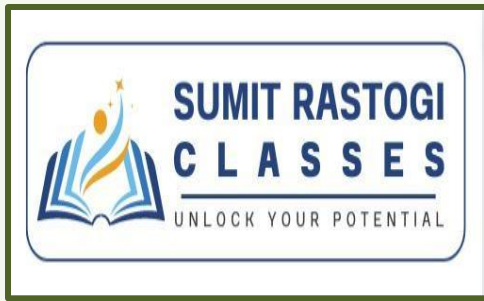
1. Under absorbed overheads due to Defective Planning = 8,70,000 x 40% = ₹ 3,48,000 charged to **Costing P&L A/c**
2. Under absorbed overheads due to increase in Price = 8,70,000 x 60% = ₹ 5,22,000, shall be charged to **Work-in-Progress Stock, Finished Goods Stock and Cost of Sales (Costing P&L A/c)** using **Supplementary Overheads Rates**.

$$\text{Supplementary Overhead Rate} = 5,22,000 / 1,16,000 \text{ units} = ₹4.5 \text{ per unit}$$

$$\text{Overheads absorbed in Work-in-Progress Stock} = ₹4.5 \times 36,000 = ₹1,62,000$$

$$\text{Overheads absorbed in Finished Goods Stock} = ₹4.5 \times 20,000 = ₹90,000$$

$$\text{Overheads absorbed in Cost of Sales (Costing P&L A/c)} = ₹4.5 \times 60,000 = ₹2,70,000$$



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ANS. 8 (a) Difference between Cost Allocation and Cost Apportionment

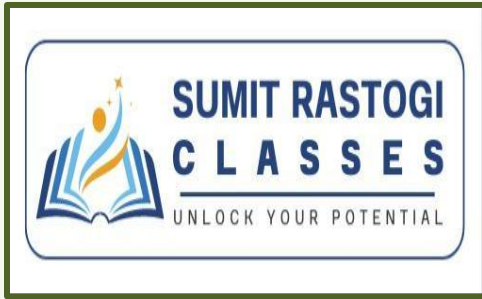
Cost Allocation	Cost Apportionment
When items of cost are identifiable directly with some products or departments such costs are charged to such cost centres. This process is known as cost allocation.	When items of cost cannot directly be charged to or be accurately identifiable with any cost centres, they are prorated or distributed amongst the cost centres on some pre-determined basis. This method is known as cost apportionment.
Wages paid to workers of service department can be allocated to the particular department. Indirect materials used by a particular department can also be allocated to that department.	Thus, items of indirect costs residual to the process of cost allocation are covered by cost apportionment.
Cost allocation calls for two basic factors – (i) Concerned department/product should have caused the cost to be incurred, and (ii) exact amount of cost should be computable.	The pre-determination of suitable basis of apportionment is very important and usually following principles are adopted – (i) Service or use, (ii) Survey method, or (iii) Ability to bear.

ANS. 8 (b) Objectives of the CASB:

The objectives of the CASB are to develop high quality Cost Accounting Standards to enable the management to take informed decisions and to enable regulators to function more effectively by integrating, harmonizing and standardizing Cost Accounting Principles and Practices.

Functions of the CASB:

- (a) To issue the framework for the Cost Accounting Standards.
- (b) To equip the Cost & Management Accounting professionals with better guide- lines on Cost Accounting Principles.
- (c) To assist the members in preparation of uniform cost statements under various statutes.
- (d) To provide from time to time interpretations on Cost Accounting Standards.
- (e) To issue application guidance relating to a particular standard.
- (f) To propagate the Cost Accounting Standards and to persuade the users to adopt them in the preparation and presentation of General Purpose Cost Statement.
- (g) To persuade the Government and appropriate authorities to enforce Cost Accounting Standards, to facilitate the adoption thereof, by industry and corporate entities in order to achieve the desired objectives of standardization of Cost Accounting Practices.
- (h) To educate the users about the utility and the need for compliance of Cost Accounting Standards.



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ANS. 8 (c) Meaning of Integrated Accounting System

- Integrated Accounting is the name given to a system of accounting whereby cost and financial accounts are kept in the same set of books. Such a system will have to afford full information required for costing as well as for Financial Accounts.
- In other words, information and data should be recorded in such a way so as to enable the firm to ascertain the cost (together with the necessary analysis) of each product, job, process, operation or any other identifiable activity.
- For instance, purchases are analyzed by nature of material and its end-use. Purchases account is eliminated and direct postings are made to stores control account, work-in-progress accounts, or overhead account. Payroll is straightway analyzed into direct labour and overheads.
- It also ensures the ascertainment of marginal cost, variances, abnormal losses and gains. In fact all information that management requires from a system of costing for doing its work properly is made available.
- The integrated accounts give full information in such a manner so that the profit and loss account and the balance sheet can be prepared according to the requirements of law and the management maintains full control over the liabilities and assets of its business.

Advantages of Integrated Accounting System

- 1) Since there is one set of accounts, thus there is one figure of profit. Hence the question of reconciliation of costing profit and financial profit does not arise.
- 2) There is no duplication of recording of entries and efforts to maintain separate set of books.
- 3) Costing data are available from books of original entry and hence no delay is caused in obtaining information.
- 4) The operation of the system is facilitated with the use of mechanized accounting.
- 5) Centralization of accounting function results in economy.