

# INTERMEDIATE EXAMINATION

December 2019

P-8(CAC)  
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

- (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

- (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

6. (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.
- 7
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

**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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