

PAPER – 3: COST AND MANAGEMENT ACCOUNTING

QUESTIONS

Material Cost

1. Aditya Brothers supplies surgical gloves to nursing homes and polyclinics in the city. These surgical gloves are sold in pack of 10 pairs at price of ₹ 250 per pack.

For the month of April 2018, it has been anticipated that a demand for 60,000 packs of surgical gloves will arise. Aditya Brothers purchases these gloves from the manufacturer at ₹ 228 per pack within a 4 to 6 days lead time. The ordering and related cost is ₹ 240 per order. The storage cost is 10% p.a. of average inventory investment.

Required:

- (i) CALCULATE the Economic Order Quantity (EOQ)
- (ii) CALCULATE the number of orders needed every year
- (iii) CALCULATE the total cost of ordering and storage of the surgical gloves.
- (iv) DETERMINE when should the next order to be placed. (Assuming that the company does maintain a safety stock and that the present inventory level is 10,033 packs with a year of 360 working days).

Employee Cost

2. Jyoti Ltd. wants to ascertain the profit lost during the year 2017-18 due to increased labour turnover. For this purpose, it has given you the following information:

- (1) Training period of the new recruits is 50,000 hours. During this period their productivity is 60% of the experienced workers. Time required by an experienced worker is 10 hours per unit.
- (2) 20% of the output during training period was defective. Cost of rectification of a defective unit was ₹ 25.
- (3) Potential productive hours lost due to delay in recruitment were 1,00,000 hours.
- (4) Selling price per unit is ₹ 180 and P/V ratio is 20%.
- (5) Settlement cost of the workers leaving the organization was ₹ 1,83,480.
- (6) Recruitment cost was ₹ 1,56,340
- (7) Training cost was ₹ 1,13,180

Required:

CALCULATE the profit lost by the company due to increased labour turnover during the year 2017-18.

Overheads: Absorption Costing Method

3. PQR manufacturers – a small scale enterprise, produces a single product and has adopted a policy to recover the production overheads of the factory by adopting a single blanket rate based on machine hours. The annual budgeted production overheads for the year 2017-18 are ₹ 44,00,000 and budgeted annual machine hours are 2,20,000.

For a period of first six months of the financial year 2017-18, following information were extracted from the books:

Actual production overheads	₹ 24,88,200
Amount included in the production overheads:	
Paid as per court's order	₹ 1,28,000
Expenses of previous year booked in current year	₹ 1,200
Paid to workers for strike period under an award	₹ 44,000
Obsolete stores written off	₹ 6,700

Production and sales data of the concern for the first six months are as under:

Production:

Finished goods	24,000 units
Works-in-progress	
(50% complete in every respect)	18,000 units

Sale:

Finished goods	21,600 units
----------------	--------------

The actual machine hours worked during the period were 1,16,000 hours. It is revealed from the analysis of information that $\frac{1}{4}$ of the under/ over absorption was due to defective production policies and the balance was attributable to increase/decrease in costs.

Required:

- DETERMINE the amount of under/over absorption of production overheads for the six-month period of 2017-18.
- EXAMINE the accounting treatment of under/ over absorption of production overheads, and
- CALCULATE the apportionment of the under/ over absorbed overheads over the items.

Activity Based Costing

4. G-2020 Ltd. is a manufacturer of a range of goods. The cost structure of its different products is as follows:

Particulars	Product	Product	Product	
	A	B	C	
Direct Materials	50	40	40	₹/u
Direct Labour @ ₹ 10/ hour	30	40	50	₹/u
Production Overheads	30	40	50	₹/u
Total Cost	110	120	140	₹/u
Quantity Produced	10,000	20,000	30,000	Units

G-2020 Ltd. was absorbing overheads on the basis of direct labour hours. A newly appointed management accountant has suggested that the company should introduce ABC system and has identified cost drivers and cost pools as follows:

Activity Cost Pool	Cost Driver	Associated Cost (₹)
Stores Receiving	Purchase Requisitions	2,96,000
Inspection	Number of Production Runs	8,94,000
Dispatch	Orders Executed	2,10,000
Machine Setup	Number of Setups	12,00,000

The following information is also supplied:

Details	Product A	Product B	Product C
No. of Setups	360	390	450
No. of Orders Executed	180	270	300
No. of Production Runs	750	1,050	1,200
No. of Purchase Requisitions	300	450	500

Required

CALCULATE activity based production cost of all the three products.

Cost Sheet

5. From the following figures, CALCULATE cost of production and profit for the month of March 2018.

	Amount (₹)		Amount (₹)
Stock on 1 st March, 2018		Purchase of raw materials	28,57,000
- Raw materials	6,06,000	Sale of finished goods	1,34,00,000
- Finished goods	3,59,000	Direct wages	37,50,000

Stock on 31 st March, 2018		Factory expenses	21,25,000
- Raw materials	7,50,000	Office and administration expenses	10,34,000
- Finished goods	3,09,000	Selling and distribution expenses	7,50,000
Work-in-process:		Sale of scrap	26,000
- On 1 st March, 2018	12,56,000		
- On 31 st March, 2018	14,22,000		

Cost Accounting System

6. As of 31st March, 2018, the following balances existed in a firm's cost ledger, which is maintained separately on a double entry basis:

	Debit (₹)	Credit (₹)
Stores Ledger Control A/c	3,20,000	—
Work-in-process Control A/c	1,52,000	—
Finished Goods Control A/c	2,56,000	—
Manufacturing Overhead Control A/c	—	28,000
Cost Ledger Control A/c	—	7,00,000
	7,28,000	7,28,000

During the next quarter, the following items arose:

	(₹)
Finished Product (at cost)	2,35,500
Manufacturing overhead incurred	91,000
Raw material purchased	1,36,000
Factory wages	48,000
Indirect labour	20,600
Cost of sales	1,68,000
Materials issued to production	1,26,000
Sales returned (at cost)	8,000
Materials returned to suppliers	11,000
Manufacturing overhead charged to production	86,000

Required:

PREPARE the Cost Ledger Control A/c, Stores Ledger Control A/c, Work-in-process Control A/c, Finished Stock Ledger Control A/c, Manufacturing Overhead Control A/c, Wages Control A/c, Cost of Sales A/c and the Trial Balance at the end of the quarter as per costing records.

Batch Costing

7. Arnab Confectioners (AC) owns a bakery which is used to make bakery items like pastries, cakes and muffins. AC use to bake at least 50 units of any item at a time. A customer has given an order for 600 cakes. To process a batch, the following cost would be incurred:

Direct materials - ₹ 5,000

Direct wages - ₹ 500 (irrespective of units)

Oven set- up cost - ₹750 (irrespective of units)

AC absorbs production overheads at a rate of 20% of direct wages cost. 10% is added to the total production cost of each batch to allow for selling, distribution and administration overheads.

AC requires a profit margin of 25% of sales value.

Required:

- (i) DETERMINE the price to be charged for 600 cakes.
- (ii) CALCULATE cost and selling price per cake.
- (iii) DETERMINE what would be selling price per unit If the order is for 605 cakes.

Job Costing

8. A factory uses job costing. The following data are obtained from its books for the year ended 31st March, 2018:

	Amount (₹)
Direct materials	9,00,000
Direct wages	7,50,000
Selling and distribution overheads	5,25,000
Administration overheads	4,20,000
Factory overheads	4,50,000
Profit	6,09,000

Required:

- (i) PREPARE a Job Cost sheet indicating the Prime cost, Cost of Production, Cost of sales and the Sales value.
- (ii) In 2018-19, the factory received an order for a job. It is estimated that direct materials required will be ₹ 2,40,000 and direct labour will cost ₹ 1,50,000. DETERMINE what should be the price for the job if factory intends to earn the same rate of profit on sales assuming that the selling and distribution overheads have gone up by 15%. The factory overheads is recovered as percentage of wages paid, whereas, other overheads as a percentage of cost of production, based on cost rates prevailing in the previous year.

Process Costing

9. Star Ltd. manufactures chemical solutions for the food processing industry. The manufacturing takes place in a number of processes and the company uses FIFO method to value work-in-process and finished goods. At the end of the last month, a fire occurred in the factory and destroyed some of paper containing records of the process operations for the month.

Star Ltd. needs your help to prepare the process accounts for the month during which the fire occurred. You have been able to gather some information about the month's operating activities but some of the information could not be retrieved due to the damage. The following information was salvaged:

- Opening work-in-process at the beginning of the month was 800 litres, 70% complete for labour and 60% complete for overheads. Opening work-in-process was valued at ₹ 26,640.
- Closing work-in-process at the end of the month was 160 litres, 30% complete for labour and 20% complete for overheads.
- Normal loss is 10% of input and total losses during the month were 1,800 litres partly due to the fire damage.
- Output sent to finished goods warehouse was 4,200 litres.
- Losses have a scrap value of ₹15 per litre.
- All raw materials are added at the commencement of the process.
- The cost per equivalent unit (litre) is ₹39 for the month made up as follows:

	(₹)
Raw Material	23
Labour	7
Overheads	9
	39

Required:

- (i) CALCULATE the quantity (in litres) of raw material inputs during the month.
- (ii) CALCULATE the quantity (in litres) of normal loss expected from the process and the quantity (in litres) of abnormal loss / gain experienced in the month.
- (iii) CALCULATE the values of raw material, labour and overheads added to the process during the month.
- (iv) PREPARE the process account for the month.

Joint Products & By Products

10. A company processes a raw material in its Department 1 to produce three products, viz. A, B and X at the same split-off stage. During a period 1,80,000 kgs of raw materials were processed in Department 1 at a total cost of ₹ 12,88,000 and the resultant output of A, B and X were 18,000 kgs, 10,000 kgs and 54,000 kgs respectively. A and B were further processed in Department 2 at a cost of ₹ 1,80,000 and ₹ 1,50,000 respectively.

X was further processed in Department 3 at a cost of ₹1,08,000. There is no waste in further processing. The details of sales affected during the period were as under:

	A	B	X
Quantity Sold (kgs.)	17,000	5,000	44,000
Sales Value (₹)	12,24,000	2,50,000	7,92,000

There were no opening stocks. If these products were sold at split-off stage, the selling prices of A, B and X would have been ₹ 50, ₹ 40 and ₹ 10 per kg respectively.

Required:

- PREPARE a statement showing the apportionment of joint costs to A, B and X.
- PREPARE a statement showing the cost per kg of each product indicating joint cost and further processing cost and total cost separately.
- PREPARE a statement showing the product wise and total profit for the period.
- DECIDE with supporting calculations as to whether any or all the products should be further processed or not

Service Costing

11. AD Higher Secondary School (AHSS) offers courses for 11th & 12th standard in three streams i.e. Arts, Commerce and Science. AHSS runs higher secondary classes along with primary and secondary classes but for accounting purpose it treats higher secondary as a separate responsibility centre. The Managing committee of the school wants to revise its fee structure for higher secondary students. The accountant of the school has provided the following details for a year:

	Amount (₹)
Teachers' salary (15 teachers × ₹35,000 × 12 months)	63,00,000
Principal's salary	14,40,000
Lab attendants' salary (2 attendants × ₹15,000 × 12 months)	3,60,000
Salary to library staff	1,44,000
Salary to peons (4 peons × ₹10,000 × 12 months)	4,80,000
Salary to other staffs	4,80,000

Examinations expenditure	10,80,000
Office & Administration cost	15,20,000
Annual day expenses	4,50,000
Sports expenses	1,20,000

Other information:

(i)

	Standard 11 & 12			Primary & Secondary
	Arts	Commerce	Science	
No. of students	120	360	180	840
Lab classes in a year	0	0	144	156
No. of examinations in a year	2	2	2	2
Time spent at library per student per year	180 hours	120 hours	240 hours	60 hours
Time spent by principal for administration	208 hours	312 hours	480 hours	1,400 hours
Teachers for 11 & 12 standard	4	5	6	-

- (ii) One teacher who teaches economics for Arts stream students also teaches commerce stream students. The teacher takes 1,040 classes in a year, it includes 208 classes for commerce students.
- (iii) There is another teacher who teaches mathematics for Science stream students also teaches business mathematics to commerce stream students. She takes 1,100 classes a year, it includes 160 classes for commerce students.
- (iv) One peon is fully dedicated for higher secondary section. Other peons dedicate their 15% time for higher secondary section.
- (v) All school students irrespective of section and age participates in annual functions and sports activities.

Required:

- (i) CALCULATE cost per student per annum for all three streams.
- (ii) If the management decides to take uniform fee of ₹ 1,000 per month from all higher secondary students, CALCULATE stream wise profitability.
- (iii) If management decides to take 10% profit on cost, COMPUTE fee to be charged from the students of all three streams respectively.

Standard Costing

12. ABC Ltd. had prepared the following estimation for the month of April:

	Quantity	Rate (₹)	Amount (₹)
Material-A	800 kg.	45.00	36,000
Material-B	600 kg.	30.00	18,000
Skilled labour	1,000 hours	37.50	37,500
Unskilled labour	800 hours	22.00	17,600

Normal loss was expected to be 10% of total input materials and an idle labour time of 5% of expected labour hours was also estimated.

At the end of the month the following information has been collected from the cost accounting department:

The company has produced 1,480 kg. finished product by using the followings:

	Quantity	Rate (₹)	Amount (₹)
Material-A	900 kg.	43.00	38,700
Material-B	650 kg.	32.50	21,125
Skilled labour	1,200 hours	35.50	42,600
Unskilled labour	860 hours	23.00	19,780

Required:

CALCULATE:

- (i) Material Cost Variance;
- (ii) Material Price Variance;
- (iii) Material Mix Variance;
- (iv) Material Yield Variance;
- (v) Labour Cost Variance;
- (vi) Labour Efficiency Variance and
- (vii) Labour Yield Variance.

Marginal Costing

13. A company manufactures two types of herbal product, A and B. Its budget shows profit figures after apportioning the fixed joint cost of ₹15 lacs in the proportion of the numbers of units sold. The budget for 2018, indicates:

	A	B
Profit (₹)	1,50,000	30,000
Selling Price / unit (₹)	200	120
P/V Ratio (%)	40	50

Required:

COMPUTE the best option among the following, if the company expects that the number of units to be sold would be equal.

- Due to exchange in a manufacturing process, the joint fixed cost would be reduced by 15% and the variables would be increased by 7½ %.
- Price of A could be increased by 20% as it is expected that the price elasticity of demand would be unity over the range of price.
- Simultaneous introduction of both the option, viz, (i) and (ii) above.

Budget and Budgetary Control

14. G Ltd. manufactures two products called 'M' and 'N'. Both products use a common raw material Z. The raw material Z is purchased @ ₹ 36 per kg from the market. The company has decided to review inventory management policies for the forthcoming year.

The following information has been extracted from departmental estimates for the year ended 31st March 2018 (the budget period):

	Product M	Product N
Sales (units)	28,000	13,000
Finished goods stock increase by year-end	320	160
Post-production rejection rate (%)	4	6
Material Z usage (per completed unit, net of wastage)	5 kg	6 kg
Material Z wastage (%)	10	5

Additional information:

- Usage of raw material Z is expected to be at a constant rate over the period.
- Annual cost of holding one unit of raw material in stock is 11% of the material cost.
- The cost of placing an orders is ₹ 320 per order.
- The management of G Ltd. has decided that there should not be more than 40 orders in a year for the raw material Z.

Required:

- (i) PREPARE functional budgets for the year ended 31st March 2018 under the following headings:
- (a) Production budget for Products M and N (in units).
- (b) Purchases budget for Material Z (in kgs and value).
- (ii) CALCULATE the Economic Order Quantity for Material Z (in kgs).
- (iii) If there is a sole supplier for the raw material Z in the market and the supplier do not sale more than 4,000 kg. of material Z at a time. Keeping the management purchase policy and production quantity mix into consideration, CALCULATE the maximum number of units of Product M and N that could be produced.

Miscellaneous

15. (i) DISCUSS on (a) Discretionary Cost Centre and (b) Investment Centre
- (ii) DESCRIBE the three advantages of Cost-plus contract.
- (iii) STATE the advantages of Zero-based budgeting.
- (iv) DESCRIBE Operation costing with two examples of industries where operation costing is applied.

SUGGESTED HINTS/ANSWERS

1. (i) Calculation of Economic Order Quantity:

$$EOQ = \sqrt{\frac{2 \times A \times O}{C_i}} = \sqrt{\frac{2 \times (60,000 \text{ packs} \times 12 \text{ months}) \times ₹ 240}{₹ 228 \times 10\%}}$$

$$= 3,893.3 \text{ packs or } 3,893 \text{ packs.}$$

- (ii) Number of orders per year

$$\frac{\text{Annual requirements}}{\text{E.O.Q}} = \frac{7,20,000 \text{ packs}}{3,893 \text{ packs}} = 184.9 \text{ or } 185 \text{ orders a year}$$

- (iii) Ordering and storage costs

	(₹)
Ordering costs :- 185 orders × ₹ 240	44,400.00
Storage cost :- ½ (3,893 packs × 10% of ₹228)	<u>44,380.20</u>
Total cost of ordering & storage	<u>88,780.20</u>

(iv) Timing of next order

(a) Day's requirement served by each order.

$$\text{Number of days requirements} = \frac{\text{No. of working days}}{\text{No. of order in a year}} = \frac{360 \text{ days}}{185 \text{ orders}} = 1.94 \text{ days}$$

supply.

This implies that each order of 3,893 packs supplies for requirements of 1.94 days only.

(b) Days requirement covered by inventory

$$= \frac{\text{Units in inventory}}{\text{Economic order quantity}} \times (\text{Day's requirement served by an order})$$

$$\therefore \frac{10,033 \text{ packs}}{3,893 \text{ packs}} \times 1.94 \text{ days} = 5 \text{ days requirement}$$

(c) Time interval for placing next order

Inventory left for day's requirement – Average lead time of delivery

$$5 \text{ days} - 5 \text{ days} = 0 \text{ days}$$

This means that next order for the replenishment of supplies has to be placed immediately.

$$2. \text{ Output by experienced workers in 50,000 hours} = \frac{50,000}{10} = 5,000 \text{ units}$$

$$\therefore \text{Output by new recruits} = 60\% \text{ of } 5,000 = 3,000 \text{ units}$$

$$\text{Loss of output} = 5,000 - 3,000 = 2,000 \text{ units}$$

$$\begin{aligned} \text{Total loss of output} &= \text{Due to delay recruitment} + \text{Due to inexperience} \\ &= 10,000 + 2,000 = 12,000 \text{ units} \end{aligned}$$

$$\text{Contribution per unit} = 20\% \text{ of } ₹180 = ₹ 36$$

$$\text{Total contribution lost} = ₹36 \times 12,000 \text{ units} = ₹ 4,32,000$$

$$\text{Cost of repairing defective units} = 3,000 \text{ units} \times 0.2 \times ₹ 25 = ₹ 15,000$$

Profit forgone due to labour turnover

	(₹)
Loss of Contribution	4,32,000
Cost of repairing defective units	15,000
Recruitment cost	1,56,340

Training cost	1,13,180
Settlement cost of workers leaving	1,83,480
Profit forgone in 2017-18	9,00,000

3. (i) Amount of under/ over absorption of production overheads during the period of first six months of the year 2017-2018:

	Amount (₹)	Amount (₹)
Total production overheads actually incurred during the period		24,88,200
Less: Amount paid to worker as per court order	1,28,000	
Expenses of previous year booked in the current year	1,200	
Wages paid for the strike period under an award	44,000	
Obsolete stores written off	6,700	(1,79,900)
		23,08,300
Less: Production overheads absorbed as per machine hour rate (1,16,000 hours × ₹20*)		23,20,000
Amount of over absorbed production overheads		11,700

$$\text{*Budgeted Machine hour rate (Blanket rate)} = \frac{\text{₹44,00,000}}{2,20,000 \text{ hours}} = \text{₹ 20 per hour}$$

- (ii) **Accounting treatment of over absorbed production overheads:** As, one fourth of the over absorbed overheads were due to defective production policies, this being abnormal, hence should be transferred to Costing Profit and Loss Account.

Amount to be transferred to Costing Profit and Loss Account = $(11,700 \times \frac{1}{4}) = \text{₹ 2,925}$

Balance of over absorbed production overheads should be distributed over Works in progress, finished goods and Cost of sales by applying supplementary rate*.

Amount to be distributed = $(11,700 \times \frac{3}{4}) = \text{₹ 8,775}$

$$\text{Supplementary rate} = \frac{\text{₹ 8,775}}{33,000 \text{ units}} = \text{₹ 0.2659 per unit}$$

- (iii) Apportionment of under absorbed production overheads over WIP, Finished goods and Cost of sales:

	Equivalent completed units	Amount (₹)
Work-in-Progress (18,000 units × 50% × ₹ 0.2659)	9,000	2,393
Finished goods (2,400 units × ₹ 0.2659)	2,400	638
Cost of sales (21,600 units × ₹ 0.2659)	21,600	5,744
Total	33,000	8,775

4. The total production overheads are ₹26,00,000:

Product A: 10,000 × ₹ 30 = ₹ 3,00,000

Product B: 20,000 × ₹ 40 = ₹ 8,00,000

Product C: 30,000 × ₹ 50 = ₹ 15,00,000

On the basis of ABC analysis this amount will be apportioned as follows:

Statement Showing “Activity Based Production Cost”

Activity Cost Pool	Cost Driver	Ratio	Total Amount (₹)	A (₹)	B (₹)	C (₹)
Stores Receiving	Purchase Requisition	6:9:10	2,96,000	71,040	1,06,560	1,18,400
Inspection	Production Runs	5:7:8	8,94,000	2,23,500	3,12,900	3,57,600
Dispatch	Orders Executed	6:9:10	2,10,000	50,400	75,600	84,000
Machine Setups	Setups	12:13:15	12,00,000	3,60,000	3,90,000	4,50,000
Total Activity Cost				7,04,940	8,85,060	10,10,000
Quantity Produces				10,000	20,000	30,000
Unit Cost (Overheads)				70.49	44.25	33.67
Add: Conversion Cost (Material + Labour)				80	80	90
Total				150.49	124.25	123.67

5. Calculation of Cost of Production and Profit for the month ended April 2018:

Particulars	Amount (₹)	Amount (₹)
Materials consumed:		
- Opening stock	6,06,000	

- Add: Purchases	28,57,000	
	34,63,000	
- Less: Closing stock	(7,50,000)	27,13,000
Direct wages		37,50,000
Prime cost		64,63,000
Factory expenses		21,25,000
		85,88,000
Add: Opening W-I-P		12,56,000
Less: Closing W-I-P		(14,22,000)
Factory cost		84,22,000
Less: Sale of scrap		(26,000)
Cost of Production		83,96,000
Add: Opening stock of finished goods		6,06,000
Less: Closing stock of finished goods		(3,59,000)
Cost of Goods Sold		86,43,000
Office and administration expenses		10,34,000
Selling and distribution expenses		7,50,000
Cost of Sales		1,04,27,000
Profit (balancing figure)		29,73,000
Sales		1,34,00,000

6.

Cost Ledger Control Account

Particulars	(₹)	Particulars	(₹)
To Store Ledger Control A/c	11,000	By Opening Balance	7,00,000
To Balance c/d	9,84,600	By Store ledger control A/c	1,36,000
		By Manufacturing Overhead Control A/c	91,000
		By Wages Control A/c	68,600
	9,95,600		9,95,600

Stores Ledger Control Account

Particulars	(₹)	Particulars	(₹)
To Opening Balance	3,20,000	By WIP Control A/c	1,26,000

To Cost ledger control A/c	1,36,000	By Cost ledger control A/c (Returns)	11,000
		By Balance c/d	3,19,000
	4,56,000		4,56,000

WIP Control Account

Particulars	(₹)	Particulars	(₹)
To Opening Balance	1,52,000	By Finished Stock Ledger Control A/c	2,35,500
To Wages Control A/c	48,000	By Balance c/d	1,76,500
To Stores Ledger Control A/c	1,26,000		
To Manufacturing Overhead Control A/c	86,000		
	4,12,000		4,12,000

Finished Stock Ledger Control Account

Particulars	(₹)	Particulars	(₹)
To Opening Balance	2,56,000	By Cost of Sales	1,68,000
To WIP Control A/c	2,35,500	By Balance c/d	3,31,500
To Cost of Sales A/c (Sales Return)	8,000		
	4,99,500		4,99,500

Manufacturing Overhead Control Account

Particulars	(₹)	Particulars	(₹)
To Cost Ledger Control A/c	91,000	By Opening Balance	28,000
To Wages Control A/c	20,600	By WIP Control A/c	86,000
To Over recovery c/d	2,400		
	1,14,000		1,14,000

Wages Control Account

Particulars	(₹)	Particulars	(₹)
To Transfer to Cost Ledger Control A/c	68,600	By WIP Control A/c	48,000
		By Manufacturing Overhead Control A/c	20,600
	68,600		68,600

Cost of Sales Account

Particulars	(₹)	Particulars	(₹)
To Finished Stock Ledger Control A/c	1,68,000	By Finished Stock Ledger Control A/c (Sales return)	8,000
		By Balance c/d	1,60,000
	1,68,000		1,68,000

Trial Balance

	(₹)	(₹)
Stores Ledger Control A/c	3,19,000	
WIP Control A/c	1,76,500	
Finished Stock Ledger Control A/c	3,31,500	
Manufacturing Overhead Control A/c	--	2,400
Cost of Sales A/c	1,60,000	
Cost ledger control A/c	--	9,84,600
	9,87,000	9,87,000

7. Statement of cost per batch and per order

No. of batch = 600 units ÷ 50 units = 12 batches

	Particulars	Cost per batch (₹)	Total Cost (₹)
	Direct Material Cost	5,000.00	60,000
	Direct Wages	500.00	6,000
	Oven set-up cost	750.00	9,000
	Add: Production Overheads (20% of Direct wages)	100.00	1,200
	Total Production cost	6,350.00	76,200
	Add: S&D and Administration overheads (10% of Total production cost)	635.00	7,620
	Total Cost	6,985.00	83,820
	Add: Profit (1/3 rd of total cost)	2,328.33	27,940
(i)	Sales price	9,313.33	1,11,760
	No. of units in batch	50 units	
(ii)	Cost per unit (₹6,985 ÷ 50 units)	139.70	
	Selling price per unit (9,313.33 ÷ 50 units)	186.27	

(iii) If the order is for 605 cakes, then selling price per cake would be as below:

Particulars	Total Cost (₹)
Direct Material Cost	60,500
Direct Wages (₹500 × 13 batches)	6,500
Oven set-up cost (₹750 × 13 batches)	9,750
Add: Production Overheads (20% of Direct wages)	1,300
Total Production cost	78,050
Add: S&D and Administration overheads (10% of Total production cost)	7,805
Total Cost	85,855
Add: Profit (1/3 rd of total cost)	28,618
Sales price	1,14,473
No. of units	605 units
Selling price per unit (₹1,14,473 ÷ 605 units)	189.21

8. (i)

Production Statement

For the year ended 31st March, 2018

	Amount (₹)
Direct materials	9,00,000
Direct wages	7,50,000
Prime Cost	16,50,000
Factory overheads	4,50,000
Cost of Production	21,00,000
Administration overheads	4,20,000
Selling and distribution overheads	5,25,000
Cost of Sales	30,45,000
Profit	6,09,000
Sales value	36,54,000

Calculation of Rates:

$$1. \text{ Percentage of factory overheads to direct wages} = \frac{\text{₹}4,50,000}{\text{₹}7,50,000} \times 100 = 60\%$$

2. Percentage of administration overheads to Cost of production

$$= \frac{₹4,20,000}{₹21,00,000} \times 100 = 20\%$$
3. Selling and distribution overheads = ₹ 5,25,000 × 115% = ₹ 6,03,750
 Selling and distribution overhead % to Cost of production

$$= \frac{₹6,03,750}{₹21,00,000} \times 100 = 28.75\%$$
4. Percentage of profit to sales = $\frac{₹6,09,000}{₹36,54,000} \times 100 = 16.67\%$

(ii) Calculation of price for the job received in 2018-19

	Amount (₹)
Direct materials	2,40,000
Direct wages	1,50,000
Prime Cost	3,90,000
Factory overheads (60% of ₹1,50,000)	90,000
Cost of Production	4,80,000
Administration overheads (20% of ₹4,80,000)	96,000
Selling and distribution overheads (28.75% of ₹4,80,000)	1,38,000
Cost of Sales	7,14,000
Profit (20% of ₹7,14,000)	1,42,800
Sales value	8,56,800

9. (i) Calculation of Raw Material inputs during the month:

Quantities Entering Process	Litres	Quantities Leaving Process	Litres
Opening WIP	800	Transfer to Finished Goods	4,200
Raw material input (balancing figure)	5,360	Process Losses	1,800
		Closing WIP	160
	6,160		6,160

(ii) Calculation of Normal Loss and Abnormal Loss/Gain

	Litres
Total process losses for month	1,800

Normal Loss (10% input)	536
Abnormal Loss (balancing figure)	1,264

(iii) Calculation of values of Raw Material, Labour and Overheads added to the process:

	Material	Labour	Overheads
Cost per equivalent unit	₹23.00	₹7.00	₹9.00
Equivalent units (litre) (refer the working note)	4,824	4,952	5,016
Cost of equivalent units	₹1,10,952	₹34,664	₹45,144
Add: Scrap value of normal loss (536 units × ₹ 15)	₹8,040	--	--
Total value added	₹1,18,992	₹34,664	₹45,144

Workings:

Statement of Equivalent Units (litre):

Input Details	Units	Output details	Units	Equivalent Production					
				Material		Labour		Overheads	
				Units	(%)	Units	(%)	Units	(%)
Opening WIP	800	Units completed:							
Units introduced	5,360	- Opening WIP	800	--	--	240	30	320	40
		- Fresh inputs	3,400	3,400	100	3,400	100	3,400	100
		Normal loss	536	--	--	--	--	--	--
		Abnormal loss	1,264	1,264	100	1,264	100	1,264	100
		Closing WIP	160	160	100	48	30	32	20
	6,160		6,160	4,824		4,952		5,016	

(iv) Process Account for Month

	Litres	Amount (₹)		Litres	Amount (₹)
To Opening WIP	800	26,640	By Finished goods	4,200	1,63,800

To Raw Materials	5,360	1,18,992	By Normal loss	536	8,040
To Wages	--	34,664	By Abnormal loss	1,264	49,296
To Overheads	--	45,144	By Closing WIP	160	4,304
	6,160	2,25,440		6,160	2,25,440

10. (i) Statement showing the apportionment of joint costs to A, B and X

Products	A	B	X	Total
Output (kg)	18,000	10,000	54,000	
Sales value at the point of split off (₹)	9,00,000 (₹ 50 x 18,000)	4,00,000 (₹ 40 x 10,000)	5,40,000 (₹ 10 x 54,000)	18,40,000
Joint cost apportionment on the basis of sales value at the point of split off (₹)	6,30,000 $\left(\frac{₹ 12,88,000}{₹ 18,40,000} \times ₹ 9,00,000\right)$	2,80,000 $\left(\frac{₹ 12,88,000}{₹ 18,40,000} \times ₹ 4,00,000\right)$	3,78,000 $\left(\frac{₹ 12,88,000}{₹ 18,40,000} \times ₹ 5,40,000\right)$	12,88,000

(ii) Statement showing the cost per kg. of each product (indicating joint cost; further processing cost and total cost separately)

Products	A	B	X
Joint costs apportioned (₹) : (I)	6,30,000	2,80,000	3,78,000
Production (kg) : (II)	18,000	10,000	54,000
Joint cost per kg (₹): (I ÷ II)	35	28	7
Further processing Cost per kg. (₹)	10 $\left(\frac{₹ 1,80,000}{18,000 \text{ kg}}\right)$	15 $\left(\frac{₹ 1,50,000}{10,000 \text{ kg}}\right)$	2 $\left(\frac{₹ 1,08,000}{54,000 \text{ kg}}\right)$
Total cost per kg (₹)	45	43	9

(iii) Statement showing the product wise and total profit for the period

Products	A	B	X	Total
Sales value (₹)	12,24,000	2,50,000	7,92,000	
Add: Closing stock value (₹) (Refer to Working note 2)	45,000	2,15,000	90,000	
Value of production (₹)	12,69,000	4,65,000	8,82,000	26,16,000
Apportionment of joint cost (₹)	6,30,000	2,80,000	3,78,000	
Add: Further processing cost (₹)	1,80,000	1,50,000	1,08,000	

Total cost (₹)	8,10,000	4,30,000	4,86,000	17,26,000
Profit (₹)	4,59,000	35,000	3,96,000	8,90,000

Working Notes

1.

Products	A	B	X
Sales value (₹)	12,24,000	2,50,000	7,92,000
Quantity sold (Kgs.)	17,000	5,000	44,000
Selling price ₹/kg	72	50	18
	$\left(\frac{₹ 12,24,000}{17,000 \text{ kg}} \right)$	$\left(\frac{₹ 2,50,000}{5,000 \text{ kg}} \right)$	$\left(\frac{₹ 7,92,000}{44,000 \text{ kg}} \right)$

2. **Valuation of closing stock:**

Since the selling price per kg of products A, B and X is more than their total costs, therefore closing stock will be valued at cost.

Products	A	B	X	Total
Closing stock (kgs.)	1,000	5,000	10,000	
Cost per kg (₹)	45	43	9	
Closing stock value (₹)	45,000 (₹ 45 x 1,000 kg)	2,15,000 (₹ 43 x 5,000 kg)	90,000 (₹ 9 x 10,000 kg)	3,50,000

(iv) **Calculations for processing decision**

Products	A	B	X
Selling price per kg at the point of split off (₹)	50	40	10
Selling price per kg after further processing (₹) (Refer to working Note 1)	72	50	18
Incremental selling price per kg (₹)	22	10	8
Less: Further processing cost per kg (₹)	(10)	(15)	(2)
Incremental profit (loss) per kg (₹)	12	(5)	6

Product A and X has an incremental profit per unit after further processing, hence, these two products may be further processed. However, further processing of product B is not profitable hence, product B shall be sold at split off point.

11. Calculation of Cost per annum

Particulars	Arts (₹)	Commerce (₹)	Science (₹)	Total (₹)
Teachers' salary (W.N-1)	16,80,000	21,00,000	25,20,000	63,00,000
R-apportionment of Economics & Mathematics teachers' salary (W.N- 2)	(84,000)	1,45,091	(61,091)	-
Principal's salary (W.N-3)	1,24,800	1,87,200	2,88,000	6,00,000
Lab assistants' salary (W.N-4)	-	-	1,72,800	1,72,800
Salary to library staff (W.N-5)	43,200	28,800	57,600	1,29,600
Salary to peons (W.N-6)	31,636	94,909	47,455	1,74,000
Salary to other staffs (W.N-7)	38,400	1,15,200	57,600	2,11,200
Examination expenses (W.N- 8)	86,400	2,59,200	1,29,600	4,75,200
Office & Administration expenses (W.N- 7)	1,21,600	3,64,800	1,82,400	6,68,800
Annual Day expenses (W.N-7)	36,000	1,08,000	54,000	1,98,000
Sports expenses (W.N- 7)	9,600	28,800	14,400	52,800
Total Cost per annum	20,87,636	34,32,000	34,62,764	89,82,400

(i) Calculation of cost per student per annum

Particulars	Arts (₹)	Commerce (₹)	Science (₹)	Total (₹)
Total Cost per annum	20,87,636	34,32,000	34,62,764	89,82,400
No. of students	120	360	180	660
Cost per student per annum	17,397	9,533	19,238	13,610

(ii) Calculation of profitability

Particulars	Arts (₹)	Commerce (₹)	Science (₹)	Total (₹)
Total Fees per annum	12,000	12,000	12,000	
Cost per student per annum	17,397	9,533	19,238	
Profit/ (Loss) per student per annum	(5,397)	2,467	(7,238)	
No. of students	120	360	180	
Total Profit/ (Loss)	(6,47,640)	8,88,120	(13,02,840)	(10,62,360)

(iii) Computation of fees to be charged to earn a 10% profit on cost

Particulars	Arts (₹)	Commerce (₹)	Science (₹)
Cost per student per annum	17,397	9,533	19,238
Add: Profit @10%	1,740	953	1,924
Fees per annum	19,137	10,486	21,162
Fees per month	1,595	874	1,764

Working Notes:

(1) Teachers' salary

Particulars	Arts	Commerce	Science
No. of teachers	4	5	6
Salary per annum (₹)	4,20,000	4,20,000	4,20,000
Total salary	16,80,000	21,00,000	25,20,000

(2) Re-apportionment of Economics and Mathematics teachers' salary

Particulars	Economics		Mathematics	
	Arts	Commerce	Science	Commerce
No. of classes	832	208	940	160
Salary re-apportionment (₹)	(84,000)	84,000	(61,091)	61,091
	$\left(\frac{₹4,20,000}{1,040} \times 208 \right)$		$\left(\frac{₹4,20,000}{1,100} \times 160 \right)$	

- (3) Principal's salary has been apportioned on the basis of time spent by him for administration of classes.
- (4) Lab attendants' salary has been apportioned on the basis of lab classes attended by the students.
- (5) Salary of library staffs are apportioned on the basis of time spent by the students in library.
- (6) Salary of Peons are apportioned on the basis of number of students. The peons' salary allocable to higher secondary classes is calculated as below:

	Amount (₹)
Peon dedicated for higher secondary	1,20,000

(1 peon × ₹10,000 × 12 months) Add: 15% of other peons' salary {15% of (3 peons × ₹10,000 × 12 months)}	54,000
	1,74,000

- (7) Salary to other staffs, office & administration cost, Annual day expenses and sports expenses are apportioned on the basis of number of students.
- (8) Examination Expenses has been apportion taking number of students and number examinations into account.

12. Material Variances:

Material	SQ (WN-1)	SP (₹)	SQ × SP (₹)	RSQ (WN-2)	RSQ × SP (₹)	AQ	AQ × SP (₹)	AP (₹)	AQ × AP (₹)
A	940 kg.	45.00	42,300	886 kg.	39,870	900 kg.	40,500	43.00	38,700
B	705 kg.	30.00	21,150	664 kg.	19,920	650 kg.	19,500	32.50	21,125
	1645 kg		63,450	1550 kg	59,790	1550 kg	60,000		59,825

WN-1: Standard Quantity (SQ):

$$\text{Material A-} \left(\frac{800 \text{ kg.}}{0.9 \times 1,400 \text{ kg.}} \times 1,480 \text{ kg.} \right) = 939.68 \text{ or } 940 \text{ kg.}$$

$$\text{Material B-} \left(\frac{600 \text{ kg.}}{0.9 \times 1,400 \text{ kg.}} \times 1,480 \text{ kg.} \right) = 704.76 \text{ or } 705 \text{ kg.}$$

WN- 2: Revised Standard Quantity (RSQ):

$$\text{Material A-} \left(\frac{800 \text{ kg.}}{1,400 \text{ kg.}} \times 1,550 \text{ kg.} \right) = 885.71 \text{ or } 886 \text{ kg.}$$

$$\text{Material B-} \left(\frac{600 \text{ kg.}}{1,400 \text{ kg.}} \times 1,550 \text{ kg.} \right) = 664.28 \text{ or } 664 \text{ kg.}$$

- (i) Material Cost Variance (A + B) = {(SQ × SP) – (AQ × AP)}
= {63,450 – 59,825} = 3,625 (F)
- (ii) Material Price Variance (A + B) = {(AQ × SP) – (AQ × AP)}
= {60,000 – 59,825} = 175 (F)
- (iii) Material Mix Variance (A + B) = {(RSQ × SP) – (AQ × SP)}

$$= \{59,790 - 60,000\} = 210 \text{ (A)}$$

$$\text{(iv) Material Yield Variance (A + B)} = \{(SQ \times SP) - (RSQ \times SP)\}$$

$$= \{63,450 - 59,790\} = 3,660 \text{ (F)}$$

Labour Variances:

Labour	SH (WN-3)	SR (₹)	SH × SR (₹)	RSH (WN-4)	RSH × SR (₹)	AH	AH × SR (₹)	AR (₹)	AH × AR (₹)
Skilled	1,116 hrs	37.50	41,850	1144	42,900	1,200	45,000	35.50	42,600
Unskilled	893 hrs	22.00	19,646	916	20,152	860	18,920	23.00	19,780
	2,009 hrs		61,496	2,060	63,052	2,060	63,920		62,380

WN- 3: Standard Hours (SH):

$$\text{Skilled labour-} \left(\frac{0.95 \times 1,000 \text{ hr.}}{0.90 \times 1,400 \text{ kg.}} \times 1,480 \text{ kg.} \right) = 1,115.87 \text{ or } 1,116 \text{ hrs.}$$

$$\text{Unskilled labour-} \left(\frac{0.95 \times 800 \text{ hr.}}{0.90 \times 1,400 \text{ kg.}} \times 1,480 \text{ kg.} \right) = 892.69 \text{ or } 893 \text{ hrs.}$$

WN- 4: Revised Standard Hours (RSH):

$$\text{Skilled labour-} \left(\frac{1,000 \text{ hr.}}{1,800 \text{ hr.}} \times 2,060 \text{ hr.} \right) = 1,144.44 \text{ or } 1,144 \text{ hrs.}$$

$$\text{Unskilled labour-} \left(\frac{800 \text{ hr.}}{1,800 \text{ hr.}} \times 2,060 \text{ hr.} \right) = 915.56 \text{ or } 916 \text{ hrs.}$$

$$\begin{aligned} \text{(v) Labour Cost Variance (Skilled + Unskilled)} &= \{(SH \times SR) - (AH \times AR)\} \\ &= \{61,496 - 62,380\} = 884 \text{ (A)} \\ \text{(vi) Labour Efficiency Variance (Skilled + Unskilled)} &= \{(SH \times SR) - (AH \times SR)\} \\ &= \{61,496 - 63,920\} = 2,424 \text{ (A)} \\ \text{(vii) Labour Yield Variance (Skilled + Unskilled)} &= \{(SH \times SR) - (RSH \times SR)\} \\ &= \{61,496 - 63,052\} = 1,556 \text{ (A)} \end{aligned}$$

13. Option (i)

Increase in profit when due to change in a manufacturing process there is reduction in joint fixed cost and increase in variable costs.

(₹)	
Revised Contribution from 12,000 units of A due to 7.5% increase in Variable Cost {12,000 units × (₹200 – ₹129)}	8,52,000
Revised Contribution from 12,000 units of B due to 7.5% increase in Variable Cost {12,000 units × (₹120 – ₹64.50)}	6,66,000
Total Revised Contribution	15,18,000
Less: Fixed Cost (₹15,00,000 – 15% × ₹15,00,000)	12,75,000
Revised Profit	2,43,000
Less: Existing Profit	1,80,000
Increase in Profit	63,000

Option (ii)

Increase in profit when the price of product A increased by 20% and the price elasticity of its demand would be unity over the range of price.

(₹)	
Budgeted Revenue from Product A (12,000 units × ₹200)	24,00,000
Revised Demand (in units) (₹24,00,000 / ₹240)	10,000
Revised Contribution (in ₹) [10,000 units × (₹240 – ₹120)]	12,00,000
Less: Existing Contribution (12,000 units × ₹80)	9,60,000
Increase in Profit (Contribution)	2,40,000

***Note:** Since Price Elasticity of Demand is 1, therefore the Revenue in respect of Products will remain same.

Option (iii)

Increase in profit on the simultaneous introduction of above two options.

(₹)	
Revised Contribution from Product A [10,000 units × (₹240 – ₹129)]	11,10,000
Revised Contribution from Product B [12,000 units × (₹120 – ₹64.50)]	6,66,000
Total Revised Contribution	17,76,000
Less: Revised Fixed Cost	12,75,000
Revised Profit	5,01,000
Less: Existing Profit	1,80,000
Increase in Profit	3,21,000

A comparison of increase in profit figures under above three options clearly indicates that the option (iii) is the best as it increases the profit of the concern by ₹3,21,000.

Note: The budgeted profit / (loss) for 2018 in respect of products A and B should be ₹ 2,10,000 and (₹30,000) respectively instead of ₹ 1,50,000 and ₹ 30,000.

Workings

1. Contribution per unit of each product:

	Product	
	A (₹)	B (₹)
Contribution <i>per unit</i> (Sales × P/V Ratio)	80 (₹200 × 40%)	60 (₹120 × 50%)

2. Number of units to be sold:

$$\text{Total Contribution} - \text{Fixed Cost} = \text{Profit}$$

Let x be the number of units of each product sold, therefore:

$$(80x + 60x) - ₹15,00,000 = ₹1,50,000 + ₹30,000$$

$$\text{Or } x = 12,000 \text{ units}$$

14. (i) (a) Production Budget (in units) for the year ended 31st March 2016

	Product M	Product N
Budgeted sales (units)	28,000	13,000
Add: Increase in closing stock	320	160
No. good units to be produced	28,320	13,160
Post production rejection rate	4%	6%
No. of units to be produced	29,500	14,000
	$\left(\frac{28,320}{0.96} \right)$	$\left(\frac{13,160}{0.94} \right)$

(b) Purchase budget (in kgs and value) for Material Z

	Product M	Product N
No. of units to be produced	29,500	14,000
Usage of Material Z per unit of production	5 kg.	6 kg.
Material needed for production	1,47,500 kg.	84,000 kg.
Materials to be purchased	1,63,889 kg.	88,421 kg.

	$\left(\frac{1,47,500}{0.90}\right)$	$\left(\frac{84,000}{0.95}\right)$
Total quantity to be purchased	2,52,310 kg.	
Rate per kg. of Material Z	₹36	
Total purchase price	₹90,83,160	

(ii) Calculation of Economic Order Quantity for Material Z

$$EOQ = \sqrt{\frac{2 \times 2,52,310 \text{ kg.} \times ₹320}{₹36 \times 11\%}} = \sqrt{\frac{16,14,78,400}{₹3.96}} = 6,385.72 \text{ kg.}$$

(iii) Since, the maximum number of order per year can not be more than 40 orders and the maximum quantity per order that can be purchased is 4,000 kg. Hence, the total quantity of Material Z that can be available for production:

$$= 4,000 \text{ kg.} \times 40 \text{ orders} = 1,60,000 \text{ kg.}$$

	Product M	Product N
Material needed for production to maintain the same production mix	1,03,929 kg. $\left(1,60,000 \times \frac{1,63,889}{2,52,310}\right)$	56,071 kg. $\left(1,60,000 \times \frac{88,421}{2,52,310}\right)$
Less: Process wastage	10,393 kg.	2,804 kg.
Net Material available for production	93,536 kg.	53,267 kg.
Units to be produced	18,707 units $\left(\frac{93,536 \text{ kg.}}{5 \text{ kg.}}\right)$	8,878 units $\left(\frac{53,267 \text{ kg.}}{6 \text{ kg.}}\right)$

15. (i) (a) **Discretionary Cost Centre:** The cost centre whose output cannot be measured in financial terms, thus input-output ratio cannot be defined. The cost of input is compared with allocated budget for the activity. Example of discretionary cost centres are Research & Development department, Advertisement department where output of these department cannot be measured with certainty and co-related with cost incurred on inputs.
- (b) **Investment Centres:** These are the responsibility centres which are not only responsible for profitability but also has the authority to make capital investment decisions. The performance of these responsibility centres are measured on the basis of Return on Investment (ROI) besides profit. Examples of investment centres are Maharatna, Navratna and Miniratna companies of Public Sector Undertakings of Central Government.

(ii) Cost plus contracts have the following advantages:

- (a) The Contractor is assured of a fixed percentage of profit. There is no risk of incurring any loss on the contract.
- (b) It is useful specially when the work to be done is not definitely fixed at the time of making the estimate.
- (c) Contractee can ensure himself about 'the cost of the contract', as he is empowered to examine the books and documents of the contractor to ascertain the veracity of the cost of the contract.

(iii) The advantages of zero-based budgeting are as follows:

- It provides a systematic approach for the evaluation of different activities and rank them in order of preference for the allocation of scarce resources.
- It ensures that the various functions undertaken by the organization are critical for the achievement of its objectives and are being performed in the best possible way.
- It provides an opportunity to the management to allocate resources for various activities only after having a thorough cost-benefit-analysis. The chances of arbitrary cuts and enhancement are thus avoided.
- The areas of wasteful expenditure can be easily identified and eliminated.
- Departmental budgets are closely linked with corporation objectives.
- The technique can also be used for the introduction and implementation of the system of 'management by objective.' Thus, it cannot only be used for fulfillment of the objectives of traditional budgeting but it can also be used for a variety of other purposes.

- (iv)** This product costing system is used when an entity produces more than one variant of final product using different materials but with similar conversion activities. Which means conversion activities are similar for all the product variants but materials differ significantly. Operation Costing method is also known as Hybrid product costing system as materials costs are accumulated by job order or batch wise but conversion costs i.e. labour and overheads costs are accumulated by department, and process costing methods are used to assign these costs to products. Moreover, under operation costing, conversion costs are applied to products using a predetermined application rate. This predetermined rate is based on budgeted conversion costs.

The two example of industries are Ready made garments and Jewellery making.