

INTERMEDIATE EXAMINATION

June 2012

I-P8(CMA)
Syllabus 2008

Cost and Management Accounting

Time Allowed: 3 Hours

Full Marks: 100

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

Answer Question No. 1 which is compulsory and any five from the rest.

1. (a) Match the statement in Column I with the appropriate statement in Column II:

1×5

Column I

Column II

- | | |
|-------------------------|---|
| (i) Bad Debt is | (A) not a distinct method of Cost Accounting |
| (ii) Flexible Budget is | (B) a method used in Construction Industry |
| (iii) Transfer Price | (C) allows goal congruence |
| (iv) Uniform Costing is | (D) a selling overhead |
| (v) Contract Costing is | (E) prepared for different levels of capacity utilization |

(b) State whether the following statements are True or False:

1×5

- (i) Standard Costing may not be suitable for small concerns.
- (ii) Cost Accounting is a branch of Financial Accounting.
- (iii) Labour Turnover is the movement of people out of the organisation.
- (iv) Transfer Pricing has significance for the purpose of measurement of divisional performance.
- (v) Bin card shows the value of a material at any movement of time.

(c) Fill up the blanks suitably:

1×5

- (i) ABC analysis is made on the basis _____.
- (ii) The success of the _____ costing is based on mutual belief and understanding.
- (iii) A Budget is a statement that is always prepared _____ to a defined period of time.
- (iv) _____ is the difference between the actual sales and the break-even sales.
- (v) Activity Based Costing is based on the identification of _____.

(d) In the following cases one out of four answers is correct. You are required to indicate the correct answer (1 mark) and give brief workings (1 mark):

2×5

- (i) After inviting tenders for supply of raw materials, two quotations are received as follows—Supplier A ₹ 2.20 per unit, Supplier B ₹ 2.10 per unit plus ₹ 2,000 fixed charges irrespective of the units ordered. The order quantity for which the purchase price per unit will be the same—
 - (a) 22,000 units
 - (b) 21,000 units
 - (c) 20,000 units
 - (d) None of the above
- (ii) Normal rate per hour for worker A in a factory is ₹ 5.40. Standard time per unit for the worker is one minute. Normal piece rate per unit for the worker is—
 - (a) ₹ 0.90
 - (b) ₹ 0.09
 - (c) ₹ 0.11
 - (d) None of the above
- (iii) In case of joint products, the main objective of accounting of the cost is to apportion the joint costs incurred up to the split off point. For cost apportionment one company has chosen Physical Quantity Method. Three joint products 'A', 'B' and 'C' are produced in the same process. Up to the point of split off the total production of A, B and C is 60,000 kg, out of which 'A' produces 30,000 kg and joint costs are ₹ 3,60,000. Joint costs allocated to product A is—
 - (a) ₹ 1,20,000
 - (b) ₹ 1,80,000
 - (c) ₹ 60,000
 - (d) None of these

Please Turn Over

- (iv) A transport company is running five buses between two towns, which are 50 kms apart. Seating capacity of each bus is 50 passengers. Actually passengers carried by each bus were 75% of seating capacity. All buses ran on all days of the month. Each bus made one round trip per day. Passenger kms are

- (a) 2,81,250 (c) 1,87,500
(b) 5,62,500 (d) None of the above

- (v) The cost per unit of a product manufactured in a factory amounts to ₹ 160 (75% variable) when the production is 10,000 units. When production increases by 25%, the cost of production will be ₹ _____ per unit.

- (a) ₹ 145 (c) ₹ 150
(b) ₹ 152 (d) ₹ 140

2. (a) Gupta Enterprise is operating at 60% capacity level producing and selling 60,000 units @ ₹ 50 per unit. Other relevant particulars are as follows:

	Cost per unit
Material	₹ 20
Conversion Cost (variable)	₹ 10
Dealer's margin (10% of sales)	₹ 5
Fixed cost for the period is ₹ 6,00,000	

As there is a stiff competition it is not possible to sell all the products at the existing cost price structure. The following alternative proposals are considered:

- (i) Decrease selling price by 20%
(ii) Increase dealer's margin from 10% to 20%

Select the better alternative. Also calculate the sales volume required to maintain the same amount of profit under the alternative which is considered better assuming that volume of sales will not be a limiting factor under such alternative. Also assume that fixed cost will remain constant. 3+2+2+3

- (b) State briefly the methods of segregating semi-variable cost into fixed and variable. 5

3. (a) The budgeted overheads and cost driver volumes of Neptune Ltd. are as follows:

Cost Pool	Budgeted Overheads (₹)	Cost Driver	Budgeted Volume
Material Procurement	2,90,000	No. of Orders	550
Material Handling	1,25,000	No. of Movements	340
Set-up	2,07,500	No. of Set-ups	260
Maintenance	4,85,000	Maintenance Hours	4,200
Quality Control	88,000	No. of Inspection	450
Machinery	3,60,000	No. of M/c hours	12,000

The firm has produced a batch of 2,600 components of AXL-5, its Material cost was ₹ 1,30,000, and Labour cost ₹ 2,45,000. 1,79,114 - 0.11

The usage activities of the said batch are as follows:

Material Orders — 26	Maintenance hours — 690
Material Movements — 18	Inspection — 28
Set-ups — 25	M/c hours — 1,800.

Required:

- (i) Calculate Cost driver rates that are used for tracing appropriate amount of overheads to the said batch; and
(ii) Ascertain the cost of batch of components using Activity Based Costing. 5+5

- (b) What are the advantages of Target Costing? 5

4. (a) A company produces three joint products in one common process. The three products can either be sold at split off point or can be separately processed further after split off point and sold separately. The estimated data for a particular month are as under:

	Product		
	X	Y	Z
Selling price at split off point (₹/kg)	100	90	150
Selling price after further processing (₹/kg)	200	190	260
Cost incurred on further processing (₹)	3,50,000	4,00,000	2,00,000
Output in kg	3,500	2,500	2,000

Joint costs incurred up to split off point are ₹ 2,40,000.

Such costs are apportioned to the three products according to quantity of production.

You are required to

- Prepare a statement of estimated profit or loss for each product individually and in total for the company for the month if all three products are (1) sold off at split off point and (2) further processed.
- Also advice how profit could be maximised by selectively selling the products individually either at split off point or after further processing.

4+4+2

- (b) What are the problems associated with apportionment of joint cost?

5

5. (a) Richa Industries engaged in manufacturing Lunch Boxes is working to 50% capacity and produces 15,000 Lunch Boxes per annum. The present cost break up for one Lunch Box is as under:

Material ₹ 25; Labour ₹ 20 and Overhead ₹ 15 (60% variable).

The selling price is ₹ 75 per Lunch Box.

If it is decided to work at 60% capacity, the selling price falls by 2%. At 80% capacity, the selling price falls by 10% accompanied by a similar fall in the price of material but labour rate increases by 10%.

You are required to find out the most profitable capacity level amongst 50%, 60% and 80% capacity levels and also calculate the Break-even Point (in units) at above said levels.

3+2+5

- (b) Explain briefly to classification of overheads according to behavior.

5

6. (a) The following information is available from the financial accounts of Madhu Limited for the year ended 31st March, 2012:

	₹
Direct Material Consumption	5,00,000
Direct Wages	2,00,000
Factory Expenses	7,60,000
Administration Expenses	5,00,000
Selling and Distribution Expenses	9,60,000
Bad Debts	40,000
Preliminary Expenses (Written off)	20,000
Legal Charges	10,000
Dividend Received	1,00,000
Interest on Deposit Received	20,000

Please Turn Over

	₹
Sales—1,20,000 Units	.. 14,00,000
Valuation of Closing Stock in financial accounts:	
Finished Stock 40,000 Units	.. 4,40,000
Work-in-Progress (Valued at factory cost)	
both in cost and financial accounts	.. 1,60,000

The Cost Accounts reveal:

- Direct Material Consumption ₹ 5,60,000;
- Factory overhead recovered at 20% on prime cost;
- Administrative overhead at ₹ 6 per unit of production;
- Selling and Distribution overhead at ₹ 8 per unit sold.

You are required to prepare:

- (i) A statement showing costing profit or loss.
- (ii) Profit & Loss Account showing profit or loss in Financial Books.
- (iii) A statement reconciling the profits disclosed as per cost accounts and as per financial accounts. 3+3+4

(b) Explain briefly benefits of Integrated Accounting System. 5

7. (a) From the following particulars furnished by M/s. Starlight Co. Ltd. find out (i) Material cost variance; (ii) Material usage variance and (iii) Material price variance.

Value of Material purchased	.. ₹ 9,000	
Quantity of Material purchased	.. 3,000 units	
Standard quantity of materials required per tonne of finished product	.. 25 units	
Standard rate of material	.. ₹ 2 per unit	
Opening Stock	.. Nil	
Closing Stock of material	.. 500 units	
Finished production during the period	.. 80 tonnes.	4+3+3

(b) How is profit on incomplete contract considered? 5

8. Write short notes on (any three) of the following: 5×3

- (a) Absorption Costing;
- (b) Cost Control and Cost Reduction;
- (c) Zero-Base Budgeting;
- (d) Uniform Costing;
- (e) Activity Based Costing.

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