Preface

It is perhaps the growing significance of Cost Accounting in today's Global Business that our institute has emphasized this subject at CA-IPC level.

This present book is humble attempt to expose the basics of Cost Accounting and to ignite the passion for continuous study and revision from the examination point of view.

This book fully covers the syllabus of Cost Accounting at CA-IPC level. Although this book is primarily meant for examination of CA-IPC but still it covers most of the syllabus of ICWA Inter & CS Inter.

It has been advised that this book gives the students all material required for examination. This book is purely based on examination.

It is suggested that student should adopt the following procedure to get maximum benefit from this book:-

Step 1:-Understand all the concepts deeply with the help of examples as taught in classes.

Step 2:-Understand practical questions and solve them thoroughly in the classes.

Step 3:- After step-2, You have solutions of all the questions in your register. Now is the time to solve all the questions yourself at home by hiding its solution.

Step 4:-Write down typical points you came across while solving question under Step-3.

Step 5:-Now verify solutions to questions point-by-point with the help of pencil and revise all typical points as noted down under step 4.

Step 6:-Repeat step 5 continously after a certain time to to fix them in your permanent memory.

In a discipline like Cost Accounting which is multi-dimensional, no one claim perfection in writing a book. Hence imperfection could be noticed in this book also, by esteemed readers. So suggestions and criticisms for improvement from all readers are welcome.

CA Purushottam Aggarwal

About the Author….

Purushottam Aggarwal is a through out first class graduate in B.Com (H) in the year 2005. He is a fellow member of The Institute of Chartered Accountants of India.

He pursued Both B.Com(H), regular from Maharaja Agrsen College (Delhi University) and CA-course simultaneously. He qualified all levels of CA in just one attempt by appearing for both groups in CA-Inter (at that time) and CA- Final.

After professional education, he worked in a reputed CA firm and later on, worked in "Bharat Heavy Electricals Limited" (A Mahanavratna Company) in managerial capacity.

After getting professional practical experience of Business Environment. He started his academic career. He has been faculty of Cost Accounting, Financial Management and Advanced Management Accounting in various Management and Professional Institutes. His technique of approaching the subject matter, strategy for preparation of examination and scientific method of teaching are quite popular among the students.

His arrears of specialization include Cost Accounting, Financial Management and Advanced management Accounting.

At Present he is a professional financial consultant and faculty of Cost Accounting, Financial Management and Advanced management Accounting at:

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Solution to all costing Practical Questions of Nov. 2016

Q 1(a) (i) $P/V\ Ratio = \frac{\text{change in PFT}}{\text{change in sales}} \times 100 = \frac{Rs\ 45\ Lakh - Rs\ 30\ Lakh}{Rs\ 250\ Lakh - Rs\ 200\ Lakh} \times 100$

$= \frac{Rs\ 15\ Lakh}{Rs\ 50\ Lakh} \times 100 = 30\%$

Fixed cost = Contribution (2015) − Profit (2015)

= Sales (2015) × P/V Ratio − Profit (2015)

= Rs 200 Lakh × 30% − Rs 30 Lakh

= Rs 30 Lakh

(ii) $BEP\ sales = \frac{FC}{P/V\ Ratio} = \frac{Rs\ 30\ Lakh}{30\%}$

= Rs 1 Crore

(iii) $Desired\ sales = \frac{FC + Desired\ PFT}{P/V\ Ratio}$

$= \frac{Rs\ 30\ Lakh + Rs\ 70\ Lakh}{30\%}$

= Rs 3.34 Crore

Q 1(b) (i). $Re\text{-}order\ qty\ (EOQ) = \sqrt{\frac{2 \times A \times O}{C}}$

$= \sqrt{\frac{2 \times 72000\ units \times Rs\ 2250}{Rs\ 300 \times 12\%}}$

= 3000 units

(ii) Re-ordering level = MAX. Consumption per day x MAX Lead time

= 400 units x 20 days

= 8000 units

(iii) Minimum stock level ⇒ ROL - Avg. Consumption per day x Avg. Lead time

⇒ 8000 units - 300 units x 14 days

= 3800 units

(iv). Maximum stock level ⇒ ROL + ROQ - MIN. Consumption per day x Min. Lead time

⇒ 8000 units + 3000 units - 200 units x 8 days

⇒ 9400 units

(v). Danger level ⇒ Avg. Consumption per day x Emergency purchase

⇒ 300 units x 5 days

⇒ 1500 units

Q2(a) (i) Let Assume selling price be Rs x.

PBT = Sales - Var. Cost - Fixed Cost

$20000 \times x \times \frac{10}{100}$ = 20000 units x x - 20000 units x Rs 20 - Rs 320000

x (selling price) = Rs 40

$$BEP = \frac{FC}{P/V\ Ratio} = \frac{Rs\ 320000}{50\%} = Rs\ 640000$$

$$P/V\ Ratio = \frac{Selling\ price\ p.unit - Var.\ Cost\ P.unit}{Selling\ price\ p.unit} \times 100$$

$$= \frac{Rs\ 40 - Rs\ 20}{Rs\ 40} \times 100 = 50\%$$

Margin of Safety = Total sales − BEP Sales

$$= 20000\ units \times Rs\ 40 - Rs\ 640000$$

$$\Rightarrow Rs\ 160000$$

(ii) new selling price = Old selling price × (1 − 10%)

$$= Rs\ 40 \times \frac{90}{100} = Rs\ 36$$

new sales units = 20000 units + 5000 units

= 25000 units

new profit = Total sales − Var. Cost − Fixed cost

$$= 25000\ units \times Rs\ 36 - 25000\ units \times Rs\ 20 - Rs\ 320000$$

$$= Rs\ 80000$$

$$new\ BEP = \frac{Fixed\ cost}{new\ P/V\ Ratio} = \frac{Rs\ 320000}{44.44\%} = Rs\ 720000$$

$$new\ P/V\ Ratio = \frac{new\ selling\ price - Var.\ Cost\ p.unit}{new\ selling\ price\ p.unit} \times 100$$

$$= \frac{Rs\ 36 - Rs\ 20}{Rs\ 36} \times 100 = 44.44\%$$

new MOS = Total Sales − New BEP

$$= 25000\ units \times Rs\ 36 - Rs\ 720000$$

$$= Rs\ 180000$$

Statement showing Impact

	Profit (Rs)	BEP (Rs)	MOS (Rs)
Old	80000	640000	160000
New	80000	720000	180000
Impact	No	increased by 80000	increased by 20000

(iii) MOS = Profit / PV Ratio

based on old PV Ratio ⇒ Rs. 64000 / 50% = Rs 128000

based on new PV Ratio ⇒ Rs 64000 / 44.44% = Rs 144000

Q.3(a) Costing Profit & Loss Account for the year ended on March 2016

Particulars	Amount (Rs)	Particulars	Amount (Rs)
To D. material	26,80,000	By sales	62,00,000
To D. Labour	17,80,000	By closing stock	
To factory OH (20% of Prime cost) i.e. 20% of [2680000 + 1780000]	8,92,000	5887200 / 52000 units × 2000 units → 2680000 + 1780000 + 892000 + 535200 = 5887200	226430
To Admin Exp. (10% of fac. cost) i.e. 10% of [2680000 + 1780000 + 892000]	535200		
To selling OH [50000 units × Rs 10]	5,00,000		
To net profit (bal. fig.)	39,230		
	6426430		6426430

Reconcilation Statement

Particulars	+ (Rs) items	− (Rs) items
Profit as per Cost book	39230	
Factory O/H (less) booked in cost book (892000 − 950000)		58000
Adm. Exp. (Excess) booked in cost Records (535200 − 480200)	55000	
Selling O/H (Excess) booked in cost Records (500000 − 250000)	250000	
Dividend not booked in cost book	20000	
Preliminary Exp. not written off in cost book		5000
Cl. stock booked at Excess Value in cost Records (226430 − 150000)		76430
Profit as per Financial Records		179800
	364230	364230

Q. 4(a) Total km = 50km × 2 sides × 3 trips × 25 days × 12 months × 6 buses

= ~~540000 km~~ 540000 km.

Total Passenger km. = 540000 km × 48 Passengers × 75%.

= 1,94,40,000 Passenger-km.

P. T. O

Statement of Operating cost

Particulars	Amount (Rs)
Fixed Exp.	
Garage Rent (Rs 6000 × 12 months)	72,000
Drivers salaries (Rs 4000 × 12 month × 6 buses)	2,88,000
Conductors salaries (Rs 1600 × 12 month × 6 buses)	1,15,200
cleaners salaries (Rs 1000 × 12 month × 6 buses)	72,000
Manager's salary (Rs 10000 × 12 month	1,20,000
Road TAX (Rs 6000 × 4 Quarters)	24000
Office Exp (Rs 2500 × 12 months)	30,000
Depreciation (Rs 750000 × 20% × 6 buses)	900000
Insurance [Rs 750000 × 4% × 6 buses)	180000
Total fixed Exp. (A)	1801200
Variable Exp.	
Annual Repairs (Rs 24000 × 6 buses)	144000
Diesel $\left[\frac{540000\ km}{6\ km} \times Rs\ 66\right]$	5940000
Engine Oil $\left[\frac{540000\ km}{1000\ km} \times Rs\ 2000\right]$	1080000
Total Variable Exp. (B)	7164000
Total cost (A + B)	8965200
+ Profit (33.33% of Total Takings OR 50% of total cost)	4482600
Total Takings	13447800

$$\text{bus fare per passenger km.} = \frac{\text{Total Takings}}{\text{Total P. km}} = \frac{Rs\ 13447800}{19440000\ \text{passenger-km}}$$

$$= Rs.\ 0.69$$

Q. 6 @

Material

SP × SQ	SP × AQ	AP × AQ
Rs. 4.50 × [1900 units × 10 pieces p. unit]	Rs. 4.50 × 21000 pieces	Rs 90000 / 22000 pieces × 21000 pieces
= Rs 85500	= Rs 94500	= Rs 85909
	USAGE	Price

(i) Material Price Variance = Rs. 94500 - Rs 85909 = Rs 8591 (F)

(ii) Material Usage Variance = Rs 85500 - Rs 94500 = Rs 9000 (A)

Labour

SR × S. HR	SR × A. HR	AR × A. HR
Rs 6 × [1900 units × 2.5 HR]	Rs 6 × 5150 HR	Rs 25750 / 5150 HR × 5150 HR
= Rs 28500	= Rs 30900	= Rs 25750
	efficiency	Rate

(iii) ~~Labour~~ Labour Rate Var. = Rs 30900 - Rs 25750

= Rs 5150 (F)

(iv) Labour efficiency Var. = Rs 28500 - Rs 30900

= Rs 2400 (A)

Fixed O/H

Std. Fixed O/H	Recovered O/H	budgeted Fixed O/H	Actual incurred Fixed O/H
SR × S.HR	SR × A.HR worked	SR × budgeted HR	AR × A. Hour
Rs 8 × [1900 units × 2.50 HR]	Rs 8 × 5150 HR		

= Rs 38000 — = Rs 41200 — = Rs 42000 (Given) — = Rs 46000 (Given)

efficiency | capacity | Exp. Var.

(V) · Fixed O/H Exp. Var. = Rs 42000 - Rs 46000 = Rs 4000 (A)

(Vi) " " Eff. Var. = Rs 38000 - Rs 41200 = Rs 3200 (A)

(Vii) " " Cap. Var = Rs 41200 - Rs 42000 = Rs 800 (A)