

PAPER – 5 : COST MANAGEMENT

Question No. 1 is compulsory.

Answer any four questions from the rest.

Working notes should form part of the answer.

Question 1

- (a) X Ltd. manufactures a semiconductor for which the cost and price structure is given below:

	Rs. per unit
Selling price	500
Direct material	150
Direct labour	100
Variable overhead	50
Fixed cost = Rs. 2 lakhs.	

The product is manufactured by a machine, whose spare part costing Rs. 2,000 needs replacement after every 100 pieces of output. This is in addition to the above costs. Assume that no defectives are produced and that the spare part is readily available in the market at all times at Rs. 2,000.

- (i) Prepare the profitability statement for production levels of 2,000 units and 3,000 units, when fixed cost = Rs. 1 lakhs.
 - (ii) What is the break-even point (BEP) for the above data?
 - (iii) Comment on the BEP, if the fixed cost can be reduced to Rs. 1,80,000 from the existing level of 2 lakhs.
- (b) Give two examples for each of the following categories in activity based costing:
- (i) Unit level activities
 - (ii) Batch level activities
 - (iii) Product level activities
 - (iv) Facility level activities.
- (c) Outline the features of penetration pricing strategy. (14 + 4 + 6 = 24 Marks)

Answer

(a) (i) X Ltd. Profitability Statement:

Particulars	Volume Level	
	2000 units	3000 units
		Rs.'000
Sales	1,000	1,500
Variable costs		
Direct Material	300	450
Direct Labour	200	300
Variable overhead	100	150
Part costs*	40	60
Fixed cost	100	100
Total cost	740	1,060
Profit	260	440

$$\text{*Part cost: } \frac{2,000}{100} \times 2,000 = 40,000 \quad \frac{3,000}{100} \times 2,000 = 60,000$$

(ii) For computing the BEP: Parts cost although a step fixed cost can be considered as variable for the limited purpose of computing the range in which BEP occurs. The

variable parts cost per unit is Rs. 20 $\left(\frac{2,000}{100} \right)$

Range in which the BEP occur	$\frac{1,00,000}{(200 - 20)} = 555.55$	$\frac{2,00,000}{(200 - 20)} = 1,111.11$
Range	501–600	1,101–1,200
General Fixed Cost	Rs. 1,00,000*	Rs. 2,00,000
Parts cost	$(6 \times 2,000) = \text{Rs. } 12,000$	$(12 \times 2,000) = \text{Rs. } 24,000$
Total Fixed Cost	Rs. 1,12,000	Rs. 2,24,000
Gross Contribution/unit**	Rs. 200	Rs. 200
BEP	560 units	1,120 units

**Gross Contribution per unit

Sales – Direct Material – Direct Labour – Variable Overheads

Rs. 500 – Rs. 150 – Rs. 100 – Rs. 50 = Rs. 200

(iii) When fixed cost is Rs. 1,80,000. Range of BEP will be

$$\frac{1,80,000}{180} = 1,000 \text{ (901–1,000)}$$

Since the BEP of 1,000 falls on the upper most limits in the range 901 – 1,000 there will be one more BEP in the subsequent range in 1,001 – 1,100.

Range	901 – 1,000	1,001 – 1,100
	Rs.	Rs.
Gross fixed cost	1,80,000	1,80,000
Parts cost	20,000	22,000
	(10 × 2,000)	(11 × 2,000)
Total fixed cost	2,00,000	2,02,000
Gross contribution/unit	200	200
BEP	1,000 units	1,010 units

(b) Examples:

- | | |
|-----------------------------|--|
| (i) Unit level activities | <ul style="list-style-type: none"> (i) Use of indirect materials (ii) Inspection or testing of every item produced or say every 100th item produced (iii) Indirect consumables |
| (ii) Batch level activities | <ul style="list-style-type: none"> (i) Material ordering (ii) Machine set up costs (iii) Inspection of products – like first item of every batch |
| (iii) Product level | <ul style="list-style-type: none"> (i) Designing the product (ii) Producing parts to a certain specification (iii) Advertising costs, if advertisement is for individual products |
| (iv) Facility level | <ul style="list-style-type: none"> (i) Maintenance of buildings (ii) Plant security (iii) Production manager's salaries (iv) Advertising campaigns promoting the company |

(c) Penetration Pricing:

- (i) It is a policy of using a low price as the principal instrument for penetrating mass markets early.
- (ii) This method is used for pricing a new product and to popularize it initially.
- (iii) Profits may not be earned in the initial stages. However, prices may be increased as and when the product is established and its demand picks up.
- (iv) The low price policy is introduced for the sake of long term survival and profitability and hence it has to receive careful consideration before implementation. It needs an analysis of the scope for market expansion and hence considerable amount of research and forecasting are necessary before determining the price.
- (v) The circumstances in which penetrating pricing can be adopted are:

Elastic demand: The demand of the product is high when price is low. Hence, lower prices mean large volumes and hence more profits.

Mass Production: When there are substantial savings in large-scale production, increase in demand is sustained by the adoption of low pricing policy.

Frighten off competition: The prices fixed at a low-level acts as an entry barrier to the prospective competitors. The use of this policy by existing concerns will discourage the new concerns to enter the market. This pricing policy is also known as "stay-out-pricing".

Question 2

- (a) A BPO company is taking bids for 4 routes in the city to ply pick-up and drop cabs. Four companies have made bids as detailed below:

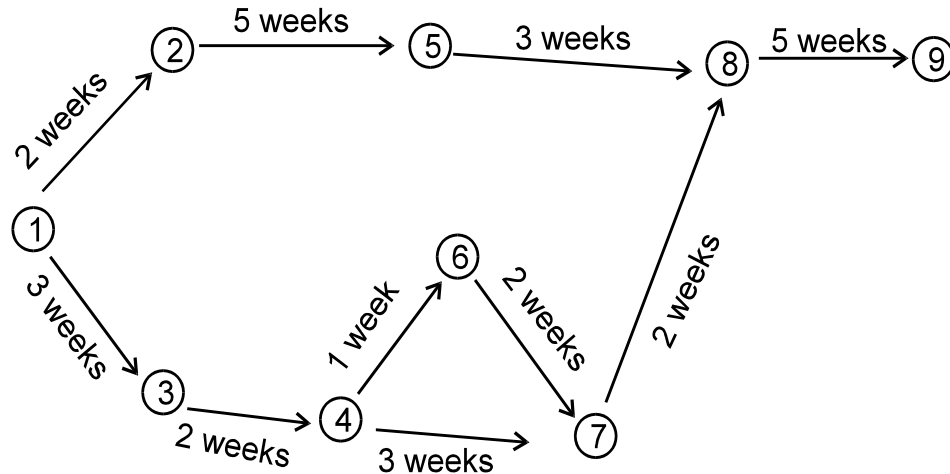
Bids for Routes (Rs.)

Company/Routes	R ₁	R ₂	R ₃	R ₄
C ₁	4,000	5,000	—	—
C ₂	—	4,000	—	4,000
C ₃	3,000	—	2,000	—
C ₄	—	—	4,000	5,000

Each bidder can be assigned only one route. Determine the minimum cost that the BPO should incur.

- (b) A network is given below:

- (i) Name the paths and give their total duration.
- (ii) Give three different ways of reducing the project above duration by four days.



- (c) Division Z is a profit center which produces four products A, B, C and D. Each product is sold in the external market also. Data for the period is:

	A	B	C	D
Market price per unit (Rs.)	150	146	140	130
Variable cost of pdn. Per unit (Rs.)	130	100	90	85
Labour hours required per unit	3	4	2	3

Product D can be transferred to division Y, but the maximum quantity that may be required for transfer is 2,500 units of D.

The maximum sales in the external market are:

A	2,800 units
B	2,500 units
C	2,300 units
D	1,600 units

Division Y can purchase the same product at a price of Rs. 125 per unit from outside instead of receiving transfer of product D from Division Z.

What should be the transfer price for each unit for 2,500 units of D, if the total labour hours available in division Z are 20,000 hours? (6 + 6 + 7 = 19 Marks)

Answer

(a) Reducing minimum from each column element (figure in '000s)

Step 1					Step 2				
	R ₁	R ₂	R ₃	R ₄		R ₁	R ₂	R ₃	R ₄
C ₁	1	1	—	—	C ₁	0	0	—	—
C ₂	—	0	—	0	C ₂	—	0	—	0
C ₃	0	—	0	—	C ₃	0	—	0	—
C ₄	—	—	2	1	C ₄	—	—	1	0

Number of lines to connect all zeros nos. is 4 which is optional.

Alternatively you may also reduce the minimum from each row.

Step 1					Step 2				
	R ₁	R ₂	R ₃	R ₄		R ₁	R ₂	R ₃	R ₄
C ₁	0	1		—	C ₁	0	1	—	—
C ₂	—	0		0	C ₂	—	0	—	0
C ₃	1	—		0	C ₃	0	—	0	—
C ₄	—	—		0	C ₄	—	—	0	0

Number of lines to connect all zeros nos. is 4 which is optional.

All diagonal elements are zeros and are chosen. The minimum cost is Rs. 15,000 C₁ – R₁ 4,000; C₂ – R₂ 4,000; C₃ – R₃ 2,000; C₄ – R₄ 5,000; (Total) = 15,000.

(b) (i) Assuming that the duration of activity 3 – 5 is 4 weeks.

The various critical paths are:

1-2-5-8-9	15 weeks
1-3-4-7-8-9	15 weeks
1-3-4-6-7-8-9	15 weeks
1-3-5-8-9	15 weeks

(ii) Note: Since the duration for activity 3-5 is not specified it is open for you to assume the duration. Depending upon the duration assumed, three possibilities emerge.

1. If the duration assumed is more than 4 weeks then that path (13, 35, 58, 89) alone will be critical. In that case you can choose any of the activity in the critical path.
2. If the duration assumed is exactly 4 weeks then it will be one of the 4 critical paths and the various possibilities are given below.

3. If the duration assumed is less than 4 weeks then the solution should be based on 3 of the critical paths namely 12589, 1346789 and 134789. This has 16 combinations.

Reduce in the following ways, the project duration. Since all the paths are critical, reduction is possible by combining activities. The activities can be independent, common to few paths and common to all the paths. The various categories are as follows:

1. Common to all the paths. 8-9
2. Independent :

Combination	1.	1-2,3-5,4-6 and 4-7.
Combination	2.	2-5,3-5,4-6 and 4-7.
Combination	3.	1-2,3-5,4-7, 6-7.
Combination	4.	2-5,3-5,4-7, 6-7.
3. Activities common to two of the paths.

Combination	1.	1-2,1-3.
Combination	2.	1-3,2-5.
Combination	3.	3-4,5-8.
Combination	4.	5-8,7-8.
4. Activities common to two of the paths and two independent activities.

Combination	1.	1-2,3-4,3-5.
Combination	2.	1-2,3-5,7-8.
Combination	3.	2-5,3-4,3-5.
Combination	4.	2-5,3-5,7-8.
Combination	5.	4-6,4-7,5-8.
Combination	6.	4-7,5-8,6-7.

(Any three of the above combination.)

- (c) Ranking of products when availability of time is the key factor

Products	A	B	C	D
	Rs.	Rs.	Rs.	Rs.
Market price	150	146	140	130
Less: Variable cost	130	100	90	85
Contribution p.u. (Rs.)	20	46	50	45
Labour hours p.u.	3	4	2	3
Contribution/labour hour	6.66	11.5	25	15

Ranking	IV	III	I	II
Maximum demand (units)	2,800	2,500	2,300	1,600
Total No of hours	8,400	10,000	4,600	4,800
Allocation of 20,000 hours on the basis of ranking	600*	10,000	4,600	4,800

***Balancing figure**

Note: Time required meeting the demand of 2,500 units of product D for division Y is 7,500 hours. This requirement of time viz, 7,500 hours for providing 2,500 units of product D for division Y can be met by sacrificing 600 hours of Product A (200 units) and 6,900 hours of Product B (1,725 units)

Transfer Price = Variable cost + Opportunity cost

$$\text{Or } \frac{\text{Rs}85 + (\text{Rs}6,900 \times 11.5 + 600 \times 6.66)}{2,500} = \frac{\text{Rs}85 + (79350 + 4000)}{2500}$$

$$= \text{Rs } (85 + 33.34) = \text{Rs } 118.34$$

Question 3

- (a) A Multinational company runs a Public Medical Health Centre. For this purpose, it has hired a building at a rent of Rs. 10,000 per month with 5% of total taking. Health centre has three types of wards for its patients namely. General ward, Cottage ward and Deluxe ward. State the rent to be charged to each bed-day for different type of ward on the basis of the following informations:
- The number of beds of each type are General ward 100, Cottage ward 50, Deluxe ward 30.
 - The rent of Cottage ward bed is to be fixed at 2.5 times of the General ward bed and that of Deluxe ward bed as twice of the Cottage ward bed.
 - The occupancy of each type of ward is as follows:
General ward 100%, Cottage ward 80% and Deluxe ward 60%. But, in general ward there were occasions when beds are full, extra beds were hired at a charges of Rs. 20 per bed. The total hire charges for the extra beds incurred for the whole year amount to Rs. 12,000.
 - The Health Centre engaged a heart specialist from outside and on an average fees paid to him was Rs. 15,000 per trip. He makes three trips in the whole year.

(v) The other expenses for the year were as under:

	Rs.
Salary of Supervisors, Nurses, Ward boys	4,25,000
Repairs and maintenance	90,000
Salary of doctors	13,50,000
Food supplied to patients	40,000
Laundry charges for their bed linens	80,500
Medicines supplied	74,000
Cost of oxygen, X-ray etc. other than directly borne for	
Treatment of patients	49,500
General administration charges	63,000

(vi) Provide profit @ 20% on total taking.

(vii) The Health Centre imposes 8% service tax on rent received.

(viii) 360 days may be taken in a year.

(b) (i) What is simulation?

(ii) What are the steps in simulation?

(c) Briefly explain the learning curve ratio. (12 + 5 + 2 = 19 Marks)

Answer

(a) Statement of Total Cost

Total cost	Amount (Rs)	
Salary of Supervisor, Nurses, Ward boys	4,25,000	
Repairs and Maintenance	90,000	
Salary of doctors	13,50,000	
Food supplied to patients	40,000	
Laundry charges for their bed linens	80,500	
Medicines supplied	74,000	
Cost of oxygen, X ray etc, other than directly borne for treatment of patients	49,500	
General administration charges	63,000	Rs 21,72,000
Building rent	(10 × 12,000) =	Rs 1,20,000
Additional building rent on takings		5% on Total Taking

Hire charges extra beds		Rs 12,000
Fees to heart specialists	(3 × 15,000) =	Rs 45,000
Total cost		Rs 23,49,000 + 5% on Total Taking
Profit		20% on Total Taking
Total takings		Rs 23,49,000 + 25% of Total Taking
Total taking (assuming X to be the rent per day)		1,05,000 × X

Rent to be charged

$$1,05,000 \times X = 23,49,000 + 25\% (1,05,000 \times X) = 78750 X = 23,49,000 \text{ or } X = 29.83 \text{ (Rounded Off)}$$

No of beds with Equivalent Rent

Nature of wards	Occupancy	Weight of rent	Ward Days
General ward	100 × 360 × 100%	36,000 × 1	36,000
Additional general ward	<u>12,000</u>	600 × 1	600
	20		
Cottage ward	50 × 360 × 80%	14,400 × 2.5	36,000
Deluxe ward	30 × 360 × 60%	6,480 × 5	32,400
Total			1,05,000

Rent to be charged

Particulars	Basic	Service tax	Total
General ward	29.83	2.39	32.22
Cottage ward	74.58	5.97	80.55
Deluxe ward	149.15	11.93	161.08

Note : You may assume Total Taking to include Service Tax also.

$$\begin{aligned} \text{Rent} &= 23,49,000 + 25\% \times (1,05,000 X \times 1.08) + 0.08 \times (1,05,000 X) = 1,05,000 X \times 1.08 \\ &= 23,49,000 + 28350 X + 8400 X = 1,13,400 X \end{aligned}$$

Therefore X = Rs 30.65

Rent to be charged

Particulars	Basic	Service tax	Total
General ward	30.65	2.45	33.10
Cottage ward	76.63	6.13	82.76
Deluxe ward	153.25	12.26	165.51

- (b) (i) Simulation is a quantitative procedure which describes a process by developing a model of that process and then conducting a series of organized trial and error experiments to predict the behaviour of the process over time.
- (ii) Steps in the simulation process:
- Define the problem and system you intend to simulate.
 - Formulate the model you intend to use.
 - Test the model, compare with behaviour of the actual problem environment.
 - Identify and collect data to test the model.
 - Run the simulation.
 - Analyse the results of the simulation and, if desired, change the solution you are evaluating.
 - Rerun the simulation to tests the new solution.
 - Validate the simulation i.e., increase the chances of valid inferences.

(c) Learning curve ratio

In the initial stage of a new product/process, the learning effect pattern is so regular that the rate of decline established at the outset can be used to predict labour cost in advance.

$$\text{Learning curve ratio} = \frac{\text{Average labour cost of first } 2N \text{ units}}{\text{Average labour cost of first } N \text{ units}}$$

For example, if the average labour cost for the 1st 500 units of a pelt is Rs. 25 and the average labour cost of the 1st 1,000 units is Rs. 20, then

$$\text{Learning curve ratio} = \frac{\text{Rs. 20}}{\text{Rs. 25}} \times 100 = 80\%$$

Question 4

- (a) A company following standard marginal costing system has the following interim trading statement for the quarter ending 30th June, 2005, which reveals a loss of Rs. 17,000,

detailed below:

		Rs.
Sales		4,99,200
Closing stock (at prime cost)		<u>18,000</u>
		5,17,200
Costs:		
Direct material	1,68,000	
Direct labour	1,05,000	
Variable overhead	<u>42,000</u>	
	3,15,000	
Fixed overhead	1,20,000	
Fixed Admn. Overhead	40,000	
Variable distribution Overhead	19,200	
Fixed selling Overhead	<u>40,000</u>	
	2,19,200	
Total costs		<u>5,34,000</u>
Loss		<u>17,000</u>

Additional information is as follows:

- (i) Sales for the quarter were 1,200 units. Production was 1,400 units, of which 100 units were scrapped after complete manufacture. The factory capacity is estimated at 2,000 units.
- (ii) Because of low production, labour efficiency during the quarter is estimated to be 20% below normal level.

You are required to analyse the above and report to the management giving the reasons for the loss.

- (b) List the steps involved in target costing process with the help of a block diagram.

(13 + 6 = 19 Marks)

Answer

(a)	Details	Working	Amount (Rs.)
		<u>4,99,200</u>	
(1)	Selling price at cost	1,200	416
		<u>1,48,000</u>	
(2)	Raw materials	1,400	120

	<u>1,05,000</u>	
Labour	<u>1,750</u>	60
[Equivalent units (1,400/80%)]		
Factory overhead	<u>42,000</u>	
	<u>1,400</u>	30
Total manufacturing cost		210
Distribution overheads	<u>19,200</u>	
	<u>1,200</u>	16
Total cost		226
Contribution		190
Total fixed cost: Factory	1,20,000	
Administration	40,000	
Selling	40,000	2,00,000

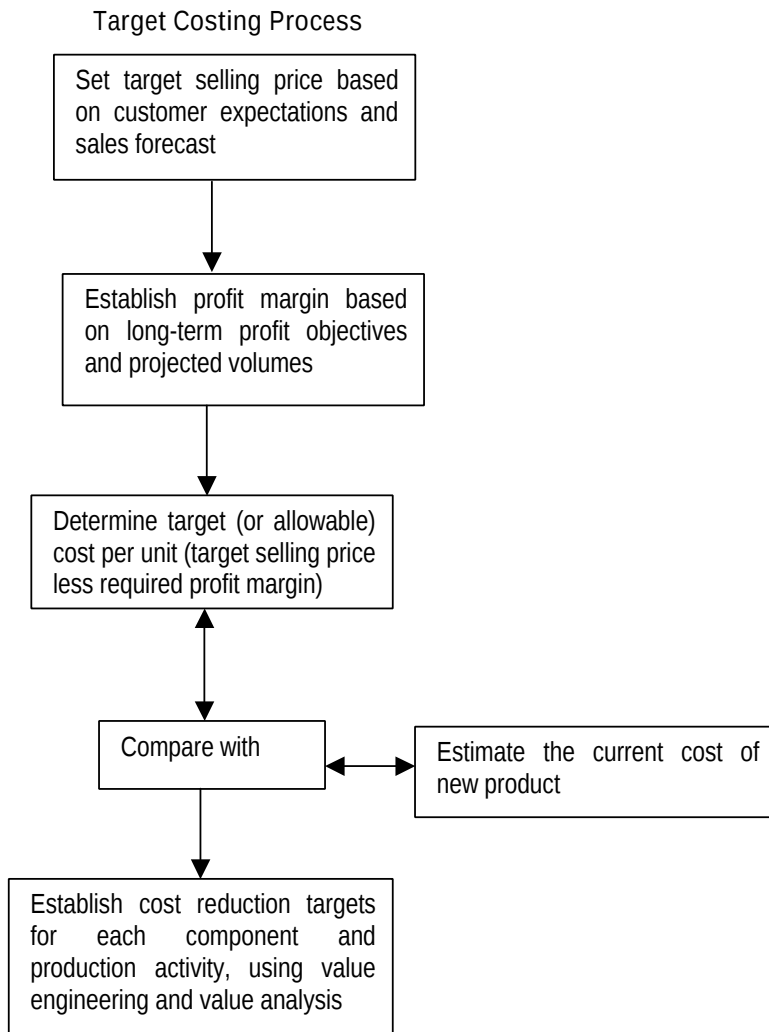
(ii) Standard Profit for 1,200 units sold:

	Rs.	Rs.
Contribution	$1,200 \times 190$	2,28,000
Less: Fixed costs		<u>2,00,000</u>
Profit		<u>28,000</u>

(iii) Reconciliation

	Rs.	Rs.
Budgeted profit	$(2,000 \times 190 - 2,00,000)$	1,80,000
Less: Volume variance	800×190	1,62,000
Standard profit		28,000
Factors causing loss:		
Units scrapped	100×210	21,000
Labour inefficiency	350×60	21,000
Undervaluation of closing stock	$100 \times (210 - 180)$	3,000
Actual profit		<u>-17,000</u>

(b)

**Question 5**

- (a) (i) What do you mean by ERP?
- (ii) Name six benefits of ERP in an enterprise.
- (b) A project consists of seven activities for which relevant data are given below:
- (i) Draw the network

(ii) Name and highlight the critical path.

Activity	Preceding activity	Activity duration (days)
A	—	4
B	—	7
C	—	6
D	A, B	5
E	A, B	7
F	C, D, E	6
G	C, D, E	5

- (c) A Ltd. makes 2 products, Tables (T) and Chairs (C), which must be processed through Assembly (A) and Finishing (F) departments. Assembly has 60 hours available per week; finishing can handle upto 48 hours a week.

Manufacture of one table requires 4 hours of assembly and 2 hours in finishing. Each chair requires 2 hours in assembly and 4 hours in finishing.

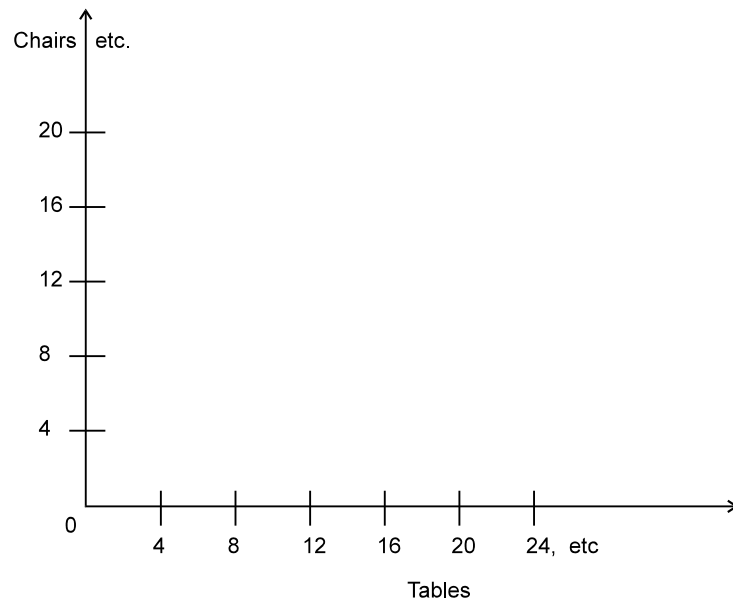
Profit is Rs. 80 per table and Rs. 60 per chair. Choose the best combination of chairs and tables to be produced to maximize profit.

(i) Formulate the Linear Programming model equations.

(ii) Present graphically.

(iii) What is the maximum profit?

Use the graph provided as follows:

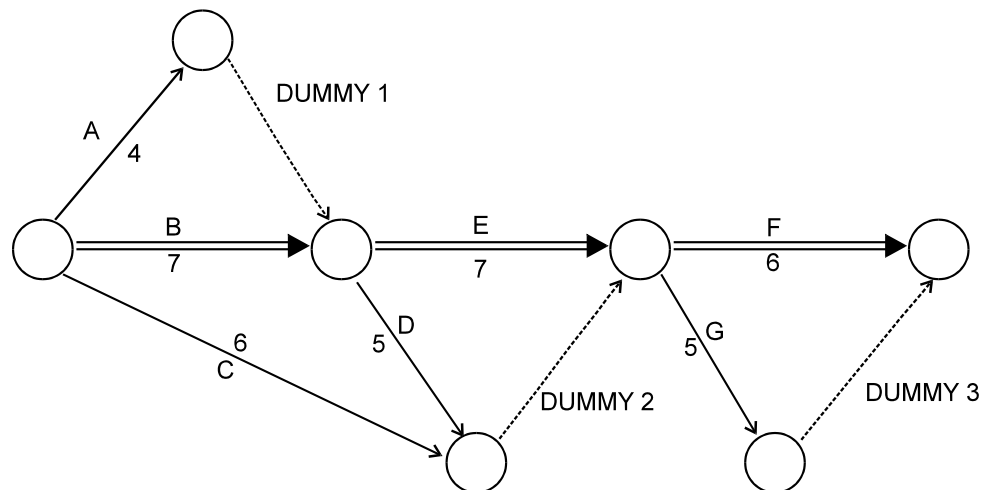


(5 + 6 + 8 = 19 Marks)

Answer

- (a) (i) Enterprise resource planning (ERP) software (i) attempts to integrate all departments and functions across a company into a single computer system that can serve all those different departments' particular needs. In fact ERP combines all computerized departments together with the help of a single integrated software that runs off a single database so that various departments can more easily share information and communicate with each other
- (ii) Benefits of ERP
- (a) Product costing.
 - (b) Inventory management.
 - (c) Distribution and delivery.
 - (d) E-commerce.
 - (e) Automatic control of quality.
 - (f) Sales service.
 - (g) Improved production planning.
 - (h) Quick response to change in market condition.
 - (i) Competitive edge by improving business process.

(b)



Critical path : B,E,F = $7+7+6 = 20$ days

- (c) Let T be the number of tables and C be the number of chairs produced. We have

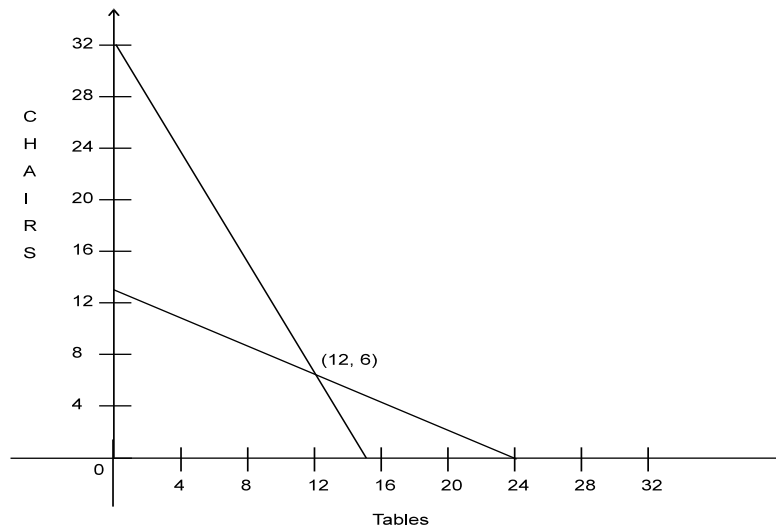
$$\text{Maximum profit} = 80T + 60C$$

Subject to Constraints:

$$4T + 2C \leq 60 \quad (1)$$

$$2T + 4C \leq 48 \quad (2)$$

$$T \geq 0, C \geq 0$$



Corner points within the feasible region:

1. $(0,0) = \text{Rs } 0$
2. $(16,0) = 16 \times 80 = \text{Rs } 1,280$
3. $(12,6) = 12 \times 80 + 6 \times 60 = \text{Rs } 1320$
4. $(0,12) = 12 \times 60 = \text{Rs } 720$

Maximum profit at 12 Tables and 6 Chairs . Maximum profit = Rs 1,320

Question 6

- (a) The following figures are available. Find out the missing figures, giving appropriate formulae:

	Rs.
Budgeted profit	15,000
Less: Adverse variances:	
Contribution price variance	10,600

Direct materials variance	1,000	
Fixed overhead variance	<u>600</u>	<u>(12,200)</u>
		2,800
Add: Favourable variances		
Contribution quantity variance	1,800	
Direct wages variance	600	
Variable overhead variance	<u>1,800</u>	<u>4,200</u>
Actual profit		<u>7,000</u>

There is no inventory

Production units = Sales units for both actual and budget.

Other Information

Standard selling price	Rs. 18/unit
Standard variable cost	Rs. 15/unit
Standard contribution	Rs. 3/unit
Actual selling price	Rs. 17/unit
Budgeted sales	10,000 units

Standard material cost p.u. = Re. 1 (which is 5 kg. @ Rs. 20 Paise/kg.).

Material usage variance = 400 (Adv.)

Actual labour hours @ actual rate = Rs. 63,000

Actual labour hours @ standard rate = Rs. 61,950

Variable overhead standard rate = Rs. 2

Standard hours of production = 4 per unit

Variable overhead at standard rate = Rs. 84,800.

Variable overhead expenditure variance = 400 (A).

Budgeted fixed overhead = Rs. 15,000.

Find out the following:

- (i) Actual sales units
- (ii) Actual sales rupees
- (iii) Actual quantity of raw materials used
- (iv) Labour efficiency variance
- (v) Actual variable overhead in rupees
- (vi) Variable overhead efficiency variance

- (vii) Actual fixed overheads
- (viii) Operating profit variance.
- (b) Under the single plan, record the journal entries giving appropriate narration, with indication of amounts of debits or credits alongside the entries, for the following transactions using the respective control A/c.
- (i) Material price variance (on purchase of materials)
- (ii) Material usage variance (on consumption)
- (iii) Labour rate variance.
- (c) Explain with a diagram the value chain activities within the firm with suitable classifications under primary and support activities and also the industry value chain indicating what the end use consumer pays for. (8 + 6 + 5 = 19 Marks)

Answer

(a)	Rs.	Rs
(1) Budgeted contribution = Budgeted Profit + Budgeted Fixed Cost	15,000 + 15,000 =	30,000
Plus Contribution quantity variance		1,800
Total Standard contribution		31,800
Standard Contribution per unit		3
Actual Sales Volume		10,600 units
(2) Actual Sales Volume $10,600 \times 17$		1,80,200
(3) Actual quantity of Raw Materials used		
Standard consumption $10,600 \times 5$		53,000 Kgs.
Add: Material Usage Variance $\frac{400}{.2}$		2,000 kgs.
Actual consumption		55,000 Kgs.
(4) Labour Efficiency variance		
Standard labour cost for Standard hours (63,000 + 600)		63,600
Standard labour cost for actual hours		61,950
Labour efficiency variance		1,650 F
(5) Actual variable overhead		
Selling Overhead variance – Variable overhead	Rs. 84,800 – Rs. 1,800 = Rs.	83,000

- (6) Variable Overhead efficiency variance

Actual hours (AH)	<u>61,950</u>	
	1.5	41,300 hours
Standard hours (SH)	$60,600 \times 4$	42,400 hours
Standard rate per hour (SR)	<u>63,600</u>	
	$10,600 \times 4$	Rs. 1.5

Efficiency variance SR (SH – AH) = 2 (42,400 – 41,300) = 2,200F

- (7) Actual fixed overheads: Budgeted Overhead + Fixed Overhead variance
= 15,000 + 600 = Rs. 15,600.

- (8) Operating profit variance

If budgeted profit is considered (15,000 – 7,000) = Rs. 8,000 adverse

If standard profit is considered (16,800 – 7,000) = Rs. 9,800 adverse

(b)

- (i) Dr. Material Control A/c

Dr. or Cr. Material Price Variance A/c

Cr. Creditors A/c

(Being price variance during purchase of materials)

- (ii) Dr. WIP Control A/c

Dr. or Cr. Material Usage Variance A/c

Cr. Material Control A/c

(Being recording of usage variance at Standard cost of excess/under utilized quantity)

- (iii) Dr. Wages Control A/c

Dr. or Cr. Labour Rate Variance A/c

Cr. Cash

(Being entry to record wages at standard rate)

(c) Industry Value Chain

Value Chain Activities
within the firm

