

Purushottam Sir Costing Classes

Costing Classes for CA Inter & CA Final and CMA Inter & CMA Final



CA Purushottam Sir

- This PDF File will provide you Additional Questions added by ICAI in Course of CA Final – SCM & PE (Paper 5)
- This has been developed by CA Purushottam Sir
- It includes analysis of each question at end

Question added in Decision Making Chapter

'S' manages the school canteen (approximately 1,600 students) at Noida. The current cash payment system requires three clerks (paid Rs.90 per hour), employed for about 4 hours a day. The canteen operates approximately 240 days a year.

'S' is considering a Wireless Cash Management System (WCMS), where a student could just swipe an ID Card for payment. This system would cost Rs.1,25,000 to setup and Rs.36,000 per year to operate. 'S' believes that he could manage with one clerk if he were to implement the system.

Required

ADVISE 'S' on the choice of a plan, assuming working life of WCMS as 5 years. (Ignore the time value of money)

Solution

Statement showing Comparison of Cost to be incurred in 5 Years

Manual Cash Mgt system	Amount (Rs.)	Wireless Cash Mgt System	Amount (Rs.)
Payment to Clerks (3 clerks x Rs.90 per hour x 4 Hours per day x 240 days in a year x 5 Years)	12,96,000	Set Up Cost	1,25,000
		Maintenance Cost (Rs.36,000 x 5 Years)	1,80,000
		Payment to Clerk (1 clerk x Rs.90 per	4,32,000

Purushottam Sir Costing Classes

Costing Classes for CA Inter & CA Final and CMA Inter & CMA Final

		hour x 4 Hours per day x 240 days in a year x 5 Years)	
Total cost	12,96,000	Total cost	7,37,000

Decision:-Financially, It is better to adopt wireless cash management system since it would result in cost savings by Rs.5,59,000 (Rs.12,96,000 – Rs.7,37,000)

Non-Financial Factors to be considered:-

- Provision to be designed in case students forgets to bring his/her card
- Ensure no failure in connectivity

Analysis of Question

- This is very basic question. It has already been covered in our classes.
- I would give this question “Category C”
- This question does not have any special points to understand

Question added in Cost Management Technique (Product Life Cycle)

Question Y-Connections, China based firm, has just developed ultra-thintablet S-5 with few features like the ability to open two apps at the same time. This tablet cost Rs. 5,00,000 to develop; it has undergone extensive research and is ready for production. Currently, the firm is deciding on plant capacity, which could cost either Rs. 35,00,000 or Rs. 52,00,000. The additional outlay would allow the plant to increase capacity from 500 units to 750 units. The relevant data for the life cycle of the tablet at different capacity level are as under:

Expected Sales	500 units	750 units
Sale price	Rs.79,600 per unit	Rs.69,600 per unit
Variable Selling Costs	10% of Selling Price	10% of Selling Price
Salvage Value – Plant	Rs.6,25,000	Rs.9,00,000
Profit Volume Ratio	40%	

Required

Advise Y-Connections, regarding the ‘Optimal Plant Capacity’ to install. The tablet’s life cycle is two years.

Note: Ignore the time value of money.

Purushottam Sir Costing Classes

Costing Classes for CA Inter & CA Final and CMA Inter & CMA Final

Solution:-

- Since Question has not told about variable manufacturing cost per unit hence we have to calculate it firstly. We are given selling price per unit and Profit volume ratio.
- We know that selling price per unit – Variable cost per unit = Contribution per unit
- We also know that Profit volume ratio = Contribution per unit / Selling price per unit

Hence contribution per unit = Selling price per unit x PV Ratio = Rs.79,600 x 40% = Rs.31,840 per unit

We know that selling price per unit – Variable cost per unit = Contribution per unit

Hence Rs.79,600 – Variable cost per unit = Rs.31,840 per unit

Variable cost per unit = Rs.47,760 (Note:- It includes all variable cost)

i.e. Variable manufacturing cost per unit + variable selling cost per unit = variable cost per unit

Variable mfd cost per unit + (10% of Selling price) i.e. 10% of Rs.79,600 = Rs.47,760

Variable mfd cost per unit = 39,800

[It means company shall incur variable mfd cost of Rs.39,800 on each unit it produces]

Statement showing expected profit

	500 Units	750 units
Particulars	Amount (Rs.)	Amount (Rs.)
Sales	3,98,00,000 (Rs.79,600 x 500 units)	5,22,00,000 (Rs.69,600 x 750 units)
Less Variable Mfd Cost	(1,99,00,000) (Rs.39,800 x 500 units)	(2,98,50,000) (Rs.39,800 x 750 units)
Less Variable Selling Cost (10% of Sales)	(39,80,000)	(52,20,000)
Less Plant Net Cost	(28,75,000) [35,00,000 – 6,25,000]	(43,00,000) [52,00,000 – 9,00,000]
Less Development Cost	Sunk Cost	Sunk Cost
Expected Profit	1,30,45,000	1,28,30,000

Decision

Purushottam Sir Costing Classes

Costing Classes for CA Inter & CA Final and CMA Inter & CMA Final

- Based on financial considerations, It is better to make 500 units since company is earning more profit at this level i.e. Rs.1,30,45,000

Non-Financial Considerations

- Life of product is 2 years. It means company has to upgrade product after every 2 years. If company decides to sell 750 units then at this level company will earn less profit but it will increase market share of company which may be beneficial in long term period

Analysis of Question

- This is very basic question. It has already been covered in our classes.
- I would give this question "Category C"
- This question does not have any special points to understand