Paper-8

COST AND MANAGEMENT ACCOUNTING

Test Paper- II/8/CMA/2008/T-3

Time Allowed: 3 hours Marks: 100

Attempt Question No.1, which is compulsory and carries 20 marks. [Five marks each for 1 A and 1 B and 10 marks for 1 C] and attempt any five of the remaining, which carry 16 marks each

Q1]

A] Match A with B

A	B
Fixed Cost	Inevitable loss
Incomplete contracts	Quantitative record of materials
Normal loss	Always variable per unit
By-product	Reserve for un expired risk
Bin card	Relatively small sales value

B] State whether the following statements are True [T] or False [F]

I] Future costs are not relevant while making management decisions

II] Cost reduction is never ending process while cost control has a definite goal.

III] Key factor is also known as Principal Budget Factor

IV] Budgeting and standard costing are complementary to each other

V] Allocation and apportionment of overheads are one and the same thing.

C] Choose the correct answer from the answers given below for each of the following. Indicate working wherever necessary.

I] The set up cost for a machine is Rs.120. A certain order requires 9000 components to be made in the machine for execution of the order. Cost of production of the component is Rs.40 each and it requires 15% of the cost for storing it for a year. Then the Economic Batch Quantity is --------- units.

A] 300 B] 250 C] 400 D] 600

II] A company maintains a margin of safety of 25% on its current sales and earns a profit of Rs.30 lakhs per annum. If the profit volume ratio of the company is 40%, its current sales amount to,

A] Rs.200 lakhs B] Rs.300 lakhs C] Rs.325 lakhs D] None of the above.

IV] A factory makes use of a component purchased from the market for assembling its final product. Current usage varies between 300 and 450 units per week and replenishment time is normally two weeks but can go up to five weeks. The minimum stock level of the components is --------- units.

A] 1500 B] 1600 C] 2000 D] 2400

V] A materials pricing method in which the oldest cost incurred rarely have an effect on the closing inventory valuation is,

A] FIFO B] LIFO C] Simple average D] Weighted average.

Q2] Sankalp Industries absorbs factory overheads costs at Rs.2.50 per direct labor. Both opening and closing balance of work-in-progress and finished goods inventory are zero.

The following data are available for the year 2007 and the fact is that all goods produced have been sold.

Direct labor hours used: 50000

Direct labor cost: Rs.1, 00, 000

Indirect labor cost: Rs.25, 000

Indirect material cost: Rs.10, 000

Depreciation of plant and equipment: Rs.50, 000

Miscellaneous factory overheads: Rs.50, 000

Assuming that all goods produced have been sold,

I] Calculate factory overheads incurred and factory overheads absorbed and,

II] Pass a journal entry for disposing of under/over absorbed overheads.

Q3] A company has its factories at two locations. Rowan plan is in use at location A and Halsey plan at location B. Standard time and basic rate of wages are same for a job which is similar and is carried out on similar machinery. Time allotted is 60 hours.

Job at location A is completed in 36 hours while at B, it has taken 48 hours. Conversion costs at respective places are Rs.1224 and Rs.1500. Overheads account for Rs.20 per hour.

Required:

I] To find out the normal wage rate and,

II] To compare the respective conversion cost.

Q4] 'Perpetual Inventory System is an integral part of materials control'. Explain

Q5] Discuss the treatment of the following in cost accounts.

I] Major repairs to equipments to prolong its useful life

II] Financing charges for acquisition of fixed assets and inventories.

Q6] The following information is given in respect of Process No.3 for the month of December 2007.

Opening stock: 2000 units made of,

Direct material I: Rs.12, 350

Direct material II: Rs.13, 200

Direct labor: Rs.17, 500

Overheads: Rs.11, 000

Transferred from Process No.2: 20000 units @ Rs.6 per unit

Transferred to Process No.4: 17000 units

Expenditure incurred in Process No.3:

Direct material: Rs.30, 000

Direct labor: Rs.60, 000

Overheads: Rs.60, 000

Scrap: 1000 units – Direct Material: 100%, Direct Labor: 60%, Overheads: 40%. Normal loss 10% of production

Scrapped units realized @ Rs.4 per unit

Closing stock: 4000 units – Degree of completion; Direct material: 80%, Direct labor: 60%, Overheads: 40%

Prepare Process No.3 Account using average pricing method along with necessary supporting statements.

Q7] The standard material inputs required for 1000 kg of a finished product are given below.

Material P: 450 kg @ Rs.20 per kg

Material Q: 400 kg @ Rs.40 per kg

Material R: 250 kg @ Rs.60 per kg

Standard loss is 100 kg.

Actual production in a period was 20, 000 kg of the finished product for which the actual quantities of material used and the prices paid thereof are as under.

Material P: 10,000 kg @ Rs.19 per kg

Material Q: 8,500 kg @ Rs.42 per kg

Material R: 4,500 kg @ Rs.65 per kg

Calculate Material Variances.