



**J.K. SHAH<sup>®</sup>**  
**TEST SERIES**  
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**SUGGESTED SOLUTION**

**CA INTERMEDIATE**

**SUBJECT- COSTING**

**Test Code – CIM 8724**

**BRANCH - () (Date :)**

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- NOTES : 1. WORKING NOTES SHOULD FORM OF ANSWER.  
2. INTERNAL WORKING NOTES SHOULD ALSO BE EVALUATED

**ANSWER 1(A)**

**(i) Calculation of total cost per batch:**

Particulars	Amount (Rs)
(i) Auditorium hire charges (Rs3,75,000 × 4 months)	15,00,000
(ii) Teachers' remuneration (Rs3,000 × 2 hours × 3 days × 4 weeks × 4 months)	2,88,000
Total cost	17,88,000

**(2 MARKS)**

**(ii) Computation of minimum fee per student per batch:**

$$\text{Minimum fee to be charged} = \frac{\text{Total Cost}}{\text{No. of Students}} = \frac{\text{Rs}17,88,000}{150 \text{ Students}} = \text{Rs}11,920/-$$

**(1 MARK)**

**(iii) Fee to be charged per student =**  $\frac{\text{Total Profit}}{\text{No. of Students}} = \frac{\text{Rs}17,88,000 + \text{Rs. } 8,94,000}{125 \text{ Students}}$

$$\frac{\text{Rs}26,82,000}{125 \text{ Students}} = \text{Rs}21,456/-$$

**(2 MARKS)**

**ANSWER 1(B)**

**Employee turnover rate using:**

**(i) Separation Method:**

$$= \frac{\text{No. of workers left} + \text{No. of workers discharged}}{\text{Average number of workers}} \times 100$$

$$= \frac{(40 + 120)}{(3,600 + 3,790) / 2} \times 100 = \frac{160}{3695} \times 100 = 4.33 \%$$

**(1 MARK)**

**(ii) Replacement Method:**

$$= \frac{\text{No. of workers replaced}}{\text{Average number of workers}} \times 100 = \frac{150}{3695} \times 100 = 4.06 \%$$

**(1 MARK)**

**(iii) New Recruitment Method:**

$$\begin{aligned} &= \frac{\text{No.of workers newly recruited}}{\text{Average number of workers}} \times 100 \\ &= \frac{\text{No.Recruitments} - \text{No.of Replacements}}{\text{Average number of workers}} \times 100 \\ &= \frac{350-150}{3695} \times 100 = \frac{200}{3695} \times 100 = 5.41 \% \end{aligned}$$

**(1.5 MARKS)**

**(iv) Flux Method:**

$$\begin{aligned} &= \frac{\text{No.of separations} + \text{No.of accessions}}{\text{Average number of workers}} \times 100 \\ &= \frac{(160 + 350)}{(3600+3790)/2} \times 100 = \frac{510}{3695} \times 100 = 13.80 \% \end{aligned}$$

**(1.5 MARKS)**

**ANSWER 1(C)**

Contribution per unit=Selling price – Variable cost  
=Rs.100 – Rs.60 =Rs.40

Break-even Point =  $\frac{\text{Rs. } 24,00,000}{\text{Rs. } 40}$  = 60000 units

Percentage Margin of Safety =  $\frac{\text{Actual Sales} - \text{Break} - \text{even Sales}}{\text{Actual Sales}}$

60 % =  $\frac{\text{Actual Sales} - 60000 \text{ units}}{\text{Actual Sales}}$  \ Actual Sales = 1,50,000 units

	<b>(Rs.)</b>
Sales Value (1,50,000 units × Rs.100)	1,50,00,000
Less: Variable Cost (1,50,000 units ×Rs.60)	90,00,000
Contribution	60,00,000
Less: Fixed Cost	24,00,000
Profit	36,00,000
Less: Income Tax @ 40%	14,40,000
Net Return	21,60,000

Rate of Net Return on Sales = 14.40 %  $\left( \frac{\text{Rs.}21,60,000}{\text{Rs.}1,50,00,000} \times 100 \right)$

**(5 MARKS)**

**ANSWER 1(D)****(i) Statement Showing Joint Cost Allocation to 'Cromex'**

Particulars	Cromex (Rs)
Sales (Rs 40 × 2,000 units)	80,000
Less: Post Split Off Costs (4,000+18,000+6,000)	(28,000)
Less: Estimated Profit (Rs 5 × 2,000 units)	(10,000)
<b>Joint cost allocable</b>	<b>42,000</b>

**(2 MARKS)****(ii) Statement Showing Product Wise and Overall Profitability**

Particulars	Bomex (Rs)	Cromex (Rs)	Total (Rs)
Sales	2,00,000	80,000	2,80,000
Less: Share in Joint Expenses	<b>(1,38,000)*</b>	(42,000)	(1,80,000)
Less: Post Split Off Costs	(36,000)	(28,000)	(64,000)
<b>Profit</b>	<b>26,000</b>	<b>10,000</b>	<b>36,000</b>

(\*) 1,80,000 – 42,000

**(3 MARKS)****ANSWER 2(A)****Working notes:****(i) Total support cost:**

	(Rs)
Bottles returns	60,000
Ordering	7,80,000
Delivery	12,60,000
Shelf stocking	8,64,000
Customer support	15,36,000
<b>Total support cost</b>	<b>45,00,000</b>

**(2 MARKS)****(ii) Cost for each activity cost driver:**

Activity (1)	Total cost (Rs) (2)	Cost allocation base (3)	Cost driver rate (4) = [(2) ÷ (3)]
Ordering	7,80,000	1,560 purchase orders	Rs 500 per purchase order
Delivery	12,60,000	3,150 deliveries	Rs 400 per delivery
Shelf-stocking	8,64,000	8,640 hours	Rs 100 per stocking hour
Customer support	15,36,000	15,36,000 items sold	Rs 1 per item sold

**(2 MARKS)**

**Statement of Total cost and Operating income**

	<b>Soft drinks (Rs)</b>	<b>Fresh Produce (Rs)</b>	<b>Packaged Food (Rs)</b>	<b>Total (Rs)</b>
Revenues: (A)	39,67,500	1,05,03,000	60,49,500	2,05,20,000
Cost & Goods sold	30,00,000	75,00,000	45,00,000	1,50,00,000
Bottle return costs	60,000	0	0	60,000
Ordering cost* (360:840:360)	1,80,000	4,20,000	1,80,000	7,80,000
Delivery cost* (300:2190:660)	1,20,000	8,76,000	2,64,000	12,60,000
Shelf stocking cost* (540:5400:2700)	54,000	5,40,000	2,70,000	8,64,000
Customer Support cost* (1,26,000:11,04,000:3,06,000)	1,26,000	11,04,000	3,06,000	15,36,000
Total cost: (B)	35,40,000	1,04,40,000	55,20,000	1,95,00,000
Operating income C: {(A)- (B)}	4,27,500	63,000	5,29,500	10,20,000

\* Refer to working note (ii)

**(6 MARKS)**

**ANSWER 2(B)**

**Workings:**

**1. Calculation of Sales Quantity:**

<b>Particulars</b>	<b>Units</b>
Production units	1,00,000
Less: Defectives (4%×1,00,000 units)	4,000
Less: Closing stock of finished goods	5,000
No. of units sold	91,000

**(0.5 MARK)**

**2. Calculation of Cost of Production**

<b>Particulars</b>	<b>Amount (Rs)</b>
Cost of Goods sold (given)	78,26,000
Add: Value of Closing finished goods $\left( \frac{\text{Rs. } 78,26,000}{91,000 \text{ units}} \times 5000 \text{ units} \right)$	4,30,000
Cost of Production	82,56,000

**(0.5 MARK)**

**3. Calculation of Factory Cost**

<b>Particulars</b>	<b>Amount (Rs)</b>
Cost of Production	82,56,000
Less: Quality Control Cost	(2,00,000)
Less: Research and Development Cost	(2,50,000)

Add: Credit for Recoveries/Scrap/By-Products/ misc. income (1,00,000 units × 4% × Rs 61)	2,44,000
Factory Cost	80,50,000

(0.5 MARK)

4. **Calculation of Gross Factory Cost**

Particulars	Amount (Rs)
Cost of Factory Cost	80,50,000
Less: Opening Work in Process	(2,00,000)
Add: Closing Work in Process	5,00,000
Cost of Gross Factory Cost	83,50,000

(0.5 MARK)

5. **Calculation of Prime Cost**

Particulars	Amount (Rs)
Cost of Gross Factory Cost	83,50,000
Less: Consumable stores & spares	(3,50,000)
Less: Lease rental of production assets	(2,00,000)
Prime Cost	78,00,000

(0.5 MARK)

6. **Calculation of Cost of Materials Consumed & Labour cost**

Let Cost of Material Consumed = M and Labour cost = 0.5M

Prime Cost = Cost of Material Consumed + Labour Cost 78,00,000 = M + 0.5M

M = 52,00,000

Therefore, Cost of Material Consumed = Rs 52,00,000 and

Labour Cost = Rs 26,00,000

(0.5 MARK)

**Calculation of Value of Materials Purchased**

Particulars	Amount (Rs)
Cost of Material Consumed	52,00,000
Add: Value of Closing stock	2,92,000
Less: Value of Opening stock	(2,42,000)
<b>Value of Materials Purchased</b>	<b>52,50,000</b>

(1 MARK)

**Cost Sheet**

Sl.	Particulars	Total Cost (Rs)
1.	Direct materials consumed:	
	Opening Stock of Raw Material	2,42,000
	Add: Additions/ Purchases [balancing figure as per requirement (i)]	<b>52,50,000</b>
	Less: Closing stock of Raw Material	(2,92,000)
	Material Consumed	<b>52,00,000</b>
2.	Direct employee (labour) cost	<b>26,00,000</b>
<b>3.</b>	<b>Prime Cost (1+2)</b>	78,00,000
4.	Add: Works/ Factory Overheads	
	Consumable stores and spares	3,50,000
	Lease rent of production asset	<b>2,00,000</b>
5.	Gross Works Cost (3+4)	83,50,000
6.	Add: Opening Work in Process	2,00,000
7.	Less: Closing Work in Process	(5,00,000)
<b>8.</b>	<b>Works/ Factory Cost (5+6-7)</b>	80,50,000
9.	Add: Quality Control Cost	<b>2,00,000</b>
10.	Add: Research and Development Cost	<b>2,50,000</b>
11.	Less: Credit for Recoveries/Scrap/By-Products/misc. income	<b>(2,44,000)</b>
<b>12.</b>	<b>Cost of Production (8+9+10-11)</b>	<b>82,56,000</b>
13.	Add: Opening stock of finished goods	-
14.	Less: Closing stock of finished goods (5000 Units)	<b>(4,30,000)</b>
<b>15.</b>	<b>Cost of Goods Sold (12+13-14)</b>	78,26,000
16.	Add: Administrative Overheads (General)	<b>2,24,000</b>
17.	Add: Secondary packing	<b>1,82,000</b>
18.	Add: Selling Overheads& Distribution Overheads	4,13,000
<b>19.</b>	<b>Cost of Sales (15+16+17+18)</b>	<b>86,45,000</b>
<b>20.</b>	<b>Profit</b>	<b>13,65,000</b>
<b>21.</b>	<b>Sales 91,000 units@ Rs 110 per unit</b>	<b>1,00,10,000</b>

(6 MARKS)

**ANSWER 3(A)****(i) Amount of under absorption of production overheads:**

Particular	Amount (Rs)	Amount (Rs)
Total production overheads actually incurred		8,80,000
Less: Amount paid to worker as per court order	50,000	
Wages paid for the strike period under an award	38,000	
Stores written off	22,000	
Expenses of previous year booked in the current year	18,500	1,28,500
		<b>7,51,500</b>
Less: Production overheads absorbed as per machine hour rate (45,000 hours × Rs11.50*)		<b>5,17,500</b>
Amount of under- absorbed production overheads		<b>2,34,000</b>

\*Budgeted Machine hour rate (Blanket rate) =  $\frac{\text{Rs. } 10,35,000}{90,000} = \text{Rs } 11.50 \text{ per hour}$

**(4 MARKS)****(ii) Accounting treatment of under absorbed production overheads:**

- (a) As 1/3<sup>rd</sup> of the under absorbed overheads were due to defective production planning, this being abnormal, hence should be debited to Costing Profit and Loss Account.

Amount to be debited to Costing Profit and Loss Account

= Rs 2,34,000 × 1/3 = Rs **78,000**.

- (b) Balance of under absorbed production overheads should be distributed over Finished goods and Cost of sales by applying supplementary rate\*.

Amount to be distributed = Rs 2,34,000 × 2/3 = Rs**1,56,000**

\*Supplementary rate =  $\frac{\text{Rs } 1,56,000}{30,000 \text{ units}} = \text{Rs } 5.20 \text{ per unit}$

**(4 MARKS)**

- (iii) Apportionment of under absorbed production overheads over Finished goods and Cost of sales:

Particular	Units	Amount (Rs)
Finished goods (3,000 units × Rs5.20)	<b>3,000</b>	<b>15,600</b>
Cost of sales (27,000 units × Rs5.20)	<b>27,000</b>	<b>1,40,400</b>
Total	<b>30,000</b>	<b>1,56,000</b>

**(2 MARKS)**



**ANSWER 3(B)**

$$\begin{aligned} \text{Number of Patient Days} &= (200 \times 50) + (105 \times 30) + (60 \times 20) \\ &= 14,350 \text{ patient days} + 250 = 14,600 \end{aligned}$$

**(1 MARK)****Statement Showing Profit**

Elements of Cost and Revenue	Total (Rs)
<b>A. Revenue</b> (14,600 x Rs 2,500)	3,65,00,000
<b>B. Variable Costs</b>	
Food and Laundry Service	39,53,000
Medicines to Patients	22,75,000
Doctor's Payment	66,00,000
Hire Charges of Bed (250 x Rs 950)	2,37,500
Total Variable Cost	1,30,65,500
<b>C. Fixed Costs</b>	
Building Rent	27,00,000
Manager's Salary (Rs 50,000 x 3 x 12)	18,00,000
Nurse's Salary (Rs 18,000 x 12 x 24)	51,84,000
Ward boy's Salary (Rs 9,000 x 12 x 24)	25,92,000
Administrative Overheads	28,00,000
Depreciation on Equipment's	12,75,000
	1,63,51,000
<b>D. Total Cost (B+C)</b>	2,94,16,500
<b>E. Profit (A-D)</b>	70,83,500

**(6 MARKS)**

$$\text{Profit per patient day} = \text{Rs } 70,83,500 / 14,600 = \text{Rs } 485.17$$

$$\begin{aligned} \text{(i) Contribution (per patient day)} &= (\text{Rs } 3,65,00,000 - \text{Rs } 1,30,65,500) / 14,600 \\ &= \text{Rs } 1,605.10 \end{aligned}$$

$$\text{BEP} = 1,63,51,000 / 1,605.10 = 10,186.90 \text{ or say } 10,187 \text{ patient days}$$

**(2 MARKS)****Notes:**

- Higher Charges for extra beds are a semi variable cost; still, for the sake of convenience it has been considered a variable cost.
- Assumed, the hospital hired 250 beds at a charge of Rs 950 per bed to accommodate the flow of patients. However, this never exceeded the 10 beds above the normal capacity of 50 beds on any day.
- The fees were paid based on the number of patients attended to and the time spent by them, which on an average worked out to Rs 5,50,000 p.m.

**(1 MARK)**

**ANSWER 4(A)****(a) Calculation of Total Cost for the Hostel Job**

Particulars	Amount (Rs.)	Amount (Rs.)
Direct Material Cost:		
- 15mm GI Pipe (Working Note- 1)	11,051.28	
- 20mm GI Pipe (Working Note- 2)	2,588.28	
- Other fitting materials (Working Note- 3)	3,866.07	
- Stainless steel faucet		
15 units $\times \left( \frac{6 \times ₹ 204 + 15 \times ₹ 209}{21 \text{ units}} \right)$	3,113.57	
- Valve		
6 units $\times \left( \frac{8 \times ₹ 404 + 10 \times ₹ 402 + 14 \times ₹ 424}{32 \text{ units}} \right)$	<u>2,472.75</u>	23,091.95
Direct Labour:		
Plumber [(180 hours $\times$ Rs. 50) + (12 hours $\times$ Rs. 25)]	9,300.00	
Helper [(192 hours $\times$ Rs. 35) + (24 hours $\times$ Rs. 17.5)]	<u>7,140.00</u>	16,440.00
- Overheads [Rs. 13 $\times$ (180 + 192) hours]		4,836.00
<b>Total Cost</b>		<b>44,367.95</b>

**(4 MARKS)****(b) Price to be charged for the job work:**

	Amount (Rs.)
Total Cost incurred on the job	44,367.95
Add: 25% Profit on Job Price $\left( \frac{44,367.95}{75\%} \times 25\% \right)$	14,789.32
	<u>59,157.27</u>

**(2 MARKS)****Working Note:****1. Cost of 15mm GI Pipe**

Date		Amount (Rs.)
17-08-2019	8 units $\times$ Rs. 600	4,800.00
28-08-2019	10 units $\times \left( \frac{4 \times \text{Rs. } 600 + 35 \times \text{Rs. } 628}{39 \text{ units}} \right)$	6,251.28
		<u>11,051.28</u>

**(1 MARK)**

2. Cost of 20mm GI Pipe

Date		Amount (Rs.)
12-08-2019	2 units × Rs. 660	1,320.00
28-08-2019	2 units × $\left( \frac{8 \times \text{Rs. } 660 + 30 \times \text{Rs. } 610 + 20 \times \text{Rs. } 660}{58 \text{ units}} \right)$	1,268.28
		2,588.28

(1 MARK)

3. Cost of Other fitting materials

Date		Amount (Rs.)
12-08-2019	18 units × Rs. 26	468.00
17-08-2019	30 units × Rs. 26	780.00
28-08-2019	34 units × $\left( \frac{12 \times \text{Rs. } 26 + 150 \times \text{Rs. } 28}{162 \text{ units}} \right)$	946.96
30-08-2019	60 units × $\left( \frac{12 \times \text{Rs. } 26 + 150 \times \text{Rs. } 28}{162 \text{ units}} \right)$	1,671.11
		3,866.07

(2 MARKS)

ANSWER 4(B)

Process- P Account

Particulars	Kg.	Amount (Rs)	Particulars	Kg.	Amount (Rs)
To Input	10,000	50,000	By Normal wastage (1,000 kg. × Rs1)	1,000	1,000
To Direct Material	---	38,000	By Process- Q (9,000 kg. × Rs 15.50)	9,000	1,39,500
To Direct Labour	---	30,000			
To Production OH (Rs 90,000 × 3/12)	---	22,500			
	10,000	1,40,500		10,000	1,40,500

$$\text{Cost per unit} = \frac{\text{Rs}1,40,500 - \text{Rs}1,000}{10,000\text{kg.} - 1,000\text{kg.}} = \text{Rs } 15.50$$

(3 MARKS)

### Process- Q Account

Particulars	Kg.	Amount (Rs)	Particulars	Kg.	Amount (Rs)
To Process-P A/c	9,000	1,39,500	By Normal wastage (900 kg. × Rs1)	900	900
To Direct Material	---	42,500	By Process- Q (8,200 kg. × Rs 31)	8,200	2,54,200
To Direct Labour	---	40,000			
To Production OH (Rs90,000 × 4/12)	---	30,000			
To Abnormal Gain (100 kg. × Rs31)	100	3,100			
	9,100	2,55,100		9,100	2,55,100

$$\text{Cost per unit} = \frac{\text{Rs } 2,52,000 - \text{Rs } 900}{9,000\text{kg.} - 900\text{kg.}} = \text{Rs } 31$$

**(3 MARKS)**

### Process- R Account

Particulars	Kg.	Amount (Rs)	Particulars	Kg.	Amount (Rs)
To Process-Q A/c	8,200	2,54,200	By Normal wastage (820 kg. × Re.1)	820	820
To Direct Material	---	42,880	By Abnormal loss (80 kg. × Rs 52)	80	4,160
To Direct Labour	---	50,000	By Finished Goods (7,300 kg. × Rs52)	7,300	3,79,600
To Production OH (Rs90,000 × 5/12)	---	37,500			
	8,200	3,84,580		8,200	3,84,580

$$\text{Cost per unit} = \frac{\text{Rs } 3,84,580 - \text{Rs } 820}{8,200\text{kg.} - 820\text{kg.}} = \text{Rs } 52$$

**(3 MARKS)**

**Calculation of Selling price per unit of end product:**

Cost per unit	Rs52.00
Add: Profit 25% on selling price i.e. 1/3 <sup>rd</sup> of cost	<u>Rs17.33</u>
Selling price per unit	<u>Rs69.33</u>

**(1 MARK)**

**ANSWER 5(A)**

**COMPUTATION OF VARIANCES**

- (i) **Overhead Cost Variance** = Absorbed Overheads – Actual Overheads  
= (Rs.87,200 + Rs.44,800) – (Rs.1,21,520 + Rs.55,680)  
= Rs. 45,200 (A)
- (ii) **Fixed Overhead Cost Variance** = Absorbed Fixed Overheads – Actual Fixed Overheads  
= Rs. 87,200 – Rs.1,21,520  
= Rs.34,320 (A)
- (iii) **Variable Overhead Cost Variance** = Standard Variable Overheads for Production – Actual Variable Overheads  
= Rs. 44,800 – Rs. 55,680  
= Rs. 10,880 (A)
- (iv) **Fixed Overhead Volume Variance** = Absorbed Fixed Overheads – Budgeted Fixed Overheads  
= Rs. 87,200 – Rs.1,09,000  
= Rs. 21,800 (A)
- (v) **Fixed Overhead Expenditure Variance** = Budgeted Fixed Overheads – Actual Fixed Overheads  
= Rs.10.90 × 10,000 units – Rs.1,21,520  
= Rs.12,520 (A)
- (vi) **Calendar Variance** = Possible Fixed Overheads – Budgeted Fixed Overheads  
= Rs.1,03,550 – Rs.1,09,000  
= Rs. 5,450 (A)

**(1\*6 = 6 MARKS)**

**WORKING NOTE:**

Fixed Overheads per Unit = $\frac{\text{Budgeted Fixed Overheads}}{\text{Budgeted Output}} = \frac{\text{Rs.12,00,000}}{1,20,000\text{units}}$	Rs. 10
Fixed Overheads element in <i>Semi-Variable</i> Overheads i.e. 60% of Rs.1,80,000	Rs. 1,08,000
Fixed Overheads per Unit = $\frac{\text{Budgeted Fixed Overheads}}{\text{Budgeted Output}} = \frac{\text{Rs.1,08,000}}{1,20,000\text{units}}$	Rs. 0.90
Standard Rate of Absorption of Fixed Overheads <i>per unit</i> (Rs.10 + Rs.0.90)	Rs.10.90
Fixed Overheads Absorbed on 8,000 units @ Rs10.90	Rs. 87,200
Budgeted Variable Overheads	Rs. 6,00,000
Add : Variable element in <i>Semi-Variable</i> Overheads 40% of Rs. 1,80,000	Rs. 72,000
Total Budgeted Variable Overheads	Rs. 6,72,000
Standard Variable Cost <i>per unit</i> = $\frac{\text{Budgeted Variable Overheads}}{\text{Budgeted Output}} = \frac{\text{Rs.6,72,000}}{1,20,000\text{units}}$	Rs.5.60
Standard Variable Overheads for 8,000 units @ Rs.5.60	Rs. 44,800
Budgeted Annual Fixed Overheads (Rs. 12,00,000 + 60% of Rs. 1,80,000)	Rs.13,08,000
Possible Fixed Overheads = $\frac{\text{Budgeted Fixed Overheads}}{\text{Budgeted Days}} \times \text{Actual Days}$  = $\left[ \frac{\text{Rs.1,09,000}}{20\text{Days}} \times 19\text{Days} \right]$	Rs.1,03,550
Actual Fixed Overheads (Rs.1,10,000 + 60% of Rs. 19,200)	Rs.1,21,520
Actual Variable Overheads (Rs.48,000 + 40% of Rs.19,200)	Rs. 55,680

**(4 MARKS)****ANSWER 5(B)****(i) Preparation of Production Budget (in Units)**

	January	February	March	April	May
Sales	5,000	6,000	7,000	7,500	8,000
Add: Closing stock (25% of next month's sales)	1,500	1,750	1,875	2,000	
Less: Opening Stock	(1200)	(1500)	(1750)	(1875)	
Production of electronic Gadgets	5,300	6,250	7,125	7,625	

**(2 MARKS)**

(ii) Preparation of Purchase budget

	January	February	March	April
Consumption/production of Batteries (@ 2 per Gadget)	10,600	12,500	14,250	15,250
Add: Closing Stock (30% of next month's production)	3750	4275	4575	
Less: Opening Stock	3,250	3,750	4275	
Purchase of Batteries	11,100	13,025	14,550	

(2 MARKS)

Statement Showing Profit

	Jan.	Feb.	March	Total
Sales (A)	5,000	6,000	7,000	18,000
Selling Price per unit*	Rs. 2,000	Rs. 2,000	Rs. 2,000	Rs. 2,000
Less: Discount @15% of selling price	300	300	300	300
Less: Standard Cost of Manufacturing per gadget Cost	1500	1500	1500	1500
Profit (B) (selling Price-discount- cost)	200	200	200	200
Total Profit (A × B)	Rs.10,00,000	Rs.12,00,000	Rs.14,00,000	Rs.36,00,000

(6 MARKS)

ANSWER 6(A)

Difference between Cost Control and Cost Reduction

Cost Control	Cost Reduction
1. Cost control aims at maintaining the costs in accordance with the established standards.	1. Cost reduction is concerned with reducing costs. It challenges all standards and endeavours to better them continuously.
2. Cost control seeks to attain lowest possible cost under existing conditions.	2. Cost reduction recognises no condition as permanent, since a change will result in lower cost.
3. In case of Cost Control, emphasis is on past and present.	3. In case of cost reduction it is on present and future.
4. Cost Control is a preventive function.	4. Cost reduction is a corrective function. It operates even when an efficient cost control system exists.
5. Cost control ends when targets are achieved.	5. Cost reduction has no visible end.

(5 MARKS)

**ANSWER 6(B)**

Journal entries are as follows:

			<b>Dr. (Rs)</b>	<b>Cr. (Rs)</b>
(i)	Stores Ledger Control A/c..... To Cost Ledger Control A/c	Dr.	27,000	27,000
(ii)	Work-in-Process Control A/c..... To Manufacturing Overhead Control A/c	Dr.	6,000	6,000
(iii)	Cost of Sales A/c..... To Selling & Dist. Overhead Control A/c	Dr.	4,000	4,000
(iv)	(1) Wage Control A/c..... To Cost Ledger Control A/c	Dr.	8,000	8,000
	(2) Manufacturing Overhead Control A/c..... To Wages Control A/c	Dr.	8,000	8,000
<b>OR</b>				
	Manufacturing Overhead Control A/c..... To Cost Ledger Control A/c	Dr.	8,000	8,000
(v)	Stores Ledger Control A/c ..... To Work-in-Process Control A/c	Dr.	9,000	9,000

\*Cost Ledger Control A/c is also known as General Ledger Control A/c

**(5 MARKS)****ANSWER 6(C)**

**Escalation clause** in a contract empowers a contractor to revise the price of the contract in case of increase in the prices of inputs due to some macro-economic or other agreed reasons. A contract takes longer period to complete and the factors based on which price negotiation is done at the time of entering into the contract may change till the contract completes. This protect the contractor from adverse financial impacts and empowers the contractor to recover the increased prices. As per this clause, the contractor increases the contract price if the cost of materials, employees and other expenses increase beyond a certain limit. Inclusion of such a clause in a contract deed is called an "Escalation Clause".

**(5 MARKS)**



## ANSWER 6(D)

### Just in Time (JIT) Inventory Management

JIT is a system of inventory management with an approach to have a zero inventories in stores. According to this approach material should only be purchased when it is actually required for production.

JIT is based on two principles

- (i) Produce goods only when it is required and
- (ii) the products should be delivered to customers at the time only when they want.

It is also known as 'Demand pull' or 'Pull through' system of production. In this system, production process actually starts after the order for the products is received. Based on the demand, production process starts and the requirement for raw materials is sent to the purchase department for purchase. This can be understood with the help of the following diagram:



(5 MARKS)

## ANSWER 6(E)

### The impact of IT in cost accounting system may include the following:

- (i) After the introduction of ERPs, different functional activities get integrated and as a consequence a single entry into the accounting system provides custom made reports for every purpose and saves an organisation from preparing different sets of documents. Reconciliation process of results of both cost and financial accounting systems become simpler and less sophisticated.
- (ii) A move towards paperless environment can be seen where documents like Bill of Material, Material Requisition Note, Goods Received Note, labour utilisation report etc. are no longer required to be prepared in multiple copies, the related department can get e-copy from the system.
- (iii) Information Technology with the help of internet (including intranet and extranet) helps in resource procurement and mobilisation. For example, production department can get materials from the stores without issuing material requisition note physically. Similarly, purchase orders can be initiated to the suppliers with the help of extranet. This enables an entity to shift towards Just-in-Time (JIT) approach of inventory management and production.
- (iv) Cost information for a cost centre or cost object is ascertained with accuracy in timely manner. Each cost centre and cost object is codified and all related costs are assigned to the cost object or cost centre. This process automates the cost accumulation and ascertainment process. The cost information can be customised as per the requirement. For example, when an entity manufacture or provide services, it can know information job-wise, batch-wise, process-wise, cost centre wise etc.
- (v) Uniformity in preparation of report, budgets and standards can be achieved with the help of IT. ERP software plays an important role in bringing uniformity irrespective of location, currency, language and regulations.
- (vi) Cost and revenue variance reports are generated in real time basis which enables the management to take control measures immediately.
- (vii) IT enables an entity to monitor and analyse each process of manufacturing or service activity closely to eliminate non value added activities.

The above are examples of few areas where Cost Accounting is done with the help of IT.

(5 MARKS)