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SUGGESTED SOLUTION

CA INTERMEDIATE

SUBJECT- COSTING AND D.T

Test Code – CIM 8695

BRANCH - () (Date :)

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- NOTES: (1) WORKING NOTES SHOULD FORM PART OF ANSWERS.
 (2) INTERNAL WORKING NOTES SHOULD ALSO BE CONSIDERED.
 (3) NEW QUESTION SHOULD BE ON NEW PAGE

ANSWER -1

Calculation of Cost of Production of A Ltd. for the period

Particulars	Amount (Rs.)
Raw materials purchased	64,00,000
Add: Opening stock	2,88,000
Less: Closing stock	(4,46,000)
Material consumed	62,42,000
Wages paid	23,20,000
Prime cost	85,62,000
Repair and maintenance cost of plant & machinery	9,80,500
Insurance premium paid for inventories	26,000
Insurance premium paid for plant & machinery	96,000
Quality control cost	86,000
Research & development cost	92,600
Administrative overheads related with factory and production	9,00,000
	1,07,43,100
Add: Opening value of W-I-P	4,06,000
Less: Closing value of W-I-P	(6,02,100)
	1,05,47,000
Less: Amount realised by selling scrap	(9,200)
Add: Primary packing cost	10,200
Cost of Production	1,05,48,000

Notes:

- (i) Other administrative overhead does not form part of cost of production.
 (ii) Salary paid to Director (Technical) is an administrative cost.

(10 MARKS)

ANSWER -2

Input – Output Relation

1 bag = 1 metre of cotton cloth

Therefore 1000 meter cotton cloth = 1000 units of bags because here opening stock and closing stock of input are zero. Therefore total input purchased = total input consumed

No. of bags manufactured = 1,000 units

Cost sheet for the month of September 2019

	Particulars	Total Cost (Rs.)	Cost per unit (Rs.)
1.	Direct materials consumed:		
	- Leather sheets	3,20,000	320.00
	- Cotton cloths	15,000	15.00
	Add: Freight paid on purchase	8,500	8.50
2.	Direct wages (Rs.80 × 2,000 hours)	1,60,000	160.00
3.	Direct expenses (Rs.10 × 2,000 hours)	20,000	20.00
4.	Prime Cost	5,23,500	523.50
5.	Factory Overheads: Depreciation on machines {(Rs.22,00,000×90%)÷120 months}	16,500	16.50
	Apportion cost of factory rent	98,000	98.00
6.	Works/ Factory Cost	6,38,000	638.00
7.	Less: Realisable value of cuttings (Rs.150×35 kg.)	(5,250)	(5.25)
8.	Cost of Production	6,32,750	632.75
9.	Add: Opening stock of bags	0	
10.	Less: Closing stock of bags (100 bags × Rs.632.75)	(63,275)	
11.	Cost of Goods Sold	5,69,475	632.75
12.	Add: Administrative Overheads:		
	- Staff salary	45,000	45.00
	- Apportioned rent for administrative office	12,000	12.00
13.	Add: Selling and Distribution Overheads		
	- Staff salary	72,000	80.00

	- Apportioned rent for sales office	10,000	11.11
	- Freight paid on delivery of bags	18,000	20.00
14.	Cost of Sales (18+19+20)	7,26,475	800.86

Apportionment of Factory rent:

To factory building $\{(Rs.1,20,000 \div 2400 \text{ sq. feet}) \times 1,960 \text{ sq. feet}\} = Rs.98,000$

To administrative office $\{(Rs.1,20,000 \div 2400 \text{ sq. feet}) \times 240 \text{ sq. feet}\} = Rs.12,000$

To sale office $\{(Rs.1,20,000 \div 2400 \text{ sq. feet}) \times 200 \text{ sq. feet}\} = Rs.10,000$

(10 MARKS)

ANSWER -3

Statement of Cost for the month of September

Particulars	Rs.	Rs.
Raw material Consumed:		
Opening stock of Raw material	2,42,000	
Add : Purchases of raw material (Balancing Figure)	52,50,000	
Less : Closing stock of raw material	(2,92,000)	
Raw material consumed(Working Note 1)		52,00,000
Add : Direct Employee cost (50% of 52,00,000)		26,00,000
Prime cost		78,00,000
Add: Factory overheads :		
Consumable stores	3,50,000	
Lease rent of Production Assets	2,00,000	5,50,000
Gross work cost		83,50,000
Add : Opening stock of WIP		2,00,000
Less : Closing stock of WIP		(5,00,000)
Net Work cost /Factory cost		80,50,000
Add : Research and development cost for Process		2,50,000
Add : Quality Control cost		2,00,000
Less : Scrap value realised (Working Note 2)		(2,44,000)
Cost of production		82,56,000
Add : Opening stock of finished goods		Nil
Less : Closing stock of finished goods $\left(\frac{5,000 \text{ units} \times 82,56,000}{96,000 \text{ units}}\right)$		(4,30,000)
Cost of Goods sold (Given)		78,26,000
Add : Selling and Distribution expenses		4,13,000
Add : Packing cost (Secondary)		1,82,000
Add : Administrative Expenses (General)		2,24,000
Cost of Sales (A)		86,45,000
Add : Profit (B-A)		13,65,000
Sales (Working Note 3)(B)		1,00,10,000

Working Note 1: Raw material Consumed

Let 'x' be the amount of Raw material consumed.

Therefore, Direct Employee cost will be 0.5x

Therefore, Prime cost = 1.5x

On Solving Equation:

Prime Cost + [Factory O/H + Opening WIP – Closing WIP+ Research & Development cost..+ Quality Control Cost – Scrap]+Opening stock of Finished goods – Closing Stock of Finished goods = 78,26,000

$$1.5x + [4,56,000] - \left(\frac{5000 \text{ units}(1.5x + 4,56,000)}{96,000 \text{ units}} \right) = 78,26,000$$

$$1.5x + [4,56,000] - 0.078125x - 23,750 = 78,26,000$$

We get 'x' =52,00,000 (i.e. R/M Consumed)

Working Note 2: Scrap Value realized:

$$1,00,000 \times 4\% \times 61 = \text{Rs. } 2,44,000$$

Working Note 3: Sales:

Sales Qty= Opening Stock of Finished goods + Production Qty – Closing Stock of Finished goods – Scrap Qty

$$\text{Sales Qty} = \text{Nil} + 1,00,000 - 5,000 - 4000$$

$$\text{Sales Qty} = 91,000 \text{ units}$$

Therefore sales value will be $91,000 \times 110 = 1,00,10,000$ Rs.

- (i) Value of Raw Material Purchased = Raw Material Consumed + Closing Stock of Raw Material – Opening Stock of Raw material

$$\text{Raw Material Purchased} = 51,87,930 + 2,92,000 - 2,42,000$$

$$= 52,37,930 \text{ Rs.}$$

- (ii) Profit = Sale – Cost of Sales

$$= 1,00,10,000 - 86,45,000$$

$$= 13,65,000 \text{ Rs.}$$

(10 MARKS)

ANSWER -4

ANSWER -A

Computation of tax liability of Mr. D for the A.Y. 2020-21

(A) Tax payable including surcharge on total income of Rs. 5,01,00,000

$$\text{Rs. } 2,50,000 - \text{Rs. } 5,00,000 @ 5\% \quad \text{Rs. } 12,500$$

$$\text{Rs. } 5,00,000 - \text{Rs. } 10,00,000 @ 20\% \quad \text{Rs. } 1,00,000$$

Rs. 10,00,000 – Rs. 5,01,00,000@30% Rs. 1,47,30,000

Total Rs. 1,48,42,500

Add: Surcharge @ 37% Rs. 54,91,725 Rs. 2,03,34,225

- (B) Tax Payable on total income of Rs. 5 crore [(Rs. 12,500 plus Rs. 1,00,000 plus Rs. 1,47,00,000) plus surcharge@25%] Rs. 1,85,15,625
- (C) Excess tax payable (A)-(B) Rs. 18,18,600
- (D) Marginal Relief (Rs. 18,18,600 – Rs. 1,00,000, being the amount of income in excess of Rs. 5,00,00,000) Rs. 17,18,600
- (E) Tax payable (A) - (D) Rs. 1,86,15,625

(6 MARKS)

ANSWER -B

Particulars	Resident and ordinarily resident	Non resident
	Rs.	Rs.
(1) Income deemed to accrue / arise in India		
Interest from Indian Company	1,20,000	1,20,000
Pension from employer in India	1,80,000	1,80,000
(2) Income received in Indian		
50% of profits of business in Paris	1,00,000	1,00,000
(3) Income earn and received outside India, from a business controlled from India		
50% of profits of business in Paris	1,00,000	-
(4) Income earned and received outside India other than (3)		
Income from Agriculture in Bhutan	1,25,000	-
Income from Property in England	4,00,000	--
	10,25,000	4,00,000

(4 MARKS)

ANSWER – C

Under section 6(1), an individual is said to be resident in India in any previous year if he satisfies any one of the following conditions -

- (i) He has been in India during the previous year for a total period of 182 days or more, or
- (ii) He has been in India during the 4 years immediately preceding the previous year for a total period of 365 days or more and has been in India for at least 60 days in the previous year.

In the case of Indian citizens leaving India for employment, the period of stay during the previous year must be 182 days instead of 60 days given in (ii) above.

During the previous year 2019-20, Mr. Ram, an Indian citizen, was in India for 175 days only (i.e 30+31+30+31+31+22 days). Thereafter, he left India for employment purposes.

Since he does not satisfy the minimum criteria of 182 days, he is a non-resident for the A.Y. 2020-21.

(4 MARKS)

ANSWER -5

1. D
2. A
3. B
4. A