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SUGGESTED SOLUTION

CA INTERMEDIATE NOV'19

SUBJECT- COSTING

Test Code - CIM 8263

BRANCH - () (Date :)

Head Office : Shraddha, 3rd Floor, Near Chinai College, Andheri (E), Mumbai – 69.
Tel : (022) 26836666

ANSWER-1

(i) Contract Account

Particulars	(Rs.'000)	(Rs.'000)	Particulars	(Rs.'000)	(Rs. '000)
To Material purchased		6,800	By Material returned		150
To Direct wages	3,450		By work – in – progress:		
Less : Prepaid wages	(50)	3,400	Value of work certified (Rs. 9,440 ÷ 0.8)	11,800	
To Salaries	200		Cost of work uncertified	500	
Add : Outstanding	100				12,300
		300	" Material stolen at Site		50
" Depreciation on Plant		75	" Material at site		175
{(Rs. 1,200 × 15%) × (5 ÷ 12)}					
" Costing P & L A/c. (Notional profit) (bal. figure)		2,100			
		12,675			12,675

(6 marks)

(ii) Balance Sheet (extract) as on 31st March, 2018

Liabilities		(Rs.'000)	Assets		(Rs.'000)
Capital			Plant at site		1,125
Add : Notional Profit	2,100		Work in Progress		
Outstanding Salary		100	Work certified	11,800	
			Work uncertified	500	
				12,300	
			Cash & Bank (in transit)	9,440	2,860
			Prepaid Direct wages		50
			Material at site		175

(4 marks)

ANSWER-2

(i) Total equivalent single room suites

Nature of suite	Occupancy (Room-days)	Equivalent single room suites (Room-days)
Single room suites	36,000 (100 rooms x 360 days x 100%)	36,000 (36,000 x 1)
Double rooms suites	14,400 (50 rooms x 360 days x 80%)	36,000 (14,400 x 2.5)
Triple rooms suites	6,480 (30 rooms x 360 days x 60%)	32,400 (6,480 x 5)
		1,04,400

(3 marks)

(ii) Statement of total cost:

	(Rs.)
Staff salaries	14,25,00,000
Room attendant's wages	4,50,00,000
Lighting, heating and power	2,15,00,000
Repairs and renovation	1,23,50,000
Laundry charges	80,50,000
Interior decoration	74,00,000
Sundries	1,53,00,000
	25,21,00,000
Building rent {(Rs.10,00,000 ? 12 months) + 5% on total taking}	1,20,00,000+ 5% on total takings
Total cost	26,41,00,000 + 5% on total takings

Profit is 20% of total takings

Total takings = Rs. 26,41,00,000 + 25% (5% +20%) of total takings Let *x* be rent for single room suite

Then 1,04,400 *x* = 26,41,00,000 + 0.25 × 1,04,400 *x*

Or, 1,04,400 *x* = 26,41,00,000 + 26,100 *x*

Or, 78,300 *x* = 26,41,00,000

Or, *x* = 3,373 **(5 marks)**

(ii) Rent to be charged for single room suite = Rs. 3,373

Rent for double rooms suites Rs. 3,373 x 2.5 = Rs. 8,432.5

Rent for triple rooms suites Rs. 3,373 x 5 = Rs. 16,865

(2 marks)

ANSWER-3

A.

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)

B.

(i) **Controllable costs :** Cost that can be controlled, typically by a cost, profit or investment centre manager is called controllable cost. Controllable costs incurred in a particular responsibility centre can be influenced by the action of the executive heading that responsibility centre. For example, direct costs comprising direct labour, direct material, direct expenses and some of the overheads are generally controllable by the shop level management. **(2.5 marks)**

(ii) **Uncontrollable Costs -** Costs which cannot be influenced by the action of a specified member of an undertaking are known as uncontrollable costs. For example, expenditure incurred by, say, the tool room is controllable by the foreman in – charge of that section but the share of the tool – room expenditure which is apportioned to a machine shop is not to be controlled by the machine shop foreman. **(2.5 marks)**

ANSWER-4

Particulars		Rs.	Particulars		Rs.
To Materials issued		90,000	By Material sold		18,125
To wages paid	75,000		By plant sold		2,875
Add : Outstanding	6,250	81,250	By plant at site c/d		7,750
To plant		25,000	By Material at site c/d		4,250
To sundry expenses	7,250		By work – in – Progress c/d		
Less : Prepaid	625	6,625	Work certified	2,18,750	
To Establishment charges		14,625	(Rs. 1,75,000 ÷ 80%)		
To costing P & L A/c.		3,125	Work uncertified	27,375	2,46,125
(Rs. 18,125 – Rs. 15,000)					
To Notional Profit (Profit for the year		58,500			
		2,79,125			**2,79,125**

(5 marks)

Calculation of Estimated Profit

			Rs.	Rs.
1)	Material consumed	(90,000 + 3,125 – 18,125)	75,000	
	Add: Further consumption		85,750	1,60,750
2)	Wages:		81,250	
	Add : Further cost	(87,325 – 6,250)	81,075	
	Add : Outstanding		8,300	1,70,625
3)	Plant used	(25,000 – 2,875)	22,125	
	Add: Further plant introduced		31,250	
	Less : Closing balance of plant		(3,750)	49,625
4)	Establishment charges		14,625	
	Add : Further charges for nine months	(14,625× 9/12)	10,969	25,594
5)	Sundry expenses		7,250	
	Add : Further expenses		6,875	14,125
6)	Reserve for contingencies			10,800
	Estimated profit	(balancing figure)		68,481
	Contract price			5,00,000

(5 marks)

ANSWER-5

Operating Cost Sheet

Fixed Cost:	
Salaries 800 x 12	Rs. 9,600
Gate-keepers 10 x 200 x 12	24,000
Operators 2 x 400 x 12	9,600
Clerks 4 x 250 x 12	12,000
Administration Expenses	18,000
Depreciation:	
Premises Rs. 6,00,000 ÷15	40,000
Projector and Equipment 3,20,000 x 0.10	32,000
Total Fixed Cost	1,45,200
Variable Costs:	
Electricity and oil	11,655
Carbon	7,235
Misc. expenses	5,425

Advertisements	34,710
Hire of print	1,40,700
Total variable costs	1,99,725
Total cost	3,44,925
Add: 30% return on gross proceeds or 3/7 of cost	1,47,825
Gross Proceed	4,92,750
Total man-shows (refer to calculation below)	9,85,500
Cost per man-show	Re.0.50

(4 marks)

Rate for each class:

Janata cost per man-show x weightage i.e., 0.50 x 1 = Re. 0.50

Sanman cost per man-show x weightage i.e., 0.50 x 2 = Re. 1.00

Lord's cost per man-show x weightage i.e., 0.50 x 3 = Rs. 1.50 **(1 mark)**

Computation of man-shows :

No. of seats : Janata	= 250 seats
Sanman circle	= 250 seats
Lord's circle	= 125 seats
With weightage (i.e., express all seats in terms of Janata)	
Janata 250 x 1 =	250 seats
Sanman circle 250 x 2 =	500 seats
Lord's circle 125 x 3 =	375 seats
	1,125 seats
No. of shows: 3	
∴ Total weighted seats = 1,125 x 3 =	3,375 seats
Less : 20% vacant seats	675
	2,700
Man-shows per annum = 2,700 x 365 =	9,85,500

(3 marks)

Notes :

1. Management expects 30% return on gross proceeds

Gross Proceeds	100
Return 30%	30
Cost	70

It means relation to return to cost = 3/7

2. In this question, it is necessary to understand weightage concept. Whenever weightage is given, express the items having higher weightage in terms of item having lowest weightage so that all items can be expressed equally. **(2 marks)**