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SUGGESTED SOLUTION

CA INTERMEDIATE NOV'19

SUBJECT- COSTING

Test Code - CIM 8357

BRANCH - () (Date :)

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ANSWER-1
ANSWER-A

(i) Variable overhead absorption rate = $\frac{Difference\ in\ total\ overheads}{Difference\ in\ level\ in\ terms\ of\ machine\ hours}$

$= \frac{347625-338875}{15500\ hours-14500\ hours} = \text{Rs. } 8.75 \text{ per machine hour}$

(ii) Calculation of Total fixed overheads:

	(Rs.)
Total overheads at 14,500 hours	3,38,875
Less: Variable overheads (Rs. 8.75 × 14,500)	(1,26,875)
Total fixed overheads	2,12,000

(iii) Calculation of Budgeted level of activity in machine hours: Let budgeted level of activity = X

Then, $\frac{Rs.8.75\ X+Rs.212000}{X}$ = Rs. 22

8.75X + Rs.2,12,000 = 22X

13.25X = 2,12,000

X =16,000

T hus, budgeted level of activity = 16,000 machine hours.

(iv) Calculation of Under / Over absorption of overheads:

	(Rs.)
Actual overheads	3,22,000
Absorbed overheads (14,970 hours × Rs. 22 per hour)	3,29,340
Over-absorption (3,29,340 – 3,22,000)	7,340

(v) Departmental absorption rates provide costs which are more precise than those provided by the use of blanket absorption rates. Departmental absorption rates facilitate variance analysis and cost control. The application of these rates make the task of stock and work- in-process (WIP) valuation easier and more precise. However, the setting up and monitoring of these rates can be time consuming and expensive.

(5*1 = 5 MARKS)

ANSWER-B

Memorandum Reconciliation Accounts

Dr. Cr.

	(Rs.)		(Rs.)
To Net Loss as per Costing books	3,47,000	By Administration overheads over recovered in cost accounts	60,000
To Factory overheads under absorbed in Cost Accounts	40,000	By Interest on investment not included in Cost Accounts	96,000
To Depreciation under charged in Cost Accounts	50,000	By Transfer fees in Financial books	24,000
To Income-Tax not provided in Cost Accounts	54,000	By Stores adjustment (Credit in financial books)	14,000
To Interest on Loan Funds in Financial Accounts	2,45,000	By Dividend received in financial books	32,000
		By Net loss as per Financial books	5,10,000
	7,36,000		**7,36,000**

(5 MARKS)

ANSWER-C

Calculation of Total Cost of set-up and inventory holding

	Batch size	No. of set-ups	Set-up Cost (Rs.)	Inventory holding cost (Rs.)	Total Cost (Rs.)
	40,000 units	23 (9,20,000/40,000)	80,500 (23 × Rs. 3,500)	3,60,000 (40,000 X 18/2)	4,40,500
B	18,915 units	49 (9,20,000/18,915)	1,71,500 (49 × Rs. 3,500)	1,70,235 (18915 X Rs.18/2)	3,41,735
				Extra Cost (A – B)	98,765

(5 MARKS)

ANSWER-D

Difference between Minimum lead time Maximum lead time = 4 days

Max. lead time – Min. lead time = 4 days

Or, Max. lead time = Min. lead time + 4 days .....(i)

Average lead time is given as 6 days i.e.

$$\frac{\boldsymbol{Max.\,lead\ time + Mi.\,lead\ time}}{\mathbf{2}} = \mathbf{6}\ \boldsymbol{days}$$

Putting the value of (i) in (ii),

$$\frac{\boldsymbol{Min\ lead\ time + 4\ days\ + Min.\,lead\ time}}{\mathbf{2}} = \mathbf{6}\ \boldsymbol{days}$$

Or, Min. lead time + 4 days + Min. lead time = 12 days

Or, 2 Min. lead time = 8 days

Or, Minimum lead time = $\frac{8\ days}{2} = 4\ days$

Putting this Minimum lead time value in (i), we get
Maximum lead time = 4 days + 4 days = 8 days

(i) Maximum consumption per day:

Re-order level = Max. Re-order period × Maximum Consumption per day

1,60,000 units = 8 days × Maximum Consumption per day

Or, Maximum Consumption per day = 1,60,000 units/ 8 days =20,000 units

(ii) Minimum Consumption per day:

Maximum Stock Level =

Re-order level + Re-order Quantity – (Min. lead time × Min. Consumption per day)

Or, 1,90,000 units = 1,60,000 units + 90,000 units – (4 days × Min. Consumption per day)

Or, 4 days × Min. Consumption per day = 2,50,000 units – 1,90,000 units

Or, Minimum Consumption per day = $\frac{60{,}000\ units}{4\ days} = 15{,}000\ units$

(5 MARKS)

ANSWER-2

ANSWER-A

Process-I A/c

Particulars	Qty. (kgs)	Amount)	Particulars	Qty. (kgs)	Amount (Rs.)
To Material A	6,000	3,00,000	By Normal loss	500	8,000
To Material B	4,000	4,00,000	By Process-II A/c	9,200	7,38,857
To Labour	--	21,500	By Abnormal loss A/c	300	24,093
To Overhead (Rs. 92000 X 430 hours/ 800 hours)	--	49,450			
	10,000	7,70,950		10,000	7,70,950

$* \{(Rs.3,00,000 + Rs.4,00,000 + Rs.21,500 + Rs.49,450) - Rs.8,000\} / (10,000 - 500)$ units

= Rs.7,70,950 – Rs.8,000/ 9500 units

= Rs.80.3105

(2 MARKS)

Process-II A/c

Particulars	Qty. (kgs)	Amount (Rs.)	Particulars	Qty. (kgs)	Amount (Rs.)
To Process-I A/c	9,200	7,38,857	By Normal loss	1,000	--
To Material C	6,600	8,25,000	By Packing Dept. A/c (See the working notes)	18,000	18,42,496
To Material D	4,200	3,15,000	By WIP A/c (See the working notes)	1,000	1,00,711
To Flavouring essence	--	3,300			
To Labour	--	18,500			
To Overheads (Rs. 92000 X 370 hours/ 800 hours)	--	42,550			
	20,000	19,43,207		20,000	19,43,207

(3 MARKS)

Abnormal loss A/c

Particulars	Qty. (kgs)	Amount (Rs.)	Particulars	Qty. (kgs)	Amount (Rs.)
To Process-I A/c	300	24,093	By Bank	300	4,800
			By Costing Profit & Loss	--	19,293

			A/c		
	300	24,093		300	24,093

(2 MARKS)

Working Notes: **(3 MARKS)**

Calculation of Equivalent Production units

Input	Units	Output	Units	Process-I		Mat-C & D		Labour & OH	
				(%)	Units	(%)	Units	(%)	Units
	9,200	Transferred to Packing.	18,000	100	18,000	100	18,000	100	18,000
Mat-C	6,600	Closing WIP	1,000	100	1,000	100	1,000	50	500
Mat-D	4,200	Normal loss	1,000	--	--	--	--	--	--
	20,000		20,000		19,000		19,000		18,500

Calculation of Unit cost

Cost component	Amount (Rs.)	Equivalent units	Cost per unit (Rs.)
Transferred-in	7,38,857	19,000	38.8872
Material-C	8,25,000	19,000	43.4211
Material-D	3,15,000	19,000	16.5789
Flavouring essence	3,300	19,000	0.1737
Total Material Cost	18,82,157	19,000	99.0609
Labour	18,500	18,500	1.0000
Overheads	42,550	18,500	2.3000
Total Cost	19,43,207		102.3609

Value of Materials transferred to Packing Department

= 18,000 unit × Rs.102.3609 = 18,42,496

Value of WIP : For Materials- 1,000 units × Rs.99.0609 = Rs.99,061

For Labour & Overheads 500 units × Rs.3.30 = Rs.1,650

Rs.1,00,711

ANSWER-B

(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 X 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

(iii) 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

(7 MARKS)

ANSWER-3

ANSWER-A

(a) Preparation of Production Budget (in nos.)

	October	November	December	January
Demand for the month (Nos.)	4,000	3,500	4,500	6,000
Add: 20% of next month's demand	700 (950)	900 (700)	1,200 (900)	1,300 (1,200)
Less: Opening Stock Vehicles to be produced	3,750	3,700	4,800	6,100

(3 MARKS)

(b) Preparation of Purchase budget for Part-X

	October	November	December
Production for the month (Nos.)	3,750	3,700	4,800
Add: 40% of next month's production	1,480 (40% of 3,700)	1,920 (40% of 4,800)	2,440 (40% of 6,100)
	5,230	5,620	7,240
	20,920	22,480	28,960
	(5,230 × 4	(5,620 × 4	(7,240 × 4

No. of units required for production Less: Opening Stock	units) (4,800)	units) (5,920) (1,480 × 4 units)	units) (7,680) (1,920 × 4 units)
No. of units to be purchased	16,120	16,560	21,280

(3 MARKS)

(c) Budgeted Gross Profit for the Quarter October to December

	October	November	December	Total
Sales in nos.	4,000	3,500	4,500	12,000
Net Selling Price per unit*	Rs. 3,46,150	Rs. 3,46,150	Rs. 3,46,150	
Sales Revenue (Rs. in lakh)	13,846	12,115.25	15,576.75	41,538
Less: Cost of Sales (Rs. in lakh) (Sales unit × Cost per unit)	11,428	9,999.50	12,856.50	34,284
Gross Profit (Rs. in lakh)	2,418	2,115.75	2,720.25	7,254

* Net Selling price unit = Rs. 3,95,600 – 12.5% commission on Rs. 3,95,600 = Rs. 3,46,150

(4 MARKS)

ANSWER-B

School Contract Account

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To Plant	2,40,000	By Material returned	47,000
To Hire of plant	77,000	By Plant c/d	1,65,000
To Materials	6,62,000	By Materials c/d	50,000
To Direct wages 9,60,000		By WIP c/d:	
Add: Accrued 40,000	10,00,000	Value of work certified	24,00,000

To Wages related costs	1,32,000	Cost of work not certified	1,80,000
To Direct expenses	34,000		
To Supervisory staff: Direct 90,000			
Indirect 20,000	1,10,000		
To Regional office expenses	50,000		
To Head office expenses	30,000		
To Surveyors' fees	27,000		
To Notional profit c/d	4,80,000		
	28,42,000		28,42,000

(10 MARKS)

ANSWER-4

ANSWER-A

Break- even point (in units) is 50% of sales i.e. 12,000 units.

Hence, Break- even point (in sales value) is 12,000 units x Rs. 200 = Rs. 24,00,000

(i) We know that Break even sales = $\frac{Fixed\ cost}{\frac{P}{v} ratio}$

Or,Rs.24,00,000 = $\frac{Fixed\ cost}{25\%}$

Or, Fixed Cost = Rs. 24,00,000 x 25%

= Rs. 6,00,000

So Fixed Cost for the year is Rs. 6,00,000

(ii) Contribution for the year = (24,000 units × Rs. 200) × 25%

= Rs. 12,00,000

Profit for the year = Contribution – Fixed Cost

= Rs. 12,00,000 - Rs. 6,00,000

= Rs. 6,00,000

(iii) Target net profit is Rs.11,00,000

Hence, Target contribution = Target Profit + Fixed Cost

= Rs.11,00,000 + Rs. 6,00,000

= Rs. 17,00,000

Contribution per unit = 25% of Rs. 200 = Rs. 50 per unit

No. of units = Rs. 17,00,000/ Rs. 50 per unit = 34,000 unit

So, 34,000 units to be sold to earn a target net profit of Rs. 11,00,000 for a year.

(iv) Net desired total Sales (Number of unit × Selling price) be *x* then desired profit is 25% on Cost or 20% on Sales i.e. 0.2 *x*

Desired Sales = Fixed Cost + Desired Profit/ P/v ratio

X = 600000 + 0.2x /25%

or, 0.25 *x* = 6,00,000 + 0.2 *x*

or, 0.05 *x* = 6,00,000

or, *x* = Rs. 1,20,00,000

No. of units to be sold = 1,20,00,000/200 = 60,000 units

(v) If Break- even point is to be brought down by 4,000 units then Break-even point will be 12,000 units – 4,000 units = 8,000 units

Let Selling price be Rs. *x* and fixed cost and variable cost per unit remain unchanged i.e. Rs. 6,00,000 and Rs. 150 respectively.

Break even point: Sales revenue = Total cost 8,000 *x*

= 8,000 × Rs. 150 + Rs. 6,00,000

Or, 8,000 *x* = Rs. 12,00,000 + Rs. 6,00,000

Or, *x* = Rs. 18,00,000/ Rs. 8,000 = Rs. 225

Selling Price should be Rs. 225

Hence, selling price per unit shall be Rs. 225 if Break-even point is to be brought down by 4,000 units.

(5*2 = 10 MARKS)

ANSWER-B

(i) Statement showing the apportionment of joint costs to A, B and X

Products	A	B	X	Total
Output (kg)	18,000	10,000	54,000	18,40,000
Sales value at the point of split off (Rs.)	9,00,000 (Rs. 50 × 18,000)	4,00,000 (Rs. 40 × 10,000)	5,40,000 (Rs. 10 × 54,000)	
Joint cost apportionment on the basis of sales value at the point of split off (Rs.)	6,30,000 $\left(\frac{Rs.12,88,000}{Rs.18,40,000} \times 9,00,000\right)$	2,80,000 $\left(\frac{Rs.12,88,000}{Rs.18,40,000} \times Rs.4,00,000\right)$	3,78,000 $\left(\frac{Rs.12,88,000}{Rs.18,40,000} \times Rs.5,40,000\right)$	12,88,000

(2 MARKS)

(ii) Statement showing the cost per kg. of each product (indicating joint cost; further processing cost and total cost separately)

Products	A	B	X
Joint costs apportioned (Rs.) : (I)	6,30,000	2,80,000	3,78,000
Production (Kg) : (II)	18,000	10,000	54,000
Joint cost per kg (Rs.) : (I ÷ II)	35	28	7
Further processing Cost per kg.(Rs.)	10 $\left(\frac{Rs.1,80,000}{18,000kg}\right)$	15 $\left(\frac{Rs.1,50,000}{10,000\ kg}\right)$	2 $\left(\frac{Rs.1,08,000}{54,000kg}\right)$
Total cost per kg (Rs.)	**45**	**43**	**9**

(2 MARKS)

(iii) Statement showing the product wise and total profit for the period

Products	A	B	X	Total
Sales value (Rs.)	12,24,000	2,50,000	7,92,000	
Add : Closing stock value (Rs.) (Refer to Working note (2)	45,000	2,15,000	90,000	
Value of production (Rs.)	12,69,000	4,65,000	8,82,000	26,16,000
Apportionment of joint cost (Rs.)	6,30,000	2,80,000	3,78,000	
Add : Further processing cost (Rs.)	1,80,000	1,50,000	1,08,000	
Total cost (Rs.)	8,10,000	4,30,000	4,86,000	17,26,000
Profit (Rs.)	4,59,000	35,000	3,96,000	8,90,000

(2 MARKS)

Working Notes

1.

Products	A	B	X
Sales value (Rs.)	12,24,000	2,50,000	7,92,000
Quantity sold (Kgs.)	17,000	5,000	44,000
Selling price Rs. /kg	72 $\left(\frac{Rs.12,24,000}{17,000\ kg}\right)$	50 $\left(\frac{Rs.2,50,000}{5,000\ kg}\right)$	18 $\left(\frac{Rs.7,92,000}{44,000\ kg}\right)$

2. Valuation of closing stock :

Since the selling price per kg. of products A, B and X is more than their total costs, therefore closing stock will be valued at cost.

Products	A	B	X	Total
Closing stock (Kgs.)	1,000	5,000	10,000	
Cost per kg (Rs.)	45	43	9	
Closing stock value (Rs.)	45,000 (Rs. 45 × 1,000 kg)	2,15,000 (Rs. 43 × 5,000 kg)	90,000 (Rs. 9 × 10,000 kg)	3,50,000

(2 MARKS)

(iv) Calculations for processing decision

Products	A	B	X
Selling price per kg at the point of split off (Rs.)	50	40	10
Selling price per kg after further processing (Rs.) (Refer to working Note 1)	72	50	18
Incremental selling price per kg (Rs.)	22	10	8
Less : Further processing cost per kg (Rs.)	(10)	(15)	(2)
Incremental profit (loss) per kg (Rs.)	12	(5)	6

Product A and X has an incremental profit per unit after further processing, hence, these two products may be further processed. However, further processing of product B is not profitable hence, product B shall be sold at split off point.

(2 MARKS)

ANSWER-5

ANSWER-A

Calculation of Variances

M_1—Actual cost of Material used :

Material A—180 tonnes x Rs. 18 = 3,240

Material B—220 tonnes x Rs. 34 = 7,480 Rs.10,720

M_2—Standard cost material used

Material A—180 tonnes x Rs. 20 = 3,600

Material B—220 tonnes x Rs. 30 = 6,600 Rs. 10,200

$$\text{Material A} = \frac{\text{Standard Qty. of Material A in Standard mix in kg.}}{\text{Weiight of Std. mix}} \text{ x } \begin{pmatrix}\text{Weight in}\\ \text{actual mix}\end{pmatrix} \text{ x } \begin{pmatrix}\text{Standard Rate}\\ \text{of Mat. A per kg}\end{pmatrix}$$

= 40 kg./100 kg. x 400 kg x Rs. 20 or Rs.3,200

$$\text{Material B} = \frac{\text{Standard Qty. of Material B in Standard mix in kg.}}{\text{Weiight of Std. mix}} \text{ x } \begin{pmatrix}\text{Weight in}\\ \text{actual mix}\end{pmatrix} \text{ x } \begin{pmatrix}\text{Standard Rate}\\ \text{of Material}\end{pmatrix}$$

= 60 kg./100 kg. x 400 kg x Rs. 30 or Rs. 7,200

Adding (i) and (ii) we get the value of M_3

= Rs. 3,200 + Rs. 7,200 or Rs, 10,400.

M_4—Standard cost of output,

Let us find out the standard cost, when input is 100 kg

Standard mix	Standard Rate	Standard Cost
40 kg.	Rs.20	Rs.800
60 kg.	30	1,800
100 kg.		2,600

Loss 10% 10 kg.	-	-
90 kg		2,600

It means for output of 90 kg. standard cost will be Rs. 2,600.

Standard cost of actual output of 364 kg. this will be : = 2,600/90 x 364 or Rs.10.516.

Variances

(a) Material Price Variance = $M_1 – M_2$ = Rs.10.720-10,200 or Rs.520 (A)

(b) Material Mix Variance = $M_2 – M_3$ = 10,200 – 10,400 or Rs.200 (F)

(c) Material Yield Variance = $M_3 – M_4$ = Rs.10,400 – 10,516 or Rs.116 (F)

(d) Material Cost Variance = $M_1 – M_4$ = 10,720 – 10,516 or Rs.204 (A)

Alternatively, it can be found out as follows :

= Material Price Variance + Material Mix Variance + Material Yield Variance

= Rs. 520 (A) + Rs. 200 (F) + Rs. 116 (F) = Rs. 204 (A)

(e) Material Usage Variance = M_2-M_4 = 10,200-10,516 or Rs. 316 (F)

Alternatively, it can be found out as follows :

= Mat. Mix Variance + Mat, Yield Variance

= 200 (F) + 116 (F) = Rs. 316 (F).

(10 MARKS)

ANSWER-B

(i) Statement of Operating income and Operating income as a percentage of revenues for each product line.

(When support costs are allocated to product lines on the basis of cost of goods sold of each product)

	Soft Drinks (Rs.)	Fresh Produce (Rs.)	Packaged Foods (Rs.)	Total (Rs.)
Revenues : (A)	39,67,500	1,05,03,000	60,49,500	2,05,20,000
Cost of Goods sold (COGS) : (B)	30,00,000	75,00,000	45,00,000	1,50,00,000
Support cost (30% of COGS) : (C)	9,00,000	22,50,000	13,50,000	45,00,000
(Refer working notes)				
Total Cost : (D) = {(B) + (C)}	39,00,000	97,50,000	58,50,000	1,95,00,000
Operating income : E = {(A) – (D)}	67,500	7,53,000	1,99,500	10,20,000
Operating income as a percentage of revenues : (E/A) × 100)	1.70%	7.17%	3.30%	4.97%

(4 MARKS)

Working notes : **(6 MARKS)**

1. **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
Total support cost	45,00,000

2. Percentage of support cost to cost of goods sold (COGS) :

$$= \frac{Total\ support\ cost}{Total\ cost\ of\ goods\ sold} \times 100$$

$$= \frac{Rs.\ 45,00,000}{Rs.1,50,00,000} \times 100 = 30\%$$

3. **Cost for each activity cost driver :**

Activity	Total Cost	Cost allocation base	Cost driver rate
	(Rs.)		
(1)	(2)	(3)	(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

(ii) Statements of Operating income and Operating income as a percentage of revenues for each product line

(When support costs are allocated to product lines using activity – based costing system)

	Soft drinks	Fresh Produce	Packaged Food	Total
	(Rs.)	(Rs.)	(Rs.)	(Rs.)
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	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
Operating income as a % of revenues	10.78%	0.60%	8.75%	4.97%

* Refer to working note 3

ANSWER-6

ANSWER-A

Cost plus contract: Under cost plus contract, the contract price is ascertained by adding a percentage of profit to the total cost of the work. Such types of contracts are entered into when it is not possible to estimate the contract cost with reasonable accuracy due to unstable condition of material, labour services etc.

Following are the advantages of cost plus contract:

(i) The contractor is assured of a fixed percentage of profit. There is no risk of incurring any loss on the contract.

(ii) It is useful specially when the work to be done is not definitely fixed at the time of making the estimate.

(iii) Contractee can ensure himself about the 'cost of contract' as he is empowered to examine the books and documents of the contractor to ascertain the veracity of the cost of contract.

(5 MARKS)

ANSWER-B

In integrated accounting system cost and financial accounts are kept in the same set of books. Such a system will have to afford full information required for Costing as well as for Financial Accounts. In other words, information and data should be recorded in such a way so as to enable

the firm to ascertain the cost (together with the necessary analysis) of each product, job, process, operation or any other identifiable activity. It also ensures the ascertainment of marginal cost, variances, abnormal losses and gains. In fact all information that management requires from a system of Costing for doing its work properly is made available. The integrated accounts give full information in such a manner so that the profit and loss account and the balance sheet can be prepared according to the requirements of law and the management maintains full control over the liabilities and assets of its business.

Since, only one set of books are kept for both cost accounting and financial accounting purpose so there is no necessity of reconciliation of cost and financial accounts.

(5 MARKS)

ANSWER-C

Accounting treatment of idle time wages & overtime wages in cost accounts: Normal idle time is treated as a part of the cost of production. Thus, in the case of direct workers, an allowance for normal idle time is built into the labour cost rates. In the case of indirect workers, normal idle time is spread over all the products or jobs through the process of absorption of factory overheads.

Under Cost Accounting, the overtime premium is treated as follows:

If overtime is resorted to at the desire of the customer, then the overtime premium may be charged to the job directly.

If overtime is required to cope with general production program or for meeting urgent orders, the overtime premium should be treated as overhead cost of particular department or cost center which works overtime.

Overtime worked on account of abnormal conditions should be charged to costing Profit & Loss Account.

If overtime is worked in a department due to the fault of another department the overtime premium should be charged to the latter department.

(5 MARKS)

ANSWER-D

Product costs are those costs that are identified with the goods purchased or produced for resale. In a manufacturing organisation they are attached to the product and that are included in the inventory valuation for finished goods, or for incomplete goods. Product cost is also known as inventoriable cost. Under absorption costing method it includes direct material, direct labour, direct expenses, directly attributable costs (variable and non-variable) and other production (manufacturing) overheads. Under marginal costing method Product Costs includes all variable production costs and the all fixed costs are deducted from the contribution.

Periods costs are the costs, which are not assigned to the products but are charged as expense against revenue of the period in which they are incurred. General Administration, marketing, sales and distributor overheads are recognized as period costs.

(5 MARKS)