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SUGGESTED SOLUTION

CA INTERMEDIATE NOV'19

SUBJECT- COSTING

Test Code - CIM 8358

BRANCH - () (Date :)

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ANSWER-1

Cost Ledger Control Account

Dr. Cr.

	(Rs.)		(Rs.)
To Store Ledger Control A/c	13,000	By Opening Balance	6,85,000
To Balance c/d	9,42,000	By Store ledger control A/c	1,25,000
		By Manufacturing Overhead Control A/c	85,000
		By Wages Control A/c	60,000
	9,55,000		9,55,000

Stores Ledger Control Account

Dr. Cr.

	(Rs.)		(Rs.)
To Opening Balance	3,00,000	By WIP Control A/c	1,35,000
To Cost ledger control A/c	1,25,000	By Cost ledger control A/c (Returns)	13,000
		By Balance c/d	2,77,000
	4,25,000		4,25,000

WIP Control Account

Dr. Cr.

	(Rs.)		(Rs.)
To Opening Balance	1,50,000	By Finished Stock Ledger Control A/c	2,25,000
To Wages Control A/c	40,000	By Balance c/d	1,85,000
To Stores Ledger Control A/c	1,35,000		
To Manufacturing Overhead Control A/c	85,000		
	4,10,000		4,10,000

Finished Stock Ledger Control Account

Dr. Cr.

	(Rs.)		(Rs.)
To Opening Balance	2,50,000	By Cost of Sales	1,75,000
To WIP Control A/c	2,25,000	By Balance c/d	3,09,000
To Cost of Sales A/c (Sales Return)	9,000		
	4,84,000		4,84,000

Manufacturing Overhead Control Account

Dr. Cr.

	(Rs.)		(Rs.)
To Cost Ledger Control A/c	85,000	By Opening Balance	15,000
To Wages Control A/c	20,000	By WIP Control A/c	85,000
		By Under recovery c/d	5,000
	1,05,000		1,05,000

Wages Control Account

Dr. Cr.

	(Rs.)		(Rs.)
To Transfer to Cost Ledger Control A/c	60,000	By WIP Control A/c	40,000
		By Manufacturing Overhead Control A/c	20,000
	60,000		60,000

Cost of Sales Account

Dr. Cr.

	(Rs.)		(Rs.)
To Finished Stock Ledger Control A/c	1,75,000	By Finished Stock Ledger Control A/c (Sales return)	9,000
		By Balance c/d	1,66,000
	1,75,000		1,75,000

Trial Balance

	(Rs.)	(Rs.)
Stores Ledger Control A/c	2,77,000	
WIP Control A/c	1,85,000	
Finished Stock Ledger Control A/c	3,09,000	
Manufacturing Overhead Control A/c	5,000	
Cost of Sales A/c	1,66,000	
Cost ledger control A/c	----	9,42,000
	9,42,000	**9,42,000**

(12 MARKS)

ANSWER-2

Statement of Reconciliation

No.	Particulars	Amt. (Rs.)	Amt. (Rs.)
	Net loss as per Cost Accounts		(35,400)
	Additions		
1.	Factory O/H over recovered	1,35,000	
2.	Dividend Received	20,000	
3.	Bank Interest received	13,600	

4.	Difference in value of Opening Stock (1,65,000 – 1,45,000)	20,000	
5.	Difference in Value of closing Stock (1,32,000 – 1,25,500)	6,500	
6.	Notional Rent of own Premises	60,000	2,55,100
	Deductions		
1.	Administration O/H under recovered	25,500	
2.	Depreciation under charged	26,000	
3.	Loss due to obsolescence	16,800	
4.	Income tax provided	43,600	
5.	Goodwill written off	25,000	
6.	Provision for doubtful debts	15,000	(1,51,900)
	Net Profit as per Financial A/c.		67,800

(6 MARKS)

ANSWER-3

Journal entries are as follows:

	DR. (Rs.)	CR. (Rs.)
Stores Ledger Control A/c... .... Dr.	2,00,000	
To Payables (Creditors) A/c		2,00,000
(Materials purchased)		
Work-in-Process ControlA/c... .... Dr.	1,50,000	
To Stores Ledger Control A/c		1,50,000
(Materials issued to production)		
Wages Control A/c... .... Dr.	1,20,000	
To Bank A/c		1,20,000
(Wages paid)		
Factory OverheadControl A/c....................................... Dr.	36,000	
To Wages Control A/c (30% of wages paid being indirect charged to overhead)		36,000
Work-in-ProcessControlA/c... .... Dr.	84,000	
To Wages Control A/c		84,000
(Direct wages charged to production)		
Factory Overhead Control A/c... .... Dr.	84,000	
To Bank A/c		84,000
(Manufacturing overhead incurred)		
Work-in-Process Control A/c.. Dr.	92,000	
To Factory Overhead Control A/c (Manufacturing overhead		

charged to production)		**92,000**
Selling and Distribution Overhead Control A/c... .... Dr. To Bank A/c (Selling and distribution costs incurred)	20,000	 **20,000**
Finished Goods Control A/c .... Dr. To Work-in-Process Control A/c (Cost of finished goods)	2,00,000	 **2,00,000**
Cost of Sales A/c... .... Dr. To Finished Goods Control A/c To Selling and Distribution Control A/c (Costs of goods sold)	2,20,000	 **2,00,000** **20,000**
Receivables (Debtors) A/c... .... Dr. To Sales A/c (Finished stock sold)	2,90,000	 **2,90,000**
Bank A/c... .... Dr. To Receivables (Debtors) A/c (Receipts from receivables)	69,000	 **69,000**
Payables (Creditors) A/c... .... Dr. To Bank A/c (Payment made to payables)	1,10,000	 **1,10,000**

(8 MARKS)

ANSWER-4

(i) Contribution = ₹375 - ₹175 = ₹200 per unit.

Break even Sales Quantity = $\frac{\text{Fixed cost}}{\text{Contribution margin per unit}} = \frac{₹\ 3{,}50{,}00{,}000}{₹\ 200}$ = 1,75,000 units

Cash Break even Sales Qty= $\frac{\text{Cash Fixed Cost}}{\text{Contribution margin per unit}} = \frac{₹2{,}00{,}00{,}000}{₹200}$ = 1,00,000 units.

(ii) P/V ratio = $\frac{\text{Contribution/unit}}{\text{Selling Price/unit}} \times 100 = \frac{₹200}{₹375} \times 100 = 53.33\%$

(iii) No. of units that must be sold to earn an Income (EBIT) of ₹ 25,00,000

$$\frac{\text{Fixed cost} + \text{Desired EBIT level}}{\text{Contribution margin per unit}} = \frac{3{,}50{,}00{,}000 + 25{,}00{,}000}{200} = 1{,}87{,}500 \text{ units}$$

(iv) After Tax Income (PAT) = ₹25,00,000

Tax rate = 40%

Desired level of Profit before tax $= \frac{₹25{,}00{,}000}{60} \times 100 = ₹41{,}66{,}667$

Estimate Sales Level = $\frac{\text{Fixed Cost} + \text{Desired Profit}}{\text{P/V ratio}}$

Or, $\left(\frac{\text{Fixed Cost} + \text{Desired Profit}}{\text{Contribution per unit}} \times \text{Selling Price per unit}\right)$

$$= \frac{₹3{,}50{,}00{,}000 + ₹\ 41{,}66{,}667}{53.33\%} = ₹7{,}34{,}42{,}091$$

(10 marks)

ANSWER-5

A.

(a) P/V Ratio = $\frac{\textit{Change in profit}}{\textit{Change in sales}} \times 100$

$= \frac{7{,}00{,}000 + 3{,}00{,}000}{(57{,}00{,}000 - 32{,}00{,}000)} \times 100$

$= \frac{10{,}00{,}000}{25{,}00{,}000} \times 100 \quad = 40\%$

(b) Total fixed cost = Total contribution - Profit

=(Sales × P/V ratio) – Profit

$= \left(Rs.\ 57{,}00{,}000 \times \frac{40}{100}\right) - Rs. 7{,}00{,}000$

=Rs. 22, 80,000 – Rs. 7, 00,000

=Rs. 15, 80,000

(c) Contribution required to earn a profit of Rs. 12, 00,000 = Total fixed cost + Profit required

=Rs. 15, 80,000 + 12, 00,000

=Rs. 27, 80,000

Required Sales = 2780000 / P/V ratio = 2780000/40%

=Rs. 69, 50,000

(3*2 = 6 marks)

B. **(1) Comparative Profitability Statements**

Particulars	Process- A (Rs.)	Process- B (Rs.)
Selling Price per unit	20.00	20.00
Less: Variable Cost per unit	12.00	14.00
Contribution per unit	8.00	6.00
Total Contribution	32,00,000 (Rs. 8 × 4,00,000)	24,00,000 (Rs. 6 × 4,00,000)
Less: Total fixed costs	30,00,000	21,00,000
Profit	2,00,000	3,00,000

(6 marks)

Process- B should be chosen as it gives more profit as compared to Process-A.

(2)

The answer will remain same (i.e. Process – B) . Reason : While calculating contribution / profit we consider anticipated sales or capacity whichever is lower and in both cases anticipated sales is lower than capacity. **(2 marks)**