



SUGGESTED SOLUTION
INTERMEDIATE MAY 2019 EXAM

SUBJECT – ACCOUNTS, COSTING & ECO

Test Code - CIM 8116

BRANCH - () (Date :)

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Answer 1:

(A) Explanation or Theory :

- (i) There is strong relationship between Money and Price Level. So, Quantity of Money is the main determinant of the Price Level or the Value of Money.
- (ii) So, Changes in the General Level of Commodity Prices / Purchasing Power of Money are determined by changes in the Quantity of Money in circulation.
- (iii) Higher the Number of transactions that people want, higher will be the Demand for Money. [Transaction Motive]
- (iv) Fisher did not specifically mention anything about the Demand for Money. However, the same is embedded in his Theory as dependent on the Total value of Transactions undertaken in the economy.

(B)

- (i) Primary Objectives :** The most common objectives of Monetary Policy of the Central Banks across the World are –

(a) Price Stability	Establishment and Maintenance of stability in Price (or controlling Inflation)
(b) Economic Stability	Maintenance of Full Employment and achievement of high level of economy's growth.

- (ii) Other Objectives :** Other Objectives, which flow out of the Primary Objectives, include -

- a. Rapid Sustainable, Economic Growth,
- b. Debt Management
- c. Balance of Payments Equilibrium,
- d. Exchange Rate Stability,
- e. Adequate Flow of Credit to the productive Sectors,
- f. Stability of Long – Term Interest Rates to encourage Investments,
- g. Creation of an efficient Market for Government Securities.

(C) Inflation Target :

- (i) Inflation Target is to be set by every 5 years.
- (ii) Central Government has notified 4% Consumer Price Index (CPI) Inflation as the target for the period from 05.08.2016 to 31.03.2021 (Upper Tolerance Limit – 6%, Lower Tolerance Limit – 2%)

Answer 2:

In the books of 3R Enterprises
Realisation Account

Particular	Rs.	Particulars	Rs.
To Land and Buildings	14,00,000	By Creditors	6,00,000
To Machinery	11,00,000	By 3R Enterprises (Pvt.) Ltd. A/c	42,00,000
To Furniture	6,10,000		
To Stock	8,40,000		
To Debtors	6,00,000		
To Cash at Bank	1,90,000		
To Ramesh's capital	30,000		
To Roshan's capital	20,000		
To Rohan's capital	10,000		
	48,00,000		48,00,000

Partners' Capital Accounts

	Ramesh Rs.	Roshan Rs.	Rohan Rs.		Ramesh Rs.	Roshan Rs.	Rohan Rs.
To Shares in 3R Enterprises (Pvt.) Ltd. A/c	21,00,000	14,00,000	7,00,000	By Balance b/d	16,80,000	11,60,000	6,70,000
To Bank A/c (Settlement)	-	-	85,000	By General Reserve	3,15,000	2,10,000	1,05,000
				By Realisation A/c (Profit)	30,000	20,000	10,000
				By Bank A/c (Settlement)	75,000	10,000	-
	21,00,000	14,00,000	7,85,000		21,00,000	14,00,000	7,85,000

In the Books of 3R Enterprises (Private) Ltd

Journal Entries

			Rs.		Rs.
1.	Business Purchase A/c To M/s 3R Enterprises (Consideration payable for business purchased)	Dr.	42,00,000		42,00,000
2.	Land and Buildings A/c Machinery A/c Furniture A/c Stock A/c Debtors A/c Bank A/c To Creditors A/c To Provision for doubtful debts A/c To Business Purchase A/c To Capital Reserve A/c (balancing figure) (Assets and liabilities taken over for Rs. 42,00,000; balance credited to capital reserve)	Dr. Dr. Dr. Dr. Dr. Dr. 	16,40,000 9,90,000 6,10,000 8,40,000 6,00,000 1,90,000 42,00,000 40,000		 6,00,000 30,000 42,00,000 40,000
3.	Capital reserve A/c (Expenses of takeover) To Bank A/c (Expenses for take over debited to capital reserve)	Dr.	23,000		23,000
4.	M/s 3R Enterprises A/c To Equity share capital A/c (Allotment of fully paid equity shares to discharge consideration for business)	Dr.	42,00,000		42,00,000
5.	Preliminary expenses A/c To Bank A/c (Expenses incurred to get the company incorporated)	Dr.	57,000		57,000

Answer 3:

Effective Machine Running Hours

No. of working days for the year = 300	
Total number of working hours @ 8 hours per day	2,400 hrs
Less: Machine maintenance time	<u>400</u> hrs
Effective machine hours	<u>2,000</u> hrs.

Calculation for machine hour rate:-

Cost of Electricity: 2000 hrs x 15 units x Rs. 2.00 per unit		Rs.60,000
Cost of Heating: Rs. 2500 x 12 months		30,000
Maintenance Cost: (Rs. 500 ÷ 6) x 300 days		25,000
Operators Cost: [(3 x Rs. 450) + 40% of (3 X 450)] ÷ 6] x 50 weeks	15,750	
Departmental and General Overheads		
Allocation of last year	= Rs. 60,000	
Expected increase 12.5%	<u>= 7,500</u>	
	67,500	
allocation for one machine:- Rs. 67,500 ÷ 6		11,250
Depreciation :		
Cost of machine	= Rs. 7,50,000	
Less : Scrap	<u>30,000</u>	
	7,20,000	
Depreciation for one year = Rs. 7,20,000 ÷ 15	=	<u>48,000</u>
		<u>1,90,000</u>
Machine hour rate = Rs. 1,90,000 ÷ 2,000 hrs		<u>= Rs. 95.00</u>

Answer 4:

- (A) **Note :** Bankers' Deposits with RBI is not relevant here. It is relevant only for "Reserve Money".

	Rs. Crores
Currency with the public	7,000
Add : Demand Deposits with the Banking System	13,000
Add : Other Deposits with the RBI	4,000
New Monetary Aggregate 1 (denoted as NM1)	24,000
Add : Short Term Time Deposits of Residents (including and upto Contractual Maturity of 1 Year)	28,000
New Monetary Aggregate 2 (denoted as NM2)	52,000
Add : Long Term Time Deposits of Residents	64,000
Add : Call /Term Funding from Financial Institutions	10,000
New Monetary Aggregate 3 (Denoted as MN3)	1,26,000
Add : All Deposits with Post Office Savings Banks (excluding National Savings Certificates) 19,000 – 3,000	16,000
Liquidity Aggregate 1 (Denoted as L1)	1,42,000
Add : Term Deposits with Term Lending Institutions and Re – Financing Institutions	9,000
Add : Term Borrowing by Financing Institutions and certificates of Deposits issued by Financing Institutions	5,000
Liquidity Aggregate 2 (Denoted as L2)	1,56,000
Add : Public Deposits of Non – Banking Financial Companies	12,000
Liquidity Aggregate 3 (Denoted as L3)	1,68,000

- (B) **Repo vs Reverse Repo :**

	Repurchase Transaction (Repo)	Reverse Repurchase (Reverse Repo)
Meaning	Instrument for borrowing Funds by selling Securities with an agreement to re – purchase them on a mutually agreed future date at an agreed price which includes Interest for the Funds borrowed.	Instrument for lending Funds by purchasing Securities with an agreement to resell them on a mutually agreed future date at an agreed price which includes interest for the funds lent.
Process	Repo Operation takes place when other Banks borrow Money from RBI by giving Securities to the RBI.	Reverse Repo Operation takes place when RBI borrows Money from Banks by giving them Securities.
Impact	Repo Operations inject Liquidity into the system.	This operation absorbs the Liquidity in the system.
[Note]	Interest Rate charged by RBI for	Interest Rate paid by RBI for such

	this transaction is called the 'Repo Rate'. Higher than Reverse Repo Rate.	transactions is called the 'Reverse Repo Rate'. Less than Repo Rate.
Presently	Repo Rate is 6.25%	Reverse Repo Rate is 6%.

Answer 5:

(i) Amount of under – absorption of production overheads during the year 20X1 - 12

		Rs.
Total production overheads actually incurred during the year 20X1 – X2		6,00,000
Less : 'Written off' obsolete stores	Rs. 45,000	
Wages paid for strike period	Rs. 30,000	75,000
Net Production overheads actually incurred : (A)		5,25,000
Production overheads absorbed by 48,000 machine		
Hours @ Rs. 10 per hour : (B)		4,80,000
Amount of under – absorption of production overheads : [(A) – (B)]		45,000

(ii) Accounting treatment of under absorption of production overheads

It is given in the statement of the question that 20,000 units were completely finished and 8,000 units were 50% complete, one third of the under – absorbed overheads were due to lack of production planning and the rest were attributable to normal increase in costs.

	Rs.
1. (33 – 1/3% of Rs. 45,000) i.e., Rs. 15,000 of under – absorbed overheads were due to lack of production planning. This being abnormal, should be debited to the Costing Profit and Loss A/c.	15,000
2. Balance (66 – 2/3% of Rs. 45,000) i.e., Rs. 30,000 of under – absorbed overheads should be distributed over work – in – progress, finished goods and cost of sales by using supplementary rate.	30,000
Total under – absorbed overheads	45,000

Apportionment of unabsorbed overheads of Rs. 30,000 over, work – in – progress, finished goods and cost of sales

	Equivalent	Rs.
	Completed Units	
Work – in – Progress (4,000 units × Rs. 1.25) (Refer to working note)	4,000	5,000
Finished goods (2,000 units × Rs. 1.25)	2,000	2,500
Cost of sales (18,000 units × Rs. 1.25)	18,000	22,500
	24,000	30,000

Working Note :

Supplementary rate per unit = $\frac{Rs.30,000}{24,000} = Rs. 1.25$

Answer 6:

(a) Statement showing the distribution of overheads (primary distribution)

Items of costs	Basis of apportionment	Total	Production Departments			Service Departments	
			A	B	C	X	Y
		Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Direct wages	Only service depts.	10,000	-	-	-	7,500	2,500
Rent and rates	Floor space @ Rs. 2.50 per sq. mtr. (Rs. 25,000 ÷ 10000)	25,000	5,000	6,250	7,500	5,000	1,250
General lighting	Lighting points (nos.) @ Rs. 50 per point (Rs. 3,000 ÷ 60)	3,000	500	750	1,000	500	250
Indirect wages	Direct wages (15%)	7,500	2,250	1,500	2,250	1,125	375
Power	H.P. @ Rs. 50 (Rs. 7,500 ÷ 150)	7,500	3,000	1,500	2,500	500	-
Depreciation	Cost of m/c @ 4%*	50,000	12,000	16,000	20,000	1,000	1,000
Sundries	Direct wages @ Rs 1	50,000	15,000	10,000	15,000	7,500	2,500
	Total (i)	1,53,000	37,750	36,000	48,250	23,125.	7,875

* $(50,000/12,50,000) \times 100 = 4\%$

Redistribution of Service Departments Expenses to Production Departments

Departments	Total	A	B	C	X	Y
X (given ratios)		4,625	6,937	9,250	(23,125)	2,313
Y		4,075	2,038	3,056	1,019	(10,188)
X		204	306	407	(1,019)	102
Y		41	20	31	10	(102)
X		2	3	5	(10)	-
Total (ii)		8,947	9,304	12,749	(23,125)	(7,875)
Grand Total (i) + (ii)	1,53,000	46,697	45,304	60,999	-	-
Production hours worked		6,226	4,028	4,066		
Overhead rate		7.50	11.25	15.00		

(b)

Direct material cost (given)	Rs.250.00
Direct labour cost	<u>150.00</u>
Prime cost	<u>400.00</u>

Production overheads:

Departments	Hours	Rate	Amount	
A	4	Rs. 7.50	Rs. 30.00	
B	5	11.25	56.25	
C	3	15.00	45.00	131.25
Total cost of production				531.25