SUGGESTED SOLUTION

IPCC MAY 2017EXAM

COSTING AND FINANCIAL MANAGEMENT

Test Code - I M J 7 1 3 0

BRANCH - (MULTIPLE) (Date : 04.12.2016)

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

Tel : (022) 26836666

Answer-1:

1. Machinery Account

Particulars	Rs.	Particulars	Rs.
To balance b/d	1,50,000	By P&L A/c (Deprn for the year) (given)	12,000
To Bank A/c (assets purchased)	8,000	By Bank (Sale Value of M/c) (bal. fig)	1,800
To Share Capital A/c (M/c taken over) 15.17	25,000	By Gen. Reserve (M/c Loss tfr) (given)	200
		By balance c/d (given)	1,69,000
Total	**1,83,000**	**Total**	**1,83,000**

(2)

2. Provision for Taxation Account

Particulars	Rs.	Particulars	Rs.
To Cash / Bank (Paid) (balancing figure)	28,000	By balance b/d (given)	30,000
To balance c/d (given)	35,000	By P&L A/c (Provn for the year) (Given)	33,000
Total	**63,000**	**Total**	**63,000**

(2)

3. General Reserve Account

Particulars	Rs.	Particulars	Rs.
To Machinery A/c (Loss transfer) (Given)	200	By balance b/d (given)	50,000
To balance c/d (given)	60,000	By P&L A/c (Transfer for the year) (b/f)	10,200
Total	**60,200**	**Total**	**60,200**

(2)

4. Cash Flow Statement of Metlife Ltd for the year ended 31st March 2014

Particulars			Rs.	Rs.
A. CASH FLOW FROM OPERATING ACTIVHTES:				
Profit for the year (after all appropriations)				
= Increase in P&L A/c = 30,600 - 30,500			100	
Add back:	Transfer to General Reserve (WN 3)		10,200	
	Dividends paid (Given)		23,000	
	Provision for Taxation (Given)		33,000	
	Profit before Taxation		66,300	
Adjustment for:	Depreciation on Machinery	Rs. 12,000		
	Depreciation on Buildings			
	(Rs. 2,00,000 - Rs. 1,90,000)	Rs. 10,000	22,000	
	Operating Profit before Working Capital changes		88,300	
Adjustment for:	Decrease in Stock [Rs. 1,00,000 - (Rs. 74,000 - Rs. 20,000)]		46,000	
	Decrease in Debtors (Rs. 80,000 - Rs. 64,200)		15,800	

	Decrease in Creditors (Rs. 1,50,000 - Rs. 1,35,200)	(14,800)	
	Cash Generated from Operations	1,35,300	
Less:	Income Taxes Paid	(28,000)	
Net Cash Flow from / (used in) Operating Activities			**1,07,300**
B.	**CASH FLOW FROM INVESTING ACTIVITIES: Purchase of Machinery**	**(8,000)**	
	Sale of Machinery Item	1,800	(6,200)
C.	**CASH FLOW FROM FINANCING ACTIVITIES:**		
	Bank Loan repaid	(70,000)	
	Dividend paid	(23,000)	
Net Cash Flow from / (used in) Financing Activities			**(93,000)**
D.	Net Increase in Cash and Cash Equivalents (A+B+C)		8,100
E.	Cash and Cash Equivalents at the beginning of the year (given)		500
F.	**Cash and Cash Equivalents at the end of the year (given)**		**8,600**

(6)

Note: Issue of Shares for non-cash consideration will not be shown as inflow / outflow in the above Statement.

Out of the Closing Stock of Rs. 74,000, Rs. 20,000 is acquired through allotment of Shares. Hence, the net paid Closing Stock will be Rs. 74,000 - Rs. 20,000 = Rs. 54,000 only.

Answer-2:

Job Cost Sheet

Particulars		**Rs.**
	Direct Material Given	6,800.00
	Direct Wages	
	Department I Given	2,000.00
	Department II Given	1,500.00
	Department III Given	3,000.00
	Prime Cost	**13,300.00**
Add:	Factory Overheads (absorbed based on Direct Labour Cost)	
	Department I = $\frac{\text{Rs.8,000}}{\text{Rs.10,000}}$ = 80% on Direct Labour Cost of Rs. 2,000	1,600.00
	Department II = $\frac{\text{Rs.4,000}}{\text{Rs.8,000}}$ = 50% on Direct Labour Cost of Rs. 1,500	750.00
	Department III = $\frac{\text{Rs.7,200}}{\text{12,000}}$ = 60% on Direct Labour Cost of Rs. 3,000	1,800.00
	Factory Cost	**17,450.00**
Add:	AOH absorbed based on Factory Cost = $\frac{\text{Rs.11,420}}{\text{Rs.1,14,200}}$ = 10% on	
	Works Cost of Rs. 17,450	1,745.00
	Total Cost	**19,195.00**
Add :	Profit (20% on Price, i.e. 25% on Total Cost) i.e. l/4th of Rs. 19,195	4,798.75
	Estimated Selling Price	**23,993.75**

(6)

Answer-3:

1. Profit & Loss Account for the year ended 31st March as per Financial Records

Particulars	Rs.	Particulars	Rs.
To Direct Materials	5,00,000	By Sales (50,000 units)	10,00,000
To Direct Wages	2,50,000	By Interest and Dividends	15,000
To Actual Factory Expenses (Actuals)	1,50,000		
To Administrative Expenses (Actuals)	45,000		
To Selling and Distribution Expenses (Actuals)	30,000		
To Net Profit (balancing figure)	40,000		
Total	**10,15,000**	**Total**	**10,15,000**

(3)

2. Cost Sheet for the year ended 31st March

	Particulars	Rs.
	Direct Materials	5,00,000
Add:	Direct Wages	2,50,000
	Prime Cost	**7,50,000**
Add:	Factory OH: Variable: = Rs. 60,000 Fixed :Rs. 90,000 x $\frac{50,000}{60,000}$ = Rs. 75,000	1,35,000
	Works Cost	**8,85,000**
Add:	Administrative Expenses : Fixed : Rs. 45,000 x $\frac{50,000}{60,000}$	37,500
	Cost of Production	**9,22,500**
Add:	Selling 8i Distribution OH: Variable : = Rs. 18,000 Fixed : Rs. 12,000 x $\frac{50,000}{60,000}$ = Rs. 10,000	28,000
	Cost of Sales	**9,50,500**
Add:	Profit (balancing figure)	49,500
Sales Revenue		**10,00,000**

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Note: Fixed OH are absorbed to the extend of actual output produced / sold.

3. Memorandum Reconciliation Account

Particulars	Rs.	Particulars	Rs.
To Incomes not considered in Cost A/cs		By Profit as per Financial Records (WN 1)	40,000
- Interest and Dividends Received	15,000	By OH underabsorbed in Cost Records	
		- POH (Rs. 1,50,000 - Rs. 1,35,000)	15,000
		- AOH (Rs. 45,000 - Rs. 37,500)	7,500
To Profit as per Cost Records (bal. fig)	49,500	- SOH (Rs. 30,000 - Rs. 28,000)	2,000
Total	**64,500**	**Total**	**64,500**

(3)

Answer-4:

Himalayan Construction Ltd.
Contract Account
(for the year ended 31st March 2003)

Particulars	Amount Rs.	Particulars	Amount Rs.
To Materials	7,00,000	By Materials at site	15,000
To Direct wages	1,25,000	By Machine returned (Rs.1,00,000 – 5 % of 1,00,000)	95,000
To Wages outstanding	2,500	By Plant and Machinery at site (Rs. 6,50,000 – 5% of Rs. 6,50,000)	6,17,500
To Plant & Machinery as site (60%)	7,50,000	By Work in Progress :	
To Fuel and Power	62,500	Rs. 9,00,000 x $\frac{100}{90}$	
To Direct expenses	2,500	= 10,00,000	
To General overhead	6,000	Uncertified 50,000	10,50,000
To Rates & Taxes	7,500		
To Notional profit c/d	1,21,500		
	17,77,500		17,77,500
To Profit and Loss A/c $\left[1{,}21{,}500 \times \frac{1}{3} \times \frac{90}{100}\right]$	36,450	By National Profit b/d	1,21,500
To Work in Progress (Reserve)	85,050		
	1,21,500		1,21,500

(5)

Balance Sheet

Liabilities	Amount Rs.	Assets		Amount Rs.
Share Capital	25,00,000	Land and Building		11,50,000
Profit and Loss A/c	36,450	Plant and Machinery at site		6,17,500
Wages Outstanding	2,500	Plant and Machinery (store)		5,95,000
		Furniture		30,000
		Bank Balances		66,500
		Work in Progress:		
		Work Certified	10,00,000	
		Work Uncertified	50,000	
			10,50,000	
		Less : Cash Received	9,00,000	
			1,50,000	
		Less : Reserve	85,050	64,950
		Materials at site		15,000
	25,38,950			25,38,950

(5)

Answer-5:

Flexible Budget

Particulars	*50 % Capacity*	*60 % Capacity*	*70 % Capacity*
Variable overheads :			
Indirect material	2,500	3,000	3,500
Indirect labour	7,500	9,000	10,500
Semi-variable overheads :			
Electricity	13,500	15,000	16,500
Repairs and Maintenance	1,450	1,500	1,550

(4)

Fixed overheads :			
Depreciation	8,250	8,250	8,250
Insurance	2,250	2,250	2,250
Sales	7,500	7,500	7,500
Total Overheads	42,950	46,500	50,050
Estimated direct labour hours	77,500	93,000	1,08,500
Overhead Rate	Re. 0.55	Re. 0.50	Re. 0.46

Working Notes : (4)

(1) Electricity: Rs. 15,000 is the cost of electricity at 60 % capacity, of which 40% are fixed overheads, i.e., Rs. 6,000 and variable is Rs. 9,000 :

For 60 % capacity variable overheads = Rs. 9,000

For 50 % capacity variable overheads = $\frac{9,000}{60} \times 50$ = Rs.7,500

Therefore electricity cost at 50 % capacity = 6,000 + 7,500 = Rs. 13,500

For 70 % capacity, variable overheads = $\frac{9,000}{60} \times 70$ = Rs. 10,500

Therefore electricity cost at 70 % = Rs. 10,500 + Rs. 6,000 = Rs. 16,500

(2) Repairs and Maintenance: Rs. 1,500 is the cost of repairs and maintenance at 60 % capacity, of which 80% is fixed overhead, i.e., Rs. 1,200 and variable is Rs. 300 :

For 60 % capacity variable overhead = Rs. 300

For 50 % capacity variable overhead = $\frac{300}{60} \times 50$ = Rs. 250

Therefore the total cost of repairs and maintenance at 50 %
= Rs. 1,200 + Rs. 250 = Rs.1,450

For 70 % capacity, the variable overhead = $\frac{300}{60} \times 70$ = Rs. 350

Therefore the total cost of repairs and maintenance
= Rs. 1,200 + Rs. 350 = Rs. 1,550

(4)