

SUGGESTED SOLUTION

CA INTERMEDIATE

SUBJECT- COSTING

Test Code – INP 2113

BRANCH - (Date :)

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ANSWER : 1 (A)

Halsey Premium plan :
= (Time taken × Rate per hour) + ($\frac{1}{2}$ × Time saved × Rate per hour)
= (30 hours × Rs. 75) + ($\frac{1}{2}$ × 10 hours × Rs. 75)
= Rs. 2,250 + Rs. 375 = Rs. 2,625
Rowan Premium Plan :
= (Time taken × Rate per hour) + $\left(\frac{Time saved}{Tim allowed} \times time taken \times Rate per hour\right)$
= (30 hours × Rs. 75) + $\left(\frac{10}{40} \times 30 \times Rs. 75\right)$
= Rs. 2,250 + Rs. 562.5 = Rs. 2,812.5 or Rs. 2,813
Time Wage system :
= Time taken × Rate per hour
= 30 × Rs. 75 = Rs. 2,250
Piece Rate System :
= Std. Time × Rate per hour
= 40 × Rs. 75 = Rs. 3,000
Emerson plan :
Efficiency level = 40/30 = 133.33%
Time Taken × (120% + 33.33%) of Rate
= 30 hours × 153.33% of Rs. 75
= Rs. 3,450

ANSWER : 1(B)

Calculation of Variances:

(i) Fixed Overhead Variance: Standard fixed overhead – Actual fixed overhead
= Rs.[(5,00,000 ÷ 5000) × 4800] – Rs.4,90,000 = Rs.10,000 (A)

(ii) Fixed Overhead Expenditure Variances:
Budgeted fixed overhead – Actual fixed overhead
= Rs.5,00,000 – Rs.4,90,000 = Rs.10,000 (F)

- (iii) Fixed Overhead Volume Variance: Standard fixed overhead Budgeted fixedoverhead= Rs.4,80,000 Rs.5,00,000 = Rs.20,000 (A)
- (iv) Fixed Overhead efficiency Variance: Standard fixed overhead Budgeted fixedoverhead for Actual days

= Rs.4,80, 000 - [(Rs.5,00,000 ÷ 25) × 23] = Rs.20,000 (F)

(5 MARKS)

ANSWER : 1(C)

Working:

Calculation of Annual demand of raw material

= 4,000 Litres (per quarter) x 4 (No. of Quarter in a year) x 2 kg. (raw material required for eachLitre of paint)

= 32,000 kg.

Calculation of Carrying cost

Storage rate = 2%Interest Rate = $\frac{6\%}{8\%}$ Total = $\frac{8\%}{9}$ per annum

Carrying cost per unit per annum = 8% of Rs. 50 = Rs. 4 per unit per annum

(i) EOQ =
$$\sqrt{\frac{2 \times \text{Annual demand (A)} \times \text{Ordering Cost per}}{\text{order(O)Carrying cost per unit per}}}$$

 $\sqrt{\frac{2 \times 32,000 \ kg \times Rs.40}{Rs.4}}$ = 800 Kg

(ii) Total Annual Inventory Cost

Purchasing cost of Rs. 32,000 kg @ Rs. 50 per kg = Rs. 16,000

Ordering Cost
$$\left(\frac{32,000}{800 \ kg} \times Rs. 40\right)$$
 = Rs. 1,600

Carrying Cost of Inventory $\left(\frac{15 \ days}{30 \ days} \times 800 \ kg \times Rs.4\right)$ = Rs. 1,600

Rs. 16,03,200

(5 MARKS)

ANSWER : 1(D)

(i) Variable cost per unit = $\frac{Change in Total Cost}{Change in units}$

$$=\frac{Rs.3.50\times5,000\ units) - (Rs.3.75\times4,000\ units)}{5,000-4,000}$$

 $=\frac{Rs.17,500-Rs.15,00}{1,000}$ = Rs. 2,500/1000 = Rs. 2.5

(ii) Fixed cost = Total Cost – Variable cost (at 5,000 units level)

= Rs. 17,500 = Rs. 25 × 5,000 = **Rs. 5,000**

(iii) Contribution per unit = $\frac{Fixed \ cost}{BEP \ (in \ units)} = \frac{Rs.5,000}{6,000 \ units} = 0.833$

P/V Ratio =
$$\frac{Contribution \ per \ unit}{Sale \ price \ per \ unit} = \frac{0.833}{2.5+0.833} = 25\%$$

ANSWER : 2(A)

(i) Cost Sheet of M/s Areeba Pvt. Ltd. for the year 2019.

Normal Capacity : 36,000 units p.a.

	3 Mo	nths	9 Months		
Particulars	4,500	Units	21,600 units		
	Amount	Cost per	Amount	Cost per	
	(Rs.)	unit (Rs.)	(Rs.)	unit (Rs.)	
Direct material	1,80,000		8,64,000		
Less: Scrap	(22,500)		(1,08,000)		
Materials consumed	1,57,500	35	7,56,000	35	
Direct Wages	1,44,000	32	6,48,000	30	
Prime Cost	3,01,500	67	14,04,000	65	
Factory overheads:					
- Fixed	90,000		2,70,000		
- Variable	45,000		2,16,000		
- Semi variable	27,000	36	1,51,200	29.50	
Works Cost	4,63,500	103	20,41,200	94.50	
Add: Administrative overheads	1,29,600	28.80	3,88,800	18	
Cost of Production	5,93,100	131.80	24,30,000	112.5	
Selling Overheads	36,000	8	1,72,800	8	
Cost of Sales	6,29,100	139.80	26,02,800	120.5	

Working Notes:

1. Calculation of Costs

Particulars	4,500 units	21,600 units
	Amount (Rs.)	Amount (Rs.)
Material	1,80,000 (Rs.40 × 4,500 units)	8,64,000 (Rs.40 × 21,600 units)
Wages	1,44,000 (Max. of Rs.30 × 4,500 units = Rs.1,35,000 and Rs.48,000 × 3 months = Rs.1,44,000)	6,48,000 (21600 Units × 30)
Variable Cost	45,000 (Rs.10 × 4,500 units)	2,16,000 (Rs.10 × 21,600 units)
Semi - variableCost	$27,000 \left(\frac{Rs.1,08,000}{12 Months} \times 3 Months\right)$	$1,51,000 \left(\frac{Rs.1,08,000}{12 Months} \times 9 Months \right)$
		+ 46,800 (for 20% increase) + 23,400 (for 10% increase)
Selling Overhead	36,000 (Rs.8 × 4,500 units)	1,72,800 (Rs. 8 × 21,600 units)

Notes:

- 1. Alternatively scrap of raw material can also be reduced from Work cost.
- 2. Administrative overhead may be treated alternatively as a part of general overhead. In that case, Works Cost as well as Cost of Production will be same i.e. Rs. 4,63,500 and Cost of Sales will remain same as Rs. 6,29,100.

(ii) Calculation of Selling price for nine months period

Particulars	Amount (Rs.)
Total Cost of sales Rs.(6,29,100+26,02,800)	32,31,900
Add: Desired profit	8,76,600
Total sales value	41,08,500
Less: Sales value realised in first three months (Rs.145 × 4,500 units)	(6,52,500)
Sales Value to be realised in next nine months	34,56,000
No. of units to be sold in next nine months	21,600
Selling price per unit (Rs.34,56,000 ÷ 21,600 units)	160

(10 MARKS)

ANSWER: 2(B)

Receipt Issue Balance Date Amount Qty Rate Amount Qty Rate Amount Qty Rate Units (Rs.) (Rs.) Units (Rs.) (Rs.) Units (Rs.) (Rs.) 1-4-19 1,000 15.00 15,000 _ _ _ 4-4-19 3,000 16.00 48,000 4,000 15.75 63,000 8-4-19 1,000 15.75 15,750 3,000 15.75 47,250 15-4-19 1,500 18.00 27,000 4,500 16.50 74,250 20-4-19 1,200 16.50 16.50 19,800 3,300 54,450 25-4-19 3,000 49,050 300 18.00 5,400 16.35 _ _ _ 2,000 32,700 26-4-19 1,000 16.35 16,350 16.35 28-4-19 500 17.00 8,500 2,500 16.48 41,200 30-4-19 50 16.48 16.48 40,376 824 2,450 _

(i) (a) Stores Ledger Account for the month of April, 2019 (Weighted Average Method)

(b)	Stores Ledger	Account for the	month of	April, 2019	(LIFO)
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	Rece	eipt		lss	sue		Balan	ce	
Date	Qty Units	Rate	Amount	Qty Units	Rate	Amount	Qty Units	Rate	Amount
		(Rs.)	(Rs.)		(Rs.)	(Rs.)		(Rs.)	(Rs.)
1-4-19	-	-	-	-	-	_	1,000	15	15,000
4-4-19	3,000	16	48,000	-	-	-	1,000	15	15,000
							3,000	16	48,000
8-4-19	_	-	-	1,000	16	16,000	1,000	15	15,000
							2,000	16	32,000
15-4-19	1,500	18	27,000	_	_	_	1,000	15	15,000
							2,000	16	32,000
							1,500	18	27,000
20-4-19	-	-	-	1,200	18	21,600	1,000	15	15,000

							2,000	16	32,000
							300	18	5,400
25-4-19	_	_	_	300	18	5,400	1,000	15	15,000
							2,000	16	32,000
26-4-19	_	_	_	1,000	16	16,000	1,000	15	15,000
							1,000	16	16,000
28-4-19	500	17	8,500	-	-	-	1,000	15	15,000
							1,000	16	16,000
							500	17	8,500
30-4-19	_	_	_	50	17	850	1,000	15	15,000
							1,000	16	16,000
							450	17	7,650

(ii) Value of Material Consumed and Closing Stock

	Weighted Average method (Rs.)	LIFO method (Rs.)
Opening stock as on 01-04-2019	15,000	15,000
Add: Purchases	83,500	83,500
	98,500	98,500
Less: Return to supplier	5,400	5,400
Less: Abnormal loss	824	850
Less: Closing Stock as on 30-04-2019	40,376	38,650
Value of Material Consumed	51,900	53,600

(10 MARKS)

ANSWER : 3(A)

Working Note

Total Room days in a year

Season	Occupancy (Room-days)	Equivalent Full Roomcharge days
Season – 80% Occupancy	200 Rooms × 80% × 6 months × 30 days in a month = 28,800 Room Days	28,800 Room Days × 100% = 28,800
Off-season – 40% Occupancy	200 Rooms × 40% × 6 months × 30 days in a month = 14,400 Room Days	14,400 Room Days × 50% = 7,200
Total Room Days	28,800 + 14,400 = 43,200 Room Days	36,000 Full Room days

(ii) Lighting Charges:

It is given in the question that lighting charges for 8 months is Rs.110 per month and during winter season of 4 months it is Rs.30 per month. Further it is also given that

peak season is 6 months and off season is 6 months.

It should be noted that – being Hill station, winter season is to be considered as part of Off season. Hence, the non-winter season of 8 months include – Peak season of 6 months and Off season of 2 months.

Accordingly, the lighting charges are calculated as follows:

Season	Occupancy (Room-days)
Season & Non-winter – 80% Occupancy	200 Rooms × 80% × 6 months × Rs. 110 permonth = Rs. 1,05,600
Off- season & Non-winter – 40% Occupancy (8 – 6 months)	200 Rooms × 40% × 2 months × Rs.110 permonth = Rs. 17,600
Off- season & -winter – 40% Occupancy months)	200 Rooms × 40% × 4 months × Rs. 30 permonth = Rs. 9,600
Total Lighting charges	Rs. 1,05,600+ Rs. 17,600 + Rs. 9,600 = Rs. 132.800

Statement of total cost:

	(Rs.)
Staff salary	8,00,000
Repairs to building	3,00,000
Laundry	1,40,000
Interior	2,50,000
Miscellaneous Expenses	2,00,200
Depreciation on Building (Rs. 300 Lakhs × 80% × 5%)	12,00,000
Depreciation on Furniture & Equipment (Rs. 300 Lakhs \times 20% \times 15%)	9,00,000
Room attendant's wages (Rs. 15 per Room Day for 43,200 Room Days)	6,48,000
Lighting charges	1,32,800
Total cost	45,71,000
Add: Profit Margin (20% on Room rent or 25% on Cost)	11,42,750
Total Rent to be charged	57,13,750

Calculation of Room Rent per day:

Total Rent / Equivalent Full Room days = Rs. 57,13,750/ 36,000 = Rs. 158.72Room Rent during Season – Rs. 158.72 Room Rent during Off season = Rs. 158.72 × 50% = Rs. 79.36 (i)

D	r	•

Process – 1 Account

Particulars Units Total Particulars Units Total (Rs.) (Rs.) То Raw Material 10,000 7,50,000 By Normal Loss A/c 500 6,750 Consumed @ 13.5 ,, 3,00,000 " Process 2 @ 9,000 12,01,500 **Direct Wages** --133.5 ,, By Abnormal Direct --1,50,000 " 500 66,750 Expenses Loss @ 133.5 u Manufacturing 75,000 Overheads 10,000 12,75,000 10,000 12,75,000

Cost per unit of completed units and abnormal loss:

 $=\frac{Rs.12,75,000-Rs.6,750}{10,000 units-500 units}$ = Rs. 133.5

(ii)

Dr.	Dr. Process 2 Account						
	Particulars	Units	Total (Rs.)		Particulars	Units	Total (Rs.)
То	Process-I A/c	9,000	12,01500	Ву	Normal Loss A/c@ 145	900	1,30,500
"	To DirectWages		5,60,000	"	By Finished StockA/c [bal fig]	8,200	21,04,667
"	Direct Expenses		3,64,000				
"	Manufacturing Overheads		84,000				
"	To Abnormal gain (Rs. 256.67 × 100 units)	100	25,667				
		9,100	22,35,167			9,100	22,35,167

Cost per unit of completed units and abnormal gain:

 $=\frac{Rs.22,09,500-Rs.130500}{8,100 \text{ units}} = \text{Rs. 256.67}$

Dr. Finished Goods A/c. Cr. Particulars Units Total (Rs.) Particulars Units Total (Rs.) Process II A/c 8,200 21,04,667 By Cost of Sales 20,53,333 То By 8,000 By Balance c/d 200 51,334 8,200 21,04,667 8,200 21,04,667

(i) Normal Loss A/c

Dr.

וט.							С.
	Particulars	Units	Total (Rs.)		Particulars	Units	Total (Rs.)
То	Process I	500	6,750	Ву	By abnormal Gain II	100	14,500
	Process II	900	1,30,500		By Cash	500	6,750
					By Cash	800	1,16,000
		1400	1,37,250			1400	1,37,250

(ii) Abnormal Loss A/c

Dr.							Cr.
	Particulars	Units	Total (Rs.)		Particulars	Units	Total (Rs.)
То	Process I	500	66,750	Ву	By Cost Ledger Control A/c	500	6,750
					By Costing P& LA/C (Abnormal Loss)		60,000
			66,750				66,750

(iii) Abnormal Gain A/c

Dr.

Jr.							Cr.
	Particulars	Units	Total		Particulars	Units	Total
			(Rs.)				(Rs.)
То	Normal LossA/c @ 145	100	14,500	Ву	Process II	100	25,667
То	Costing P & LA/C		11,167				
		100	25,667			100	25,667

(10 MARKS)

ANSWER: 4(A)

(i) Overheads application base: Direct labour hours

	Equipment	Equipment
	A (Rs.)	B (Rs.)
Direct material cost	350	400
Direct labour cost	360	480
Overheads*	180	240
	890	1120

*Pre – determined rate = $\frac{Budgeted \ overheads}{Budgeted \ direct \ labour \ hours} = \frac{Rs.15,00,000}{25,000 \ hours} = Rs. 60$

(ii) Estimation of Cost-Driver rate

Activity	Overhead cost	Cost-driver level	Cost driver rate
	(Rs.)		(Rs.)
Order processing		600	
	3,00,000	Orders processed	500
Machine processing		50,000	
	10,00,000	Machine hours	20
Inspection		15,000	
	2,00,000	Inspection hours	10
		Equipment	Equipment
		A (Rs.)	B (Rs.)
Direct material cost		350	400
Direct labour cost		360	480
Prime Cost(A)		710	880
Overhead Cost			
Order processing 400:	200	2,00,000	1,00,000
Machine processing 2	2,500: 27,500	4,50,000	5,50,000
Inspection 5,000: 15,0	000	50,000	1,50,000
Total overhead cost		7,00,000	8,00,000

(Overheads cost per unit for each overhead can also be calculated)

Per unit cost	A (Rs.)	B (Rs.)
7,00,000 /3,200 (B) – A	218.75	
8,00,000/ 3,850 (B) – B		207.79
Unit manufacturing cost (A+B)	928.75	1,087.79

(iii) Calculation of Cost Distortion

	Equipment	Equipment
	A (Rs.)	B (Rs.)
Unit manufacturing cost–using direct labourhours as an application base	890.00	1,120.00
Unit manufacturing cost-using activity basedcosting	928.75	1,087.79
Cost distortion	-38.75	32.21

(10 MARKS)

ANSWER : 4(B)

(a) Calculation of Total Cost for the Job:

Particulars	Amount (Rs.)	Amount (Rs.)
Direct Material Cost:		
- 15mm GI Pipe (Working Note- 1)	11,051.28	
- 20mm GI Pipe (Working Note- 2)	2,588.28	

Total Cost		65,643.95
- Overheads [Rs. 26 × (180 + 192) hours]		9,672.00
- Helper [(192 hours × Rs. 70) + (24 hours × Rs. 35)]	14,280.00	32,880.00
Plumber [(180 hours × Rs.100) + (12 hours × Rs. 50)]	18,600.00	
Direct Labour:		
- Valve 6 units $\times \left(\frac{8 \times Rs.404 + 10 \times Rs.402 + 14 \times Rs.424}{32 \text{ units}}\right)$	2,472.75	23,091.95
15 units $\times \left(\frac{6 \times Rs.204 + 15 \times Rs.209}{21 \text{ units}}\right)$		
- Stainless steel faucet	3,113.57	
- Other fitting materials (Working Note- 3)	3,866.07	

(b) Price to be charged for the job work:

	Amount (Rs.)
Total Cost incurred on the job	65,643.95
Add: 25% Profit on Job Price $\left(\frac{65,643.95}{75\%} \times 25\%\right)$	21,881.32
	87,525.27

Working Note:

1. Cost of 15mm GI Pipe

Date		Amount (Rs.)
17-08-2020	8 units × Rs. 600	4,800.00
28.08.2020	10 units $\times \left(\frac{4 \times Rs.600 + 35 \times Rs.628}{39 \text{ units}}\right)$	6,251.28
		11,051.28

2. Cost of 20mm GI Pipe

Date		Amount (Rs.)
12-08-2020	2 units × Rs. 660	1,320.00
28.08.2020	2 units $\times \left(\frac{8 \times Rs.660 + 30 \times Rs.610 + 20 \times Rs.660}{8 \times Rs.660} \right)$	1.268.28
	$2 \text{ units } \times \left(\frac{58 \text{ units}}{58 \text{ units}} \right)$,
		2,588.28

3. Cost of Other fitting materials

Date		Amount (Rs.)
12-08-2020	18 units × Rs. 26	468.00
17-08-2020	30 units × Rs. 26	780.00
28.08.2020	34 units $\times \left(\frac{12 \times Rs.26 + 150 \times Rs.28}{162 \text{ units}}\right)$	946.96
30.08.2020	60 units $\times \left(\frac{12 \times Rs.26 + 150 \times Rs.28}{162 \text{ units}}\right)$	1,671.11
		3,866.07

(10 MARKS)

ANSWER : 5(A)

Item ofcost	Basis of	Total	P1	P2	P3	S1	S2
	apportionment	(Rs.)	(Rs.)	(Rs.)	(Rs.)	(Rs.)	(Rs.)
Direct wages	Actual	2,50,000				1,87,500	62,500
Rent and	Floor area $(4 \cdot 5 \cdot 6 \cdot 4 \cdot 1)$	6,25,000	1,25,000	1,56,250	1,87,500	1,25,000	31,250
General lighting	Light points (2:3:4:2:1)	7,50,000	1,25,000	1,87,500	2,50,000	1,25,000	62,500
Indirect wages	Direct wages (6 : 4 : 6 : 3 : 1)	1,87,500	56,250	37,500	56,250	28,125	9,375
Power	Horse Power of machines used (6:3:5:1)	25,00,000	10,00,000	5,00,000	8,33,333	1,66,667	-
Depreciati on of machinery	Value of machinery (12:16:20:1:1)	5,00,000	1,20,000	1,60,000	2,00,000	10,000	10,000
Insurance of machinery	Value of machinery (12:16:20:1:1)	2,00,000	48,000	64,000	80,000	4,000	4,000
		50,12,500	14,74,250	11,05,250	16,07,083	6,46,292	1,79,625

Primary Distribution Summary

Overheads of service cost centres:

Let S₁ be the overhead of service cost centre S₁ and S₂ be the overhead of service cost centre S₂.

S1 = 6,46,292 + 0.10 S2

S2 = 1,79,625 + 0.10 S1

Substituting the value of S₂ in S₁ we get S₁ = $6,46,292 + 0.10 (1,79,625 + 0.10 S_1)$

 $S_1 = 6,46,292 + 17,962.5 + 0.01 S_1$ $0.99 S_1 = 6,64,254.5$ $\therefore S_1 = Rs.6,70,964$ $\therefore S_2 = 1,79,625 + 0.10 \times 6,70,964$ = Rs.2,46,721.4

Secondary Distribution Summary

Particulars				Total (Rs.)	P1 (Rs.)	P2 (Rs.)	P3 (Rs.)
Allocated overheads distribution	and as	Ap per	portioned primary	41,86,583	14,74,250	11,05,250	16,07,083
	S1			6,70,964	1,34,192.8	2,01,289.2	2,68,385.6
	S2			2,46,721.4	98,688.6	49,344.3	74,016.5
					17,07,131.4	13,55,883.5	19,49,485.1

(i) Overhead rate per hour

	P1	P2	P3
Total overheads cost (Rs.)	17,07,131.4	13,55,883.5	19,49,485.1
Production hours worked	6,225	4,050	4,100
Rate per hour (Rs.)	274.24	334.79	475.48

(ii) Cost of Product X

	(Rs.)
Direct material	6,250.00
Direct labour	3,750.00
Prime cost	10,000.00
Production on overheads	
P1 5 hours × Rs. 274.24 = 1,371.20	
P2 3 hours × Rs. 334.79 = 1,004.37	
P3 4 hours × Rs. 475.48 = <u>1,901.92</u>	4,277.49
Factory cost	14,277.49

(10 MARKS)

ANSWER : 5(B)

(i) Product-wise Profitability Statement for the FY 2019-20:

Particulars	Product-X (Rs.)	Product-Y (Rs.)	Total (Rs.)
Output (units)	8,000	4,000	
Selling price per unit	600	550	
Sales value	48,00,000	22,00,000	70,00,000
Direct material	11,20,000	6,30,000	17,50,000
	(Rs.140×8,000)	(Rs.157.50×4,000)	
Direct wages	7,20,000	5,30,000	12,50,000
	(Rs.90×8,000)	(Rs.132.5×4,000)	
Variable factory overheads	5,47,200	4,02,800	9,50,000
	(76%of 7,20,000)	(76%of 5,30,000)	
Other variable costs	3,20,000	2,80,000	6,00,000
	(Rs.40×8,000)	(Rs.70×4,000)	
Contribution	20,92,800	3,57,200	24,50,000
Fixed factory overheads	-	-	12,00,000
Other fixed costs	-	-	4,00,000
Profit			8,50,000

Particulars	Product-X (Rs.)	Product-Y (Rs.)	Total (Rs.)
Output (units)	6,400	3,600	
	(8,000×80%)	(4,000×90%)	
Selling price per unit	480	440	
	(600×80%)	(550×80%)	
Sales value	30,72,000	15,84,000	46,56,000
Direct material	8,96,000	5,67,000	14,63,000
	(Rs.140×6,400)	(Rs.157.50×3,600)	
Direct wages per unit	6,91,200	5,72,400	12,63,600
	(Rs.108×6,400)	(Rs.159×3,600)	
Variable factory overheads	5,25,312	4,35,024	9,60,336
	(76%of 6,91,200)	(76%of 5,72,400)	
Other variable costs	2,56,000	2,52,000	5,08,000
	(Rs.40×6,400)	(Rs.70×3,600)	
Contribution	7,03,488	(2,42,424)	4,61,064
Fixed factory overheads	-	-	12,00,000
Other fixed costs (110%of	-	-	4,40,000
Rs.4,00,000)			
Profit/ (Loss)			(11,78,936)

(10 MARKS)

ANSWER: 6

(A) Difference between Cost Accounting and Management Accounting

	Basis	Cost Accounting	Management Accounting
(i)	Nature	It records the quantitative aspect only.	It records both qualitative and quantitative aspect.
(ii)	Objective	It records the cost of producing a product and providing a service.	It Provides informationto management for planning and co-ordination.
(iii)	Area	It only deals with cost Ascertainment.	It is wider in scope as it includes financial accounting, budgeting, taxation, planning etc.
(iv)	Recording of data	It uses both past and present figures.	It is focused with the projection of figures for future.
(v)	Develop- ment	Its development is related to industrial revolution.	It develops in accordance to the need of modern business world.

(vi)	Rules and	It follows certain principles	It does not follow any specific	
	Regulation	and procedures for recording	rules and regulations.	
		costs of different products.		

(5 MARKS)

(B) Escalation clause in a contract empowers a contractor to revise the price of the contract in case of increase in the prices of inputs due to some macro-economic or other agreed reasons. A contract takes longer period to complete and the factors based on which price negotiation is done at the time of entering into the contract may change till the contract completes. This protect the contractor from adverse financial impacts and empowers the contractor to recover the increased prices. As per this clause, the contractor increases the contract price if the cost of materials, employees and other expenses increase beyond a certain limit. Inclusion of such a clause in a contract deed is called an "Escalation Clause".

(5 MARKS)

(C) By-product cost can be dealt in cost accounting in the following ways:

- (i) When they are of small total value: When the by-products are of small total value, the amount realised from their sale may be dealt in any one the following two ways:
 - 1. The sales value of the by-products may be credited to the Costing Profit and Loss Account and no credit be given in the Cost Accounts. The credit to the Costing Profit and Loss Account here is treated either as miscellaneous income or as additional sales revenue.
 - 2. The sale proceeds of the by-product may be treated as deductions from the total costs. The sale proceeds in fact should be deducted either from the production cost or from the cost of sales.
- (ii) When the by-products are of considerable total value: Where by-products are of considerable total value, they may be regarded as joint products rather than as by-products. To determine exact cost of by-products the costs incurred upto the point of separation, should be apportioned over by-products and joint products by using a logical basis. In this case, the joint costs may be divided over joint products and by-products by using relative market values; physical output method (at the point of split off) or ultimate selling prices (if sold).
- (iii) Where they require further processing: In this case, the net realisable value of the by-product at the split-off point may be arrived at by subtracting the further processing cost from the realisable value of by-products.

If total sales value of by-products at split-off point is small, it may be treated as per the provisions discussed above under (i).

In the contrary case, the amount realised from the sale of by-products will be considerable and thus it may be treated as discussed under (ii).

(D) Difference between Cost Control and Cost Reduction

	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 preventivefunction.	4.	Cost reduction is a corrective function. It operates even when an efficient cost control system exists.
5.	Cost control ends when targetsare achieved.	5.	Cost reduction has no visible end.

(E)

(5 MARKS)

Overhead Cost	Bases of Apportionment
(i) Air- conditioning	Floor area, or volume of department
(ii) Time keeping	Number of workers
(iii) Depreciation of plant andmachinery	Capital values
(iv) Power/steam consumption	Technical estimates
(v) Electric power (machineoperation)	Horse power of machines, or Number of machinehour, or value of machines or units consumed. Kilo-watt hours.