SUGGESTED SOLUTION

CA INTERMEDIATE

SUBJECT- COSTING

Test Code – CIM 8662

BRANCH - () (Date :)

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Topic : Cost and Management Accounting

Note: 1) Question No. 1 is compulsory. Answer any four questions out of five questions.
2) Working Notes should form part of your answer.
3) Start New Question on new page

ANSWER - 1.

(A)

	Sales (Rs.)	Profit (Rs.)
Year 2016	4,00,000	15,000 (loss)
Year 2017	5,00,000	15,000 (Profit)
Difference	1,00,000	30,000

(i) P/V Ratio = $\frac{Difference\ in\ profit}{Difference\ in\ Sales} \times 100 = \frac{30,000}{1,00,000} \times 100$ = 30%

(ii)

	Rs.
Contribution in 2015 (4,00,000 × 30%)	1,20,000
Add : Loss	15,000
Fixed Cost*	1,35,000

*Contribution = Fixed Cost + Profit

∴ Fixed cost = Contribution – Profit

(iii) Break – even point = $\frac{Fixed\ Cost}{P/V\ ratio} = \frac{1,35,000}{30\%}$ = Rs. 4,50,000

(iv) Sales to earn a profit of Rs. 45,000

$\frac{Fixed\ cost + Desired\ Profit}{P/V\ ratio} = \frac{1,35,000 + 45,000}{30\%}$ = Rs. 6,00,000

(v) Margin of safety in 2017 – 18

Margin of safety = Actual sales – Break – even sales

= 5,00,000 – 4,50,000 = Rs. 50,000.

(5*1 = 5 MARKS)

(B)

Workings :

Take the good output of 195 ltr. The standard quantity of material required for 195 ltr. Of output is

$\frac{195}{80} \times 100$ = 243.75 ltr.

Statement showing computation of Standard Cost / Actual Cost / /Revised Actual Quantity

Material	Standard cost			Actual Cost		
	Quantity	Rate	Amt.	Quantity	Rate	Amount
	[SQ] (Kg.)	[SP] (Rs.)	[SQ × SP]	[AQ] (Kg.)	[AP] (Rs.)	[AQ × AP] (Rs.)
A (60% of 243.75 ltr.)	146.25	40	5,850.00	140	42	5,880
B (40% of. 243.75 Kg.	97.50	60	5,580.00	110	56	6,160
	243.75		11,700.00	200		12,040

Note : SQ = Standard Quantity = Expected Consumption for Actual Output

AQ = Actual Quantity of Material Consumed

SP = Standard Price per Unit

AP = Actual Price per Unit

(2 MARKS)

Computation of Variances :

Material Cost Variance = SQ × SP – AQ × AP

A = Rs. 146.25 ltr. × Rs. 40 – 140 ltr. × Rs. 42 = Rs. 30.00 (A)

B = Rs. 97.50 ltr. × Rs. 60 – 110 ltr. × Rs. 56 = Rs. 310.00(A)

Total = Rs. 30.00 (A) + Rs. 310.00 (A)

= Rs. 340.00 (A)

Material Usage Variance = SP × (SQ – AQ)

A = Rs. 40 × (146.25 ltr. – 140 ltr.) = Rs. 250.00 (F)

B = Rs. 60 × (97.50 ltr. – 110 ltr.) = Rs. 750.00(A)

Total = Rs. 250.00(F) + Rs. 750.00 (A)

= Rs. 500.00 (A)

Material Price Variance = AQ × (SP – AP)

A = 140 Kg. × (Rs. 40 – Rs. 42) = Rs. 280(A)

B = 110 Kg. × (Rs. 60 – Rs. 56) = Rs. 440(F)

Total = Rs. 280 (A) + Rs. 440(F) = Rs. 160(F)

(3*1 = 3 MARKS)

(C)

(i) Statement of profitability of the Oil Mill (After carrying out further processing) for the quarter ending 31st March 20X8.

Products	Sales Value after further processing	Share of Joint Cost	Additional processing cost	Total Cost after processing	Profit (loss)
ACH	1,72,500	98,667	43,000	1,41,667	30,833
BCH	15,000	19,733	9,000	28,733	(13,733)
CSH	6,000	4,933	--	4,933	1,067
DSH	45,000	24,667	1,500	26,167	18,833
	2,38,500	1,48,000	53,500	2,01,500	37,000

(ii) Statement of profitability at the split off point

Product	Selling price of split off	Output in units	Sales value at split off point	Share of joint cost	Profit at split off point
ACH	15.00	8,000	1,20,000	98,667	21,333
BCH	6.00	4,000	24,000	19,733	4,267
CSH	3.00	2,000	6,000	4,933	1,067
DSH	7.50	4,000	30,000	24,667	5,333
			1,80,000	1,48,000	32,000

Note : Share of Joint Cost has been arrived at by considering the sales value at split off point.

(2.5*2 = 5 MARKS)

(D)

Annual production of Product X = Annual demand – Opening stock = 5,00,000 – 12,000 = 4,88,000 units

Annual requirement for raw materials = Annual production× Material per unit – Opening stock of material

Material A = 4,88,000 × 4 units – 24,000 units = 19,28,000 units

Material B = 4,88,000 × 16 units – 52,000 units = 77,56,000 units

(i) Computation of EOQ when purchase order for the both materials is placed separately

$$EOQ = \sqrt{\frac{2 \times \text{Annual Requirement for material} \times \text{Ordering cost}}{Carrying\ cost\ per\ unit\ per\ annum}}$$

Material A = $\sqrt{\frac{2 \times 19{,}28{,}000\ units \times Rs.15{,}000}{13\%\ of\ Rs.150}} = \sqrt{\frac{38{,}56{,}000 \times Rs.15{,}000}{Rs,19.5}}$

= 54,462 units

Material B = $\sqrt{\frac{2 \times 77{,}66{,}000\ units \times Rs.15{,}000}{13\%\ of\ Rs.200}} = \sqrt{\frac{1{,}55{,}12{,}000 \times Rs.15{,}000}{Rs.26}}$

= 94,600 units

(ii) Computation of EOQ when purchase order for the both material is not placed separately

Material A & B = $\sqrt{\frac{2 \times (19{,}28{,}000+77{,}56{,}000) \times Rs.15{,}000}{13\%\ of\ Rs.190*}}$

= $\sqrt{\frac{1{,}93{,}68{,}000 \times Rs.15{,}000}{Rs.24.7}}$ = 1,08,452 units

Material A = $\frac{1{,}08{,}452 \times 19{,}28{,}000}{96{,}84{,}000}$ = 21,592 units

Material A = $\frac{1{,}08{,}452 \times 77{,}56{,}000}{96{,}84{,}000}$ = 86,860 units

*$\frac{(Rs.150 \times 19{,}28{,}000)+(Rs.200 \times 77{,}56{,}000)}{(19{,}28{,}000+77{,}56{,}000)}$ = Rs. 190

(2.5*2 = 5 MARKS)

ANSWER - 2.

(A)

Cost sheet for the year ended 31st March, 2018.

Units produced – 14,000 units

Units sold – 14,153 units

Particulars	Amt. (Rs.)
Raw materials purchased	42,25,000
Add : Freight Inward	1,00,000
Add : Opening value of raw materials	2,28,000
Less : Closing value of raw materials	(3,05,000)
	42,48,000
Less : Sale of scrap of material	8,000

Materials consumed	42,40,000
Direct Wages (12,56,000 + 1,50,000)	14,06,000
Prime Cost	56,46,000
Factory overheads (20% of Rs. Prime Cost)	11,29,200
Add : Opening value of W – I – P	1,92,500
Less : Closing value of W – I – P	(1,40,700)
Factory Cost	68,27,000
Add : Administrative overheads	1,73,000
Cost of Production	70,00,000
Add : Value of opening finished stock	6,08,500
Less : Value of closing finished stock	6,08,500
[Rs. 500 (70,00,000/14,000) × 1,064)	
(1,217 + 14,000 – 14,153 = 1,064 units)	(5,32,000)
Cost of Goods sold	70,76,500
Distribution expenses (Rs. 16 × 14,153 units)	2,26,448
Cost of Sales	73,02,948
Profit (Balancing figure)	14,43,606
Sales (Rs. 618 × 14,153 units)	87,46,554

(10 Marks)

(B)

(i) Calculation of Raw Material inputs during the month:

Quantities Entering Process	**Litres**	**Quantities Leaving Process**	**Litres**
Opening WIP	1,600	Transfer to Finished Goods	8,400
Raw material input (balancing figure)	8,320	Process Losses	1,200
		Closing WIP	320
	9,920		9,920

(2 Mark)

(ii) Calculation of Normal Loss and Abnormal Loss/Gain

	Litres
Total process losses for month	1,200
Normal Loss (10% input)	832
Abnormal Loss (balancing figure)	368

(2 Mark)

(iii) Calculation of values of Raw Material, Labour and Overheads added to the process:

	Material	**Labour**	**Overheads**
Cost per equivalent unit	`46.00	`14.00	`18.00
Equivalent units (litre) (refer the working note)	7,488	7,744	7,872
Cost of equivalent units	`3,44,448	`1,08,416	`1,41,696
Add: Scrap value of normal loss (832 units × `15)	`12,480	--	--
Total value added	`3,56,928	`1,08,416	`1,41,696

(2 Mark)

Workings:

Statement of Equivalent Units (litre):

Input Details	Units	Output details	Units	Equivalent Production					
				Material		Labour		Overheads	
				Units	(%)	Units	(%)	Units	(%)
Opening WIP	1,600	Units completed:							
Units introduced	8,320	- Opening WIP	1,600	--	--	480	30	640	40
		- Fresh inputs	6,800	6,800	100	6,800	100	6,800	100
		Normal loss	832	--	--	--	--	--	--
		Abnormal loss	368	368	100	368	100	368	100
		Closing WIP	320	320	100	96	30	64	20
	9,920		9,920	7,488		7,744		7,872	

(2 Mark)

(iv) Process Account for the month

	Litres	Amount (`)		Litres	Amount (`)
To Opening WIP	1,600	1,06,560	By Finished goods [8400 x ` 78]	8,400	6,55,200
To Raw Materials	8,320	3,56,928	By Normal loss [832 x ` 15]	832	12,480
To Wages	--	1,08,416	By Abnormal loss [368 x ` 78]	368	28,704
To Overheads	--	1,41,696	By Closing WIP [(320 x ` 46) + (320 x .30 x ` 14) + (320 x .20 x ` 18)]	320	17,216
	9,920	7,13,600		9,920	7,13,600

(2 Marks)

ANSWER - 3.

(A)

(i) Statement Showing Overhead Cost per unit "Traditional Method"

	Gel Pen (Rs.)	Ball Pen (Rs.)
Units	5,500	24,000
Overheads (Rs.) (Refer to W.N.)	4,80,000 (20 × 24,000 hrs.)	10,80,000 (20 × 54,000 hrs.)
Overhead Rate per unit (Rs.)	87.27 (Rs. 4,80,000 /5,500 units)	45 (Rs. 10,80,000 /24,000 units)

Working Notes :

Overhead Rate per Machine Hours

$$= \frac{Total\ Overhead\ incurred\ by\ the\ Company}{Total\ Machine\ Hours}$$

$$= \frac{Rs.4,75,020 + 5,79,988 + 5,04,992}{24,000\ hours + 54,000\ hours} = \frac{Rs.15,60,000}{78,000\ hours}$$

= Rs. 20 per machine hour

(4 MARKS)

(ii) Statement Showing 'Activity Based Overhead Cost"

Activity Cost Pool	Cost Driver	Ratio	Total Amt. (Rs.)	Gel Pen (Rs.)	Ball Pen (Rs.)
Volume Related Activity Costs	Machine hours	24 : 54	4,75,020	1,46,160	3,28,860
Setup Related Costs	No. of Setups	30 : 56	5,79,988	2,02,321	3,77,667
Purchase Related Costs	No. of Purchase Orders	240 : 448	5,04,992	1,76,160	3,28,832
Total Cost				5,24,641	10,35,359
Output (units)				5,500	24,000
Unit Cost (Overheads)				95.39	43.13

(4 MARKS)

(iii)

	Gel Pen	Ball Pen
Overheads Cost per unit (Rs.) (Traditional Method)	87.27	45
Overheads Cost per unit (Rs.) (ABC)	95.39	43.13
Difference per unit	- 8.12	+ 1.87

(Volume related activity cost, set up related costs and purchase related cost can also be calculated under Activity Base Costing using Cost driver rate. However, there will be no changes in the final answer.) **(2 MARKS)**

(B)

Statement of cost per batch and per order

No. of batch = 600 units ÷ 50 units = 12 batches

	Particulars	Cost per batch (Rs.)	Total Cost (Rs.)
	Direct Material Cost	5,000.00	60,000
	Direct Wages	500.00	6,000
	Oven set – up cost	750.00	9,000
	Add : Production Overheads (20% of Direct wages)	100.00	1,200
	Total Production cost	6,350.00	76,200
	Add : S & D and Administration Overheads (10% of Total production cost)	635.00	7,620
	Total Cost	6,985.00	83,820
	Add : Profit (1/3rd of total cost)	2,328.33	27,940
(i)	Sales Price	9,313.33	1,11,760
	No. of units in batch	50 units	
(ii)	Cost per unit (Rs. 6,985 ÷ 50 units)	139.70	
	Selling price per unit (9,313.33 ÷ 50 units)	186.27	

(5 MARKS)

(iii) If the order is for 605 cakes, then selling price per cake would be as below :

Particulars	Total Cost (Rs.)
Direct Material Cost	60,500
Direct Wages (Rs. 500 × 13 batches)	6,500
Oven set – up cost (Rs. 750 × 13 batches)	9,750
Add : Production Overheads (20% of Direct wages)	1,300
Total Production Cost	78,050
Add : S & D and Administration overheads (10% of Total production cost)	7,805
Total Cost	85,855
Add : Profit (1/3rd of total cost)	28,618
Sales price	1,14,473
No. of units	605 units
Selling price per unit (Rs. 1,14,473 ÷ 605 units)	189.21

(5 MARKS)

ANSWER - 4.

(A)

Cost Ledger Control Account

Particulars	(Rs.)	Particulars	(Rs.)
To Store Ledger Control A/c.	11,000	By Opening Balance	7,00,000
To Balance c/d	9,84,600	By Store ledger control A/c.	1,36,000
		By Manufacturing Overhead Control A/c.	91,000
		By Wages Control A/c.	68,600
	9,95,600		9,95,600

(1.5 MARKS)

Stores Ledger Control Account

Particulars	Rs.	Particulars	Rs.
To Opening Balance	3,20,000	By WIP Control A/c.	1,26,000
To Cost ledger control A/c.	1,36,000	By Cost ledger control A/c. (Returns)	11,000
		By Balance c/d	3,19,000
	4,56,000		4,56,000

(1.5 MARKS)

WIP Control Account

Particulars	Rs.	Particulars	Rs.
To Opening Balance	1,52,000	By Finished Stock Ledger Control A/c.	2,35,500
To Wages Control A/c.	48,000	By Balance c/d	1,76,500
To Stores Ledger Control A/c.	1,26,000		
To Manufacturing Overhead Control A/c.	86,000		
	4,12,000		4,12,000

(1.5 MARKS)

Finished Stock Ledger Control Account

Particulars	Rs.	Particulars	Rs.
To Opening Balance	2,56,000	By Cost of Sales	1,68,000
To WIP Control A/c.	2,35,500	By Balance c/d	3,31,500
To Cost of Sales A/c. (Sales Return)	8,000		
	4,99,500		4,99,500

(1.5 MARKS)

Manufacturing Overhead Control Account

Particulars	Rs.	Particulars	Rs.
To Cost Ledger Control A/c.	91,000	By Opening Balance	28,000
To Wages Control A/c.	20,600	By WIP Control A/c.	86,000
To Over recovery c/d	2,400		
	1,14,000		1,14,000

(1.5 MARKS)

Wages Control Account

Particulars	(Rs.)	Particulars	(Rs.)
To Transfer to Cost Ledger Control A/c.	68,600	By WIP Control A/c. By Manufacturing Overhead Control A/c.	48,000 20,600
	68,600		68,600

(1 MARK)

Cost of Sales Account

Particulars	(Rs.)	Particulars	(Rs.)
To Finished Stock Ledger Control A/c.	1,68,000	By Finished Stock Ledger Control A/c. (Sales return) By Balance c/d	8,000 1,60,000
	1,68,000		1,68,000

(0.5 MARK)

Trial Balance

	Rs.	Rs.
Stores Ledger Control A/c.	3,19,000	-
WIP Control A/c.	1,76,500	-
Finished Stock Ledger Control A/c.	3,31,500	-
Manufacturing Overhead Control A/c.	--	2,400
Cost of Sales A/c.	1,60,000	-
Cost ledger control A/c.	--	9,84,600
	9,87,000	9,87,000

(1 Mark)

(B)

1. Calculation of Cost per annum

Particulars	Arts (`)	Commerce (`)	Science (`)	Total (`)
Teachers' salary (W.N-1)	16,80,000	21,00,000	25,20,000	63,00,000
Re-apportionment of Economics & Mathematics teachers' salary (W.N- 2)	(84,000)	1,45,091	(61,091)	-
Principal's salary (W.N-3)	1,24,800	1,87,200	2,88,000	6,00,000
Lab assistants' salary (W.N-4)	-	-	1,72,800	1,72,800
Salary to library staff (W.N-5)	43,200	28,800	57,600	1,29,600
Salary to peons (W.N-6)	31,636	94,909	47,455	1,74,000
Salary to other staffs (W.N-7)	38,400	1,15,200	57,600	2,11,200
Examination expenses (W.N- 8)	86,400	2,59,200	1,29,600	4,75,200
Office & Administration expenses (W.N- 7)	1,21,600	3,64,800	1,82,400	6,68,800
Annual Day expenses (W.N-7)	36,000	1,08,000	54,000	1,98,000
Sports expenses (W.N- 7)	9,600	28,800	14,400	52,800
Total Cost per annum	20,87,636	34,32,000	34,62,764	89,82,400

(3 Marks)

(a) Calculation of cost per student per annum

Particulars	Arts (`)	Commerce (`)	Science (`)	Total (`)
Total Cost per annum	20,87,636	34,32,000	34,62,764	89,82,400
No. of students	120	360	180	660
Cost per student per annum	17,397	9,533	19,238	13,610

(1 Mark)

(b) Calculation of profitability

Particulars	Arts (`)	Commerce (`)	Science (`)	Total (`)
Total Fees per annum	12,000	12,000	12,000	
Cost per student per annum	17,397	9,533	19,238	
Profit/ (Loss) per student per annum	(5,397)	2,467	(7,238)	
No. of students	120	360	180	
Total Profit/ (Loss)	(6,47,640)	8,88,120	(13,02,840)	(10,62,360)

(1 Mark)

(c) Computation of fees to be charged to earn a 10% profit on cost

Particulars	Arts (`)	Commerce (`)	Science (`)
Cost per student per annum	17,397	9,533	19,238
Add: Profit @10%	1,740	953	1,924
Fees per annum	19,137	10,486	21,162
Fees per month	1,595	874	1,764

(1 Mark)

Working Notes:

(1) Teachers' salary

Particulars	Arts	Commerce	Science
No. of teachers	4	5	6
Salary per annum (`)	4,20,000	4,20,000	4,20,000
Total salary	16,80,000	21,00,000	25,20,000

(2) Re-apportionment of Economics and Mathematics teachers' salary

	Economics		Mathematics	
Particulars	**Arts**	**Commerce**	**Science**	**Commerce**
No. of classes	832	208	940	160
Salary re-apportionment (₹)	(84,000)	84,000	(61,091)	61,091
	$\left(\frac{₹4,20,000}{1,040}\times 208\right)$		$\left(\frac{₹4,20,000}{1,100}\times 160\right)$	

Total addition to Commerce stream = ` 84,000 + ` 61,091 = ` 1,45,091

(3) Principal's salary has been apportioned on the basis of time spent by him for administration of classes.

(4) Lab attendants' salary has been apportioned on the basis of lab classes attended by the students.

(5) Salary of library staffs are apportioned on the basis of time spent by the students in library.

(6) Salary of Peons are apportioned on the basis of number of students. The peons' salary allocable to higher secondary classes is calculated as below:

	Amount (`)
Peon dedicated for higher secondary (1 peon × `10,000 × 12 months) Add: 15% of other peons' salary {15% of (3 peons × `10,000 × 12 months)}	1,20,000 54,000
	1,74,000

(7) Salary to other staffs, office & administration cost, Annual day expenses and sports expenses are apportioned on the basis of number of students.

(8) Examination Expenses has been apportioned taking number of students and number of examinations into account. **(4 Marks)**

ANSWER - 5.

(A)

(i) Production Budget of 'X' for the Second Quarter

Particulars	Bags (Nos.)
Budgeted Sales	50,000
Add: Desired Closing stock	11,000
Total Requirements	61,000
Less: Opening stock	15,000
Required Production	46,000

(ii) Raw – Materials Purchase Budget in Quantity as well as in Rs. for 46,000 Bags of 'X

Particulars	'Y' Kgs.	'Z' Kgs.	Empty Bags Nos.
Production Requirements	2.5	7.5	1.0
Per bag of 'X'			
Requirement for Production	1,15,000 (46,000 × 2.5)	3,45,000 (46,000 × 7.5)	46,000 (46,000 × 1)
Add: Desired Closing Stock	26,000	47,000	28,000
Total Requirements	1,41,000	3,92,000	74,000
Less: Opening Stock	32,000	57,000	37,000
Quantity *to be purchased*	1,09,000	3,35,000	37,000
Cost per Kg./Bag	Rs.120	Rs.20	Rs.80
Cost of Purchase (Rs.)	1,30,80,000	67,00,000	29,60,000

(iii) Computation of Budgeted Variable Cost of Production of 1 Bag of 'X'

Particulars	(Rs.)
Raw – Material	
Y 2.5 Kg @120	300.00
Z 7.5 Kg. @20	150.00
Empty Bag	80.00
Direct Labour(Rs.50× 9 minutes / 60 minutes)	7.50
Variable Manufacturing Overheads	45.00
Variable Cost of Production *per bag*	582.50

(iv) Budgeted Net Income for the Second Quarter

Particulars	Per Bag (Rs.)	Total (Rs.)
Sales Value (50,000 Bags)	900.00	4,50,00,000
Less: Variable Cost:		
Production Cost	582.50	2,91,25,000
Admn. & Selling Expenses (5% of Sales Price)	45.00	22,50,000
Budgeted Contribution	272.50	1,36,25,000
Less: Fixed Expenses:		
Manufacturing		30,00,000
Admn. & Selling		20,50,000
Budgeted Net Income		85,75,000

(2.5*4=10 MARKS)

(B)

	Rs.
(i) Rowan Plan : Normal time wage = 15 hours @ Rs. 5 =	75
Bonus = Time saved / Time allowed × (Time taken × Time rate) = $\frac{5}{20} \times (15 \times 5)$ =	18.75
	93.75
(ii) Halsey Plan : Normal time wage = 15 hours@ Rs. 5 =	75
Bonus = 50% of (Time saved × Time rate) = 50% of (5 × 5) =	12.5
	87.5

Statement of Comparative Factory cost of work

	Rowan Plan Rs.	Halsey Plan Rs.
Materials	50	50
Direct Wages	93.75	87.5
Prime Cost	143.75	137.5
Factory Overheads (100% of Direct wages)	93.75	87.5
Factory Cost	237.5	225

(5 MARKS)

(C) Contract Account

Particulars		(`)	Particulars		(`)
To	Material issued	2,51,000	By	Machine (Working note 1)	2,46,000
”	Wages	5,65,600	”	Material (in hand)	35,400
”	Foreman’s salary	81,300	”	Works cost (balancing figure)	10,49,000
”	Machine	2,60,000			
”	Supervisor’s salary (` 8,000 × 9)/2	36,000			
”	Administrative charges	1,36,500			
		13,30,400			13,30,400
”	Works cost	10,49,000	”	Value of work certified	10,00,000
”	Costing P&L A/c (Notional profit)	2,13,250	”	Cost of work uncertified (Working Note 2)	2,62,250
		12,62,250			12,62,250

(3 MARKS)

Working notes:

1. Written down value of Machine:

$$= \frac{₹2,60,000 - ₹15,000}{7\,\text{years}} \times \frac{146\,\text{days}}{365\,\text{days}} = ₹\ 14,000$$

Hence the value of machine after the period of 146 days = ₹ 2,60,000 – ₹ 14,000 = ₹ 2,46,000

2. The cost of 2/3rd of the contract is ₹ 10,49,000

$$\therefore \text{Cost of 100\% " " " "} \frac{₹10,49,000}{2} \times 3 = ₹\ 15,73,500$$

∴Cost of 50% of the contract which has been certified by the architect is ₹7,86,750. Also the cost of 1/3rd of the contract, which has been completed but not certified by the architect is ₹ 2,62,250.

(2 Marks)

ANSWER – 6

(A) Operational level staffs – The operational level staffs like supervisors, foreman, team leaders are requiring information

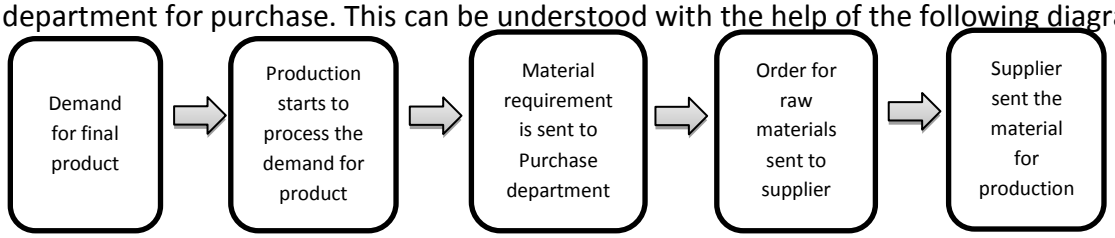
(i) To know the objectives and performance goals for them
(ii) To know product and service specifications like volume, quality and process etc.
(iii) To know the performance parameters against which their performance is measured and evaluated.
(iv) To know divisional (responsibility centre) profitability etc.

(5 MARKS)

(B) JIT is a system of inventory management with an approach to have a zero inventories in stores. According to this approach material should only be purchased when it is actually required for production.JIT is based on two principles

(i) Produce goods only when it is required and
(ii) the products should be delivered to customers at the time only when they want.

It is also known as 'Demand pull' or 'Pull through' system of production. In this system, production process actually starts after the order for the products is received. Based on the demand, production process starts and the requirement for raw materials is sent to the purchase department for purchase. This can be understood with the help of the following diagram :



(5 MARKS)

(C) 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 form 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)

(D)

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

(5 MARKS)

(E)

Budget Manual**:** A budget manual is a collection of documents that contains key information for those involved in the planning process. Typical contents could include the following:

- An introductory explanation of the budgetary planning and control process, including a statement of the budgetary objective and desired results.
- A form of organisation chart to show who is responsible for the preparation of each functional budget and the way in which the budgets are interrelated.
- A timetable for the preparation of each budget. This will prevent the formation of a 'bottleneck' with the late preparation of one budget holding up the preparation of all others.
- Copies of all forms to be completed by those responsible for preparing budgets, with explanations concerning their completion.
- A list of the organization's account codes, with full explanations of how to use them.
- Information concerning key assumptions to be made by managers in their budgets, for example the rate of inflation, key exchange rates, etc.

(5 MARKS)