

SUGGESTED ANSWERS TO QUESTIONS

INTERMEDIATE EXAMINATION

GROUP - I

(SYLLABUS 2016)

DECEMBER- 2021

Paper- 8 : COST ACCOUNTING

Time Allowed : 3 Hours

Full Marks : 100

Section : A MCQ

20X1 = 20 Marks

Q.1 Cost units used in power sector is called:

- Ans
1. Number of hours
 2. Kilo meter (K. M)
 3. Number of electric points
 4. Kilowatt-hour(KWH)

Q.2 Cost units of Automobile Industry is_.

Which word(s) according to you appropriately fills in above blank?

- Ans
1. Cubic meter
 2. Number of vehicle
 3. Bed Night
 4. Number of call

Q.3 Which of the following most appropriately defines 'Idle time'?

- Ans
1. Time spent by workers in factory
 2. Time spent by workers in office
 3. Time spent by workers off their work
 4. Time spent by workers on their job

Q.4 The allotment of whole items of cost of centers or cost unit is called

- Ans
1. Overhead absorption
 2. Cost allocation
 3. None of these
 4. Cost apportionment

Q.5 If an organization has all the resources it needs for production, then the principal budget factor is most likely to be

- Ans
1. labour supply
 2. sales demand
 3. raw materials
 4. non-existing

Q.6 Time and motion study is conducted by the

- Ans
1. Time –keeping department
 2. Payroll department
 3. Personnel department
 4. Engineering department

Q.7 Sales budget is an example of

- Ans
1. Functional budget
 2. Master budget
 3. Expenditure budget
 4. Capital budget

Q.8 Absolute Tonne-km. is an example of:

- Ans
1. Composite unit in power sector
 2. Composite unit for oil and natural gas
 3. Composite unit for bus operation
 4. Composite unit of transport sector

Q.9 Which of the following is not an element of master budget?

- Ans
1. Capital Expenditure Budget
 2. Production Schedule
 3. Operating Expenses Budget
 4. All of these

Q.10 Selling and distribution overheads are absorbed on the basis of

- Ans
1. rate per unit
 2. Any of these
 3. percentage on selling price of each unit
 4. percentage on works cost.

Q.11 Standards deals with the principles and methods of determining depreciation and amortization cost-

- Ans
1. CAS 12
 2. CAS 9
 3. CAS 16
 4. CAS 15

Q.12 Which of the following is a service department?

- Ans
1. Machining department
 2. Finishing department
 3. Refining department
 4. Receiving department

Q.13 Batch Costing is a type of_.

Which word(s) according to you appropriately fills in the above blank?

- Ans
1. Direct Costing
 2. Process Costing
 3. Job costing
 4. Differential Costing

Q.14 Audit fees paid to cost auditors is part of:

- Ans
1. Administration Cost
 2. None of these
 3. Selling & Distribution cost
 4. Production cost

Q.15 Which of the following is not an element of works overhead?

- Ans
1. Sales manager's salary
 2. Factory repairman's wages
 3. Product inspector's salary
 4. Plant manager's salary

Q.16 In Reconciliation Statement expenses shown only in cost accounts are

- Ans
1. Deducted from financial profit
 2. Ignored
 3. Added to financial profit
 4. Deducted from costing profit

Q.17 From cost control point of view the standard most commonly used is:

- Ans**
1. Theoretical standard
 2. Expected standard
 3. Normal standard
 4. Basic standard

Q.18 Which of the following is generally a long term budget?

- Ans**
1. Sales budget
 2. Cash budget
 3. Research and Development budget
 4. Capital expenditure budget

Q.19 Which method of absorption of factory overheads do you suggest in a concern which Produces only one uniform time of product?

- Ans**
1. Direct labour rate
 2. Percentage of direct wages basis
 3. Machine hour rate
 4. A rate per units of output

Q.20 In the context of Contract a/c, work completed and not yet certified will be shown

- Ans**
1. at cost under 'Completed Work'
 2. at cost under WIP a/c
 3. at cost plus notional profit less retention money under 'Completed Work'
 4. at cost plus + 2/3rd of the notional profit under 'Completed Work'

Q.1 If actual loss in a process is less than normal loss, the difference is known as _____. Using the appropriate word(s) fill in the Blank.

Answer: Abnormal Gain

Q.2 Profit volume ratio with increase in fixed cost. Using the appropriate word(s) fill in the Blank.

Answer: is constant

Q.3 VED analysis is primarily used for control of _____. Using the appropriate word(s) fill in the Blank.

Answer: Components or spare parts

Q.4 What is the name the type of loss for which a Process Account is credited with value for such loss when scrap value is zero?

Answer: Abnormal Loss

Q.5 When raw material is accounted at standard cost, variances due to normal reasons will be treated as _____ cost. Using the appropriate word(s) fill in the Blank.

Answer: Direct Material

Q.6 CAS _____ stands for cost of service cost centre. Using the appropriate word(s) fill in the Blank.

Answer: CAS 13

Q.7 Notional remuneration to owner is expense debited only in _____. Using the appropriate word(s) fill in the Blank.

Answer: Cost Accounts

Q.8 Historical costing uses post period costs while standards costing uses _____ costs. Using the appropriate word(s) fill in the Blank.

Answer: Predetermined

Q.9 _____ leads to budgeting and budgeting leads to budgetary control. Using the appropriate word(s) fill in the Blank.

Answer: Forecasting

Q.10 Fixed cost is Rs 30,000 and P/V ratio is 20%. Compute breakeven point.

Answer: Rs. 1,50,000

Q.11 The amount of sales of a product is Rs 1,00,000. Its variable cost is Rs 40,000 and fixed cost is Rs . 50,000. The amount of BEP sales will be _____

Answer: Rs. 83,334

Q.12 A labour cost standard is based on estimates of the ___ to produce a unit of product and the cost of labour per unit. Using the appropriate word(s) fill in the Blank.

Answer: Labour hours required

Q.13 A factory has to produce and supply 24000 units of a component annually to a customer. The carrying cost per unit is Rs 2 per component per month. The production run set up cost is Rs 1,800 per production run. Find out the economic batch size that must be produced to minimize total cost based on the above information.

Answer: Economic Batch Quantity = 1897 units approx. / batch

Q.14 Standard Costing is one of the ___ techniques. Using the appropriate word(s) fill in the Blank.

Answer: Cost Control

Q.15 Cost variance is the difference between ___. Using the appropriate word(s) fill in the Blank.

Answer: The standards cost and actual cost.

Q.16 A work measurement study was carried out in a firm for 10 hours. The information generated was: Units produced 600; Idle time 15%; Performance rating 120%; and Relaxation Allowance 10% of standard time. What is the standard time for each unit produced?

Answer: Standard Time for each unit = 1.133 minutes

Q.17 Differential cost is the change in the cost due to change in ___ from one level to another. Using the appropriate word(s) fill in the Blank.

Answer: Activity

Q.18 In Absorption costing, ___ cost is added to inventory. Using the appropriate word(s) fill in the Blank.

Answer: Fixed

Q.19 Match the items in Column I with the most appropriate items in Column II. State the item no. only

Item	Column I	Item	Column II
(i)	Escalation Clause	(A)	Sunk Cost
(ii)	Notional Cost	(B)	Contract Costing
		(C)	Imputed Cost

Answer: (i) (B) Contract costing
(ii) (C) Imputed Cost

Q.20 Margin of safety is ___. Using the appropriate word(s) fill in the Blank.

Answer: Actual sales – sales at Breakeven point or Profit/ PV Ratio.

Section : C
(4X12 = 48 Marks)

ONE LAQ

6 Marks

Q.1 Two workmen, Suresh and Umesh, produce the same product using the same material. Their normal wage rate is also the same. Suresh is paid bonus according to the Rowan system, while Umesh is paid bonus according to the Halsey system. The time allowed to make the product is 25 hours. Suresh takes 15 hours while Umesh takes 20 hours to complete the product. The factory overhead rate is Rs 5 per man-hour actually worked. The factory cost for the product for Suresh is Rs 1,745 and for Umesh it is Rs 1,800.

- (i) What is the amount of normal rate of wages per hour? [2]
- (ii) The cost of materials would be how much? [2]
- (iii) What is the amount of wages payable to workmen Suresh ?[2]

Answer:

- (i) Normal rate of wages = Rs. 20
- (ii) Cost of materials = Rs. 1250
- (iii) The wages payable to workman Suresh=Rs. 420

6 Marks

Q.2 Rajput Transport Service is a Delhi based national goods transport service provider, owning five trucks for this purpose. The cost of running and maintaining these trucks are as follows:

Particulars	Amount
Diesel cost	Rs 30 per km.
Engine oil	Rs 8,400 for every 28,000 km.
Repair and maintenance	Rs 24,000 for every 20,000 km.
Driver's salary	Rs 40,000 per truck per month
Cleaner's salary	Rs 14,000 per truck per month
Supervision and other general expenses	Rs 30,000 per month
Cost of loading of goods	Rs 400 per Metric Ton (MT)

Each truck was purchased for Rs. 30 lakh with an estimated life of 7,20,000 km. During the next month, it is expecting 6 bookings, the details of which are as follows:

Sl. No.	Journey	Distance (in km)	Weight- Up (in MT)	Weight- Down (in MT)
1.	Delhi to Kochi	2,700	15	7
2.	Delhi to Guwahati	1,890	13	0
3.	Delhi to Vijayawada	1,840	16	0
4.	Delhi to Varanasi	815	11	0
5.	Delhi to Asansol	1,280	13	5
6.	Delhi to Chennai	2,185	11	9
	Total	10,710	79	21

- (i) What is the total absolute Ton-km for the next month? [3]
- (ii) The cost per ton-km would be how much ? [3]

Answer:

- (i) Total absolute Ton-km = 1,89,115 ton-km
- (ii) Cost per ton-km= Rs. 5.84

Q.1 The following information is available from the financial books of BG Mfg. Co. having a normal production capacity of 120,000 units for the year ended 31st March, 2021:

*Sales Rs 20, 00,000 (100,000 units).

*There was no opening and closing stock of finished units.

*Direct material and direct wages cost were Rs 10, 00,000 and Rs 5, 00,000 respectively.

*Actual factory expenses were Rs 3, 00,000 of which 60% are fixed.

*Actual administrative expenses related with production activities were Rs 90,000 which are completely fixed.

*Actual selling and distribution expenses were Rs 60,000 of which 40% are fixed.

*Interest and dividends received Rs 30,000. Required:

- (i) Find out profit as per financial books for the year ended 31st March, 2021; (3)
- (ii) What is the amount of profit as per cost accounts for the year ended 31st March, 2021 assuming that the indirect expenses are absorbed on the basis of normal production capacity; (4)
- (iii) What is the amount of Factory expenses under charged in cost Accounts?(1)

Answer:

- (i) Profit as per financial accounts = Rs. 80,000
- (ii) Profit as per Cost accounts = Rs. 99,000
- (iii) Factory expenses under-charged in cost accounts = Rs. 30,000

Q.2 List the objective and scope of CAS-24.

Answer:

CAS 24 Cost Accounting Standard on Treatment of Revenue in Cost Statements [Limited Revision 2017]

This standard deals with the principles and methods of classification, measurement, treatment and assignment of revenue and its presentation and disclosure in cost statements.

Objective The objective of this standard is to bring uniformity and consistency in the principles and methods for treatment of revenue in cost statements with reasonable accuracy.

Scope This standard shall be applied to cost statements which require classification, measurement, treatment, assignment, presentation and disclosure of revenue including those requiring attestation.

Q.1 SUN Ltd. undertook a contract for Rs 50,00,000 on 1st April, 2020. On 31st March,2021 when the accounts of the company were closed, the following details about the contract were gathered:

Particulars	Amount (Rs)
Materials purchased	10,00,000
Wages paid	4,50,000
General expenses	1,00,000
Plant purchased	5,00,000
Materials on hand on 31-03-2021	2,50,000
Wages accrued on 31-03-2021	50,000
Work certified	20,00,000
Cash received	15,00,000
Work uncertified	1,50,000
Depreciation of plant	50,000

The above contract contained an escalation clause which read as follows:

"In the event of prices of materials and rates of wages increase by more than 5%, the contract price would be increased accordingly by 25% of the rise in the cost of materials and wages beyond 5% in each case."

It was found that since the date of signing the agreement, the price of materials and wage rates increased by 25%. The value of work certified does not take into account the effect of the above clause.

- (i) The contract price will be increased by____.(1)
- (ii) What is the amount of Notional Profit for the year ended March 31, 2021 ?(4)
- (iii) The value of work-in-progress (Reserved) shown in the balance sheet is___. (1)

Answer:

- (i) Contract price increased by = Rs. 50,000
- (ii) Notional Profit = Rs. 8,00,000
- (iii) Value of work-in-progress (Reserve) = Rs. 6,00,000

Q.2 ESPM Ltd sold 5,50,000 units of its product at Rs 75 per unit. Variable costs are Rs35 per unit (manufacturing costs of Rs 28 and selling cost Rs 7 per unit). Fixed costs are incurred uniformly throughout the year and amount to Rs 70,00,000 (including depreciation of Rs 30,00,000). There is no opening or closing stock.

- (i) Estimate the breakeven sales level quantity and cash breakeven sales level quantity.(2)
- (ii) What is the P/V ratio ? (2)
- (iii) The sales level to be achieved an after-tax income (PAT) of Rs 5,00,000 would be how much? (Assume 40% corporate Income Tax rate). (2)

Answer:

- (i) Break even Sales Quantity = 1,75,000 units
Cash Break even sales Quantity = 1,00,000 units
- (ii) P/V ratio = 53.33% or 53.33333
- (iii) Sales level to achieve an after-tax income (PAT) of Rs.5,00,000 = Rs.1,46,87,500

FOUR LAQ

6 Marks

Q.1 QBZ Limited produces and sells a single product. Sales budget for calendar year 2020 by a quarter is as under:

Quarters	I	II	III	IV
No. of units to be sold	36,000	44,000	50,000	54,000

The year is expected to open with an inventory of 12,000 units of finished products and close with inventory of 16,000 units. Production is customarily scheduled to provide for 70% of the current quarter's sales demand plus 30% of the following quarter demand. The budgeted selling price per unit is Rs 80 . The standard cost details for one unit of the product are as follows:

Variable Cost Rs 69.00 per unit

Fixed Overheads @ Rs 4 per hour based on a budgeted production volume of 2,20,000 direct labour hours for the year.

Fixed overheads are evenly distributed through-out the year.

- (i) What is the Budgeted Total Production (in unit) for the year 2020? (4)
- (ii) In which quarter of the year, company expected to achieve break-even point? (2)

Answer:

- (i) Budgeted Total Production for the year 2020 = 1,88,000 units
- (ii) The company will break even in the end of Second Quarter
The total sales by the end of Quarter 2 will be 80,000 units i.e. (36,000 + 44,000). Hence the Company will break-even in the end of Second Quarter.

6 Marks

Q.2 The total overhead expenses of a factory of SWASTIK Ltd are Rs 535656. Taking into account the normal working of the factory, overhead was recovered in production at Rs 1.60 per hour. The actual hours worked were 274785. The factory produced 7800 units of which 7000 were sold. There were 200 equivalent units in work-in-progress.

On investigation, it was found that 50% of the unabsorbed overhead was on account of increase in cost of indirect materials and indirect labour and the remaining 50% was due to factory inefficiency.

Required:

- (i) What is the amount of unabsorbed overheads?(2)
- (ii) Ascertain the supplementary rate per unit.(1)
- (iii) The amount of unabsorbed overheads to be distributed by using supplementary rate among cost of sales would be how much? (2)
- (iv) Which amount of unabsorbed overheads should be charged to Profit and loss Account? (1)

Answer:

- (i) Unabsorbed overheads = Rs. 96,000
- (ii) Supplementary rate per unit: Rs. 6 per unit
- (iii) Cost of Sales = Rs. 42,000
- (iv) Unabsorbed overhead charged to profit & Loss Account = Rs. 48,000

Q.1 SWASTY Ltd. furnishes the following information for the month of November, 2021.

Particulars	Budget Details	Static Budget	Actual
Units produced & Sold		4,000	3,200
		(Rs)	(Rs)
Direct Material	3 kg p.u. @ Rs.30 per kg.	3,60,000	3,10,000
Direct Labour	1 hr. p.u. @ Rs. 72 per hr.	2,88,000	2,25,600
Variable Overhead	1 hr. p.u. @ Rs.44 per hr.	1,76,000	1,47,200
Fixed Overhead		1,80,000	1,68,000
Total Cost		10,04,000	8,50,800
Sales		12,00,000	8,96,000
Profit		1,96,000	45,200

During the month 10,000 kg. of materials and 3,100 direct labour hours were utilized.

- i) What is the amount of Direct Labour cost for flexible Budgeted Production and sold?
- ii) What is the amount of flexible budgeted profit for the month of November 2021?
- iii) Calculate the material usage variance for the actual vs the flexible budget
- iv) The direct labour rate variance for the actual vs the flexible budget is _____
- v) The material price variance for the actual vs the flexible budget would be how much?

Answer:

- (i) Direct Labour cost for flexible Budgeted Production and sold is Rs. 2,30,400
- (ii) Flexible budgeted profit = Rs. 1,20,800
- (iii) Material Usage Variance for the Actual vs Flexible Budget = Rs. 12,000 (A)
- (iv) The Direct Rate Variance for the Actual vs the Flexible Budget is Rs. 2,400 (A)
- (v) Material Price Variance for the Actual vs Flexible Budget is Rs. 10,000 (A)

SIX LAQ
(3x4 = 12 Marks)

Q.1 Write Short Notes on Differentiate between Operation Cost and Operating Cost

3 Marks

Answer: **Operation Cost:** Operation cost is the cost of a specific operation involved in a production process or business activity. The cost unit in this method is the operation, instead of process. When the manufacturing method of a concern consists of a number of distinct operations, operating costing is suitable.

Operating Cost: Operating cost is the cost incurred in conducting a business activity. It refers to the cost of concerns which do not manufacture any product but which provide services. Industries and establishments like power house, transport and travel agencies, hospitals, schools etc. which undertake services rather than the manufacture of products, ascertain operating costs. The cost units used are Kilo Watt Hour (KWH), Passenger Kilometre and Bed in the Hospital etc. Operation costing method constitutes a distinct type of costing but it may also be classed as a variant of process cost since costs in this method are usually compiled for a specified period.

Q.2 Write Short Notes on Benefits of Integrated Accounting system

3 Marks

Answer: Integrated accounting system has the following benefits: -

As only one set of accounting records is kept, the need for reconciliation between the profits shown by the two records are eliminated.

The duplication is eliminated, thus the cost is reduced.

Simple to understand and easy to operate, unnecessary complications are eliminated.

Cost data can be available promptly and regularly.

There is cross - checking of various figures in cost as well as in financial accounts and this ensures accuracy of cost and financial data.

Use of mechanized accounting methods can be made.

Q.3 Write Short Notes on Advantages of Budget Manual

3 Marks

Answer: The methods and procedures of budgetary control are standardized.

It is a formal record defining the functions and responsibilities of each executive.

There is synchronization of the efforts of all which result in maximization of the profits of the organization.

Ambiguity is avoided.

Q.4 Write Short Notes on Perpetual Inventory System

3 Marks

Answer: Perpetual Inventory System means continuous stock taking. CIMA defines Perpetual Inventory System as 'the recording as they occur of receipts, issues and resulting balances of individual items of stock in either quantity or quantity and value'. Under this system a continuous record of receipt and issue of materials is maintained by the stores department and the information about the stock of materials is always available. Entries in the Bin card and stores ledger are made after every receipt and issue and the balance is reconciled on regular basis with the physical stock. The main advantage of this system is that it avoids disruptions in the production caused by periodic stock taking. It's a very reliable check on the stocks.

Q.5 Write Short Notes on Cost-plus Contract

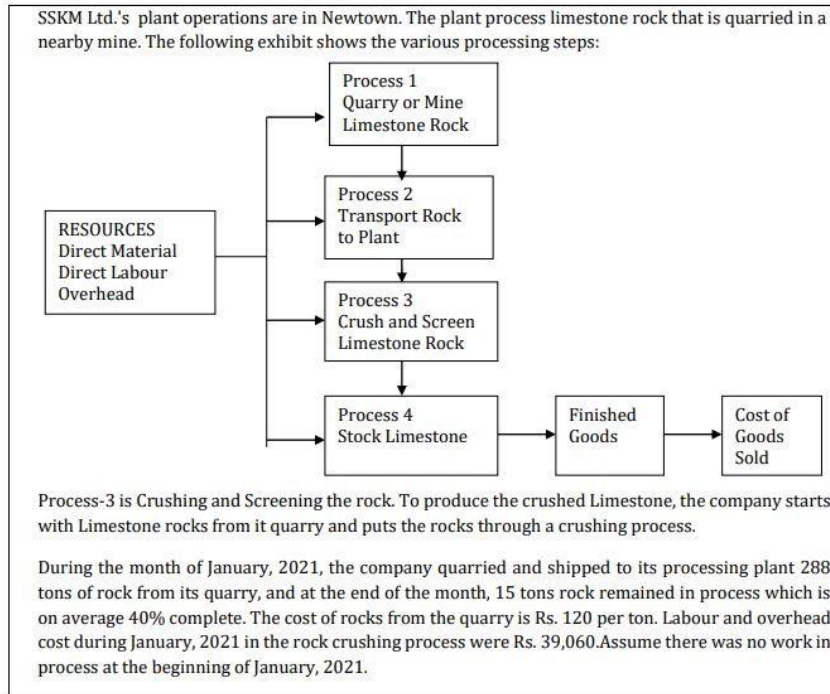
3 Marks

Answer: In this type of contracts the contractor is usually entitled to a stipulated amount of profit in addition to actual cost of the service. The amount of profit to be added to the actual cost of contract may be in the form of fixed amount on a percentage on actual cost. This type of contract is generally entered into for executing special type of work which is not usually undertaken by the contractor. Examples of this type of contracts are construction work during war, production of newly designed ship, etc. This type of contract is advantageous both to the contractor and the contractee. Contractor generally receives a reasonable profit. He is protected from any loss or unusual risk. Contractee can ensure a fair price of the contract because the contractee is entitled to verify the books of contractor.

Section : D - Case Study Question

3+3+3+3 = 12 Marks

Q.1



- i) What are the Equivalent Productions of materials and Labour & Overheads (in units).
- ii) What are the cost of materials per unit and cost of labour & Overheads per unit?
- iii) What is the value of closing W.I.P?
- iv) What is the amount of transfer to Process -4 shown in the Process-3 Account?

Answer:

- (i) Material = 288 units
Labour & Overheads = 279 units
- (ii) Cost of material per unit = Rs. 120
Cost of Labour & Overheads per unit = Rs. 140
- (iii) Value of Closing WIP = Rs. 2,640
- (iv) Amount transferred to Process-4 Account = Rs. 70,980