

MOCK TEST -3

(FULL SYLLABUS)

PAPER – 3: COST AND MANAGEMENT ACCOUNTING

Question No. 1 is compulsory.

Attempt any **four** questions out of the remaining **five** questions.

In case, any candidate answers extra question(s)/ sub-question(s) over and above the required number, then only the requisite number of questions first answered in the answer book shall be valued and subsequent extra question(s) answered shall be ignored.

Working notes should form part of the answer

Time Allowed – 3 Hours

Maximum Marks – 100

Question 1

Answer the following:

- (a) Surekha Limited produces 4,000 Litres of paints on a quarterly basis. Each Litre requires 2 kg of raw material. The cost of placing one order for raw material is ₹ 40 and the purchasing price of raw material is ₹ 50 per kg. The storage cost and interest cost is 2% and 6% per annum respectively. The lead time for procurement of raw material is 15 days.

Calculate Economic Order Quantity and Total Annual Inventory Cost in respect of the above raw material.

- (b) The following data is presented by the supervisor of a factory for a Job:

	₹ per unit
Direct Material	120
Direct Wages @ ₹ 4 per hour (Departments A - 4 hrs, B - 7 hrs, C - 2 hrs & D - 2 hrs)	60
Chargeable Expenses	20
Total	200

Analysis of the Profit and Loss Account for the year ended
31st March, 2019

Material		2,00,000	Sales	4,30,000
Direct Wages				
Dept. A	12,000			
Dept. B	8,000			
Dept. C	10,000			
Dept. D	20,000	50,000		
Special Store items		6,000		
Overheads				
Dept. A	12,000			
Dept. B	6,000			
Dept. C	9,000			
Dept. D	17,000	44,000		
		4,30,000	Gross Profit b/d	4,30,000

Selling Expenses	90,000	
Net Profit	40,000	
	1,30,000	1,30,000

It is also to be noted that average hourly rates for all the four departments are similar.

Required:

- (i) Prepare a Job Cost Sheet.
- (ii) Calculate the entire revised cost using the above figures as the base.
- (iii) Add 20% profit on selling price to determine the selling price.

(c) A Factory produces two products, 'A' and 'B' from a single process. The joint processing costs during a particular month are :

Direct Material	₹30,000
Direct Labour	₹ 9,600
Variable Overheads	₹ 12,000
Fixed Overheads	₹ 32,000

Sales: A- 100 units @ ₹ 600 per unit; B – 120 units @ ₹ 200 per unit.

- I. Apportion joints costs on the basis of:
 - (i) Physical Quantity of each product.
 - (ii) Contribution Margin method, and
- II. Determine Profit or Loss under both the methods.

(d) When volume is 4,000 units; average cost is ₹ 3.75 per unit. When volume is 5,000 units, average cost is ₹ 3.50 per unit. The Break-Even point is 6,000 units.

Calculate: (i) Variable Cost per unit (ii) Fixed Cost and (iii) Profit Volume Ratio.

(4 x 5 = 20 Marks)

Question 2

(a) PQR Ltd has decided to analyse the profitability of its five new customers. It buys soft drink bottles in cases at ₹ 45 per case and sells them to retail customers at a list price of ₹ 54 per case. The data pertaining to five customers are given below:

Particulars	A	B	C	D	E
Number of Cases Sold	9,360	14,200	62,000	38,000	9,800
List Selling Price (₹)	54	54	54	54	54
Actual Selling Price (₹)	54	53.40	49	50.20	48.60
Number of Purchase Orders	30	50	60	50	60
Number of Customers visits	4	6	12	4	6
Number of Deliveries	20	60	120	80	40
Kilometers travelled per delivery	40	12	10	20	60
Number of expediate Deliveries	0	0	0	0	2

Its five activities and their cost drivers are:

Activity	Cost Driver
Order taking	₹ 200 per purchase order
Customer visits	₹ 300 per each visit
Deliveries	₹ 4.00 per delivery km travelled
Product Handling	₹ 2.00 per case sold

Expedited deliveries	₹ 100 per such delivery
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You are required to :

- (i) Compute the customer level operating income of each of five retail customers by using the Cost Driver rates.
- (ii) Examine the results to give your comments on Customer 'D' in comparison with Customer 'C' and on Customer 'E' in comparison with Customer 'A'. **(10 Marks)**

- (b) ABS Enterprises produces a product and adopts the policy to recover factory overheads applying blanket rate based on machine hours. The cost records of the concern reveal the following information:

Budgeted production overheads	₹ 10,35,000
Budgeted machine hours	₹ 90,000
Actual machine hours worked	₹ 45,000
Actual production overheads	₹ 8,80,000
Production overheads (actual) include-	
Paid to worker as per court's award	₹ 50,000
Wages paid for strike period	₹ 38,000
Stores written off	₹ 22,000
Expenses of previous year booked in current year	₹ 18,500
Production -	
Finished goods	30,000 units
Sale of finished goods	27,000 units

The analysis of cost information reveals that 1/3 of the under absorption of overheads was due to defective production planning and the balance was attributable to increase in costs.

You are required:

- (i) To find out the amount of under absorbed production overheads.
- (ii) To give the ways of treating it in Cost Accounts.
- (iii) To apportion the under absorbed overheads over the items. **(10 Marks)**

Question 3

- (a) A hotel is being run in a Hill station with 200 single rooms. The hotel offers concessional rates during six off-season months in a year.

During this period, half of the full room rent is charged. The management's profit margin is targeted at 20% of the room rent. The following are the cost estimates and other details for the year ending 31st March, 2019:

- (i) Occupancy during the season is 80% while in the off-season it is 40%.
- (ii) Total investment in the hotel is ₹ 300 lakhs of which 80% relates to Buildings and the balance to Furniture and other Equipment.
- (iii) Room attendants are paid ₹ 15 per room per day on the basis of occupancy of rooms in a month.
- (iv) Expenses:
 - Staff salary (excluding that of room attendants) ₹ 8,00,000
 - Repairs to Buildings ₹ 3,00,000

- Laundry Charges ₹ 1,40,000
 - Interior Charges ₹ 2,50,000
 - Miscellaneous Expenses ₹ 2,00,200
- (v) Annual Depreciation is to be provided on Buildings @ 5% and 15% on Furniture and other Equipments on straight line method.
- (vi) Monthly lighting charges are ₹ 110, except in four months in winter when it is ₹ 30 per room and this cost is on the basis of full occupancy for a month.

You are required to workout the room rent chargeable per day both during the season and the off-season months using the foregoing information.
 (Assume a month to be of 30 days and winter season to be considered as part of off-season). **(10 Marks)**

(b) XYZ a manufacturing firm, has revealed following information for September ,2019:

	1st September (₹)	30th September (₹)
Raw Materials	2,42,000	2,92,000
Works-in-progress	2,00,000	5,00,000

The firm incurred following expenses for a targeted production of 1,00,000 units during the month:

	(₹)
Consumable Stores and spares of factory	3,50,000
Research and development cost for process improvements	2,50,000
Quality control cost	2,00,000
Packing cost (secondary) per unit of goods sold	2
Lease rent of production asset	2,00,000
Administrative Expenses (General)	2,24,000
Selling and distribution Expenses	4,13,000
Finished goods (opening) Nil	
Finished goods (closing)	5000 units

Defective output which is 4% of targeted production, realizes ₹ 61 per unit.
 Closing stock is valued at cost of production (excluding administrative expenses)
 Cost of goods sold, excluding administrative expenses amounts to ₹ 78,26,000.
 Direct employees cost is 1/2 of the cost of material consumed.
 Selling price of the output is ₹ 110 per unit.

You are required to :

- (i) Calculate the Value of material purchased
- (ii) Prepare cost sheet showing the profit earned by the firm. **(10 Marks)**

Question 4

(a) Zico Ltd. has its factory at two locations viz Nasik and Satara. Rowan plan is used at Nasik factory and Halsey plan at Satara factory.

Standard time and basic rate of wages are same for a job which is similar and is carried out on similar machinery. Normal working hours is 8 hours per day in a 5 day week.

Job at Nasik factory is completed in 32 hours while at Satara factory it has taken 30 hours. Conversion costs at Nasik and Satara are ₹ 5,408 and ₹ 4,950 respectively. Overheads account for ₹ 25 per hour.

Required:

- (i) To find out the normal wage; and
- (ii) To compare the respective conversion costs.

(10 Marks)

(b) A product passes through two distinct processes before completion.

Following information are available in this respect :

	Process-1	Process-2
Raw materials used	10,000 units	-
Raw material cost (per unit)	₹ 75	-
Transfer to next process/Finished good	9,000 units	8,200 units
Normal loss (on inputs)	5%	10%
Direct wages	₹ 3,00,000	₹ 5,60,000
Direct expenses	50% of direct wages	65% of direct wages
Manufacturing overheads	25% of direct wages	15% of direct wages
Realisable value of scrap (per unit)	₹ 13.50	₹ 145

8,000 units of finished goods were sold at a profit of 15% on cost. There was no opening and closing stock of work-in-progress.

Prepare:

- (i) Process-1 and Process-2 Account
- (ii) Finished goods Account
- (iii) Normal Loss Account
- (iv) Abnormal Loss Account
- (v) Abnormal Gain Account.

(10 Marks)

Question 5

(a) PJ Ltd manufactures hockey sticks. It sells the products at ₹ 500 each and makes a profit of ₹ 125 on each stick. The Company is producing 5,000 sticks annually by using 50% of its machinery capacity. The cost of each stick is as under:

Direct Material	₹ 150
Direct Wages	₹ 50
Works Overhead	₹ 125 (50% fixed)
Selling Expenses	₹ 50 (25% variable)

The anticipation for the next year is that cost will go up as under:

Fixed Charges	10%
Direct Wages	20%
Direct Material	5%

There will not be any change in selling price.

There is an additional order for 2,000 sticks in the next year.

Calculate the lowest price that can be quoted so that the Company can earn the same profit as it has earned in the current year?

(10 Marks)

(b) The standard cost of a chemical mixture is as follows:

- 60% of Material A @ ₹ 50 per kg
- 40% Material B @ ₹ 60 per kg

A standard loss of 25% on output is expected in production. The cost records for a period has shown the following usage.

540 kg of Material A @ ₹ 60 per kg

260 kg of Material B @ ₹ 50 per kg

The quantity processed was 680 kilograms of good product.

From the above given information

Calculate:

- (i) Material Cost Variance
- (ii) Material Price Variance
- (iii) Material Usage Variance
- (iv) Material Mix Variance
- (v) Material Yield Variance.

(10 Marks)

Question 6

Answer any four of the following:

(a) Describe Composite Cost unit as used in Service Costing and discuss the ways of computing it.

(b) Journalise the following transactions in cost books under Non-Integrated system of Accounting.

- (i) Credit Purchase of Material ₹ 27,000
- (ii) Manufacturing overhead charged to Production ₹ 6,000
- (iii) Selling and Distribution overheads recovered from Sales ₹ 4,000
- (iv) Indirect wages incurred ₹ 8,000
- (v) Material returned from production to stores ₹ 9,000

(c) Define Inventory Control and give its objectives.

List down the basis to be adopted for Inventory Control.

(d) Mention the Cost Unit of the following Industries:

- (i) Electricity
- (ii) Automobile
- (iii) Cement
- (iv) Steel
- (v) Gas
- (vi) Brick Making
- (vii) Coal Mining
- (viii) Engineering
- (ix) Professional Services
- (x) Hospital

(e) Define Zero Base Budgeting and mention its various stages.

(4 x 5 = 20 Marks)