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TEST- 7
CA INTER
(07-10-2023)
COST AND MANAGEMENT ACCOUNTING
FULL SYLLABUS

Roll No …741287……

Total No. of Question: 5 | **Total No. of Printed Pages: 7**

Time allowed: 3 hours | **Maximum Marks: 100**

Answer to questions are to be given only in English except in the case of candidates who have opted for Hindi Medium. If a candidate has not opted for Hindi Medium, his/her answers in Hindi will not be valued.

All Questions are compulsory.

Working notes should form part of the answer.

Q. 1(a) . **[5 Marks]**

A Ltd. is a pharmaceutical company which produces vaccines for diseases like Monkey Pox, Covid-19 and Chickenpox. A distributor had given an order for 1,600 Monkey Pox Vaccines. The company can produce 80 vaccines at a time. To process a batch of 80 Monkey Pox vaccines, the following costs would be incurred:

	₹
Direct Materials	4,250
Direct wages	500
Lab set-up cost	1,400

The Production Overheads are absorbed at a rate of 20% of direct wages and 20% of total production cost is charged in each batch for Selling, distribution and administration Overheads. The company is willing to earn profit of 25% on sales value.

You are required to determine:

(i) Total Sales value for 1,600 Monkey Pox Vaccines

(ii) Selling price per unit of the Vaccine.

Q. 1(b) . **[5 Marks]**

ABC Bank is having a branch which is engaged in processing of 'Vehicle Loan' and 'Education Loan' applications in addition to other services to customers. 30% of the overhead costs for the branch are estimated to be applicable to the processing of 'Vehicle Loan' applications and 'Education Loan' applications each.

Branch is having four employees at a monthly salary of ₹ 50,000 each, exclusively for processing of Vehicle Loan applications and two employees at a monthly salary of ₹ 70,000 each, exclusively for processing of Education Loan applications.

In addition to above, following expense are incurred by the Branch:

- Branch Manager who supervises all the activities of branch, is paid at ₹ 90,000 per month.
- Legal charges, Printing & stationery and Advertising Expenses are incurred at ₹ 30,000, ₹ 12,000 and ₹ 18,000 respectively for a month.
- Other expenses are ₹ 10,000 per month.

You are required to:

(i) Compute the cost of processing a Vehicle Loan application on the assumption that 496 Vehicle Loan applications are processed each month.

(ii) Find out the number of Education Loan Applications processed, if the total processing cost per Education Loan Application is same as in the Vehicle Loan Application as computed in (i) above.

Q. 1(c) . **[5 Marks]**

How will you treat normal loss, abnormal loss and abnormal gain in process costing? Explain.

Q. 1(d) . **[5 Marks]**

What is meant by Activity Based Management (ABM) and discuss how Activity Based Management can be used in the business?

Q.2 (a) **[10 Marks]**

USP Ltd. is the manufacturer of 'double grip motorcycle tyres'. In the manufacturing process, it undertakes three different jobs namely, Vulcanising, Brushing and Striping. All of these jobs require the use of a special machine and also the aid of a robot when necessary. The robot is hired from outside and the hire charges paid for every six months is₹ 2,70,000. An estimate of overhead expenses relating to the special machine is given below:

- Rent for a quarter is ₹ 18,000.
- The cost of the special machine is ₹ 19,20,000 and depreciation is charged @10% per annum on straight line basis.
- Other indirect expenses are recovered at 20% of direct wages.

The factory manager has informed that in the coming year, the total direct wages will be ₹ 12,00,000 which will be incurred evenly throughout the year.
During the first month of operation, the following details are available from the job book:

Number of hours the special machine was used

Jobs	**Without the aid of the robot**	**With the of the robot**
Vulcanising	500	400
Brushing	1000	400
Striping	-	1200

You are required to :

(i) Compute the Machine Hour Rate for the company as a whole for a month (A) when the robot is used and (B) when the robot is not used.

(ii) Compute the Machine Hour Rate for the individual jobs i.e. Vulcanising, Brushing and Striping. (10 Marks)

Q.2 (b) **[10 Marks]**

PQR Limited manufactures three products - Product X, Product Y and Product Z. The output for the current year is 2,50,000 units of Product X, 2,80,000 units of Product Y and 3,20,000 units of Product Z respectively.
Selling price of Product X is 1.25 times of Product Z whereas Product Y can be sold at double the price at which product Z can be sold. Product Z can be sold at a profit of 20% on its marginal cost.

Other information are as follows:

	Product X	**Product Y**	**Product Z**
Direct Material Cost (Per unit)	₹ 20	₹ 20	₹ 20
Direct Wages Cost (per unit)	₹ 16	₹ 24	₹ 16

Raw material used for manufacturing all the three products is the same. Direct Wages are paid @ ₹ 4 per labour hour,
Total overhead cost of the company is ₹ 52,80,000 for the year, out of which ₹ 1 per labour hour is variable and the rest is fixed.
In the next year it is expected that sales of product X and product Z will increase by 12% and 15% respectively and sale of product Y will decline by 5%. The total overhead cost of the company for the next year is estimated at ₹ 55,08,000. The variable cost of ₹ 1 per labour hour remains unchanged.
It is anticipated that all other costs will remain same for the next year and there is opening and closing stock. Selling Price per unit of each product will remain unchanged in the next year.

Required:

Prepare a budget showing the current position and the position for the next year clearly indicating the total product-wise contribution and profit for the company as a whole.

Q.3 (a) **[10 Marks]**

Y Ltd manufactures "Product M" which requires three types of raw materials - "A", "B" & "C". Following information related to 1st quarter of the F.Y. 2022-23 has been collected from its books of accounts. The standard material input required for 1,000 kg of finished product 'M' are as under:

Material	Quantity (Kg.)	Std. Rate per Kg. (₹)
A	500	25
B	350	45
C	250	55
	1100	
Standard Loss	100	
Standard Output	1000	

During the period, the company produced 20,000 kg of product "M" for which the actual quantity of materials consumed and purchase prices are as under:

Material	Quantity (Kg.)	Purchase price per Kg. (₹)
A	11,000	23
B	7,500	48
C	4,500	60

You are required to calculate:

(i) Material Cost Variance
(ii) Material Price Variance for each raw material and Product 'M'
(iii) Material Usage Variance for each raw material and Product 'M'
(iv) Material Yield Variance
Note: Indicate the nature of variance i.e. Favourable or Adverse.

Q. 3(b). **[10 Marks]**

B Limited has taken a contract for ₹ 70,00,000 and furnishes the following information:

	1st Year	2nd Year
	(Amount in ₹)	(Amount in ₹)
Material	12,50,000	13,65,000
Wages	12,50,000	11,44,000
Direct Expenses	4,20,000	3,80,000
Indirect Expenses	2,70,000	2,60,000
Work Certified	32,00,000	70,00,000
Work Uncertified	2,19,000	-

Other Information:

- Plant costing ₹ 3,40,000 was bought at the commencement of the contract.
- Depreciation of ₹ 85,000 per annum is charged on the plant on Straight Line Method (SLM) basis.
- There is a provision for escalation clause in the contract for increase in material rate and wage rate in the second year only.

- Standard material for the first and second year was ₹ 12,000 units each year @ ₹ 90 per unit whereas the actual consumption was 12,500 @ ₹ 100 per unit in the first year and 13,000 units @ ₹ 105 per unit in the 2ndyear. Standard labour hours for first year were 10,000 hours and for the second year it was 9,000 hours. Standard wage rate was ₹ 120 per hour. The firm has paid for 10,000 hours @ ₹ 125 per hour in the first year and 8,800 hours @ ₹ 130 per hour in the second year.

Required:

(i) Prepare Contract Account for both years without considering escalation clause.
(ii) Compute the total value of contract by considering the escalation clause.
(iii) Compute the total increase / (decrease) in the cost of material and wages for both the years.

Q.4 (a) **[15 Marks]**

ABC Company produces a Product 'X' that passes through three processes: R, S and T. Three types of raw materials, viz., J, K, and L are used in the ratio of 40:40:20 in process

R. The output of each process is transferred to next process. Process loss is 10% of total input in each process. At the stage of output in process T, a by-product 'Z' is emerging and the ratio of the main product 'X' to the by-product 'Z' is 80:20. The selling price of product 'X' is ₹60 per kg.

The company produced 14,580 kgs of product 'X'

Material price: Material J @ ₹ 15 per kg; Material K @ ₹ 9 per kg.

Material L@ ₹ 7 per kg Process costs are as follows:

Process	**Variable cost per kg (₹)**	**Fixed cost of Input (₹)**
R	5.00	42,000
S	4.50	5,000
T	3.40	4,800

The by-product 'Z' cannot be processed further and can be sold at ₹ 30 per kg at the split- off stage. There is no realizable value of process losses at any stage.

Required:

Present a statement showing the apportionment of joint costs on the basis of the sales value of product 'X' and by-product 'Z' at the split- off point and the profitability of product 'X' and by-product 'Z.

Q.4 (b) **[5 Marks]**

Define Budget Manual. What are the salient features of Budget Manual (Any four)?

Q.5. (a) **[15 Marks]**

XYZ Construction Ltd. has obtained a contract of ₹ 25,00,000 in the Financial Year 2021-22. The work on the contract commenced immediately and it is expected that the contract will be completed by 31st March,2023. Chief accountant of the company has provided following information related to the Contract:

Particulars	**2021-22 (Actual) (in ₹)**	**2022-23 (Estimated) (in₹)**
Material issued	4,00,000	3,50,000
Wages: Paid	2,50,000	1,40,000
- Prepaid at the end of the Year	15,000	-

Plant	2,00,000	-
Sundry Expenses: Paid	50,000	35,000
- Outstanding at the end of the year	7,500	5,000
Office Expenses: Paid	65,000	55,000
- Outstanding at the end of the year	12,500	15,000
Contingency Expenses	-	1,25,000

Following additional information is also available:

- A part of plant costing ₹ 12,000 was scrapped and written off in the F.Y.2021-22.
- The value of Plant-at-Site on 31st March,2022 was ₹ 18,000.
- Company would have to spend an additional sum of ₹ 80,000 on the plant in FY. 2022-23 and the residual value of the plant on the completion of contract would be ₹ 10,000.
- A part of material costing ₹ 30,000 was scrapped and sold for ₹ 20,000 in F.Y. 2021-22.
- The value of Material-at-Site on 31st March, 2022 was ₹ 17,000.
- Cash received on account till 31st March,2022 was ₹ 13,50,000 representing 90% of the work certified.
- The cost of work uncertified on 31st March, 2022 was valued at 20% of work certified.

You are required to:

(i) Prepare a Contract Account for the year ended 31st March, 2022
(ii) Calculate Estimated Total Profit on this Contract.

Q.5. (b) **[5 Marks]**

Indicate, for following items, whether to be shown in the Cost Accounts or Financial Accounts:

(i) Preliminary expenses written off during the year
(ii) Interest received on bank deposits
(iii) Dividend, interest received on investments
(iv) Salary for the proprietor at notional figure though not incurred
(v) Charges in lieu of rent where premises are owned
(vi) Rent receivables
(vii) Loss on sale of Fixed Assets
(viii) Interest on capital at notional figure though not incurred
(ix) Goodwill written off
(x) Notional Depreciation on the assets fully depreciated for which book value is Nil.

SPACE FOR ROUGH WORK