M.Com. 4th Semester Examination, 2011

ADVANCED COST ACCOUNTING

Optional Group I : (*Accounting and Finance*)

PAPER—CM-2205AF

Full Marks : 50

Time : 2 hours

The figures in the right-hand margin indicate marks

Candidates are required to give their answers in their own words as far as practicable

Write the answers to questions of each Unit in separate books

UNIT – I

1. Answer any *two* of the following : 5 × 2

   (*a*) Pass the journal entries of the following. Assume that the books are maintained under non-integrated system.

   (*i*) Returned materials to the store room : from job orders Rs. 24,000, from indirect materials issued Rs. 10, 000.

(*ii*) Cost of finished goods transferred to warehouse Rs. 2,13,000.

(*iii*) Productive wages Rs. 40,000.

(*iv*) Shrinkage of weight of Material due to dry weather Rs. 1,500.

(*v*) Customers' return of finished goods Rs. 3,000 (at cost). 5

(*b*) In a manufacturing process, in the course of manufacture of the product *X*, the by-products *P* and *Q* also emerge. The pre-separation expenses amount to Rs. 1,19,550. All the three products are processed further and sold in the market. Details given below :

	Main Product	By-Product	
	X	*P*	*Q*
Sales value(Rs.)	90,000	60,000	40,000
Post-separation cost (Rs.)	6,000	5,000	4,000
Profit as a percentage of sales	25	20	15

Total fixed selling and distribution expenses are 10% of the total cost of sales and are apportioned to the three products in the ratio of 20:40:40.

(*i*) Prepare a statement showing the apportionment of the pre-separation cost to the main product and the two by-products.

(*ii*) If the by-product *P* is not processed further and can be sold just after separation at Rs. 58,500 without incurring any selling and distribution expenses, would you advise its disposal at that stage ? 2 + 3

(*c*) An Engineering Company is operating at 70% capacity and presents the following information :

Break-even point	Rs. 200 crores
P/V ratio	40%
Margin of safety	Rs. 50 crores

The management has decided to increase production to 95% capacity level with the following modifications :

(*i*) The selling price will be reduced by 8%.

(*ii*) The variable cost will be reduced by 5% on sales.

(*iii*) The fixed cost will increase by Rs. 20 crores, including depreciation, but excluding interest on additional capital.

(*iv*) Additional capital of Rs. 50 crore will be needed for capital expenditure and working capital.

Required to indicate the sales figure with the workings that will be needed to earn Rs.10 crores over and above the present profit and also meet 20% interest on the additional capital. 5

(*d*) (*i*) Illustrate Joint product, By-product and Co-product.

(*ii*) What is depth of processing ? 3 + 2

2. Answer any *one* of the following : 10×1

(*a*) Product '*Z*' is obtained after it passes through three distinct processes. The following information is obtained from the accounts for the month ending December 31, 2010 :

Items	Total	Processes		
	Rs.	I Rs.	II Rs.	III Rs.
Direct Material	7,542	2,600	1,980	2,962
Direct Wages	9,000	2,000	3,000	4,000
Production Overhead	9,000	—	—	—

1,000 units at Rs. 3 each were introduced to Process-I. There were no stock of materials or work in progress at the beginning or end of the period. The output of each process passes directly to the next process and finally to finished stores. Production overhead is recovered at 100% of direct wages. The following additional data is obtained :

Process	Output during the month	% of Normal loss to input	Value of scrap per unit (Rs.)
I	950	5	2
II	840	10	4
III	750	15	5

Prepare process cost accounts and other necessary accounts. 10

(*b*) X Ltd. manufactures a standard product, the marginal cost (per unit) of which are as follows :

	Rs.
Direct Material	160.00
Direct Wages	120.00
Variable overhead	20.00
Total	300.00

Its annual budget included the following :

Output : 40,000 units

Fixed overhead :	Rs.
Production	80,00,000
Administration	48,00,000
Marketing	40,00,000
Total	1,68,00,000
Contribution	2,00,00,000

Recently, the top management of the organisation has started thinking in terms of revising its budget and some alternatives in the form of proposals (stated below) were discussed in the last board meeting.

Proposal 1 :

The organisation expects a profit of Rs. 48,00,000 and wants to know the selling price to be quoted for that purpose. It is estimated that (*i*) an increase in advertising expenditure of Rs. 9,44,000 would result in a 10% increase in sales, and (*ii*) fixed production overhead and marketing overhead would increase by Rs. 2,00,000 and Rs. 1,36,000 respectively.

Proposal 2 :

The organisation expects that, with an additional advertising expenditure, sales would go-up by 20% and a profit margin of 15% would be obtained. Under the circumstances, fixed production overheads and marketing overheads are expected to increase by

Rs. 3,20,000 and Rs. 2,00,000 respectively. The organisation wants to know the additional expenditure on advertisement required with a view to achieving the result, you are required to determine the selling price per unit to be quoted in Proposal-1 and the additional expenditure on advertisement required in Proposal-2. 5 + 5

UNIT – II

3. Answer any *two* of the following questions : 5 × 2

(*a*) Describe the concept of Performance Budgeting. What operational steps are involved in Performance Budgeting ? 3 + 2

(*b*) From the following information on sales calculate all possible sales variances : 5

Product	Standard (Sales)		Actual(Sales)	
	Qnty.(Units)	Price (Rs.)	Qnty.(Units)	Price (Rs.)
A	4,000	7	5,000	8
B	5,000	6	6,000	5
C	3,000	5	4,000	6

(*c*) What is Zero Base Budgeting ? Which limitations of traditional budgeting are overcomed by Zero Base Budgeting ? 2 + 3

(*d*) Critically examine the price determination strategy under Target Costing approach. 5

4. Answer any *one* of the following question : 10 × 1

(*a*) A company has a normal capacity of 100 machines working 8 hours per day of 25 days in a month. The budgeted fixed overhead of a month are Rs. 1,50,000. The standard time required to manufacture one unit of a product is 4 hours. In a particular month, the company worked for 24 days of 750 machine hours per day and produced 4,500 units of the product. The actual fixed overheads were Rs. 1,45,000.
Compute all possible fixed overhead variances. 10

(*b*) PVC Ltd. produces and markets a very popular product called P. The company is preparing for presenting its budget for the

second quarter of 2011-12. The following information are made available for that purpose :

- It expects to sell 50,000 bags of Pduring the budget period at the selling price of Rs. 9 per bag.
- Each bag of *P* requires 2·5 kgs. and 7·5 kgs. of raw materials called *Q* and *R* respectively.
- Stock levels are planned as follows :

	Beginning of Quarter	End of Quarter
Finished bags of *P*(Nos.)	15,000	11,000
Raw material *Q* (kgs.)	32,000	26,000
Raw material *R* (kgs.)	57,000	47,000
Empty bag (Nos.)	37,000	28,000

- *Q* and *R* cost Rs. 1·20 and Re. 0·20 per kg. respectively and empty bag costs Re. 0·80 each.
- It requires 9 minutes of direct labour time to produce and fill one bag of *P*. Labour cost is Rs. 5 per hour.

(*Continued*)

- Variable manufacturing costs are Re. 0·45 per bag. Fixed manufacturing costs amount to Rs. 30,000 per quarter.
- Variable selling and administration expenses are 5% of sales and fixed administration and selling expenses are Rs. 20,000 per quarter.

You are required to :

(*i*) Prepare a Production Budget for the quarter

(*ii*) Prepare a Raw materials Purchase Budget for *Q*, *R* and Empty Bags for the said quarter in both quantities and value

(*iii*) Compute the Budgeted Variable Cost to Manufacture one bas of *P*.

(*iv*) Prepare a Statement of Budgeted Net Income for the said quarter. 2 + 2 + 2 + 4

[Internal Assessment : 10 Marks]
