NEW

2018

M.Com. 4th Semester Examination

ADVANCED COST ACCOUNTING

PAPER—COM-405

Subject Code—03

Full Marks : 50

Time : 2 Hours

The figures in the margin indicate full marks.

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

Illustrate the answers wherever necessary.

Unit – I

(Marks : 20)

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

(a) From the following figures ascertained from costing records and financial book of a factory you are required to pass the necessary entries in the cost book under integrated system of book keeping :

	₹
Purchases (Stores)	4,00,000
Carriage inward	5,000
Stores issued	3,50,000
Production wages	3,00,000
Unproductive wages	1,00,000
Production overhead incurred	3,45,000
Materials used in repairs in the factory	3,000
Cost of finished goods	12,00,000

(b) Raja Ltd. Operates a non-integrated accounting system. At the end of April, the financial accountant has produced the final accounts shown below. Based on these accounts and data supplied by the cost accountant, a reconciliation statement has been prepared, also as shown below :

You are required to prepare the following accounts as they would appear in the cost ledger.

(i) Raw material stores ;

(ii) Work-in-progress ;

(iii) Finished Goods.

Manufacturing, Tranding and Profit and Loss Account
Statement for the month of April, 2018

Raw materials :	₹	₹
Opening Stock	60,000	
Add : Purchases	3,19,500	
	3,79,500	
Less : closing stock	64,000	3,15,500
Direct wages		1,25,000
Production overhead		1,60,000

Work-in-Progress :	₹	₹
Opening stock	35,500	
Less : Closing stock	34,000	1,500
Cost of Goods manufactured		6,02,000

Finished Goods :	₹	₹
Opening Stock	38,000	
Less : Closing Stock	40,000	- 2,000
		6,00,000
Sales		10,00,000
Gross Profit		4,00,000
Add : Discount received		30,000
Total Income		4,30,000

Less : *Indirect expenses :*	₹	₹
Administration expenses	1,10,000	
Selling and distribution Expenses	1,50,000	
Discount allowed	50,000	
Debenture interest	20,000	3,30,000
Net Profit		1,00,000

Statement reconciling the Profit Financial Accounts and Cost Accounts

	₹	₹	₹
Profit as per financial accounts			1,00,000
Add : Raw material : Closing Stock	750		
W.I.P: Opening Stock	900		
Finished goods: Opening Stock	1,300		
Closing Stock	500	3,450	
Less : Raw materials :			
Opening Stock	1,100		
W.I.P: Closing Stock	500	1,600	1,850
			1,01,850

Other items :

Discount allowed	50,000		
Debenture interest	20,000	70,000	
Less : Discount received		30,000	40,000
			1,41,850
Less : Production overhead over absorbed			2,000
Profit as per Cost Accounts			1,39,850

(c) Briefly explain the impact of change in cost on Profit under cost-volume-profit (C.V.P) analysis in Marginal Costing.

(d) A factory is engaged in the Production of Chemical Bonex and in the course of its manufacture, a by-product Brucil is produced, which after further processing has a commercial value. For the month of April 2018, the following are the summarised cost data :

	Joint Expenses	*Separate Expenses*	
		Bonex	*Brucil*
Material	₹ 1,00,000	₹ 6,000	₹ 4,000
Labour	₹ 50,000	₹ 20,000	₹ 18,000
Overhead	₹ 30,000	₹ 10,000	₹ 6,000

Selling Price per unit	₹ 98	₹ 34
Estimated profit per unit on sale of Brucil		₹4
No. of units produced	2000	2000

The factory uses reverse cost method of accounting for the by-product ; you are required to prepare statements showing :

(i) the juoint cost allocable to Bonex

(ii) the productwise and overall profitability of the factory for April, 2018 3+2

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

(a) The following data are available in respect of Process–3 *for the month of April :*

Direct materials added in process	₹ 776
Direct labour	₹ 386
Production overhead	₹ 768
Transfer from Process–2 :	
4,200 units valued at	₹ 1,560

Transfer to Process–4 : 3650 units.

Stock at 1st April :

600 units valued at ₹ 390

Degree of completion :

Material 60%

Labour 50%

Overhead 40%

Stock at 30th April, 800 units

Degree of completion :

Material 80%

Labour 70%

Overhead 60%

Units scrapped : 350

Degree of completion :

Material 100%

Labour 80%

Overhead 80%.

Normal loss is 10% of production

All units scrapped can be sold for Re. 10 per unit.

You are required to prepare process–3 Account. 10

(b) Smart cycle Ltd. produces and sells Bicycles. It also manufactures the chains for its Bicyles. It expects to produce and sell 24000 Bicycles during 2018–19. It is considering an offer from an outside vendor to supply any number of chains at ₹ 12 per chain.

The accountant of Smart Cycle Ltd. reports the following costs for producing 24,000 chains.

Cost	Cost per unit	Total Cost
Direct material	5.00	1,20,000
Direct labour	4.00	96,000
Variable manufacturing overhead	2.00	48,000
Inspection, Set-up etc.	1.00	24,000
Machine rent	1.00	24,000
Allocated fixed overhead	1.25	30,000
	~~14.25~~	~~3,42,000~~

The following additional information is available :

(i) Inspection, se-up etc. vary with the number of batches in which the chains are produced. Currently chains are being produced in the batch size of 2000 units.

(ii) Direct labour cost represents wages to four workers who are exclusively engaged in the manufacturing of chains. These workers are in permanent capacity and can not be retrenched.

(iii) If B. Ltd. procures all its chains from outside vendor, it will not require the machine which it has hired for manufacturing chains.

(Continued)

Required :

(i) Assume that if B. Ltd. purchases chains from outside vendor, the facility (including workers) where the chains are currently manufactured will remain idle. Should B. Ltd. accept the offer from outside vendor at the anticipated production and sale volume of 24000 units.

(ii) Whether your decision in (i) will change if facilities can be used to upgrade the Bicycle which will result in an incremental revenue of ₹ 22 per Bicycle. The variable cost for upgrading would be ₹ 18 and tooling cost would be ₹ 16,000.

(iii) Assume that facilities will be used as stated in (ii) above. Further, assume that with better planning B. Ltd. will be able to manufacture chains in the batch size of 4000 units (instead of 2000 units) if it decides to produce chains inside. 4+3+3

Unit – II

(Marks : 20)

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

(a) What is a 'principal budget factor' ?

Explain the effect of the existence of two or more budget factors in an enterprise. 2+3

(b) A manufacturing company is currently producing 12,000 units (at 60% capacity). The following particulars relating to cost structure are available :

	Per unit (₹)	
Direct Materials	5	
Direct Labour	2	
Manufacturing Overhead	5	(60% Fixed)
Administration Overhead (Fixed)	2	
Selling and Distribution Overhead	3	(40% variable)
	17	
Profit	3	
Selling Price	20	

Prepare a flexible budget for 60%, 80% and 100% activity levels taking into account the following further information :

(i) If activity exceeds 60%, a 5% quantity discount on raw materials on account of increase in the total quantity will be received.

(ii) The present fixed cost structure will remain constant up to 90% capacity beyond which a 20% increase in cost is expected.

(iii) The present unit selling price will remain constant up to 75% activity level beyond which a 2½% reduction on original price for increase in activity by every 5% is contemplated.

Recommend the most profitable level of activity.

(c) What is activity-based costing (ABC) ? How are product costs determined in ABC ? 2+3

(d) Write short notes on :

(i) Performance Budgeting; and

(ii) Zero-base Budgeting. 2½+2½

4. Answer any *one* from the following questions : 1×10

(a) Distinguish between :

(i) Estimated costs and standard costs ; and

(ii) Standard costing and Budgetary control. 5+5

(b) (i) The standard composition of workers and wage rate per hour in a factory during a particular month were as below :

Skilled : Two workers at a standard rate of ₹ 20 per hour each.

Semi-skilled : Four workers at a standard rate of ₹ 12 per hour each.

Unskilled : Four workers at a standard rate of ₹ 8 per hour each.

The standard output of the gang was four units per hour, of the product.

Actual composition of the gang and hourly rates paid were as under :

Nature of worker	*No. of workers*	*Wage rate paid per worker per hour engaged*
		₹
Skilled	2	20
Semi-skilled	3	14
Unskilled	5	10

The gang way engaged for 200 hours during the month, which included 12 hours when no production was possible, due to machine break-down, 810 units of the product were recorded as output of the gang during the month.

You are required to compute the total variance and sub-variances in labour cost during the month.

(ii) PQ Company Ltd. is having standard costing system in operation for quite some time. The following data relating to the month of April, 2018 is available from the cost records :

	Budgeted	*Actual*
Output (in units)	30,000	32,500
Operating hours	30,000	33,000
Fixed Overheads (Rs.)	45,000	50,000
Variable Overhead (Rs.)	60,000	68,000
Working Days	25	26

[Internal Assessment — 10 Marks]

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