

B Com Hons Delhi (Semester IV)
Paper CH :4.3 Cost Accounting 2013

Time : 3 hours

Maximum marks : 75

Attempt All questions.
All question of each section (A, B and C) should be attempted together.

SECTION A

- Q. 1.** (a) "It is said that Cost Accounting is unnecessary, expensive, luxury and hence not needed". Comment. (7)
- (b) The Annual Demand of an item of raw material is 6,000 units and the purchase price is expected to be ₹90 per unit. The cost of processing an order is ₹135 and the cost of storage is estimated to be ₹18 per unit per year.
- (i) What is the optimal order quantity and total relevant cost for this order quantity?
- (ii) Suppose that ₹135, as estimated to be cost of processing an order, is incorrect and it should have been ₹60. Assume that all other estimates are correct, what is the cost of this prediction error, assuming the solution to part (i) is implemented for one year? (8)

OR

(a) Differentiate between the following:

(i) Cost unit and Cost centre

(ii) Product cost and Period cost

(5)

(b) Suggest methods of costing suitable in the following industries

(i) Paper mill

(iv) Oil refinery

(iii) Toy making

(iv) Ship building

(c) From the following details of stores receipts and issues of material "X" in a manufacturing unit, prepare stock ledger using 'Weighted Average' method of valuing the material issues:

March 1 Opening stock 2,000 units @ ₹5.00 each

3 Issued 1,500 units to production

4 Received 4,500 units @ ₹6.00 per unit

8 Issued 1,600 units of production

9 Returned to stores 100 units by production deptt. from the issue of March 3

16 Received 2,400 units @ ₹6.50 each

19 Returned to suppliers 200 units out of the quantity received on March 4

20 Received 1,000 units @ ₹7.00 each

24 Issued to production 2,100 units

27 Received 1,200 units @ ₹7.50 each

31 Issued to production 2,800 units.

Use rates up to two decimal places.

(8)

Q. 2. (a) Discuss the accounting treatment of idle time and overtime wages in cost accounts.

(5)

(b) A factory has three Production Departments. The policy of the factory is to recover the factory overheads of the entire factory by adopting a single blanket rate based on the percentage of total factory overheads to total factory wages. The relevant data from a month are given below:

Departments	Direct Materials	Direct Wages	Factory Overheads	Direct Labour Hours	Machine Hours
Budget:					
Machining	6,50,000	80,000	3,60,000	20,000	80,000
Assembly	1,70,000	3,50,000	1,40,000	1,00,000	10,000
Packing	1,00,000	70,000	1,25,000	50,000	—
Actuals:					
Machining	7,80,000	96,000	3,90,000	24,000	96,000
Assembly	1,36,000	2,70,000	84,000	90,000	11,000
Packing	1,20,000	90,000	1,35,000	60,000	—

The details of one of the jobs (No.123) produced during the month are as under:

Departments	Direct materials	Direct Wages	Direct Labour Hours	Machine Hours
Machining	1,200	240	60	180
Assembly	600	360	120	30
Packing	300	60	40	—

The factory adds 30% on the factory cost towards administration and selling overheads and profit.

Required:

- Calculate the overhead rate as per the current policy of the company.
- As cost accountant of the company you have suggested absorption of factory overheads of machining department on the basis of machine hours, assembling department on the basis of direct wages and of packing department on the basis of direct materials. Calculate the overhead recovery rates based on the methods recommended by you.
- Determine the selling price of Job No 123 based on the overhead rates applicable in (i) and (ii) above.
- Calculate the department wise and total Under/Over Recovery of overheads based on the company's current policy and the methods recommended by you. (10)

OR

- Define labour turnover. What are its causes/and effects? (5)
- From the following data of textiles factory machine room, compute an hourly machine rate, assuming that the machine room will work on 90% capacity throughout the year and that a breakdown of 10% is reasonable. There are three day's holiday at Deepawali, two days at Holi and two days at Christmas, exclusive of Sunday. The factory works 8 hours a day and 4 hours on Saturday.

Number of identical machines	40
Expenses per annum	(₹)
Power	3,12,000
Light	64,000
Lubricating oil	6,600
Repairs to machine	1,44,600
Depreciation	78,560
Salaries to foremen	1,20,000

SECTION B

Q. 3. XY Limited manufactures two types of products S and R. The cost data for the year ended March 31, 2013 is as follows:

Direct Materials	₹4,00,000
Direct wages	₹2,24,000
Production Overheads	₹96,000

It is further ascertained that:

- (i) Direct materials in product *S* costs twice as much as direct material in product *R*.
- (ii) Direct wages for the product *R* were 60% of those for product *S*.
- (iii) Production overheads were apportioned to both the product at the same rate on unit basis.
- (iv) Administration overheads for each were 200% of direct labour.
- (v) Selling costs were ₹0.50 per unit for both the products.
- (vi) Production and Sales during the year:

Product	<i>R</i>	<i>S</i>
Production (units)	40,000	1,20,000
Sales (units)	36,000	1,00,000

- (vii) Selling prices were ₹14 per unit for product *S* and ₹10 per unit for the product *R*.

Prepare a statement showing per unit cost of production, total cost, profit and also total sales value and profits separately for two types of products *R* and *S*. (15)

OR

- (a) Discuss the methods of calculating profits in respect of incomplete contracts where:

- (i) The work on the contract has not reasonably advanced
- (ii) The work on the contract has reasonably advanced and
- (iii) The work is nearer completion (5)

- (b) *ABC Co. Limited* has undertaken a contract for ₹2,00,000 on April 1, 2012. Prepare a contract account and the balance sheet in *T* format from the trial balance and the adjustment given below:

The Trial Balance as on March 31, 2013

Particulars	Dr. Account (₹)	Cr. Amount (₹)
Share Capital		40,000
Cash received on contract (80% of work certified)		1,00,000
Plant and tools	12,200	
Material sent of site	44,250	
Labour charges	56,180	
Land and Building	25,000	
Sundry Creditors		4,380
General Expenses	4,650	
Cash in Hand	2,100	
Total	1,44,380	1,44,380

Material returned to store is ₹2,125. Of the plant and tools sent to site, plant worth ₹1,300 were lost due to carelessness of the staff. The value of the plant and tools as on 31-03-2013 was ₹8,000. Reserve 1/3 of the profit. The work completed but not certified is ₹6,145. Assume that this was the only contract in hand during 2012-2013. (10)

- Q. 4. SR Airlines has been permitted to operate three flights per week between A and B cities (both sides). The Airline operates a single aircraft of 160 seating capacity. The normal occupancy is estimated at 60% throughout the year of 52 weeks. The one way fare is ₹7,200. The cost of operation of flights are:

Variable cost:

Fuel Cost	₹76,000 per flight
Crew Charges	₹24,000 per flight
Food served on board (On non-chargeable basis)	₹125 per passenger
Commission	5% of the fare applicable for all bookings

Fixed Costs:

Aircraft Lease	₹3,50,000 per flight
Landing Charges	₹72,000 per flight

Required:

- Calculate Operating Cost per passenger per flight
- Calculate net operating income per flight
- The airlines expects that its occupancy will increase to 120 passengers per flight if the fare is reduced to ₹6,500. Find operating cost per passenger per flight and net operating income per flight if this proposal is implemented. (15)

OR

The following details are available of Process X for August 2012

(i) Opening work in progress	8,000 units
Degree of completion and costs:	
Material (100%)	₹63,900
Labour (60%)	₹10,800
Overheads (60%)	₹5,400
(ii) Input 1,82,000 units	₹7,56,900
(iii) Labour paid	₹3,28,000
(iv) Overheads incurred	₹1,64,000
(v) Units scrapped	14,000
Degree of completion:	
Material	100%
Labour and Overheads	80%

(vi) Closing Work in Process

18,000 units

Degree of completion:

Material

100%

Labour and Overheads

70%

(vii) 1,58,000 units were completed and transferred to next process.

(viii) Normal loss is 8% of total input including opening work in process.

(ix) Scrap value is ₹8 per unit to be adjusted in direct material cost.

Assuming average method of inventory valuation is used, you are required to prepare:

(i) Statement of equivalent production

(ii) Statement of cost per unit

(iii) Statement of evaluation

(iv) Process X Account

(v) Any other account necessary.

SECTION C

Q. 5. (a) Briefly Explain the following:

(i) Integrated and Non-integrated system of accounts.

(ii) Treatment of bad debts and interest on capital in cost accounts. (7)

(b) The audited accounts of a company showed the profits of ₹59,660, whereas the profits as per the cost accounts was ₹26,725. From the following information provided, you are required to prepare a reconciliation statement, clearly bringing out the reasons for the difference between the two figures:

Profit and Loss Account for the year ended March 31, 2013

Particulars	Amount (₹)	Particulars	Amount (₹)
Opening R.M. 24,70,000		Sales	34,65,000
Purchases 8,20,000			
32,90,000			
Closing R.M. 7,50,000	25,40,000		
Direct wages	2,30,000		
Factory overheads	4,05,500		
Gross profit c/d	2,89,500		
	34,65,000		34,65,000
Administrative overheads	98,000	Gross profit b/d	2,89,500
Selling overheads	1,34,340	Dividends	2,500
Net profit	59,660		
	2,92,000		2,92,000

The Cost records show the following:

- (i) Closing stock balance of ₹7,95,400
- (ii) Direct wages absorbed during the year ₹2,18,800
- (iii) Factory overheads absorbed ₹4,65,000
- (iv) Administrative overheads absorbed @ 2.5% on sales.
- (v) Selling overheads charged @ 5% of the value of sales. (8)

OR

- (a) (i) Briefly explain various steps to charge overhead costs ultimately to cost units. (7)
- (ii) Differentiate between Joint products and By-products. (7)
- (b) "There is usually a difference between profits as per cost accounts and profit as per financial accounts". Enumerate the possible reasons for such difference. How this difference can be reconciled? (8)