B Com Hons Delhi (Paper-IX)
Cost Accounting – 2015
(For School of Open Learning)

Time: 3 hours ***Maximum marks: 75***

Q. 1. (*a*) Distinguish between Periodic and Perpetual inventory system. What are the advantages of perpetual inventory system? 7

(*b*) A company manufactures 5,000 units of a product per month. The cost of placing an order for raw material is ₹100. The purchase price of raw material is ₹10 per kg. The reorder period is 4 to 8 weeks. The consumption of raw materials varies from 100 kgs to 450 kgs per week, the average consumption being 275 kgs. The carrying cost of inventory is 20% per annum. You are required to calculate reorder quantity, maximum stock level, minimum stock level and average stock level. 8

Or

(*a*) The following information relates to the production operations of a company for the year 2013

	Machining Deptt.	*Assembly Deptt.*	*Factory Office*	*Total*
Direct labour cost	₹1,00,000	50,000	—	1,50,000
Factory Overheads:				
(*a*) Traceable to the departments	₹92,000	53,000	41,000	1,86,000
(*b*) Not treaceable to the departments (Rent, taxes & insurance)				10,000

The floor space occupied by the three departments is in the proportion 6:3:1. Factory office is a service department and its cost is apportioned to production departments on the basis of labour cost. The machining department operates on a 40 hour week. There are 5 machines in the department and every machine has remained idle for 280 hours in 2013 for repairs.

You are required to:

(*i*) Calculate overhead absorption rate based on machine hours for the machining department and the overhead absorption rate based on direct labour cost for assembly department.

(*ii*) Ascertain the factory cost of a job performed in the factory which has materials cost of ₹5,000, labour cost of ₹1,000 and the time booked in the matching and assembly departments was 200 hours and 70 hours respectively. 15

Q. 2. (*a*) What do you understand by 'Cost plus contract' and 'Escalation clause' in contract costing. 7

(*b*) Kuldeep Singh owns a taxi and a bus. The bus is a 50 seater. The taxi runs on an average 3,000 km in a month out of which 20% is normal running without fare. Variable cost of running the taxi is ₹8 per km.

The bus runs between Delhi and Jaipur which are 300 km. apart. It makes 25 round trips in a month and is generally 90% occupied. The variable cost of running a bus is ₹22.50 per km.

You are required to calculate total variable cost per month and variable cost per effective km for the taxi and the bus. 8

Or

The Profit and Loss account of XYZ Ltd. for the year ended 31st March 2014 is as follows:

Particulars	₹	*Particulars*		₹
Materials	4,80,000	Sales		9,60,000
Wages	3,60,000	Closing stock		1,80,000
Factory expenses	2,40,000	**Work-in-progress:**		
Gross Profit	1,20,000	Materials	30,000	
		Wages	18,000	
		Factory O/H	12,000	60,000
	12,00,000			**12,00,000**
Administration Expenses	60,000	Gross profit		1,20,000
Net profit	66,000	Dividend received		6,000
	1,26,000			**1,26,000**

As per the costing records the indirect factory overheads have been absorbed at ₹30 per unit and administration overheads at ₹15 per unit of finished product. During the year 6,000 units were manufactured and 4,800 units were sold. Prepare a statement of cost and profit as per cost accounts and reconcile the costing profit with the financial profit. 15

Q. 3. (*a*) What are the advantages of introducing a costing system in an industrial organization. 7

(*b*) Following information is given in respect of an item of material for the month of April 2014:

April	1	Opening stock	100	units	@ ₹2.00
	5	Purchases	200	units	@ ₹1.50
	7	Purchases	200	units	@ ₹2.50
	18	Issued	100	units	

20	Purchases	300 units	@ ₹3.33
25	Issued	650 units	
26	Purchases	200 units	@ ₹2.90
30	Issued	100 units	
30	Closing stock	50 units	

Prepare a stores ledger card using the Weighted average price method assuming perpetual inventory system. 8

Or

(*a*) What is idle time? Explain its causes. How idle time is treated in cost accounts? 7

(*b*) A company's basic wage rate is ₹4 per hour and its overtime rate is ₹6 per hour. During January 2014 the labour hours worked on a job were:

Normal	:	2,000 hrs.
Overtime	:	500 hrs.

You are required to calculate the labour cost chargeable to the job in each of the following cases:

(*i*) Where overtime is worked regularly throughout the year due to labour shortage.

(*ii*) Where overtime is worked irregularly to meet the production requirements.

(*iii*) Where overtime is worked specifically at the customer's request to expedite delivery.

(*iv*) Where overtime is worked because of abnormal idle time in the past. 8

Q. 4. The following details are available in respect of Process I for the month of January 2014:

Opening work in process (800 units)	₹4,000
Units 'transferred in' from previous process (9200 units)	₹36,800
Labour cost	₹16,740
Overheads	₹8,370
Units completed and transferred out to next process	7,900 units
Units scrapped	1,200 units
Closing W-I-P	900 units

Degree of completion:

	Opening W-I-P	*Units Scrapped*	*Closing W-I-P*
Materials	100%	100%	100%
Labour & Overheads	60%	80%	70%

Normal loss is 8% of the total input including opening work in process. Scrap value is ₹4 per unit to be adjusted in direct materials cost. Assuming that FIFO method of inventory valuation is used, you are required to prepare:

(*i*) Statement of equivalent production.

(*ii*) Statement showing cost per equivalent unit.

(*iii*) Statement of valuation.

(*iv*) Process X account for the month of March 2014. 15

Or

On 31.12.2013, when the annual accounts are prepared, the position of a contract which was commenced on 1.1.2013 was as follows:

	(₹)
Materials issued	80,000
Materials at site (31.12.13)	20,000
Wages paid	30,000
Overheads	20,000
Work certified	1,50,000
Work uncertified	50,000
Cash received	1,20,000

The contract was very much near completion and the contractor estimated that the following additional costs will be incurred to complete the contract by 31.03.2014:

Materials (in addition to materials at site)	₹10,000
Wages	₹5,000
Overheads	₹5,000

Prepare contract Account for 2013. The contract price is 3,00,000. 15

Q. 5. A factory's normal capacity is 12,000 units p.a. The estimated cost of production is as under:

Direct materials	:	₹3 p.u.
Direct labour	:	₹2 p.u. (Subject to a minimum of ₹1,200 pm)
Overheads:		
Fixed	:	₹16,000 per annum
Variable	:	₹2 per unit
Semi-variable	:	₹6,000 p.a. up to 50% capacity and an additional ₹2,000 for every 20% increase in capacity or part thereof.

In the current year the factory worked at 50% capacity for the first 3 months but it is expected that it would work at 80% capacity for the remaining 9 months.

During the first 3 months the selling price per unit was ₹20. What should be the price in the remaining 9 months to earn a total profit of ₹1,23,500 for the whole year? 15

Or

(*a*) What are the reasons for disagreement of profits as per financial accounts and cost accounts? Discuss. 7

(*b*) What are the causes of under/over absorption of factory overheads? How will you deal with them in cost accounts? 8