

Test Series: August 2018

MOCK TEST PAPER –1  
INTERMEDIATE (NEW) : GROUP – I  
PAPER – 3: COST AND MANAGEMENT ACCOUNTING

Answers are to be given only in English except in the case of the candidates who have opted for Hindi medium. If a candidate has not opted for Hindi medium his/ her answer in Hindi will not be valued.

Question No. 1 is compulsory.

Attempt any **four** questions from the remaining **five** questions.

Working notes should form part of the answer.

Time Allowed – 3 Hours

Maximum Marks – 100

1. Answer the following:

(a) CALCULATE from the following figures:

- (i) Efficiency ratio
- (ii) Activity ratio and
- (iii) Capacity ratio.

Budgeted Production	880 units
Standard Hours per unit	10 hours
Actual Production	750 units
Actual Working Hours	6,000 hours

(b) CALCULATE a suggested fare per passenger-km from the following information for a Mini Bus:

- (i) Length of route: 30 km
- (ii) Purchase price Rs. 4,00,000
- (iii) Part of above cost met by loan, annual interest of which is Rs. 10,000 p.a.
- (iv) Other annual charges: Insurance Rs. 15,000, Garage rent Rs. 9,000, Road tax Rs. 3,000, Repairs & maintenance Rs. 15,000, Administrative charges Rs. 5,000.
- (v) Running Expenses: Driver & Conductor Rs. 5,000 p.m., Repairs/Replacement of tyre-tube Rs. 3,600 p.a., Diesel and oil cost per km Rs. 5.
- (vi) Effective life of vehicle is estimated at 5 years at the end of which it will have a scrap value of Rs. 10,000.
- (vii) Mini Bus has 20 seats and is planned to make Six no. two way trips for 25 days/p.m.
- (viii) Provide profit @ 20% of total revenue.

(c) The M-Tech Manufacturing Company is presently evaluating two possible processes for the manufacture of a toy. The following information is available:

Particulars	Process A (Rs.)	Process B (Rs.)
Variable cost per unit	12	14
Sales price per unit	20	20
Total fixed costs per year	30,00,000	21,00,000
Capacity (in units)	4,30,000	5,00,000
Anticipated sales (Next year, in units)	4,00,000	4,00,000

SUGGEST:

1. Which process should be chosen?
2. Would you change your answer as given above, if you were informed that the capacities of the two processes are as follows:

A - 6,00,000 units; B - 5,00,000 units? STATE the reason?

- (d) Arnav Confectioners (AC) owns a bakery which is used to make bakery items like pastries, cakes and muffins. AC use to bake atleast 50 units of any item at a time. A customer has given an order for 600 cakes. To process a batch of 50 cakes, the following cost would be incurred:

Direct materials	- Rs. 5,000
Direct wages	- Rs. 500
Oven set-up cost	Rs. 750

AC absorbs production overheads at a rate of 20% of direct wages cost. 10% is added to the total production cost of each batch to allow for selling, distribution and administration overheads.

AC requires a profit margin of 25% of sales value.

Required:

- (i) DETERMINE the price to be charged for 600 cakes.
- (ii) CALCULATE cost and selling price per cake.
- (iii) DETERMINE what would be selling price per unit If the order is for 605 cakes.

**(5 × 4 = 20 Marks)**

2. (a) The annual demand for an item of raw material is 4,000 units and the purchase price is expected to be Rs. 90 per unit. The incremental cost of processing an order is Rs. 135 and the annual cost of storage is estimated to be Rs. 12 per unit. COMPUTE the optimal order quantity and total relevant cost of this order quantity?

Suppose that Rs. 135 as estimated to be the incremental cost of processing an order is incorrect and should have been Rs. 80. All other estimates are correct. ESTIMATE the difference in cost on account of this error?

Assume at the commencement of the period that a supplier offers 4,000 units at a price of Rs. 86. The materials will be delivered immediately and placed in the stores. Assume that the incremental cost of placing the order is zero and original estimate of Rs. 135 for placing an order for the economic batch is correct. ANALYSE, should the order be accepted? **(10 Marks)**

- (b) The Trading and Profit and Loss Account of a company for the year ended 31-03-20X8 is as under:

**Trading and Profit and Loss Account**

Particulars	Rs.	Particulars	Rs.
To Materials	26,80,000	By Sales (50,000 units)	62,00,000
To Wages	17,80,000	By Closing Stock (2,000 units)	1,50,000
To Factory Expenses	9,50,000	By Dividend received	20,000
To Administrative Expenses	4,80,200		
To Selling Expenses	2,50,000		
To Preliminary Expenses written off	50,000		
To Net Profit	1,79,800		
	63,70,000		63,70,000

In the Cost Accounts:

- (i) Factory expenses have been allocated to production at 20% of Prime Cost.
- (ii) Administrative expenses (production related) absorbed at 10% of factory cost.
- (iii) Selling expenses charged at Rs. 10 per unit sold.

PREPARE the Costing Profit and Loss Account of the company and reconcile the Profit/Loss with the profit as shown in the Financial Accounts. **(10 Marks)**

3. (a) Three products X, Y and Z alongwith a byproduct B are obtained again in a crude state which require further processing at a cost of Rs. 5 for X; Rs. 4 for Y; and Rs. 2.50 for Z per unit before sale. The byproduct is however saleable as such to a nearby factory. The selling prices for the three main products and byproduct, assuming they should yield a net margin of 25 percent of cost, are fixed at Rs. 13.75 Rs. 8.75 and Rs. 7.50 and Re. 1.00 respectively – all per unit quantity sold.

During a period, the joint input cost including the material cost was Rs. 90,800 and the respective outputs were:

X	8,000 units
Y	6,000 units
Z	4,000 units
B	1,000 units

By product should be credited to the joint cost and only the net joint costs are to be allocated to the main products.

CALCULATE the joint cost per unit of each product and the margin available as a percentage on cost. **(10 Marks)**

- (b) In a factory, a machine is considered to work for 208 hours in a month. It includes maintenance time of 8 hours and set up time of 20 hours.

The expense data relating to the machine are as under:

Cost of the machine is Rs. 5,00,000. Life 10 years. Estimated scrap value at the end of life is Rs. 20,000.

	(Rs.)
– Repairs and maintenance per annum	60,480
– Consumable stores per annum	47,520
– Rent of building per annum (The machine under reference occupies 1/6 of the area)	72,000
– Supervisor's salary per month (Common to three machines)	6,000
– Wages of operator per month per machine	2,500
– General lighting charges per month allocated to the machine	1,000
– Power 25 units per hour at Rs. 2 per unit	

Power is required for productive purposes only. Set up time, though productive, does not require power.

The Supervisor and Operator are permanent. Repairs and maintenance and consumable stores vary with the running of the machine.

Required

COMPUTE a two-tier machine hour rate for (a) set up time, and (b) running time. **(10 Marks)**

4. (a)

Fixed Cost	Rs. 1,20,000
Variable costs	Rs. 3 per unit
Selling price	Rs. 7 per unit
Output	Rs. 50,000 units

CALCULATE the profit for each of the following situation with the above data:

- (i) with the data above
- (ii) with a 10% increase in output & sales.
- (iii) with a 10% increase in fixed costs.
- (iv) with a 10% increase in variable costs.
- (v) with a 10% increase in selling price.
- (vi) taking all the above situations.

**(10 Marks)**

(b) Corrs Consultancy Ltd. is engaged in BPO industry. One of its trainee executives in the Personnel department has calculated labour turnover rate 24.92% for the last year using Flux method.

Following is the some data provided by the Personnel department for the last year:

Employees	At the beginning	Joined	Left	At the end
Data Processors	540	1,080	60	1,560
Payroll Processors	?	20	60	40
Supervisors	?	60	---	?
Voice Agents	?	20	20	?
Assistant Managers	?	20	---	30
Senior Voice Agents	4	---	---	12
Senior Data Processors	8	---	---	34
Team Leaders	?	---	---	?
<b>Employees transferred from the Subsidiary Company</b>				
Senior Voice Agents	---	8	---	---
Senior Data Processors	---	26	---	---
<b>Employees transferred to the Subsidiary Company</b>				
Team Leaders	---	---	60	---
Assistant Managers	---	---	10	---

At the beginning of the year there were total 772 employees on the payroll of the company. The opening strength of the Supervisors, Voice Agents and Assistant Managers were in the ratio of 3 : 3 : 2.

The company has decided to abandon the post of Team Leaders and consequently all the Team Leaders were transferred to the subsidiary company.

The company and its subsidiary are maintaining separate set of books of account and separate Personnel Department.

You are required to CALCULATE:

- (a) Labour Turnover rate using Replacement method and Separation method.

- (b) Verify the Labour turnover rate calculated under Flux method by the trainee executive of the Corrs Consultancy Ltd. **(10 Marks)**

5. (a) Z. Ltd. uses standard costing system in manufacturing of its single product 'M'. The standard cost per unit of M is as follows:

	<b>Rs.</b>
Direct Material – 2 metres @ Rs. 6 per metre	12.00
Direct labour- 1 hour @ Rs. 4.40 per hour	4.40
Variable overhead- 1 hour @ Rs. 3 per hour	3.00

During July, 2016, 6,000 units of M were produced and the related data are as under:

Direct material acquired- 19,000 metres @ Rs.5.70 per metre.

Material consumed – 12,670 metres.

Direct labour – ? hours @ Rs. ? per hour Rs. 27,950

Variable overheads incurred Rs. 20,475

The variable overhead efficiency variance is Rs. 1,500 adverse. Variable overheads are based on direct labour hours. There was no stock of the material in the beginning

You are required to DETERMINE the missing figures and work out all the relevant variances.

**(10 Marks)**

- (b) A factory uses job costing. The following data are obtained from its books for the year ended 31<sup>st</sup> March, 20X8:

	<b>Amount (Rs.)</b>
Direct materials	9,00,000
Direct wages	7,50,000
Selling and distribution overheads	5,25,000
Administration overheads	4,20,000
Factory overheads	4,50,000
Profit	6,09,000

- (i) PREPARE a Job Cost sheet indicating the Prime cost, Cost of Production, Cost of sales and the Sales value.
- (ii) In 2018-19, the factory received an order for a job. It is estimated that direct materials required will be Rs.2,40,000 and direct labour will cost Rs.1,50,000. DETERMINE what should be the price for the job if factory intends to earn the same rate of profit on sales assuming that the selling and distribution overheads have gone up by 15%. The factory recovers overheads as a percentage of Cost of Production, based on cost rates prevailing in the previous year.

**(10 Marks)**

6. (a) EXPLAIN the difference between cost control and cost reduction.
- (b) DISCUSS the prerequisite of installing cost accounting system.
- (c) EXPLAIN the difference between fixed budget and flexible budget
- (d) DESCRIBE net realizable value method of apportioning joint costs to by-products

**(5 × 4 = 20 Marks)**