Test Series: May, 2020

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) A company gives the following information:

Margin of Safety	Rs.7,50,000
Total Cost	Rs.7,75,000
Margin of Safety (Qty.)	15,000 units
Break Even Sales in Units	5,000 units

You are required to CALCULATE:

(i) Selling price per unit

(ii) Profit

(iii) Profit/ Volume Ratio

(iv) Break Even Sales (in Rupees)

(v) Fixed Cost

(b) ZX Ltd. has furnished the following information:

	Budgeted	Actual March 2020
Number of working days	25	27
Production (in units)	20,000	22,000
Fixed Overheads	Rs. 3,00,000	Rs. 3,10,000

Budgeted fixed overhead rate is Rs. 10.00 per hour. In March 2020, the actual hours worked were 31,500. In relation to fixed overheads, CALCULATE:

(i) Efficiency Variance

(ii) Capacity Variance

(iii) Calendar Variance

(iv) Volume Variance

(v) Expenditure Variance

(c) A company is undecided as to what kind of wage scheme should be introduced. The following particulars have been compiled in respect of three workers, which are under consideration of the management.

	I	II	III
Actual hours worked	380	100	540
Hourly rate of wages (in Rs.)	40	50	60
Productions in units:			
- Product A	210	-	600
- Product B	360	-	1350
- Product C	460	250	-
Standard time allowed per unit of each product is:			
	A	B	C
Minutes	15	20	30

For the purpose of piece rate, each minute is valued at Rs. 1/-

You are required to COMPUTE the wages of each worker under:

(i) Guaranteed hourly rate basis.

(ii) Piece work earning basis, but guaranteed at 75% of basic pay (Guaranteed hourly rate if his earnings are less than 50% of basic pay.)

(iii) Premium bonus basis where the worker received bonus based on Rowan scheme.

(d) A Ltd has calculated a predetermined overhead rate of Rs.22 per machine hour for its Quality Check (QC) department. This rate has been calculated for the budgeted level of activity and is considered as appropriate for absorbing overheads. The following overhead expenditures at various activity levels had been estimated.

Total overheads	Number of machine hours
Rs.3,38,875	14,500
Rs.3,47,625	15,500
Rs.3,56,375	16,500

You are required to:

(i) CALCULATE the variable overhead absorption rate per machine hour.

(ii) CALCULATE the estimated total fixed overheads.

(iii) CALCULATE the budgeted level of activity in machine hours.

(iv) CALCULATE the amount of under/over absorption of overheads if the actual machine hours were 14,970 and actual overheads were Rs.3,22,000.

(v) ANALYSE the arguments for and against using departmental absorption rates as opposed to a single or blanket factory wide rate. **(4 × 5 Marks = 20 Marks)**

2. (a) ZA Ltd. is a manufacturer of a range of goods. The cost structure of its different products is as follows:

Particulars	Product A	Product B	Product C	
Direct Materials	100	80	80	Rs./u
Direct Labour @Rs.10/ hour	30	40	50	Rs./u
Production Overheads	30	40	50	Rs./u
Total Cost	160	160	180	Rs./u
Quantity Produced	20,000	40,000	60,000	Units

ZA Ltd. was absorbing overheads on the basis of direct labour hours. A newly appointed management accountant has suggested that the company should introduce ABC system and has identified cost drivers and cost pools as follows:

Activity Cost Pool	Cost Driver	Associated Cost (Rs.)
Stores Receiving	Purchase Requisitions	5,92,000
Inspection	Number of Production Runs	17,88,000
Dispatch	Orders Executed	4,20,000
Machine Setup	Number of Setups	24,00,000

The following information is also supplied:

Details	Product A	Product B	Product C
No. of Setups	360	390	450
No. of Orders Executed	180	270	300
No. of Production Runs	750	1,050	1,200
No. of Purchase Requisitions	300	450	500

Required:

CALCULATE activity based production cost of all the three products. **(10 Marks)**

(b) Following figures has been extracted from the books of M/s A&R Brothers:

	Amount (Rs.)
Stock on 1st March, 2020	
- Raw materials	6,06,000
- Finished goods	3,59,000
Stock on 31st March, 2020	
- Raw materials	7,50,000
- Finished goods	3,09,000
Work-in-process:	
- On 1st March, 2020	12,56,000
- On 31st March, 2020	14,22,000
Purchase of raw materials	28,57,000
Sale of finished goods	1,34,00,000
Direct wages	37,50,000
Factory expenses	21,25,000
Office and administration expenses	10,34,000
Selling and distribution expenses	7,50,000
Sale of scrap	26,000

You are required to COMPUTE:

(i) Value of material consumed

(ii) Prime cost

(iii) Cost of production

(iv) Cost of goods sold

(v) Cost of sales

(vi) Profit/ loss **(10 Marks)**

3. (a) A company manufactures a product from a raw material, which is purchased at Rs.180 per kg. The company incurs a handling cost of Rs.1,460 plus freight of Rs.940 per order. The incremental carrying cost of inventory of raw material is Rs.2.5 per kg per month. In addition, the cost of working capital finance on the investment in inventory of raw material is Rs.18per kg per annum. The annual production of the product is 1,00,000 units and 2.5 units are obtained from one kg. of raw material.

Required:

(i) CALCULATE the economic order quantity of raw materials.

(ii) DETERMINE, how frequently company should order for procurement be placed.

(iii) If the company proposes to rationalize placement of orders on quarterly basis, DETERMINE the percentage of discount in the price of raw materials should be negotiated?

Assume 360 days in a year. **(10 Marks)**

(b) G K Ltd. produces a product "XYZ" which passes through two processes, viz. Process-A and Process-B. The details for the year ending 31st March, 2020 are as follows:

	Process A	**Process - B**
40,000 units introduced at a cost of	Rs. 3,60,000	-
Material consumed	Rs. 2,42,000	2,25,000
Direct wages	Rs. 2,58,000	1,90,000
Manufacturing expenses	Rs. 1,96,000	1,23,720
Output in units	37,000	27,000
Normal wastage of inputs	5%	10%
Scrap value (per unit)	Rs. 15	20
Selling price (per unit)	Rs. 37	61

Additional Information:

(a) 80% of the output of Process-A, was passed on to the next process and the balance was sold. The entire output of Process- B was sold.

(b) Indirect expenses for the year was Rs. 4,48,080.

(c) It is assumed that Process-A and Process-B are not responsibility centre.

Required:

(i) PREPARE Process-A and Process-B Account.

(ii) PREPARE Costing Profit & Loss Account showing the net profit/ net loss for the year.

(10 Marks)

4. (a) The Trading and Profit and Loss Account of a company for the year ended 31-03-2020 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	80,000

To General administrative expenses	4,80,200		
To Selling Expenses	2,50,000		
To Preliminary expenses written off	70,000		
To Net profit	2,19,800		
	64,30,000		64,30,000

In the Cost Accounts:

(i) Factory expenses have been allocated to production at 20% of Prime Cost.

(ii) General administrative expenses absorbed at 10% of factory cost.

(iii) Selling expenses charged at Rs.10 per unit sold.

Required:

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)**

(b) During the FY 2019-20, GP Limited has produced 30,000 units operating at 50% capacity level. The cost structure at the 50% level of activity is as under:

Particulars	Rs.
Direct Material	150 per unit
Direct Wages	50 per unit
Variable Overheads	50 per unit
Direct Expenses	30 per unit
Factory Expenses (25% fixed)	40 per unit
Selling and Distribution Exp. (80% variable)	20 per unit
Office and Administrative Exp. (100% fixed)	10 per unit

The company anticipates that in FY 2020-21, the variable costs will go up by 10% and fixed costs will go up by 15%.

The selling price per unit will remain unchanged at Rs.400.

Required:

(i) CALCULATE the budgeted profit/ loss for the FY 2019-20.

(ii) PREPARE an Expense budget on marginal cost basis for the FY 2020-21 for the company at 50% and 60% level of activity and FIND OUT the profits at respective levels. **(10 Marks)**

5. (a) KR Resorts (P) Ltd. offers three types of rooms to its guests, viz deluxe room, super deluxe room and luxury suite. You are required to DETERMINE the tariff to be charged to the customers for different types of rooms on the basis of following information:

Types of Room	Number of Rooms	Occupancy
Deluxe Room	100	90%
Super Deluxe Room	60	75%
Luxury Suite	40	60%

Rent of 'super deluxe' room is to be fixed at 2 times of 'deluxe room' and that of 'luxury suite' is 3 times of 'deluxe room'. Annual expenses are as follows:

Particulars	Amount (Rs. lakhs)
Staff salaries	780.00
Lighting, Heating and Power	350.00
Repairs, Maintenance and Renovation	220.00
Linen	60.00
Laundry charges	34.00
Interior decoration	85.00
Sundries	36.28

An attendant for each room was provided when the room was occupied and he was paid Rs. 500 per day towards wages. Further, depreciation is to be provided on building @ 5% on Rs. 900 lakhs, furniture and fixtures @ 10% on Rs. 90 lakhs and air conditioners @ 10% on Rs. 75 lakhs.

Profit is to be provided @ 25% on total taking and assume 360 days in a year. **(10 Marks)**

(b) (i) SHOW Journal entries for the following transactions assuming cost and financial accounts are integrated:

(1) Materials issued:

Direct	Rs. 6,50,000
Indirect (to factory)	Rs. 2,30,000

(2) Allocation of wages (25% indirect) Rs. 9,00,000

(3) Under/Over absorbed overheads:

Factory (Over)	Rs. 60,000
Administration (Under)	Rs. 50,000

(4) Payment to Creditors (Trade payables) Rs. 9,00,000

(5) Collection from Debtors (Trade receivables) Rs. 8,00,000

(ii) A company can make any one of the 3 products X, Y or Z in a year. It can exercise its option only at the beginning of each year.

Relevant information about the products for the next year is given below.

	X	Y	Z
Selling Price (Rs. / unit)	100	120	120
Variable Costs (Rs. / unit)	60	90	70
Market Demand (unit)	3,000	2,000	1,000
Production Capacity (unit)	2,000	3,000	900
Fixed Costs (Rs.)	3,00,000		

Required

COMPUTE the opportunity costs for each of the products. **(2 × 5 = 10 Marks)**

6. (a) DISCUSS the accounting treatment of Idle time and overtime wages.

(b) EXPLAIN the stages in Zero-based budgeting.

(c) STATE the differences between Job costing and Batch costing.

(d) EXPLAIN the treatment of by-product cost in cost accounting. **(4 × 5 =20 Marks)**