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Question Paper

INTER - Cost and Management Accounting Full Test (Detailed/Unscheduled)

Details: Full Test - 3

Duration: 180

Marks: 100

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Intructions

All the questions are compulsory

Properly mention test number and page number on your answer sheet

In case of multiple choice questions, mention option number only

Working notes are compulsory wherever required in support of your solution

Donot copy any solution from any material.

Attempt as much as you know to fairly judge your performance.

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Marks : 100

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 HoursMaximum

Marks - 100

Q- 1 (a) Two workers 'A' and 'B' produce the same product using the same material. Their normal wage rate is also the same. 'A' is paid bonus according to Rowan scheme while 'B' is paid bonus according to Halsey scheme. The time allowed to make the product is 50 hours. 'A' takes 30 hours while 'B' takes 40 hours to complete the product. The factory overhead rate is Rs.5 per person-hour actually worked. The factory cost of product manufactured by 'A' is Rs.3,490 and for product manufactured by 'B' is Rs.3,600.

Required:

- (i) Compute the normal rate of wages.
- (ii) Compute the material cost.
- (iii) Prepare a statement comparing the factory cost of the product as made by two workers.

(b) DFG Ltd. manufactures leather bags for office and school purpose. The following information is related with the production of leather bags for the month of September 2019.

- (i) Leather sheets and cotton cloths are the main inputs, and the estimated requirement per bag

is two meters of leather sheets and one meter of cotton cloth. 2,000 meter of leather sheets and 1,000 meter of cotton cloths are purchased at Rs.3,20,000 and Rs.15,000 respectively. Freight paid on purchases is Rs.8,500.

(ii) Stitching and finishing need 2,000 man hours at Rs.80 per hour.

(iii) Other direct cost of Rs.10 per labour hour is incurred.

(iv) DFG has 4 machines at a total cost of Rs.22,00,000. Machine has a life of 10 years with a scrape value of 10% of the original cost. Depreciation is charged on straight line method.

(v) The monthly cost of administrative and sales office staffs are Rs.45,000 and Rs.72,000 respectively. DFG pays Rs.1,20,000 per month as rent for a 2400 sq.feet factory premises. The administrative and sales office occupies 240 sq. feet and 200 sq. feet respectively of factory space.

(vi) Freight paid on delivery of finished bags is Rs.18,000.

(vii) During the month 35 kg. of leather and cotton cuttings are sold at Rs.150 per kg.

(viii) There is no opening and closing stocks for input materials. There is 100 bags in stock at the end of the month.

Required:

PREPARE a cost sheet following functional classification for the month of September 2019.

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

Direct materials	Rs.500
Direct Wages	Rs.50
Oven set-up cost	Rs.150

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. Determine the selling price for 600 muffins

(d) ABC Ltd. operates a simple chemical process to convert a single material into three separate items, referred to here as X, Y and Z. All three end products are separated simultaneously at a single split-off point.

Product X and Y are ready for sale immediately upon split off without further processing or any other additional costs. Product Z, however, is processed further before being sold. There is no available market price for Z at the split-off point.

The selling prices quoted here are expected to remain the same in the coming year. During 2013-14, the selling prices of the items and the total amounts sold were:

- X - 186 tons sold for Rs. 1,500 per ton
- Y - 527 tons sold for Rs. 1,125 per ton
- Z - 736 tons sold for Rs. 750 per ton

The total joint manufacturing costs for the year were Rs. 6,25,000. An additional Rs.3,10,000 was spent to finish product Z.

There were no opening inventories of X, Y or Z at the end of the year. The following inventories of complete units were on hand:

- X 180 tons
- Y 60 Tons
- Z 25 tons

There was no opening or closing work-in-progress.

Required:

(i) Compute the cost of inventories of X, Y and Z for Balance Sheet purposes and cost of goods sold for income statement purpose as of March 31, 2014, using:

- (a) Net realizable value (NRV) method of joint cost allocation
- (b) Constant gross-margin percentage NRV method of joint-cost allocation.

(ii) Compare the gross-margin percentages for X, Y and Z using two methods given in requirement (i)

(4 × 5 =20 Marks)

Q-2 (a) Arnab Udyog, a small scale manufacturer, produces a product X by using two raw materials A and B in the ratio of 3:2. Material A is perishable in nature and if not used within 5 days of purchase it becomes obsolete. Material B is durable in nature and can be used even after one year. The company has estimated a sales volume of 30,000 kg. for the month of July 2016 and expects that the trend will continue for the entire year. The ratio of input and output is 5:3. The purchase price of per kilogram of raw material A and B is Rs.15 and Rs.22 respectively exclusive of taxes. Material A can be purchased from the local market within 1 to 2 days period. On the other hand Material B is purchased from neighbouring state and it takes 2 to 4 days to receive the material in the store. To place an order the company has to incur an

administrative cost of Rs.120. Carrying cost for Material A and B is 15% and 5% respectively. At present Material A is purchased in a lot of 8,000 kg. to avail 10% discount on market price. VAT applicable for material A is 4% (credit available) and CST on Material B is 2% (credit not available). Company works for 25 days in a month and production is carried out evenly.

You are required to calculate:

- (i) Economic Order Quantity (EOQ) for each material;
- (ii) Maximum stock level for Material A;
- (iii) Calculate saving/ loss in Material A if purchase quantity equals to EOQ.

(10 Marks)

(b) A machine shop cost centre contains three machines of equal capacities. Three operators are employed on each machine, payable Rs. 20 per hour each. The factory works for forty eight hours in a week which includes 4 hours set up time. The work is jointly done by operators. The operators are paid fully for the forty eight hours. In additions they are paid a bonus of 10 per cent of productive time. Costs are reported for this company on the basis of thirteen four weekly period.

The company for the purpose of computing machine hour rate includes the direct wages of the operator and also recoups the factory overheads allocated to the machines. The following details of factory overheads applicable to the cost centre are available:

- Depreciation 10% per annum on original cost of the machine. Original cost of the each machine is Rs. 52,000.
- Maintenance and repairs per week per machine is Rs. 60.

- Consumable stores per week per machine are Rs. 75.
- Power: 20 units per hour per machine at the rate of 80 paise per unit.
- Apportionment to the cost centre: Rent per annum Rs. 5,400, Heat and Light per annum Rs. 9,720, and foreman's salary per annum Rs. 12,960.

Required:

- Calculate the cost of running one machine for a four week period.
- Calculate machine hour rate.

(10 Marks)

Q-3 (a) Dream House (P) Limited is engaged in building two residential housing projects in the city. Particulars related to two housing projects are as below:

Particulars	HP-1	HP-2
Work in progress as on April 1, 2013	7,80,000	2,80,000
Materials purchased	6,20,000	8,10,000
Land purchased near to the site to open an office	-	12,00,000
Brokerage and registration fee paid on the above purchase	-	60,000
Wages paid	85,000	62,000
Wages outstanding as on 31st March 2014	12,000	8,400
Donation paid to local clubs	5,000	2,500
Plant hire charges paid for three years effecting from April 1 2013	72,000	57,000
Value of materials at site as on March 31, 2014	47,000	52,000
Contract price of the projects	48,00,000	36,00,000
Value of work certified	20,50,000	16,10,000
Work not certified	1,90,000	1,40,000

A concrete mixture machine was bought on April 1, 2013 for Rs.8,20,000 and used for 180 days in HP- 1 and for 100 days in HP-2. Depreciation is provided at 15% p.a. (this machine can be

used for any other projects). As per the contract agreement contracte shall retain 20% of work certified as retention money.

Prepare contract account for the two housing projects showing the profit or loss on each project for the year ended 31st March, 2014.

(10 Marks)

(b) A product passes through three processes - A, B and C. The details of expenses incurred on the three processes during the year 1992 were as under:

Particulars	Process-A	Process-B	Process-C
Units issued/introduced	10,000 @ 100 per unit		
Sundry materials	10,000	15,000	5,000
Labour	30,000	80,000	65,000
Direct expenses	6,000	18,150	27,200
Selling price	10	165	250

Management expenses during the year were Rs. 80,000 and selling expenses were Rs. 50,000 These are not allocable to the processes. Actual output of the three processes was: A - 9,300 units, B-5, 400 units and C-2, 100 units. Two third of the output of Process A and one half of the output of Process B was passed on to the next process and the balance was sold. The entire output of process C was sold. The normal loss of the three processes, calculated on the input of every process was: Process A-5%; B-15% and C-20% The Loss of Process A was sold at Rs. 2 per unit, that of B at Rs. 5 per unit and of Process C at Rs. 10 per unit. Prepare the Three Processes Accounts and the Profit and Loss Account.

(10 Marks)

Q-4 (a) Voyager Cabs private Limited is a New Delhi based cab renting company, provides cab facility on rent for cities Delhi, Agra and Jaipur to the tourists. To attract more tourists, it has launched a three days tour package for Delhi-Jaipur-Agra-Delhi. Following are the relevant information regarding the package:

Distance between Delhi to Jaipur (Km.)	274
Distance between Delhi to Agra (km.)	242
Distance between Agra to Jaipur (km.)	238
Price of diesel in Delhi	Rs.54 per litre
Price of diesel in Jaipur	Rs.56 per litre
Price of diesel in Agra	Rs.58 per litre
Mileage of cab per litre of diesel (km.)	16
Chauffer's salary	Rs.12,000 per month
Cost of the cab	Rs.12,00,000
Expected life of the cab	24,00,000 kms.
Servicing cost	Rs.30,000 after every 50,000 kilometres
Chauffer's meal allowance	Rs.50 for every 200 kilometres
Other set up and office cost	Rs.2,400 per month

Voyager cabs has made tie-up with fuel service centres at Agra, Jaipur and Delhi to fill diesel to its cabs on production of fuel passbook to the fuel centre. Company has a policy to get fuel filled up sufficient to reach next destination only.

You are required to calculate the price inclusive of GST @ 18% to be quoted for the package if company wants to earn profit of 25% on its net taking (excluding GST).

(10 Marks)

(b) SB Constructions Limited has entered into a big contract at an agreed price of Rs. 1,50,00,000 subject to an escalation clause for material and labour as spent out on the contract and corresponding details are as follows:

Material	Standard		Actual	
	Quantity (Tons)	Rate per Ton	Quantity (Tons)	Rate per Ton
A	3,000	1,000	3,400	1,100

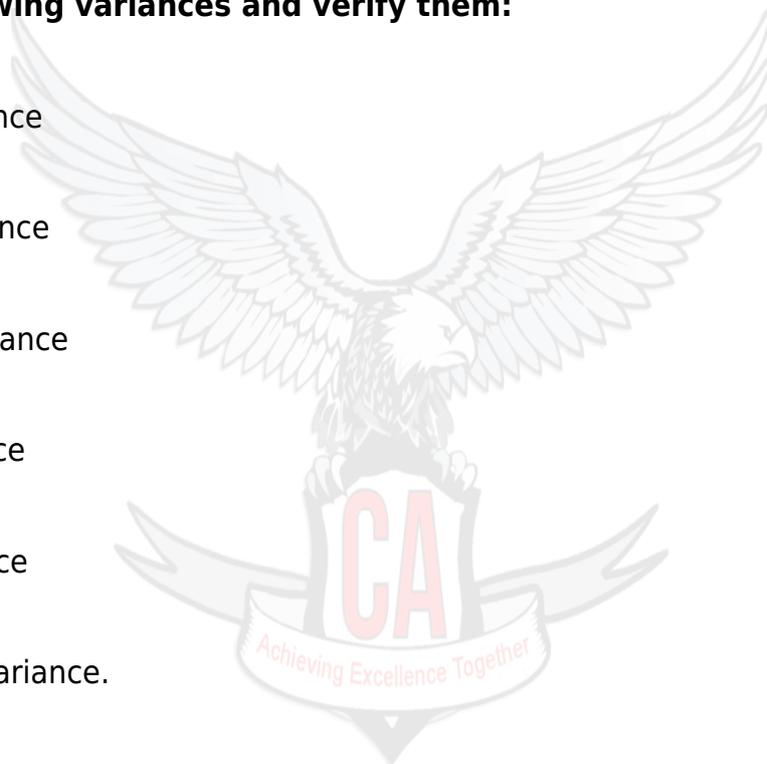
B	2,400	800	2,300	700
C	500	4,000	600	3,900
D	100	30,000	90	31,500

Labour	Standard		Actual	
	Hours	Hourly rate	Hours	Hourly rate
L1	60,000	15	56,000	18
L2	40,000	30	38,000	35

You are required to:

Calculate the following variances and verify them:

- Material Cost Variance
- Material Price Variance
- Material Usage Variance
- Labour Cost Variance
- Labour Rate Variance
- Labour Efficiency Variance.



(10 Marks)

Q-5 (a) SK Limited is engaged in the manufacture of tyres. Analysis of income statement indicated a profit of Rs.150 lacs on a sales volume of 50,000 units. The fixed costs are Rs.850 lacs which appears to be high. Existing selling price is Rs.3,400 per unit. The company is considering to revise the profit target to Rs.350 lacs. You are required to compute:

- i. Break-even point at existing levels in units and in rupees

ii. The number of units required to be sold to earn the target profit

iii. Profit with 15% increase in selling price and drop in sales volume by 10%

iv. Volume to be achieved to earn target profit at the revised selling price as calculated in (iii) above, if a reduction of 8% in the variable costs and Rs.85 lacs in the fixed cost is envisaged.

(10 Marks)

(b) The cost accountant of manufacturing company provides you the following details for year 2007:

Direct Material	1,75,000	Other Variable Costs	80,000
Direct wages	1,00,000	Other fixed costs	80,000
Fixed factory overheads	1,00,000	Profit	1,15,000
Variable factory overheads	1,00,000	Sales	7,50,000

During the year, the company manufactured two products A and B and the output and costs were:

Particulars	A	B
Output (units)	2,00,000	1,00,000
Selling price per unit	Rs.2.00	Rs.3.50
Direct materials per unit	Rs.0.50	Rs.0.75
Direct wages per unit	Rs.0.25	Rs.0.50

Variable factory overheads are absorbed as a percentage of direct wages. Other variable costs have been computed as: Product A Re.0.25 per unit; and B Re.0.30 per unit. During 2008, it is expected that the demand for product A will fall by 25 % and for B by 50%. It is decided to manufacture a further product C, the cost for which are estimated as follows:

Particulars	Product C
Output (units)	2,00,000
Selling price per unit	1.75
Direct materials per unit	0.40
Direct wages per unit	0.25

It is anticipated that the other variable costs per unit will be the same as for product A.

Prepare a budget to present to the management, showing the current position and the position for 2008. Comment on the comparative results.

(10 Marks)

Q- 6 Answer any four of the following:

(a) State the types of cost in the following cases:

- a. Interest paid on own capital not involving any cash outflow
- b. Withdrawing money from bank deposit for the purpose of purchasing new machine for expansion purpose
- c. Rent paid for the factory building which is temporarily closed
- d. Cost associated with the acquisition and conversion of material into finished product

(b) SCUSS the accounting treatment of Idle time and overtime wages.

(c) Define Inventory Control and give its objectives. List down the basis to be adopted for Inventory Control.

(d) Define Zero Base Budgeting and mention its various stages.

(e) EXPLAIN the treatment of by-product cost in cost accounting.

(4 × 5 =20 Marks)

