SUBJECT- COST ACCOUNTING

COURSE- BCOM (H)

SEMESTER -4

Internal Assignment

Assignment 1

Question 1. Cost may be classified in a variety of ways according to their nature and the information needs ofthe management" Discuss.

Question 2. Write short notes on the following:

(a) Out of Pocket Cost.

(b) Sunk Cost

(c) Opportunity Cost

(d) Imputed Costs

Question 3 From the following particulars, calculate the earnings of workers X and Y and also comment on thelabour cost.

Standard time allowed: 20 units per hour

Normal time rate: ₹30 per hour

Differential Rate to be applied:

80% of piece rate when below standard

120% of piece rate at or above standard

In a particular day of 8 hours, X produces 140 units while Y produces 165 units.

Question 4 What do you understand by Semi-Variable Overheads? Explain the various methods ofsegregating Fixed and Variable Overhead Costs.

Question 5 Union Transport Company supplies the following details in respect of a truck of 5 tonne capacity

Cost of truck ₹ 90,000

Estimated life 10 years

Diesel, oil, grease ₹ 15 per trip each way

Repairs and maintenance ₹500 p.m.

Driver's wages ₹ 500 p.m.

Cleaner's wages ₹ 250 p.m.

Insurance ₹ 4,800 per year

Tax ₹2,400 per year

General supervision charges ₹4,800 per year

The truck carries goods to and from the city covering a distance of 50 kms. each way.

On outward trip freight is available to the extent of full capacity and on return 20% of capacity.

Assuming that the truck runs on an average 25 days a month, work out:

(a) Operating cost tonne-km.

(b) Rate for tonne per trip that the company should charge if a profit of 50% on freight is to be earned.

Assignment 2

Question 1. The components A and B are used as follows:

Normal usage .... 300 units per week each

Maximum usage .... 450 units per week each

Minimum usage .... 150 units per week each

Reorder Quantity .... A 2,400 units; B 3,600 units.

Reorder period .... A 4 to 6 weeks, B 2 to 4 weeks.

Calculate for each component:

(a) Re-order Level (b) Minimum Level (c) Maximum Level (d) Average Stock Level.

Question 2 Write short notes on:

(a) Time and Motion Study

(b) Job Evaluation

(c) Merit Rating

(d) Straight Piece Rate vs. Differential Piece Rate

Question 3 The summary as per primary distribution is as follows:

Production departments A- ₹2400; B- ₹2100 & C- ₹1500

Service departments X – ₹700; Y- ₹900

Expenses of service departments are distributed in the ratios of:

X dept. : A- 20%, B- 40%, C- 30% and Y- 10%

Y dept. : A- 40%, B- 20%, C- 20% and X- 20%

Show the distribution of service costs among A, B and C under repeated distribution method.

Question 4i) State differences between Absorption Costing and Marginal Costing.

ii) State the uses and applications of Break-even Analysis/Cost Volume Profit Analysis.

Question 5 The data pertaining to Heavy Engineering Ltd. using are as follows at the end of 31.3.2017. Direct material ₹ 9,00,000; Direct wages ₹ 7,50,000; Selling and distribution overhead ₹ 5,25,000; Administrative overhead ₹ 4,20,000, Factory overhead ₹ 4,50,000 and Profit ₹ 6,09,000.

(a) Prepare a cost sheet showing all the details.

(b) For 2012-13, the factory has received a work order. It is estimated that the direct materials would be ₹ 12,00,000 and direct labour cost ₹ 7,50,000.

What would be the price of work order if the factoryintends to earn the same rate of profit on sales, assuming that the selling and distribution overheadhas gone up by 15%? The factory recovers factory overhead as a percentage of direct wages andadministrative and selling and distribution overheads as a percentage of works cost, based on thecost rates prevalent in the previous year.

Test Questions

Question 1. Calculate the Economic Order Quantity from the following information. Also state the number of ordersto be placed in a year.

Consumption of materials per annum : 10,000 kg

Order placing cost per order :₹ 50

Cost per kg. of raw materials :₹ 2

Storage costs : 8% on average inventory

Question 2. What is Absorption? What are the various methods of absorbing overheads in Cost Accounts?

Question 3. The stock of material held on 1-4-2015 was 400 units @ 50 per unit. The following receipts and issues wererecorded. You are required to prepare the Stores Ledger Account, showing how the values of issueswould be calculated under Base Stock Method, both through FIFO AND LIFO base being 100 units.

2-4-2015 Purchased 100 units @₹55 per unit

6-4-2015 Issued 400 units

10-4-2015 Purchased 600 units @ ₹55 per unit

13-4-2015 Issued 400 units

20-4-2015 Purchased 500 units @ ₹65 per unit.

25-4-2015 Issued 600 units

10-5-2015 Purchased 800 units @ ₹70 per unit

12-5-2015 Issued 500 units

13-5-2015 Issued 200 units

15-5-2015 Purchased 500 units @ ₹75 per unit

12-6-2015 Issued 400 units

15-6-2015 Purchased 300 units @ ₹ 80 per unit

Question 4A contractor commenced the work on a particular contract on 1st April, 2016 he usually closes his booksof accounts for the year on 31st December of each year. The following information is revealed from hiscosting records on 31st December, 2016.

Materials sent to site₹ 43,000

Jr. Engineer ₹12,620

Labour₹1,00,220

A machine costing ₹ 30,000 remained in use on site for 1/5th of year. Its working life was estimated at 5years and scrap value at ₹ 2,000

A supervisor is paid ₹ 2,000 per month and had devoted one half of his time on the contract.

All other expenses were ₹14,000 the materials on site were ₹ 2,500.

The contract price was ₹ 4,00,000. On 31st December, 2016 2/3rd of the contract was completedhowever, the architect gave certificate only for ₹ 2,00,000. On which 80% was paid. Prepare ContractAccount.

Question 5 The net profits of a manufacturing company appeared at ₹ 64,500 as per financial records for the yearended 31st December, 2016. The cost books however, showed a net profit of ₹86,460 for the sameperiod. A careful scrutiny of the figures from both the sets of accounts revealed the following facts.

(i) Income-tax provided in financial books 20,000

(ii) Bank Interest (Cr) in financial books 250

(iii) Work overhead under recovered 1,550

(iv) Depreciation charged in financial records 5,600

(v) Depreciation recovered in cost 6,000

(vi) Administrative overheads over-recovered 850

(vii) Loss due to obsolescence charged in financial accounts 2,800

(viii) Interest on Investments not included in cost accounts 4,000

(ix) Stores adjustments (Credit in financial books) 240

(x) Loss due to depreciation in stock value 3,350

Prepare Reconciliation Statement.

Multiple Choice Questions

1) In process, conversion cost means

(a) Cost of direct materials, direct labour, direct expenses

(b) Direct labour, direct expenses, indirect material, indirect labour, indirect expenses

(c) Prime cost plus factory overheads

(d) All costs up to the product reaching the consumer, less direct material costs

2) At the economic ordering quantity level, the following is true:

(a) The ordering cost is minimum

(b) The carrying cost is minimum

(c) The ordering cost is equal to the carrying cost

(d) The purchase price is minimum

3) When a direct worker is paid on a monthly fixed salary basis, the following is true:

(a) There is no idle time lost.

(b) There is no idle time cost.

(c) Idle time cost is separated and treated as overhead.

(d) The salary is fully treated as factory overhead cost.

4) The following is an example of direct expenses as per CAS-10:

(a) Special raw material which is a substantial part of the prime cost.

(b) Travelling expenses to site.

(c) Overtime charges paid to direct worker to complete work before time.

(d) Catalogue of prices of finished products.

5) The following is not treated as a manufacturing overhead:

(a) Lubricants

(b) Cotton waste

(c) Apportioned administration overheads

(d) Night shift allowance paid to a factory worker due to general work pressure.

6) When you attempt a reconciliation of profits as per Financial Accounts and Cost Accounts, the following is done:

(a) Add the under absorption of overheads in Cost Accounts if you start from the profits as per Financial Accounts.

(b) Add the under absorption of overheads in Cost Accounts if you start from the profits as per Cost Accounts.

(c) Add the over absorption of overheads in Cost Accounts if you start from the profits as per Financial Accounts.

(d) Add the over absorption of overheads in Cost Accounts if you start from the profits as per Cost Accounts.

7) Batch Costing is applied effectively in the following situation:

(a) paper manufacturing

(b) drug manufacturing

(c) designer clothes manufacturing

(d) oil refining

8) Which of the following is considered as normal loss of material?

(a) Pilferage

(b) Loss due to accident

(c) Loss due to careless handling of material

(d) None of these

9) Idle time is

(a) Time spent by workers in factory

(b) Time spent by workers in office

(c) Time spent by workers off their work

(d) Time spent by workers on their job

10) Warehouse expense is an example of

(a) Production overhead

(b) Selling overhead

(c) Distribution overhead

(d) None of above

11) Which of the following items is not included in preparation of cost sheet?

(a) Carriage inward

(b) Purchase returns

(c) Sales Commission

(d) Interest paid

12) Operating costing is applicable to:

(a) Hospitals

(b) Cinemas

(c) Transport undertaking

(d) All of the above

13) If sales are Rs. 90,000 and variable cost to sales is 75%. Contribution is

(a) Rs. 21,500

(b) Rs. 22,500

(c) Rs. 23,500

(d) Rs. 67,500

14) P/V Ratio will increase if the

(a) There is a decrease in fixed cost

(b) There is an increase in fixed cost

(c) There is a decrease in selling price per unit

(d) There is a decrease in variable cost per unit.

15) Difference between standard cost and actual cost is called as

(a) Wastage

(b) Loss

(c) Variance

(d) Profit

16) Sales Budget is a-

(a) Expenditure budget

(b) Functional budget

(c) Master budget

(d) None of the above

17) Depreciation is a example of-

(a) Fixed Cost

(b) Variable Cost

(c) Semi Variable Cost

(d) None

18) Continuous stock taking is a part of-

(a) ABC analysis

(b) Annual stock taking

(c) Perpetual Inventory

(d) None of these

19) Cost of idle time arising due to non-availability of raw material is

(a) Charged to costing profit and loss A/c

(b) Charged to factory overheads

(c) Recovered by inflating the wage rate

(d) Ignored

20) Over time is

(a) Actual hours being more than normal time

(b) Actual hours being more than standard time

(c) Standard hours being more than actual hours

(d) Actual hours being less than standard time

21) The allotment of whole items of cost centres or cost unit is called

(a) Cost allocation

(b) Cost apportionment

(c) Overhead absorption

(d) None of the above

22) Marginal costing technique follows the following basis of classification:

(a) Element wise

(b) Function-wise

(c) Behavior-wise

(d) Identifiability-wise

23) Which of the following is not a potential benefitsof using a budget?

(a) More motivated managers

(b) Enhanced co-ordination of firm activities

(c) Improved inter-departmental communication

(d) More accurate external financial statements

24) Joint Cost is suitable for-

(a) Infrastructure Industry

(b) Ornament Industry.

(c) Oil Industry

(d) Fertilizer Industry

25) Which of the following is considered as accounting record?

(a) Bin Card

(b) Bill of material

(c) Store Ledger

(d) None of these

26) Standard price of material per kg is Rs. 20, standard usage per unit of production is 5 kg. Actual usage of production 100 units is 520 kgs, all of which was purchased at the rate of Rs. 22 per kg. Material cost variance is

(a) 2,440 (A)

(b) 1,440 (A)

(c) 1,440 (F)

(d) 2,300 (F)

27) Standard cost of material for a given quantity of output is Rs. 15,000 while the actual cost of

material used is Rs. 16,200. The material cost variance is:

(a) Rs. 1,200 (A)

(b) Rs. 16,200 (A)

(c) Rs. 15,000 (F)

(d) Rs. 31,200 (A)

28) The basic difference between a fixed budget and flexible budget is that a fixed budget -

(a) is concerned with a single level of activity, while flexible budget is prepared for different levels of activity

(b) Is concerned with fixed costs, while flexible budget is concerned with variable costs.

(c) is fixed while flexible budget changes

(d) None of these.

29)In Reconciliations Statements, Incomes shown only in financial accounts are.

(a) Added to financial profit

(b) Deducted from financial profit

(c) Ignored

(d) Deducted from costing profit

30)Costs which are ascertained after they have been incurred are known as

(a) Sunk Costs

(b) Imputed Costs

(c) Historical Costs

(d) Opportunity Costs

Answer Key:

1) (b) Direct labour, direct expenses, indirect material, indirect labour, indirect expenses

2) (c) The ordering cost is equal to the carrying cost

3) (b) There is no idle time cost.

4) (b) Travelling expenses to site

5) (d) Night shift allowance paid to a factory worker due to general work pressure

6) (a) Add the under absorption of overheads in Cost Accounts if you start from the profits as per Financial Accounts

7) (b) drug manufacturing

8) (d) None of these

9) (c) Time spent by workers off their work

10) (c) Distribution overhead

11) (d) Interest paid

12) (d) All of the above

13) (b) Rs. 22,500

14) (d) There is a decrease in variable cost per unit

15) (c) Variance

16) (b) Functional budget

17) (a) Fixed Cost

18) (c) Perpetual Inventory

19) (a) Charged to costing profit and loss A/c

20) (a) Actual hours being more than normal time

21) (a) Cost allocation

22) (c) Behavior-wise

23) (d) More accurate external financial statements

24) (c) Oil Industry

25) (c) Store Ledger

26) (b) 1,440 (A)

27) (a) Rs. 1,200 (A)

28) (a) is concerned with a single level of activity, while flexible budget is prepared for different levels of activity

29) (b) Deducted from financial profit

30) (c) Historical Costs