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4 (Sem-1) CAC M1

2017

**COST ACCOUNTING**

Paper : 1·5

**(Accountancy Major)**

Full Marks – 80

Time – Three hours

The figures in the margin indicate full marks for the questions.

1. Choose the correct options from the following :

1×10=10

(a) Cost centres are created for \_\_\_\_\_.

(i) inventory valuation

(ii) product pricing

(iii) control and fixation of responsibility

(iv) revenue generation.

[Turn over

- (b) Re-ordering period or lead time means :
- (i) time required to raise purchase requisition
  - (ii) time needed to process an order
  - (iii) time needed to place an order and receive the material
  - (iv) the interval between the date of production and the date of receipt of material.
- (c) For a work order the standard time and time taken are 20 hours and 15 hours respectively. Time rate being Rs. 2 per hour. Total wages payable under Rowan Premium Plan will be :
- (i) Rs. 37.50
  - (ii) Rs. 47.50
  - (iii) Rs. 27.50
  - (iv) Rs. 17.50.
- (d) The charging of discrete, identifiable items of cost to cost centres or cost units is known as ———.
- (i) Absorption of overhead
  - (ii) Allocation of overhead
  - (iii) Apportionment of overhead
  - (iv) Alignment of overhead.

- (e) Wage sheet is prepared by the \_\_\_\_\_.
- (i) Personnel department
  - (ii) Payroll department
  - (iii) Engineering department
  - (iv) Time-keeping department.
- (f) Loss incurred in an incomplete contract is transferred to \_\_\_\_\_ A/c.
- (i) Profit and loss
  - (ii) Contract
  - (iii) Work certified
  - (iv) Contractor
- (g) In Process costing, the abnormal loss is treated as \_\_\_\_\_ cost and written off to Profit and Loss Account.
- (i) Unit
  - (ii) Period
  - (iii) Process
  - (iv) Future

- (h) The change in costs due to changes in the method of production is known as \_\_\_\_\_.
- (i) Marginal cost
  - (ii) Replacement cost
  - (iii) Differential cost
  - (iv) Opportunity cost
- (i) Which one of the following item is not included in the annual carrying cost of inventory ?
- (i) Insurance cost.
  - (ii) Amount of interest payable on the money locked up in the materials.
  - (iii) Cost of storage.
  - (iv) Cost of staff posted in the purchasing department.
- (j) Examine the correctness of the statements given below :
- I. Under-absorption of overhead means the amount by which the absorbed overheads fall short of the actual amount of overheads incurred.

II. Over-absorption of overhead means the excess of overheads absorbed over the actual amount of overheads incurred.

(i) Statement I is correct.

(ii) Statement II is correct.

(iii) Both the statements I and II are correct.

(iv) Both the statements I and II are incorrect.

2. Answer the following questions :  $2 \times 5 = 10$

(a) State two objectives of Cost Accounting.

(b) If the minimum stock level and average stock level of raw material A are 4,000 and 9,000 units respectively, find out its re-order quantity.

(c) What is meant by abnormal ideal time ?

(d) State two basic principles of process costing.

(e) What is meant by integrated accounts ?

3. Answer any *four* of the following questions :

$$5 \times 4 = 20$$

- (a) Distinguish between cost control and cost reduction.
- (b) The capacity usage ratio and the capacity utilization ratio in respect of a machine for a particular month is 80% and 90% respectively. The available working hours in a month is 200 hours.

The break-up of ideal time is as follows :

Waiting for job ——— 5 hours

Break down ——— 4 hours

Waiting for tools ——— 3 hours

Calculate the ideal time cost when the hourly fixed cost of running the machine is Rs. 8.00.

- (c) Explain the concept of ABC system as a technique of effective material control.
- (d) ABC Ltd. closed its accounts for the year ended 31st March, 2016. The profit shown in financial accounts is Rs. 3,72,000 and for

the same period cost accounts showed a profit of Rs. 4,10,000. On comparison of both the accounts, the following stock balances are appearing :

	<b>Cost Accounts</b>	<b>Financial Accounts</b>
	Rs.	Rs.
Opening stock of raw materials	1,36,000	1,45,000
Closing stock of raw materials	1,10,000	1,03,000
Opening stock of finished goods	2,66,000	2,58,000
Closing stock of finished goods	2,29,000	2,23,000

**Additional information appearing in the Financial Accounts :**

Loss on sale of machinery Rs. 35,000

Dividend received Rs. 7,000

Interest received Rs. 4,000

**Prepare a Memorandum Reconciliation Account.**

- (e) In process B, 75 units of a commodity were transferred from process A at a cost of Rs. 1,310. The additional expenses incurred by the process were Rs. 190. 20% of the units entered are normally lost and sold at Rs. 4 per unit. The output of the process was 70 units. Prepare Process B Account and Abnormal Gain Account.
- (f) Write a short note on Absorption of overhead.
4. (i) State the steps involved in the installation of a costing system in a large manufacturing company. 10

Or

The books of Avinash Manufacturing Co. presents the following data for the month of April, 2017 :

Direct labour cost Rs. 17,500 being 175% of works overheads.

Cost of goods sold excluding administrative expenses Rs. 56,000.

Inventory accounts showed the following balances :

	1st April Rs.	30th April Rs.
Raw material	8,000	10,600
Work-in-progress	10,500	14,500



	1st April	30th April
	Rs.	Rs.
Finished goods	17,600	19,000

*Other information :*

Selling expenses Rs. 3,500

General and administrative expenses Rs. 2,500

Sales for the month Rs. 75,000

Compute the value of materials purchased and also prepare a Cost statement. 10

5. (a) X Ltd. is committed to supply 24,000 bearings per annum to Y Ltd. on a steady basis. It is estimated that it costs 10 paise as inventory holding cost per bearing per month and that the set-up cost per run of bearing manufacture is Rs. 324.

What would be the optimum run size for bearing manufacture ? What is the minimum inventory holding cost at optimum run size ?

- (b) What are the various assumptions in the calculation of EOQ ?  $7+3=10$

Or

- (a) What factors are to be considered while adopting a method for the pricing of materials ?
- (b) State two advantages of LIFO method of valuing materials. 8+2=10

6. A machine is purchased for cash at Rs. 9,200. Its working life is estimated to be 18,000 hours after which its scrap value is estimated at Rs. 200. It is assumed that : 10

- (i) The machine will work for 1,800 hours annually.
- (ii) The repair charges will be Rs. 1,080 during the whole period of life of the machine.
- (iii) The power consumption will be 5 units per hour at 6 paise per unit.
- (iv) Other annual standing charges are estimated to be :
- (a) Rent of department (machine occupies 1/5th of total space) Rs. 780.
- (b) Light Rs.288 (12 points in the department, 2 points engaged in machine).

(c) Foreman's salary ( $\frac{1}{4}$ th of his time occupied in the machine) Rs. 6,000.

(d) Insurance premium for machine Rs. 36.

(c) Cotton waste Rs. 60.

Calculate machine hour rate.

Or

(A) Calculate the earnings of worker under : 5

(i) Halsey Plan

(ii) Rowan Plan from the following particulars :

(a) Hourly rate of wages guaranteed is 0:50 per hour.

(b) Standard time for producing one dozen articles is 3 hours.

(c) Actual time taken by the worker to produce 20 dozen articles is 48 hours.

(B) What could be the possible effects of labour turnover on cost of production ? 5

7. The following was the expenditure on a contract of Rs. 12,00,000 commenced in April 2015 :

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Materials	Rs. 1,20,000
Wages	Rs. 1,64,000
Plant	Rs. 20,000
General expenses	Rs. 8,000

Cash received on account to 31st March 2016 amounted to Rs. 2,40,000. Retention money is 20% of the work certified, the value of materials in hand at 31st March, 2016 was Rs. 10,000.

Prepare Contract Account showing the position at the end of the year and the amount of the profit which might reasonably be taken to Profit and Loss Account after allowing 10% for depreciation on plant.

Or

- (a) Write a short note on inter-process transfer pricing in terms of process costing. 5
- (b) State the features of a process cost system. 5