

[2 Hours]

[Total Marks: 60]

- N.B.: (1) All questions are compulsory.
 (2) Figures to the right indicate full marks.
 (3) Working notes should form the part of your answer.

1. From the following information prepare Process account as per F.I.F.O. assumption: (15)

Opening stock	Degree of Completion
800 units @ Rs. Per unit Rs. 4,800	Material 60%
	Labour 40%
	Overheads 40%

Transfer from previous Process: 12,000 units costing Rs. 16,350. Transfer to next Process: 9,700 units; Units scrapped 1,300 units Normal loss 10%; Closing stock: 1,800 units

Degree of Completion

For units scrapped	For Closing Stock:
Material 100 %	Material 60 %
Labour 50 %	Labour 50 %
Overheads 50 %	Overheads 50 %

Scrap realized Rs. 1.00 per unit

Other information	Rs.
Material	10,500
Labour	20,760
Overheads	16,470

OR

1. AB Ltd. has three production departments A, B, and C and two service departments D and E. The following details are extracted from the books of accounts in respect of indirect expenses incurred during April 2018:

(15)

Particulars	Amount (Rs.)
Indirect Cost :	
Indirect Wages	9,000
Lighting	1,200
Rent and Rates	12,000
Electric Power	6,000
Depreciation	24,000
Sundry Expenses	7,800
Total	60,000

Following further details are collected for distribution of the above costs:

Particulars	Departments				
	A	B	C	D	E
Value of Machinery (in Rs. '000)	60	50	80	10	-
Horse power of machines	40	45	60	5	-
Light points (Nos.)	20	30	40	20	10
Floor space (sq. meters)	150	200	250	100	50
Direct Wages (in Rs. '000)	30	20	40	4	6

Prepare Primary Overheads Distribution Summary

2. MST Limited has collected the following data for its two activities. It calculates activity cost rates based on cost driver capacity. (15)

Activity	Cost Driver	Capacity	Cost
Power	Kilowatt hours	50,000 kilowatt hours	Rs. 2,00,000
Quality Inspections	Number of inspections	10,000 Inspections	Rs. 3,00,000

The company makes three products M, S and T. For the year ended March 31, 2018, the following consumption of cost drivers was reported :

Product	Kilowatt Hours	Quality Inspection
M	10,000	3,500
S	20,000	2,500
T	15,000	3,000

Required:

- Compute the costs allocated to each product from each activity.
- Calculate the cost of unused capacity of each activity.
- Discuss the factors the management considers in choosing a capacity level to compute the budgeted fixed overhead cost rate.

OR

2. The following information relates to budgeted operations of Division X of a manufacturing company.

	(Rs.)
Sales (50000 units at Rs. 8)	4,00,000
Less: Variable costs @ Rs. 6 per unit	<u>3,00,000</u>
Contribution margin	1,00,000
Less: Fixed costs	<u>75,000</u>
Divisional profit	<u>25,000</u>

The amount of divisional investment is Rs. 1,50,000 and the minimum desired rate of return on the investment is the cost of capital of 20%.

Required :

- Calculate divisional expected ROI
- Calculate divisional expected RI
- Comment on the result of (i) and (ii)
- The divisional manager has the opportunity to sell 10,000 units at Rs. 7.50 per unit. Variable cost per unit would be the same as budgeted, but fixed costs would increase by Rs. 5,000. Additional investment of Rs. 20,000 would also be required. If the manager accepts the special order, by how much and in what direction would his residual income change?

3. PQR Industries Ltd. has two divisions M and N. Division M manufactures product A – 15 (15) which it sells in outside market as well as to Division N which processes it to manufacture Z – 25. The Manager of Division N has expressed the opinion that transfer price is too high. The two Divisional Managers are about to enter into discussions to resolve the conflict, and Manager of division – M to supply him with some information prior to discussions.

Division M has been selling 50,000 units to outsiders and 10,000 units to Division N, all at Rs. 25 per unit it is not anticipated that these demand will change. The variable cost is Rs. 15 per unit and the fixed costs are Rs. 3 Lakhs. Divisional investment is asset is Rs. 12 lakhs.

The Manager of Division M anticipates that Division N will want a transfer price of Rs. 22. If he does not sell to Division N, Rs. 40,000 of fixed costs and Rs. 2,00,000 of assets can be avoided. The Manager of Division M would have no control over time proceeds from the sale of the assets and is judged primarily on his rate of return.

Required :

- Should the Manager of Division M transfer its products at Rs. 22 to Division N ?
- What is the lowest price that the Division M accepts?

OR

3. A summary of the balance sheet of ABC co. given below (15)

Liabilities	Rs.	Assets	Rs.
Current Debts	6,00,000	Cash and Accounts Receivable	13,00,000
Long term Debts	10,00,000	Plant and Equipment (net of depreciation)	14,00,000
Owner Equity	11,00,000		
Total Equities	27,00,000	Total Assets	27,00,000

The current price index is 280. The plant and equipment and the long- term debts were acquired when the price index was at 180.

Revised the summary balance sheet to restate all assets and equities in the terms of current rupees. How will you treat the monetary gain or loss, if any?

4.(A) State whether following statements are True or False: (08)

- Visible waste means residue such as slag also having no sale value.
- The sale value of the units of abnormal loss is credited to the process A/c.
- Cash discounts are generally excluded completely from the costs.
- Variable overhead vary with time
- Activity cost pools are cost accumulations associated with a given activity.
- Machine setup is normally considered a unit-level cost.
- All controllable costs are direct costs.
- In computing a transfer price, the maximum price should be no higher than the lowest market price at which the buying segment can obtained the good or service externally .

4. (B) Match the following: (07)

Column A	Column B
1. Normal Output	a) No. of employees
2. Unit cost	b) Material ordering
3. Bad debts	c) Target price less target profit
4. Canteen	d) Number of customers
5. Batch level activities	e) Actual output
6. Target cost	f) Number of machine hours
7. Distribution	g) A percentage of cash collection
	h) Normal cost + Normal Output
	i) Input – Normal loss

OR

(4) Write Short notes on: (Any 3) (15)

- Feedback Report
- Need for inflation accounting
- Cost Hierarchies
- Equivalent Units
- Trial and Error Method
