

FUNDAMENTALS OF COST AND MANAGEMENT ACCOUNTING – STAGE-2**Marks****Q. 2 (a) (i) Fixed Cost:**

Cost which are not affected by the level of activity are **fixed costs** or period costs.

1

Step fixed cost:

A **step fixed cost** is a cost which is fixed in nature but only within certain level of activity.

1

(ii) Variable Cost:

Variable cost increase or decrease with the level of activity.

1

Semi variable cost:

Semi-variable cost are costs which are part -fixed and part-variable and which are thus partly affected by a change in the level of activity.

1

(b)

Ahmed Manufacturing Company
Value of work-in-process lost by fire

		Rupees	
Inventory (Material + Work in Progress + Finished good) as on January 01, 2011		205,000	
Purchase	55,000		
Freight	10,000	65,000	2
Direct Labour		40,000	
Factory Overhead (50% of direct labour)		20,000	2
Total		330,000	2
Less: Cost of goods sold:			
Sales	200,000		
Less: Gross profit (25% of sales)	50,000	150,000	2
Inventory (Material + Work in Progress + Finished good) as on April 30, 2011; before fire		180,000	2
Less: Physical inventory as on April 30, 2011:			
Material	50,000		
Finished Goods	80,000	130,000	2
Work-in-process inventory destroyed by fire		50,000	2

Q. 3 (a) Mechanism of two bin system with reference to material control:

Two bin system of inventory control separates each stock item into two bins, piles, or bundles.

1

The First bin contains enough stock to satisfy usage that occurs between receipt of an order and placing of the next order.

1

The second bin contains the quantity used from order date to delivery date plus the safety stock.

1

When the first bin is empty and the second bin is tapped, a requisition for a new supply is prepared.

1

The Second bin or reserve quantity is determined originally by estimating usage requirements and adding a safety stock adequate to cover the time required for replenishing the material.

1

FUNDAMENTALS OF COST AND MANAGEMENT ACCOUNTING – STAGE-2

Marks

Q. 3 (b) Gross profit using perpetual inventory at average costing method:

Date	Opening Balance		Received			Weighed Average Rate	Sold				Balance		Qty – No. Dresses Amount in Rs.	
	Qty	Amount	Qty	Rate	Amount		Qty	Rate	Sale Amount	Cost of Sale	Qty	Amount		
January 2012	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	
						(4 x 5)	{{(3+6)/(2+4}}			(8 x 9)	(8 x 7)	(2+ 4 – 8)	(3 + 5 – 11)	
01	4	4,000					1,000.0000					4	4,000	
10	4	4,000	2	1,200	2,400		1,066.6667					6	6,400	3
12	6	6,400					1,066.6667	5	1,800	9,000	5,333	1	1,067	3
15	1	1,067	5	1,450	7,250		1,386.1111					6	8,317	3
18	6	8,317					1,386.1111	3	1,800	5,400	4,158	3	4,158	3
25	3	4,158	3	1,600	4,800		1,493.0555					6	8,958	3
28	6	8,958					1,493.0555	4	1,800	7,200	5,972	2	2,986	3
			10		14,450			12		21,600	15,464			
										Cost of sales	15,464			
										Gross profit	6,136			2

Q.4 (a) (i) Cost allocation:

To assign a whole item of cost, or of revenue to a single cost unit, centre, account or time period.

2

(ii) Cost apportionment:

To spread revenue or costs over two or more cost units, centres, accounts or time periods. This may also be referred to as 'indirect allocation'.

3

(b) Mentioning the appropriate basis:

Basis	Apportioned Cost	
Number of Employees	Canteen	0.5
Weight of Material	Material Handling	0.5
Floor Area	Rates and Rent,	0.5
Plant and Equipment	Insurance and Depreciation	0.5
Stores Requisition	Store Keeping	0.5
Volume of Space occupied	Heating and Lighting	0.5

(c) (i) Labour pay for the week under incentive plan # 1:

Tin A	20 x 5 hours =	100	2
Tin B	40 x 2 hours =	80	2
Total Piecework Hour Produced		180	1
Rate per piecework hour	x	Rs. 10	
Labour pay under Incentive Plan # 1		Rs. 1,800	1

FUNDAMENTALS OF COST AND MANAGEMENT ACCOUNTING – STAGE-2**Marks****(ii) Labour pay for the week under incentive plan # 2 if he produces 125 units:**

Level of Production	Units	Rate/ Unit	Pay (Rs.)	
Upto 100 units	100	10	1,000	2
From 100 units to 120 units	20	20	400	2
Above 120 units	5	40	200	2
Labour pay under Incentive Plan # 2			1,600	

Q.5 (a) Relationship between standards and budgets:

Both standards and budgets are concerned with performance and cost levels for control purposes. They, therefore, are similar in principle although they differ in scope. Standards are for a unit, i.e., they apply to particular products, to individual operations or processes or services.

Budgets are concerned with totals; they lay down cost limits for functions and departments and for the firm as a whole. The detailed unit standards are used as the basis for developing realistic budgets!

5

(b) Fixed overhead expenditure variance:

		Rupees	
Actual Expenditure		60,000	
Budgeted Expenditure	(Rs.75 X 1,000)	75,000	
Expenditure variance		(15,000)	(F) 3

Fixed overhead volume variance:

		Rupees	
Budgeted production at standard rate	(Rs.75 x 1,000)	75,000	
Actual production at standard rate	(Rs.75 x 900)	67,500	
Volume variance		7,500	(A) 3

(c) (i) Material price variance is recorded at the time of purchase:

	Rupees	
1,500 units purchased should cost Rs.4 per unit	6,000	
1,500 units purchased at Rs.3.80 per unit	5,700	
	300	(F) 2

(ii) Material price variance is recorded at the time of issue:

	Rupees	
1,200 units purchased should cost Rs.4 per unit	4,800	
1,200 units purchased at Rs.3.80 per unit	4,560	
	240	(F) 2

FUNDAMENTALS OF COST AND MANAGEMENT ACCOUNTING – STAGE-2**Marks****Q. 6 (a) (i) Margin of safety:**

The margin of safety is the difference in units between the budgeted sales volume and the breakeven sales volume.

2

(ii) Break-even analysis:

Breakeven analysis is the study of the interrelationships between costs, volume and profit at various levels of activity.

2

(b) Minimum number of tyre sold to achieve at least the current profit:

		Rupees	Units	
Fixed Cost	(25,000 X 12)	300,000		2
Current annual profit		240,000		
Current annual contribution		540,000		2
Contribution per unit after price increase (450 - 250)		200		2
Minimum number of Tyres to be sold to achieve at least current Profit	$= \frac{\text{required contribution}}{\text{contribution per unit}} =$	$\frac{540,000}{200}$	$= 2,700$	2

THE END