

**INSTITUTE OF COST AND MANAGEMENT ACCOUNTANTS  
OF PAKISTAN**

PROFESSIONAL-I EXAMINATION-SPRING (SUMMER), 2004

*Sunday, the 30th May, 2004*

**1426**

**COST ACCOUNTING**

*Time allowed—2 Hours 40 Minutes*

*Maximum Marks—90*

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- (i) Attempt ALL questions.
  - (ii) Answers must be neat, relevant and brief.
  - (iii) In marking paper, the examiners take into account clarity of exposition, logic of arguments, effective presentations, language and use of clear diagram/chart, where appropriate.
  - (iv) Read the instructions printed on the top cover of answer script CAREFULLY before attempting the paper.
  - (v) Use of non-programmable scientific calculators of : O Casio fx-82LB, O Casio fx-82 Super, O Casio fx-350 D, O Casio fx-350 HA. models is allowed.
  - (vi) DO NOT write your Name, Reg. No. or Roll No. anywhere inside the answer script.
  - (vii) Question No. 1 – "Multiple Choice Question" printed separately, is an integral part of this paper.
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- |   | Marks     |
|---|-----------|
| Q. 2. (a) What procedures should be adopted in order to deal with the following items in the materials ledger cards ? | 8         |
| (i) Scrap delivered to the store room.  |           |
| (ii) Return of materials in excess of production requirements to storage.   |           |
| (iii) Gain or loss in weight through climatic conditions while in storage.  |           |
| (iv) Breakage in store room.  |           |
| (b) The Bari Company has obtained following costs and other data pertaining to one of its materials :                 |           |
| Working days per year   | 250       |
| Normal use per day  | 500 units |

*P.T.O.*

Maximum use per day	600 units
Minimum use per day	100 units
Lead time	5 days
Variable cost of placing one order	Rs. 360
Variable carrying cost per unit per year	Rs. 10

**Required :**

- Compute :
- |   |   |
|---|---|
| (i) Economic order quantity.                                | 3 |
| (ii) Safety stock (maximum).                                | 2 |
| (iii) Order point.  | 2 |
| (iv) Normal maximum inventory.                              | 3 |
| (v) Absolute maximum inventory.                             | 3 |
| (vi) Average inventory assuming normal lead time and usage. | 2 |
- Q. 3. (a) Accounting for labour costs and related fringe benefits is an important function of management. Discuss reasons for distinguishing between direct and indirect labour. Also give three costing methods of accounting for the premium costs of overtime – direct labour, stating the circumstances under which each method would be appropriate. 7
- (b) The Elite Company is interested in improving its control over labour costs. The Accounting Department has assembled the following data for October :

<u>Labour Activity</u>	<u>Actual Hours</u>	<u>Actual Expenses (Rs.)</u>
Productive labour time	8,000	319,500
Set-up time	200	7,770
Clean-up time	110	3,310
Down-time	350	13,880

A predetermined standard of 7,700 hours of productive labour has been provided. Statistical analysis has established that set-up time, clean-up time and down-time should be 3%, 1% and 4% respectively of standard production time allowed. The standard labour rate is Rs. 40 per hour.

**Required :**

- Prepare :
- |  |    |
|--|----|
| (i) Labour performance report for October, including total variances and labour efficiency variance to be sent to plant manager. | 10 |
| (ii) An explanation and analysis for any difference between the labour efficiency variance and the total labour variance.        | 5  |

Q. 4. (a) By-products, which require no additional processing after the point of separation are often accounted for by assigning to them a cost of zero at the point of separation and crediting the cost of production of the main product as sales are made :

7

- (i) Justify the above method of treating by-products.  
 (ii) Discuss the possible shortcomings of the treatment.

(b) The Profit and Loss Account of Three Stars Ltd. showed a net profit (after tax provision) of Rs. 380,568 for the year ended December, 31, 2003. The cost Accounting records, however, revealed a net profit of Rs. 444,328 for the same period.

The practice of the company is to take under or overapplied manufacturing selling and administrative expenses direct to the Profit & Loss Account.

A Scrutiny of both the sets of books, disclosed the following :

	<u>Rs.</u>
Manufacturing expenses under-applied	6,752
Selling expenses over-applied	4,992
Admin. expenses under-applied	560

Items debited to Profit and Loss Account but not shown in Cost Accounts :

	<u>Rs.</u>
Interest on debentures	9,600
Charitable donations	5,600
Loss due to obsolescence	18,400
Loss due to bad debts	11,840
Bank charges	800
Income Tax provided in financial books	80,800

Items credited to Profit & Loss Account but not shown in Cost Accounts :

	<u>Rs.</u>
Dividend received.	38,400
Interest earned.	1,280
Rent from staff quarters.	5,760
Stores Adjustment (Credit in financial books).	2,560
Charges made in Cost Accounts in lieu of interest on capital.	16,000
Charges made in Cost Accounts in lieu of rent.	1,600

**Required :**

Prepare a statement reconciling the profit shown by Cost Accounting Records with Net Profit calculated from Financial Accounts. 15

Q. 5. (a) What are different costing methods ? Describe each method. 7

(b) The Chanar Company uses job order costing. At the beginning of April, following two jobs were in process :

	<u>Job No. 1</u>	<u>Job No. 2</u>
	<u>Rs.</u>	<u>Rs.</u>
Materials.	2,000	700
Direct labour cost.	1,000	300
Applied factory overheads.	1,500	450

- There was no inventory of finished goods on April 1. During the month Jobs No. 3, 4, 5, 6, 8 and 9 were started.
- Material requisitions for April totaled Rs. 13,000, direct labor cost was Rs. 10,000 and actual factory overheads were Rs. 16,000. Factory overheads are applied at a rate of 150% of direct labour cost.
- The only job still in process at the end of April is No. 9 with cost of Rs. 1,400 for materials and Rs. 900 for direct labor.
- Job No. 6 the only finished job on hand at the end of April, has a total cost of Rs. 2000.

**Required :**

(i) Prepare ledger accounts for : 11

- (1) Work-in-process.
- (2) Finished goods.
- (3) Cost of goods sold.
- (4) Factory overheads control, and,
- (5) Applied factory overheads.

(ii) General journal entries to record : 5

- (1) Cost of goods manufactured
- (2) Cost of goods sold
- (3) Closing of over/under-applied factory overheads to cost of goods sold.

THE END