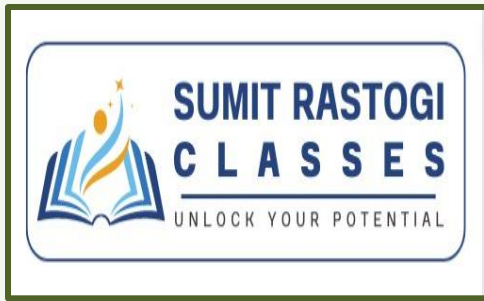




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TEST PAPER – 03

(Chapters Covered – Marginal Costing, Standard Costing and Budgetary Control)

COST ACCOUNTING

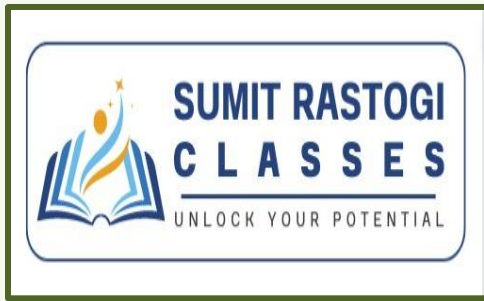
Time Allowed: 3 Hours

Full Marks: 100

**Section A contains Question Number 1. All parts of this question are compulsory.
Working notes should form part of the relevant answer.**

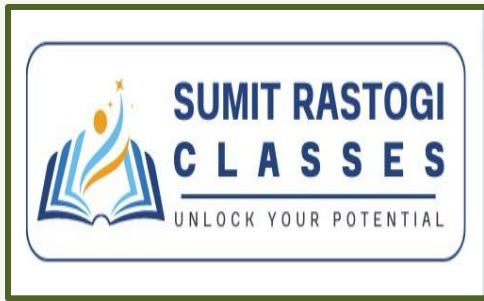
SECTION-A

1. Choose the correct answer from the given alternatives (you may write only the Roman number and the alphabet chosen for your answer) (2×15 = 30 Marks)
- (i) The sales and profit of a firm for the year 2016 are ₹ 1,50,000 and ₹ 20,000 and for the year 2017 are ₹1,70,000 and ₹25,000 respectively. The P/V Ratio of the firm is:
- (a) 30%
 - (b) 25%
 - (c) 20%
 - (d) 15%
- (ii) Which of the following is not an element of master budget?
- (a) Operating Expenses Budget
 - (b) Capital Expenditure Budget
 - (c) Production Schedule
 - (d) All of these
- (iii) Marginal costing technique follows the following basis of classification.
- (a) Identifiability-wise
 - (b) Element-wise
 - (c) Function-wise
 - (d) Behaviour-wise



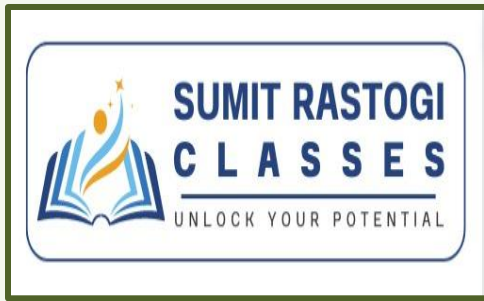
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- (iv) Z Ltd. is planning to sell 1,00,000 units of product A for ₹12.00 per unit. The fixed costs are ₹2,80,000. In order to realize a profit of ₹2,00,000, what would the variable costs be?
- (a) ₹7,20,000 (c) ₹9,20,000
(b) ₹4,80,000 (d) ₹9,00,000
- (v) A budget that gives a summary of all the functional budgets and projected Profit and Loss A/c is known as:
- (a) Discretionary budget
(b) Master budget
(c) Flexible budget
(d) Performance budget
- (vi) The breakeven point of GOMIN LTD. is 3,20,000. The fixed cost is ₹1,28,000 and the variable cost per unit is ₹12. What will be the P/V Ratio?
- (a) 50%
(b) 40%
(c) 30%
(d) 45%
- (vii) During a period 2560 labour hours were worked at a standard rate of ₹7.50 per hour. The direct labour efficiency variance was ₹825 (A). How many standard hours were produced.
- (a) 2550
(b) 2500
(c) 2450
(d) 2400
- (viii) Which of the following factors are responsible for change in the break-even point:
- (a) Change in variable cost
(b) Change in selling price
(c) Change in fixed cost
(d) All of the above



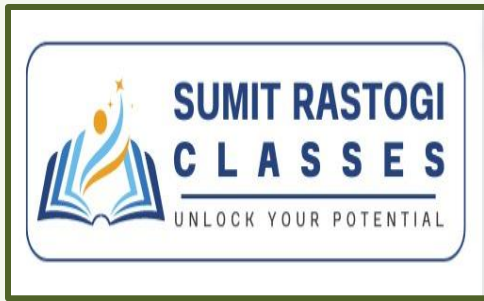
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- (ix) The management's time is saved by reporting only the deviations from the predetermined standards is called:
- (a) Management by Exception
 - (b) Standard Costing
 - (c) Budgetary Control
 - (d) Management by objectives
- (x) Which of the following is generally a long-term budget?
- (a) Cash budget
 - (b) Sales budget
 - (c) Capital expenditure budget
 - (d) Research and Development budget
- (xi) Standard hours for 100 units of output are 800 @₹4 per hour and actual hours taken are 760 @₹4.50 per hour. What is the labour rate variance?
- (a) ₹100 (Favourable)
 - (b) ₹380 (Adverse)
 - (c) ₹480 (Adverse)
 - (d) ₹400 (Adverse)
- (xii) From cost control point of view the standard most commonly used is:
- (a) Normal standard
 - (b) Theoretical standard
 - (c) Expected standard
 - (d) Basic standard
- (xiii) In a factory of ZINB Ltd. operating Standard Costing System, 2000 kgs of a material @₹12 per kg were used for a Product, resulting in Material cost variance of ₹3000 (FAV). The standard material cost of actual production is:
- (a) ₹25,000
 - (b) ₹30,000
 - (c) ₹27,000
 - (d) ₹24,000



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- (xiv) In a system whereby all activities are revaluated each time a budget is formulated and starts with assumption that requirement of funds does not exist is called:
- (a) Zero-based Budgeting
 - (b) Performance Budgeting
 - (c) Programme Budgeting
 - (d) Flexible Budgeting
- (xv) The fixed-variable cost classification has a special significance in the preparation of:
- (a) Capital budget
 - (b) Flexible budget
 - (c) Master budget
 - (d) Cash budget



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SECTION-B

Answer any five questions from question number 2 to 8.

14x5=70

- 2 (a) PANCHAL LTD., a toy manufacturer earns an average net profit of ₹1.80 per piece on a selling price of ₹16.50 by producing and selling 12,000 pieces or 60% of the capacity. His cost of sales per toy is as under:

Particulars	Amount (₹)
Direct Material	4.25
Direct Wages	1.60
Works overheads (40% Fixed)	7.15
Sales overheads (30% Fixed)	0.90

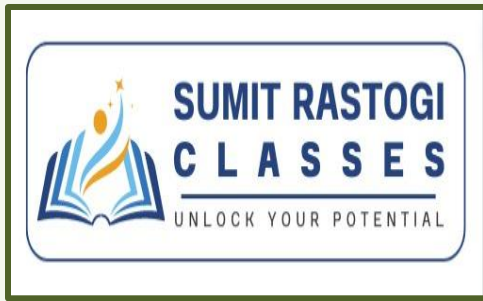
During the current year, he intends to produce the same number of toys but anticipates that fixed cost will go up by 10%. Direct wages and material will increase by 6% and 4% respectively but he has no option of increasing the selling price. Under this situation, he obtains an offer for further sale of 20% of the capacity.

Required: What minimum price you will recommend for acceptance of the offer to ensure the manufacturer an overall profit of ₹30,100? (Show your calculations up to 3 decimal points). (7 marks)

- 2 (b) PENTAX LTD., has prepared its Expense Budget for 20,000 units in its factory for a year as detailed below:

Particulars	Units/₹
Direct Material	50
Direct labour	20
Variable overhead	15
Direct expenses	6
Selling expenses (20% Fixed)	15
Factory expenses (100% Fixed)	7
Administrative expenses (100% Fixed)	4
Distribution expenses (85% Variable)	12
Total	129

Required: Prepare an Expenditure Budget for the production of 15,000 units and 18,000 units. (7 marks)



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3(a) SBZ Ltd., a manufacturing company using a standard costing system has the following production budget for November, 2022:

Product A = 20000 units and Product B = 40,000 units

A standard hour represents 10 units of A and 8 units of B. The standard wage rate per hour is 0.50.

During the month 7500 hours were paid (₹0.60 per hour) which included 350 unproductive hours due to unbudgeted holidays as also loss of production of 250 units of Product A due to machine breakdown.

Actual production for the month was 24,000 units of A and 38,000 units of B.

Calculate:

- (i) Direct Labour Rate Variance
- (ii) Direct Labour Idle Time Variance
- (iii) Direct Labour Efficient Variance
- (iv) Direct Labour Total Variance

(7 marks)

3(b) M/s. Jolly Ltd. Manufactures product X and product Y during the year ending on 31st March 2023. It is expected to sell 7,500 kg. of product X and 37,500 kg. of product ₹60 and ₹32 per kg., respectively.

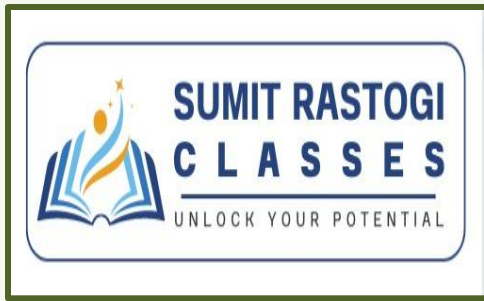
The direct materials A, B and C are mixed in the proportion of 4:4:2 in the manufacture of Product X and in the proportion of 3:5:2 in the manufacture of product Y. The actual and budget inventories for the year are as follows:

Particulars	Opening Stock (kg.)	Expected Closing Stock (kg.)	Anticipated Cost per kg. (₹)
Material A	3,000	2,400	10
Material B	2,500	5,800	8
Material C	16,000	17,300	6
Product X	1,500	2,000	-
Product Y	3,000	3,500	-

Required:

Prepare the Production Budget and Materials Budget showing the Purchase Cost of materials for the year ending 31st March, 2023.

(7 marks)



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4(a) Following particulars relate to a manufacturing factory for the month of March, 2017:

- Variable cost per unit ₹ 14
- Fixed factory overhead ₹ 5,40,000
- Fixed selling overhead ₹ 2,52,000
- Sales price per unit ₹ 20

- (i) What is the break-even point expressed in rupee sales?
- (ii) How many units be sold to earn a target net income of ₹60,000 per month?
- (iii) How many units must be sold to earn a net income of 25% on cost?
- (iv) What should be the selling price per unit if break-even point is to be brought down to 1,20,000 units?

(7 marks)

4 (b) The standard cost card of A & Co. shows the following costs:

Particulars	Units/₹
Material Cost - 2 Kg. @ ₹2.50 Each	₹5 per unit
Wages Cost - 2 Hours @ ₹50 Paise Each	₹1 per unit

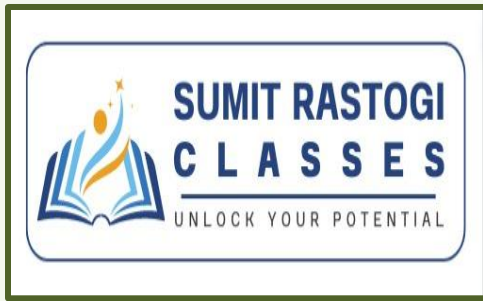
The actual data from business operations are as follows:

Production	8,000 units
Actual Total Cost of Production:	
Material Cost - 16,500 Kg. @ ₹2.40 Each	₹39,600
Wages Cost - 18,000 Hours @ ₹40 Paise Each	₹7,200

Calculate the following variances:

- (i) Material Cost Variance (MCV);
- (ii) Material Price Variance (MPV);
- (iii) Material Usage Variance (MUV);
- (iv) Labour Cost Variance (LCV);
- (v) Labour Rate Variance (LRV);
- (vi) Labour Efficiency Variance (LEV).

(7 marks)



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5 (a) Following are the summarized revenue and expenditure figures of Sarthi Ltd. For the month of March to August, 2022:

Month	Sales (₹)	Purchases (₹)	Wages (₹)	Expenses (₹)
March	13,00,000	8,00,000	2,40,000	1,00,000
April	14,00,000	9,60,000	3,00,000	1,00,000
May	15,00,000	9,00,000	3,00,000	1,20,000
June	16,00,000	9,60,000	3,60,000	1,20,000
July	16,40,000	8,00,000	3,60,000	1,60,000
August	17,80,000	10,00,000	4,00,000	1,60,000

The following further information is available:

- (i) 10% Purchases and sales are on cash basis.
- (ii) Advance payment of income tax in August, 2022 is ₹2,20,000
- (iii) Plant purchased and price to be paid in June, 2022 is ₹1,00,000
- (iv) Time lag:
 - Credit sales 2 months
 - Credit purchases 1 month
 - Wages ½ month
 - Expenses ½ month

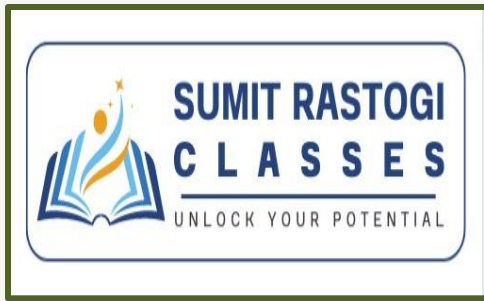
Prepare: Cash Budget for 3 months starting on 1st June, 2022 when cash balance is 2,50,000. (7 marks)

5 (b) M/s. Moon Light Ltd. produces three products A, B and C and furnishes the following information for the year 2022-23:

Particulars	Products		
	A	B	C
Selling price per unit	500	375	250
Profit Volume Ratio	12%	20%	40%
Raw Material content as a % of Variable Cost	50%	50%	50%
Maximum Market Demand (units)	22,000	20,000	12,000

Fixed costs are estimated at ₹20 lakhs. The firm uses same raw material in all the three products. Raw material is in 'Short Supply'. The firm has a quota for the supply of raw materials of the value of ₹61 lakhs for the year 2022-23 for the production of three products to meet sales demand.

Required: Determine the optimal product mix and ascertain the maximum profit there from. (7 marks)



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6 (a) The following information pertains to labour force of UDHHAMI LTD. engaged in a week of November 2014 for a JOB-PH.

Particulars	Skilled	Semi-Skilled	Unskilled	Total
No. of Workers in Standard Gang	16	12	8	36
Standard Rate Per Hour (₹)	60	30	10	
No. of Workers in Actual Gang	-	-	-	-
Actual Rate Per Hour (₹)	70	20	20	

In a 40 hours' week, the gang produced 1080 standard hours. The actual number of semi-skilled workers is two times of the actual number of unskilled workers. Total numbers of actual workers are same as standard gang. The rate variance of semi-skilled workers is ₹6400 (F).

You are required to find the following:

- The Actual Number of Workers/Labours in Each Category.**
- Labour Gang (Mix) Variance.**
- Labour Sub-Efficiency Variance.**
- Labour Rate Variance.**
- Labour Cost Variance.**

(7 marks)

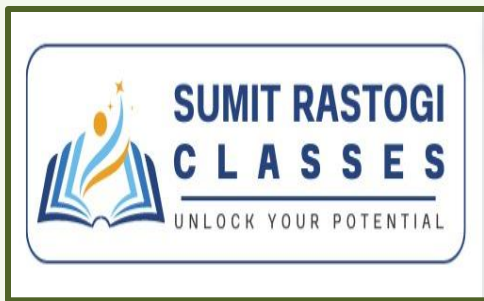
6 (b) Ambuja Enterprises is currently working at 50% capacity and produces 10,000 units. At the current operating level, the product costs ₹180 per unit and is sold at ₹200 per unit. The cost of ₹180 is made up as follows:

Particulars	Cost per unit (₹)
Material	100
Wages	30
Factory overheads (40% Fixed)	30
Administrative overheads (50% Fixed)	20

At 60% working, raw material cost increases by 2% and the selling price falls by 2%. At 80% working, raw material cost increases by 5% and the selling price falls by 5%.

Prepare: A Marginal Cost Statement showing the estimated profit of the business when it is operated at 60% and 80% capacity.

(7 marks)



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- 7 (a) A company is at present working at 90% of its capacity and producing 13,500 units per annum. It operates a flexible budgetary control system. The following figures are obtained from its budget:

Particulars	90% (₹)	100% (₹)
Sales	15,00,000	16,00,000
Fixed Expenses	3,00,500	3,00,600
Semi-Fixed Expenses	97,500	1,00,500
Variable Expenses	1,45,000	1,49,500
Units made	13,500	15,000

Labour and materials costs per unit are constant under present conditions. Profits margin is 10%.

- (i) You are required to determine the differential cost of producing 1,500 units by increasing capacity to 100%.
- (ii) What would you recommend for an export price for these 1,500 units, taking into account that the overseas prices are much lower than the indigenous prices?

(7 marks)

- 7 (b) SUNRISE LTD., A Manufacturing Company using standard costing furnishes the following information:

The standard mix to produce one unit of product X is as under:

Material A	2 kg. @ ₹20 per kg.
Material B	3 kg. @ ₹25 per kg.
Material C	4 kg. @ ₹15 per kg.

During the month of March 2019, 20 units of product X were actually produced and consumption of material was as under:

Material A	35 kg. @ ₹22 per kg.
Material B	60 kg. @ ₹24 per kg.
Material C	90 kg. @ ₹16 per kg.

Required: Calculate the following Material Variances:

- (i) Material Cost Variance
 (ii) Material Price Variance
 (iii) Material Usage Variance
 (iv) Material Mix Variance
 (v) Material Yield Variance

(7 marks)

- 8 (a) Distinguish between Absorption Costing and Marginal Costing.

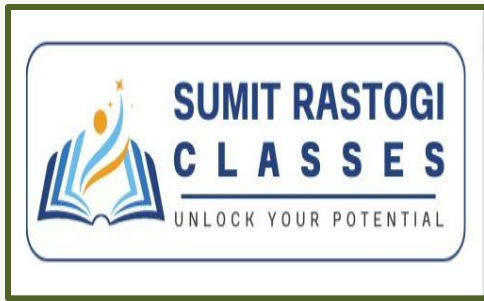
(5 marks)

- 8 (b) What are the Advantages of Standard Costing?

(5 marks)

- 8 (c) Write a brief note on Master Budget.

(4 marks)



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ANSWERS OF TEST PAPER - 03

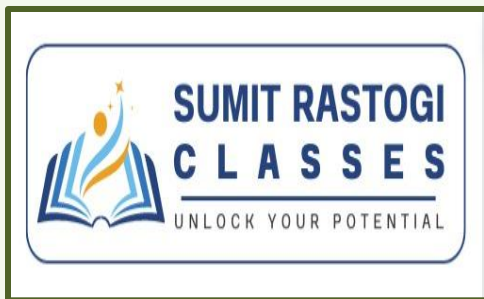
(Chapters Covered - Marginal Costing, Standard Costing & Budgetary Control)

COST ACCOUNTING

SECTION-A

ANS. 1

- (i) (b) 25%
- (ii) (c) Production Schedule
- (iii) (d) Behaviour-wise
- (iv) (a) ₹7,20,000
- (v) (b) Master Budget
- (vi) (b) 40%
- (vii) (c) 2450
- (viii) (d) All of the above
- (ix) (a) Management by Exception
- (x) (c) Capital Expenditure Budget
- (xi) (b) ₹380 (Adverse)
- (xii) (c) Expected Standard
- (xiii) (c) ₹27,000
- (xiv) (a) Zero-Based Budgeting
- (xv) (b) Flexible Budget



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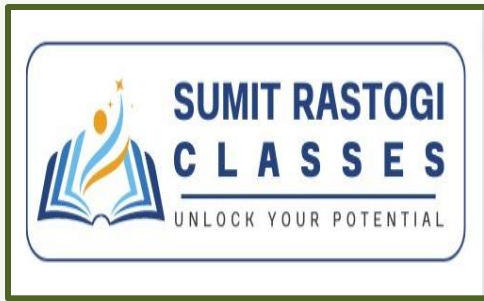
SECTION-B

ANS. 2 (a)

Computation of profit on 12,000 pieces after cost increase

Particulars	Amount (₹)
Selling Price	16.50
Variable Cost:	
Direct material ($4.25 \times 104\%$)	4.42
Direct wages ($1.60 \times 106\%$)	1.696
Works overhead ($7.15 \times 60\%$)	4.29
Sales overhead ($0.90 \times 70\%$)	0.63
Other variable Cost ($16.50 - 1.8 - 4.25 - 1.60 - 7.15 - 0.90$)	0.80
Total Variable cost per unit	11.836
Contribution per unit	4.664
Total Contribution ($12,000 \times 4.664$)	55,968
Fixed Cost:	
Works overhead = $7.15 \times 40\% \times 12,000 = 34,320$	
Sales overhead = $0.90 \times 30\% \times 12,000 = 3,240$	
Total Fixed Overheads = $37,560 \times 110\%$	(41,316)
Profit	14,652

Desired overall profit	= ₹30,100
Profit from 12,000 units	= ₹14,652
Balance desired profit	= $30,100 - 14,652 = ₹15,448$
Desired contribution per unit	= $15,448 / 4,000 = ₹3.862$
Variable cost per unit	= ₹11.836
Selling Price	= ₹15.698

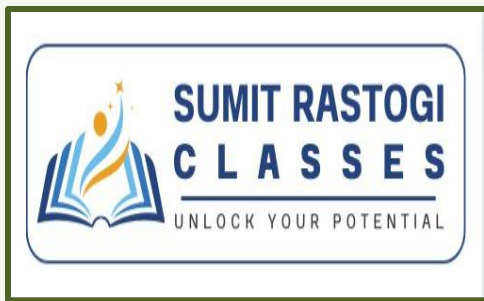


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ANS. 2 (b)

Flexible Budget

Costs	Capacity Level (units)		
	20,000	15,000	18,000
	(₹)	(₹)	(₹)
Direct material @₹50 per unit	10,00,000	7,50,000	9,00,000
Direct Labour @₹20 per unit	4,00,000	3,00,000	3,60,000
Variable overhead @₹15 per unit	3,00,000	2,25,000	2,70,000
Direct Expenses @₹6 per unit	1,20,000	90,000	1,08,000
Selling Expenses:			
Variable ($80\% \times 15 = 12$ per unit)	2,40,000	1,80,000	2,16,000
Fixed ($20\% \times 15 \times 20,000$)	60,000	60,000	60,000
Factory Expenses (100% Fixed) ($7 \times 20,000$)	1,40,000	1,40,000	1,40,000
Administrative Expenses (100% Fixed) ($4 \times 20,000$)	80,000	80,000	80,000
Distribution Expenses:			
Variable ($85\% \times 12 = 10.20$ per unit)	2,04,000	1,53,000	1,83,600
Fixed ($15\% \times 12 \times 20,000$)	36,000	36,000	36,000
Total Expenses	25,80,000	20,14,000	25,53,600



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ANS. 3 (a)

- Standard hours for Actual output = $(24,000/10) + (38,000/8) = 7,150$ hours
- Actual Hours (Paid) = 7500
- Idle time = 350 hours + 25 hours for loss of production of A (Taken at standard = $250/10$)
- Actual hours (worked) = $7,500 - 375 = 7,125$ hours

CALCULATION OF VARIANCES:

- (i) Labour Rate Variance = $(\text{Std. rate} - \text{Actual rate}) \times \text{Actual Hours paid}$
 $= [0.50 - 0.60] \times 7,500 = ₹750 \text{ (Adv.)}$
- (ii) Labour Idle Time Variance = $\text{Idle time Hours} \times \text{Std. rate}$
 $= 375 \times 0.50 = ₹187.50 \text{ (Adv.)}$
- (iii) Labour Efficiency Variance = $(\text{Standard Hours} - \text{Actual Hours worked}) \times \text{Std. rate}$
 $= [7,150 - 7,125] \times 0.50 = 12.50 \text{ (Fav.)}$
- (iv) Direct Labour Total Variance = $\text{Standard cost} - \text{Actual Cost}$
 $= (7,150 \times 0.50) - (7,500 \times 0.60) = 925 \text{ (Adv.)}$

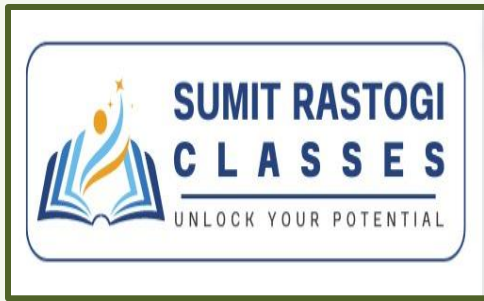
ANS. 3 (b)

Production Budget (Quantity)

Particulars	Product X (kg.)	Product Y (kg.)
Sales	7,500	37,500
Expected Closing Stock	2,000	3,500
Opening Stock	(1,500)	(3,000)
Production	8,000	38,000

Material Purchase Budget (Quantity and Value)

Particulars	Material A	Material B	Material C	Total
Material Required (kg.)				
Product X (4:4:2)	3,200	3,200	1,600	8,000
Product Y (3:5:2)	11,400	19,000	7,600	38,000
	14,600	22,200	9,200	46,000
Expected Closing Stock (kg.)	2,400	5,800	17,300	
Opening Stock (kg.)	(3,000)	(2,500)	(16,000)	
Material Purchase (kg.)	14,000	25,500	10,500	
Price per kg.	10	8	6	
Material Purchase (₹)	1,40,000	2,04,000	63,000	4,07,000



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ANS. 4 (a)

Contribution per unit = $20 - 14 = ₹6$

PV Ratio = $6 \times 100/20 = 30\%$

(i) BEP (₹) = Fixed Cost/PV ratio = $₹7,92,000/30\% = ₹26,40,000$

(ii) Required profit = ₹60,000

Sales to earn desired profit (units) = $(₹7,92,000 + ₹60,000)/6 = 1,42,000$ units

(iii) Desired profit = 25% on cost is equal to 20% profit on sales.

Let sales units be X

Sales = 20X

Desired profit = $0.20 \times 20X = 4X$

Sales to earn desired profit = (Fixed Cost + Desired Profit)/Contribution per unit

$X = (7,92,000 + 4X)/6$

$6X = 7,92,000 + 4X$

$2X = 7,92,000$

$X = 3,96,000$ units

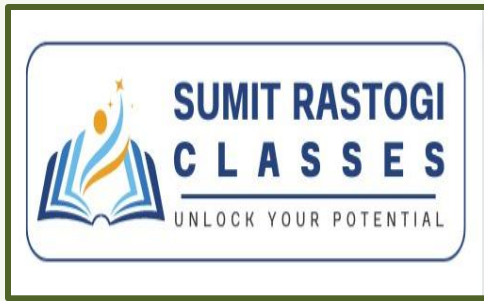
(iv) BEP = Fixed Cost/Contribution per unit

$₹1,20,000 = ₹7,92,000/\text{Contribution per unit}$

Contribution per unit = ₹6.60

Variable cost per unit = ₹14

New Selling price = **₹20.60**



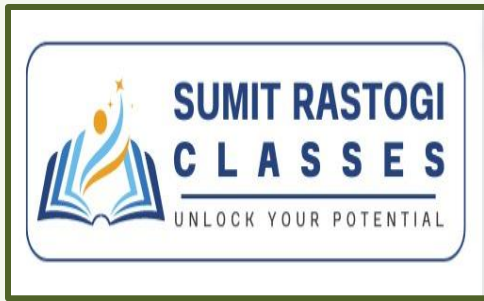
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ANS. 4 (b)

- Standard Quantity of Material for Actual Output $= 2 \times 8,000 = 16,000 \text{ kg}$
- Standard Hours for Actual Output $= 2 \times 8000 = 16,000 \text{ Hours}$
- Standard Material Cost $= 16,000 \times 2.50 = ₹40,000$
- Standard Labour Cost $= 16,000 \times 0.50 = ₹8,000$

COMPUTATION OF VARIANCES:

- (i) **Material cost variances = Standard cost - Actual cost**
 $= 40,000 - 39,600 = ₹400 \text{ (Fav.)}$
- (ii) **Materials Price Variance = (Std. Price - Actual Price) $\times$ Actual Quantity**
 $= [2.50 - 2.40] \times 16,500 = ₹1,650 \text{ (Fav.)}$
- (iii) **Material Usage Variance = (Standard Quantity - Actual Quantity) $\times$ Std. Price**
 $= [16,000 - 16,500] \times 2.50 = ₹1,250 \text{ (Adv.)}$
- (iv) **Labour Cost Variances Standard cost - Actual cost**
 $= 8,000 - 7,200 = ₹800 \text{ (Fav.)}$
- (v) **Labour rate Variance = (Std. rate - Actual rate) $\times$ Actual Hours**
 $= [0.50 - 0.40] \times 18,000 = ₹1,800 \text{ (Fav.)}$
- (vi) **Labour Efficiency Variance = (Standard Hours - Actual Hours) $\times$ Std. rate**
 $= [16,000 - 18,000] \times 0.50 = ₹1,000 \text{ (Adv.)}$

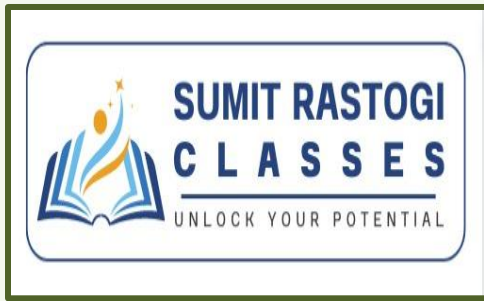


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ANS. 5 (a)

Cash Budget

Particulars	June (₹)	July (₹)	August (₹)
Opening Balance	2,50,000	2,14,000	2,84,000
Receipts:			
Cash Sales	1,60,000	1,64,000	1,78,000
Debtors	12,60,000	13,50,000	14,40,000
Total Inflows (Opening Balance + Receipts) (A)	16,70,000	17,28,000	19,02,000
Payments:			
Cash purchases	96,000	80,000	1,00,000
Creditors	8,10,000	8,64,000	7,20,000
Wages	3,30,000	3,60,000	3,80,000
Expenses	1,20,000	1,40,000	1,60,000
Plant	1,00,000	-	-
Advance Tax	-	-	2,20,000
Total Outflows (B)	14,56,000	14,44,000	15,80,000
Closing Balance (A-B)	2,14,000	2,84,000	3,22,000



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ANS. 5 (b)

Marginal Profitability Statement

Particulars	Productions		
	A (₹)	B (₹)	C (₹)
Selling Price per unit	500	375	250
Contribution (Selling Price × PV Ratio)	(60)	(75)	(100)
Total Variable Cost Per Unit	440	300	150
Raw Material Per Unit = 50% × Variable Cost	220	150	75
Contribution per ₹ of Raw material	0.27	0.50	1.33
(Contribution per unit/₹)	(60/220)	(75/150)	(100/75)
Ranking	III	II	I

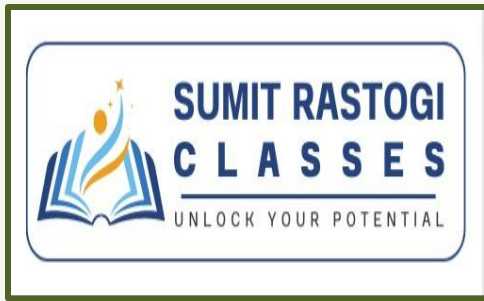
Calculation of Production:

Available raw material (₹)	61,00,000
(-) Production of C (12,000 × 75)	(9,00,000)
(-) Production of B (20,000 × 150)	<u>(30,00,000)</u>
Production of A (Balance)	<u>22,00,000</u>

Units of A = 22,00,00/220 = 10,000 units

Calculation of Maximum Profit:

Total Contribution = (10,000 × 60) + (20,000 × 75) + (12,000 × 100)
= 6,00,000 + 15,00,000 + 12,00,000 = ₹33,00,000
Maximum Profit = 33,00,000 – 20,00,000 = ₹13,00,000



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ANS. 6 (a)

Working Notes:

(i) Calculation of Actual No. of Workers:

Rate Variance AH (SR-AR)

Rate Variance for Semi-Skilled Workers = AH X (30-20) = ₹6400(F)

AH = 6400/10=640 Hours of Semi-Skilled Workers

Actual Semi-Skilled = 2 × Actual Unskilled Workers = 640 Hours

Actual Unskilled = 640/2 = 320 Hours

Actual Skilled Hours = Total Actual Hours - (Semi-Skilled + Unskilled)

= 36 × 40 - (640 + 320) = 1440 - (640 + 320) = 480 Hours

Hence, Actual No. of Workers:

Skilled : 480/40 = 12 Workers

Semi-Skilled : 640/40 = 16 Workers

Unskilled : 320/40 = 8 Workers

(ii) Total Standard Hours:

Skilled - 30 × 16 = 480 Hours

Semi-Skilled - 30 × 12 = 360 Hours

Unskilled - 30 × 8 = 240 Hours

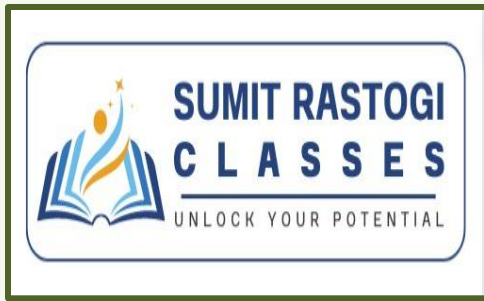
Total = 1080 Hours

(iii) Revised Standards Hours (RSH) = Actual Total Hours in Standard Proportion

Skilled - 1440 × (480/1080) = 640 Hours

Semi-Skilled - 1440 × (360/1080) = 480 Hours

Unskilled - 1440 × (240/1080) = 320 Hours



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CALCULATION OF VARIANCES

(i) **Labour Mix Variance = (Revised Standard Hours - Actual Hours) × Std. Rate**

Skilled	$(640-480) \times 60$	= ₹9,600 (Fav.)
Semi-Skilled	$(480-640) \times 30$	= ₹4,800 (Adv.)
Unskilled	$(320-320) \times 10$	= NIL
Labour Mix Variance		= ₹4,800 (Fav.)

(ii) **Labour Sub-Efficiency Variance = (Standard Hours - Revised Standard Hours) × Std. Rate**

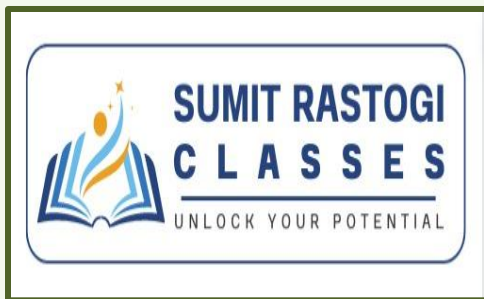
Skilled	$(480-640) \times 60$	= ₹9,600 (Adv.)
Semi-Skilled	$(360-480) \times 30$	= ₹3,600 (Adv.)
Unskilled	$(240-320) \times 10$	= ₹800 (Adv.)
Labour Sub-Efficiency Variance		= ₹14,000 (Adv.)

(iii) **Labour Rate Variance (Std. Rate - Actual Rate) × Actual Hours**

Skilled	$(60-70) \times 480$	= ₹4,800 (Adv.)
Semi-Skilled	$(30 - 20) \times 640$	= ₹6,400 (Fav.)
Unskilled	$(10-20) \times 320$	= ₹3,200 (Adv.)
Labour Rate Variance		= ₹1,600 (Adv.)

(iv) **Labour Cost Variance (Standard Hours × Standard Rate - Actual Hours × Actual Rate)**

Skilled	$(480 \times 60 - 480 \times 70)$	= 28,800-33,600	= ₹4,800 (Adv.)
Semi-Skilled	$(360 \times 30 - 640 \times 20)$	= 10,800-12,800	= ₹2,000 (Adv.)
Unskilled	$(240 \times 10 - 320 \times 20)$	= 2400-6400	= ₹4,000 (Adv.)
Labour Cost Variance			= ₹10,800 (Adv.)

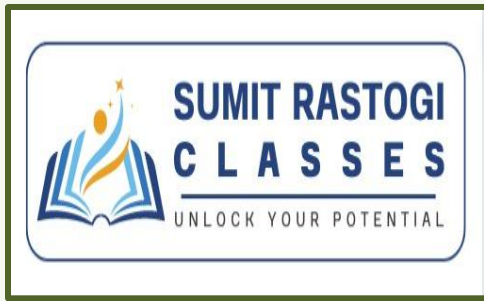


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ANS. 6 (b)

Marginal Cost Statement

Overheads	Capacity Level		
	50%	60%	80%
Output sales (units)	10,000	12,000	16,000
	(₹)	(₹)	(₹)
Selling price per unit	200	196 (200 – 2%)	190 (200 – 5%)
Sales	20,00,000	23,52,000	30,40,000
- Variable Cost:			
Material @100, 98 and 95 per unit	10,00,000	12,24,000	16,80,000
Wages @30 per unit	3,00,000	3,60,000	4,80,000
Variable Overheads:			
Factory = $30 \times 60\% = 18$ per unit	1,80,000	2,16,000	2,88,000
Administrative = $20 \times 50\% = 10$ per unit	1,00,000	1,20,000	1,60,000
Total Variable Cost	15,80,000	19,20,000	26,08,000
Contribution	4,20,000	4,32,000	4,32,000
- Fixed Cost:			
Factory = $30 \times 40\% \times 10,000 = ₹1,20,000$	1,20,000	1,20,000	1,20,000
Administrative = $20 \times 50\% \times 10,000 = ₹1,00,000$	1,00,000	1,00,000	1,00,000
Profit	2,00,000	2,12,000	2,12,000



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ANS. 7 (a)

Computation of Material and Labour

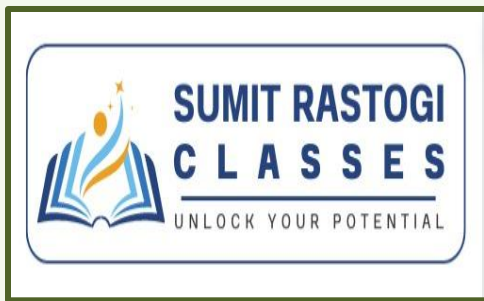
Particulars	Amount (₹)
Sales	15,00,000
Profit 10%	(1,50,000)
Total Cost	13,50,000
Fixed Expenses	(3,00,500)
Semi-Fixed Expenses	(97,500)
Variable Expenses	(1,45,000)
Labour and Material Cost	8,07,000

Statement Showing Differential Cost of 1500 Units

Particulars	Amount (₹)
Material & Labour ($8,07,000 \times 1500/13,500$)	89,667
Fixed Expenses ($3,00,600 - 3,00,500$)	100
Semi-Fixed expenses ($1,00,500 - 97,500$)	3,000
Variable expenses ($1,49,500 - 1,45,000$)	4,500
Differential Cost	97,267

Differential cost per unit = $97,267/1,500 = ₹64.84$

The minimum price for these 1,500 units should not be less than ₹64.84.



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ANS. 7 (b)

Computation of Required values

Material	Standard Quantity (Kg.)	Standard Price per (Kg.)	Standard Cost (₹)	Actual Quantity (Kg.)	Actual Price per Kg. (₹)	Actual Cost (₹)
A	40	20	800	35	22	770
B	60	25	1,500	60	24	1,440
C	80	15	1,200	90	16	1,440
	180		3,500	185		3,650

Standard Quantity of Material for Actual Output =

A = $2 \times 20 = 40$ kg.

B = $3 \times 20 = 60$ kg

C = $4 \times 20 = 80$ kg

Revised Standard Quantity = Actual Total Quantity Divided in Standard Proportion

A = $185 \times 40/180 = 41.11$

B = $185 \times 60/180 = 61.67$

C = $185 \times 80/180 = 82.22$

COMPUTATION OF VARIANCES:

(i) **Total Material Cost Variances = Standard cost – Actual cost = 3,500 – 3,650 = ₹150 (Adv.)**

(ii) **Materials Price Variance = (Std. Price – Actual Price) × Actual Quantity**

A: $[20 - 22] \times 35 = ₹70$ (Adv.)

B: $[25 - 24] \times 60 = ₹60$ (Fav.)

C: $[15 - 16] \times 90 = ₹90$ (Adv.)

Materials Price Variance = ₹100 (Adv.)

(iii) **Material Usage Variance = (Standard Quantity – Actual Quantity) × Std. Price**

A: $[40 - 35] \times 20 = ₹100$ (Fav.)

B: $[60 - 60] \times 25 = ₹0$

C: $[80 - 90] \times 15 = ₹150$ (Adv.)

Material Usage Variance = ₹50 (Adv.)

(iv) **Material Mix Variance = (Revised Standard Quantity – Actual Quantity) × Std. Price**

A: $[41.11 - 35] \times 20 = ₹122.20$ (Fav.)

B: $[61.67 - 60] \times 25 = ₹41.75$ (Fav.)

C: $[82.22 - 90] \times 15 = ₹116.70$ (Adv.)

Material Mix Variance = ₹47.25 (Fav.)

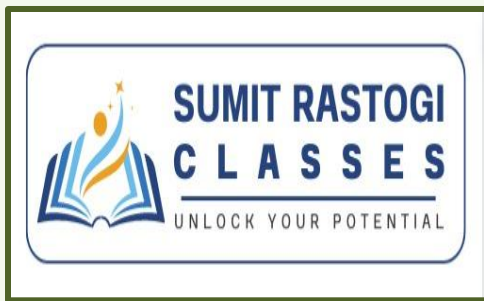
(v) **Material Yield Variance = (Standard Quantity – Revised Standard Quantity) × Std. Price**

A: $[40 - 41.11] \times 20 = ₹22.20$ (Adv.)

B: $[60 - 61.67] \times 25 = ₹41.75$ (Adv.)

C: $[80 - 82.22] \times 15 = ₹33.30$ (Adv.)

Material Yield Variance = ₹97.25 (Fav.)



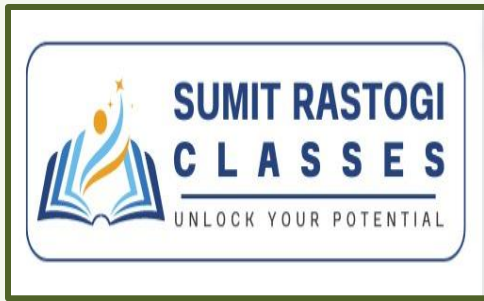
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ANS. 8 (A) DIFFERENCE BETWEEN ABSORPTION COSTING AND MARGINAL COSTING

Absorption Costing	Marginal Costing
Both fixed and variable costs are considered for product costing and inventory valuation.	Only variable costs are considered for product costing and inventory valuation.
Only variable costs are considered for product costing and inventory valuation.	Fixed costs are regarded as period costs. The profitability of different products is judged by their P/V ratio.
Cost data are presented in conventional pattern. Net profit of each product is determined after subtracting fixed cost along with their variable cost.	Cost data are presented to highlight total contribution of each product.
The difference in the magnitude of opening stock and closing stock affects the unit cost of production due to the impact of fixed cost.	The difference in the magnitude of opening stock and closing stock does not affect the unit cost of production.
In case of absorption costing the per unit reduces, as the production increases as it is fixed cost which reduces, whereas, the variable cost remains the same per	In case of marginal costing the cost per unit remains the same, irrespective of the production as it is valued at variable cost.

ANS. 8 (b) ADVANTAGES OF STANDARD COSTING

1. Established yard-sticks against which the efficiency of actual performances is measured.
2. The Standards provide incentive and motivation to work with greater effort and vigilance for achieving the standard.
3. At the very stage of setting the standards, simplification and standardisation of products, methods and operations are affected and waste of time and materials is eliminated.
4. Costing Procedures are simplified. There is a reduction in Paper work.
5. Standard Costing is an exercise in planning.
6. Standard Costing System facilitates delegation of authority and fixation of responsibility for each department or individual.



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7. Enables Variance Analysis and the Reporting is based on the principles of Management by Exception.
 8. Optimizes the use of plant capacities, current assets and working capital.
 9. Standard Costing facilitates the integration of accounts.

ANS. 8 (c) BRIEF NOTE ON MASTER BUDGET

1. Master Budget is the budget prepared to cover all the functions of the business organization.
2. It can be taken as the integrated budget of business concern that means, it shows the profit or loss and financial position of the business concern such as Budgeted Profit and Loss Account, Budgeted Balance Sheet etc.
3. Master budget, also known as summary budget or finalized profit plan, combines all the budgets for a period into one harmonious unit and thus, it shows the overall budget plan.
4. The master budget incorporates all the subsidiary functional budgets and the Budgeted Profit and Loss Account and Budgeted Balance Sheet.
5. Before the budget plan is put into operation, the master budget is considered by the management and revised if the position of profit disclosed therein is not found to be satisfactory.
6. After suitable revision made, the Master Budget is finally approved and put into action.