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Cost Acc. Mock for Spring 2014 Attempt (CFE)

CFE GROUP OF COLLEGES

COST ACCOUNTING TEST 1

Time Allowed: **3 Hours 15 Mins.** Marks: **100**

Q 1: X Company makes and sells two products, Aye and Bee. The following information is available for the month of December 2009:

	Product Aye Rs. per unit	Product Bee Rs. per unit
Direct material Cost	15	12
Direct labour Cost (Rs. 6 per hour)	18	12
Variable production overheads	12	18
Sales price	90	75

Fixed overheads are Rs. 110,000 per month and these fixed overheads are absorbed on basis of direct labour hours. Production and sales for the two products in the month of December 2009 was as follows:

	Product Aye (Units)	Product Bee Units
Production	2500	1750
Sales	2300	1600
Normal Capacity	2000	2000

Req:

i. Prepare income statement for the month of December 2009 under Marginal costing (5)
ii. Prepare income statement for the month of December 2009 under Absorption costing (5)
iii. Reconcile marginal costing profit to Absorption costing profit (2)

Q 2: Sabahat Limited (SL) produces and markets a single product Beta. Following are the details of RL's monthly production and related costs for the past six months:

	March	April	May	June	July	August
Units	1115	2185	1265	1610	2645	1380
Cost(Rs.'000)	1775	2300	1660	1840	2875	2300

Req: Using least square method and high low point method, calculate the estimated cost to produce 1,800 units of Beta. **(08)**

Q No. 3: Takneek Company Limited (TCL) has been awarded a contract for supply and installation of technical equipments. The amount of contract is Rs. 140 million. Other terms, conditions and other relevant information are as follows:

i. The customer will provide 25% mobilization advance in January 2012.
ii. Percentage of completion is estimated at 30, 75 and 100 percent by the end of January, February and March 2012 respectively. TCL would raise invoices for the same in subsequent months. The amounts would be received in the month in which the invoices are raised.
iii. All receipts would be subject to withholding tax at 6%.
iv. The running bills would be subject to retention @ 5% of the value. The retention money would be released after 60 days of completion of contract.
v. The mobilization advance would be adjusted proportionately from the running bills.
vi. The equipments required for the contract would be purchased in January 2012 at a cost of Rs. 95 million and would provide a credit of 60 days.
vii. TCL would sub-contract the installation and related work to Expert Systems Limited. 30% payment will be made at the commencement of the project and the balance would be paid in the month of March 2012. Installation cost is needed to determine from contract price
viii. The sales tax rate is 16%.The projected profit is estimated at 15% of the contract price.
ix. Sales tax is paid/claimed subsequent to the month in which the invoice is raised. Any excess input is available to be carried forward for adjustment in the next month.

Req: A month-wise cash budget for the project. **(15)**

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104,040,000

130,050,000

1.2 : 2.8

Q 4: Hulk Limited (HL) produces and markets a single product. The company uses standard costing system.
Following is the standard cost card per unit of the finished product:

Direct material A	1.2 kg at Rs. 5 per kg
Direct material B	2.8 kg at Rs. 6.75 per kg
Direct labour	Rs. 150 per hour
Variable production overheads	Rs. 12 per direct labour hour
Fixed production overheads	Rs. 18 per direct labour hour

The standard labour hours required for producing one unit of finished product is 30 minutes whereas HL's standard operating capacity per month is 15,000 hours. Actual results for the month of February 2013 were as under:

Direct material A @ Rs. 5.35 per kg	Rs. 187,250
Direct material B @ Rs. 6.25 per kg	Rs. 504,000
Direct labour	Rs. 160 per hour
Variable production overheads	Rs. 175,000
Fixed production overheads	Rs. 17 per direct labour hour

Actual labour hours consumed by HL for producing 27,000 units was 33 minutes per unit of finished product.

Req: Compute material price, mix and yield variances, labour rate and efficiency variance and overhead variances. Use Four Variance method. (15)

Q 5: X Ltd. provided following transactions for the month of April, 2012

01 April: Raw material purchased Rs. 25000 out of which Rs. 5000 relates to Factory Supplies. In addition to it X Ltd. also Paid Freight of Rs. 1000 recoverable from supplier.

02 April: Material Issued for production of JOB 501, Rs. 2000 and Factory Supplies for Rs. 500.

03 April: Material Purchased for Rs. 8000 which consists of material for selling and Admin Dept.

04 April: Material Issued for JOB 502 Rs. 3000 and office supplies issued for use in Admin Dept. amounting Rs. 1000

05 April: Material Issued as Sales Supplies for Rs. 1500 was wrongly charged to FOH Control Account.

06 April: Excessive Material from JOB 502 was returned amounting Rs. 500.

07 April: Excessive office supplies (Issued on 4th April) of Rs. 200 was returned to store room but it was charged to (credited to) FOH Control Account.

08 April: One JOB 503, for 200 units was started with Direct Material Cost of Rs. 2 p.u. Direct Labor cost of Rs. 1.5 p.u and FOH are charged at 50% of D. Labor cost. On Final inspection 20 units were found defective and require reworking cost totaling Rs. 40 for material, Rs. 30 for Labor cost. X Ltd. wants to record the above reworking cost if:

a) Charged to specific Job
b) Charged to FOH

09 April: Material of Rs. 500 was damaged in storeroom that is why it was sold at a scrap of Rs. 300. (Record two entries, one for recording Scrap Material and Other for Disposal of Scrap)

10 April: Raw Material purchased for JOB 504 costing Rs. 5000, directly charged to production.

11 April: JOB 503 was completed and sent to customers at sale revenue of Rs. 1200. (Pass Journal Entries under both assumptions as quoted in 8th April)

12 April: X Ltd. received an order of 300 units to supply So in anticipation of spoilage they started production more than 300 units. Cost per unit is:

Direct Material	Rs. 5 (per unit)
Direct Labor	Rs. 3 (per unit)
FOH	Rs. 2 (per unit)

On final inspection, 30 units were spoiled and sold at a Scrap of Rs. 4 Per Unit. On detailed Investigation, company decides to record as follows:

- Loss of 10 units should be charged to WIP.
- Loss of 10 units should be charged to FOH Control Account.
- Loss of 6 units should be charged as Period Cost in P&L Account.
- Loss of 4 units can be recovered from employee of the Company.

Entries of original cost, spoilage loss and completion of order are missing to record

30 April: Company applied the rule of lower of cost or NRV for each type of raw material inventory:

- Material 005 – 150 units at average cost of Rs. 2.5 per unit and NRV of Rs. 2.52 per unit
- Material 007 – 200 units at a total cost of Rs. 1000 and NRV of Rs. 3.5 per unit

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30 April Following adjustments are required after comparison of physical stock taking:

Item	Physical	Books	Reason
001	200	250	Issue at a cost of Rs. 2.5 was wrongly recorded
002	190	200	Shrinkage of material at a cost per unit of Rs. 3.5

Req: Pass journal Entries to record all above transactions in proper journal form. **(20)**

Q.6: Dawood Ltd in an engineering company which uses job costing to attribute cost to individual products and services provided to its customers. It has commenced the preparation of its fixed production of its fixed production overheads costs budgeted for 2009 and has identified the following cost

	Rs.'000
Machining department	1200
Assembly department	500
Finishing Departmet	300
Stores Department	200
Plant Maintenance Department	160
Total cost	**2360**

The stores and maintenance departments are service departments. An analysis of the services they provide indicates that their cost should be apportioned accordingly

	Machining department	Assembly department	Finishing department	Stores Department	Maintenance department
Stores	40%	30%	20%	---	10%
Maintenance	55%	20%	20%	5%	---

The number of Machine hours and labour hours budgeted for 2009 are:

	Machining department	Assembly department	Finishing department
Machine hours	100,000	8,000	10,000
Labour hours	20,000	60,000	40,000

Required:

i. Calculate overhead absorption rate for each production department using suitable base and justify it.
ii. Using the absorption rate of part (i), calculate price per unit to be quoted for Job No. 125 which is to be of 1000 units commenced early in 2009. Relevant costs are given as follows:

Direct material cost Rs. 2400
Direct Labour cost Rs. 1500

Labour hours and machine hours required for Job No. 125 are

	Machining department	**Assembly department**	**Finishing department**
Machine hours	45	5	4
Labour hours	10	15	12

Company wants to add profit of 20% of selling price. **(15)**

Q.7: The employees' record of a company for the week ended July 31 shows the following details of its four (4) employees:

Employee	Clock No.	Job No.	Hours Worked	Production Pieces	Hourly Rate (Rs.)	Piece Rate (Rs.)
Akram	15	50	40	960	---	3
Babar	16	--	46	---	70	---
Chohan	17	54	40	---	58	---
Danial	18	--	40	---	72	---

The company operates 40 hours per week and pays 50% in addition to normal rates for overtime. Additional information is as under:

i. Babar works in the storeroom issuing materials. Danial is the supervisor, and others worked directly on special orders as noted.

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$\frac{15}{100} \times \frac{10}{100}$ 20

$\frac{50}{10000}$ 0.0050

$\frac{50}{10000}$

0.0050

S 100
C 80
P 20
S = C + P

ii. Deduction @ 6.5% would be made for each employee on account of employee's children education fund.

iii. An advance against salary of Rs. 1,000 was made to Akram on June 26 for the month of July.

iv. A 2% deduction is to be made from each employee's wage for the company's employee health and hospital benefit plan. Income tax @ 10% is deducted at source.

Req:

i. Prepare the payroll sheet for the week showing each employee's and total (of 4 employees) gross pay, deductions, and net pay. **(10)**

ii. Pass journal entries to show gross payroll with deductions, payment, distribution of payroll and advance salary. **(5)**

(THE END)

Thanks to our member (Hafiz Fahad Ali) for sharing.