

MOCK TEST PAPER – 1
INTERMEDIATE (NEW) : GROUP – I
PAPER – 3: COST AND MANAGEMENT ACCOUNTING
SUGGESTED ANSWERS/HINTS

1. (a) (i) Efficiency Ratio = $\frac{\text{Actual Production in terms of standard hours}}{\text{Actual hours worked}} \times 100$
 $= \frac{750 \text{ units} \times 10 \text{ hours}}{6,000} \times 100 = 125\%$

(ii) Activity ratio = $\frac{\text{Actual Production in terms of standard hours}}{\text{Budgeted production in terms of standard hours}} \times 100$
 $= \frac{7,500}{880 \times 10} \times 100 = 85.23\%$

(iii) Capacity Ratio = $\frac{\text{Actual hours worked}}{\text{Maximum hours in a budget period}} \times 100$
 $= \frac{6,000}{8,800} \times 100 = 68.19\%$

Activity ratio = Efficiency Ratio × Capacity Ratio
 Or, 85.23% = 125% × 68.19%

(b) Working Notes:

1. Depreciation per annum := $\frac{\text{Purchase price} - \text{Scrap value}}{\text{Estimated life}}$
 $= \frac{\text{Rs. 4,00,000} - \text{Rs. 10,000}}{5 \text{ years}} = \text{Rs. 78,000}$

2. Total distance travelled by mini-bus in 25 days:
 = Length of the route (two -sides) × No. of trips per day × No. of days
 = 60 km × 6 trips × 25 days = 9,000 km

3. Total Passenger-Km:
 = Total distance travelled by mini-bus in 25 days × No. of seats
 = 9,000 km × 20 seats = 1,80,000 passenger-km

Statement suggesting fare per passenger-km

Particulars	Cost per annum Rs.	Cost per month Rs.
Fixed expenses:		

Insurance	15,000	
Garage rent	9,000	
Road tax	3,000	
Administrative charges	5,000	
Depreciation	78,000	
Interest on loan	10,000	
	1,20,000	10,000
Running expenses:		
Repair and maintenance	15,000	1,250
Replacement of tyre-tube	3,600	300
Diesel and oil cost (9,000 km × Rs. 5)	-	45,000
Driver and conductor's salary	-	5,000
Total cost (per month)		61,550.00
Add: Profit 20% of total revenue cost or 25% of total cost		15,387.50
Total revenue		76,937.50

Rate per passenger-km Rs. 76,937.50/1,80,000 passenger km = 0.42743 i.e.,
= 0.43 i.e., 43 paise

(c) (1) **Comparative Profitability Statements**

Particulars	Process- A (Rs.)	Process- B (Rs.)
Selling Price per unit	20.00	20.00
Less: Variable Cost per unit	12.00	14.00
Contribution per unit	8.00	6.00
Total Contribution	32,00,000 (Rs. 8 × 4,00,000)	24,00,000 (Rs. 6 × 4,00,000)
Less: Total fixed costs	30,00,000	21,00,000
Profit	2,00,000	3,00,000
*Capacity (units)	4,30,000	5,00,000
Total Contribution at full capacity	34,40,000 (Rs. 8 × 4,30,000)	30,00,000 (Rs. 6 × 5,00,000)
Fixed Cost	30,00,000	21,00,000
Profit	4,40,000	9,00,000

Process- B should be chosen as it gives more profit as compared to Process-A.

(2)

Particulars	Process- A (Rs.)	Process- B (Rs.)
*Capacity (units)	6,00,000	5,00,000
Total contribution	48,00,000 (Rs. 8 × 6,00,000)	30,00,000 (Rs. 6 × 5,00,000)
Fixed Cost	30,00,000	21,00,000
Profit	18,00,000	9,00,000

If the capacity of the Process A and B is 6,00,000 units and 5,00,000 units respectively then Process-A is giving double profit than Process C. Thus Process A be chosen.

*Note: It is assumed that capacity produced equals sales

(d) Statement of cost per batch and per order

No. of batch = 600 units ÷ 50 units = 12 batches

	Particulars	Cost per batch (Rs.)	Total Cost (Rs.)
	Direct Material Cost	5,000.00	60,000
	Direct Wages	500.00	6,000
	Oven set-up cost	750.00	9,000
	Add: Production Overheads (20% of Direct wages)	100.00	1,200
	Total Production cost	6,350.00	76,200
	Add: S&D and Administration overheads (10% of Total production cost)	635.00	7,620
	Total Cost	6,985.00	83,820
	Add: Profit (1/3 rd of total cost)	2,328.33	27,940
(i)	Sales price	9,313.33	1,11,760
	No. of units in batch	50 units	
(ii)	Cost per unit (Rs.6,985 ÷ 50 units)	139.70	
	Selling price per unit (9,313.33 ÷ 50 units)	186.27	

(iii) If the order is for 605 cakes, then selling price per cake would be as below:

Particulars	Total Cost (Rs.)
Direct Material Cost	60,500
Direct Wages	6,050
Oven set-up cost	9,750
Add: Production Overheads (20% of Direct wages)	1,210
Total Production cost	77,510
Add: S&D and Administration overheads (10% of Total production cost)	7,751
Total Cost	85,261
Add: Profit (1/3 rd of total cost)	28,420
Sales price	1,13,681
No. of units	605 units
Selling price per unit (Rs.1,13,681 ÷ 605 units)	187.90

2. (a) (i) Optimal order quantity i.e. E.O.Q.

$$= \sqrt{\frac{2 \times 4,000 \times 135}{12}} = \sqrt{90,000} = 300 \text{ units}$$

Relevant Cost of this order quantity Rs.

$$\text{Ordering cost} = \frac{4,000}{300} \times 13.33 \text{ say 14 orders at Rs. 135} \quad 1,890$$

$$\text{Carrying Cost} = \frac{1}{2} \times 300 \times 12 \quad 1,800$$

Relevant cost 3,690

(ii) Revised EOQ = $\sqrt{\frac{2 \times 4,000 \times 80}{12}} = 231 \text{ units}$

$$\text{Ordering cost} = \frac{4,000}{231} \times 17.32 \text{ say 18 orders at Rs. 80} \quad 1,440$$

$$\text{Carrying cost} = \frac{1}{2} \times 231 \times 12 \quad 1,386$$

2,826

Different in cost on account of this error = 3,690 – 2,826 = Rs. 864

- (iii) In case of discount in purchase price, the total cost of Purchase cost, ordering cost and carrying cost should be compared.

Original offer at Rs. 90 per unit		Supplier offered at Rs. 86 per unit	
	Rs.		Rs.
Purchase Cost	3,60,000	Purchase cost 4,000 × 86	3,44,000
Ordering cost	1,890	Ordering cost	Nil
Carrying cost	1,800	Carrying cost $\frac{1}{2} \times 4,000 \times 12$	24,000
Total cost	3,63,690		3,68,000

This special offer at Rs. 86 per unit should not be accepted as its total cost is higher by Rs. 4,310 (3,68,000 – 3,63,690). as compared to original offer.

(b) Workings:

Preparation of Cost Sheet/ Cost Statement

Particulars	Amount (Rs.)
Materials	26,80,000
Wages	17,80,000
Prime Cost	44,60,000
Add: Factory expenses (20% of Rs. 44,60,000)	8,92,000
Factory Cost	53,52,000
Add: Administrative expenses (10% of Rs. 53,52,000)	5,35,200
Cost of Production	58,87,200

Less: Closing Stock $\left(\frac{\text{Rs. } 58,87,200}{52,000 \text{ units}} \times 2,000 \text{ units} \right)$	(2,26,431)
Cost of Goods Sold	56,60,769
Add: Selling expenses (Rs.10 × 50,000 units)	5,00,000
Cost of Sales	61,60,769
Profit (Balancing figure)	39,231
Sales Value	62,00,000

Costing Profit and Loss Account

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To Materials	26,80,000	By Sales	62,00,000
To Wages	17,80,000	By Closing stock	2,26,431
To Factory expenses	8,92,000		
To Administrative expenses	5,35,200		
To Selling expenses	5,00,000		
To Profit (Balancing figure)	39,231		
	64,26,431		64,26,431

Reconciliation of profit as per Cost Accounts and as per Financial Accounts

Particulars	Amount (Rs.)
Profit as per Cost Accounts	39,231
Additions:	
Administrative expenses (Over-absorbed) (Rs. 5,35,200 – Rs.4,80,200)	55,000
Selling expenses (Overcharged) (Rs. 5,00,000 – Rs. 2,50,000)	2,50,000
Dividend received	20,000
	3,64,231
Deductions:	
Factory expenses (Under -absorbed) (Rs. 9,50,000 – 8,92,000)	58,000
Closing stock (Over-valued) (Rs.2,26,431 – Rs. 1,50,000)	76,431
Preliminary expenses written off	50,000
	1,84,431
Profit as per Financial Accounts	1,79,800

(Reconciliation statement may also be prepared by taking financial profit as base.)

3. (a) Working Notes:

(i) Computation of Allocation Ratio for Joint Costs

	Products		
	X Rs.	Y Rs.	Z. Rs.
Selling Price	13.75	8.75	7.50
Less: Anticipated margin@ 25% on cost or 20% on sales	2.75	1.75	1.50
Cost of sales	11.00	7.00	6.00
Less: Post split off cost	5.00	4.00	2.50

Joint cost per unit	6.00	3.00	3.50
Output (units)	8,000	6,000	4,000
Total output cost	48,000	18,000	14,000
Allocation ratio for joint costs	24	9	7

(ii) **Computation of net allocable joint costs**

	Rs.	Rs.
Joint input cost including material cost		90,800
Less: Credit for realization from by-product B: Sales revenue (1,000 × Re. 1)	1,000	
Less: profit @ 25% on cost or 20% on sales	200	800
Net joint costs to be allocated		90,000

Determination of joint cost per unit of each product

Product	Net joint costs allocation Rs.	Output(units) Rs.	Joint cost per unit Rs.
X	54,000 (Note : 1)	8,000	6.75
Y	20,250	6,000	3.38
Z	15,750	4,000	3.94
	90,000		

Profit margin available on each product as a percentage on cost

Product	Joint Cost Rs.	Post spilt off cost Rs.	Total Cost Rs.	Selling Price Rs.	Margin Rs.	Margin % on cost Rs.
X	6.75	5.00	11.75	13.75	2.00	17.02
Y	3.38	4.00	7.38	8.75	1.37	18.56
Z	3.94	2.50	6.44	7.50	1.06	16.46

Note: 1

$$X = \frac{24}{40} \times 90,000 = 54,000$$

$$Y = \frac{9}{40} \times 90,000 = 20,250$$

$$Z = \frac{7}{40} \times 90,000 = \underline{15,750}$$

90,000

(b) Working Notes:

1. (i) Effective hours for standing charges (208 hours – 8 hours) = 200 hours
- (ii) Effective hours for variable costs (208 hours – 28 hours) = 180 hours

2. Standing Charges per hour

	Cost per month (Rs.)	Cost per hour (Rs.) (Cost per month ÷ 200 hours)
Supervisor's salary $\left(\frac{\text{Rs. } 6,000}{3 \text{ machines}} \right)$	2,000	10.00
Rent of building $\left(\frac{1}{6} \times \frac{\text{Rs. } 72,000}{12 \text{ months}} \right)$	1,000	5.00
General lighting	1,000	5.00
Total Standing Charges	4,000	20.00

3. Machine running expenses per hour

	Cost per month (Rs.)	Cost per hour (Rs.)
Depreciation $\left(\frac{\text{Rs. } (5,00,000 - 20,000)}{10 \text{ years}} \times \frac{1}{12 \text{ months}} \right)$	4,000	20.00 $\left(\frac{\text{Rs. } 4,000}{200 \text{ hours}} \right)$
Wages	2,500	12.50 $\left(\frac{\text{Rs. } 2,500}{200 \text{ hours}} \right)$
Repairs & Maintenance $\left(\frac{\text{Rs. } 60,480}{12 \text{ months}} \right)$	5,040	28.00 $\left(\frac{\text{Rs. } 5,040}{180 \text{ hours}} \right)$
Consumable stores $\left(\frac{\text{Rs. } 47,520}{12 \text{ months}} \right)$	3,960	22.00 $\left(\frac{\text{Rs. } 3,960}{180 \text{ hours}} \right)$
Power (25 units × Rs.2 × 180 hours)	9,000	50.00
Total Machine Expenses	24,500	132.50

Computation of Two – tier machine hour rate

	Set up time rate per machine hour (Rs.)	Running time rate per machine hour (Rs.)
Standing Charges	20.00	20.00
Machine expenses :		
Depreciation	20.00	20.00
Repair and maintenance	–	28.00
Consumable stores	–	22.00
Power	–	50.00
Machine hour rate of overheads	40.00	140.00
Wages	12.50	12.50
Comprehensive machine hour rate	52.50	152.50

4. (a) (i)

	Rs.
Sales 50,000 units at Rs. 7	3,50,000
Variable cost 50,000 × 3	1,50,000
Contribution 50,000 × 4	2,00,000
Fixed costs	1,20,000
Profit	80,000

$$P/V \text{ ratio} = \frac{S-V}{S} \times 100 = \frac{7-3}{7} \times 100 = \frac{4}{7} \times 100 = 57.14\%$$

$$BEP \text{ (units)} = \frac{F}{\text{contribution per unit}} = \frac{1,20,000}{4} = 30,000 \text{ Units}$$

$$BEP \text{ (Value)} = 30,000 \text{ Units} \times 7 = \text{Rs. } 2,10,000$$

Profit Rs. 80,000 (as calculated above)

(ii) with a 10% increase in output & sales

i.e., 50,000 + 5,000 = 55,000 units

Contribution 55,000 × Rs. 4 per unit	Rs. 2,20,000
Fixed costs	Rs. 1,20,000
Profit	Rs. 1,00,000

(iii) with a 10% increase in Fixed Cost

Contribution (50,000 × Rs. 4 per unit)	Rs. 2,00,000
Fixed cost (1,20,000 + 12,000)	Rs. 1,32,000
Profit	Rs. 68,000

(iv) with a 10% increase in variable costs

Selling price per unit	7.00
Less: variable cost (3+0.30)	3.30
Contribution per unit	3.70
Total contribution 50,000 × 3.70	1,85,000
Fixed costs	1,20,000
Profit	65,000

(v) with a 10% increase in selling price

Selling price per unit (7.00+0.70)	7.70
Variable cost per unit	3.00
Contribution per unit	4.70
Total contribution 50,000 × Rs. 4.70	2,35,000
Fixed costs	1,20,000
Profit	1,15,000

(vi) Effect of all the four above:-

Sales 55,000 × Rs. 7.70 per unit	Rs. 4,23,500
Variable cost 55,000 × 3.30	Rs. 1,81,500
Contribution 55,000 × 4.40	Rs. 2,42,000
Fixed cost 1,20,000+ 12,000	Rs. 1,32,000
Profit	Rs. 1,10,000

Note: It is assumed that the increased output of 55,000 units has been sold.

(b) Working Notes:

(i) Calculation of no. of employees at the beginning and end of the year

	At the Beginning of the year	At the end of the year
Data Processors	540	1,560
Payroll Processors [Left- 60 + Closing- 40 – Joined- 20]	80	40
Supervisors*	30	90
Voice Agents*	30	30
Assistant Managers*	20	30
Senior Voice Agents	4	12
Senior Data Processors	8	34
Team Leaders	60	0
Total	772	1,796

(* At the beginning of the year:

Strength of Supervisors, Voice Agents and Asst. Managers =

[772 – {540 + 80 + 4 + 8 + 60} employees] or [772 – 692 = 80 employees]

[[Supervisors- $80 \times \frac{3}{8} = 30$, Voice Agents- $80 \times \frac{3}{8} = 30$ & Asst. Managers- $80 \times \frac{2}{8} = 20$] employees]

At the end of the year:

[Supervisor-(Opening- 30 + 60 Joining) = 90; Voice Agents- (Opening- 30 + 20 Joined – 20 Left) = 30]

(ii) No. of Employees Separated, Replaced and newly recruited during the year

Particulars	Separations	New Recruitment	Replacement	Total Joining
Data Processors	60	1,020	60	1,080
Payroll Processors	60	--	20	20
Supervisors	--	60	--	60
Voice Agents	20	--	20	20
Assistant Managers	10	10	10	20
Sr. Voice Agents	--	8	--	8
Sr. Data Processors	--	26	--	26
Team Leaders	60	--	--	--
Total	210	1,124	110	1,234

(Since, Corrs Consultancy Ltd. and its subsidiary are maintaining separate Personnel Department, so transfer-in and transfer-out are treated as recruitment and separation respectively.)

(a) Calculation of Labour Turnover:

$$\text{Replacement Method} = \frac{\text{No. of employees replaced during the year}}{\text{Average no. of employees on roll}} \times 100$$

$$= \frac{110}{(772+1,796)/2} \times 100 = \frac{110}{1,284} \times 100 = 8.57\%$$

$$\text{Separation Method} = \frac{\text{No. of employees separated during the year}}{\text{Average no. of employees on roll}} \times 100$$

$$= \frac{210}{1,284} \times 100 = 16.36\%$$

(b) Labour Turnover under Flux Method

$$= \frac{\text{No. of employees (Joined + Separated) during the year}}{\text{Average no. of employees on roll}} \times 100$$

$$= \frac{\text{No. of employees (Re placed + New recruited + Separated) during the year}}{\text{Average no. of employees on roll}} \times 100$$

$$= \frac{1,234 + 210}{1,284} \times 100 = 112.46\%$$

Labour Turnover calculated by the executive trainee of the Personnel department is incorrect as it has not taken the No. of new recruitment while calculating the labour turnover under Flux method.

5. (a) Working Notes

Standard Costs

	Rs.
Direct materials (6,000 × Rs. 12)	72,000
Direct labour (6,000 × Rs. 4.40)	26,400
Variable overheads (6,000 × Rs. 3)	18,000
Total	1,16,400

Actual Cost

Direct Materials (12,670 × 5.70)	72,219
Direct wages	27,950
Variable overhead incurred	20,475
Total	1,20,644

$$\text{Total Variance} = \text{SC} - \text{AC} = 1,16,400 - 1,20,644 = \text{Rs. } 4,244 \text{ (A)}$$

Missing Figures

- Actual Direct Labour Hours (DLH)

We can find out this through Variable overhead efficiency variance of Rs. 1,500 adverse

VOH Efficiency Variance= SR (SH – AH)

1,500 A	=	3(6,000 – AH)
-1,500	=	18,000 – 3 AH
3AH	=	18,000 + 1,500 = 19,500
AH = 19,500/3	=	6,500 Actual Hours i.e. Actual DLH.

2. Actual Labour Rate per hour = $\frac{\text{Rs. } 27,950}{6,500 \text{ DLH}} = \text{Rs. } 4.30$

Relevant Variances:

1	Material Variances:	
	(a) MCV = SC – AC = 72,000 – 72,219 =	Rs. 219 (A)
	(b) MPV = AQ (SR – AR) = 12,670 (6 – 5.70) =	Rs. 3,801 (F)
	or = 19,000 (6 – 5.70) =	Rs. 5,700(F)
	(c) MUV = SR (SQ – AQ) = 6 (6,000 × 2 – 12,670)	
	= 6 (12,000 – 12,670) =	Rs. 4,020 (A)
2.	Labour Variances:	
	(a) LCV = SC – AC = 26,400 – 27,950 =	Rs. 1,550 (A)
	(b) LRV = AHP (SR – AR) = 6,500 (4.40 – 4.30) =	Rs. 650 (F)
	(c) LEV = SR (SH – AHP) = 4.40 (6,000 – 6,500) =	Rs. 2,200 (A)
3.	Variable Overhead Variances : (Output Basis)	
	(a) VOH Variance = SVO – AVO= 18,000 – 20,475	Rs. 2,475 (A)
	(b) Efficiency Variance = SR (SQ – AQ) (Note 1)	
	= 3 (6,500 – 6,000) =	Rs. 1,500 (A)
	(c) Expenditure Variance = (SVOSP – AVO) (Note 2)	
	= (19,500 – 20,475) =	Rs. 975 (A)

Note :

- One unit of production in one hour. For 6,500 DLH, 6,500 units should have been produced (SQ). But AQ = 6,000 units. i.e. less than SQ. Hence, it is adverse variance of Rs. 1,500.
- Standard Variable Overhead on Standard Production = 6,500 × 3 = Rs. 19,500

(b) (i) Production Statement

For the year ended 31st March, 20X8

	Amount (Rs.)
Direct materials	9,00,000
Direct wages	7,50,000
Prime Cost	16,50,000
Factory overheads	4,50,000
Cost of Production	21,00,000
Administration overheads	4,20,000
Selling and distribution overheads	5,25,000
Cost of Sales	30,45,000
Profit	6,09,000
Sales value	36,54,000

Calculation of Rates:

1. Percentage of factory overheads to direct wages = $\frac{\text{Rs.4,50,000}}{\text{Rs.7,50,000}} \times 100 = 60\%$
2. Percentage of administration overheads to Cost of production = $\frac{\text{Rs.4,20,000}}{\text{Rs.21,00,000}} \times 100 = 20\%$
3. Selling and distribution overheads = $\text{Rs.5,25,000} \times 115\% = \text{Rs.6,03,750}$
Selling and distribution overhead % to Cost of production
= $\frac{\text{Rs.6,03,750}}{\text{Rs.21,00,000}} \times 100 = 28.75\%$
4. Percentage of profit to sales = $\frac{\text{Rs.6,09,000}}{\text{Rs.36,54,000}} \times 100 = 16.67\%$

(ii) Calculation of price for the job received in 20X8-X9

	Amount (Rs.)
Direct materials	2,40,000
Direct wages	1,50,000
Prime Cost	3,90,000
Factory overheads (60% of Rs.1,50,000)	90,000
Cost of Production	4,80,000
Administration overheads (20% of Rs.4,80,000)	96,000
Selling and distribution overheads (28.75% of Rs.4,80,000)	1,38,000
Cost of Sales	7,14,000
Profit (20% of Rs.7,14,000)	1,42,800
Sales value	8,56,800

6. (a) Difference between cost control and cost reduction are tabulated as below:

Cost Control	Cost Reduction
1. Cost control aims at maintaining the costs in accordance with the established standards.	1. Cost reduction is concerned with reducing costs. It challenges all standards and endeavours to better them continuously
2. Cost control seeks to attain lowest possible cost under existing conditions.	2. Cost reduction recognises no condition as permanent, since a change will result in lower cost.
3. In case of Cost Control, emphasis is on past and present	3. In case of cost reduction it is on present and future.
4. Cost Control is a preventive function	4. Cost reduction is a corrective function. It operates even when an efficient cost control system exists.
5. Cost control ends when targets are achieved	5. Cost reduction has no visible end.

(b) Before setting up a system of cost accounting the under mentioned factors should be studied:

- (i) **Objective:** The objective of costing system, for example whether it is being introduced for fixing prices or for insisting a system of cost control.

- (ii) **Nature of Business or Industry:** The Industry in which business is operating. Every business industry has its own peculiarity and objectives. According to its cost information requirement cost accounting methods are followed. For example, an oil refinery maintains process wise cost accounts to find out cost incurred on a particular process say in crude refinement process etc.
- (iii) **Organisational Hierarchy:** Costing system should fulfil the information requirements of different levels of management. Top management is concerned with the corporate strategy, strategic level management is concerned with marketing strategy, product diversification, product pricing etc. Operational level management needs the information on standard quantity to be consumed, report on idle time etc.
- (iv) **Knowing the product:** Nature of product determines the type of costing system to be implemented. The product which has by-products requires costing system which account for by-products as well. In case of perishable or short self- life, marginal costing method is required to know the contribution and minimum price at which it can be sold.
- (v) **Knowing the production process:** A good costing system can never be established without the complete knowledge of the production process. Cost apportionment can be done on the most appropriate and scientific basis if a cost accountant can identify degree of effort or resources consumed in a particular process. This also includes some basic technical know-how and process peculiarity.
- (vi) **Information synchronisation:** Establishment of a department or a system requires substantial amount of organisational resources. While drafting a costing system, information needs of various other departments should be taken into account. For example, in a typical business organisation accounts department needs to submit monthly stock statement to its lender bank, quantity wise stock details at the time of filing returns to tax authorities etc.
- (vii) **Method of maintenance of cost records:** The manner in which Cost and Financial accounts could be inter-locked into a single integral accounting system and how the results of separate sets of accounts i.e. cost and financial, could be reconciled by means of control accounts.
- (viii) **Statutory compliances and audit:** Records are to be maintained to comply with statutory requirements and applicable cost accounting standards to be followed.
- (ix) **Information Attributes:** Information generated from the Costing system should possess all the attributes of information i.e. complete, accurate, timeliness, relevant etc. to have an effective management information system (MIS).

(c) **Difference between Fixed and Flexible Budgets:**

Sl. No.	Fixed Budget	Flexible Budget
1.	It does not change with actual volume of activity achieved. Thus it is known as rigid or inflexible budget	It can be re-casted on the basis of activity level to be achieved. Thus it is not rigid.
2.	It operates on one level of activity and under one set of conditions. It assumes that there will be no change in the prevailing conditions, which is unrealistic.	It consists of various budgets for different levels of activity
3.	Here as all costs like - fixed, variable and semi-variable are related to only one level of activity so variance analysis does not give useful information.	Here analysis of variance provides useful information as each cost is analysed according to its behaviour.

4.	If the budgeted and actual activity levels differ significantly, then the aspects like cost ascertainment and price fixation do not give a correct picture.	Flexible budgeting at different levels of activity facilitates the ascertainment of cost, fixation of selling price and tendering of quotations.
5.	Comparison of actual performance with budgeted targets will be meaningless specially when there is a difference between the two activity levels.	It provides a meaningful basis of comparison of the actual performance with the budgeted targets.

- (d) **Net Realisable Value method:** The realisation on the disposal of the by-product may be deducted from the total cost of production so as to arrive at the cost of the main product. For example, the amount realised by the sale of molasses in a sugar factory goes to reduce the cost of sugar produced in the factory.

When the by-product requires some additional processing and expenses are incurred in making it saleable to the best advantage of the concern, the expenses so incurred should be deducted from the total value realised from the sale of the by-product and only the net realisations should be deducted from the total cost of production to arrive at the cost of production of the main product. Separate accounts should be maintained for collecting additional expenses incurred on:

- (i) further processing of the by-product, and
- (ii) selling, distribution and administration expenses attributable to the by-product.