

**MOCK TEST PAPER –1**

**INTERMEDIATE: GROUP – I**

**PAPER – 3: COST AND MANAGEMENT ACCOUNTING**

*Answers are to be given only in English except in the case of the candidates who have opted for Hindi medium. If a candidate has not opted for Hindi medium his/ her answer in Hindi will not be valued.*

*Question No. 1 is compulsory.*

*Attempt any **four** questions from the remaining **five** questions.*

*Working notes should form part of the answer.*

**Time Allowed – 3 Hours**

**Maximum Marks – 100**

1. Answer the following:

- (a) Joy Toy Limited deals in trading of 'superhero' toy figure. The annual demand for the toy car is 14,400 units. The company incurs fixed order placement and transportation cost of ₹212 each time an order is placed. Each toy costs ₹ 450 and the trader has a carrying cost of 25 percent p.a. The company has been offered a quantity discount of 8% on the purchase of 'superhero' toy figure provided the order size is 5,000 units at a time.

Required:

- (i) COMPUTE the economic order quantity  
(ii) STATE whether the quantity discount offer can be accepted.
- (b) CALCULATE (i) Efficiency ratio (ii) Activity Ratio (iii) Capacity Ratio. The relevant data is as below:

Budgeted Production 1,44,000 units

Standard Hours per unit 12

Actual Production 1,20,000 units

Actual Working Hours 12,00,000

- (c) Mithi Treat (MT) owns a confectionary store which sells items like sweets, cake, chocolates. MT use to produce at most 40 units of any item at a time. It has received an order for 800 chocolates from a customer. To process a batch of 40 chocolates, the following cost would be incurred:

Direct materials- ₹ 600

Direct wages- ₹ 55

Oven set- up cost ₹ 175

MT absorbs production overheads at a rate of 25% of direct wages cost. 15% is added to the total production cost of each batch to allow for selling, distribution and administration overheads.

MT requires a profit margin of 25% of cost.

DETERMINE the selling price for 800 Chocolates.

- (d) Secure lifeline Ltd. operates in life insurance business. It launched a new insurance policy 'Total secure'. The company has incurred the following expenditures during the last year for the policy:

	₹
Cost of marketing of the policy	74,58,000
Sales support expenses	18,89,250
Policy issuance cost	16,59,735
Claims management cost	2,07,240
Policy development cost	18,56,250
Postage and logistics	16,91,250
Facilities cost	25,14,600
Policy servicing cost	58,09,155
Employees cost	9,24,000
IT cost	1,22,62,800
Office administration cost	26,73,660

Number of policies sold- 844.

Total insured value of policies - ₹ 1,640 crore.

Required:

- (i) CALCULATE total cost for Professionals Protection Plus' policy segregating the costs into four main activities namely (a) Marketing and Sales support, (b) Operations, (c) IT and (d) Support functions.
- (ii) CALCULATE cost per policy.
- (iii) CALCULATE cost per rupee of insured value. **(4 × 5 Marks = 20 Marks)**

2. (a) Following information obtained from the records of a Manufacturing Company for the month of March:

Direct labour cost ₹ 25,000 being 150% of works overheads.

Cost of goods sold excluding administrative expenses ₹ 75,000.

Inventory accounts showed the following opening and closing balances:

	March 1 (₹)	March 31 (₹)
Raw materials	11,600	15,370
Work-in-progress	15,225	21,025
Finished goods	25,520	27,550

Other information is as follows:	
	(₹)
Selling expenses	6,125
General and administration expenses	4,375
Sales for the month	1,05,250

Required to:

- (i) FIND out the value of materials purchased.

(ii) PREPARE a cost statement showing the various elements of cost and also the profit earned.

(10 Marks)

(b) Following data is extracted from the books of RAMZY Ltd. for the month of March:

(i) Estimation-

Particulars	Quantity (kg.)	Price (₹)	Amount (₹)
Material-A	1320	?	--
Material-B	990	50	49500
			--

Normal loss was expected to be 5% of total input materials.

(ii) Actuals- 2,500 kg of output produced.

Particulars	Quantity (kg.)	Price (₹)	Amount (₹)
Material-A	1500	?	--
Material-B	?	53	--
			98,000

(iii) Other Information-

Material Cost Variance = ₹ 5,500 (F)

Material Price Variance = ₹ 300 (F)

You are required to CALCULATE:

- (i) Standard Price of Material-A;
- (ii) Actual Quantity of Material-B;
- (iii) Actual Price of Material-A;
- (iv) Revised standard quantity of Material-A and Material-B; and
- (v) Material Mix Variance.

(10 Marks)

3. (a) SoyaB Limited is presently operating at 50% capacity and producing 50,000 units. The entire output is sold at a price of Rs. 180 per unit. The cost structure at the 50% level of activity is as under:

	(₹)
Direct Material	60 per unit
Direct Wages	20 per unit
Variable Overheads	20 per unit
Direct Expenses	12 per unit
Factory Expenses (30% fixed)	16 per unit
Selling and Distribution Exp. (85% variable)	10 per unit
Office and Administrative Exp. (100% fixed)	6 per unit

The company anticipates that the variable costs will go up by 20% and fixed costs will go up by 10%.

You are required to prepare an Expense budget, based on marginal cost for the company at 50%,75% and 100% level of activity and find out the profits at respective levels. (10 Marks)

- (b) LNP Ltd. and MNT Ltd. are engaged in manufacturing of identical products. Existing revenue and cost data is as follows:

	LNP Ltd. (₹)	MNT Ltd. (₹)
Sales	13,60,000	17,00,000
Variable Cost	10,88,000	10,20,000
Fixed Cost	1,72,000	5,80,000

You are required to calculate:

- (i) Break-even point (in Value) for each company

Sales at which each company will earn a profit of ₹ 5,00,000.

Sales at which both companies will have same profits.

**(10 Marks)**

4. (a) SM Pvt. Ltd. manufactures their products in three consecutive processes. The details are as below:

	Process X	Process Y	Process Z
Transferred to next Process	60%	50%	
Transferred to warehouse for sale	40%	50%	100%

In each process, there is a weight loss of 2% and scrap of 4% of input of each process. The realizable value of scrap of each process is as below:

Process X @ ₹ 3 per ton

Process Y @ ₹ 5 per ton

Process Z @ ₹ 7 per ton.

The following particulars relate to January 2023:

	Process X	Process Y	Process Z
Materials used (in Tons)	1,500	454	189
Rate per ton	₹ 21.5	₹ 14	₹ 12
Direct Wages	₹ 5,000	₹ 3,260	₹ 2,540
Direct Expenses	₹ 3,820	₹ 2,775	₹ 1,900

PREPARE Process Accounts- X, Y and Z & calculate cost per ton at each process. **(10 Marks)**

- (b) Ultra Builders Ltd. has started a contract on 1st April 2021. The Trial balance as on 31st March 2022 showed the following balances:

Particulars	Dr. (₹)	Cr. (₹)
Paid up share capital		2,05,75,000
Land and buildings	50,60,000	
Machinery at cost (85% at site)	39,60,000	
Cash and bank	33,000	
Materials at cost	27,78,600	
Creditors for materials		11,33,660
Direct wages	14,60,800	

Site expenses	10,56,000	
Vehicles	40,00,000	
Furniture	7,00,000	
Office equipment	12,00,000	
Postage and Stationery	32,560	
Office expenses	6,88,600	
Rates and taxes	28,160	
Fuel and power	9,30,600	
Outstanding wages		2,21,200
Advance rates and taxes	1,540	
	2,19,29,860	2,19,29,860

The contract price is ₹ 2,00,00,000 and work certified is ₹80,00,000. The cost of work uncertified is ₹ 9,60,000. Machinery costing ₹ 1,60,000 was returned to stores at the end of the year. Stock of material at site on 31st March 2022 was of the value of ₹40,000. Depreciation on Machinery, Vehicles and furniture are 10%, 15% and 10% respectively. You are required to calculate the profit from the contract. **(10 Marks)**

5. (a) Bopanna Ltd. produces three products Zm, Rm and Pm using the same plant and resources.

It has given the following information for the year ended on 31st March 2022:

	Zm	Rm	Pm
Production Quantity (units)	6000	7200	9840
Cost per unit:			
Direct Material (₹)	450	420	880
Direct Labour (₹)	80	150	200

Budgeted direct labour rate was ₹40 per hour and the production overheads, shown in table below, were absorbed to products using direct labour hour rate.

Company followed Absorption Costing Method. However, the company is now considering adopting Activity Based Costing Method.

	Budgeted Overheads (₹)	Cost Driver	Remarks
Material Procurement	2,50,000	No. of orders	No. of orders was 30 units for each product.
Set-up	1,50,000	No. of production Runs	All the three products are produced in production runs of 50 units.
Quality Control	1,00,000	No. of Inspections	Done for each production run.
Maintenance	3,00,000	Maintenance hours	Total maintenance hours were 10,000 and was allocated in the ratio of 2:1:2 between X, Y & Z.

Required:

- (i) CALCULATE the total cost per unit of each product using the Absorption Costing Method.

(ii) CALCULATE the total cost per unit of each product using the Activity Based Costing Method.

**(10 Marks)**

- (b) Nero Chemicals Ltd. operates a simple chemical process to convert material RV into three separate items, such as T, U and V. All three end products are separated simultaneously at a single split-off point, at which time Product T and Product U are ready for sale without additional costs. Product V, however, is processed further before being sold. There is no available market price for V at the split-off point.

The selling prices quoted here are expected to remain the same in the coming year.

During 2021-22, the selling prices of the items and the total units sold were:

T – 1,000 tons sold for ₹ 6,000 per ton

U – 2500 tons sold for ₹ 5,000 per ton

V – 3000 tons sold for ₹ 6,500 per ton

The total joint manufacturing costs for the year were ₹62,50,000. An additional ₹9,00,000 was spent to finish product V.

There were no opening inventories of T, U or V at the end of the year. The following inventories of complete units were on hand.

T - 900 tons

U - 300 Tons

V - 125 tons

There was no opening or closing work-in-progress.

Required:

COMPUTE the cost of inventories of T, U and V and cost of goods sold for year ended March 31,2022, using Net realizable value (NRV) method of joint cost allocation. **(10 Marks)**

6. Answer **any four** of the following:

- (a) STATE the advantages of Zero-based budgeting.
- (b) DIFFERENTIATE between Cost Accounting and Management Accounting.
- (c) “Is reconciliation of cost accounts and financial accounts necessary in case of integrated accounting system?” EXPLAIN.
- (d) DEFINE cost units? WRITE the cost unit basis against each of the following Industry/Product- Automobile, Steel, Cement, Chemicals, Power and Transport.
- (e) DISTINGUISH clearly between Bin cards and Stores Ledger. **(4 × 5 =20 Marks)**