

**Time: 2 Hours**

**Marks: 60**

**Note:**

- 1. All questions are compulsory.**
- 2. Figures to the right indicate full marks.**

**Q-1** From the following information relating to KKN Company Ltd. Prepare Process Cost Account for Process III for the year 2022. **(15)**

Opening Stock IN Process III	5,000 units of Rs.36,000
Transfer from Process II	2,13,000 units of Rs.8,27,000
Direct Material added in Process III	Rs. 4,01,800
Direct Wages	Rs. 1,98,100
Production Overhead	Rs. 99,050
Units Scrap	11,000
Units Transferred to Process IV	1,89,000 units
Closing Stock	18,000 units

**Degree of Completion:**

	<b>Opening stock</b>	<b>Closing stock</b>	<b>Scrap</b>
Material	70%	80%	100%
Labour	50%	60%	80%
Overheads	50%	60%	80%

There was a normal loss of 5% production and unit scrapped were sold at Rs. 1.50

**OR**

**Q-1** Prepare a statement of equivalent production, statement of cost, process account from the following information using average costing method. **(15)**

Opening Stock	50000 Units	During the period 1,50,000 units were completed and transferred to Process II.
Material Rs. 25,000		Closing stock 1,00,000 units.
Labour Rs. 10,000		Degree of completion.
Overheads Rs. 25,000		Material 100 %
Units Introduced 20,00,000 Units		Labour 50 %
Material Rs. 1,00,000		Overheads 40 %
Wages Rs. 75,000		
Overheads Rs. 70,000.		

**Q.2** ABC limited is following activity-based costing. Budgeted overheads and cost driver volumes are as follows: (15)

COST POOL	BUDGETED OVERHEADS (Rs.)	COST DRIVER	BUDGETED VOLUME
Material procurement	11,59,400	No. of orders	2200
Material handling	4,99,500	No. of movements	1350
Maintenance	19,32,000	Maintenance Hours	16800
Setup	8,06,000	No. of setups	1040
Quality control	3,51,000	No. of inspections	1800
Machinery	14,40,000	No. of machine hours	48000

**Actual:** The company has produced a batch of 7,500 components. Its material cost was Rs. 4,00,000 and labour cost is Rs. 7,00,000.

Usage activities of the said batch are as follows:

Material orders- 78, Material movements- 54, Setups- 75, Maintenance hours- 2070, Quality control inspection- 84 and Machine hours- 5,400.

**Calculate:**

1. Cost driver rates that are used tracing appropriate amount of overheads to the said batch.
2. Total cost of batch of 7500 components.

**OR**

**Q.2** BBQ company has six departments A, B, C, D, E and F. Under traditional method they have allocated manufacturing overhead using one cost pool based on direct labour hours. The accounting staff has provided the following estimates applicable to traditional and ABC allocation of manufacturing costs for the year: (15)

PARTICULARS	COST(Rs.)	ALLOCATION BASE	ACTIVITY
Setups	43,000	No. of setups	250 setups
Quality control	36,000	No. of inspections	400 inspections
Fabrication	36,000	Production runs	3,600 runs
Maintenance	38,000	Maintenance Hours	19,000 hours
Direct labour	90,000	Direct labour hours	9,000 labour hours

Management is assessing if ABC should be used, and has determined that Department C used the following: 25 setups, 60 inspections, 900 production runs, 4,500 maintenance hours and 1800 direct labour hours during the year.

- A. Using traditional allocation, how much overhead cost is allocated to Dept. C?
- B. Using ABC, how much overhead cost is allocated to Dept. C?

**Q3. (a).** A and B are two divisions of a company. A makes a single product, which it sells only to B for incorporation into B's products. The relevant costs and revenues are: **(07)**

Quantity (Units)	Cost to A (after deducting own variable cost) Rs.	Revenue of B
100	150	300
200	240	400
300	320	490
400	400	570
500	510	640

What is the appropriate transfer price per unit between division A and B. and how many units should be produced?

**Q3. (b)** A company has two department, Department 'A' and Department 'B' Division A has a budget of selling 2,00,000 units of a particular component X to fetch a return of 20% on the average assets employed. **(08)**

The following particulars of division 'A' are also known:

Particular	Rs.	Particular	Rs.
Fixed Overhead	Rs. 6,00,000	Average Assets: Sundry Debtors	Rs.3,00,000
Variable cost	Rs. 1 per unit	Inventories	Rs. 6,00,000
		Plant and Equipment's	Rs. 6,00,000

However, there are certain constraints in marketing and only 1, 50,000 units of the component 'X' can be directly sold to the market at the proposal price. It has been gathered that the balance 50,000 units of component 'X' can be taken up by Division 'B'. Division 'A' wants a price of Rs. 4 per unit of 'X' but Division 'B' is prepared to pay Rs. 3 per unit of 'X'.

Division 'A' has another option on hand, which is to produce only 1,50,000 units of component 'X'. This will reduce the holding of assets by Rs. 2,00,000 and fixed overhead by Rs. 25,000. You are required to advise the most profitable course of action for Division 'A'

**OR**

**Q3. (a)** Star Company Ltd has three divisions P,Q and R. Following are the details of their performance for a period: **(07)**

Particulars	P	Q	R
Sales	5,00,000	11,00,000	10,00,000
Variable Cost	3,00,000	8,80,000	7,20,000
Profit	2,00,000	2,20,000	2,80,000
Investment	4,50,000	10,50,000	9,50,000

- You are required to comment on the performance of three divisions on the basis of Return on Investment.
- Using the information given above and assuming a cost of capital of 10%. Find the RI of various divisions and comment on their performance.

**Q3. (b).** The Diamon Designer Ltd is segmented into two divisions, Interior and Exterior.  
Selected data from the divisions financial statement are given below: **(08)**

Particulars	Division	
	Interior	Exterior
Investment	1,20,00,000	80,00,000
Income before interest and taxes	20,00,000	15,20,000

You are required to:

1. Calculate the ROI for the two divisions and the RI taking a capital charge of 15%.  
Which is the most profitable division?
2. What will be RI if Cost of Capital Charge of 10%.

**Q.4 (a) State whether following statements are true or false: (any7) (07)**

1. Transfer price will act as a check on supplier's prices.
2. Under actual cost of production method transfer price will be determined based on the cost of production arrived as in traditional method of valuation of inventory.
3. RI is divisional profit less cost of capital employed.
4. Marketing department is a cost centre.
5. Traditional method of overhead allocation is more accurate than ABC Costing.
6. ABC costing is used only to allocate the direct cost.
7. ABC costing focuses on reducing costs and improving processes.
8. The sale value of units of abnormal loss is credited to the abnormal loss account.
9. Invisible waste has no sale value
10. The unrealized profit in closing stock is eliminated by creating a stock reserve in respect of the stock lying in a process.

**Q.4 (b) Multiple Choice Questions: (any 8) (08)**

1. Transfer pricing benefits \_\_\_\_\_.
  - a. divisional performance evaluation
  - b. healthy competitive spirit
  - c. co-ordination of divisional objectives
  - d. all of the above.
2. Market price affected by \_\_\_\_\_.
  - a. demand supply forces
  - b. government policy
  - c. organizational policy
  - d. all of the above.



3. Responsibility centre concerned with profit is \_\_\_\_\_.
  - a. cost centre
  - b. profit centre
  - c. revenue centre
  - d. budget centre.
4. Profit centre is evaluated by \_\_\_\_\_.
  - a. cost variance
  - b. profit margin
  - c. EVA
  - d. MVA
5. Cost allocation basis in activity-based costing should be \_\_\_\_\_.
  - a. cost drivers
  - b. cost pools
  - c. activity centres
  - d. resources
6. ABC is \_\_\_\_\_.
  - a. a method of accounting for material
  - b. a method of allocating indirect cost
  - c. another name of benchmarking
  - d. a cost objects.
7. ABC stands for \_\_\_\_\_.
  - a. Assets based costing
  - b. Analysis based cost
  - c. Asset based control
  - d. Activity based costing
8. Process cost is based on the concept of \_\_\_\_\_.
  - a. Average cost
  - b. Marginal cost
  - c. Standard cost
  - d. Differential cost
9. Which of the following does not use process costing?
  - a. Oil refining
  - b. Distilleries
  - c. Sugar
  - d. Aircraft manufacturing
10. Abnormal gains are equal to \_\_\_\_\_.
  - a. Actual output – Normal output
  - b. Normal output- actual output
  - c. Actual output -input
  - d. Input-actual output