GOVERNMENT COLLEGE UNIVERSITY, FAISALABAD

M.Com Part II Course Code: MC-615 Course Title: Cost Accounting for selected Industries

Note: Tick the correct option. Cutting, overwriting is not allowed.

1. The primary objective of cost accounting is to:
   (a) Control Cost (b) Maximize Cost (c) Costing (d) Process Cost

2. In shoes industry cost unit is called:
   (a) crate of 24 (b) pair (c) cubic foot (d) tonne

3. These costs remain constant in ‘total’ amount over a wide range of activity for a specified period of time.
   (a) variable cost (b) semi variable Cost (c) fixed Cost (d) mixed Cost

4. These costs tend to vary in direct proportion to the volume of output:
   (a) variable cost (b) semi variable Cost (c) fixed Cost (d) mixed Cost

5. Building insurance is:
   (a) variable cost (b) semi variable Cost (c) fixed Cost (d) mixed Cost

6. Direct material cost is:
   (a) variable cost (b) semi variable Cost (c) fixed Cost (d) mixed Cost

7. These are the costs which are ascertained after these have been incurred:
   (a) controllable cost (b) historical costs (c) pre-determined cost (d) product cost

8. Cost of sample is the example of:
   (a) Admn cost (b) selling cost (c) FoH (d) direct labour cost

9. In this cost system, production is for stocking purpose:
   (a) process cost system (b) job cost system (c) contract cost system (d) service costing

10. This is a total cost technique under which total cost i.e. fixed and variable is charged to production.
    (a) Marginal cost (b) Absorption cost (c) contract cost system (d) service costing

11. Difference in net profit under absorption and marginal costing is due to difference in:
    (a) Stock valuation (b) Production valuation (c) Sales valuation (d) Profit valuation

12. This is the difference between sales and the marginal (variable) cost of sales:
13. A high P/V ratio indicates:
   (a) Low Profitability  (b) High Profitability  (c) No Profitability  (d) None
14. This cost is an expenditure made in the past that cannot be changed and over which management no longer has control:
   (a) Sunk cost  (b) Imputed Cost  (c) Opportunity cost  (d) replacement cost
15. Those costs that involve cash outlays or require the utilization of current resources
   (a) Out of pocket cost(b) Imputed Cost  (c) Opportunity cost  (d) replacement cost
16. When selling price falls below marginal cost, the loss will be -------------- the amount of fixed cost.
   (a) More than  (b) Less than  (c) Equal to  (d) None
17. It denotes the proportion in which various products are sold or produced:
   (a) Sales Mix  (b) Product Mix  (c) Both  (d) None
18. Sometimes, certain fixed costs can be avoided by management when plant is not operative. These are termed as:
   (a) discretionary fixed costs (b) Committed fixed costs(c) fixed costs  (d) None
19. This is the difference in cost between one alternative and another:
   (a) Differential cost  (b) Committed fixed costs(c) fixed costs  (d) Product cost
20. Difference in revenue of two alternatives is termed as:
   (a) incremental revenue(b) Committed revenue(c) fixed costs  (d) Product cost
Q.2 Your company has a production capacity of 2,00,000 units per year. Normal capacity utilization is reckoned as 90%. Standard variable production costs are Rs.11 per unit. The fixed costs are Rs. 3,60,000 per year. Variable selling cost are Rs. 3 per unit and fixed selling costs are Rs. 2,70,000 per year. The unit selling price is Rs. 20. In the year just ended on 30th June 2007, the production was 1,60,000 units and sales were 1,50,000 units. The closing inventory on 30th June was 20,000 units. The actual variable production costs for the year were Rs. 35,000 higher than the standard.

(i) Calculation the profit for the year by –
(a) Absorption costing method, and
(b) Marginal costing method.

(ii) Explain the difference in the profits.

Q.3 From the books and records of the C. Company, the cost analyst determined that sales were Rs. 1,00,00,000 and costs were as follows:

<table>
<thead>
<tr>
<th>V. Cost</th>
<th>F. Cost</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct material</td>
<td>Rs. 30,00,000</td>
<td>----</td>
</tr>
<tr>
<td>Direct labour</td>
<td>30,00,000</td>
<td>----</td>
</tr>
<tr>
<td>Factory overhead</td>
<td>8,00,000</td>
<td>5,00,000</td>
</tr>
<tr>
<td>Marketing expenses</td>
<td>7,00,000</td>
<td>3,00,000</td>
</tr>
<tr>
<td>Admin. Expenses</td>
<td>5,00,000</td>
<td>2,00,000</td>
</tr>
</tbody>
</table>

80,00,000

The company is considering two alternative proposals that would change certain cost items. Proposal 1 would increase fixed costs Rs. 1,00,000, with sales and variable costs remaining the same. Proposal 2 would modernize present equipment at an annual increase of fixed costs of Rs. 2,50,000, with the expectation of saving the same amount in each of the direct materials and the direct labour cost.

Required:- 1. The current contribution margin ratio (C/M). 2. The current break-even point.

1. If Proposal 1 is adopted: a. The break-even point  b. The profit.
2. If Proposal 2 but not Proposal 1 is adopted.  a. The contribution margin ratio  
   b. The break-even point  c. The profit.

Q.4 A manufacturer of plastic buckets makes an average profit of Rs.2.50 per piece on a selling price of Rs.14.50 by producing and selling 60,000 pieces at 60% of potential capacity. His cost of sales is:

| Direct materials | Rs.4.00 |
| Direct wages     | 1.00   |
| Factory overhead | 6.00 (50% fixed) |
| Selling overhead | 1.00 (75% fixed) |

During the current year, he intends to produce the same number of units, but anticipates that:
a) Fixed cost will go up by 10%

b) Material and labour cost will go up by 5% each.

c) Selling price will remain unchanged.

Under these circumstances, he obtains an offer for a further 20% of his capacity. What minimum price you would recommend for acceptance to ensure an overall profit of Rs.1,60,000.

**Q.5** B Ltd., manufactures product A, which yields two by-products B and C. the actual joint expenses of manufacture for a period were Rs. 8,000.

It was estimated that profits on each product as a percentage of sales would be 30%, 25% and 15% respectively. Subsequent expenses were:

<table>
<thead>
<tr>
<th></th>
<th>A</th>
<th>B</th>
<th>C</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rs.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Material</td>
<td>100</td>
<td>75</td>
<td>25</td>
</tr>
<tr>
<td>Direct wages</td>
<td>200</td>
<td>125</td>
<td>50</td>
</tr>
<tr>
<td>Overheads</td>
<td>150</td>
<td>125</td>
<td>75</td>
</tr>
<tr>
<td>Sales</td>
<td>6,000</td>
<td>4,000</td>
<td>2,500</td>
</tr>
</tbody>
</table>

Prepare a statement showing the apportionment of the joint expenses of manufacture over the different products. Also presume that selling expenses are apportioned over the products as a percentage to sales.

**Q.6** Bed & Bath, a retailing company, has two departments, Hardware and Linens. The company’s most recent monthly contribution format income statement follows:

<table>
<thead>
<tr>
<th>Department</th>
<th>Total</th>
<th>Hardware</th>
<th>Linens</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>Rs.4,000,000</td>
<td>Rs.3,000,000</td>
<td>Rs.1,000,000</td>
</tr>
<tr>
<td>Less variable expenses</td>
<td>1,300,000</td>
<td>900,000</td>
<td>400,000</td>
</tr>
<tr>
<td>Contribution margin</td>
<td>2,700,000</td>
<td>2,100,000</td>
<td>600,000</td>
</tr>
<tr>
<td>Less fixed expenses</td>
<td>2,200,000</td>
<td>1,400,000</td>
<td>800,000</td>
</tr>
<tr>
<td>Net operating income (loss)</td>
<td>Rs.500,000</td>
<td>Rs.700,000</td>
<td>Rs.(200,000)</td>
</tr>
</tbody>
</table>

A study indicates that Rs.340,000 of the fixed expenses being charged to Linens are sunk cost or allocated cost that will continue even if the Linens Department is dropped. In addition, the elimination if the Linens Department will result in a 10% decrease in sales of Hardware Department.
**Required:** If the Linens Department is dropped, what will be the affect on the net operating income of the company as a whole?

**Q.7** What is a break-even chart? What are its uses and limitations? Explain how you would locate the break-even point on the chart.