QUESTION PAPER 2011

Cost Accounting **Paper: BC-406**
Time Allowed: 3 Hrs. **Marks: 100**

Attempt any FIVE questions and all questions carry equal marks.

Q.1 Define cost accounting. How does it differ from financial accounting?

Q.2 Cost accountant of THAL Manufacturing Company has prepared following summary:

Inventories at 1st July, 2010:

	Rs.
Raw materials	30,000
Work in process	18,000
Fuel	2,000
Factory repair parts	1,000
Finished goods	13,000
During the month following transaction took place	
Raw material purchased	130,000
Fuel purchased	18,000
Direct labour	120,000
Miscellaneous factory overhead	4,000
Repairs of factory (including purchase of parts)	5,000
Depreciation of plant	3,000
Superintendence	2,000
Transportation out	2,000
Purchase discount lost	1,000
Indirect factory labour	3,000
Inventories at 31st July, 2010:	
Raw materials	32,000
Work in process	22,000
Fuel	3,000
Factory repair parts	2,000
Finished goods	18,000

Required: Prepare a statement of Cost of Goods Sold.

Q.3 Annual estimated Factory Overhead of a company for an expected volume of 180,000 pounds of a product was as follows:

Fixed Overhead Rs. 36,000
Variable Overhead Rs. 108,000
Output was 10,000 pounds in June and actual overhead expenses were Rs. 7,700.

REQUIRED:
(i) The overhead rate per unit.
(ii) Spending variance
(iii) Idle capacity variance.

Q.4 A company received an order for 1,000 instruments at a sales price of Rs. 75 per instrument. Costs incurred to manufacture these instruments were:

Direct materials	Rs. 20 per instrument
Direct labour	Rs. 10 per instrument

Manufacturing overhead was applied @ 200% of direct labour cost.

On final inspection it was found that 200 instruments were defective which were returned to concerned department of factory for rework. The additional costs for this rework were:

Direct labour	Rs. 1,000

Manufacturing overhead at applied rate.

Required: Entries that would appear in the books under each of the following conditions:

(i) When reworking costs are charged directly to the job on which they occurred.
(ii) When additional costs incurred in reworking are charged to factory overhead account.

Setup entries in two parallel columns for the following:

(a) To record initial cost of manufacturing the order.
(b) To record the additional costs for correcting the defective work.
(c) To record the completion of the order.
(d) To record the shipment of the order to the customer.

Q.5 Ramdan company had its factory in Karachi but its head office is in Lahore. On October 1st 2010, the Factory trial balance appeared as follows:

	Rs.	Rs.
Materials	30,000	
Work in process	80,000	
Finished Goods	40,000	
Factory Overhead Control	580,000	

Factory machinery	240,000	
Accumulated depreciation on factory machinery		72,000
Applied factory overhead		569,000
General Ledger	329,000	
Total	970,000970,000	

The following transactions were complete during October:

(a) Direct materials Rs. 100,000 were purchased on terms 2/10, n/30.

(b) The factory payroll for Rs. 75,000 direct labour and Rs. 15,000 indirect labor was mailed to the home office. The home office payroll was Rs. 20,000 foe sales salaries and Rs. 30,000 for general office salaries. Employees' payroll deductions were recorded at the home office at the following rates:

15% of Gross earnings for Income Tax;
10% of Gross earnings as provident fund contribution by the employees.

(c) Materials requisitions were as follows:

	Rs.
Direct materials	70,000
Indirect material	8,500
Shipping supplies	1,500

(d) Indirect factory materials and supplies amounting to Rs. 25,000 were purchased.
(e) Defective indirect materials returned to the supplier amounted to Rs. 1,000.
(f) Sundry factory expensed of Rs. 8,300 were recorded.
(g) Depreciation of an annual rate of 10% of the original cost was recorded on the factory Machinery.
(h) Accounts payable totaling Rs. 210,000 including the accrued payroll, were paid.
(i) Factory overhead was applied to production at the rate of Rs. 6 per direct labour hour; the Factory worked 7,000 hours.
(j) Goods completed with a total cost of Rs. 215,000.
(k) Goods costing Rs. 200,000 were sold for Rs. 274,000.

Required: Journal entries to record the above transactions on the general office and on the factory office books.

Q.6 Calculate the normal and overtime wages payable to a worker for the following data:

Days	**Hours worked**
Monday	10
Tuesday	11
Wednesday	9
Thursday	12
Saturday	40
Sunday	4

Normal working hours were 8 hours per day. Normal rate was Rs. 10.00 per hour. Overtime rate was as follows:
Up to 9 hours in a day at single rate and over 9 hours in a day at double rate or up to 48 hours at single rate and above it at double rate, which is more beneficial to the worker.

Q.7 During January 2010, Department 2 received 20,000 units @ Rs. 19.50 from Department 1. Direct Labour of Rs. 36,284 and factory overhead of Rs. 72,568 were spend to process these units. During Processing 500 units were lost as unavoidable spoilage. 3,500 units estimated to be 80% completed, Were in process at the end of month. Remaining units were passed on to Department 3.

Required: Cost of production report of December 2 and 31st January, 2010.

Q.8 **Define the following term:**
1. Conversion cost.
2. Job Order Costing
3. Semi-variable cost.
4. E.O.Q (Economic Order Quantity).
5. Breakeven point.