

QUESTION NO 1

Badar Cold Refrigerator Company

Income statement

For the three month ended March 31, 20.....

	Rs.	Rs.	Rs.
Sales			
Less Cost of goods sold:			
Direct materials:			
Materials inventory Jan 1, 20	268,000		
Add purchase	1,946,700		
Cost of materials available for use	2,214,700		
Less materials inventory Mar 31, 20	167,000		
Direct material consumed		2,204,700	
Direct labour cost		2,125,800	
FOH		746,000	
Cost of goods manufactured		4,937,500	
Add finished goods inventory, Jan 1, 20		43,000	
Cost of goods available for sale		4,980,500	
Less finished goods inventory, Mar 31, 20		79,000	
Cost of goods sold			4,901,500
Gross profit			1,732,500
Less Operating expenses			
Marketing expenses		516,000	
Administrative expenses		461,000	977,000
Net income			755,500

(2) The number of units manufactured:

Units sold	12,400
Add units in finished goods inventory, March 31, 20	200
Total units to be accounted for	12,600
Less units in finished goods inventory, Jan 1, 20	100
Units manufactured	12,500

(3) Unit cost of refrigerators manufactured:

Cost of goods manufactured ÷ units manufactured

Rs. 4,937,500 ÷ 12,500 units = Rs. 395

(4) Gross profit per unit sold

Gross profit ÷ units sold

Rs. 1,732,500 ÷ 12,400 units = Rs. 139.718

(5) The income per unit sold

Net income ÷ unit sold

Rs. 755,000 ÷ 12,400 units = Rs. 60.927

(6) The ratio of gross profit to sales

(Gross profit ÷ sales) × 100

(Rs. 1,732,500 ÷ Rs. 6,634,000) × 100 = 26.115%

(7) The income to sales percentage

(Net income ÷ sales) × 100

(Rs. 755,500 ÷ Rs. 6,634,000) × 100 = 11.388%

QUESTION NO 2

Asia (Pvt) Ltd

Finishing department

Cost of production report

For the month ended May 31, 20.....

Quantity schedule	Units	Units
Units from preceding department		18,000
Units transferred to next department	13,000	
Units completed and on hand	2,500	
Units still in process		
40% converted	2,000	
Units lost in process – Normal loss	<u>500</u>	<u>18,000</u>

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Cost charged to department:	Total	Per unit
	Rs.	Rs.
Cost from preceding department	<u>94,500</u>	<u>5.25</u>
Cost added by the department		
Labour	34,468	2.36
FOH	<u>9,617</u>	<u>0.59</u>
Total cost added by the department	<u>48,085</u>	<u>2.95</u>
Adjustment for lost units		<u>0.15</u>
Total cost to be accounted for	<u>142,585</u>	<u>8.35</u>

Cost accounted for as follows	Rs.	Rs.
Cost transferred to next department		
13,000 units × Rs. 8.35		108,500
Cost of units completed and on hand		
2,500 units × Rs. 8.35		20,875
WIP – Ending inventory		
Adjusted cost from preceding department		
2,000 units × Rs. 5.40	10,800	
Labour	2,000 units × 40% × Rs. 2.36	1,888
FOH	2,000 units × 40% × Rs. 0.59	<u>472</u>
Total cost accounted for		<u>142,585</u>

Computation explained:

Equivalent production:

$$13,000 \text{ units} + 2,500 \text{ units} + 2,000 \text{ units} \times 40\% = 16,300 \text{ units}$$

Unit cost:

$$\text{Labour} = \text{Rs. } 38,468 \div 16,300 \text{ units} = \text{Rs. } 2.36$$

$$\text{Overhead} = \text{Rs. } 9,617 \div 16,300 \text{ units} = \text{Rs. } 0.59$$

Adjustment for loss units:

Unit cost after adjustment	Rs.
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Rs. 94,500 ÷ 17,500 units	5.40
Unit cost before adjustment	<u>5.25</u>
Adjustment per unit	<u>0.15</u>

QUESTION NO 3

i. Variable factory overhead absorption rate:

	Activity level (Machine hours)	Budgeted FOH (Rs.)
High	150,000	800,000
Low	100,000	700,000
	<u>50,000</u>	<u>100,000</u>

For a change of 50,000 machine hours in activity level there is a change of Rs. 100,000 in budgeted factory overhead. This change in budgeted FOH is due to variable factory overhead. Therefore

$$\begin{aligned} \text{Variable rate} &= \text{Change in budgeted FOH} \div \text{change in activity level} \\ &= \text{Rs. } 100,000 \div 50,000 \text{ machine hours} \\ &= \text{Rs. } 2 \text{ per machine hour} \end{aligned}$$

ii. Budgeted fixed factory overhead

$$\begin{aligned} \text{Total FOH for 150,000 machine hours} &= \text{Rs. } 800,000 \\ \text{Budgeted variable FOH} &= 150,000 \text{ m/c hrs.} \times \text{Rs. } 2 = \text{Rs. } 300,000 \\ \text{Budgeted fixed FOH} &= \text{Rs. } 800,000 - \text{Rs. } 300,000 = \text{Rs. } 500,000 \end{aligned}$$

(OR)

$$\begin{aligned} \text{Total FOH for 100,000 machine hours} &= \text{Rs. } 700,000 \\ \text{Budgeted variable FOH} &= 100,000 \text{ m/c hrs.} \times \text{Rs. } 2 = \text{Rs. } 200,000 \\ \text{Budgeted fixed FOH} &= \text{Rs. } 700,000 - \text{Rs. } 200,000 = \text{Rs. } 500,000 \end{aligned}$$

iii. Budgeted activity level

$$\begin{aligned} \text{Budget activity level} &= \text{Fixed FOH} \div \text{Fixed rate} \\ &= \text{Rs. } 500,000 \div (\text{Rs. } 6 - \text{Rs. } 2) \\ &= 125,000 \text{ machine hours} \end{aligned}$$

iv. Over or Under absorbed Factory Overhead

Actual factory overhead	Rs. 710,000
Absorbed factory overhead	
Actual volume × FOH absorption rate	

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	120,000 m/c hrs × Rs. 6	720,000
	Over absorbed	Rs. 10,000
v.	Volume variance	
	Absorbed factory overhead	720,000
	Budgeted FOH for actual volume	
	Fixed FOH + (Actual volume × Variable rate)	
	Rs. 500,000 + (120,000 m/c hrs × Rs. 2)	740,000
	Unfavorable / Dr	Rs. 20,000
vi.	Spending variance	
	Budgeted FOH for actual volume	Rs. 740,000
	Actual factory overhead	710,000
	Favorable / Cr	Rs. 30,000
a.	Order level = Maximum daily consumption × No of lead time	
	Material A = 600 units × 8 days = 4,800 units	
b.	Minimum level = Order level – average daily consumption × no of lead time	
	Material A = 4,800 units – (500 units × $\frac{4+2}{2}$ days) = 3,000 units	
c.	Maximum level = Order level – (Minimum daily consumption × No of lead time) + EOQ	
	Material A = 4,800 units – (400 units × 4 days) ÷ 5,000 units	
	= 8,200 units	
d.	Danger level = Average daily consumption × Time to get emergency supply	
	Material A = 500 units × 3 days = 1,500 units	

QUESTION NO 5

Date	Particulars	L.F	Debit	Credit
	Materials		120,000	
	Voucher Payable			120,000
	WIP - materials		124,000	
	WIP - labour		60,000	
	WIP – FOH		60,000	
	Materials			124,000
	Payroll			60,000
	FOH applied			60,000
	Finished goods		270,000	
	WIP - materials			134,000
	WIP - labour			72,000
	WIP – FOH			64,000
	Cost of goods sold		254,000	
	Finished goods			254,000

SUPPORTING CALCULATIONS:

Materials

Balance b/d	50,000	WIP – materials	124,000
Purchases	124,000	Balance b/d	46,000
	170,000		170,000

WIP – Materials

Balance b/d	20,000	Finished goods	134,000
Materials	124,000	Balance c/d	10,000
	144,000		144,000

WIP - Labour

Balance b/d	30,000	Finished goods	72,000
Payroll	60,000	Balance c/d	18,000
	90,000		90,000

WIP – FOH

Balance b/d	12,000	Finished goods	64,000
Payroll	60,000	Balance c/d	8,000
	72,000		72,000

Finished

Balance b/d	28,000	Cost of goods sold	254,000
WIP – Materials	134,000	Balance c/d	44,000
WIP – Labour	72,000		
WIP - FOH	64,000		
	298,000		298,000

Finished Goods

Balance b/d	12,000	Cost of goods sold	162,000
WIP – Materials	60,000	Balance c/d	25,000
WIP – Labour	86,000		
WIP - FOH	29,000		
	187,000		187,000

QUESTION NO 6

Abdullah

Days	Hours worked	Overtime hours	Normal wages	Overtime wages
Monday	10	2	Rs. 800	Rs. 160
Tuesday	11	3	880	240
Wednesday	9	1	720	80
Thursday	8	-	640	-
Friday	9	1	720	80
Saturday	8	-	640	4
Total			4,400	560

Total wage = 4,400 + 560 = Rs. 4,960

Ahmad

Days	Hours worked	Overtime hours	Normal wages	Overtime wages
Monday	9	1	Rs. 720	Rs. 80
Tuesday	10	2	800	160
Wednesday	9	1	720	80
Thursday	10	2	800	160
Friday	8	-	640	-
Saturday	4	-	320	-
Total			4,400	480

Total wage = 4,400 + 480 = Rs. 4,880