



Q.1. Answer the following short questions: (6x5=30)

1. Explain the purposes of standard costs.
2. What is the Primary objective in process costing?
3. How does the calculation of a mix variance differ from that of a quantity variance?
4. What causes changes in the gross profit?
5. Differentiate between direct costs and direct costing.
6. What is the contribution margin?

Answer the following questions. (3x10=30)

Question No.2

JP Morgan and Company is drafting a budget on the basis of the following data:

Direct Material Rs. 40 per unit

Direct Labour Rs. 20 per unit

Variable FOH Expenses Rs.6 per unit

Fixed FOH Costs Rs. 50,000 per month

Normal output 10,000 units per month

Sales price Rs.120 per unit

Fixed Marketing and Administrative Expense Rs. 20,000

Variable Marketing and Administrative Expense Rs 3 per unit sold

In order to build up inventory in anticipation of an increase in demand which is expected later in the year, production is to exceed sales in the first two months of the year as follows:

| | <u>Production (units)</u> | <u>Sales (units)</u> |
|----------|---------------------------|----------------------|
| January | 8000 | 7000 |
| February | 11000 | 10000 |

Required: (a) Prepare profit statements for February (only),

- i) On a marginal costing basis
- ii) On a full absorption costing basis.
- iii) An explanation of the difference in operating income under the two concepts.

Question: 3

ICI Company, produces farm equipment at several plants. The business is seasonal and cyclical in nature. The company has attempted to use budgeting for planning and controlling activities, but the variable nature of the business has caused some company officials to be skeptical of its usefulness. The chief accountant for the Adrian Plant has been using a flexible budget to held plant management control operations.

The president asks for an explanation of flexible budgeting, its application, and its possible use for the entire company. The chief accountant presents the following data:

Budget data for 2021

| | |
|--|------------------|
| Normal monthly capacity of the plant in direct labour hour | 10,000 hours |
| Materials cost (6 lbs, @ Rs. 2) | Rs. 12 per unit |
| Labor cost (2 hours @ Rs. 7)..... | Rs. 14 per unit |
| Estimated factory overhead at normal monthly capacity: | |
| Variable factory overhead: | |
| Indirect labor | Rs. 7,000 |
| Indirect materials | 1000 |
| Repairs | 1500 |
| Total variable factory overhead | <u>Rs. 9,500</u> |

Fixed factory overhead:

| | |
|--|--------------------|
| Depreciation | Rs. 3000 |
| Supervision | 4000 |
| Total fixed factory overhead | Rs. 7,000 |
| Total fixed and variable factory overhead | Rs. 16,500 |
| Planned units for January | 4,200 |
| Planned units for February | 5,500 |
| Actual data for January: | |
| Hours worked | 8,500 |
| Units produced | 3,900 |
| Costs incurred: | |
| Materials (24,000 lbs.) | Rs. 50,400 |
| Direct labor | 50,000 |
| Indirect labor | 7,200 |
| Indirect materials | 900 |
| Repairs | 1,800 |
| Depreciation | 3,000 |
| Supervision | 4,000 |
| Total | Rs. 117,300 |

Required:

1. A manufacturing budget for January.
2. A report for January, comparing actual and budgeted costs for the month's actual activity, assuming that the units produced are to be the measure of activity used in preparing the flexible budget.

Explanation of the possibility of applying flexible budgeting to the nonmanufacturing activities of ICI Company.

Question No.4

1. The Budget Department of the stentorian Manufacturing Company, Inc., gathered the following data concerning future sales and budget requirements:

| Anticipated Sales for 19A | | | Expected Inventories | Desired Inventories |
|----------------------------------|--------|--------|-----------------------------|----------------------------|
| Products | Units | Price | January 1, 19A | December 31, 19A |
| A | 20,000 | Rs. 55 | 6,000 units | 10,000 units |
| B | 50,000 | 50 | 15,000 units | 15,000 units |
| C | 30,000 | 80 | 6,000 units | 6,000 units |

Materials used in manufacture:

| Stock No. | Unit | Amount Used per Unit of Product | | |
|-----------|--------|---------------------------------|---|---|
| | | A | B | C |
| 110 | Each | 3 | - | 5 |
| 50 | Each | 2 | 1 | 3 |
| 41 | Pounds | - | 2 | - |
| 30 | Pounds | - | 3 | - |
| 40 | Feet | 5 | - | 4 |

| Anticipated Purchase Price | | Expected Inventories | Desired Inventories |
|-----------------------------------|----------------|-----------------------------|----------------------------|
| For Raw Materials | | January 1, 19A | December 31, 19A |
| 110 | Rs.3.00 each | 21,000 each | 25,000 each |
| 50 | 2.00 each | 17000 each | 23,000 each |
| 41 | 2.50 per pound | 10,000 pounds | 15,000 pounds |
| 30 | 4.00 per pound | 18,000 pounds | 18,000 pounds |
| 40 | 3.25 per foot | 25,000 feet | 30,000 feet |

Labor requirements and rates (direct labor):

| Product | Hours per Unit | Rate per hours |
|---------|----------------|----------------|
| A | 4 | 4.00 |
| B | 5 | 3.00 |
| C | 5 | 4.20 |

Overhead is applied at the rate of 100% of direct labor cost.

- Required:**
- (a) Sales Budget (Rupees)
 - (b) Production budget (Quantities).
 - (c) Direct materials budget (Quantities)
 - (d) Direct materials purchase budget (Rupees)
 - (e) Direct labor budget (Rupees).
 - (f) Finished goods inventory, Dec.31, 19A (Rupees).