Question Paper

Management Accounting – I (MB161): July 2008

- Answer all 70 questions.
- Marks are indicated against each question.

Total Marks : 100

<Answer>

1. The purpose for which cost is being ascertained is called

(a) Cost behavior
(b) Cost effectiveness
(c) Cost control
(d) Cost objective
(e) Cost center. **(1 mark)**

<Answer>

2. The principal disadvantage of using the physical quantity method of allocating joint costs is that

(a) Costs assigned to inventories may have no relationship to their value
(b) Physical quantities may be difficult to measure
(c) Additional processing costs affect the allocation base
(d) Joint cost, by definition, should not be separated on a unit basis
(e) By-products affect the allocation base. **(1 mark)**

<Answer>

3. Which of the following statements is **false**?

(a) Management Accounting provides data for internal users whereas Financial Accounting provides data for external users
(b) Management Accounting is concerned with a strong orientation towards future while Financial Accounting is concerned with a record of financial data of the past
(c) Management Accounting relies on the concept of responsibility whereas Financial Accounting does not rely on the concept of responsibility
(d) Financial Accounting is mandatory for business organizations whereas Management Accounting is not mandatory
(e) Financial Accounting statements have to be prepared in accordance with the GAAP whereas managers set their own rules in the form and content of Management Accounting statements. **(1 mark)**

<Answer>

4. The total cost incurred in the operation of a business undertaking other than the cost of manufacturing and production is

(a) Out-of-pocket cost
(b) Programmed cost
(c) Conversion cost
(d) Commercial cost
(e) Imputed cost. **(1 mark)**

<Answer>

5. Which of the following is a cost-behavior oriented approach to product costing?

(a) Absorption costing
(b) Marginal costing
(c) Process costing
(d) Uniform costing
(e) Job order costing. **(1 mark)**

<Answer>

6. The telephone expenses of Natasha Ltd., for the previous year were Rs.30,000. It consisted of a fixed monthly rent for the twelve months @ Rs.1,000 per month and variable charges of Rs.18,000. This cost is classified as

(a) Fixed cost
(b) Budgeted cost
(c) Joint cost
(d) Standard cost
(e) Semi-variable cost. **(1 mark)**

<Answer>

7. The cost data pertaining to product "BN" of Ramola Ltd., are as follows:

Normal capacity	20,000 units
Decrease in inventory	1,500 units
Variable cost per unit	Rs.12

(2marks)

Selling price per unit	Rs.36
Fixed manufacturing overhead costs	Rs.2,80,000

If the profit under Absorption costing method is Rs.99,000, the profit under Marginal Costing Method would be

(a) Rs.1,12,000
(b) Rs.1,02,000
(c) Rs.1,20,000
(d) Rs.1,21,000
(e) Rs. 78,000.

<Answer>

8. In which of the following situations does the break-even point (in units) increase?

(a) When unit variable costs increase and sales price remains unchanged
(b) When unit variable costs decrease and sales price remains unchanged
(c) When unit variable costs remain unchanged and sales price increases
(d) When unit variable costs decrease and sales price increases
(e) When unit variable costs and unit sales price increase by the same amount in rupees. **(1 mark)**

<Answer>

9. Which of the following statements is **false**?

(a) In process costing, cost is accumulated according to processes or departments
(b) In job costing, the basis of cost accumulation is job order or batch size
(c) In process costing, cost is accumulated on time basis
(d) In job costing, cost is computed at the end of the cost period
(e) In process costing, items of prime cost cannot be traced with a particular order due to continuous production. **(1 mark)**

<Answer>

10. Super Toys Ltd., produces toy cars using 4 hours of direct labor per unit. The labor rate is Rs.10 per hour. The material cost per unit is Rs.100. The company incurs the following overhead costs:

Material handling	Rs.86,000
Assembly supervisor	Rs.96,000
Purchasing	Rs.58,000

The company produces 4,000 units per year. If it sells only 3,000 units, the value of ending inventory would be

(a) Rs.1,90,000
(b) Rs.2,00,000
(c) Rs.3,00,000
(d) Rs.2,85,000
(e) Rs.2,70,000. **(2marks)**

<Answer>

11. The costs which reflect the policies of the top management and result in periodic appropriation are known as

(a) Notional costs
(b) Relevant costs
(c) Programmed costs
(d) Committed costs
(e) Discretionary costs. **(1 mark)**

<Answer>

12. Which of the following is likely to be controllable by the head of the production department?

(a) Price paid for material
(b) Rent for floor space
(c) Raw materials used
(d) Insurance on machinery
(e) Share of cost of Industrial Relations Department. **(1 mark)**

<Answer>

13. Swarna Ltd., had 4,000 units of work-in-process inventory in department A on June 1, 2008. These units were 40% complete as to conversion costs. Direct materials are added at the beginning of the process. During the month of June 2008, 25,000 units were introduced and 22,000 units were completed. The company had 7,000 units of work-in-process inventory on June 30, 2008. These units were 80% complete as to conversion costs.

The equivalent production units of conversion under FIFO method are

(a) 35,600 units **(2marks)**
(b) 27,600 units

(b) 27,600 units
(c) 23,200 units
(d) 26,000 units
(e) 24,000 units.

<Answer>

14. Power Chemicals Ltd., has two factories – P and R with similar plant and machinery for manufacture of soda ash. The board of directors of the company has expressed the desire to merge them and to run them as one integrated unit. The following data are available in respect of these two factories:

Factory		P	R
Capacity in operation		60%	80%
Turnover	(Rs.)	240 lakh	160 lakh
Variable cost	(Rs.)	180 lakh	104 lakh
Fixed cost	(Rs.)	20 lakh	30 lakh

The profit of the merged company would be

(a) Rs.100.00 lakh
(b) Rs.170.00 lakh
(c) Rs.120.00 lakh
(d) Rs. 66.00 lakh
(e) Rs.140.00 lakh. **(2 marks)**

<Answer>

15. Revathi Ltd., has furnished the following information pertaining to its 2 products – A and B: Product A has a contribution to sales ratio of 0.60 and Product B has a contribution to sales ratio of 0.50. At present 200 units of each product are sold. If the total sales units remain at the present level but 40 units of B are substituted for 40 units of A, which of the following is **true** of the overall position?

(a) Contribution to sales ratio remains unchanged
(b) Contribution to sales ratio rises from 0.55 to 0.56
(c) Contribution to sales ratio rises from 0.55 to 0.58
(d) Contribution to sales ratio falls from 0.55 to 0.54
(e) Contribution to sales ratio rises from 0.55 to 0.60. **(2 marks)**

<Answer>

16. Which of the following expenses is related to the selling and distribution function?

(a) Rent of corporate office
(b) Depreciation on office furniture
(c) Electricity expenses in factory
(d) Depreciation on goods delivery van
(e) Charitable and political donations. **(1 mark)**

<Answer>

17. Which of the following is considered as committed cost?

(a) Insurance premium
(b) Development expenses
(c) Research costs
(d) Marketing expenses
(e) Direct expenses. **(1 mark)**

<Answer>

18. If the production of a company reaches break-even point, operating income will increase by the

(a) Fixed costs per unit for each additional unit sold
(b) Variable costs per unit for each additional unit sold
(c) Net margin per unit for each additional unit sold
(d) Gross margin per unit for each additional unit sold
(e) Contribution margin per unit for each additional unit sold. **(1 mark)**

<Answer>

19. Profits under absorption costing system and marginal costing system will be same for a period, if

(a) Production is greater than sales
(b) Production is less than sales
(c) Opening inventory is greater than closing inventory
(d) Opening inventory is less than closing inventory
(e) There is no opening and closing inventory. **(1 mark)**

<Answer>

20. Which of the following is **true** regarding contract costing?

(a) Both work certified and work uncertified are valued at cost price
(b) Both work certified and work uncertified are valued at market price **(1 mark)**
(c) Both work certified and work uncertified are valued at contract price

(c) Both work certified and work uncertified are valued at contract price
(d) Work certified is valued at contract price whereas work uncertified is valued at cost price
(e) Work certified is valued at cost price whereas work uncertified is valued at market price.

<Answer>

21. Which of the following methods is **not** used for apportionment of joint costs to different products?

(a) Survey method
(b) Physical unit method
(c) Average unit cost method
(d) Joint cost proration method
(e) Contributory margin method. **(1 mark)**

<Answer>

22. Consider the following data of Deepu Ltd.:

Particulars	Budgeted	Actual
Fixed overhead costs	Rs.3,00,000	Rs.3,40,000
Production	15,000 units	16,000 units

The under or over absorption of fixed overhead of the company is

(a) Rs.40,000 (over)
(b) Rs.20,000 (under)
(c) Rs.20,000 (over)
(d) Rs.10,000 (under)
(e) Rs.10,000 (over). **(1 mark)**

<Answer>

23. Sri Krishna Builders Ltd., has signed a contract with the Defense Department for Rs.20,00,000 with a forecasted cost of Rs.12,00,000. After completion of 50% of the job, the cost-to-date amounted to Rs.8,00,000. At this point of time, the revised estimated final profit of the job will be

(a) Rs.4,00,000
(b) Rs.1,00,000
(c) Rs.2,00,000
(d) Rs.3,00,000
(e) Rs.8,00,000. **(2 marks)**

<Answer>

24. The current sales price of the product of Anu Ltd., is Rs.100 per unit. Variable costs are expected to increase from Rs.75 to Rs.80 per unit. Fixed costs of Rs.4,00,000 will not change. How many additional sales units are required in order to maintain the current operating income of Rs.4,20,000?

(a) 8,000 units
(b) 8,800 units
(c) 10,800 units
(d) 8,200 units
(e) 2,800 units. **(2 marks)**

<Answer>

25. Moon Light Ltd., has furnished the following data of its process account for the month of June 2008:

Particulars	Completion of materials	Units
Materials introduced	-	10,000
Opening WIP	80%	5,000
Closing WIP	40%	2,000

The equivalent completed units of material in the process, under average method, were

(a) 13,800 units
(b) 15,000 units
(c) 15,800 units
(d) 10,800 units
(e) 14,800 units. **(2 marks)**

<Answer>

26. If the objectives of the decisions are in conflict, one objective may be specified as the decision criterion and the other objectives are established as

(a) Secondary criteria
(b) Differential criteria
(c) Irrelevant criteria
(d) Constraints
(e) Opportunity costs. **(1 mark)**

<Answer>

27. Which of the following items would be treated as an indirect cost in chair manufacturing?

(a) Wood used to make a chair
(b) Metal used for the legs of a chair
(c) Fabric to cover the seat of a chair
(d) Staples to fix the fabric to the seat of a chair
(e) Leather used for making handles of a chair. **(1 mark)**

<Answer>

28. Which of the following statements is **true**?

(a) Opportunity cost is the cost which has already been incurred
(b) Imputed cost is the difference between the total costs of any two alternatives
(c) Product costs are those costs which are identified with the products and included in inventory values
(d) Sunk costs are costs which are not incurred but are relevant to the decision
(e) Period costs are those costs which are identified with the product or job. **(1 mark)**

<Answer>

29. The basic function of management accounting is to

(a) Record all business transactions
(b) Record all monetary information only
(c) Prepare reports about the use of the firm's resources to meet the needs of internal users
(d) Assist in cost determination
(e) Prepare financial statements. **(1 mark)**

<Answer>

30. Consider the following data pertaining to a product of Aloknath Ltd., for the month of June 2008:

Fixed costs	Rs. 6,52,500
Net profit	Rs. 3,37,500
Total sales	Rs.20,62,500

The margin of safety of the product for the month was

(a) Rs.7,02,315
(b) Rs.7,30,250
(c) Rs.7,03,125
(d) Rs.7,12,350
(e) Rs.7,01,325. **(2 marks)**

<Answer>

31. Which of the following statements is **false**?

(a) If large amount of under or over-absorption of factory overhead is due to wrong estimation of overhead costs, it should be disposed off by supplementary rate method
(b) The cost of searching of new or improved products, new applications of materials or new or improved methods is known as research cost
(c) Administrative overhead costs are usually absorbed as a percentage of works cost
(d) The process of grouping costs according to their common characteristics is known as cost collection
(e) Selling cost is the cost of seeking to create and stimulate demand and cost of securing order. **(1 mark)**

<Answer>

32. Veda Ltd., has furnished the following information pertaining to its process account for the month of June 2008:

Opening work-in-process	180 units (60% complete)
Closing work-in-process	115 units (40% complete)
Units introduced	900 units
Cost incurred during the month	Rs.45,150

Costs are incurred evenly throughout the month. The company uses FIFO flow of costs. The cost per equivalent unit of the process was

(a) Rs.50.00
(b) Rs.50.17
(c) Rs.54.07
(d) Rs.57.52
(e) Rs.58.00. **(2 marks)**

<Answer>

33. Cost-volume-profit analysis is most important for the determination of

(a) Volume of operations necessary to break-even **(1 mark)**

(b) Margin of safety necessary to equal fixed costs
(c) Sales revenue necessary to equal fixed costs
(d) Relationship between revenues and costs at various levels of operations
(e) Sales revenue necessary to equal total costs.

<Answer>

34. Akash Ltd., has 2 production departments – P1 and P2 and 2 service departments – S1 and S2. The company has furnished the following overhead costs of production as well as service departments:

Department	Overhead costs (Rs.)
P1	48,000
P2	50,000
S1	26,000
S2	14,000

The expenses of service departments are charged to production as well as service departments using repeated distribution method on the following percentage basis:

Department	P1	P2	S1	S2
S1	30%	40%	-	30%
S2	40%	50%	10%	-

The total overhead expenses of P1, using repeated distribution method, are

(a) Rs.72,535
(b) Rs.65,464
(c) Rs.58,654
(d) Rs.76,465
(e) Rs.88,536. **(2 marks)**

<Answer>

35. Taruni Ltd., has a break-even point of 20,000 units at a sales price of Rs.100 per unit, variable cost of Rs.65 per unit and total fixed costs of Rs.7,00,000. If the company sells 2,000 additional units, the profit will be

(a) Rs.40,000
(b) Rs.50,000
(c) Rs.60,000
(d) Rs.70,000
(e) Rs.80,000. **(1 mark)**

<Answer>

36. Hotel Dakshin has annual fixed costs of Rs.2,43,50,000 applicable to 300 rooms with an average daily room rent of Rs.1,500 and average variable costs of Rs.500 for each room rented. The hotel operates 365 days per year. The number of rooms per day the hotel must rent to earn a net income before taxes of Rs.12,00,000 is

(a) 70 rooms
(b) 90 rooms
(c) 100 rooms
(d) 190 rooms
(e) 150 rooms. **(2 marks)**

<Answer>

37. Jagapathi Constructions Ltd,. has furnished the following information pertaining to a contract for the period ended June 30, 2008:

Particulars	Rs.
Material sent to site	1,50,000
Materials in hand (June 30, 2008)	50,000
Cost of plant installed at site	3,00,000
Labor costs	1,50,000
Work certified	6,00,000
Cost of work not certified	1,00,000
Value of plant (June 30, 2008)	1,60,000
Contract price	10,00,000
Cash received from the contractee	3,00,000
Direct expenses	1,00,000

The profit transferred to profit and loss account at the end of the period was

(2 marks)

(a) Rs.2,00,000
(b) Rs.1,40,000
(c) Rs. 70,000
(d) Rs. 60,000
(e) Rs.1,00,000.

<Answer>

38. Research and development costs incurred for new products are

(a) Sunk costs
(b) Conversion costs
(c) Joint costs
(d) Relevant costs
(e) Avoidable costs. **(1 mark)**

<Answer>

39. The process of applying overheads to the cost units which involves the distribution of overhead relating to a particular department among the units produced in that department during the relevant time period is known as

(a) Overhead application
(b) Overhead allocation
(c) Overhead classification
(d) Overhead distribution
(e) Overhead absorption. **(1 mark)**

<Answer>

40. What is the margin of safety of Sujeeth Ltd., if the sales of the company during a period are Rs.3,60,000, fixed costs are Rs.75,000 and variable costs are Rs.2,52,000?

(a) Rs.1,10,000
(b) Rs.1,56,000
(c) Rs.1,75,000
(d) Rs.2,25,000
(e) Rs.2,10,000. **(1 mark)**

<Answer>

41. Generally, individual departmental rates rather than a plant wide rate for applying overhead would be used, if

(a) A company wants to adopt a standard cost system
(b) A company wants to adopt a direct costing system
(c) The manufactured products differ in the resources consumed from the individual departments in the plant
(d) The manufacturing overhead is the largest cost component of its product cost
(e) The manufacturing operations of a company are highly automated. **(1 mark)**

<Answer>

42. The rate, which is used to carry out adjustment for the difference between overheads absorbed and overheads incurred is known as

(a) Blanket rate
(b) Plant wide rate
(c) Single rate
(d) Supplementary rate
(e) Moving average rate. **(1 mark)**

<Answer>

43. Which of the following is an appropriate classification of the salary paid to a foreman in charge of the packing department?

(a) Direct departmental cost
(b) Indirect departmental cost
(c) Service department cost
(d) Direct product cost
(e) Administrative cost. **(1 mark)**

<Answer>

44. Charan Ltd., manufactures and sells two types of products - X and Y. The total budgeted sales at full capacity are X Rs.53,900 and Y Rs.44,100. The operating costs are as follows:

i.	Variable costs: Product - X Product - Y	75% of selling price 40% of selling price
ii.	Fixed cost	Rs.31,948

The break-even sales of the company are

(2 marks)

(a) Rs.71,883
(b) Rs.74,800
(c) Rs.78,400
(d) Rs.72,943
(e) Rs.76,400.

<Answer>

45. Fancy Ltd., is a manufacturing company. In one of the production departments in its factory, the machine hour rate is used for absorption of production overheads. The company has estimated the following overhead expenditure at different activity levels:

Activity level (Machine hours)	Overhead expenditure (Rs.)
700	13,800
750	14,000

The total fixed overhead cost is

(a) Rs. 9,000
(b) Rs. 8,000
(c) Rs.10,000
(d) Rs.11,000
(e) Rs.12,000. **(2 marks)**

<Answer>

46. The profits and sales of Arya Ltd., for 2 consecutive years were as follows:

Year	Profits (Rs.)	Sales (Rs.)
1	50,000	4,50,000
2	70,000	5,50,000

The required sales value to earn a profit of Rs.80,000 is

(a) Rs.5,25,000
(b) Rs.5,10,000
(c) Rs.5,50,000
(d) Rs.6,00,000
(e) Rs.5,75,000. **(2 marks)**

<Answer>

47. Narayana Ltd., has furnished the following information pertaining to its production:

Direct material	Rs.20
Direct labor	Rs.16
Production overheads	Rs.40 (25% variable)
Selling & administrative overheads	Rs.30 (20% fixed)
Normal production	2,000 units

The total cost of producing 2,100 units is

(a) Rs.2,28,000
(b) Rs.2,82,000
(c) Rs.2,22,600
(d) Rs.2,12,000
(e) Rs.2,19,000. **(2 marks)**

<Answer>

48. Suraj Ltd., manufactures the components PR in machine shop no. BH-04. The wages paid to the machine operator is Rs.30 per hour. The machine hour rate is Rs.60 per hour during setting up. The setting up of the machine to produce the component takes 6 hours for the operator. If the batch size is 450 components, the setting up cost per component is

(a) Re.0.40
(b) Rs.1.20
(c) Re.1.00
(d) Re.0.50
(e) Re.0.80. **(2 marks)**

<Answer>

49. Job costing is ideal in which of the following situations?

(a) Where two or more products are produced from the same process
(b) Where the products are dissimilar and non-repetitive in nature
(c) Where the products are homogeneous
(d) Where the production is in continuous flow
(e) Where the production is carried on in batches. **(1 mark)**

<Answer>

50. In joint-product costing and analysis, which of the following costs is relevant when deciding the point at which a product should be sold to maximize profits?

(a) Joint costs up to the split-off point
(b) Labor costs required for the joint products
(c) Material costs required for the joint products
(d) Separable costs after split-off point
(e) Salaries of sales department for the period when the units were produced. **(1 mark)**

<Answer>

51. The sales and profits during the two periods of Jaimata Ltd., are as follows:

Years	Sales (in Rs.)	Profits (in Rs.)
2006	15,00,000	1,50,000
2007	22,50,000	3,00,000

The variable cost of the company for the year 2007 was

(a) Rs.18,00,000
(b) Rs.15,07,500
(c) Rs.19,50,000
(d) Rs.13,50,000
(e) Rs.15,00,000. **(2 marks)**

<Answer>

52. Mothi Ltd., uses predetermined overhead rate based on machine hours. During the month of June 2008, the company absorbed Rs.86,400 of factory overheads on 12,000 actual machine hours. Budgeted factory overheads for the month amounted to Rs.82,800 but the actual factory overheads incurred were Rs.84,300. The budgeted machine hours of the company for the month of June were

(a) 11,500
(b) 11,708
(c) 10,160
(d) 11,786
(e) 12,218. **(2 marks)**

<Answer>

53. Subhash Ltd., furnishes the following cost data of its product Alpha:

Particulars	Rs.
Direct Material	1,600
Direct Labour	1,200
Actual Overheads	800

The company has the policy to charge overheads at the rate of 25% on prime cost. The under or over absorption of overheads of Product Alpha is

(a) Rs.100 (under)
(b) Rs.200 (over)
(c) Rs.100 (over)
(d) Rs. 50 (over)
(e) Rs.200 (under). **(2 marks)**

<Answer>

54. Which of the following factors should **not** be taken into consideration for determining the basis for applying overheads to products?

(a) Adequacy
(b) Convenience
(c) Time factor
(d) Seasonal fluctuation of overhead costs
(e) Manual or machine work. **(1 mark)**

<Answer>

55. If a company ascertains the profit by using absorption costing

(a) Profits will always increase with increase in sales
(b) Profits will always decrease with decrease in sales
(c) Profits may decrease with increased sales even if there is no change in selling prices and costs
(d) Decreased output and constant sales result in increased profits
(e) Profit will always increase with increase in production. **(1 mark)**

<Answer>

56. Product 'A' of Himalaya Ltd., requires two processes for completion. The following data are available relating to the two processes for a period:

(2 marks)

Particulars	Process I (Rs.)	Process II (Rs.)	Total (Rs.)
Direct Material	7,000	1,295	8,295
Direct wages	525	825	1,350
Direct Expenses	1,125	-	1,125

The total production overhead incurred is Rs.2,430 and is recoverable at 180% of direct wages. Production during the period was 550 units. There was no opening or closing work in progress. The cost per unit of finished unit was

(a) Rs.26
(b) Rs.24
(c) Rs.28
(d) Rs.32
(e) Rs.33.

<Answer>

57. A cost that can be substantially influenced by a manager is often referred as

(a) Sunk cost
(b) Direct cost
(c) Opportunity cost
(d) Controllable cost
(e) Indirect cost. **(1 mark)**

<Answer>

58. Which of the following factors is required to be multiplied with contribution margin ratio to calculate fixed costs?

(a) Break-even sales value
(b) Margin of safety
(c) Variable costs per unit
(d) Unit sales price
(e) Change in sales volume. **(1 mark)**

<Answer>

59. Shailaja Ltd., produces four joint products - A, B, C and D, all of which emerge from the processing of one raw material. The following are the details of number of units produced and selling prices of the products at the split off point for the period:

Product	Number of units	Selling Price (Rs.)
A	800	16
B	500	7
C	450	6
D	250	12

The company has estimated a profit of 10% of total sales value for the period. The total joint costs of the four products for the period are

(a) Rs. 22,000
(b) Rs. 20,000
(c) Rs. 19,800
(d) Rs. 18,000
(e) Rs. 24,200. **(2 marks)**

<Answer>

60. Bhama Ltd., manufactures and sells two products – U and V. The following data are estimated for the year 2008-09:

Particulars	Product U	Product V
Sales (Units)	80,000	1,20,000
Contribution per unit (Rs.)	8	6

The annual fixed costs are estimated at Rs.8,16,000. The break-even point in units with the current sales mix would be

(a) 2,40,000 units
(b) 1,10,000 units
(c) 1,20,000 units
(d) 2,00,000 units
(e) 1,40,000 units. **(2 marks)**

<Answer>

61. Normal wastage is classified as

(a) Product cost
(b) Period cost
(c) Standard cost
(d) Extraordinary item
(e) Deferred charge. **(1 mark)**

<Answer>

62. Sudarshan Ltd., uses job costing system and has furnished the following cost data for Job No.5C:

Particulars	Rs.
Direct material	2,10,000
Direct wages	1,50,000
Selling & distribution overhead	65,250
Administrative overhead	87,000
Factory overhead	75,000

The cost of sales for Job No.5C are

(a) Rs.5,22,000
(b) Rs.7,04,700
(c) Rs.4,35,000
(d) Rs.5,87,250
(e) Rs.3,60,000. **(2 marks)**

<Answer>

63. The classification of cost as either direct or indirect depends upon

(a) The avoidability of costs
(b) The controllability of costs
(c) The timing of the cash outlay for the cost
(d) The cost object to which the cost is being related
(e) The behavior of the cost in response to volume changes. **(1 mark)**

<Answer>

64. During the year 2007-08, Wicky Ltd., has increased its production from 22,000 units to 24,000 units. The total cost of production has been increased by Rs.28,800 from Rs.4,02,150. The fixed cost of the company during the year was

(a) Rs.72,350
(b) Rs.83,500
(c) Rs.85,350
(d) Rs.82,500
(e) Rs.75,350. **(2 marks)**

<Answer>

65. If the size of a batch increases, the

(a) Total profit of the batch decreases
(b) Setting-up cost per unit decreases
(c) Setting-up cost per unit increases
(d) Total cost of the batch decreases
(e) Setting-up cost per unit remains the same. **(1 mark)**

<Answer>

66. If a company manufactures two products from a common process, which of the following factors determines whether the output consists of joint products or one main product and a by-product?

(a) Commercial value of the products
(b) Management policy
(c) Average unit cost of the products
(d) Potential marketability for each product
(e) Quantum of work expended in the production of each product. **(1 mark)**

<Answer>

67. Kasi Transport Ltd., is running 4 buses between two towns, which are 20 km apart. Seating capacity of each bus is 40 passengers. The following particulars are obtained from the records for the month of June 2008:

	Particulars	Rs.
i.	Wages of drivers, conductors and cleaners	28,000
ii.	Salaries of office and supervisory staff	12,000
iii.	Diesel oil and other oil	25,000

(2 marks)

iv.	Repairs and maintenance	10,000
v.	Taxes, insurance, etc.	15,000
vi.	Depreciation	33,500
vii.	Interest and other charges	13,300

The seating capacity utilized was 75%. All the four buses ran on all days of the month. Each bus had made one round trip daily. The cost per passenger-km was

(a) Re.0.75
(b) Re.0.80
(c) Re.0.85
(d) Re.0.90
(e) Re.0.95.

<Answer>

68. Vinayak Repairs Ltd., makes special assembly to customers' orders and uses job costing. The company has furnished the following information pertaining to various jobs for a period:

Particulars	Job-P	Job-Q	Job-R
Material introduced (Rs.)	10,260	6,180	7,935
Labor (Rs.)	6,300	3,450	5,250

The budgeted overheads for the period are Rs.90,000. The company absorbs overheads on the basis of labor costs. The overhead costs to be absorbed to Job-P for the period are

(a) Rs.31,500
(b) Rs.27,500
(c) Rs.37,800
(d) Rs.20,700
(e) Rs.26,700. **(2 marks)**

<Answer>

69. Total production of Siddi Ltd., was 20,000 units at a cost of Rs.13 per unit, sales were 16,000 units and the company had 4,000 units as closing stock. The by-product generated was sold for Rs.10,000. Selling price per unit of output was Rs.20. Administration expenses were Rs.24,000. The net profit when the by-product is credited to cost of production was

(a) Rs.89,600
(b) Rs.96,000
(c) Rs.69,500
(d) Rs.81,800
(e) Rs.94,000. **(2 marks)**

<Answer>

70. Meridian Ltd., has furnished the following information pertaining to its product W for the previous year:

Particulars	Per unit (Rs.)
Variable cost	120
Selling Price	200

During the current year if the variable cost per unit increases by 17.5%, the contribution to sales ratio for the current year would be

(a) 28.00%
(b) 25.00%
(c) 27.50%
(d) 29.50%
(e) 25.50%. **(2 marks)**

END OF QUESTION PAPER

Suggested Answers
Management Accounting – I (MB161): July 2008

	Answer	**Reason**
1.	D	The purpose for which cost is being ascertained is called cost objective. All other options are not correct. Hence the answer is (d).

<

2. A Joint costs are most often assigned on the basis of relative sales value or net realizable value. Basing allocation on physical quantities, such as Kg. Liter, etc. is usually not desirable because the cost assigned may have no relationship to value. When large items have low selling prices and small items have high selling prices, the large items might always sell at a loss when physical quantities are used to allocate joint costs. Therefore, the correct answer is (a). ≤

3. C Both Financial and Management Accounting rely heavily on the concept of responsibility. Financial Accounting is concerned with the concept of responsibility or stewardship over the company as a whole; while Management Accounting is concerned with stewardship over its parts. Hence (c) is false. Management Accounting provides data for internal uses by managers whereas Financial Accounting provides data for external users like shareholders, creditors, etc. Since a large part of the overall responsibilities of a manager have to do with planning, a manager's information need has a strong orientation towards future. On the other hand, Financial Accounting is concerned with a record of financial data of the past. Financial Accounting is mandatory for business organizations. They should compulsorily maintain financial records as per various legal statutes like Companies Act, Income Tax Act, etc. By contrast, Management Accounting is not mandatory. Financial Accounting statements have to be prepared in accordance with the GAAP whereas managers set their own rules in the form and content of Management Accounting statements. ≤

4. D The total of costs incurred in the operation of a business undertaking other than the cost of manufacturing and production is commercial cost. ≤

5. B Marginal costing or direct costing is a cost behavior oriented approach to product costing. In this method costs are separated into fixed and variable cost. If volume of production increases, the total contribution increases and profit is also increased after covering fixed costs. This approach is not available in other types of costing like absorption costing, process costing, job order costing and uniform costing. Therefore (b) is correct. ≤

6. E The answer is (e) semi-variable cost because in these expenses, a fixed portion of monthly rent and a variable portion of call charges are included, so this cost is called as semi-variable or semi-fixed cost. All the other answers are wrong because the options given in them fixed cost, budgeted cost; joint cost and standard cost are not relevant here. ≤

7. C Fixed cost per unit = Rs.2,80,0000 ÷ 20,000 units = Rs.14. ≤

Profit under absorption costing = Rs.99,000

Adjustment of fixed manufacturing overhead costs of decreased inventory

= 1,500 units × Rs.14 = Rs.21,000

Profit under marginal costing = Rs.99,000 + Rs.21,000 = Rs.1,20,000.

8. A The break-even point in units is calculated by dividing the fixed costs by contribution per unit. If selling price is constant and variable costs increase, the unit contribution margin will decline. It results in an increase in the break-even point. Other options given in (b), (c), (d) and (e) are not true. ≤

9. D In process costing, cost is accumulated on time basis and according to process or departments. In this method, prime cost cannot be traced with a particular order due to continuous production. In job costing, cost is accumulated according to job order or batch size. Job cost is computed when the job is completed. It does not consider the period of cost. Therefore (d) is false. ≤

10. B Overhead costs = Rs. 86,000 + Rs. 96,000 + Rs.58,000 = Rs.2,40,000 ≤

Cost to be allocated / Allocation base	Allocation Rate (Rs.)
Rs.2,40,000 / 16,000 hours	15.00 per hour
Material Cost	100.00
Labor Cost: 4 hours × Rs.10 per hour	40.00
Overhead Cost: 4 hours × Rs.15 per hour	60.00
Total	200.00

Each toy costs Rs.200 × 1,000 units = Rs.2,00,000 in ending Inventory.

11. C Certain decisions reflect the policies of the top management which results in periodic appropriation and these costs are referred to as programmed cost. ≤

Imputed costs are costs not actually incurred in some transactions but which are relevant to the decisions as they pertain to a particular situation.

Relevant costs are those future costs which differ between alternatives. It is defined as the costs which are affected and changed by a decision.

Committed costs are incurred to maintain the company's facilities and physical existence, and over which management has little or no discretion.

Discretionary costs are those costs which are not essential for the decision under consideration or the accomplishment of management objectives but it is related to management programs, new researches etc.

12. C If the costs are influenced by the action of a specified member of an undertaking, that is to say, costs which are partly within the control of manager are called controllable costs. In this case, the head of the production department will control the raw materials used in production. Raw-material used in production is a controllable cost. It is controlled by the production manager. All other costs are uncontrollable by the production manager. ≤

13. D FIFO Method: ≤

Input = 4,000 units + 25,000 units = 29,000 units;

Out put = 4,000 units + 18,000 units + 7,000 units = 29,000 units;

Equivalent production units of conversion =

60% of 4,000 units + 100% of 18,000 units + 80% of 7,000

= 2,400 + 18,000 + 5,600 = 26,000 units.

14. C Statement Showing the Cost and Profit Situation of Factories P and R ≤

(Individually and Integrated) (Rs. In lakh)

Particulars	Factory P @100% capacity	Factory R @100% capacity	Combined @100% capacity
Turnover	400	200	600
Variable cost	300	130	430
Contribution	100	70	170
Fixed cost	20	30	50
Profit	80	40	120

15. B Let the sale price of each of both the products be Re.1. ≤

Total contribution of both the products

= 200 units × 0.60 × Re.1 + 200 units × 0.50 × Re.1 = Rs.220.

Contribution to sales ratio = Rs.220 ÷ (Rs.200 + Rs.200) = 0.55

If 40 units of B are substituted for 40 units of A, total contribution

= 240 units × 0.60 × Re.1 + 160 units × 0.50 × Re.1 = Rs.224.

Contribution to sales ratio = Rs.224 ÷ Rs.400 = 0.56.

Contribution to sales ratio rises from 0.55 to 0.56.

16. D Rent of corporate office, depreciation on office furniture, charitable and political donations are related to administrative function. Electricity expenses in factory are related to manufacturing function. Depreciation on goods delivery van is related to selling and distribution function. ≤

17. A Committed cost is the cost which results from the decisions of the management in the prior period and is not subject to the management control in the present on a short-run basis, but discretionary costs are not essential for the decision under consideration or accomplishment of management objectives. Research costs, development expenses and marketing costs are the examples of discretionary cost. Insurance premium is an example of committed cost. ≤

18. E At the breakeven point, total revenue equals the fixed cost plus the variable cost. Beyond the BEP each unit sale will increase operating income by the unit contribution margin because fixed costs have been recovered already. ≤

19. E The net profits under the marginal costing system and absorption costing system are equal if there is no opening stock and closing stock, or there is no change in opening stock and closing stock, i.e. when production is equal to sales. ≤

If production is not equal to sales i.e. changes occur in opening stock and closing stock, the net profits under the two systems will differ.

20. D In contract costing, work certified is valued at contract price and work uncertified is valued at cost price. Both are not valued at cost price, market price or contract price. Therefore (d) is true. ≤

21. D Joint cost proration method is not a method for apportionment of joint costs to different products. It is a cost method used for accounting for by-product. All the other (a) Survey method, (b) Physical unit method, (c) Average unit cost method and (e) Contributory margin method are methods commonly used for apportionment of joint costs to different products. ≤

22. B Standard fixed overhead cost per unit ≤

$$= \frac{\text{Budgeted fixed overhead costs}}{\text{Budgeted units}} = \frac{\text{Rs.}3,00,000}{15,000 \text{ units}} = \text{Rs.}20.$$

Applied overhead cost = 16,000 units × Rs.20	Rs.3,20,000
Actual overhead cost	Rs.3,40,000
Under absorption of fixed overheads	Rs. 20,000

23. A Final profit of the job = Rs. 20,00,000 – (Rs. 8,00,000 ÷ 0.5) ≤

= Rs. 20,00,000 – Rs. 16,00,000 = Rs.4,00,000.

24. D Projected unit sales = (Fixed costs + Target operating income) ÷ Unit contribution margin. Projected unit sales = (Rs.4,00,000 + Rs.4,20,000) ÷ Rs.20 = 41,000 units. ≤

Current sales units = (Rs.4,00,000 + Rs.4,20,000) ÷ Rs.25 = 32,800 units.

Increase in units: 41,000 – 32,800 = 8,200.

25. A ≤

Opening WIP	5,000 units
Materials introduced	10,000 units
	15,000 units
Less: Closing WIP	2,000 units
Completed units	13,000 units

Equivalent completed units (under average method) of materials in the process

= 13,000 units + 40% of 2,000 units (closing stock)

= 13,000 units + 800 units = 13,800 units.

26. D When the objectives of the decisions are in conflict, one objective may be specified as the decision criterion and the other objectives are established as constraints. ≤

27. D Wood, Metal, Fabric and Leather used in the chair would be treated as direct cost but the staples used to fix the fabric will be treated as indirect cost. ≤

28. C Product costs are those costs which are identified with the products and included in inventory values. This statement is true. Opportunity cost is the maximum possible alternative earning that might have been earned if the productive capacity or services had been put to some alternative use. It is not the past cost. Imputed cost is the notional cost. It is not the difference of costs of two alternatives. Sunk cost is a past cost, it is not relevant to decision making. Period costs are related to time, which are not identified with the product or job. ≤

29. C The basic function of management accounting is to prepare reports about the use of the firm's resources to meet the needs of internal uses. Other options in (a), (b), (d) and (e) are not correct. ≤

30. C Contribution = fixed cost + profit = Rs. 6,52,500+ Rs. 3,37,500 = Rs. 9,90,000 ≤

PV ratio = contribution÷ sales = Rs. 9,90,000÷ Rs. 20,62,500 = 48%

Margin of Safety = Net Profit ÷ PV ratio = Rs.3,37,500 ÷ 48% = Rs.7,03,125.

31. D The process of grouping costs according to their common characteristics is known as cost classification, not cost collection. This statement is false. Other options (a), (b), (c) and (e) are correct statements. ≤

32. A Equivalent production units ≤

= 40% of 180 units + 100% of 785 units + 40% of 115 units

= 72 units + 785 units + 46 units = 903 units

Cost per equivalent unit = Rs.45,150 ÷ 903 = Rs.50.

33. D Cost-volume-profit analysis is important for the determination of relationship between revenues and costs at various levels of operations. Other options (a), (b), (c) and (e) are not correct in respect of cost-volume-profit analysis. Therefore, (d) is correct. ≤

34. B ≤

Particulars	P1	P2	S1	S2
Primary	48,000	50,000	26,000	14,000
S1 (3:4:3)	7,800	10,400	(-)26,000	7,800
S2 (4:5:1)	8,720	10,900	2,180	(-)21,800
S1 (3:4:3)	654	872	(-)2,180	654
S2 (4:5:1)	262	327	65	(-)654
S1 (3:4:3)	20	26	(-)65	19
S2 (4:5:1)	8	10	-	(-)19

S2 (4:5:1)	8	10	-	(-)19
Total	65,464	72,535		

35. D Unit contribution margin is Rs.100 – Rs.65 = Rs.35. ≤

Additional profit will be 2,000 × Rs.35 = Rs.70,000.

After break even, profit is equal to the unit contribution margin multiplied by the number of units sold beyond break-even.

36. A Income before tax = Rs.12,00,000; ≤

Fixed cost per annum = Rs.2,43,50,000;

Total contribution = Rs.12,00,000 + Rs.2,43,50,000 = Rs.2,55,50,000 ;

Daily contribution per room = Rs.1,500 – Rs.500 = Rs.1,000;

Number of rooms to be rented in a year = Rs.2,55,50,000 ÷ Rs.1,000 = 25,550 rooms ;

Number of rooms to be rented per day = 25,550 rooms ÷ 365 days = 70 rooms to earn a net income before taxes of Rs.12,00,000.

37. C Dr. Contract A/C Cr. ≤

Particulars	Rs.	Particulars	Rs.
Materials	1,50,000	Work certified	6,00,000
Labor costs	1,50,000	Work not certified	1,00,000
Direct expenses	1,00,000		
		Material in hand	50,000
Depreciation on plant (Rs.3,00,000 –Rs.1,60,000)	1,40,000		
Notional profit	2,10,000		
	7,50,000		7,50,000

Profit transferred to P/L a/c = $\frac{2}{3} \times \text{Rs.}2{,}10{,}000 \times \frac{\text{Rs.}3{,}00{,}000}{\text{Rs.}6{,}00{,}000}$ = Rs.70,000

38. A The research and development costs have already been incurred. Thus, they are costs resulting from a past irrevocable decision. These sunk costs are irrelevant to the new product because they are unavoidable. Therefore (a) is correct. ≤

39. E The process of applying overheads to the cost units is known as overhead absorption. Hence the answer is (e). All the other options are not correct. ≤

40. A Break-even sales = Fixed costs/Contribution margin ratio ≤

Where, contribution-margin ratio = (Rs.3,60,000 – Rs.2,52,000) ÷ Rs.3,60,000 = 0.3.

Thus, Break-even sales = Rs. 75,000 ÷ 0.3 = Rs. 2,50,000 .

And, Safety margin = sales – break-even sales = Rs.3,60,000 – Rs.2,50,000 = Rs.1,10,000.

41. C Factory overhead is usually assigned to products based on a predetermined rate or rates. The activity base for overhead allocation should have a high correlation with the incurrence of overhead. Given only one cost driver, one overhead application rate is sufficient. If products differ in the resources consumed in individual departments, multiple rates are preferable. ≤

42. D Supplementary rates are used to carry out adjustment for the difference between overhead absorbed and overhead incurred. Therefore, (d) is correct. Other options are not correct. ≤

43. A The salary paid to a foreman in packing department is to be classified as direct ≤

department cost. It is not the production cost, indirect department cost, service department cost or administrative cost. Therefore (a) is correct.

44. C ≤

Particulars		X	Y	Total
Sales	(Rs.)	53,900	44,100	98,000
Variable costs	(Rs.)	40,425	17,640	58,065
Contribution	(Rs.)	13,475	26,460	39,935

Profit-volume ratio = Rs.39,935 ÷ Rs.98,000 = .4075 or 40.75%

Break-even sales = $\frac{\text{Fixed cost}}{\text{PV ratio}} = \frac{\text{Rs.31,948}}{40.75\%}$ = Rs.78,400.

45. D ≤

Variable overheads = $\frac{\text{Change in overheads}}{\text{Change in machine hours}}$

$= \frac{\text{Rs.14,000} - \text{Rs.13,800}}{750\text{hrs} - 700\text{ hrs}} = \frac{\text{Rs.200}}{50\text{ hrs}}$ = Rs.4.00 per hour

Fixed overheads = Rs.13,800 – Rs.4.00 × 700 hrs

= Rs.13,800 – Rs.2,800 = Rs.11,000.

46. D ≤

	Profit (Rs.)	Sales (Rs.)
Year I	50,000	4,50,000
Year II	70,000	5,50,000

Contribution to sales ratio = $\frac{\text{Change of Profit}}{\text{Change of Sales}}$

$= \frac{\text{Rs.70,000} - \text{Rs.50,000}}{\text{Rs.5,50,000} - \text{Rs.4,50,000}} = \frac{\text{Rs.20,000}}{\text{Rs.1,00,000}}$ = 20%

Fixed cost (Year I) = 20% on Rs.4,50,000 – Profit

= Rs.90,000 – Rs.50,000 = Rs.40,000.

Required sales value = (Fixed cost + target profit) ÷ 20%

= (Rs.40,000 + Rs.80,000) ÷ 20% = Rs.1,20,000 ÷ 20%

= Rs.6,00,000.

47. E Variable cost per unit = Rs.20 + Rs.16 + Rs.10 + Rs.24 = Rs.70 ≤

Fixed cost = Rs.30 × 2,000 units + Rs.6 × 2,000 units

= Rs.60,000 + Rs.12,000 = Rs.72,000

Cost of 2,100 units = 2,100 units × Rs.70 + Rs.72,000

= Rs.1,47,000 + Rs.72,000 = Rs.2,19,000.

48. B Setting up cost = Wages costs + Machine expenses ≤

= 6 hours × Rs.30+ 6 hours × Rs.60 = Rs.180 + Rs.360 = Rs.540.

Setting up cost per component = Rs.540 ÷ 450 = Rs. 1.20.

49. B Job costing is a type of specific order costing which applies where work is undertaken as an identifiable unit. Under job costing method, cost of an individual job or work order is ascertained separately. Hence it is ideal where the products are dissimilar and non-repetitive in nature. ≤

50. D Joint products are created from processing a common input. Common costs are incurred prior to the split-off point and cannot be identified with a particular joint product. ≤

Therefore, common costs are irrelevant to the timing of sales. However, separable costs incurred after the split-off point are relevant because if incremental revenues exceed the separable costs, product should be processed further, not sold at the split-off point. Therefore, (d) is true.

51. A ≤

P/V ratio = $\frac{\text{Change in profits}}{\text{Change in sales}} \times 100 = \frac{\text{Rs.3,00,000 - Rs.1,50,000}}{\text{Rs.22,50,000 - Rs.15,00,000}} \times 100 = 20\%$.

Variable cost in 2007: Since the contribution to sales ratio is 20%, the variable cost will be 80% (i.e 100 – 20) of sales.

There fore, total variable cost = 80% of Rs. 22,50,000 = Rs.18,00,000.

52. A Overhead absorbed = Rs.86,400 = 12,000 × Overhead rate ≤

Overhead rate = Rs.86,400 ÷ 12,000 = Rs.7.20

Budgeted overhead = Rs.82,800 = Budgeted machine hours × Rs.7.20

Budgeted machine hours = Rs.82,800 ÷ Rs.7.20 = 11,500 hours.

53. A ≤

Particulars	Rs.
Direct Material	1,600
Direct Labour	1,200
Prime Cost	2,800
Overhead absorbed 25% of prime cost	700
Actual overheads	800
Under absorption of overheads	(100)

54. D Seasonal fluctuation of overhead costs is the cause of under or over absorption of overhead costs. This is not considered for determining the basis for applying overheads to products. Other options mentioned in (a), (b), (c) and (e) are considered for determining the basis for applying overheads to products. Therefore, (d) is the answer. ≤

55. C In absorption costing system, fixed overhead costs are included in inventory. When sales exceed production, more overhead is expensed under absorption costing due to fixed overhead carried over from the prior inventory. If sale increase over production, more than one period's factory overhead is recognized as expense. Accordingly, if the increase in factory overhead expensed is greater than the contribution margin of the increased units sold, there may be less profit with an increased level of sales. Other options are not correct. ≤

56. B ≤

Particulars	Process I (Rs.)	Process II (Rs.)
Transfer from previous Process	-	9,595
Direct Material	7,000	1,295
Direct Wages	525	825
Direct Expenses	1,125	-
Production overheads	945	1,485
Total	9,595	13,200

The total cost of 550 units of output = Rs 13,200.

Cost per unit = Rs 13,200 / 550 = Rs. 24.

57. D A sunk cost is a cost that has been incurred in the past and cannot be altered by any current or future decision. A direct cost is a cost that can be directly traced to a particular department. A cost that is not direct cost is called indirect cost. An opportunity cost is a potential benefit given up when the choice of one action precludes selection of a different action. A cost that can be substantially influenced by a manger is called a controllable cost. Hence, the correct answer is (d). ≤

58. A Fixed costs = Break-even sales value × Contribution margin ratio. Hence answer is (a). ≤

59. C ≤

Joint products	No. of units	S.P. per unit (Rs.)	Sales value (Rs.)
A	800	16	12,800
B	500	7	3,500
C	450	6	2,700
D	250	12	3,000
Total sales value Less: Budgeted profit (10%)			22,000 2,200
Total joint costs			19,800

60. C ≤

Particulars	Product U	Product V	Total
Budgeted sales volume (units)	80,000	1,20,000	2,00,000
Budgeted contribution per unit	Rs.8	Rs.6	
Budgeted total contribution	Rs. 6,40,000	Rs. 7,20,000	Rs.13,60,000

Average contribution per unit = Rs.13,60,000 ÷ 2,00,000 = Rs.6.80.

$$\text{Break-even point} = \frac{\text{Rs.}8{,}16{,}000}{\text{Rs.}6.80} = 1{,}20{,}000 \text{ units.}$$

61. A Normal wastage is classified as product cost and therefore this cost is borne by the good units. It is not classified as period cost, standard cost, and extraordinary item or deferred charge. ≤

62. D ≤

Particulars	Rs.
Direct material	2,10,000
Direct wages	1,50,000
Prime cost	3,60,000
Factory overhead cost (50% on direct wages)	75,000
Works cost	4,35,000
Administrative overhead cost (20% on works cost)	87,000
Cost of production	5,22,000
Selling & distribution overhead (15% on works cost)	65,250
Cost of sales	5,87,250

63. D A direct cost can be specifically associated with a single cost object in an economically feasible way. An indirect cost cannot be specifically associated with a single cost object. Thus the specific cost object influences whether a cost is direct or indirect. For example, a cost might be directly associated with a single plant. The same cost however might not be directly associated with a particular department in the plant. Therefore (d) is correct. ≤

Options (a) and (b) are not correct because avoidability and controllability of costs have no effect on whether a cost is direct or indirect. Option (c) is not correct because the timing of the cash outlay has no effect on whether a cost is direct or indirect. Option (e) is not correct because the behavior of cost in response to volume changes is a factor only if the cost object is a product.

64. C ≤

$$\text{Variable cost per unit} = \frac{\text{Change of costs}}{\text{Change of units}}$$

$$= \frac{\text{Rs.}28{,}800}{24{,}000 \text{ units} - 22{,}000 \text{ units}} = \frac{\text{Rs.}28{,}800}{2{,}000 \text{ units}} = \text{Rs.}14.40$$

Fixed cost = Total cost – Variable cost

= Rs.4,02,150 – (22,000 units × Rs.14.40) = Rs.85,350.

65. B If the batch size increases, setting up cost per unit decreases. Similarly, if the batch size decreases, setting up cost per unit increases. Therefore, (b) is correct. <

66. A Joint product and by-products arise in situations where the production of one product makes inevitable in the production of other products. When a group of individual products is simultaneously produced and each product has a significant relative sales value, the output is called Joint products. Products which have a minor sales value in comparison to Joint product is called by-products. Therefore, option (a) is correct. <

67. E Total kilometer covered in June 2008 <

= 4 buses × 20 kms × 2 × 30 days = 4,800 km.

Total passenger kilometer covered in June 2008

= 4,800 km × 40 passengers × 75/100 = 1,44,000 passenger-km.

Total operating cost during June 2008 = Rs. 1,36,800

The cost per passenger-km

= Rs. 1,36,800 ÷ 1,44,000 passenger-km. = Re.0.95 per passenger-km.

68. C Total labor cost = Rs.6300 + Rs.3,450 + Rs.5,250 = Rs.15,000 <

Overhead recovery rate = Rs.90,000 ÷ 15,000 = Rs.6 per Re.1 of labor cost

Overheads charged to Job-P = Rs.6,300 × Rs. 6 = Rs.37,800.

69. B <

Sales = 16,000 x Rs. 20 =	Rs.3,20,000
Less: Cost of production of 16,000 units @ Rs.12.50	Rs.2,00,000
(Rs.2,60,000 – Rs. 10,000) ÷ 20,000 = Rs. 12.50	Rs.1,20,000
Less: Administrative cost	Rs.24,000
Net Profit	Rs.96,000

70. D Variable cost = Rs.120 <

Selling price = Rs.200

Increased variable cost per unit = Rs.120 × 117.5% = Rs.141

Contribution = Rs.200 – Rs.141 = Rs.59

Contribution to sales ratio = Rs.59 ÷ Rs.200 = 29.50%.

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