

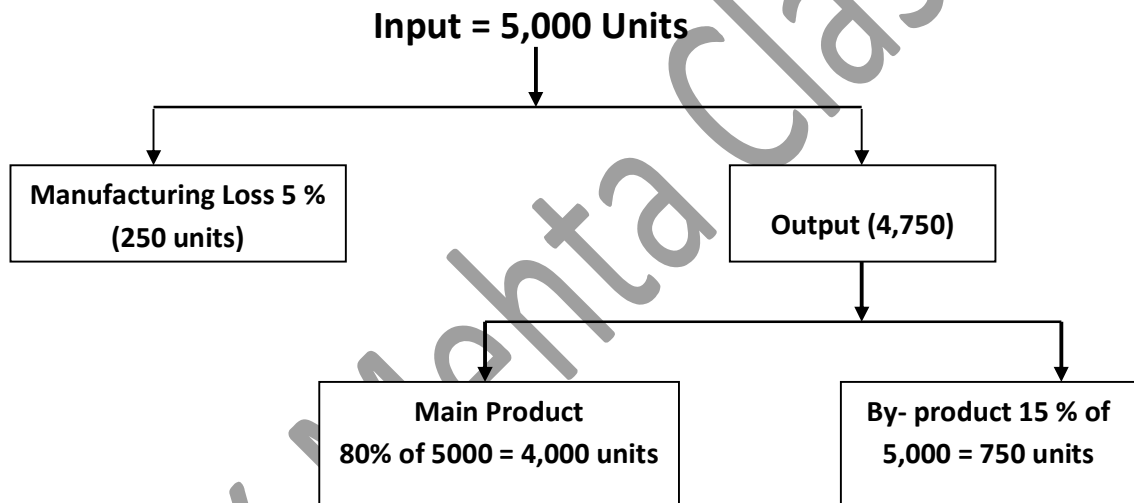
CMA TEST- 9 (Solution)

Time Allowed: 50 Mint.		Total Marks: 30 Marks
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Answer to Question no.1:

- 1) Under the normal circumstances, the output of one process is transferred to next process at cost price. In other words, no profit is added while transferring the output to the next process.
- 2) However, if some amount of profit is considered while transferring the output to the next process. The profit so incorporated consider is known as "Inter-Process Profits".
- 3) The amount of profit which is to be considered is decided on the basis of prevailing market conditions or the conditions prevailing in the particular industry.
- 4) Objectives of inter process profits:-
 - a) To ascertain whether the cost of production computes with the market prices.
 - b) To enable the transferee process to stand on its own efficiency..

Answer to Question no.2:



Statement showing the cost related to 750 units of by-product

Particulars	₹
1. Raw Material Cost $\left(\frac{5,000 \text{ Units} \times 23.75}{4,750 \text{ Units}} \right)$	18,750
2. Other Charges (Total 14,250)	
Power $\left(14,250 \times \frac{1}{3} \right) \times \frac{9}{19}$	2,250
Balance $\left(14,250 \times \frac{2}{3} \right) \times \frac{750}{4,750}$	1,500
	22,500

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Answer to Question no.3:

Process III A/c

Particulars	Units	Amount (₹)		Units	Amount (₹)
To Opening W.I.P.	2,000	25,750	By Normal Loss	2,500	7,500
To Process II A/c	53,000	4,11,500	By Process IV	48,000	7,19,750
To Direct Materials		1,97,600	By Closing WIP	5,000	61,500
To Direct Wages		97,600			
To Production Overheads		48,800			
To Abnormal Gain	500	7,500			
	55,500	7,88,750		55,500	7,88,750

$$\begin{aligned} \text{Normal Loss} &= \frac{5}{100} [\text{Opening WIP} + \text{Units from Process II} - \text{Closing WIP}] \\ &= \frac{5}{100} (2,000 + 53,000 - 5,000) = 2,500 \text{ units} \end{aligned}$$

Statement of Equivalent Production (FIFO)

Units In	Particulars	Units Out	Material (1)		Material (2)		Labour		Overhead	
			%	Quantity	%	Quantity	%	Quantity	%	Quantity
2,000	Op. WIP, completed	2,000	—	—	20	400	40	800	400	800
53,000	Introduced and completed	46,000	100	46,000	100	46,000	100	46,000	100	46,000
	Transferred	48,000								
	Normal Loss	2,500	—	—	—	—	—	—	—	—
	Closing WIP	5,000	100	5,000	70	3,500	50	2,500	50	2,500
	Abnormal Gain	(500)	100	(500)	100	(500)	100	(500)	100	(500)
55,000		55,000		50,500		49,400		48,800		48,800

Statement of Cost per unit

Type of Cost	Amount (₹)	Equivalent Units	Cost per unit (₹)
Material (1)	4,11,500		
(-) Normal loss	7,500	50,500	8
Material (2)	1,97,600	49,400	4
Labour	97,600	48,800	2
Overheads	48,800	48,800	1

Statement of Value of Equivalent Production

Opening WIP, now completed	Material (1)	—	8	—	
	Material (2)	400	4	1,600	
	Labour	800	2	1,600	
	Overhead	800	1	800	4,000
Introduced and completed	Material (1)	46,000	8	3,68,000	
	Material (2)	46,000	4	1,84,000	
	Labour	46,000	2	92,000	
	Overhead	46,000	1	46,000	6,90,000
Abnormal Gain	Material (1)	500	8	4,000	
	Material (2)	500	4	2,000	
	Labour	500	2	1,000	
	Overhead	500	1	500	7,500
	Material (1)	5,000	8	40,000	
	Material (2)	3,500	4	14,000	

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Closing WIP	Labour	2,500	2	5,000	
	Overhead	2,500	1	2,500	61,500

Computation of Total Cost of 48,000 units transferred to Process IV

2,000 units of Opening WIP			
– Cost already incurred	25,750		
– Cost now incurred	<u>4,000</u>	29,750	
46,000 Units out of introduced units		<u>6,90,000</u>	<u>7,19,750</u>

Answer to Question no.4:

Computation of Joint Cost and separates Cost

Particulars	Joint Cost	Separate Cost		
		Deptt. Q Product A	Deptt.R Product B	Deptt.S Product C
Raw material	12,68,800			
Direct wages	3,84,000	96,000	64,000	36,000
Factory Overhead(4,64,000)	3,07,200	76,800	51,200	28,800
	19,6000	1,72,800	1,15,200	64,800

a) Statement showing distribution of Joint cost (Physical Unit Method)

Product	Quantity	Joint Cost
A	44,000 kgs.	8,29,231
B	40,000 kgs.	7,53,846
C	20,000 kgs.	3,76,923
Total	1,04,000 kgs.	19,60,000

b) Statement showing Profit or loss if the product are sold without further processing:-

Product	Joint Cost (Total Cost)	Sale value at split off stage	Profit
A	8,29,231	44,000 × ₹20 = 8,80,000	50,769
B	7,53,846	40,000 × ₹22 = 8,80,000	1,26,154
C	3,76,923	20,000 × ₹10 = 2,00,000	(1,76,923)
	19,60,000		NIL

c) Statement showing Profit or loss if the product are sold after further processing:-

Product	Joint Cost	Separate cost	Total cost	Sales value	Profit
A	8,29,231	1,72,000	10,02,031	14,08,000	4,05,969
B	7,53,846	1,15,200	8,69,046	9,60,000	90,954
C	3,76,923	64,800	4,41,723	3,20,000	(1,21,723)
					3,75,200

d) In order to improve the profitability of the company, it is advised to sell product B at split off stage whereas Product A and C are recommended to be sold after further processing.

e) The amount of total profit as per above recommendation is computed below:-

Product	Profit
A	4,05,969
B	1,26,254
C	(1,21,723)
	₹4,10,400