CMA TEST – 2 (SOLUTION)		
TIME ALLOWED 50 MINUTES	3-3-2019	TOTAL MARKS = 30 MARKS

Ans. Q. 1: **Quality Control Cost**

It means the cost incurred by the business organization for the purposes of maintaining and importing the quality if the product or the services provided to the customers. It includes following types of expenses.

a) **Prevention cost: -** It means such type of cost which is incurred for preventing any problems in future. For example, it CCTV cameras are installed for monitoring the material usage or observing the unproductive labour time, in such a case, the expenditure in this context can be regarded as "Prevention cost"

b) **Appraisal Cost: -** It means such type of cost which is incurred for meeting for fulfilling the expectations or satisfaction level of the customers. It may include the expenses like field test or other surveys which measures the satisfaction level customers.

c) **Internal Failure Cost: -** It is such type of cost which is incurred for rectifying the defect in the product before delivery to customers. All the departments in the business organization must relies their responsibility for checking the quality and usage of the producing and controlling the possible defect characteristics.

d) **External Failure Cost: -** It is such the type of cost which is incurred for rectifying the defect after delivery of goods to the customers. It will reduce the dissatisfaction level of existing customers.

Ans. Q. 2: **Memorandum Reconciliation Account**

Particulars	Amount (₹)	Particulars	Amount (₹)
To Net loss as per costing books	3,47,000	By Administration overheads over-absorbed	60,000
To Factory overheads under-absorbed	40,000	By Interest on investments not included in cost books	96,000
To Depreciation less charged in cost books	50,000	By Transfer fees (credited in financial books)	24,000
To Income tax provided in financial books	54,000	By Store adjustment (credit in financial books)	14,000
To Interest on loans provided in financial books	2,45,000	By Dividend received (credit in financial books)	32,000
		By Net loss as per financial books	5,10,000
	7,36,000		**7,36,000**

Ans. Q.3: **Cost Sheet (Year 2014)**

Particulars	Amount (₹)
Direct materials	
Opening stock of materials	1,50,000
(+) Purchases of Materials	18,50,000
(-) Closing stock	(2,00,000)
Raw Material consumed	18,00,000
(+) Direct Labour cost	9,50,000
Prime cost	27,50,000
(+) Factory overheads	3,80,000
Factory cost	31,30,000
(+) Administration overheads (assumed to be production related)	2,50,400
Cost of Production	33,80,400
(+) Selling Overheads	Nil
Cost of Sales	33,80,400

(i) Determination of overheads recovery rates: -

(a) Factory overheads as % of Direct Labour cost

$$= \frac{₹3,80,000}{₹9,50,000} \times 100 = 40\% \text{ of Direct Labour Cost}$$

(b) Administration overheads as % of Factory Cost

$$= \frac{₹2,50,400}{₹31,30,000} \times 100 = 8\% \text{ of Factory Cost}$$

(ii) Estimated Cost sheet of next year 2015: -

Particulars	**Amount (₹)**
Direct materials cost	8,00,000
Direct Labour cost	4,50,000
Prime cost	12,50,000
Factory overheads (40% of Direct Labour cost)	(1,80,000)
Factory cost	14,30,000
Administration overheads (8% of Factory Cost)	1,14,400
Cost of Production	15,44,400
Selling Overheads	45,000
Cost of Sales	15,89,400
Profit (15,89,400 × 10/90)	1,76,000
Sales	17,66,000

Ans Q.4:

Cost Sheet

Particulars	**Total**	**3 months**	**6 months**	**3 months**
Output (units) (Note 1)	**1,21,875**	**28,125**	**60,000**	**33,750**
Materials (₹ 10 per unit)	12,18,750	2,81,250	6,00,000	3,37,500
Labour (**Note 2**)	12,37,500	3,00,000	6,00,000	3,37,500
Prime cost	**24,56,250**	**5,81,250**	**12,00,000**	**6,75,000**
Overheads - Variables (₹ 4 per unit)	4,87,500	1,12,500	2,40,000	1,35,000
- Fixed	1,92,300	48,075	96,150	48,075
- Semi-variable (**Note 2**)	65,000	15,000	32,000	18,000
Total cost	**32,01,050**	**7,56,825**	**15,68,150**	**8,76,075**
Desired profit (1/5 of sales = 1/4 of cost)	8,00,263			
Desired sales	**40,01,313**			

Selling price per unit = ₹ 40,01,313/1,21,875 units = ₹ 32.83

Note:-1 (Output units)

First 3 months 1,50,000 × 3/12 × 75% = 28,125 units
Next 6 months 1,50,000 × 6/12 × 80% = 60,000 units
Last 3 months 1,50,000 × 3/12 × 90% = 37,750 units

Note:-2 (Labour cost)

First 3 months

$\left.\begin{array}{l}\text{28,125 units @ ₹ 10 per unit} \\ \textbf{OR} \\ \text{₹ 1,00,000 p.m.} \times \text{3 months}\end{array}\right\}$ whichever is more

Next 6 months 60,000 units@ ₹ 10 per unit **OR** ₹ 1,00,000 p.m. × 6 months whichever is more
Last 3 months 37,750 units ₹ 10 per unit **OR** ₹ 1,00,000 p. m. × 3 months whichever is more

Note:-3 (Semi-variable cost)

Capacity utilization	**Annual semi variable overheads (₹)**
Upto 75%	60,000
More than 75% upto 80%	64,000
More than 80% upto 85%	68,000
More than 85% upto 90%	72,000
More than 90% upto 95%	76,000
More than 95% upto 100%	80,000

First 3 months	**Next 6 months**	**Last 3 months**
Capacity utilization = 75% Semi-variable overheads = 60,000 × 3/12 = ₹ 15,000	Capacity utilization = 80% Semi-variable overheads = 64,000 × 6/12 = ₹ 32,000	Capacity utilization = 90% Semi-variable overheads = 72,000 × 3/12 = ₹ 18,000