CMA TEST- 8 (Solution)		
Time Allowed: 50 mint.	January,27 2018	Total Marks: 30 Marks

Answer to Question No.1: **Accounting Treatment & Control of Overtime Premium**

A. Accounting Treatment of Overtime Premium:-

No.	Situation	Accounting Treatment
1.	When overtime is due to customers request to complete the work within the specified time limit.	It should be directly charged to the job. (Directly recovered from customers)
2.	When the objectives is to increase output on account of market or seasonal conditions.	It is to be treated as part of production Over Head. (Recovered from all the customers)
3.	When the objectives is to make up short fall in demand due to abnormal situations. (Flood, Earth quake, etc.)	It is to be charged to costing profit & loss Account.

B. Control Overtime Premium: -

a) Appoint the competent authority who can authorize overtime work.
b) Prepare Statement showing "WHY, WHERE, and How Much overtime is required?"
c) Fix upper limit of overtime for each category of worker.

Answer to Question No.2:

Time Allowed = 50 hrs.
Time Taken = x hrs.
Time Saved = (50 - x) hrs.

Computation of Earnings under Rowan Plan

Time Wages (x hrs. × ₹ 9/hr.) = ₹ $9x$

$$\text{Bonus} = \frac{\text{Time Taken}}{\text{Time Allowed}} \times \text{Time Saved} \times \text{Wage Rate} = \left[\frac{x \text{ hrs.}}{50 \text{ hrs.}} \times (50-x)\text{hrs.} \times ₹\ 9/\text{hr.}\right] = \frac{9}{50}x(50-x)$$

Total Earnings $= 9x + \frac{9}{50}x(50-x)$

We are given that: -

Effective Hourly Earnings (Rowan Plan)= ₹ 10.80
Hence, Actual Earnings/Actual hours = ₹ 10.80

$$\frac{9x + \frac{9}{50}x(50-x)}{x} = ₹\ 10.80$$

$$9 + \frac{9}{50}(50-x) = 10.80$$

Solving, we get x = 40. **Hence**, Actual Hours worked are 40.

Computation of Earnings under Halsey Plan

Time Wages (40 hrs. × ₹ 9/hr.) = ₹ 360

Bonus $\left[\frac{50}{100} \times (50-40)\text{hrs.} \times ₹\ 9/\text{hr.}\right]$ = ₹ 45

Total Earnings = ₹ 405

Effective Earnings per hour = $\frac{₹\ 405}{40 \text{ hrs.}}$ = ₹ 10.125

Answer to Question No.3:

Computation of extra weekly contribution on account of the change suggested the BOD.

Particular		₹
Proposed weekly sales (57,600 @ ₹ 12)		6,91,200
Less:- Weekly variable cost :-		
1) Labour Cost (57,600 unit @ 1.30)	74,880	
2) Balance (57,600	3,74,400	4,49,280
Proposed weekly Contribution		**2,41,920**
Less:- Existing weekly contribution		(2,40,000)
Extra weekly Contribution		**1,920**

Comments:-

Annual increase in contribution = 1,920 × 52 = 2,99,840. Hence, they change suggested by the BOD may be implemented. However before coming to any final conclusion, it is advised to take into consideration the impact of dep on capital expenditure of ₹ 1,60,000.

Note no.1:- (weekly output)
At Present = 48,000 units (160 employees × 300 units)
At Proposed = 120 employees × 480 units / employee = 57,600

Note no.2:- (Selling price/unit)
At Present = 6,00,000 / 48,000units = ₹ 12.50
At Proposed = ₹ 12.50 - 4% = ₹ 12

Note no.3:- (labour cost/unit)
At Present = ₹ 1/ unit
At Proposed = ₹ 1/ unit + 30% = 1./unit.
We are given the labour cost should be increased by 1 %, if the individual output increased by 2%. In the given case the individual output has increased by 60% . Accordingly the labour cost per unit is to be increased by 30%.

Note no.3:- (Balance Variable Cost per unit)

Existing Sales = ₹ 6,00,000
Existing Contribution = ₹ 2,40,000
Existing Variable Cost = ₹ 3,60,000
Existing Output = ₹ 48,000

Existing Variable cost /unit = ₹3,60,000/48,000 = ₹7.50
Existing labour cost /unit = ₹ 1
Existing Balance Variable cost per unit = ₹7.50 – 1 = ₹6.50
Future Balance Variable cost per unit = ₹6.50.

Answer to Question No.4:

Statement showing the amount of profit
(which was lost year due to the reason of labour turnover)

Particular		₹
1. Expenses which could have been avoided:		
Settlement Cost	27,420	
Recruitment cost	18,725	
Selection Cost	12,750	
Training Cost	16,105	75,000
2. Additional Possible profit Sales	15,00,000	
Less: Variable Cost saved (80%)	12,00,000	3,00,000
		3,75,000

Additional Possible Sales:-

Actual Sales	66,00,000
Actual hours worked	3,45,000 hrs.
Less:- Underproductive training	(15,000 hrs.)
Productive Time	**3,30,000**

Total time lost due to labour turnover:-

= 15,000 hours (unproductive training + 60,000 hours (delayed replacement)

= 75,000 hrs.

Hence, additional possible sales which have been achieved

$$= \frac{66,00,000}{3,30,000 \text{ hrs.}} \times 75,000 \text{ hrs.} = ₹ \textbf{ 15,00,000}$$