

TEST- 13 [Solution]

Time Allowed: 1 hour 30 min.

Total Marks: 50 Marks

Answer to Question no.1: Advantages of Study of Standard Costing

1. The Variance are helpful in identifying the responsibilities to be fixed for particulars variance, e.g., Material price variance is to be explained by purchase manager and material usages variance is to be explained by production manager.
2. Waste and scrap, if not corrected, will continue to increase. When we calculate the variances, we are also able to identify those activities which are leading to the tendency of waste and scrap. This way, the future corrective action may be initiated in fruitful manner.
3. Standard costing facilitates motivation in the sense that the workers who attain the standard output may be suitably rewarded. Hence, the efficiency level will get positive direction.
4. With the help of standard costing, we are able to identify the controllable and uncontrollable variances. Hence, the management may decide to concentrate on controllable and ignore uncontrollable variances.
5. Management can use standard costing in preparing more accurate budgets for the future. In a way, the standard costing can be valuable for top management in planning & decision – making.

Answer to Question no.2: Pre-Requisition of Integrated Accounting System.

1. Integrated Accounting System is the system where cost and financial books are integrated. It is beneficial, the business may decide to adopt the integration accounting system. This system leads to many advantages such as saving in time and cost, avoidance of duplication of work, etc.
2. There should be proper co-ordination between the staff responsible for financial and cost accounting for the purpose of generating correct information and using such information in efficient manner.
3. It should also be decided whether cost and financial books are required to be fully integrated or partially integrated. In case of partial integration, the firm may decide to integrate upto a particular stage, i.e., prime cost, works cost, cost of production, etc.,
4. All accounts must be properly classified and coded for facilitating the understanding and analysis. Such classification and codification is more necessary in those organisations which are having huge volume of transactions and wants to avoid duplication of work.

Answer to Question no.3:**Product A (Deficiency of 30 Units)**

1. If the deficiency is due to the reason of not recording the consumption, the accounting treatment is :-

WIP Ledger Control A/c.....Dr	900
To Stores Ledger control A/c	900
(Being the consumption not recorded)	
2. If the deficiency is due to Abnormal Loss, the accounting treatment is :-

Costing P & L A/c.....Dr.	900
To Stores Ledger control A/c	900
(Being Abnormal Loss recorded)	
3. If the deficiency is due to normal Loss, the accounting treatment will be :-

Works O/H Control A/c.....Dr.	900
To Stores Ledger control A/c	900
(Being normal Loss recorded)	

Product B (Surplus of 10 Units)

1. If the surplus is due to not recording the Purchases, the accounting treatment is :-

Store Ledger Control A/c.....Dr. 200
 To General Ledger Adjustment A/c 200
 (Being the purchase not recorded)

2. If the surplus is due to Abnormal Gain, the accounting treatment is :-

Store Ledger Control A/c.....Dr. 200
 To Costing P & L A/c 200
 (Being abnormal gain recorded)

3. If the surplus is due to Normal Gain, the accounting treatment is :-

Store Ledger Control A/c.....Dr. 200
 To Works O/H Control A/c 200
 (Being normal gain recorded)

Answer to Question no.4:

Product	Budgeted Margin/Unit × Budgeted Quantity	Budgeted Margin/Unit × RSQ	Budgeted Margin/Unit × Actual Quantity	Actual Margin/Unit × Actual Quantity
	P ₁	P ₂	P ₃	P ₄
A	₹ 20 × 800 units = ₹ 16,000	₹ 20 × 907 units = ₹ 18,140	₹ 20 × 900 units = ₹ 18,000	₹ 20 × 900 units = ₹ 18,000
B	₹ 30 × 700 units = ₹ 21,000	₹ 30 × 793 units = ₹ 23,790	₹ 30 × 800 units = ₹ 24,000	₹ 10 × 800 units = ₹ 8,000

Computation of profit/margin variances: -

Product	Value variance	Price variance	Volume variance	Mix variance	Quantity Variance
	P ₄ P ₁	P ₄ P ₃	P ₃ P ₁	P ₃ P ₂	P ₂ P ₁
A	₹ 2,000 (F)	Nil	₹ 2,000 (F)	₹ 140 (A)	₹ 2,140 (F)
B	₹ 13,000 (A)	₹ 16,000 (A)	₹ 3,000 (F)	₹ 70 (F)	₹ 2,790 (F)
Total	₹ 11,000 (A)	₹ 16,000 (A)	₹ 5,000 (F)	₹ 70 (F)	₹ 4,930 (F)

Answer to Question no.5:

Labour	SR SHAO	SR RSH	SR AH	AR AH
	L ₁	L ₂	L ₃	L ₄
Skilled	60 3,000 = 1,80,000	60 3,200 = 1,92,000	60 2,560 = 1,53,600	65 2,560 = 1,66,400
Semi-skilled	36 1,200 = 43,200	36 1,280 = 46,080	36 1,600 = 57,600	40 1,600 = 64,000
Un-skilled	24 1,800 = 43,200	24 1,920 = 46,080	24 2,240 = 53,760	20 2,240 = 44,800

Computation of labour variances: -

Labour	DLCV	DLRV	DLEV	DLMV	DLYV
	L ₁ L ₄	L ₃ L ₄	L ₁ L ₃	L ₂ L ₃	L ₁ L ₂
Skilled	₹ 13,600 (F)	₹ 12,800 (A)	₹ 26,400 (F)	₹ 38,400 (F)	₹ 12,000 (A)
Semi-Skilled	₹ 20,800 (A)	₹ 6,400 (A)	₹ 14,400 (A)	₹ 11,520 (F)	₹ 2,880 (A)
Unskilled	₹ 1,600 (A)	₹ 9,960 (F)	₹ 10,560 (A)	₹ 7,680 (A)	₹ 2,880 (A)
Total	₹ 8,800 (A)	₹ 10,240 (A)	₹ 1,440 (F)	₹ 19,200 (F)	₹ 17,760 (A)

Actual Hours (AH)

Skilled = 80 workers × 32 hrs = 2,560 hrs
 Semi-skilled = 50 workers × 32 hrs = 1,600 hrs
 Unskilled = 70 workers × 32 hrs = 2,240 hrs
 = 6,400 hrs

Revised Standard Hours (RSH)

Total of Actual hours = 6,400 hrs

Budgeted Ratio = 100 : 40 : 60

Skilled = 3,200 hrs

Semi-skilled = 1,280 hrs

Unskilled = 1,920 hrs

Standard Hours for Actual output (SHAO)

It can be taken as total budgeted hours because the information regarding Actual output is not given.

Skilled = 100 workers × 30 hrs = 3,000 hrs

Semi-skilled = 40 workers × 30 hrs = 1,200 hrs

Unskilled = 60 workers × 30 hrs = 1,800 hrs

Answer to Question no.6:**Stores Ledger Control Account**

To balance b/d	54,000	By WIP Ledger Control Account	2,88,000
To General Ledger Adjustment A/c	2,88,000	By Production Overheads Control A/c	36,000
To WIP Ledger Control Account	1,44,000	By Production Overheads Control A/c	10,800
		By balance c/d	1,51,200
	4,86,000		4,86,000

The deficiency in the stock is assumed to be normal and transferred to Production Overheads Control Account. Alternatively, the deficiency may be assumed to be abnormal and transferred to Costing Profit & Loss Account.

WIP Ledger Control Account

To balance b/d	1,08,000	By Stores Ledger Control Account	1,44,000
To Stores Ledger Control Account (Direct Material)	2,88,000	(Material Returned)	
To Wages Control Account (Direct Wages)	1,08,000	By Finished Goods Ledger Control A/c	7,20,000
To Production Overheads Control A/c	4,32,000	(Bal. fig.)	
		By Balance c/d	72,000
	9,36,000		9,36,000

Wages Control Account

To General Ledger Adjustment A/c (Total Wages)	1,26,000	By WIP Ledger Control A/c (Direct Wages)	1,08,000
		By Production Overheads Control A/c (Indirect Wages)	18,000
	1,26,000		1,26,000

Production Overheads Control Account

To Stores Ledger Control Account	36,000	By WIP Ledger Control Account	4,32,000
To Stores Ledger Control Account (Normal Stock Deficiency)	10,800	(Recovered)	
To Wages Control Account (Indirect Wages)	18,000	By Costing Profit & Loss Account	82,800
To General Ledger Adjustment A/c	4,50,000	(Under-recovery)	
	5,14,800		5,14,800

Finished Goods Ledger Control Account

To WIP Ledger Control Account	7,20,000	By Cost of Sales Account	7,20,000
	7,20,000		7,20,000

Cost of Sales Account

To Finished Goods Ledger Control A/c	7,20,000	By Costing Profit & Loss Account	7,20,000
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Costing Profit & Loss Account

To Cost of Sales Account	7,20,000	By General Ledger Adjustment A/c	8,28,000
To Production Overheads Control A/c (Under-recovery)	82,800	(7,20,000 plus 15%)	
To General Ledger Adjustment A/c (Profit)	25,200		
	8,28,000		8,28,000

Answer to Question no.7:

DR

Store Ledger Control Account

CR

Particulars	Amount (₹)	Particulars	Amount (₹)
To Balance b/d	90,000	By WIP Control A/c (Direct Material)	4,80,000
To Cost Ledger Control A/c (Purchases)	4,80,000	By Works OH Control A/c (Indirect Material)	60,000
To Work-in-progress Control A/c	2,40,000	By Works Overheads Control A/c (Normal deficiency)	18,000
		By Balance c/d	2,52,000
	8,10,000		8,10,000

DR

Wages Control Account

CR

Particulars	Amount (₹)	Particulars	Amount (₹)
To General Ledger Adjustment A/c (Total wages)	2,10,000	By Work-in-progress Control A/c	1,80,000
		By Works Overheads Control A/c	30,000
	2,10,000		2,10,000

DR

Works Overheads Control Account

CR

Particulars	Amount (₹)	Particulars	Amount (₹)
To Store Ledger Control A/c (Repairs and maintenance)	60,000	By Work-in-progress Control A/c	7,20,000
To General Ledger Adjustment	7,50,000	By Costing Profit and Loss A/c (Under - absorption)	1,38,000
To Wages Control (Indirect wages)	30,000		
To Store Control A/c (Deficiency)	18,000		
	8,58,000		8,58,000

DR

Work-in-Progress Control Account

CR

Particulars	Amount (₹)	Particulars	Amount (₹)
To Balance b/d (Opening Balance)	1,80,000	By Stores Ledger Control A/c (Material returned)	2,40,000
To Stores Ledger Control A/c (Direct Material issued)	4,80,000	By Finished Goods Control A/c (production at factory cost (Bal fig))	12,00,000
To Wages Control A/c (Direct wages)	1,80,000	By Balance c/d (Closing Bal)	1,20,000
To Works Overheads Control A/c	7,20,000		
	15,60,000		15,60,000

DR

Costing Profit and Loss Account

CR

Particulars	Amount (₹)	Particulars	Amount (₹)
To Cost of Sales A/c	12,00,000	By Sales ₹ (12,00,000 plus 10%)	13,20,000
To Works Overheads Control A/c (under-recovered)	1,38,000	By Loss transferred to General Ledger Adjustment A/c	18,000
	13,38,000		13,38,000