

Material Cost and Employee Cost

Time Allowed : 70 Minutes

TEST-2

Total Marks: 40 Marks

Q.1: Explain Centralized and Decentralized Purchasing along with their advantages. What factors must be considered before deciding to select the best system? (5 Marks)

Q.2: What are the essentials of good wage system? (5 Marks)

Q.3: A Company manufactures 5,000 units of a product per month. The cost of placing an order is ₹ 100. The purchase price of the raw material is ₹ 10 per kg., the re-order period is 4 to 8 weeks. The consumption of raw materials varies from 100 kg., to 450 kg., per week, the average consumption being 275 kg. the carrying cost of inventory is 20% per annum. You are **required** to calculate: -

(a) Re-order quantity (b) Re-order level (c) Maximum level (d) Minimum level (e) Average stock level (5 Marks)

Q.4. The standard time taken to complete a product is 12 hours a ₹ 2.5 per hour. Time wages are allowed to workers taking more than the time allowed. But workers who complete the job in standard time or less receive a straight piece work rate plus 10% bonus. **Calculate** the wages earned by A, B, C and D who complete the job in 15, 12, 10 and 8 hours respectively. What will be their effective hourly rate?

If the overhead rate chargeable to production is ₹ 5 per hour, what will be the “Cost of Conversion” (Labour and Overhead) per piece produced by each worker? (5 Marks)

Q.5. Mr. Arun commences manufacture of toy trains on 1st January, 2021. His trading account for the first year is as follows:

Particulars	Units	Amount (₹)	Amount (₹)
Sales	1,00,000		4,50,00,000
Less: Cost of Sales:			
Opening stock of raw materials		NIL	
Add: Purchases		4,50,00,000	
Less: Closing Stock		(45,00,000)	
Raw material consumed		4,05,00,000	
Add: Labor		1,44,00,000	
Add: Production overhead		72,00,000	
Cost of production	1,60,000	6,21,00,000	
Less: closing stock	(60,000)	(2,16,00,000)	(4,05,00,000)
Gross profit	1,00,000		45,00,000

Additional information:

1. Stocks of both raw materials and finished goods have increased uniformly over the year;
2. The raw materials content of finished goods is ₹ 225 per unit;
3. Mr. Arun was ill during August 2021 when he received an order for 12,000 units which was held up by stock shortage and were subsequently cancelled. He had further orders for 8,000 units on his books at the year end.

(i) **Calculate** the following ratios:

- (1) Inventory turnover for raw material (2) Inventory turnover for finished goods;
 (3) Input-output ratio for raw materials; (4) Stock-out ratio,

(ii) **Comment** briefly on the above ratios.

(10 Marks)

Q.6 The management of a company are worried about their increasing labour turnover in the factory and before analyzing the causes and taking remedial steps, they want to have an idea of the profit foregone as a result of labour turnover in the last year. Last year sale amounted ₹ 83,03,300 and variable cost was 80% of sales. The total number of actual hours worked by the Direct Labour Force was 4.45 lakhs.

As a result of the delay by the Personnel Department in filling vacancies due to labour turnover, 1,00,000 potentially productive hours were lost. The actual direct labour hours included 30,000 hours attributable to training new recruits, out of which half of the hours were unproductive. The costs incurred consequent on labour turnover revealed on analysis the following: -

Settlement costs due to leaving - ₹43,820	Selection costs - ₹12,750
Recruitment costs - ₹26,740	Training costs - ₹30,490

Assuming that the potential production lost as a consequence of labour turnover could have been sold at prevailing prices. **Find** the profit foregone last year on account of labour turnover.

(10 Marks)