**Cost and Management Accounting**

**September 2022 Examination**

**Q1. T Ltd. undertook a contract for Rs. 5,00,000 on 1st April 2021. On 31st March 2022 when the accounts were closed, the following details about the contract were gathered:**

|  |  |
| --- | --- |
| **Materials purchased** | **1,00,000** |
| **Wages paid** | **45,000** |
| **General expenses** | **10,000** |
| **Plant purchased** | **50,000** |
| **Materials in hand 31.3.2021** | **25,000** |
| **Wages accrued 31.3.2021** | **5,000** |
| **Work certified** | **2,00, 000** |
| **Cash received** | **1,50,000** |
| **Work uncertified** | **15,000** |
| **Depreciation of plant** | **5,000** |

**The contract contained an escalation clause which read as “In the event of increase(s) of prices of materials and rates of wages by more than 5% the contract price would be increased accordingly by 25% of the rise of the cost of materials and wages beyond 5% in each case”.**

**It was found that since the date of signing the agreement, the prices of materials and wage rates increased by 25%. The value of the work certified does not consider the**

**effect of the above clause.**

**Prepare the contact account. (10 Marks)**

**Ans 1.**

**Introduction**

Long-term contracts frequently include escalation clauses that allow the agreed-upon price to be raised in the event of a future increase in the cost of goods or labour costs. The following situations will result in the contractor receiving this guarantee that the contract price will be appropriately increased:

(i)When it is anticipated that the market price of the materials used for the contract work will increase over a certain point in the future.

(ii)Unless the work has advanced sufficiently, the precise estimate was not achievable when the

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**Q2. Prepare the Stock Ledger using “Weighed Average” method of valuing the issues from the following details of stores receipts and issues of material in a manufacturing unit:**

**TABLE BELOW**

|  |  |
| --- | --- |
| **Nov. 1** | Opening Stock 2,000 units @ Rs. 5 each |
| **Nov. 3** | Issued 1,500 units to Production. |
| **Nov. 4** | Received 4,500 units @ Rs. 6.00 each. |
| **Nov. 8** | Issued 1,600 units to Production |
| **Nov. 9** | Returned to stores 100 units by Production Department (from the issues  of November 3) |
| **Nov. 16** | Received 2,400 units @ Rs. 6.50 each. |
| **Nov. 19** | Returned to the supplier 200 unit out of the quantity received on  November, 4 |
| **Nov. 20** | Received 1,000 units @ Rs. 7.00 each. |
| **Nov. 24** | Issued to Production 2,100 units. |
| **Nov. 27** | Received 1,200 units @ Rs. 7.50 each |
| **Nov. 29** | Issued to Production 2,800 units (use rates upto two decimal places). |

**(10 Marks)**

**Ans 2.**

**Introduction**

The inventory movement of a business entity over a specific time period is recorded in the stock ledger account. It lists the units bought, the units given out, and the remaining units, along with their corresponding weight.

Weighted Average cost flow assumption-

Under the weighted average method, the cost is considered to be average at the time of sale. In this method of valuation of inventory all the purchased inventory should be accumulated and cost

**Q.3 (a)**

**Opening stock of work- in-progress 4,000 units 40% complete. Units completed: 32,000**

**Units put into process: 30,000**

**Closing stock of work- in-progress 2,000 units, 60% complete. Calculate equivalent production. (5 Marks)**

**Ans 3a.**

**Introduction**

The idea of equivalent units of production is used to calculate how much money partially finished products are worth to a business. They are helpful for process costing, which examines the flow of money across the production process.You can simply multiply the quantity of

**Q3b. Pop Ltd. produces four products in a manufacturing process. The Company produced 10,000 units of A, 20,000 units of B, 15,000 units of C and 25,000 units of D. The costs before split off point for the four products were Rs. 1, 40,000. Using the average unit cost method**

**(a) Calculate the unit cost, and**

**(b) How, the joint cost would be apportioned amount the products. (5 Marks)**

**Ans 3b.**

**Introduction**

Method of Average Unit Cost The average unit cost, which is determined by dividing the entire joint cost by the total number of units produced for all the goods, is used in this technique to allocate the joint cost. The average unit cost is the same for each product**.** The term "joint p