**Cost & Management Accounting**

**December 2023 Examination**

**Q1. The following details have been extracted from Sam Ltd.’s books of accounts for the year ending March 31, 2023. The manager of the company is shared and divides his time between the factory and the office in the ratio of 20:80. You are required to compute: (a) prime cost, (b) factory overhead, (c) factory cost, (d) over head and (e) cost of sale.**

**(10 Marks)**

|  |  |
| --- | --- |
| **Stock of Materials: Opening** | **2,82,000.00** |
| **Stock of Materials: Closing** | **3,00,000.00** |
| **Materials Purchased during the year** | **12,48,000.00** |
| **Direct Wages** | **3,57,600.00** |
| **Indirect Wages** | **24,000.00** |
| **Salaries for Administrative Staff** | **60,000.00** |
| **Freights: Inwards** | **48,000.00** |
| **Freights: Outwards** | **30,000.00** |
| **Cash Discount Allowed** | **21,000.00** |
| **Bad Debts W/Off** | **28,200.00** |
| **Repairs to Plant and Machinery** | **63,600.00** |
| **Rent, Rates and Taxes of Factory** | **18,000.00** |
| **Rent, Rates and Taxes of Office** | **9,600.00** |
| **Travelling Expenses** | **18,600.00** |
| **Salesmen's salaries and commission** | **50,400.00** |
| **Depreciation W/Off: Plant and Machinery** | **42,600.00** |
| **Depreciation W/Off: Furniture** | **3,600.00** |
| **Director's fees** | **36,000.00** |
| **Electricity Charges: Factory** | **72,000.00** |
| **Fuel Charges: Boiler** | **96,000.00** |
| **General Charges** | **37,200.00** |
| **Manager's Salary** | **72,000.00** |

**Ans 1.**

**Introduction**

Prime costs are a company's charges directly related to the materials and labour used in production. It consists of a manufactured product's costs, computed to ensure the best profit margin for an organization. The prime cost calculates the direct price of raw materials and labour involved in producing a good. Direct charges do not include indirect charges, including advertising and administrative expenses.

Formula of prime cost

Prime cost=Direct raw materials + Direct labor

• locate the direct raw materials cost total on the company's balance sheet.

• locate the direct labour cost parent on the company's balance sheet.

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**Q2. You are required to compute the labor turnover using different methods of labor turnover measurement from the following information provided for Manas Ltd. for the month of December 2022.**

**Total workers in the beginning of the month were 3800, whereas at the end of the month were 4200. During the month, 50 workers left the firm on account of their own problems while 80 workers were discharged. 560 workers were engaged during the month in various departments. But out of them, only 60 were appointed. (10 Marks)**

**Ans 2.**

**Introduction**

Employees can cease affiliation with a corporation for several reasons, including professional growth or activity dissatisfaction. It is ordinary to expect employees to depart after a period. However, excessive frequency can be challenging for companies looking to grow. Understanding the reasons for worker turnover and its dangerous outcomes may help manage the state of affairs and preserve precious employees.

Labour turnover, additionally referred to as worker or staffing turnover, is the frequency with which the employees of an organization depart from their jobs. It may be due to attrition,

**Q3. A product sells at Rs. 3 per unit. The company uses a first-in-out actual costing system. A new fixed manufacturing overhead allocation rate is computed each year by dividing the actual fixed manufacturing overhead cost by the actual production. The following data is available for the first two years:**

|  |  |  |
| --- | --- | --- |
|  | **Year 1** | **Year 2** |
| **Sales (Units)** | **1500** | **1800** |
| **Production (Units)** | **2100** | **1500** |
| **Cost:** | **(Rs.)** | **(Rs.)** |
| **Variable Manufacturing** | **1050** | **750** |
| **Fixed Manufacturing** | **1050** | **1050** |
| **Variable Marketing and Administration** | **1500** | **1800** |
| **Fixed Marketing and Administration** | **600** | **600** |

**Prepare Income Statement for each year based on:**

**a. Absorption Costing (5 Marks)**

**b. Variable Costing (5 Marks)**

**Ans 3a.**

**Introduction**

Absorption costing, typically called "complete costing," is a managerial accounting technique for capturing all charges and charges associated with producing a specific product. All direct and oblique prices, inclusive of natural materials, direct labour, rent, and insurance, are accounted for while using

**b. Variable Costing**

**Ans 3b.**

**Introduction**

Variable costs are the prices that vary simultaneously to the volume of services or goods produced or consumed.

In simpler terms, they alternate as the production or intake extent changes. For instance, in wealth management, if you decide to buy more shares, the brokerage costs (a variable cost) you pay likely increase proportionally.

**Concepts and applications**

Let's prepare an income statement using variable costing:

**Income statement**

 **Year 1**

|  |  |  |
| --- | --- | --- |
| Particulars | **₹**  | **₹**  |
| Sales revenue |  | 4500 |
| Less Cost of goods sold(variable) | 1050 |  |
| Fixed  | 1050 | 2100 |
| Gross profit |  | 2400 |
| Variable marketing and administration | 1500 |  |
|  |  | 1500 |