**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**

Cost and Management Accounting is a specialized branch of accounting that aims to capture a company's total production costs by assessing the variable costs of each step of production as well as fixed costs, such as depreciation of capital equipment. By understanding these costs in detail, organizations can derive meaningful insights into operational efficiency and profitability. In the given scenario, we delve into the financial details of Sam Ltd. for the fiscal year ending March 31, 2023. The objective is to compute various cost components, including prime cost, factory overhead, factory cost, overhead, and cost of sale. These computations are essential for the company to ascertain its production efficiency, cost

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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**

Labor turnover, often simply referred to as turnover, is a crucial metric for businesses, especially those in industries where human capital is a significant asset. It measures the rate at which employees leave an organization and are replaced by new hires. A high turnover rate can be indicative of problems within the company, such as dissatisfaction among employees or issues with the company's management practices. Conversely, a low turnover rate can suggest that employees are content and see long-term potential in their roles. However, it's essential to note that turnover can be both voluntary (e.g., an employee resigning) and

**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)**

**Ans 3a.**

**Introduction**

Costing systems are essential for businesses to determine the cost of their products and subsequently, their profitability. Absorption costing, also known as full costing, is a method where all manufacturing costs, both variable and fixed, are attributed to the product. This approach contrasts with variable costing, where only variable costs are included in product

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

**Ans 3b.**

**Introduction**

Variable costing, also known as direct costing or marginal costing, is a method in which only variable costs are included in the product costs. Fixed manufacturing overheads are treated as period costs and are expensed in the period they are incurred, rather than being spread over the units produced. This approach provides a clear distinction between the costs that vary