Financial Management

Bachelors of Business (Specialized in Finance) –Tutorial Questions

Chapter 1: Introduction to Cost Accounting

Practice Questions

Question 1

"Cost Accounting System is neither unnecessary nor expensive, rather it is profitable investment", Comment.

Question 2

Discuss the characteristics of an ideal system of Cost Accounting and differentiate between cost accounting and financial accounting.

Question 3

[illegible]: The following figures have been extracted from the records of a manufacturing company for the year ending 31st December, 2008. You are required to prepare a statement of cost showing : (a) Cost of raw materials consumed (b) Prime Cost (c) Factory Cost (d) Cost of production (e) Cost of goods sold (f) Total cost of goods sold and profit on sales.

	Rs.
Stock of Raw Materials (1-1-08)	3,000
Stock of Raw Materials (31-12-08)	2,400
Purchases of Raw materials	14,000
Stock of work-in-progress (1-1-08)	1,000
Stock of work-in-progress (31-12-08)	800
Carriage inward	500
Manufacturing wages	4,000
Other direct expenses	200
Indirect wages	1,000
Experiment expenses	400
Wastage of materials	50
Factory overhead	7,000
Establishment on costs	2,000
Selling overhead	4,000
Distribution overhead	1,000
Stock of finished goods (1-1-08)	1,200
Stock of finished goods (31-12-08)	3,000
Sales	40,00

Question 4

How do managers decide whether a cost is a direct or an indirect cost?

Question 5

How do managers decide whether a cost is a variable or a fixed cost?

Question 6

How should costs be estimated?

Question 7

What are the three key features of cost accounting and cost management?

Question 8

A firm has to pay a 20c per unit royalty to the inventor of a device which it manufactures and sells. How would the royalty charge be classified in the firm's accounts?

Question 9

Which of the following would be classed as indirect labour?

A Assembly workers in a company manufacturing televisions
B A stores assistant in a factory store
C Plasterers in a construction company
D A consultant in a firm of management consultants

Question 10

Which of the following items would be treated as an indirect cost?

A Wood used to make a chair
B Metal used for the legs of a chair
C Fabric to cover the seat of a chair
D Staples to fix the fabric to the seat of a chair

Question 11

Which of the following items might be a suitable cost unit within the credit control department of a company?

(i) Stationery cost
(ii) Customer account
(iii) Cheque received and processed

Question 12

A company employs four supervisors to oversee the factory production of all its products. How would the salaries paid to these supervisors be classified?

A As a direct labour cost
B As a direct production expense
C As a production overhead
D As an administration overhead

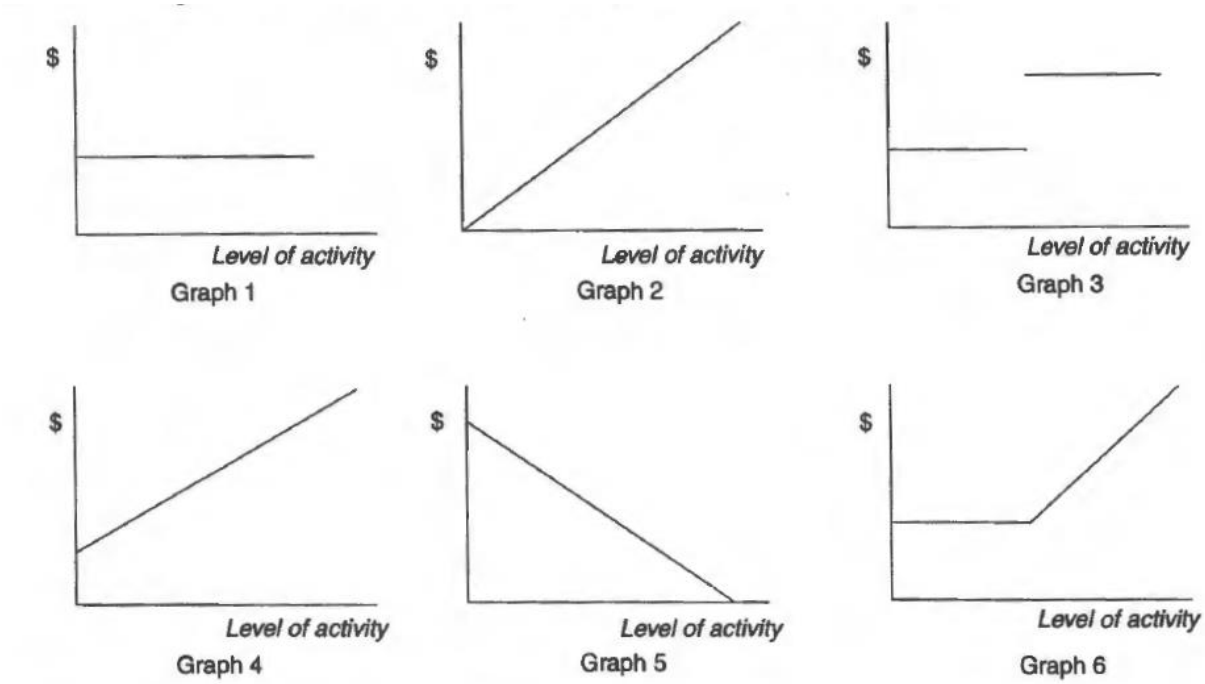
Question 13

A company manufactures and sells toys and incurs the following three costs:

(i) Rental of the finished goods warehouse
(ii) Depreciation of its own fleet of delivery vehicles
(iii) Commission paid to sales staff

Which of these are classified as distribution costs?

Question 14



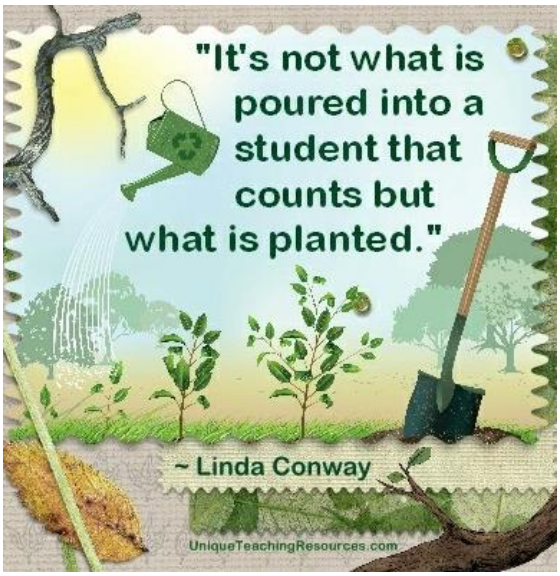
A linear variable cost – when the vertical axis represents cost incurred.

A fixed cost – when the vertical axis represents cost incurred.

A linear variable cost – when the vertical axis represents cost per unit.

A semi-variable cost – when the vertical axis represents cost incurred.

A step fixed cost – when the vertical axis represents cost incurred.



Question 15

A production worker is paid a salary of $650 per month, plus an extra 5 pence for each unit produced during the month. How is this type of labour cost best described?

Question 16

What type of cost is supervisor salary costs, where one supervisor is needed for every ten employees added to the staff?

Question 17

A total cost is described as staying the same over a certain activity range and then increasing but remaining stable over a revised activity range in the short term.

What type of cost is this?

Question 18

Calculate prime cost from the following information:-

Direct material - MVR 40,000, Direct labour - MVR 30,000 Direct expenses - MVR 25.000

Question 19

Calculate prime cost from the following information:-

Opening stock of raw material = MVR 12,500

Purchased raw material = MVR 75,000

Expenses incurred on raw material = MVR 5,000

Closing stock of raw material = MVR 22,500

Wages MVR 47,600 Direct expenses MVR 23,400

Question 20

Calculate works cost or factory cost from the following details:-

Raw material consumed	= MVR 50,000
Direct wages	= MVR 20, 000
Direct expenses	= MVR 10,000
Factory expenses 80% of direct wages	
Opening stock of work in progress	= MVR 15,000
Closing stock of work in progress	= MVR 21,000

Question 21

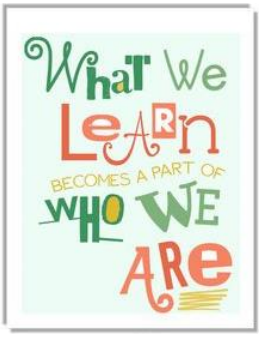
Calculate cost of production from the following information:-

Raw material purchased	= MVR 42,500
Freight paid	= MVR 5,000
Labour charges	= MVR 12,500
Direct expenses	= MVR 10,000

Factory overhead 80% of Direct labour charges

Administrative overhead = 10% of work cost

	Opening stock	Closing stock
Raw material	8,000	10,000
Work in progress	7,500	9,000



Question 22

Prepare cost sheet from the following particular in the book of B. M. Rehman

Raw material purchased = MVR 120,000

Paid freight charges = MVR 10,000

Wages paid to laborers = MVR 35,000

Directly chargeable expenses = MVR 25,000

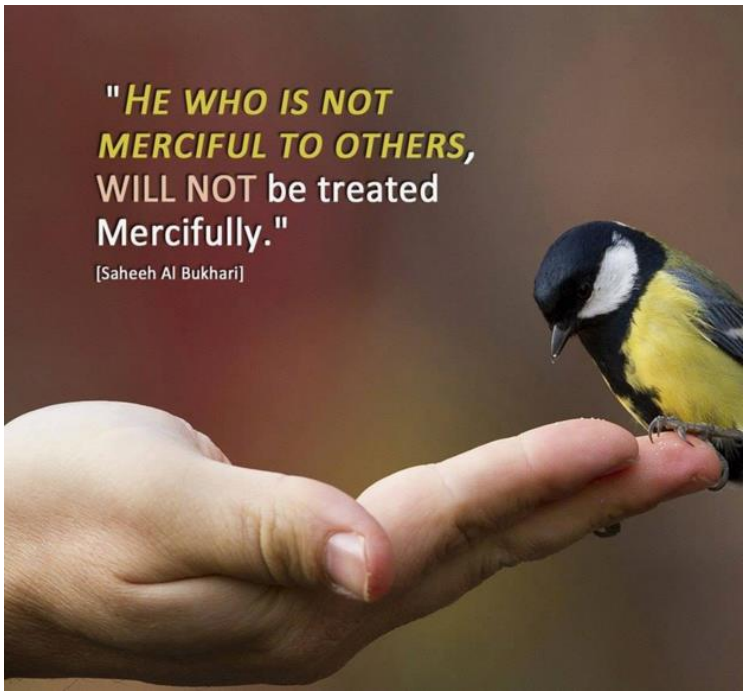
Factory on cost = 20% of prime cost

General and administrative expenses = 4% of factory cost

Selling and distribution expenses = 5% of production cost

Profit 20% on sales

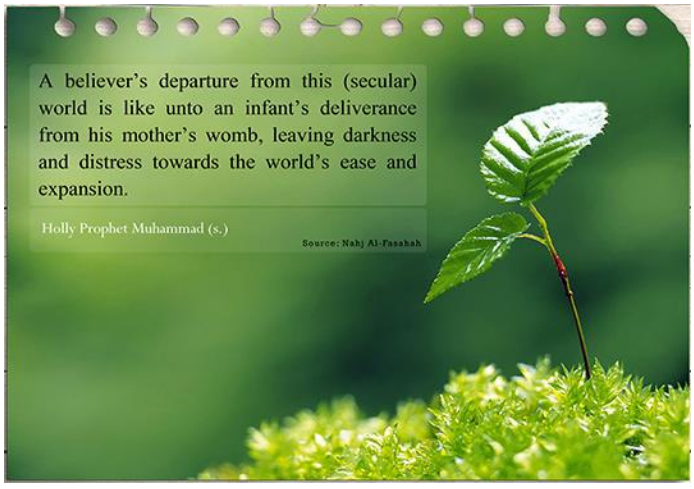
	Opening stock	Closing stock
Raw material	15,000	20,000
Work in progress	17,500	24,000
Finished goods	20,000	27,500



Question 23

Prepare cost sheet in the book of M. B. Rehman from the following particulars.

Opening stock: -	Raw material	=	MVR 5,000
	Finished goods	=	MVR 4,000
Closing stock: -	Raw material	=	MVR 4,000
	Finished goods	=	MVR 5,000
	Raw material purchased	=	MVR 50,000
	Wages paid to laboures	=	MVR 20,000
	Chargeable expenses	=	MVR 2,000
	Rent and Taxes	=	MVR 7,400
	Power	=	MVR 3,000
	Experimental expenses	=	MVR 600
	Sale of wastage of material	=	MVR 200
	Office management salary	=	MVR 4,000
	Office printing & stationery	=	MVR 200
	Salaries to salesman	=	MVR 2,000
	Commission to traveling agents	=	MVR 1,000
	Sales	=	MVR 100,000

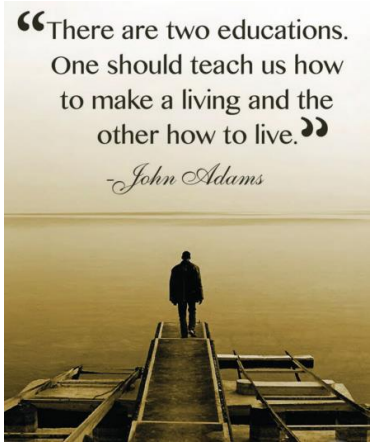


Question 24

The cost of sale of production 'A' is made up as follows:-

Material used in manufacturing	MVR 5,500
Material used in packing material	MVR 1,000
Material used in selling the product	MVR 150
Material used in the factory	MVR 175
Material used in the office	MVR 125
Labour required in production	MVR 1,000
Labour required for supervision in factory	MVR 200
Expenses direct factory	MVR 500
Expenses indirect factory	MVR 100
Expenses office	MVR 125
Depreciation of office building	MVR 75
Depreciation on factory plant	MVR 175
Selling expenses	MVR 350
Freight on material	MVR 500
Advertising	MVR 125

Assuming that all products manufactured and sold, what should be the selling price be fixed to obtain a profit of 20% on selling price.



Question 25

Mr. Zia furnishes the following data related to the manufacture of a standard product during the month of August 2008

Raw material consumed	-	MVR 15,000
Direct labour	-	MVR 5,000
Machine hours worked	-	MVR 900
Machine hour rate	-	MVR 5
Administration overheads	-	20% of works cost
Selling overheads	-	MVR 0.50 per unit
Unit produced	-	MVR 17,100
Unit sold	-	16,000 @ MVR 4 per unit

You are required to prepare a cost sheet from the above showing:-

(a) The cost per unit
(b) Cost per unit sold and profit for the period

Question 26

Calculate prime cost from the following particulars for a production unit:

Cost of material purchased	30,000
Opening stock of material	6,000
Closing stock of material	4,000
Wages paid	3,000
Rent of hire of a special machine for production	5,000

Question 27

Calculate factory cost from the following particulars:

Material consumed	60,000
Productive wages	20,000
Direct Expenses	5,000
Consumable stores	2,000
Oil grease/Lubricating	500
Salary of a factory manager	6,000
Unproductive wages	1,000
Factory rent	2,000
Repair and Depreciation on Machine	600

Question 28

From the following information calculate the works cost.

Direct material	80,000
Direct Labour	22,000
Direct Expenses	5,000
Factory overheads	12,000
Work-in-progress: Opening stock	13,000
Closing stock	7,000

Question 29

From the following information calculate the total cost of production

Direct material	90,000
Direct Labour	32,000
Direct Expenses	9,000
Factory overheads	25,000
Office and administration overheads	18,000

Question 30

From the following information calculate the total cost.

Direct material	1,60,000
Direct Labour	52,000
Direct Expenses	19,000
Factory overheads	45,000
Office and administration overheads	28,000
Selling and distribution overheads	33,000

Question 31

From the following information, calculate the value of goods sold.

Total Cost of Production	1,45,000
Opening stock of finished goods	22,000
Closing stock of finished goods	6,000
Selling and distribution overheads	25,000
Profit	22,000

Question 32

From the following information, prepare a cost sheet for period ended on 31st March 2006.

Opening stock of raw material	12,500
Purchases of raw material	1,36,000
Closing stock of raw material	8,500
Direct wages	54,000
Direct expenses	12,000
Factory overheads	100% of direct wages
Office and administrative overheads	20% of works cost
Selling and distribution overheads	26,000
Cost of opening stock of finished goods	12,000
Cost of Closing stock of finished goods	15,000
Profit on cost 20%	

Question 33

The following information is given to you from which you are required to prepare Cost Sheet for the period ended on 31St march 2006:

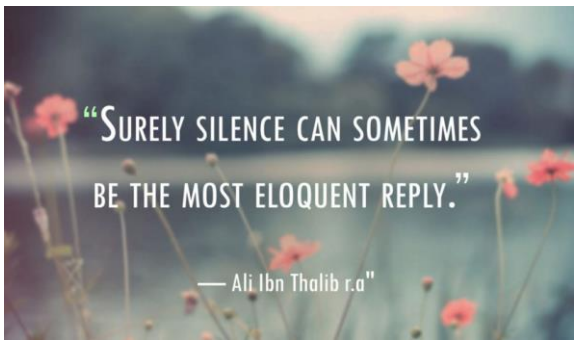
Consumable material:	
Opening stock	20,000
Purchases	1,22,000
Closing stock	10,000
Direct wages	36,000
Direct Expenses	24,000
Factory overheads	50 % of direct wages
Office and administration overheads	20% of works cost
Selling and distribution expenses	Rs.3 per unit sold
Units of finished goods	
In hand at the beginning of the period (Value Rs. 12500)	500
Units produced during the period	12,000
In hand at the end of the period	1,500

Find out the selling price per unit if 20% profit on selling price. There is no work-in-progress either at the beginning or at the end of the period.

Question 34

From the following particulars, prepare a Cost Sheet showing (1) Cost of Materials Consumed (2) Prime Cost (3) Factory Cost (4) Cost of Production and (5) Profit

Opening stock of raw materials	20,000
Opening stock of work in progress	10,000
Opening stock of finished goods	50,000
Raw materials purchased	5,00,000
Direct wages	3,80,000
Sales for the year	12,00,000
Closing stock of raw materials	75,000
Closing stock of work in progress	15,000
Factory overhead	80,000
Direct expenses	50,000
Office and Administrative overhead	60,000
Selling and Distribution expenses	30,000



Question 35

The following information relates to the manufacture of a product during the month of Jan. 2003:

Raw materials consumed	Rs. 20,000
Direct wages	Rs. 12,000
Machine hours worked	1,000 hours
Machine hour rate	Rs. 2 per hour
Office overhead	20% on works cost
Selling overhead	Re. 0.40 per unit
Units produced	20,000 units
Units sold at Rs. 3 each; 18,000 units	

Prepare a Cost Sheet and show (a) Prime Cost (b) Work Cost (c) Cost of Production (d) Cost of Goods Sold (e) Cost of Sales (f) Profit

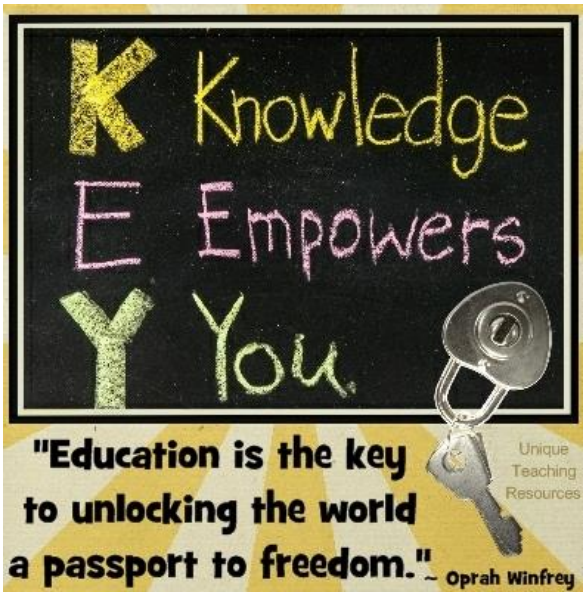
Question 36

The following information relates to the manufacture of a product during the month of Jan. 2003:

Direct raw materials Rs. 1,60,000
Direct wages Rs. 90,000
Machine hours worked 6000
Machine hour rate Rs. 6

Office overhead 15% of work cost
Selling overhead Rs. 2 per unit
Units produced 5000 units
Units Sold 5,000 units @ Rs. 80 each

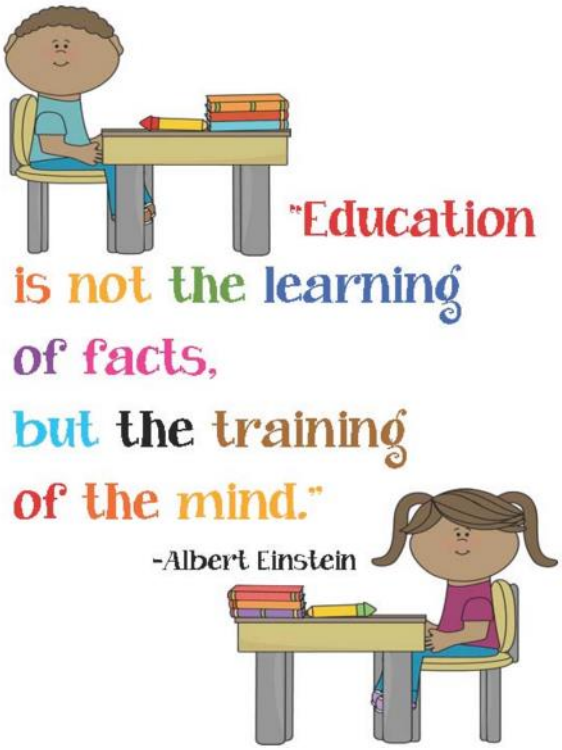
Prepare a cost sheet and show (a) Cost per unit and (b) Profit for the period.



Question 37

From the following particulars calculate (1) Prime Cost (2) Factory Cost (3) Cost of Production and (4) Cost of Sales :

Particulars	*Rs.*	*Particulars*	*Rs.*
Direct Raw Materials	33,000	Depreciation of office building	1,000
Direct Wages	35,000	Depreciation of delivery Van	200
Direct Expenses	3,000	Bad debts	100
Factory Rent and rates	7,500	Advertising	300
Indirect Wages (Factory)	10,500	Salaries of salesmen	1,500
Factory Lighting	2,050	Up keeping of delivery Van	700
Factory Heating	1,500	Bank charges	100
Power (Factory)	4,400	Commission on sales	1,500
Office Stationery	900	Rent and rates (Office)	500
Director's Remuneration (Factory)	2,000	Loose tools written off	600
Director's Remuneration (Office)	4,000	Output (tonnes)	
Factory Cleaning	1,000	(sales @ Rs.40 per unit)	5,000
Sundry Office Expenses	200		
Factory Stationery	750		
Water supply (Factory)	1,300		
Factory Insurance	1,100		
Office Insurance	500		
Legal Expenses (Office)	400		
Rent of Warehouse	300		
Depreciation Plant & Machinery	2,000		



Question 38

From the following particulars calculate: (a) Prime Cost; (b) Works Cost; (c) Cost of Production; (d) Cost of Sales; (e) Profit; and (f) Cost per unit.

Pandey Industries manufacture a product A. On Ist January 2003 finished goods in Stock Rs. 50,000. Other stocks such as :

Work in progress (1.1.2002)	Rs.	40,000
Raw materials (1.1.2002)	Rs.	1,00,000

The information available from cost records for the year ended 31st December, 2002 was as follows :

	Rs.
Direct materials	8,00,000
Direct wages	3,00,000
Carriage inward	40,000
Indirect wages	90,000
Factory cost	2,75,000
Stock on raw materials (31.12.2002)	80,000
Work in progress (31.12.2002)	70,000
Sales (1,20,000 units)	25,00,000
Indirect materials	1,75,000
Office and Administrative overhead	80,000
Selling and Distribution overhead	1,00,000
Stock on finished goods (31.12.2002)	60,000

Question 39

The following particulars have been extracted from the books of Sharma & Co. Ltd., Chennai for the year ended 31st March 2003

Raw Materials Consumed	Rs.	1,82,000
Direct Wages	Rs.	58,000
Other Direct Expenses	Rs.	22,000

Factory Overheads 80% of direct wages
Office Overheads 10% of Work Cost
Selling and distribution expenses Rs. 2 per unit sold

Units produced and sold during the month 20,000. You are required to prepare a cost sheet for the year 2003 and also find the selling price per unit on the basis that profit mark up is uniformly made to yield a profit of 20% of the selling price.

Question 40

Following information has been obtained from the records of left center corporation for the period from June 1 to June 30, 1998.

Cost of raw materials on June 1,1998	30,000
Purchase of raw materials during the month	4,50,000
Wages paid	2,30,000
Factory overheads	92,000
Cost of work in progress on June 1, 1998	12,000
Cost of raw materials on June 30, 1998	15,000
Cost of stock of finished goods on June 1, 1998	60,000
Cost of stock of finished goods on June 30, 1998	55,000
Selling and distribution overheads	20,000
Sales	9,00,000
Administration overheads	30,000

Prepare a statement of cost.