

**ALLAMA IQBAL OPEN UNIVERSITY, ISLAMABAD
(Department of Commerce)**

COST ACCOUNTING (462)

CHECK LIST

SEMESTER: AUTUMN, 2013

This packet comprises of the following material:-

1. Text Book (One)
2. Assignment No. 1 & 2
3. Assignment Forms (Two sets)
4. Schedule for Assignment Submission and Tutorial Meetings

If you find anything missing in this packet, please contact at the address given below:

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WARNING

1. **PLAGIARISM OR HIRING OF GHOST WRITER(S) FOR SOLVING THE ASSIGNMENT(S) WILL DEBAR THE STUDENT FROM AWARD OF DEGREE/CERTIFICATE, IF FOUND AT ANY STAGE.**
2. **SUBMITTING ASSIGNMENTS BORROWED OR STOLEN FROM OTHER(S) AS ONE'S OWN WILL BE PENALIZED AS DEFINED IN "AIOU PLAGIARISM POLICY".**

Instructions:

You are required to solve all questions if you are unable to understand any question of assignment, do seek help from your concerned tutor. But keep in mind that tutors are not supposed to solve the assignment questions for you.

Cost Accounting (462)
Level: B.Com/B.A

Semester: Autumn, 2013
Total Marks: 100

ASSIGNMENT No. 1
(Units 1–4)

- Q.1 a) 'Cost accounting is an aid to management'. Discuss the main points in support of this statement. **(10)**
b) Define the following key terms: (i) Cost Centre (ii) Controllable Costs (iii) Absorption Costing (iv) Semi Variable Cost (v) Marginal Costing. **(10)**
- Q.2 An automobile manufacturer has a usage of 500,000 automobile tyres of a certain size during the next year. The incremental cost of placing an order is Rs. 8. The cost of storing one tyre for one year is Rs. 2. Lead time on an order is five days and the company is going to keep reserve supply of two days usage; usage is assumed to be constant over a 250 workday year.
Required: (i) Calculate the re-order point. (ii) Calculate the EOQ (iii) No of order need per year (iv) Give proof of EOQ as in requirement. **(20)**
- Q.3 a) What are Piece Rates? What advantages and disadvantages are attributed to their use? What principles govern the determination of piece rates? **(10)**
b) From the following data given by the personnel department, calculate the labour turnover rate by applying: (i) Separation method (ii) Replacement method and (iii) Flux method. **(10)**
No. of workers on the payroll:
At the beginning of the month 900
At the end of the month 1,100
During the month 10 workers left, 40 persons were discharged and 150 workers were recruited. Of these, 25 workers are recruited in the vacancies of those leaving, while the rest were engaged for an expansion scheme.
- Q.4 Hassan Co Ltd. has three production departments. M, N and K and two service departments, R and T. The following figures are extracted from the records of the company: **(20)**

Rent and rates	Rs. 8,000	Lighting	Rs. 2600
Indirect wages	2,500	Power	5,500
Dep. Of Machinery	20,000	Miscellaneous expenses	30,000

The Following further details are available:

	Total	Dept. M	Dept. N	Dept. K	Dept. R	Dept. T
Value of machinery (Rs.)	2,50,000	60,000	80,000	1,00,000	5,000	5,000
Direct wages (Rs.)	10,000	3,000	2,000	3,000	1,500	500
Light points	60	10	15	20	10	5
H.P of machines	150	60	30	50	10	---
Floor space (sq, ft)	10,000	2,000	2,500	3,000	2,000	500

Required: Apportion the costs to various departments on the most equitable basis.

Q.5 Khan Fabrics Limited has a fire that completely destroyed the factory premises. Only few accounting records could be saved which revealed following information. **(20)**

Sales	Rs. 650,000	Purchase of direct materials	Rs. 320,000
Direct Labour	Rs. 90,000	Cost of goods available for sale	Rs. 530,000

Balance sheet of the company prepared at the end of previous accounting year contains following inventory balances:

Direct materials inventory	Rs. 50,000
Work in Process	Rs. 60,000
Finished goods inventory	Rs. 65,000

Company's experience over past ten years showed following percentage relationship:

Direct labour equal	20% of total current manufacturing cost
Factory overhead is	33.33% of total conversion cost
Gross Profit is	25% of sales

The loss was covered by a insurance policy. The insurance company wants to know approximate value of inventories for settlement of claim.

You are required to estimate cost of closing inventories of: (i) Materials (ii) Work in Process (iii) Finished goods inventories destroyed by fire.

ASSIGNMENT No. 2

(Units 5–9)

Q.1 Following transactions was completed by Tanvir Corporation which maintains both a Factory Ledger and a General Ledger: **(20)**

- a) Material purchased and received at the factory Rs. 23,500
- b) Requisitions received and materials were supplied from the store:

Direct materials	Rs. 12,300
Manufacturing Supplies	Rs. 4,000
- c) Paid factory payroll for the week as follows:

Direct Labour	Rs. 15,000
Indirect Labour	Rs. 4,800
Superintendence	Rs. 1,500

A factory payroll book is maintained at the factory. At the end of each week the factory payroll is reported to and paid by the general office. Provision for employees social security tax in the amount of Rs. 639 and 10% income tax

is made in general office books. The management also contributes Rs. 639 towards social security tax from their social. The employer's contribution is to be treated as factory overhead.

- d) Direct materials returned to storeroom Rs. 800
- e) A transfer Voucher from general office showed following details
 - Heat, Light and Power Rs. 325
 - Depreciation of machinery Rs. 500
- f) Factory overhead is applied to production at the rate of 150% of direct labour cost.
- g) Work completed during the week of Rs. 30,000.
- h) Goods costing Rs. 30,000 were sold for Rs. 50,000

Required: Pass the Journal entries to record the above transactions in general office book and in the factory office books.

- Q.2 During the month of April the following costs were incurred in department No. 2 of Ahmad Ltd: (20)

Material Costs	Rs. 90,000
Labour Costs	Rs. 42,500
F.O.H Costs	Rs. 51,000

During the month 20,000 units with a total cost of Rs. 380,000 had been transferred into the department from department 1 of these, 15,000 units were completed & transferred to department No. 3 and 4,000 units were in process. On 30th April being $\frac{3}{4}$ completed as to Material, $\frac{1}{2}$ complete as to Labour & F.O.H.

Required: Prepare a cost of production report of deptt. 2 for April.

- Q.3 Define the term budget. How many types of budgets are prepared in manufacturing organization? Illustrate your answer with suitable examples. (20)

- Q.4 a) How the predetermined overhead rate is calculated? Describe the various basis used for calculating the predetermined overhead rate.
- b) The fixed FOH is Rs. 50,000 and Variable FOH is budgeted at Rs. 11/unit. Normal volume is 5000 units. Actual FOH is Rs. 115,000 and Output was 6,000 units. (20)

- Required:**
- i) FOH applied rate
 - ii) Under or over applied factory overhead
 - iii) Spending Variance
 - iv) Idle Capacity Variance

- Q.5 Waqas Company, manufactures a component used in farm machinery. The firm's fixed costs are Rs. 2,000,000 per year. The variable cost of each component is Rs. 1,000 and the components are sold for Rs. 1,500 each. The company sold 7,000 components during the prior year. (20)

Required:

- i. Compute the company's break-even point in units.
- ii. What is the contribution-margin ratio?
- iii. Compute the break-even sales revenue.
- iv. How many units must the company sell to earn a target net profit of Rs. 8,000,000?