CA INTER - **COSTING**

AMENDMENTS
2024

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Applicable For:
SEP 24 EXAMS

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Amendments Additional Concepts

New Concept 1
- ❖ Calculation of Total Material Cost in case of **perishable nature of material**
- ❖ Total Material Cost = Total Purchase Cost + Total Ordering Cost + Total Carrying Cost
- ❖ This Concept Added in Question No.1 of RTP May 2024 Cost & Management Accounting.
- ❖ Click link to watch Video **- https://www.youtube.com/watch?v=GvdLMlHtcDQ**

Question 1
Annual Material Usage Requirement – 2,10,000 Kg
EOQ – 14,000 Kg
Normal Material Usage – 700 Kg per day
Ordering Cost – RS.1200 per order
Carrying Cost p.u.p.a. – 15%
Purchase Price – Rs.30 per kg (Without Discount)
- ❖ Currently Company orders 15,000 kg in single order to get discount of 10% on purchase price.
- ❖ Material is perishable in nature & material gets obsolete if not used within 15 days of receipt of material.

Calculate Saving / loss in purchase of material if purchase order quantity is equal to EOQ

(a) Loss of Rs.8,45,550   (b) Saving of Rs.8,45,550

(c) Loss of Rs.3,01,125   (d) Saving of Rs.3,01,125

Answer – (c) Loss of Rs.3,01,125
Explanation of Answer

Statement showing Total Cost of EOQ & ROQ Level

Purchase Order	Equals to ROQ	Equals to EOQ
Purchase Order (Size) (Q)	15,000 Kg	14,000 Kg
Annual Reqn. (A)	2,10,000 Kg	2,10,000 Kg
Purchase Price	Rs.30 – Rs.30 x 10% = Rs.27 per kg	Rs.30 per Kg
Total Qty to be Purchased	3,00,000 Kg (Note 1)	2,80,000 Kg (Note 2)
Total No. of Orders	20 Orders (Note 1)	20 Orders (Note 2)
Total Purchase Cost (X)	300000 kg X Rs.27 per kg = Rs.81,00,000	280000 kg X Rs.30 per kg = Rs.84,00,000
Total Ordering Cost (Y)	20 Orders X Rs.1200 = Rs.24000	20 Orders X Rs.1200 = Rs.24000
Total Carrying Cost (Z)	Q/2 X Rs.27 per kg x 15% = 15000 KG / 2 X Rs.4.05 = Rs.30,375	Q/2 X Rs.30 per kg x 15% = 14000 KG / 2 X Rs.4.50 = Rs.31500
Total Material Cost (X+Y+Z)	**81,54,375**	**Rs.84,55,500**

Loss in ordering at EQO shall be Rs.3,01,125
Note 1

- ❖ Since material is perishable in nature & material gets obsolete if not used within 15 days of receipt of material. Hence out of ordered material of 15,000 kg, co. shall be able to use 10500 kg (700 kg per day x 15 days). Therefore bal. 4500 kg shall become obsolete.

- ❖ Annual material usage requirement is 2,10,000 kg and company is able to use 10500 kg out of ordered Qty. Hence company has to place 20 orders [210000 kg / 10500 kg] to use 210000 kg

- ❖ Now it is clear that company shall place 20 orders & will purchase 15000 kg in 1 order hence company shall buy 300000 kg in whole year [20 orders x 15000 kg per order].

Note 2 – Goes exactly same way as in Note 1
- ❖ Co. will be able to use only 10500 kg [700 kg x 15 days] out of ordered quantity of 14000 kg hence bal. 3500 kg shall get wasted.

- ❖ Co. will have to place 20 orders [210000 kg / 10500 kg] to use 210000 kg.

- ❖ Co. shall buy 280,000 kg in whole year [20 orders x 14000 kg per order]

New Concept 2
- ❖ Calculation of Maximum Stock Level in case of **Perishable nature of material:** If raw material is perishable in nature then maximum stock level shall be lower of following
    - a) **ROL + ROQ – Min. Usage X Min. Lead Time**
    - b) **Normal Usage X Perishable Period**
- ❖ This Concept Added in Question No.1 of RTP May 2024 Cost & Management Accounting.
- ❖ Click link to watch Video **- https://www.youtube.com/watch?v=GvdLMlHtcDQ**

Question 2
Calculate maximum stock level using Following information:
- a) 10,000 Kg   (b) 9000 Kg
- (c) 12000 Kg   (d) 14400 Kg

Re-Order Level of Material – 2400 KG
Re-Order Quantity of Material – 12000 KG
Minimum Lead Time – 4 Days
Minimum Material Usage – 1100 kg per day
Normal / Average material usage – 1500 kg per order
It is informed that material under consideration is perishable in nature and it becomes useless if not used within 6 days of material receipt.

Answer - (b) 9000 Kg
Max. Stock Level as per formula = ROL + ROQ – Min. Usage x Min. Lead Time
= 2400 Kg + 12000 Kg – 1100 Kg x 4 Days = 10000 Kg

Special Note
- ❖ Material is perishable in nature and becomes useless if not consumed within 6 days hence entity shall not maintain stock for more than 6 days usage
- ❖ Hence max. stock level = Normal Usage x Perishable period = 1500 kg x 6 Days = 9000 Kg

Finally Max. stock level shall be lower of following
   a) 10000 Kg
   b) 9000 Kg

Max. Stock Level shall be 9000 Kg.

Question 3 – Which of the following is not true about the cost control and cost reduction:
   a) Cost control seeks to attain the lowest possible cost under best conditions.
   b) Cost Control emphasises on past and present.
   c) Cost Reduction is a corrective function. It operates even when an efficient cost control system exists.
   d) Cost control ends when targets are achieved.

Answer – (a) Cost control seeks to attain the lowest possible cost under best conditions.

Question 4 – "Condition of Getting overtime if worked for more than 48 hours has been removed"

It is seen from the job card for repair of the customer's equipment that a total of 154 labour hours have been put in as detailed below:

	Worker "A" paid at Rs.200 per day of 8 hours	Worker "B" paid at Rs.100 per day of 8 hours	Worker "C" paid at Rs.300 per day of 8 hours
Monday (Hours)	10.5	8.0	10.5
Tuesday (Hours)	8.0	8.0	8.0
Wednesday (Hours)	10.5	8.0	10.5
Thursday (Hours)	9.5	8.0	9.5
Friday (Hours)	10.5	8.0	10.5
Saturday (Hours)	--	8.0	8.0
Total (Hours)	**49.0**	**48.0**	**57.0**

In terms of an award in a labour conciliation, the workers are to be paid dearness allowance on the basis of cost of living index figures relating to each month which works out @ Rs. 968 for the relevant month. The dearness allowance is payable to all workers irrespective of wages rate if they are present or are on leave with wages on all working days.

Each worker has to work for 8 hours on weekdays. Saturday and Sunday will be weekly holiday, however workers may work on Saturdays due to exigency of work for 4 hours, though full payment of 8 hours will be made with no other payments.

Overtime is paid twice of ordinary wage rate if a worker works for more than nine hours in a day. Excluding holidays, the total number of hours works out to 176 in the relevant month. The company's contribution to provident fund and employees state insurance premium are absorbed into overheads.

Calculate the wages payable to each worker.

SOLUTION TO QUESTION 19 St. showing Equivalent Labour Hours for Worker "A"

Days	Hours Worked	Normal Hours	Extra Hours	Overtime Hours	Equivalent Hours
Monday	10.5	8	1	1.5	12
Tuesday	8.0	8	-	-	8
Wednesday	10.5	8	1	1.5	12
Thursday	9.5	8	1	0.5	10
Friday	10.5	8	1	1.5	12
Saturday	-	-	-	-	-
Total	**49.0**	**40.0**	**4.0**	**5.0**	**54**

St. showing Equivalent Labour Hours for Worker "B"

Days	Hours Worked	Normal Hours	Extra Hours	Overtime Hours	Equivalent Hours
Monday	8	8	-	-	8
Tuesday	8	8	-	-	8
Wednesday	8	8	-	-	8
Thursday	8	8	-	-	8
Friday	8	8	-	-	8
Saturday	8	4	4	-	8
Total	**48.0**	**44.0**	**4.0**	**-**	**48**

Total Overtime based on 9 hours a day = NIL

St. showing Equivalent Labour Hours for Worker "C"

Days	Hours Worked	Normal Hours	Extra Hours	Overtime Hours	Equivalent Hours
Monday	10.5	8	1	1.5	12
Tuesday	8.0	8	-	-	8
Wednesday	10.5	8	1	1.5	12
Thursday	9.5	8	1	0.5	10
Friday	10.5	8	1	1.5	12
Saturday	8	4	4	-	8
Total	**57.0**	**44.0**	**8.0**	**5.0**	**62.0**

Statement showing Wages payable:

	A	B	C
Basic Wages per hour (Rs.)	25.00	12.50	37.50
Dearness allowance per hour (Rs.) $(\frac{Rs.968}{176\ hours}$	5.50	5.50	5.50
Hourly rate (Rs.)	**30.50**	**18.00**	**43.00**
Total normal hours	54.00	48.00	62.00
Total Wages payable (Rs.)	1,647.00	864.00	2,666.00