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COSTING TOP 50 QUESTIONS

QUESTION BOOK



BY CA NITIN GURU

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TOP 50 Questions for CA Inter Costing By CA Nitin Guru

Material Cost

Question 1 -

The India Gate Ltd buys and then sells (as bread) 5.2 million kgs of rice annually. The rice must be purchased in multiples of 2000 kgs. Ordering cost, which includes grain lifting removal charges of ₹7,000 are ₹10,000 per order. Annual carrying costs are 4% of the purchase price per kg of ₹10. The company maintains a safety stock of 4,00,000 kgs. The delivery time is six weeks.

- (a) What is the E.O.Q.?
- (b) At what inventory level should reorder be placed to prevent the drawal on the safety stock?
- (c) What was the total inventory cost?
- (d) The rice processor agrees to pay the lifting and removal charges if India Gate Ltd will purchase rice in quantities of 6,50,000 kgs. Would it be to the India Gate advantage to order under this alternative?

Question 2 -

Ananya Ltd. produces a product 'Exe' using a raw material Dee. To produce one unit of Exe, 2 kg of Dee is required. As per the sales forecast conducted by the company, it will able to sale 10,000 units of Exe in the coming year. The following is the information regarding the raw material Dee:

- (i) The Re-order quantity is 200 kg. less than the Economic Order Quantity (EOQ).
- (ii) Maximum consumption per day is 20 kg. more than the average consumption per day.
- (iii) There is an opening stock of 1,000 kg.
- (iv) Time required to get the raw materials from the supplier is 4 to 8 days.
- (v) The purchase price is ₹125 per kg.

There is an opening stock of 900 units of the finished product Exe. The rate of interest charged by bank on Cash Credit facility is 13.76%. [Take 364 days for a year]

To place an order company has to incur ₹720 on paper and documentation work. From the above information FIND OUT the followings in relation to raw material Dee:

- (a) Reorder Quantity
- (b) Maximum Stock level
- (c) Minimum Stock level
- (d) CALCULATE the impact on the profitability of the company by not ordering the EOQ.

Question 3 -

ZED Company supplies plastic crockery to fast food restaurants in metropolitan city. One of its products is a special bowl, disposable after initial use, for serving soups to its customer Bowls are sold in pack 10 pieces at a price of ₹50 per pack.

The demand for plastic bowl has been forecasted at a fairly steady rate of 40,000 packs every year. The company purchases the bowl direct from manufacturer at ₹40 per pack within a three days lead time. The ordering and related cost is ₹8 per order. The storage cost is 10% per cent per annum of average inventory investment.

Required:

- (i) Calculate Economic Order Quantity.
- (ii) Calculate number of orders needed every year.
- (iii) Calculate the total cost of ordering and storage bowls for the year.
- (iv) Determine when should the next order is to be placed. (Assuming that the company does maintain a safety stock and that the present inventory level is 333 packs with a year of 360 working days.)

Question 4 -

M/s Tyrotubes trades in four wheeler tyres and tubes. It stocks sufficient quantity of tyres of almost every vehicle. In year end 20X8-X9, the report of sales manager revealed that M/s Tyrotubes experienced stock-out of tyres.

The stock-out data is as follows:

Stock-out of Tyres	No. of times
100	2
80	5
50	10

20	20
10	30
0	33

M/s Tyrotubes loses ₹150 per unit due to stock-out and spends ₹50 per unit on carrying of inventory.

Question 5 -

A. T. Ltd. furnishes the following store transaction for September, 2002:

1.9.02 Opening balance	25 Units ₹162.50
4.9.02 Issues Req. No. 85	8 Units
6.9.02 Receipts from B & Co. GRN No. 26	50 Units @ ₹5.75 per unit
7.9.02 Issues Req. No. 97	12 Units
10.9.02 Returns to B & Co.	10 Units
11.9.02 Issues Req. No. 108	15 Units
13.9.02 Issues Req. No. 110	20 units
15.9.02 Receipts from M & Co. GRN No. 33	25 Units @ ₹6.10 per unit
17.9.02 Issues Req. No. 121	10 units
19.9.02 Received replacement-from B & Co. GRN No. 38	10 Units
20.9.02 Returned from department material of M & Co. MRR No. 4	5 Units
22.9.02 Transfer from Job 182 to Job 187 in the Dept. M TR 6	5 Units
26.9.02 Issues Req. No. 146	10 Units
29.9.02 Transfer from Dept. "A" to Dept. 'B' MIR 10	5 Units
30.9.02 Shortage in stock taking	2 units

Write up the priced stores ledger on FIFO Method and discuss how would you treat the shortage in stock

Question 6 -

HBL Limited produces product 'M' which has a quarterly demand of 20,000 units. Each product requires 3 kg. and 4 kg. of material X and Y respectively. Material X is supplied by a local supplier and can be procured at factory stores at any time, hence, no need to keep inventory for material X. The material Y is not locally available, it requires to be purchased from other states in a specially designed truck container with a capacity of 10 tons.

The cost and other information related with the materials are as follows:

particulars	Material -X	Material-Y
Purchase price per kg. (excluding GST)	₹140	₹640
Rate of GST	18%	18%
Freight per trip (fixed, irrespective of quantity)	-	₹28,000
Loss of materials in transit*	-	2%
Loss in process*	4%	5%

*On purchased quantity

Other information:

The company has to pay 15% p.a. to bank for cash credit facility.

Input credit is available on GST paid on materials.

Required:

- CALCULATE cost per kg. of material X and Y
- CALCULATE the Economic Order quantity for both the materials.

Employee Cost & Direct Expenses

Question 7 -

Following are the Particulars of two workers 'R' and 'S' for a month:

Particulars	R	S
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(i) Basic Wages (₹)	15,000	30,000
(ii) Dearness Allowance	50%	50%
(iii) Contribution to EPF (on basic wages)	7%	7.5%
(iv) Contribution to ESI (on basic wages)	2%	2%
(v) Overtime (hours)	20	-

The normal working hours for the month are 200 hrs. Overtime is paid at double the total of normal wages and dearness allowance. Employer's contribution to State Insurance and Provident Fund are at equal rates with employees' contributions.

Both workers were employed on jobs A, B and C in the following proportions :

Jobs	A	B	C
R	75%	10%	15%
S	40%	20%	40%

Overtime was done on job 'A'. You are required to :

- Calculate ordinary wage rate per hour of 'R' and 'S'.
- Allocate the worker's cost to each job 'A', 'B' and 'C'.

Question 8 -

A company's basic wage rate is ₹6 per hour and its overtime rates are:

Evening – Time and one third

Week-ends – Double the time

During the previous year, the following hours were worked:

Normal time 2,20,000 clock hours

Time plus one third 20,000 clock hours

Double time 10,000 clock hours

The following times have been worked:

Particulars	Job
Normal time (hours)	5,000
Evening overtime (hours)	600
Week-end Overtime (hours)	50

Calculate the labour cost chargeable to job in each of the following circumstances:

- Where overtime is worked regularly throughout the year due to labour shortage.
- Where overtime is worked specially at the request of the customer.

Question 9 -

The rate of change of labour force in a company during the year ending 31st March, 2013 was calculated as 13%, 8% and 5% respectively under 'Flux method', 'Replacement method' and 'Separation method'. The number of workers separated during the year is 40. You are required to calculate:

- Average number of workers on roll.
- Number of workers replaced during the year.
- Number of new accessions i.e., new recruitment.
- Number of workers at the beginning of the year.

Question 10 -

The management of Bina and Rina Ltd. are worried about their increasing labour turnover in the factory and before analyzing the causes and taking remedial steps, they want to have an idea of the profit foregone as a result of labour turnover in the last year.

Last year sales amounted to ₹83,03,300 and P/V ratio was 20 per cent. The total number of actual hours worked by the Direct Labour force was 4.45 lakhs. As a result of the delays by the personnel Department in filling vacancies due to labour turnover, 1,00,000 potentially productive hours were lost. The actual direct labour hours included 30,000 hours attributable to training new recruits, out of which half of the hours were unproductive.

The costs incurred consequent on labour turnover revealed, on analysis, the following:

Settlement cost due of leaving	₹43,820
Recruitment costs	₹26,740

Selection costs	₹12,750
Training	₹30,490

Assuming that the potential production lost as a consequence of labour turnover could have been sold at prevailing prices, find the profit foregone last year on account of labour turnover.

Question 11 -

Wage negotiations are going on with the recognised employees' union, and the management wants you as an executive of the company to formulate an incentive scheme with a view to increase productivity. The case of three typical workers A, B and C who produce respectively 180, 120 and 100 units of the company's product in a normal day of 8 hours is taken up for study.

Assuming that day wages would be guaranteed at ₹75 per hour and the piece rate would be based on a standard hourly output of 10 units, CALCULATE the earnings of each of the three workers and the employee cost per 100 pieces under (i) Day wages, (ii) Piece rate, (iii) Halsey scheme, and (iv) The Rowan scheme. Also CALCULATE under the above schemes the average cost of labour for the company to produce 100 pieces.

Question 12 -

The following expenditures were incurred in Aditya Ltd. For the month of March 2023:

	Particulars	(₹)
(i)	Paid for power & fuel	4,80,200
(ii)	Wages paid to factory workers	8,44,000
(iii)	Bill paid to job workers	9,66,000
(iv)	Royalty paid for production	8,400
(v)	Fee paid to technician hired for the job	96,000
(vi)	Administrative overheads	76,000
(vii)	Commission paid to sales staffs	1,26,000

You are required to CALCULATE direct expenses for the month.

Overheads-Absorption Costing**Question 13 - Study Material**

Modern Manufactures Ltd. has three Production Departments P₁, P₂, P₃ and two Service Departments S₁ and S₂ details pertaining to which are as under:

	P ₁	P ₂	P ₃	S ₁	S ₂
Direct wages (₹)	3,000	2,000	3,000	1,500	195
Working hours	3,070	4,475	2,419	-	-
Value of machines (₹)	60,000	80,000	1,00,000	5,000	5,000
H.P. of machines	60	30	50	10	-
Light points	10	15	20	10	5
Floor space (sp. ft.)	2,000	2,500	3,000	2,000	500

The following figures extracted from the Accounting records are relevant:

	(₹)
Rent and Rates	5,000
General Lighting	600
Indirect wages	1,939
Power	1,500
Depreciation on machines	10,000
Sundries	9,695

The expenses of the Service Departments are allocated as under :

	P ₁	P ₂	P ₃	S ₁	S ₂
S ₁	20%	30%	40%	-	10%
S ₂	40%	20%	30%	10%	-

FIND OUT the total cost of product X which is processed for manufacture in Departments P1, P2 and P3 for 4, 5 and 3 hours respectively, given that its Direct Material Cost is ₹50 and Direct Labour Cost is ₹30.

Question 14 -

PH Ltd., is a manufacturing company having three production departments, 'A', 'B' and 'C' and two service departments 'X' and 'Y'. The following is the budget for December 2005:

Particulars	Total (₹)	A (₹)	B (₹)	C (₹)	X (₹)	Y (₹)
Direct material		1,000	2,000	4,000	2,000	1,000
Direct wages		5,000	2,000	8,000	1,000	2,000
Factory rent	4,000					
Power	2,500					
Depreciation	1,000					
Other overheads	9,000					
Additional information:						
Area (Sq.ft.)		500	250	500	250	500
Capital value (₹Lakhs) of assets		20	40	20	10	10
Machine hours		1,000	2,000	4,000	1,000	1,000
Horse power of machines		50	40	20	15	25

A technical assessment of the apportionment of expenses of service departments is as under:

Particulars	A (%)	B (%)	C (%)	X (%)	Y (%)
Service Dept. 'X'	45	15	30	-	10
Service Dept. 'Y'	60	35	-	5	-

Required:

- A statement showing distribution of overheads to various departments.
- A statement showing re-distribution of service departments expenses to production departments.
- Machine hour rates of production departments 'A', 'B' and 'C'.
- A statement showing distribution of overheads to various departments after re-apportioning service departments' overhead by using simultaneous equation method.

Question 15 -

PQR manufactures – a small scale enterprise produces a single product and has adopted a policy to recover the production overheads of the factory by adopting a single blanket rate based on machine hours. The budgeted production overheads of the factory are ₹10,08,000 and budgeted machine hours are 96,000. For a period of first six months of the financial year 2007-2008, following information were extracted from the books:

Actual production overheads	₹6,79,000
Amount included in the production overheads:	
Paid as per court's order	₹45,000
Expenses of previous year booked in current year	₹10,000
Paid to workers for strike period under an award	₹42,000
Obsolete stores written off	₹18,000

Production and sales data of the concern for the first six months are as under:

Production:

Finished goods	22,000 units
Works-in-progress (50% complete in every respect)	16,000 units

Sale:

Finished goods	18,000 units
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The actual machine hours worked during the period were 48,000 hours. It is revealed from the analysis of information that 25% of the under-absorption was due to defective production policies and the balance was attributable to increase in costs.

You are required:

- To determine the amount of under absorption of production overheads for the period,
- To show the accounting treatment of under-absorption of production overheads, and
- To apportion the unabsorbed overheads over the items.

Question 16 -

A machine costing ₹10,000 is expected to run for 10 years. At the end of this period its scrap value is likely to be ₹900. Repair during the whole life of the machine are expected to be ₹18,000 and the machine is expected to run 4,380 hours per year on the average. Its electricity consumption is 15 units per hour, the rate per unit being 5 paise. The machine occupies one-fourth of the area of the department and has two points out of a total of ten for lighting. The foreman has to devote about one sixth of his time to the machine. The monthly rent of the department is ₹300 and lighting charges amount to ₹80 per month. The foreman is paid a monthly salary of ₹960. Find out the machine hour rate, assuming insurance is @ 1% p.a and the expenses on oil, etc., are ₹9 per month.

Question 17 -

The following particulars refer to process used in the treatment of material subsequently, incorporated in a component forming part of an electrical appliance:

- The original cost of the machine used (Purchased in June 2013) was Rs 1,00,000. Its estimated life is 10 years, the estimated scrap value at the end of its life is Rs 10,000, and the estimated working time per year (50 weeks of 44 hours) is 2,200 hours of which machine maintenance etc., is estimated to take up 200 hours. No other loss of working time expected, setting up time, estimated at 100 hours, is regarded as productive time. (Holiday to be ignored).
- Electricity used by the machine during production is 16 units per hour at cost of a 90 paise per unit. No current is taken during maintenance or setting up.
- The machine required a chemical solution which is replaced at the end of week at a cost of Rs 200 each time.
- The estimated cost of maintenance per year is Rs 12,000.
- Two attendants control the operation of machine together with five other identical machines. Their combined weekly wages, insurance and the employer's contribution to holiday pay amount Rs1,200.
- Departmental and general works overhead allocated to this machine for the current year amount to ₹20,000.

You are required to CALCULATE the machine hour rate of operating the machine.

Activity Based Costing**Question 18 -**

MNO Ltd. manufactures two types of equipment A and B and absorbs overheads on the basis of direct labour hour. The budgeted overheads and direct labour hour for the month of March 2019 are ₹ 15,00,000 and 25,000 hour respectively. The information about the company's products is as follows:

Particulars	Equipment	
	A	B
Budgeted production volume	3,200 units	3,850 units
Direct material cost	₹ 350 per unit	₹ 400 per unit
Direct labour cost		
A: 3 hour @ 120 per hour	₹ 360	
B: 4 hour @ 120 per hour		₹ 480

Overheads of ₹ 15,00,000 can be identified with the following three major activities:

- Order processing - ₹ 3,00,000
- Machine processing - ₹ 10,00,000
- Product inspection - ₹ 2,00,000

These activities are driven by the number of order processed, machine hour worked and inspection hour respectively. The data relevant to these activities is as follows:

Particulars	order processed	Machine hour worked	Inspection hour
A	400	22,500	5,000
B	200	27,500	15,000
Total	600	50,000	20,000

Required:

- Prepare a statement showing the manufacturing cost per unit of each product using the absorption costing method assuming the budgeted manufacturing volume is attained.
- Determine cost driver rates and prepare a statement showing the manufacturing cost per unit of each product using activity based costing, assuming the budgeted manufacturing volume is attained.

(iii) MNO Ltd's selling prices are based heavily on cost. By using direct labour hour as an application base, calculate the amount of cost distortion (under costed or over costed) for each equipment.

Question 19 -

SMP Pvt. Ltd. manufactures three products using three different machines. At present the overheads are charged to products using labour hour. The following statement for the month of September 2019, using the absorption costing method has been prepared:

Particulars	Product X (using machine A)	Product Y (using machine B)	Product Z (using machine C)
Production units	45,000	52,500	30,000
Material cost per unit (₹)	350	460	410
Wages per unit @ ₹ 80 per hour	240	400	560
Overhead cost per unit (₹)	240	400	560
Total cost per unit (₹)	830	1,260	1,530
Selling price (₹)	1,037.50	1,575	1,912.50

The following additional information is available relating to overhead cost Driver.

Cost driver	Product X	Product Y	Product Z	Total
No. of machine set ups	40	160	400	600
No. of purchase order	400	800	1,200	2,400
No. of customers	1,000	2,200	4,800	8,000

Actual production and budgeted production for the month is same. worker are paid at standard rate. Out of total overhead costs, 30% related to machine set-ups, 30% related to customer order processing and customer complaint management, while the balance proportion related to material ordering.

Required:

- COMPUTE overhead cost per unit using activity based costing method.
- DETERMINE the selling price of each product based on activity-based costing with the same profit mark-up on cost.

Question 20 -

ABC Bank is examining the profitability of its Premier Account, a combined Savings and Cheque account. Depositor receive a 7% annual interest on their average deposit. ABC Bank earns an interest rate spread of 3% (the difference between the rate at which it lends money and rate it pays to depositor) by lending money for home loan purpose at 10%.

The Premier Account allows depositor unlimited use of services such as deposits, withdrawals, cheque facility, and foreign currency drafts. Depositor with Premier Account balances of ₹ 50,000 or more receive unlimited free use of services. Depositor with minimum balance of less than ₹ 50,000 pay ₹ 1,000-a-month service fee for their Premier Account.

ABC Bank recently conducted an activity-based costing study of its services. The use of these services in 2005-06 by three customers is as follows:

Particulars	Activity- Based Cost Per Transaction	Account usage		
		Customer X	Customer Y	Customer Z
Deposits/withdrawal with teller	₹ 125	40	50	5
Deposits/withdrawal with automatic teller machine (ATM)	₹ 40	10	20	16

Deposits/withdrawal on prearranged monthly basis	₹ 25	0	12	60
Bank Cheques written	₹ 400	9	3	2
Foreign Currency drafts	₹ 600	4	1	6
Inquiries about Account balance	₹ 75	10	18	9
Average Premier Account balance for 2005-06		₹ 55,000	₹ 40,000	₹ 12,50,000

Assume Customer X and Z always maintains a balance above ₹ 50,000, whereas Customer Y always has a balance below ₹ 50,000.

Required:

- Compute the 2005-06 profitability of the customers X, Y and Z Premier Account at ABC Bank.
- What evidence is there of cross-subsidisation among the three Premier Accounts? Why might ABC Bank worry about this Cross-subsidisation, if the Premier Account product offering is Profitable as a whole?
- What changes would you recommend for ABC Bank's Premier Account?

Cost Sheet

Question 21 -

A Ltd. Co. has capacity to produce 1,00,000 units of a product every month. Its works cost at varying levels of production is as under:

Level	Works cost per unit (₹.)
10%	400
20%	390
30%	380
40%	370
50%	360
60%	350
70%	340
80%	330
90%	320
100%	310

Its fixed administration expenses amount to ₹.1,50,000 and fixed marketing expenses amount to ₹.2,50,000 per month respectively. The variable distribution cost amounts to ₹.30 per unit.

It can sell 100% of its output at ₹.500 per unit provided it incur the following further expenditure:

- it gives gift items costing ₹.30 per unit of sale;
- it has lucky draws every month giving the First prize of ₹.50,000; 2nd prize of ₹.25,000, 3rd prize of ₹.10,000 and three consolation prizes of ₹.5,000 each to customer buying the product.
- it spends ₹.1,00,000 on refreshments served every month to its customer;
- it sponsor a television programme every week at a cost of ₹.20,00,000 per month.

It can market 30% of its output at ₹.550 per unit without incurring any of the expenses referred to in (a) to (d) above.

PREPARE a cost sheet for the month showing total cost and profit at 30% and 100% capacity level.

Question 22 -

In a manufacturing company factor overheads are charged as fixed percentage basis on direct labour and office overheads are charged on the basis of percentage of factory cost. The following information is available related to the ending 31st March, 2008:

Particulars	Production A	Production B
Direct Materials	₹. 19,000	₹. 15,000
Direct Labour	₹. 15,000	₹. 25,000
Sales	₹. 60,000	₹. 80,000

Profits	25% on cost	25% on sales price
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You are required to find out:

- The percentage of factory overheads on direct labour.
- The percentage of office overheads on factory cost.

Question 23 -

The following information is available to Z Ltd. for the financial year ending 31st March 2016:

Particulars	(₹.)
Direct material	3,45,000
Direct wages	3,90,000
Production overheads (75% variable)	2,40,000
Administration overheads (75% fixed)	1,20,000
Selling and distribution overheads (50% fixed)	1,60,000
Sales – 10,000 units	15,50,000
Opening stock – Nil	
Closing stock – Finished goods – 5,000 units	
No WIP (Opening / closing)	

For the year 2016 - 17, it is estimated that:

- Output will increase by one – third; sales quantity will increase by 50% by incurring additional advertisement expenses of ₹.1,45,200. Assume that opening stock is First sold before using the current year's output.
- Material prices will increase by 5%.
- Wage rate will increase by 5% while overall direct labour efficiency will Decrease by 4%.
- The variable overheads will be at the same unit rates as last year.
- Fixed production overheads will increase by 25%.
- Assume that production and sales units were achieved as per budget last year and will be achieved as per estimate this year also.
- The company will revise its selling price in 2016-17 to ₹.125 per unit. The same selling price will hold for the units sold from the opening stock also.

You are required to prepare a statement showing cost of sales and sales profit giving effect to the above for the financial year 2016-17.

Cost Accounting System

Question 24 -

Acme Manufacturing Co. Ltd. opens the costing records, with the balances as on 1st July, 20X8 as follows:

	(₹)	(₹)
Material Control A/c	1,24,000	
Work-in-Process Control A/c	62,500	
Finished Goods Control A/c	1,24,000	
Production Overhead Control A/c	8,400	
Administrative Overhead Control A/c		12,000
Selling & Distribution Overhead Control A/c	6,250	
Cost Ledger Control A/c		3,13,150
	3,25,150	3,25,150

The following are the transactions for the quarter ended 30th September 20X8:

Particulars	(₹)
Materials purchased	4,80,100
Materials issued to jobs	4,77,400
Materials to works maintenance	41,200
Materials to administration office	3,400
Materials to selling department	7,200
Wages direct	1,49,300
Wages indirect	65,000
Transportation for indirect materials	8,400
Production overheads	2,42,250

Absorbed production overheads	3,59,100
Administration overheads	74,000
Administration allocation to production	52,900
Administration allocation to sales	14,800
Sales overheads	64,200
Sales overheads absorbed	82,000
Finished goods produced	9,58,400
Finished goods sold	9,77,300
Sales	14,43,000

Make up the various accounts as you envisage in the Cost Ledger and PREPARE a Trial Balance as at 30th September, 20X8.

Question 25 - Study Material

The following incomplete accounts are furnished to you for the month ended 31st October, 20X8.

	Stores Ledger Control Account	
1.10.20X8	To Balance	₹ 54,000
	Work in Process Control Account	
1.10.20X8	To Balance	₹ 6,000
	Finished Goods Control Account	
1.10.20X8	To Balance	₹ 75,000
	Factory Overheads Control Account	
Total debits for October, 20X8		₹ 45,000
	Factory Overheads Applied Account	
	Cost of Goods Sold Account	
	Creditors for Purchases Account	
	1.10.20X8 By Balance	₹ 30,000

Additional information:

- (i) The factory overheads are applied by using a budgeted rate based on direct labour hours. The budget for overheads for 20X8 is ₹ 6,75,000 and the budget of direct labour hours is 4,50,000.
- (ii) The balance in the account of creditors for purchases on 31.10.20X8 is ₹ 15,000 and the payments made to creditors in October, 20X8 amount to ₹ 1,05,000.
- (iii) The finished goods inventory as on 31st October, 20X8 is ₹ 66,000.
- (iv) The cost of goods sold during the month was ₹ 1,95,000.
- (v) On 31st October, 20X8 there was only one unfinished job in the factory. The cost records show that ₹ 3,000 (1,200 direct labour hours) of direct labour cost and ₹ 6,000 of direct material cost had been charged.
- (vi) A total of 28,200 direct labour hours were worked in October, 20X8. All factory workers earn same rate.
- (vii) All actual factory overheads incurred in October, 20X8 have been posted.

You are required to FIND:

- a) Materials purchased during October, 20X8.
- b) Cost of goods completed in October, 20X8.
- c) Overheads applied to production in October, 20X8.
- d) Balance of Work-in-process Control A/c on 31st October, 20X8.
- e) Direct materials consumed during October, 20X8.
- f) Balance of Stores Ledger Control Account on 31st October, 20X8.
- g) Over absorbed or under absorbed overheads for October, 20X8.

Reconciliation

Question 26 -

Following are the figures extracted from the Cost Ledger of a manufacturing unit.

Particulars	Amount (₹)
Stores:	
Opening balance	15,000
Purchases	80,000
Transfer from WIP	40,000

Issue to WIP	80,000
Issue to repair and maintenance	10,000
Sold as a special case of cost	5,000
Shortage in the year	3,000
Work-in-Progress:	
Opening inventory	30,000
Direct labour cost charged	30,000
Overhead cost charged	1,20,000
Closing Balance	20,000
Finished Products:	
Entire output is sold at 10% profit on actual cost from work-in-progress	
Other:	
Wages for the period	35,000
Overhead Expenses	1,25,000

Ascertain the profit or loss as per financial accounts and cost accounts and reconcile them

Question 27 -

Ram Co. maintains its accounts on a non-integrated basis. Both Financial Accountant and Cost Accountant have completed their accounts for the year ended 30th June and a Memorandum Account reconciling the two profit figures has been prepared.

The Financial Accountant has prepared the detailed Profit & Loss Account for the year ended 30th June.

Particulars	Amount (₹)	Particulars	Amount (₹)
To Raw Material consumed:		By Trading A/c Cost of Goods Manufactured c/d	4,74,772
Opening Stock 51,296			
Add: Purchases 1,99,334			
Less: Closing Stock (47,382)	2,03,248		
To Direct Wages	80,072		
To Production Overhead	1,90,680		
To Opening WIP 24,496			
Less: Closing WIP (23,724)	772		
Total	4,74,772		4,74,772
To Opening Stock of Finished Goods	63,890	By Sales	6,25,600
To Cost of Goods Manufactured b/fd	4,74,772	By Closing Stock of Finished Goods	65,702
To Gross Profit c/d	1,52,640		
Total	6,91,302	Total	6,91,302
To Debenture Interest	2,000	By Gross Profit b/d	1,52,640
To Discount Allowed	2,964	By Discount Received	1,790
To Distribution Expenses	16,926		
To Sales Expenses	30,562		
To Administrative Expenses	53,058		
To Net Profit c/d	48,920		
Total	1,54,430	Total	1,54,430

The Memorandum Account reconciling the profit shown in Financial and Cost Account for the year is as follows:

Particulars	Amount (₹)	Particulars	Amount (₹)
During as per Cost Accounts	1,00,300	Profit as per Financial Accounts	48,920
Difference in stock Valuation:		Difference in Stock Valuation:	
Opening Stock of Raw Materials	320	Opening Stock of Work in Progress	350

Closing Stock of Finished Goods	682	Opening Stock of Finished Goods	652
Discount Received	1,790	Closing Stock of Raw Material	422
		Closing Stock of Work in Progress	296
		Sales Expenses	30,562
		Distribution Expenses	16,926
		Debt Interest	2,000
		Discount Allowed	2,964
Total	1,03,092	Total	1,03,092

During the year, Production Overhead has been absorbed in the Cost Accounts at 250% of the Direct Wages. It is observed that the Cost Account has lost his working papers and data is not available.

You are required to prepare a detailed statement showing how the profit as shown in the Cost Accounts was arrived was arrived at. Any difference not explainable through the memorandum account should be taken as difference in the "Administrative Expenses" charged in the two sets of accounts.

Question 28 - May 09

A manufacturing Company has disclosed a Net Loss of ₹2,13,000 as per their Cost Accounting Records for the year ended 31st March. However, their Financial Accounting Records disclosed a Net Loss of ₹2,58,000 for the same period. A scrutiny of data of both the sets of books of accounts revealed the following information (In ₹)

Particulars	Amount (₹)
Factory Overheads under absorbed	5,000
Administration Overheads over absorbed	3,000
Depreciation charged in Financial Accounts	70,000
Depreciation Charged in Cost Accounts	80,000
Interest on Investment not included in Cost Accounts	20,000
Income Tax provided in Financial Accounts	65,000
Transfer Fees (Credit in Financial Accounts)	2,000
Preliminary Expenses written off	3,000
Over-valuation of Closing stock of Finished Goods in Cost Accounts	7,000

Required:

- Explain this in Reconciliation Statement
- Draw Memorandum Reconciliation Account.

Process Costing & Operation Costing

Question 29 -

JK Ltd produces a Product AZE, which passes through two processes, viz, Process I and Process II. The output of each process is treated as the Raw Material of the next process to which it is transferred and output of the Process II is transferred to finished stock. The following data related to December:

Particulars	Process I	Process II
25,000 units introduced at a cost of	2,00,000	-
Material Consumed	1,92,000	96,020
Direct Labour	2,24,000	1,28,000
Manufacturing Expenses	1,40,000	60,000
Normal Wastage of Input	10%	10%
Scrap Value of Normal Wastage (per unit)	9.90	8.60
Output in Units	22,000	20,000

Prepare – (a) Process I and Process II A/c, and (b) Abnormal Loss/Gain Account as the case May be, for each process.

Question 30 -

The following data are available in respect of a manufacturing concern for a Particulars period –

- Opening Stock of Work-in-Progress: 800 units at a Total Cost of 4,000.

Variable Overheads ₹. 12,000

Fixed Overheads ₹. 32,000

Sales: A- 100 units@ ₹. 600 per unit; B – 120 units @ ₹. 200 per unit.

I. Apportion joints costs on the basis of:

- (i) Physical Quantity of each product.
- (ii) Contribution Margin method, and

II. Determine Profit or Loss under both the methods.

Question 33 -

ABC Ltd operates a simple chemical process to convert a single material into three separate items, referred to here as X, Y and Z. All three end products are separated simultaneously at a single split-off point. Product X and Y are ready for sale immediately upon split-off without further processing or any other additional costs. Product Z, however, is processed further before being sold. There is no available market price for Z at the split-off point.

The Selling Prices quoted here are expected to remain the same in the coming year. During the year, the Selling Prices of the items and the total quantities sold were –

X – 186 tons sold at ₹ 1,500 per ton, Y – 527 tons sold for ₹ 1,125 per ton, Z – 736 tons sold for ₹ 750 per ton.

The Total Joint Manufacturing Costs for the year were ₹ 6,25,000. An additional ₹ 3,10,000 was spent to finish Product Z.

There were no opening inventories of X, Y and Z. At the end of the year, the following inventories of complete units were on hand – X – 180 tons, Y – 60 tons, Z – 25 tons. There was no opening or Closing Work-in-Progress.

1. Compute the cost of inventories of X, Y and Z for Balance Sheet purposes, and Cost of Goods Sold for Income Statement purposes, using –

- (a) Net Realizable Value (NRV) Method of Joint Cost Allocation.
- (b) Constant Gross Margin Percentage NRV Method of Joint Cost Allocation.

2. Compare the Gross Margin Percentages for X, Y and Z, using the two methods given above.

Question 34 -

A Transport Company has been given a 40 kilometre long route to run 5 buses. The cost of each bus is ₹6,50,000. The buses will make 3 round trips per day carrying on an average 80% passengers of their seating capacity. The seating capacity of each bus is 40 passengers. The buses will run on an average 25 days in a month. The other information for a year are given below:

Garage Rent	₹4,000 per month
Annual repairs and Maintenance	₹22,500 each bus
Salaries of 5 Drivers	₹3,000 each per month
Wages of 5 Conductors	₹1,200 per each month
Manager's Salary	₹7,500 per month
Road Tax, Permit Fee, etc.	₹5,000 for a quarter
Office Expenses	₹2,000 per month
Cost of Diesel per litre	₹33
Kilometres run per litre for each bus	6 kilometres
Annual Depreciation	15% of cost
Annual Insurance	3% of cost

Calculate the Bus Fare to be charged from each passenger per kilometre, if the Company wants to earn a profit of 33.33% on Takings (Total Receipts from passengers).

Question 35 -

Mr. X owns a bus which runs according to the following schedule –

Route	Distance one-way	No. of days run each month	Seating Occupancy
Delhi to Chandigarh and back, the same day	250 kms	8	90%
Delhi to Agra and back, the same day	210 kms	10	85%
Delhi to Jaipur and back, the same day	270 kms	6	100%

OTHER DETAILS

Cost of the Bus	₹12,00,000	Diesel Consumption – 4 kms. per litre at	₹56 per Litre.
Salary of the Driver	₹24,000 p.m.	Lubricant Oil (other than Diesel and Oil)	₹10 per 100 kms.
Salary of the Conductor	₹21,000 p.m.	Permit Fee	₹315 p.m.
Salary of the part-time Accountant	₹5,000 p.m.	repairs and Maintenance	₹1,000 p.m.
Insurance of the Bus	₹4,800 p.a.	Depreciation of the Bus	@ 20% p.a.
Road Tax	₹15,915 p.a.	Seating capacity of the Bus	50 passengers

Passenger Tax is 20% of the Total Takings. Calculate the Bus Fare to be charged from each passenger to earn a profit of 30% on Total Takings. The fares are to be indicated per passenger for the journeys – (1) Delhi to Chandigarh, (2) Delhi to Agra, and (3) Delhi to Jaipur.

Question 36 -

Always Best-Carrier (ABC) Airways owns a single jet aircraft and operates between Bangalore and New Delhi. Flights leave Bangalore on Mondays and Thursdays and depart from New Delhi on Wednesdays and Saturday. ABC cannot afford any more flights between Bangalore and New Delhi. An analyst has collected the following information:

Seating Capacity per Plane	360
Average passengers per flight	100
Flights per week	4
Flights per year	208
Average one-way fare	₹10,000
Variable Fuel Costs	₹1,40,000 per flight
Food Service to passengers (not charged to passengers)	₹400 per passenger
Commission paid by ABC to Travel Agents – All booking through agents only	8% of fare
Fixed Expenses to each flight –	
Annual Lease Costs	₹5,30,000 per flight
Ground Services, i.e. Maintenance, Check-in, Baggage Handling, etc.	₹70,000 per flight
Salaries of Flight Crew	₹40,000 per flight

For the sake of simplicity, assume that fuel costs are unaffected by the actual number of passengers on a flight.

Required:

- What is the Operating Income that ABC makes on each one-way flight between Bangalore and New Delhi?
- ABC's Market Research Department indicates that lowering the average one-way fare to ₹9,600 will increase the average number of passengers per flight to 106. Should ABC lower its fare?
- Travel India, a Tour Operator, approaches ABC to charter its jet aircraft twice each month, first to take Travel India International tourists from Bangalore to New Delhi and then bring them back from New Delhi to Bangalore. If ABC accepts the offer, it can only 184 (208 minus 24) of its own flights each year. The terms of the charter are –
 - For each one-way flight Travel India will Pay ABC ₹7,50,000 to charter the plane and to use its flight crew and ground service staff.
 - Travel India will pay for fuel costs.
 - Travel India will pay all food costs.
 On purely financial considerations, should ABC accept the offer from Travel India?

Question 37 -

ABC Health care runs an Intensive Medical Care Unit. For this purpose, it has hired a building at a rent of ₹ 50,000 per month with the agreement to bear the repairs and maintenance charges also.

The unit consists of 100 beds and 5 more beds can comfortably be accommodated when the situation demands. Though the unit is open for patients all the 365 days in a year, scrutiny of accounts for the year 2020 reveals that only for 120 days in the year, the unit had the full capacity of 100 patients per day and for another 80 days, it had, on an average only 40 beds occupied per day. But, there were occasions when the beds were full, extra beds were hired at a charge of ₹ 50 per bed per day. This did not come to more than 5 beds above the normal capacity on any one day. The total hire charges for the extra beds incurred for the whole year amounted to ₹ 20,000.

The unit engaged expert doctors from outside to attend on the patients and the fees were paid on the basis of the number of patients attended and time spent by them which on an average worked out to ₹ 30,000 per month in the year 2020.

The permanent staff expenses and other expenses of the unit were as follows:

	₹
2 Supervisors each at a per month salary of	5,000
4 Nurses each at a per month salary of	3,000
2 Ward boys each at a per month salary of	1,500
Other Expenses for the year were as under:	
repairs and Maintenance	28,000
Food supplied to patients	4,40,000
Caretaker and Other services for patients	1,25,000
Laundry charges for bed linen	1,40,000
Medicines supplied	2,80,000
Cost of Oxygen etc. other than directly borne for treatment of patients	75,000
General Administration Charges allocated to the unit	71,000

Required:

- What is the profit per patient day made by the unit in the year 2020, if the unit recovered an overall amount of ₹ 200 per day on an average from each patient.
- The unit wants to work on a budget for the year 2021, but the number of patients requiring medical care is a very uncertain factor. Assuming that same revenue and expenses prevail in the year 2021 in the first instance, work out the number of patient days required by the unit to break even.

Question 38 -

EPS is a Public School having 25 buses each plying in different directions for the transport of its school students. In view of large number of students availing of the bus service, the buses work two shifts daily both in the morning and in the afternoon. The buses are garaged in the school. The workload of the students has been so arranged that in the morning, the first trip picks up senior students and the second trip plying an hour later picks up junior students. Similarly, in the afternoon, the first trip takes the junior students and an hour later the second trip takes the senior students home.

The distance travelled by each bus, one way is 16 km. The school works 24 days in a month and remains closed for vacation in May and June. The bus fee, however, is payable by the students for all the 12 months in a year.

The details of expenses for the year are as under –

Driver's Salary payable for all the 12 months	₹5,000 per month per Driver
Cleaner's Salary payable for all the 12 months (One Cleaner employed for every 5 buses)	₹3,000 per month per Cleaner
Licence Fees, Taxes, etc.	₹2,300 per bus per annum
Insurance Premium	₹15,600 per bus per annum
repairs and Maintenance	₹16,400 per bus per annum
Purchase Price of the Bus	₹16,50,000 each
Life of the Bus	16 years
Scrap Value	₹1,50,000
Diesel Cost	₹18.50 per litre

Each bus gives an average of 10 km per litre of diesel. The seating capacity of each bus is 60 students. The seating capacity is fully occupied during the whole year.

The school follows differential bus fees based on distance travelled as under –

Students picked up and dropped within the range of Distance from the School	Bus Fee	Percentage of Students availing this facility
4 Km	25% of full	15%
8 Km	50% of full	30%
16 Km	Full	55%

Ignore interest. Since the bus fees has to be based on Average Cost, you are required to –

1. Prepare a statement showing the expenses of operating a single bus and the fleet of 25 buses for a year.
2. Work out Average Cost per student per month in respect of –
 - (a) Students coming from a distance of upto 4 km from the school;
 - (b) Students coming from a distance of upto 8 km from the school; and
 - (c) Students coming from a distance of upto 16 km from the school.

Question 39 -

Sanziet Lifecare Ltd. operates in life insurance business. Last year it launched a new term insurance policy for practicing professionals 'Professionals Protection Plus'. The company has incurred the following expenditures during the last year for the policy:

	₹
Policy development cost	11,25,000
Cost of marketing of the policy	45,20,000
Sales support expenses	11,45,000
Policy issuance cost	10,05,900
Policy servicing cost	35,20,700
Claims management cost	1,25,600
IT cost	74,32,000
Postage and logistics	10,25,000
Facilities cost	15,24,000
Employees cost	5,60,000
Office administration cost	16,20,000

Number of policy sold- 528

Total insured value of policies- ₹ 1,320 crore

Required:

- (i) CALCULATE total cost for Professionals Protection Plus' policy segregating the costs into four main activities namely (a) Marketing and Sales support, (b) Operations, (c) IT and (d) Support functions.
- (ii) CALCULATE cost per policy.
- (iii) CALCULATE cost per rupee of insured value.

Standard Costing**Question 40 -**

Eskey Ltd. produces an article by blending two basic raw materials. The following standards have been set up for raw materials:

Material	Standard Mix	Standard Price per kg.
A	40%	₹4.00
B	60%	₹3.00

The standard loss in processing is 15%. During September, 1990, the company produced 1,700 kg. of finished output.

The position of stock and purchases for the month of September, 1990 is as under:

Material	Stock on 1.9.90	Stock on 30.9.90	Purchased during September, 90	
	Kg.	Kg.	Kg.	Cost (₹)
A	35	5	800	3,400
B	40	50	1,200	3,000

Calculate the following variances:

- (a) Material price variance
- (b) Material usage variance
- (c) Material yield variance
- (d) Material mix variance
- (e) Total material cost variance.

Assume first in first out method for the issue of material. The opening stock is to be valued at standard price.

Question 41 -

The standard output of Product 'EXE' is 25 units per hour in manufacturing department of a company employing 100 workers The standard wage rate per labour hour is ₹6.

In a 42 hour week, the department produced 1,040 units of 'EXE' despite 5% of the time paid was lost due to an abnormal reason. The hourly wage rate actually paid were ₹6.20, ₹6 and ₹5.70 respectively to 10, 30 and 60 of the workers Compute labour cost, rate, efficiency & idle time variances.

Question 42 -

S. LTD. has furnished you the following data:

Particulars	Budget	Actual
Number of working days	25	27
Production in units	20,000	22,000
Fixed overheads	₹30,000	₹31,000

Budgeted fixed overhead rate is ₹1 per hour. During the year, the actual hours worked were 31,500. Calculate the following variances:

1. Fixed Overhead Cost Variance
2. Fixed Overhead Expenditure Variance
3. Fixed Overhead Volume Variance
4. Fixed Overhead Efficiency Variance
5. Fixed Overhead Capacity Variance
6. Fixed Overhead Calendar Variance
7. Fixed Overhead Revised Capacity Variance.

Question 43 -

In a manufacturing company the standard units of production for the year were fixed at 1,20,000 units and overhead expenditures were estimated to be as follows:

Particulars	Amount (₹)
Fixed	12,00,000
Semi-variable (60% expenses are of fixed nature and 40% are of variable nature)	1,80,000
Variable	6,00,000

Actual production during the month of April, 2021 was 8,000 units. Each month has 20 working days. During the month there was one public holiday. The actual overheads were as follows:

Particulars	Amount (₹)
Fixed	1,10,000
Semi-variable (60% expenses are of fixed nature and 40% are of variable nature)	19,200
Variable	48,000

You are required to calculate the following variances for the month of April 2021:

- (i) Overhead Cost Variance
- (ii) Fixed Overhead Cost Variance
- (iii) Variable overhead Cost Variance
- (iv) Fixed Overhead Volume Variance
- (v) Fixed Overhead Expenditure Variance
- (vi) Calendar Variance.

Marginal Costing**Question 44 -**

M.K. Ltd. manufactures and sells a single product X whose selling price is ₹ 40 per unit and the variable cost is ₹ 16 per unit.

- (i) If the Fixed Costs for this year are ₹ 4,80,000 and the annual sales are at 60% margin of safety, CALCULATE the rate of net return on sales, assuming an income tax level of 40%
- (ii) For the next year, it is proposed to add another product line Y whose selling price would be ₹ 50 per unit and the variable cost ₹ 10 per unit. The total fixed costs are estimated at ₹ 6,66,600. The sales mix of X : Y would be 7 : 3. DETERMINE at what level of sales next year, would M.K. Ltd. break even? Give separately for both X and Y the break-even sales in rupee and quantities.

Question 45 -

Moon Ltd. produces products 'X', 'Y' and 'Z' and has decided to analyse its production mix in respect of these three products - 'X', 'Y' and 'Z'.

You have the following information :

	X	Y	Z
Direct Materials ₹ (per unit)	160	120	80
Variable Overheads ₹ (per unit)	8	20	12

Direct labour :

Departments:	Rate per Hour (₹)	Hours per unit	Hours per unit	Hours per unit
		X	Y	Z
Department-A	4	6	10	5
Department-B	8	6	15	11

From the current budget, further details are as below :

	X	Y	Z
Annual Production at present (in units)	10,000	12,000	20,000
Estimated Selling Price per unit (₹)	312	400	240
Sales departments estimate of possible sales in the coming year (in units)	12,000	16,000	24,000

There is a constraint on supply of labour in Department-A and its manpower cannot be increased beyond its present level.

Required:

- Identify the best possible product mix of Moon Ltd.
- Calculate the total contribution from the best possible product mix.

Question 46 -

Two manufacturing companies A and B are planning to merge. The details are as follows:

	A	B
Capacity utilisation (%)	90	60
Sales (₹)	63,00,000	48,00,000
Variable Cost (₹)	39,60,000	22,50,000
Fixed Cost (₹)	13,00,000	15,00,000

Assuming that the proposal is implemented, calculate:

- Break-Even sales of the merged plant and the capacity utilization at that stage.
- Profitability of the merged plant at 80% capacity utilization.
- Sales Turnover of the merged plant to earn a profit of ₹ 60,00,000.
- When the merged plant is working at a capacity to earn a profit of ₹ 60,00,000, what percentage of increase in selling price is required to sustain an increase of 5% in fixed overheads.

Question 47 -

The following figures are related to LM Limited for the year ending 31st March, 2012: Sales – 24,000 units @ ₹ 200 per unit; P/V Ratio 25% and Break-even Point 50% of sales.

You are required to calculate:

- Fixed cost for the year
- Profit earned for the year
- Units to be sold to earn a target net profit of ₹11, 00,000 for a year.
- Number of units to be sold to earn a net income of 25% on cost.
- Selling price per unit if Break-even Point is to be brought down by 4,000 units.

Budget and Budgetary Control

Question 48 -

X Ltd produces and markets three products – Chairs , Table and Benches. The Company is interested in presenting its budget for the next quarter ending 31st March. It expects to sell 4,200 chairs , 800 tables and 500 benches during the said period at the Selling Price of ₹ 50, ₹ 85 and ₹ 158 per unit respectively. The following information is made available for this purpose:

(a) Material and Labour Requirements:

Particulars	Rate	Chairs	Tables	Benches
Timber per unit (in cu. ft)	₹ 50 per cu. ft	0.5	1.2	2.5
Upholstery per unit (in sq. yds)	₹ 20 per sq. yd	0.25	-	-
Carpenter's time (in minutes per unit)	₹ 6 per hour	45	60	75
Fixer and Finisher's time (in minutes per unit)	₹ 4.80 per hour	15	15	30

Fixing and finishing Materials costs 5% of the cost of timber and upholstery.

(b) Inventory Levels planned:

Particulars	Timber (cu. ft)	Upholstery (sq yds)	Chairs (nos.)	Tables (nos.)	Benches (nos.)
Opening	600	400	400	100	50
Closing	650	260	200	300	50

(c) Fixed Overheads would be ₹ 8,000 per month.

Required:

1. Prepare a Production Budget showing quantities to be manufactured.
2. Prepare a Raw Materials Consumption Budget in quantities as well as in rupees.
3. Draw a Direct Wage Cost Budget.
4. Present a statement showing Variable Cost of manufacture per unit of all three products.
5. Find out the Budgeted Net Income for the quarter.

Question 49 -

Following data is available for DKG and Co:

Standard working hours - 8 hours per day of 5 days per week

Maximum capacity - 50 employees

Actual working - 40 employees

Actual hours expected to be worked per four week - 6,400 hours

Std. hours expected to be earned per four weeks - 8,000 hours

Actual hours worked in the four- week period - 6,000 hours

Standard hours earned in the four- week period - 7,000 hours

The related period is of 4 weeks. In this period there was a one special day holiday due to national event.

CALCULATE the following ratios:

- (1) Efficiency Ratio, (2) Activity Ratio, (3) Calendar Ratio, (4) Standard Capacity Usage Ratio, (5) Actual Capacity Usage Ratio. (6) Actual Usage of Budgeted Capacity Ratio.

Question 50 -

Goodluck Ltd is currently operating at 75% of its capacity. In the past two years, the levels of operations were 55% and 65% respectively. Presently, the production is 75,000 units. The Company is planning for 85% capacity level during next year. The cost details (amount in ₹) are as follows -

Particulars	55%	65%	75%
Direct Materials	11,00,000	13,00,000	15,00,000
Direct Labour	5,50,000	6,50,000	7,50,000
Factory Overheads	3,10,000	3,30,000	3,50,000
Selling Overheads	3,20,000	3,60,000	4,00,000
Administrative Overheads	1,60,000	1,60,000	1,60,000
Total Costs	24,40,000	28,00,000	31,60,000

Profit is estimated at 20% on Sales. The following increases in costs are expected during the year -

Direct Materials - 8%, Direct Labour - 5%, Variable Factory OH - 5%, Variable Selling OH - 8%, Fixed Factory OH - 10%, Fixed Selling OH - 15%, Administrative OH - 10%.

Prepare Flexible Budget for the next year at 85% level of capacity. Also ascertain the profit and contribution.

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