S. S. Jain Subodh Management Institute

MBA IInd Semester, (Model Paper & Suggested Answers)

Subject: Cost Accounting for Management

Paper Code: M-202

Time: 1 Hour **Max Marks: 10**

**All questions are compulsory

Q1. Explain in brief the different techniques of costing. (4)

Q2. The Bengal Wholesale Co. is dealing with the manufacturing of two products, A and B. Indirect distribution costs to be allocated between the two products are as follows:

Inventory charges (taxes, insurance etc.)	Rs. 7800
Storage costs (warehousing etc.)	Rs. 14000
Packing and shipping costs	Rs. 72000
Salesman salaries	Rs. 85000
Order entry and billing	Rs. 45000

The following information is available:

	Product A	**Product B**
Selling Price per unit Rs.	50	100
Cost per unit Rs.	30	60
Annual Sales (units)	10000	8000
Average Inventory (units)	1000	800
Number of one time invoices	2500	2000

One unit of product A requires a storage space twice as much as product B. The cost to pack and ship one unit is the same for both.

Salesmen are paid salary plus 5% commission on sales and equal amount of efforts are put forth on the sales of each of the products.

Set up a schedule showing how you would apportion the indirect distribution overhead between products. (6)

Model Answer Sheet:

Q1. [The following are the different techniques of Costing. The students are required to mention the techniques and explain all of them briefly. Half mark is allocated for each point and half mark extra for presentation.]

Following are the main techniques of costing for ascertaining costs:

1. Uniform Costing:
It is the use of same costing principles and/or practices by several undertakings for common control or comparison of costs.

2. Marginal Costing:
It is the ascertainment of marginal cost by differentiating between fixed and variable cost. It is used to ascertain the effect of changes in volume or type of output on profit.

3. Standard Costing:
A comparison is made of the actual cost with a pre-arranged standard cost and the cost of any deviation (called variances) is analyzed by causes. This permits management to investigate the reasons for these variances and to take suitable corrective action.

4. Historical Costing:
It is ascertainment of costs after they have been incurred. It aims at ascertaining costs actually incurred on work done in the past. It has a limited utility, though comparisons of costs over different periods may yield good results.

5. Direct Costing:
It is the practice of charging all direct costs, variable and some fixed costs relating to operations, processes or products leaving all other costs to be written off against profits in which they arise.

6. Absorption Costing:
It is the practice of charging all costs, both variable and fixed to operations, processes or products. This differs from marginal costing where fixed costs are excluded.

7. Life Cycle Costing:

Life cycle costing is a system that tracks and accumulates the actual costs and revenues attributable to cost object from its invention to its abandonment. Life cycle costing involves tracing cost and revenues on a product by product base over several calendar periods.

Q2. [Below is the solution for apportioning the costs. One marks each for the apportionment of each item and its calculations.]

Items	**Basis of Apportionment**	**Total (in Rs.)**	**Product A (in Rs.)**	**Product B (in Rs.)**
Inventory Charges	Average Inventory Value (1000X30) : (60X 800) {30 :48}	7800	3000	4800
Storage Cost	Average Inventory and storage space (1000:400)	14000	10000	4000
Packing and Shipping Cost	Annual Sales (units) 10:8	72000	40000	32000
Salesmen's salaries	Equal Proportion	85000	42500	42500
Commission	Annual Sales Value A 5% on 500000 B 5% on 800000	65000	25000	40000
Ordering entry and billing (25:20)	No. of invoices	45000	25000	20000
Total			145500	143300