

COST ACCOUNTING

Overall Feedback

The overall performance of the candidates was not satisfactory. The major shortcomings were careless reading of questions, incomplete and selective studies and incompletely attempted questions.

Question-wise Comments

Q.1 This was an easy question and consisted of three parts. The main points noted in the students' performance are as under:

- In the revised projected profit and loss account for 2008, many students ignored the fact that material prices and cost of production overheads will increase by 10%. They applied a straight 20% increase over the revised projections of 2007.
- Break-even sales and margin of safety were computed correctly barring few exceptions.
- A number of examinees did not prepare the profit volume chart.
- Many examinees prepared profit volume charts for the two years in two different diagrams. They could have saved a lot of time by showing both the years in a single graph.

Q.2 (a) This was also a very easy question but surprisingly it was very poorly attempted probably because the students had left out this topic due to selective study. The steps needed to solve the question were as follows:

- Eliminate the effect of inflation in 2007 by dividing the total costs by 1.15.
- Finding the difference between the real costs of 2007 (arrived at by carrying out the above step) and actual costs of 2006 and dividing it by the increase in units produced, to arrive at real variable cost per unit.
- Computing Real Fixed Costs by subtracting total variable costs for either of the years from the total cost (after elimination of inflation effect in case of 2007).

(b) Very few students could explain the term cost unit correctly. Many were unable to describe the term cost centre also. Surprisingly many candidates failed even to give the examples of cost centers like departments, processes, personnel, locations, machines etc.

Q.3 This topic is repeated quiet often and therefore the performance of candidates in this question was satisfactory and most of them got high marks. However, following common mistakes were observed in some of the scripts:

- (a) No adjustment was made in direct wages on account of incorrect classification. Some students debited the amount which was incorrectly classified, to the process account under the head "indirect wages". Indirect wages do not form part of process accounts where applied factory overhead is being used.

- (b) Other direct material and direct expenses were not charged to the process accounts.
- (c) Scrap value of losses was wrongly computed e.g. per unit transfer cost should be computed after the adjustments of normal loss amount which was not done.
- (d) Many candidates initially prepared the whole working in statement form and then transferred these values to the ledger accounts. As a result, a lot of their precious time was wasted.

Q.4 This was a very simple question but response of the examinees was not satisfactory. Most of them got confused, probably because the concept was tested in a different way. The following types of errors were commonly seen:

- The total actual direct labour hours i.e. 510,000 hours included 10,000 unproductive hours (25% of 40,000 hours attributable to training new recruits). Therefore while calculating contribution per direct labour hour, the total direct labour hours should have been taken as 500,000. Most examinees ignored this aspect of the question.
- Recruitment and selection costs were not included in the amount of profit foregone.

Q.5 The first part of this question was well attempted by most of the examinees. However majority of them failed to reconcile the actual material costs with the standard costs.

Q.6 This proved to be the most difficult question for the students. Majority of them were unable to pass the journal entries other than the journal entries relating to material, labour and factory overhead. Generally the students were unable to work out the cost of spoiled units and cost of bringing defective units to saleable condition. The common mistakes observed in computing the cost of spoiled units were as follows:

- It was clearly mentioned in the question that spoiled units were considered abnormal. So the calculation of cost per unit should have been based on 20,750 units. Most examinees took total production as 20,000 units.
- Many students correctly included direct labour of Rs. 100,000 in the cost of spoiled units but ignored the Factory Overhead applicable thereon.
- In view of the above, the cost of spoiled units was also worked out incorrectly.
- Very few examinees could pass the correct entry to record the expenses incurred in bringing spoiled goods to saleable condition.

- Q.7 This question required computing of incremental profit or loss if a company opts to manufacture handbags and crown scarves in addition to the dress which it normally produces. Very few candidates were able to solve this question correctly till the end. Many students got overwhelmed by the size of the information and could not apply even the basic knowledge which they had displayed while solving other questions in the paper. Among those who did perform better, the following common mistakes were observed:
- (a) Most of them restricted the sales of handbags and scarves to 30% of the current sale of dresses.
 - (b) Difference of revenue related to leftover pieces should have been computed by considering the new sales mix. Most of the candidates applied a single rate on all dresses.
 - (c) In computing the incremental cost of metal hooks, many candidates applied:
 - the rate to dresses or scarves instead of handbags; and
 - the current market or historical purchase rate instead of net realizable value of these hooks.
- Q.8 This was an easy question and was very well attempted by most of the examinees. Only those who were totally ignorant of the basic rules made mistakes. Some problem was also witnessed in the arrangement and presentation of data.

(THE END)