

<b>Q.</b>	<b>Concept</b>	<b>Pg</b>
<b>25</b>	<b>Absorbed Overheads vs ABC</b>	<b>55-57</b>
<b>26</b>	<b>Gross Margin Calculation using ABC</b>	<b>58-62</b>

**QUESTION 25 (Similar to Past Paper May 19)**

ABC Ltd. Manufactures two types of machinery equipment Y and Z and applies/absorbs overheads on the basis of direct-labour hours. The budgeted overheads and direct-labour hours for the month of December, 2021 are Rs.12,42,500 and 20,000 hours respectively. The information about Company's products is as follows:

Particulars	Equipment Y	Equipment Z
Budgeted Production volume	2,500 units	3,125 units
Direct Material Cost	Rs. 300 per unit	Rs. 450 per unit
Direct Labour Cost		
Y: 3 hours @ Rs.150 per hour	Rs. 450	- - -
X: 4 hours @ Rs. 150 per hour	- - -	Rs.600

ABC Ltd.'s overheads of Rs.12,42,500 can be identified with three major activities: Order Processing (Rs.2,10,000), machine processing (Rs.8,75,000), and product inspection (Rs.1,57,500). These activities are driven by number of orders processed, machine hours worked, and inspection hours, respectively. The data relevant to these activities is as follows:

	Orders processed	Machine hours worked	Inspection hours
Y	350	23,000	4,000
Z	250	27,000	11,000
Total	600	50,000	15,000

**Required:**

- (i) Assuming use of direct-labour hours to absorb/apply overheads to production, COMPUTE the unit manufacturing cost of the equipment Y and Z, if the budgeted manufacturing volume is attained.
- (ii) Assuming use of activity-based costing, COMPUTE the unit manufacturing costs of the equipment Y and Z, if the budgeted manufacturing volume is achieved.
- (iii) ABC Ltd.'s selling prices are based heavily on cost. By using direct-labour hours as an application base, CALCULATE the amount of cost distortion (under-costed or over-costed) for each equipment.

**SOLUTION**

( i ) Overheads application base: Direct labour hours

	Equipment	
	Y (Rs.)	Z (Rs.)
Direct material cost	300	450
Direct labour cost	450	600
Overheads*	186.38	248.50
	936.38	1,298.50

$$\begin{aligned}
 \text{*Pre-determined rate} &= \frac{\text{Budgeted Overheads}}{\text{Budgeted Direct Labour Hours}} \\
 &= \frac{\text{Rs. 12,42,500}}{20,000 \text{ hours}} = \text{Rs. 62.125}
 \end{aligned}$$

(ii) Estimation of Cost-Driver rate

Activity	Overhead Cost	Cost-driver level	Cost driver rate
	(Rs.)		(Rs.)
Order processing	2,10,000	600 Orders processed	350
Machine processing	8,75,000	50,000 Machine hours	17.50
Inspection	1,57,500	15,000 Inspection hours	10.50

	Equipment	
	Y (Rs.)	Z (Rs.)
Direct material cost	300	450
Direct labour cost	450	600
<b>Prime Cost</b>	750	1,050
<b>Overhead Cost</b>		
Order processing 350 : 250 or Rs.350 per order	1,22,500	87,500
Machine processing 23,000 : 27,000 or Rs.17.5 per hour	4,02,500	4,72,500
Inspection 4,000 : 11,000	42,000	1,15,500
<b>Total overhead cost</b>	<b>5,67,000</b>	<b>6,75,500</b>

Per unit cost		
5,67,000 / 2,500	Rs.226.80	Rs. 216.16
6,75,500/ 3,125		
Unit manufacturing cost (Prime Cost + Overhead per unit)	Rs. 976.80	Rs.1,266.16

(iii)	Equipment	Equipment
	Y (Rs. )	Z (Rs. )
Unit manufacturing cost- using direct labour hours as an application base	936.38	1,298.50
Unit manufacturing cost-using activity based costing	976.80	1,266.16
Cost distortion	(-)40.42	+ 32.34

Low volume product Y is under-costed and high volume product Z is over-costed using direct labour hours for overhead absorption.



**QUESTION 26 (Similar to RTP May 18, May 19)**

RST Limited specializes in the distribution of pharmaceutical products. It buys from the pharmaceutical companies and resells to each of the three different markets.

- i. General Supermarket Chains
- ii. Drugstore Chains
- iii. Chemist Shops

The following data for the month of April, 2021 in respect of RST Limited has been reported:

	<i>General Supermarket Chains (Rs. )</i>	<i>Drug store Chains (Rs. )</i>	<i>Chemist Shops (Rs. )</i>
<i>Average revenue per delivery</i>	84,975	28,875	5,445
<i>Average cost of goods sold per delivery</i>	82,500	27,500	4,950
<i>Number of deliveries</i>	330	825	2,750

In the past, RST Limited has used gross margin percentage to evaluate the relative profitability of its distribution channels.

The company plans to use activity -based costing for analysing the profitability of its distribution channels.

The Activity analysis of RST Limited is as under:

<i>Activity Area</i>	<i>Cost Driver</i>
<i>Customer purchase order processing</i>	<i>Purchase orders by customers</i>
<i>Line-item ordering</i>	<i>Line-items per purchase order</i>
<i>Store delivery</i>	<i>Store deliveries</i>
<i>Cartons dispatched to stores</i>	<i>Cartons dispatched to a store per delivery</i>
<i>Shelf-stocking at customer store</i>	<i>Hours of shelf-stocking</i>

The April, 2021 operating costs (other than cost of goods sold) of RST Limited are Rs. 8,27,970. These operating costs are assigned to five activity areas. The cost in each area and the quantity of the cost allocation basis used in that area for April, 2021 are as follows:

<b>Activity Area</b>	<b>Total costs in April, 2021 (Rs.)</b>	<b>Total Units of Cost Allocation Base used in April, 2021</b>
<i>Customer purchase order processing</i>	2,20,000	5,500 orders
<i>Line-item ordering</i>	1,75,560	58,520 line items
<i>Store delivery</i>	1,95,250	3,905 store deliveries
<i>Cartons dispatched to store</i>	2,09,000	2,09,000 cartons
<i>Shelf-stocking at customer store</i>	28,160	1,760 hours

Other data for April, 2021 include the following:

	<b>General Supermarket Chains</b>	<b>Drug store Chains</b>	<b>Chemist Shops</b>
<i>Total number of orders</i>	385	990	4,125
<i>Average number of line items per order</i>	14	12	10
<i>Total number of store deliveries</i>	330	825	2,750
<i>Average number of cartons shipped per store delivery</i>	300	80	16
<i>Average number of hours of shelf-stocking per store delivery</i>	3	0.6	0.1

**Required:**

- (i) COMPUTE for April, 2021 gross-margin percentage for each of its three distribution channels and compute RST Limited's operating income.
- (ii) COMPUTE the April, 2021 rate per unit of the cost-allocation base for each of the five activity areas.
- (iii) COMPUTE the operating income of each distribution channel in April, 2021 using the activity-based costing information. Comment on the results. What new insights are available with the activity-based cost information?
- (iv) DESCRIBE four challenges one would face in assigning the total April, 2021 operating costs of Rs.8,27,970 to five activity areas.

**SOLUTION**

**RST Limited's**

- i. **Statement of operating income and gross margin percentage for each of its three distribution channels**

Particulars	General Super Market Chains	Drugstore Chains	Chemist Shops	Total
Revenues: (Rs.)	2,80,41,750 (330 × Rs.84,975)	2,38,21,875 (825 × Rs. 28,875)	1,49,73,750 (2,750 × Rs. 5,445)	6,68,37,375
Less: Cost of goods sold: (Rs.)	2,72,25,000 (330 × Rs. 82,500)	2,26,87,500 (825 × Rs. 27,500)	1,36,12,500 (2,750 × Rs.4,950)	635,25,000
Gross Margin: (Rs.)	8,16,750	11,34,375	13,61,250	33,12,375
Less: Other operating costs: (Rs.)				8,27,970
Operating income: (Rs.)				24,84,405
Gross Margin	2.91%	4.76%	9.09%	4.96%
Operating income %				3.72

- ii. **Computation of rate per unit of the cost allocation base for each of the five activity areas for April 2021**

	(Rs. )
Customer purchase order processing (Rs. 2,20,000/ 5,500 orders)	40 per order
Line item ordering (Rs. 1,75,560/ 58,520 line items)	3 per line item order
Store delivery (Rs. 1,95,250/ 3,905 store deliveries)	50 per delivery
Cartons dispatched (Rs. 2,09,000/ 2,09,000 dispatches)	1 per dispatch
Shelf-stocking at customer store (Rs. 28,160/ 1,760 hours)	16 Per hour

iii. Operating Income Statement of each distribution channel in April-2021  
(Using the Activity based Costing information)

	General Super Market Chains	Drugstore Chains	Chemist Shops
Gross margin (Rs.) : (A) (Refer to (i) part of the answer)	8,16,750	11,34,375	13,61,250
Operating cost (Rs.): (B)(Refer to working note)	1,62,910	1,90,410	4,74,650
Operating income (Rs.): (A-B)	6,53,840	9,43,965	8,86,600
Operating income (in %) (Operating income/ Revenue) × 100	2.33	3.96	5.92

**Comments and new insights:** The activity-based cost information highlights, how the 'Chemist Shops' uses a larger amount of RST Ltd.'s resources per revenue than do the other two distribution channels. Ratio of operating costs to revenues, across these markets is:

General supermarket chains (Rs.1,62,910/ Rs.2,80,41,750) × 100	0.58%
Drug store chains (Rs.1,90,410/ Rs.2,38,21,875) × 100	0.80%
Chemist shops (Rs.4,74,650/ Rs.1,49,73,750) ×100	3.17%

### Student Notes

**Working note:**

Computation of operating cost of each distribution channel:

	General SuperMarket Chains (Rs.)	Drugstore Chains (Rs.)	Chemist Shops (Rs.)
Customer purchase order processing	15,400 (Rs. 40 × 385 orders)	39,600 (Rs.40 × 990 orders)	1,65,000 (Rs.40 × 4125 orders)
Line item Ordering	16,170 (Rs.3 × 14 × 385)	35,640 (Rs.3 × 12 × 990)	1,23,750 (Rs.3 × 10 × 4125)
Store delivery	16,500 (Rs.50 × 330 deliveries)	41,250 (Rs.50 × 825 deliveries)	1,37,500 (Rs.50 × 2750 deliveries)
Cartons dispatched	99,000 (Re.1 × 300 cartons × 300 deliveries)	66,000 (Re.1 × 80 cartons × 825 deliveries)	44,000 (Re.1 × 16 cartons × 2,750 deliveries)
Shelf stocking	15,840 (Rs.16 × 330 deliveries × 3 Av.hrs.)	7,920 (Rs.16 × 825 deliveries × 0.6 Av. hrs)	4,400 (Rs.16 × 2,750 deliveries × 0.1 Av. hrs)
Operating cost	1,62,910	1,90,410	4,74,650

**iv. Challenges faced in assigning total operating cost of Rs.8,27,970:**

- Choosing an appropriate cost driver for activity area.
- Developing a reliable data base for the chosen cost driver.
- Deciding, how to handle costs that may be common across several activities.
- Choice of the time period to compute cost rates per cost driver.
- Behavioural factors.

<b>Q.</b>	<b>Concept</b>	<b>Pg</b>
<b>27</b>	<b>Basic Format with all Items</b>	<b>63-66</b>
<b>28</b>	<b>Calculation of Individual Functions of Cost Sheet</b>	<b>67-70</b>
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<b>30</b>	<b>Ascertaining Cost of Production &amp; Selling Price</b>	<b>73-74</b>

**QUESTION 27 (Master Sum) (Similar to RTP May 21)**

Arnav Inspat Udyog Ltd. has the following expenditures for the year ended 31st March, 2021:

Sr. No.	Particular	Amount (Rs.)	Amount (Rs.)
(i)	Raw materials purchased		10,00,00,000
(ii)	GST paid on the above purchases @18% (eligible for input tax credit)		1,80,00,000
(iii)	Freight inwards		11,20,600
(iv)	Wages paid to factory workers		29,20,000
(v)	Contribution made towards employees' PF and ESIS		3,60,000
(vi)	Production bonus paid to factory workers		2,90,000
(vii)	Royalty paid for production		1,72,600
(viii)	Amount paid for power and fuel		4,62,000
(ix)	Amount paid for purchase of moulds and patterns (life is equivalent to two years production)		8,96,000
(x)	Job charges paid to job workers		8,12,000
(xi)	Stores and spares consumed		1,12,000
(xii)	Depreciation on :		
	Factory building	84,000	
	Office building	56,000	
	Plant and Machinery	1,26,000	
	Delivery vehicles	86,000	3,52,000
(xiii)	Salary paid to supervisors		1,26,000
(xiv)	Repairs and Maintenance paid for:		
	Plant and Machinery	48,000	
	Sales office buildings	18,000	
	Vehicles used by directors	19,600	85,600
(xv)	Insurance premium paid for:		
	Plant and Machinery	31,200	
	Factory building	18,100	
	Stock of raw materials & WIP	36,000	85,300
(xvi)	Expenses paid for quality control check activities		19,600
(xvii)	Salary paid to quality control staffs		96,200
(xviii)	Research and development cost paid for improvement in production process		18,200

(xix)	Expenses paid for pollution control and engineering & maintenance		26,600
(xx)	Expenses paid for administration of factory work		1,18,600
(xxi)	Salary paid to functional managers:		
	Production control	9,60,000	
	Finance and Accounts	9,18,000	
	Sales and Marketing	10,12,000	28,90,000
(xxii)	Salary paid to General Manager		12,56,000
(xxiii)	Packing cost paid for:		
	Primary packing necessary to maintain quality	96,000	
	For re-distribution of finished goods	1,12,000	2,08,000
(xxiv)	Interest and finance charges paid (for usage of non-equity fund)		7,20,000
(xxv)	Fee paid to auditors		1,80,000
(xxvi)	Fee paid to legal advisors		1,20,000
(xxvii)	Fee paid to independent directors		2,20,000
(xxviii)	Performance bonus paid to sales staffs		1,80,000
(xxix)	Value of stock as on 1st April, 2020:		
	Raw materials	18,00,000	
	Work-in-process	9,20,000	
	Finished goods	11,00,000	38,20,000
(xxx)	Value of stock as on 31st March, 2021:		
	Raw materials	9,60,000	
	Work-in-process	8,70,000	
	Finished goods	18,00,000	36,30,000

Amount realised by selling of scrap and waste generated during manufacturing process - Rs.86,000 /-

From the above data you are required to PREPARE a statement of cost for Arnav Ispat Udyog Ltd. for the year ended 31st March, 2021, showing:

- (i) Prime cost
- (ii) Factory cost
- (iii) Cost of Production
- (iv) Cost of goods sold and
- (v) Cost of sales.



**SOLUTION**

Statement of Cost of Arnav Ispat Udyog Ltd. for the year ended 31st March,2021:

Sr. No.		Amount (Rs.)	Amount (Rs.)
(i)	Material consumed:		
	Raw materials purchased	10,00,00,000	
	Freight inwards	11,20,600	
	Add: Opening stock of raw materials	18,00,000	
	Less: Closing stock of raw materials	(9,60,000)	10,19,60,600
(ii)	Direct employee (labour) cost:		
	Wages paid to factory workers	29,20,000	
	Contribution made towards employees' PF & ESIS	3,60,000	
	Production bonus paid to factory workers	2,90,000	35,70,000
(iii)	Direct expenses:		
	Royalty paid for production	1,72,600	
	Amount paid for power and fuel	4,62,000	
	Amortised cost of moulds and patterns	4,48,000	
	Job charges paid to job workers	8,12,000	18,94,600
	<b>Prime Cost</b>		<b>10,74,25,200</b>
(iv)	Works/ Factory overheads:		
	Stores and spares consumed	1,12,000	
	Depreciation on factory building	84,000	
	Depreciation on plant and machinery	1,26,000	
	Repairs and Maintenance paid for plant & machinery	48,000	
	Insurance premium paid for plant and machinery	31,200	
	Insurance premium paid for factory building	18,100	
	Insurance premium paid for stock of raw materials & WIP	36,000	
	Salary paid to supervisors	1,26,000	
	Expenses paid for pollution control and engineering & maintenance	26,600	6,07,900
	Gross factory cost		<b>10,80,33,100</b>
	Add: Opening value of W-I-P		9,20,000
	Less: Closing value of W-I-P		(8,70,000)
	<b>Factory Cost</b>		<b>10,80,83,100</b>

(v)	Quality control cost: Expenses paid for quality control check activities	19,600	
	Salary paid to quality control staffs	96,200	1,15,800
(vi)	Research and development cost paid for improvement in production process		18,200
(vii)	Administration cost related with production: -Expenses paid for administration of factory work	1,18,600	
	-Salary paid to production control manager	9,60,000	10,78,600
(viii)	Less: Realisable value on sale of scrap and waste		(86,000)
(ix)	Add: Primary packing cost		96,000
	<b>Cost of Production</b>		<b>10,93,05,700</b>
	Add: Opening stock of finished goods		11,00,000
	Less: Closing stock of finished goods		(18,00,000)
	<b>Cost of Goods Sold</b>		<b>10,86,05,700</b>
(x)	Administrative overheads: Depreciation on office building	56,000	
	Repairs and Maintenance paid for vehicles used by directors	19,600	
	Salary paid to manager-Finance & Accounts	9,18,000	
	Salary paid to General Manager	12,56,000	
	Fee paid to auditors	1,80,000	
	Fee paid to legal advisors	1,20,000	
	Fee paid to independent directors	2,20,000	27,69,600
(xi)	Selling overheads: Repairs and Maintenance paid for sales office building	18,000	
	Salary paid to manager- Sales & Marketing	10,12,000	
	Performance bonus paid to sales staffs	1,80,000	12,10,000
(xii)	Distribution overheads: Depreciation on delivery vehicles	86,000	
(xiii)	Packing cost paid for re-distribution of finished goods	1,12,000	1,98,000
(xiv)	Interest and finance charges paid		7,20,000
	<b>Cost of sales</b>		<b>11,35,03,300</b>

**Note: GST paid on purchase of raw materials would not be part of cost of materials as it is eligible for input tax credit.**

**QUESTION 28 (Reverse Cost sheet) (Past Paper Nov'19) (Very IMP Sum)**

XYZ a manufacturing firm, has revealed following information for September ,2021:

	1st September (Rs.)	30th September (Rs.)
Raw Materials	2,42,000	2,92,000
Works-in-progress	2,00,000	5,00,000

The firm incurred following expenses for a targeted production of 1,00,000 units during the month:

	(Rs.)
Consumable Stores and spares of factory	3,50,000
Research and development cost for process improvements	2,50,000
Quality control cost	2,00,000
Packing cost (secondary) per unit of goods sold	2
Lease rent of production asset	2,00,000
Administrative Expenses (General)	2,24,000
Selling and distribution Expenses	4,13,000
Finished goods (opening)	Nil
Finished goods (closing)	5000 units

Defective output which is 4% of targeted production, realizes Rs. 61 per unit. Closing stock is valued at cost of production (excluding administrative expenses) Cost of goods sold, excluding administrative expenses amounts to Rs. 78,26,000.

Direct employees cost is 1/2 of the cost of material consumed.

Selling price of the output is Rs. 110 per unit.

**You are required to :**

- (i) Calculate the Value of material purchased
- (ii) Prepare cost sheet showing the profit earned by the firm.

**SOLUTION**

**Workings:**

**1. Calculation of Sales Quantity:**

Particular	Units
Production units	1,00,000
Less: Defectives (4% × 1,00,000 units)	4,000
Less: Closing stock of finished goods	5,000
No. of units sold	91,000

**2. Calculation of Cost of Production**

Particular	Amount (Rs.)
Cost of Goods sold (given)	78,26,000
Add: Value of Closing finished goods	4,30,000
Rs. $\left( \frac{78,26,000 \times 5,000 \text{ units}}{91,000 \text{ units}} \right)$	
Cost of Production	82,56,000

**3. Calculation of Factory Cost**

Particular	Amount (Rs.)
Cost of Production	82,56,000
Less: Quality Control Cost	(2,00,000)
Less: Research and Development Cost	(2,50,000)
Add: Credit for Recoveries/Scrap/By-Products/ misc. income (1,00,000 units × 4% × Rs. 61)	2,44,000
Factory Cost	80,50,000

**4. Calculation of Gross Factory Cost**

Particular	Amount (Rs.)
Cost of Factory Cost	80,50,000
Less: Opening Work in Process	(2,00,000)
Add: Closing Work in Process	5,00,000
Cost of Gross Factory Cost	83,50,000

**5. Calculation of Prime Cost**

Particular	Amount (Rs.)
Cost of Gross Factory Cost	83,50,000
Less: Consumable stores & spares	(3,50,000)
Less: Lease rental of production assets	(2,00,000)
Prime Cost	78,00,000

**(6) Calculation of Cost of Materials Consumed & Labour cost**

Let Cost of Material Consumed = M and Labour cost = 0.5M

Prime Cost = Cost of Material Consumed + Labour Cost

$$78,00,000 = M + 0.5M$$

$$M = 52,00,000$$

Therefore, Cost of Material Consumed = Rs. 52,00,000 and Labour Cost = Rs.26,00,000

**(I) Calculation of Value of Materials Purchased**

Particular	Amount (Rs.)
Cost of Material Consumed	52,00,000
Add: Value of Closing stock	2,92,000
Less: Value of Opening stock	(2,42,000)
<b>Value of Materials Purchased</b>	<b>52,50,000</b>

**Cost Sheet**

Sr No.	Particulars	Total Cost (Rs.)
1.	Direct materials consumed:	
	Opening Stock of Raw Material	2,42,000
	Add: Additions/ Purchases [balancing figure as per requirement (i)]	52,50,000
	Less: Closing stock of Raw Material	(2,92,000)
	Material Consumed	52,00,000
2.	Direct employee (labour) cost	26,00,000
3.	Prime Cost (1+2)	78,00,000
4.	Add: Works/ Factory Overheads	
	Consumable stores and spares	3,50,000
	Lease rent of production asset	2,00,000
5.	Gross Works Cost (3+4)	83,50,000
6.	Add: Opening Work in Process	2,00,000
7.	Less: Closing Work in Process	(5,00,000)
8.	Works/ Factory Cost (5+6-7)	80,50,000
9.	Add: Quality Control Cost	2,00,000
10.	Add: Research and Development Cost	2,50,000
11.	Less: Credit for Recoveries/Scrap/By-Products/misc. income	(2,44,000)
12.	Cost of Production (8+9+10-11)	82,56,000
13.	Add: Opening stock of finished goods	-
14.	Less: Closing stock of finished goods (5000 Units)	(4,30,000)

15.	Cost of Goods Sold (12+13-14)	78,26,000
16.	Add: Administrative Overheads (General)	2,24,000
17.	Add: Secondary packing (91,000 unit x 2 per unit)	1,82,000
18.	Add: Selling Overheads & Distribution Overheads	4,13,000
19.	Cost of Sales (15+16+17+18)	86,45,000
20.	Profit (Balancing Figure)	13,65,000
21.	Sales 91,000 units @ Rs. 110 per unit	1,00,10,000

**QUESTION 29**

**Preparation of Cost Sheet- Finding out missing figures by reverse working and balancing figures.**

A fire occurred in the factory premises on 31st October of a year. The accounting records have been destroyed. Certain accounting records kept in another building, reveal the following for the period 1st September to 31st October.

1. Direct Material purchased	Rs. 2,50,000	6. Sales Revenues	Rs. 7,50,000
2. Work in Process Inventory on 1 <sup>st</sup> September	Rs. 40,000	7. Direct Labour	Rs. 2,22,250
3. Direct Material Inventory on 1st September	Rs. 20,000	8. Prime Cost	Rs. 3,97,750
4. Finished Goods Inventory on 1 <sup>st</sup> September	Rs. 37,750	9. Cost of goods available for sale	Rs. 555,775
5. Indirect Manufacturing Costs	40% of Conversion Costs	10. Gross of Margin percentage % based on Revenues	30%

The loss is fully covered by insurance. The Insurance company wants to know the historical cost of the inventories as a basis for negotiating a settlement, although the settlement is actually to be based on replacement cost. You are required to compute the following items as on 31st October- (1) Finished Goods Inventory, (2) Work in Process Inventory, and (3) Direct Materials Inventory.

**SOLUTION**

**Cost Sheet for the year ended 31st October**

Particulars	Computation	Rs.
Opening Stock of Raw Materials	(given)	20,000
<b>Add:</b> Purchase & Carriage Inwards	(given)	2,50,000
		2,70,000
<b>Less:</b> Closing Stock of Raw Materials	<b>(Balancing Figure)</b>	<b>(94,500)</b>
Direct Materials Consumed (by reverse working)	Prime Cost less Labour	1,75,500
<b>Add:</b> Direct Labour	(given)	2,22,250
<b>Prime Cost</b>	(given)	3,97,750
<b>Add:</b> Factory Overheads (See Note below)	$(2,22,250 \div 60\%) \times 40\%$	1,48,167
<b>Add:</b> Opening Stock of Work-in-progress	(given)	40,000
		5,85,917
<b>Less:</b> Closing Stock of Work-in-Progress	<b>(Balancing Figure)</b>	<b>(67,892)</b>

<b>Factory Cost</b> (by reverse working) <b>Add:</b> Administration Overheads	Rs. 5,18,025 - Nil (Not given in Question, hence ignore)	5,18,025 Nil
<b>Cost of production</b> (by reverse working) <b>Add:</b> Opening Stock of Finished Goods	Rs. 5,55,775 - Rs. 37,750 (given)	5,18,025 37,750
<b>Cost of goods available for sale</b> <b>Less:</b> Closing Stock of Finished Goods	(given) <b>(Balancing Figure)</b>	5,55,775 (30,775)
<b>Cost of Goods Sold</b> (by reverse working) <b>Add:</b> Selling and distribution Overheads	Rs. 5,25,000 - Nil (Not given in Question, hence ignore)	5,25,000 Nil
<b>Cost of Sales</b> <b>Add:</b> Profit/ (Loss)	Sales less 30% (30% of Sales given)	5,25,000 2,25,000
<b>Sales</b>	(given)	7,50,000

**Note:**

- Cost Sheet format is first written, and the figures available in the question are filled up. The other figures are derived by reverse working and/ or as balancing figures.
- Conversion Cost = direct Labour + Factory OH (i.e. Indirect Manufacturing Costs). Since Factory OH is 40% of Conversion Costs (100%), **Direct Labour = 100% - 40% = 60% of Conversion Costs**
- Since Direct Labour = 60% of Conversion costs = Rs. 2,22,250 (given), Factory OH is calculated at 40% proportionately.