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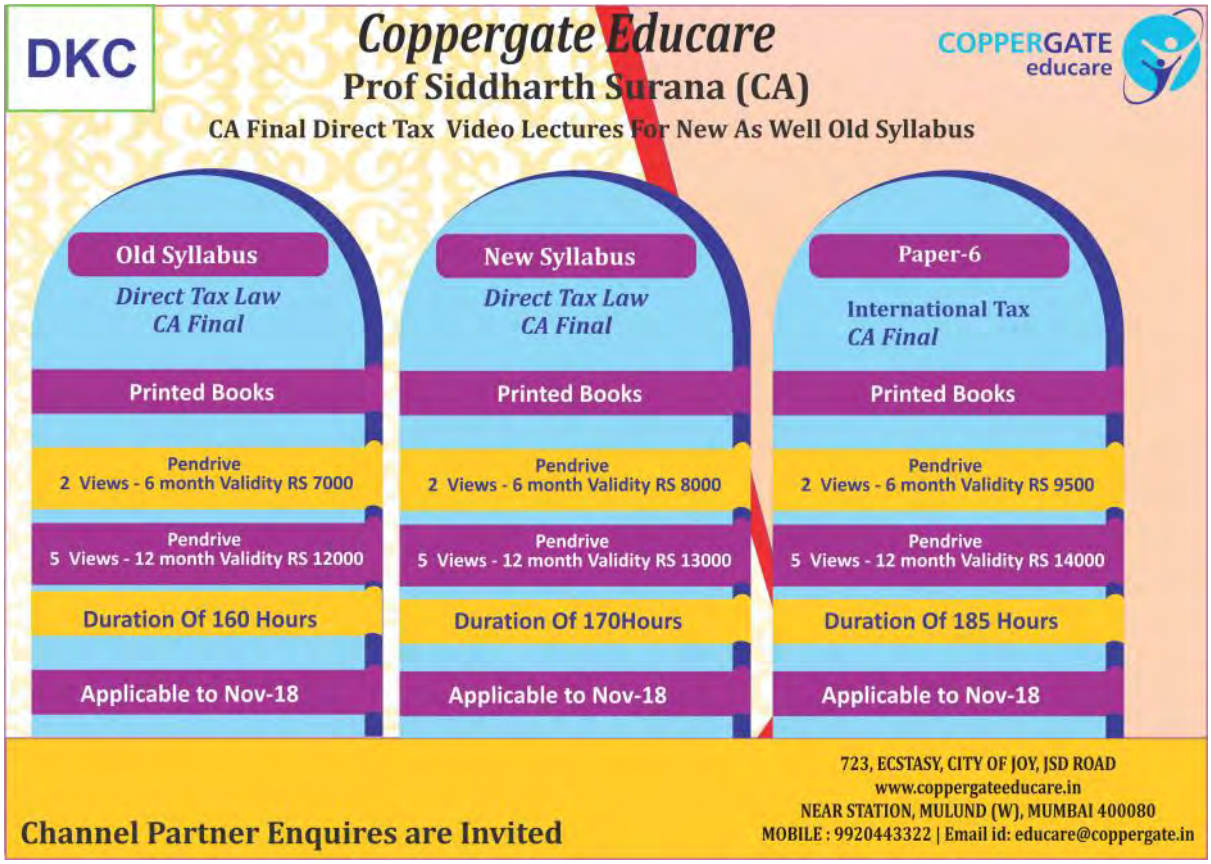
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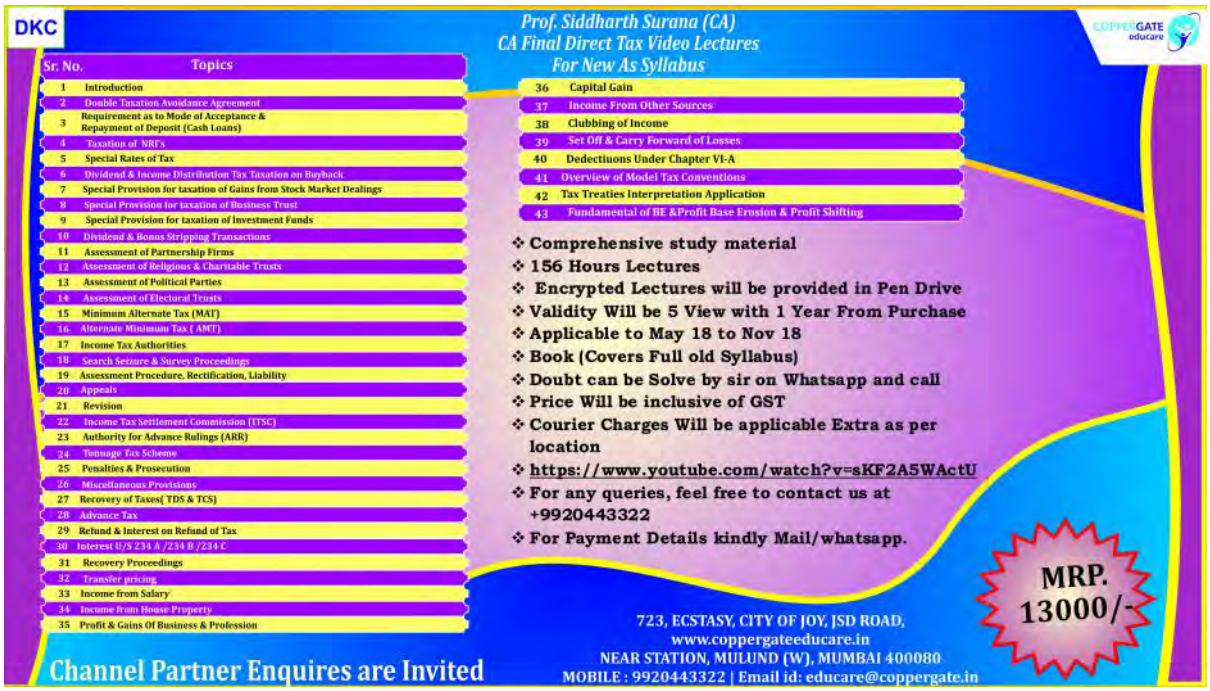
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SKC- FORMAT @ NOV-2018 (R.T.P)

Page No.
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Value Added/ Non -Value Added Activities

1. Queensland Furniture (QF) manufactures high-quality wooden doors within the forests of Queensland since 1919. Management is having emphasize on creativity, engineering, innovation and experience to provide customers with the door they desire, whether it is a standard design or a one-of-a-kind custom door. The following information pertains to operations during Jan:

Processing time	9.0 hrs.*	Waiting time	6.0 hrs.*
Inspection time	1.5 hr.*	Move time	7.5 hrs.*
Units per batch	60 units		

(*) average time per batch

Required

Compute the following operational measures:

(i) Average non-value-added time per batch

(ii) Average value added time per batch

(iii) Manufacturing cycle efficiency

(iv) Manufacturing cycle time

AVG NON-VALUE ADDED TIME PER BATCH

INSPECTION TIME = 1.5 hr
WAITING TIME = 6.00 hr
MOOVE TIME = 7.5 hr
15.00 hr

AVG-VALUE ADDED TIME PER BATCH

PROCESSING TIME = 9 hrs

MANUFACTURING CYCLE EFFICIENCY

$$\frac{\text{PROCESSING TIME}}{\text{PROCESSING TIME} + \text{INSPECTION TIME} + \text{WAITING TIME} + \text{MOOVE TIME}}$$

$$\left(\frac{9}{9+1.5+6+7.5}\right) \times 100 = 37.5\%$$

(IV) $\frac{\text{MAN-CYCLE TIME}}{\left(\frac{\text{TOTAL PRODUCTION TIME}}{\text{UNITS PER BATCH}}\right)} = \left(\frac{24}{60}\right) = .40$ (1)

2. OR International Ltd. (ORIL) has developed a new product 'α^3' which is about to be launched into the market. Company has spent ₹ 30,00,000 on R&D of product 'α^3'. It has also bought a machine to produce the product 'α^3' costing ₹ 11,25,000 with a capacity of producing 1,100 units per week. Machine has no residual value.

The company has decided to charge price that will change with the cumulative numbers of units sold:

Cumulative Sales (units)	Selling Price ₹ per unit
0 to 2,200	750
2,201 to 7,700	600
7,701 to 15,950	525
15,951 to 59,950	450
59,951 and above	300

Based on these selling prices, it is expected that sales demand will be as shown below:

Weeks	Sales Demand *per week (units)*
1-10	220
11-20	550
21-30	825
31-70	1,100
71-80	880
81-90	660
91-100	440
101-110	220
Thereafter	NIL

Unit variable costs are expected to be as follows:

	₹ per unit
First 2,200 units	375
Next 13,750 units	300
Next 22,000 units	225
Next 22,000 units	188
Thereafter	225

ORIL uses just-in-time production system. Following is the total contribution statement of the product 'α^3' for its Introduction and Growth phase:

	Introduction	Growth	
Weeks	1 - 10	11 - 30	
Number of units Produced and Sold	2,200	5,500	8,250
Selling Price *per unit* (₹)	750	600	525
Variable Cost *per unit* (₹)	375	300	300
Contribution *per unit* (₹)	375	300	225
Total Contribution (₹)	8,25,000	16,50,000	18,56,250

Required

(i) Prepare the total contribution statement for each of the remaining two phases of the product's life cycle.

(ii) Discuss Pricing Strategy of the product 'α^3'.

(iii) Find possible reasons for the changes in cost during the life cycle of the product 'α^3'.

Note: Ignore the time value of money.

(3)

GIVEN

2200

INTRODUTION
1-10

SALES UNITS
= (220X10)
= 2200

COST=375

NEXT-13750

GROWTH
11-30

11-20
10X550
=5500
@300

21-30
10X825
8250
@300

MATURITY
31-70

31-50
(20X1100)
=22000
V.COST 225

(51-70)
(20X1100)
= 22000
@ 188

DECLINE
71-110

71-80 (80X10)
= 8800

81-90 (66X10)
= 6600

91-100 (44X10)
= 4400

10-1-210
(220X10)=2200.
22000 Un

V.COST = 225

STATEMENT SHOWING TOTAL CONTRIBUTION FOR REMAING TWO STAGES

	MATURITY		DECLINE
Weeks.	31-50	51-70	71-110
UNITS	22000	22000	22000
S.P(P.U)	450	450	300
V.P(U)	(225)	(188)	(225)
	225	262	75
TOTAL CONT	4950000	5764000	1650000

(ii) **Pricing Strategy for Product α^3**

PGIL is following the skimming price strategy that's why it has planned to launch the product α^3 initially with high price tag.

A skimming strategy may be recommended when a firm has incurred large sums of money on research and development for a new product.

In the problem, PGIL has incurred a huge amount on research and development. Also, it is very difficult to start with a low price and then raise the price. Raising a low price may annoy potential customers.

Price of the product α^3 is decreasing gradually stage by stage. This is happening because PGIL wants to tap the mass market by lowering the price.

(iii) **Possible Reasons for the changes in cost during the life cycle of the product 'α^3'**

Product life cycle costing involves tracing of costs and revenues of each product over several calendar periods throughout their entire life cycle. Possible reasons for the changes in cost during the life cycle of the product are as follows:

PGIL is expecting reduction in unit cost of the product α^3 over the life of product as a consequence of economies of scale and learning / experience curves.

Learning effect may be the possible reason for reduction in per unit cost if the process is labour intensive. When a new product or process is started, performance of worker is not at its best and learning phenomenon takes place. As the experience is gained, the performance of worker improves, time taken per unit reduces and thus his productivity goes up. The amount of improvement or experience gained is reflected in a decrease in cost.

Till the stage of maturity, PGIL is in the expansion mode. The PGIL may be able to take advantages of quantity discount offered by suppliers or may negotiate the price with suppliers.

Product α^3 has the least variable cost ₹188 in last phase of maturity stage; this is because a product which is in the mature stage may require less marketing support than a product which is in the growth stage so, there is a saving of marketing cost per unit.

Again the cost per unit of the product α^3 jumps to ₹225 in decline stage. As soon as the product reaches its decline stage, the need or demand for the product disappear and quantity discount may not be available. Even PGIL may have to incur heavy marketing expenses for stock clearance.

Value Chain Analysis – Primary Activity

3. Sinopec Ltd. is engaged in business of manufacturing branded readymade garments. It has a single manufacturing facility at Surat. Raw material is supplied by various suppliers.

Majority of its revenue comes from export to Euro Zone and US. To strengthen its position further in the Global Market, it is planning to enhance quality and provide assurance through long term warranty.

For the coming years company has set objective to reduce the quality costs in each of the primary activities in its value chain.

Required

State the primary activities as per Porter's Value Chain Analysis in the value chain of Sinopec Ltd with brief description.

(i) **Inbound Logistics**: These activities are related to the material handling and warehousing. It also covers transporting raw material from the supplier to the place of processing inside the factory.

(ii) **Operations:** These activities are directly responsible for the transformation of raw material into final product for the delivery to the consumers.

(iii) **Outbound Logistics:** These activities are involved in movement of finished goods to the point of sales. Order processing and distribution are major part of these activities.

(iv) **Marketing and Sales:** These activities are performed for demand creation and customer solicitation. Communication, pricing and channel management are major part of these activities.

(v) **Service:** These activities are performed after selling the goods to the consumers. Installation, repair and parts replacement are some examples of these activities.

(6)

Just in Time

4. YP Ltd. (YPL) manufactures and sells one product called "YEIA". Managing Director is not happy with its current purchasing and production system. There has been considerable discussion at the corporate level as to use of 'Just in Time' system for "YEIA". As per the opinion of managing director of YPL Ltd. - *"Just-in-time system is a pull system, which responds to demand, in contrast to a push system, in which stocks act as buffers between the different elements of the system such as purchasing, production and sales. By using Just in Time system, it is possible to reduce carrying cost as well as other overheads".*

YPL is dependent on contractual labour which has efficiency of 95%, for its production. The labour has to be paid for minimum of 4,000 hours per month to which they produce 3,800 standard hours.

For availing services of labour above 4,000 hours in a month, YPL has to pay overtime rate which is 45% premium to the normal hourly rate of ₹110 per hour. For avoiding this overtime payment, YPL in its current production and purchase plan utilizes full available normal working hours so that the higher inventory levels in the month of lower demand would be able to meet sales of month with higher demand level. YPL has determined that the cost of holding inventory is ₹70 per month for each standard hour of output that is held in inventory.

YPL has forecast the demand for its products for the first six months of year 2017 as follows:

Month	Demand (Standard Hrs)
Jan'17	3,150
Feb'17	3,760
Mar'17	4,060
Apr'17	3,350
May'17	3,650
Jun'17	4,830

Following other information is given:

(a) All other production costs are either fixed or are not driven by labour hours worked.

(b) Production and sales occur evenly during each month and at present there is no stock at the end of Dec'16.

(c) The labour are to be paid for their minimum contracted hours in each month irrespective of any purchase and production system.

Required

As a chief accountant, you are requested to comment on managing director's view. (7)

Page No. 8
Date

STATEMENT SHOWING 'INVENTORY' HOLDING COST UNDER CURRENT SYSTEM

PARTICULARS	(HRS) JAN	(HRS) FEB	(HRS) MARCH	(HRS) APRIL	(HRS) MAY	(HRS) JUNE
OPENING INVENTORY	–	650	690	430	880	1030
(+) PRODUTION	3800	3800	3800	3800	3800	3800
DEMAND	(3150)	(3760)	(4060)	(3350)	(3650)	(4830)
CLOSING INVENTORY	650	690	430	880	1030	–
AVG-INVENTORY (OPENING + CLOSING INVENTORY / 2)	= 325 (0+650)/2	=670 (650+690)/2	=560 (690+430)/2	655 (430+880)/2	955 (880+1030)/2	515 (1030+0)/2

STATEMENT SHOWING INVENTORY HOLDING COST FOR SIX MONTHS

MONTH	AVG INVENTORY	X 70 =	TOTAL (Rs)
JAN	325	X70	22750
FEB	670	X70	46900
MARCH	560	X70	39200
APRIL	655	X70	45850
MAY	955	X70	66850
JUNE	515	X70	36050
			257600

Page No. Date

STATEMENT SHOWING RELEVANT OVERTIME COST AS PER J.I.T- SYSTEM.

PARTICULARS	JAN	FEB	MARCH	APRIL	MAY	JUNE
DEMAND (HRS)	3150	3760	4060	3350	3650	4830
PRODUCTION (J.I.T)	3150	3760	4060	3350	3650	4830
NORMAL STANDARD HRS (AVAILABLE)	3800	3800	3800	3800	3800	3800
SHORTAGE	—	—	=260 (4060-3800)	—	—	=1030 (4830-3800)

STATEMENT SHOWING OVERTIME COST

	OVERTIME HRS		
MARCH	260	$\left(\frac{260 \times 100}{95}\right) = 273.68$ Gross-hrs.	$\times \frac{159.50}{(110 + *49.50)}$ $*(45\%.110)$
JUNE	1030	$\left(\frac{1030 \times 100}{95}\right) = 1084.21$	$\times 159.50$

$(273.68 \times 159.50) + (1084.21 \times 159.50) =$ 216583

STATEMENT SHOWING COMPARTIVE COST

COST	AS PER TRADITIONAL	AS PER J.I.T
COST	257600	216583
SAVING AS PER J.I.T.	= 41017	(216583 - 257600)

Though YPL is saving ₹41,017 by changing its production system to Just-in-time but it has to consider other factors as well before taking any final call which are as follows:-

(i) YPL has to ensure that it receives materials from its suppliers on the exact date and at the exact time when they are needed. Credentials and reliability of supplier must be thoroughly checked.

(ii) To remove any quality issues, the engineering staff must visit supplier's sites and examine their processes, not only to see if they can reliably ship high-quality parts but also to provide them with engineering assistance to bring them up to a higher standard of product.

(iii) YPL should also aim to improve quality at its process and design levels with the purpose of achieving "Zero Defects" in the production process.

(iv) YPL should also keep in mind the efficiency of its work force. YPL must ensure that labour's learning curve has reached at steady rate so that they are capable of performing a variety of operations at effective and efficient manner. The workforce must be completely retrained and focused on a wide range of activities.

(10)

5. Z Ltd. is a leading Home Appliances manufacturer. The company uses just-in- time manufacturing process, thereby having no inventory. Manufacturing is done in batch size of 100 units which cannot be altered without significant cost implications. Although the products are manufactured in batches of 100 units, they are sold as single units at the market price. Due to fierce competition in the market, the company is forced to follow market price of each product. The following table provides the financial results of its four unique products:

	Alpha	Beta	Gamma	Theta	Total
Sales (units)	2,00,000	2,60,000	1,60,000	3,00,000	
	(₹)	(₹)	(₹)	(₹)	(₹)
Revenue	26,00,000	45,20,000	42,40,000	32,00,000	145,60,000
Less: Material Cost	6,00,000	18,20,000	18,80,000	10,00,000	53,00,000
Less: Labour Cost	8,00,000	20,80,000	12,80,000	12,00,000	53,60,000
Less: Overheads	8,00,000	7,80,000	3,20,000	12,00,000	31,00,000
Profit / (Loss)	4,00,000	(1,60,000)	7,60,000	(2,00,000)	8,00,000

Since, company is concerned about loss in manufacturing and selling of two products so, it has approached you to clear picture on its products and costs. You have conducted a detailed investigation whose findings are below:

The overhead absorption rate of ₹ 2 per machine hour has been used to allocate overheads into the above product costs. Further analysis of the overhead cost shows that some of it is caused by the number of machine hours used, some is caused by the number of batches produced and some are product specific fixed overheads that would be avoided if the product were discontinued. Other general fixed overhead costs would be avoided only by the closure of the factory. Nu[illegible] details are summarized below:

Machine hour related.....6,20,000

Batch related.....4,60,000

Product specific fixed overhead:

Alpha.....10,00,000

Beta.....1,00,000

Gamma..... 2,00,000

Theta..... 1,00,000..... 14,00,000

General fixed overheads.....6,20,000

31,00,000

The other information is as follows:-

	Alpha	Beta	Gamma	Theta	Total
Machine Hours	4,00,000	3,90,000	1,60,000	6,00,000	15,50,000
Labour Hours	1,00,000	2,60,000	1,60,000	1,50,000	6,70,000

Required

(i) Prepare a profitability statement that is more useful for decision making than the profit statement prepared by Z Ltd.

(ii) Calculate the break- even volume in batches and also in approximate units for Product 'Alpha'. (11)

Sol^n No (i)

STATEMENT SHOWING COST DRIVER RATE

ACTIVITY	COST DRIVER USED	(ACTIVITY COST / COST DRIVER USED) = COST DRIVER RATE.
(1) MACHINE HR) - RELATED	NO OF M-HR	(620000 / 1550000) = '40
(2) BATCHES PRODUCTION	NO OF BATCH (920000 ÷ 100) = 9200	(460000 / 9200) = 50

Sol^n (2) STATEMENT SHOWING COST TO PRODUCTS

	PRODUCTS	MACHINE-HRS	×	COST DRIVER RATE	=	TOTAL
MACHINE HR RELATED	ALPHA	400000	×	'40	=	160000
	BETA	390000	×	'40	=	156000
	GAMMA	160000	×	'40	=	64000
	THETA	600000	×	'40	=	240000
						620000

BATCH RELATED	ALPHA	(200000 ÷ 100)	×	50	=	100000
	BETA	(260000 ÷ 100)	×	50	=	130000
	GAMMA	(160000 ÷ 100)	×	50	=	80000
	THETA	(300000 ÷ 100)	×	50	=	150000
						460000

STATEMENT SHOWING B.E.P FOR PRODUCT

ALPHA :-

SP = 13.00

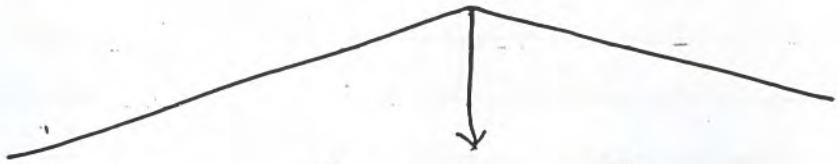
(2600000 ÷ 200000)

V.COST

(2600000 − 940000) / 200000 = 8.30

CONT

(940000 ÷ 200000) = 4.70



FIXED COST	SPECIFIC COST	PT
1000000		0

B.E.P IN-UNITS = (1000000 / 4.70) = 212765.95

PRODUCTION IN-BATCHES OF 100 UNITS

IT-MEANS PRODUCTION OF = 212800 UNITS

(212800 − 212765.95) = 34 UNITS EXTRA

SO- EXTRA VARIABLE COST = (34 X 8.30) = 282.20

EXTRA SALES (282.20 ÷ 13) = 21.70 SAY 22 UNITS

SALES = (212766 + 22) = 212788 UNITS

VERIFICATION

SALES (212788 X 13)	2766244
V.COST (212800 X 8.30)	(1766240)
CONTRIBUTION	1000004
FIXED COST	1000000
NO PROFIT NO LOSS	

Determination of Production Mix/ Production Planning

6. A company is producing three products P, Q & R. Relevant information is given below:

Product	P	Q	R
Raw material per unit (kg)	20	12	30
Machine hours per unit (hours)	3	5	4
Selling price per unit (₹)	500	400	800
Maximum limit of production Unit	1,500	1,500	750

Only 9,200 hours are available for production at a cost of ₹20 per hour and maximum 50,000 kgs. of material @ ₹ 20 per kg., can be obtained.

(Only product mix quantities are to be shown, calculation of total profit at that product mix not required to be shown)

Required

On the basis of the above information determine the product-mix to give the highest profit if at least two products are produced.

(14)

SOLN NO(1) STATEMENT SHOWING CONTRIBUTION P.U

	P	Q	R
S.P (P.U)	500	400	800
V.P (1)			
R.Mat	(400) (20X20)	(240) (12X20)	(600) (30X20)
MACHINE. COST	(60) (3hrX20)	(100) (5hrsX20)	(80) (4hrs X20)
CONT(P.U)	40	60	120
RANK	III	II	I

STATEMENT SHOWING RANK FOR PRODUCTION

IF- RAW-MATERIAL IS KEY-FACTOR

	P	Q	R
CONT-(P.U)	40	60	120
Kg-(P.U)	÷ 20	÷ 12	÷ 30
CONT/PER Kg =	2	= 5	= 4·00
RANK	III	I	II

IF- HRS IS KEY-FACTOR

	P	Q	R
CONT-(P.U)	40	60	120
÷ HR	÷ 3	÷ 5	÷ 4
CONT-P.H	13·33	12	30
	II	III	I

It is clear from the above ranking(s):-

I. Contribution per Unit is maximum in case of product Q & R.

II. Contribution per Kg. of Raw Material also maximum in case of product Q & R.

III. Contribution per Machine Hour is maximum in case of product P & R.

So product R is common in all cases and priority shall be given for production of 'R'. Balance resources should be divided between other two products P & Q.

STATEMENT SHOWING BALANCE RESOURCE

MATERIAL 50000kg	CONSUMPTION 'R' = 22500 (750 Unb X30)	Balance (50000-22500 = 27500kg
9200HD	(750 Unb X 4) = 3000	(9200-3000) = 6200

APPLICATION OF L.P.P. IN DECISION MAKING FOR TWO (P & Q) PRODUCTS

SOLN NO (1) Tabular Form

	P	Q	Maximum
MATERIAL	20 kg	12kg	27500
HRS	3HD	5HD	6200
CONT(P.U)	40	60	

Maximise Z = $40X_1 + 60X_2$

S.t

$20X_1 + 12X_2 \leq 27500$

$3X_1 + 5X_2 \leq 6200$

$X_1, X_2 \geq 0$

SOLUTION

$20X_1 + 12X_2 = 27500 \quad (\times 1.5)$
$3X_1 + 5X_2 = 6200 \quad (\times 10)$

Revised

$30X_1 + 18X_2 = 41250$
$30X_1 + 50X_2 = 62000$

$32X_2 = 20750$

$X_2 = 648.43$ say (648)

$30X_1 + (18 \times 648) = 41250$

$30X_1 = 29586$

$X_1 = 986.2$ units 986

STATEMENT SHOWING MAXIMUM PROFIT

PRODUCTS	UNITS	CONTRIBUTION	= TOTAL CONTRIBUTION
P	986		
Q	648		
R	750		

Pareto Analysis

7. Generation 2050 Technologies Ltd. develops cutting-edge innovations that are powering the next revolution in mobility and has nine tablet smart phone models currently in the market whose previous year financial data is given below:

Model	Sales (₹'000)	Profit-Volume (PV) Ratio
Tab - A001	5,100	3.53%
Tab - B002	3,000	23.00%
Tab - C003	2,100	14.29%
Tab - D004	1,800	14.17%
Tab - E005	1,050	41.43%
Tab - F006	750	26.00%
Tab - G007	450	26.67%
Tab - H008	225	6.67%
Tab - I009	75	60.00%

Using the financial data, carry out a Pareto analysis (80/20 rule) of Sales and Contribution. Discuss your findings with appropriate recommendations. (18)

STATEMENT SHOWING PARETO ANALYSIS

ANALYSIS OF SALES

MODEL (TAB)	SALES('000)	% $\left(\frac{\text{SALES}}{\text{TOTAL SALES}}\right)$ X100	CUMUCATIVE TOTAL
A-001	5,100	= 35.05% $\left(\frac{5100}{14550} \times 100\right)$	35.05%
B-002	3000	= 20.62% $\left(\frac{3000}{14550} \times 100\right)$	55.67%
C-003	2100	= 14.43% $\left(\frac{2100}{14550} \times 100\right)$	70.1%
D-004	1800	= 12.37% $\left(\frac{1800}{14550} \times 100\right)$	82.47%
E-005	1050	= 7.22% $\left(\frac{1050}{14550} \times 100\right)$	89.69%
F-006	750	= 5.15% $\left(\frac{750}{14550} \times 100\right)$	94.84%
G-007	450	= 3.09% $\left(\frac{450}{14550} \times 100\right)$	97.93%
H-008	225	= 1.55% $\left(\frac{225}{14550} \times 100\right)$	99.48%
I-009	75	= .52% $\left(\frac{75}{14550} \times 100\right)$	100%
	14550	100%	

STATEMENT SHOWING ANALYSIS OF CONTRIBUTION

MODEL (TAB)	(CONTRIBUTION = SALES X P.V. RATIO)	ROUNDING-OFF 000	RANK
A-001	(5100 X 3·53%) = [redacted]	180	(6)
B-002	(3000 X 23%) =	690	(1)
C-003	(2100 X 14·29%) =	300	(3)
D-004	(1800 X 14·17%) =	255	(4)
E-005	(1050 X 41·43%) =	435	(2)
F-006	(750 X 26·00%) =	195	(5)
G-007	(450 X 26·67%) =	120	(7)
H-008	(225 X 6·67%) =	15	(9)
I009	(75 X 60%) =	45	(8)
		2235	

[redacted]

CONTNVE.....

(20)

...INTINUE ---.

STATEMENT SHOWING CONTRIBUTION ANALYSIS

(PARETO)

MODEL (RANK)	MODEL	CONTRIBUTION '000	(CONTRIBUTION / TOTAL) X100 (%)	CUMULATIVE
(1)	B-002	690	(690/2235 X100) = 30.87%	30.87%
(2)	E-005	435	(435/2235 X100) = 19.47%	50.44%
(3)	C-003	300	(300/2235 X100) = 13.42%	63.76%
(4)	D-004	255	(255/2235 X100) = 11.41%	75.17%
(5)	F-006	195	(195/2235 X100) = 8.73%	83.90%
(6)	A-001	180	(180/2235 X100) = 8.05%	91.95%
(7)	G-007	120	(120/2235 X100) = 5.36%	97.32%
(8)	I-009	45	(45/2235 X100) = 2.01%	99.33%
(9)	H-008	15	(15/2235 X100) = .67%	100%
		2235		

8. KLM Ltd manufactures and sells a single product and has estimated sales revenue of ₹397.80 lacs during the year based on 20% profit on selling price. Each unit of product requires 6 kg of material W and 3 kg of material X and processing time of 4 hours in machine shop and 2 hours in assembly shop. Factory overheads are absorbed at a blanket rate of 20% of direct labour. Variable selling & distribution overheads are ₹ 6 per unit sold and fixed selling & distribution overheads are estimated to be ₹7,20,000.

   The other relevant details are as under:

Purchase Price	Material W	₹16 per kg	
	Materials X	₹10 per kg	
Labour Rate	Machine Shop	₹14 per hour	
	Assembly Shop	₹7 per hour	
	Finished Stock	**Material W**	**Material X**
Opening Stock	25,000 units	75,000 kg	40,000 kg
Closing Stock	30,000 units	80,000 kg	55,000 kg

   Required

   Calculate

   (i) Number of units of product proposed to be sold and selling price per unit.

   (ii) Production budget in units.

   (iii) Material purchase budget in units.

(22)

ANS NO(i)

STATEMENT SHOWING TOTAL VARIABLE COST FOR THE YEAR

ESTIMATED SALES = ₹ 3,97,80,000

DESIRED PROFIT MARGIN ON SALES (20% × 39780000) = 7956000	ESTIMATED TOTAL COST 31,82,4000
FIXED SELLING AND DISTRIBUTION OVERHEADS 720000	TOTAL VARIABLE COST 31,10,4000

STATEMENT SHOWING VARIABLE COST (P.U)		₹
DIRECT MATERIAL		
W (6Kg × 16)	=	96
X (3Kg × 10)	=	30
Labour Cost		
MACHINE SHOP (4HRS × 14)	=	56
ASS- SHOP (2HRS × 7)	=	14
FACTORY OVERHEADS (56 + 14) × 20%	=	14
V.O. SELLING & DISTRIBUTION	=	6
		216

MARUTI
NO.
DATE

STATEMENT SHOWING NUMBER OF UNITS - SOLD.

(31104000 ÷ 216) = 144000 Unit.

SELLING PRICE (P.U) = $\left(\frac{39780000}{144000}\right)$

= 276.25 (P.U)

(II) STATEMENT SHOWING PRODUCTION BUDGET

	UNITS.
BUDSALE	144000
CLOSING STOCK	30000
OPENING STOCK	(25000)
PRODUCTION =	149000

ANS NO (iii) STATEMENT SHOWING PURCHASE BUDGET

	MATERIAL W	Material X
CONSUMPTION	= 894000 (149000 UNIT X 6 KG)	= 447000 (149000 X 3)
CLOSING STOCK	80000	55000
OPENING STOCK	(75000)	40000)
	899000	462000

Standard Costing – Reconciliation of Budgeted and Actual Profit

9. KYC Toys Ltd. manufactures a single product and the standard cost system is followed. Standard cost per unit is worked out as follows:

	₹
Materials (10 Kgs. @ ₹4 per Kg)	40
Labour (8 hours @ ₹8 per hour)	64
Variable overheads (8 hours @ ₹3 per hour)	24
Fixed overheads (8 hours @ ₹3 per hour)	24
Standard Profit	56

Overheads are allocated on the basis of direct labour hours. In the month of April 2018, there was no difference between the budgeted and actual selling price and there were no opening or closing stock during the period.

The other details for the month of April 2018 are as under

	Budgeted	Actual
Production and Sales	2,000 Units	1,800 Units
Direct Materials	20,000 Kgs. @ ₹ 4 per kg	20,000 Kgs.@ ₹ 4 per kg
Direct Labour	16,000 Hrs. @ ₹ 8 per Hr.	14,800 Hrs. @ ₹ 8 per Hr.
Variable Overheads	₹ 48,000	₹ 44,400
Fixed Overheads	₹ 48,000	₹ 48,000

Required

Reconcile the budgeted and actual profit with the help of variances according to each of the following method:

(i) The conventional method

(ii) The relevant cost method assuming that

  (a) Materials are scarce and are restricted to supply of 20,000 Kgs. for the period.

  (b) Labour hours are limited and available hours are only 16,000 hours for the period.

  (c) There are no scarce inputs.

THE – CONVENTIONAL METHOD

MARUTI NO. DATE

SLIPNO(1) STATEMENT SHOWING COST STRU

BUD – PRODUCTION = 2000 UNI

	TOTAL	P.U.
DMAT	(20000X4) = 80000	40
DLAB	(16000X8) = 128000	64
V.O	48000	24
F.O.	48000	24
TOTAL COST	304000	152
PT	112000	56
SALES	416000	208

SLIPNO(2) PROFIT & LOSS A/C

(20000X4) TO MAT A/C	80000	BY SALES (1800 X 208)	374400
(14800X8) TO LAB A/C	118400		
TO V.O A/C	4440		
TO F.O A/C	48000		
TO NET PT	83600		
	374400		374400

SAREE- MARGIN VARIANCE

UNITS	Rate	Amt	UNITS	Rate	Amt
2000	56	112000	1800	56	100800

ACTUAL P.U. :-

ACTUAL S.P (P.U) = 208

BUD-COST (P.U) = (152 / 56)

Mat COST VARIANCE = (72000 - 80000) = 8000 (A)

Mat USAGE VARIANCE
(18000 - 20000) X 4 = 8000 (A)

Mat - Rate VAR
(4 - 4) X 20000
= 0

Labour COST VARIANCE (115200 - 118400)
= 3200 (A)

LabEff VARIANCE
(14400 - 14800) X 8
= 3200 (A)

LabRate VARIANCE
(8 - 8) X 14800
= 0

V.O. COST VARIANCE (43200 - 44400) = 1200 (A)

V.O. Eff VAR
(14400 - 14800) X 3
= 1200 (A)

V.O. Exp Rate VAR
(3 - 3) X 14800
= 0

F.O. A/C

To Bank	48000	By Req (1800 X 24)	43200
			4800

F.O. Cost VAR
(43200 - 48000)
= 4800 (A)

F.O. Exp VAR
(48000 - 48000) = 0

F. Volume V.
(2000 - 1800) X 24
= 4800

SALES MARGIN VARIANCE

(112000 - 100800) = 11200 (A)

Sales Margin Volume Var	Sales Margin Price Var
(2000 - 1800) x 56 = 11200 (A)	(56 - 56) x 1800 = 0

MARUTI
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DATE

STEP NO(3)

STATEMENT SHOWING RECONCILIATION :-

	₹
PROFIT - COST - STANDARD	112000
DUE TO MATERIAL USAGE VAR	(8000)
MATERIAL RATE VARIANCE	-
Labour EFF VARIANCE	(3200)
Labour RATE VARIANCE	-
V.O. EFF VARIANCE	(1200)
V.O EXP/RATE VAR	-
F.O. EXP VARIANCE	-
F.O. VOLUME VARIANCE	(4800)
SALES MARGIN VOLUME	(11200)
SALES MARGIN RATE	-
	83600

MATERIAL VARIANCE - 1800 UNITS

STANDARD			ACTUAL		
Kg	Rate	Amt	Kg	Rate	Amt
18000 (1800X10)	X 4	72000	20000	4	80000

Labour VARIANCE

HR	Rate	Amt	HR	Rate	Amt
14400 (1800X8HR)	X 8	115200	14800	8	118400

V.O. VARIANCE

HR	Rate	Amt	HR	Rate	Amt
14400 (800X8)	X 3	43200	14800	3	44400

BUDGET F.O			ACTUAL	
UNITS	R.R	EXP	UNITS	EXP
2000	24	48000	1800	48000

Excess usage of 400 hrs. leads to loss of contribution from 50 units i.e. ₹4,000 (50 units × ₹80). It is not the function of the sales manager to use labour hours efficiently. Hence, loss of contribution from 50 units should be excluded while computing sales contribution volume Variance.

($)→

Therefore, sales contribution volume variance, when labour hours are Scarce will be ₹12,000 (A) i.e. ₹16,000 (A) - ₹4,000 (A).

Fixed Overhead Volume Variance

(#) →

The fixed overhead volume variance does not arise in marginal costing system. In absorption costing system, it represents the value of the under or over absorbed fixed overheads due to change in production volume. When marginal costing is in use there is no overhead volume variance, because marginal costing does not absorb fixed overheads. (20)

Problem 5 10

X Division and Y Division are two divisions in the XY group of companies. X Division manufactures one type of component which it sells to external customers and also to Y Division.

Details of X Division are as follows:

Market price per component	₹300
Variable cost per component	₹157
Fixed costs	₹20,62,000 per period
Demand from Y Division	20,000 components per period
Capacity	35,000 components per period

Y Division assembles one type of product which it sells to external customer. Each unit of that product requires two of the components that are manufactured by X Division.

Details of Y Division are as follows:

Selling price per unit	₹1,200
Variable cost per unit:	
(i) Two components from X	2 @ transfer price
(ii) Other variable costs per unit	₹375
Fixed costs	₹13,50,000 per period
Demand	10,000 units per period
Capacity	10,000 units per period

Group Transfer Pricing Policy

Transfers must be at opportunity cost.

Y must buy the components from X.

X must satisfy demand from Y before making external sales.

Required

(1) Calculate the profit for each division if the external demand per period for the components that are made by X Division is:

(i) 15,000 components

(ii) 19,000 components

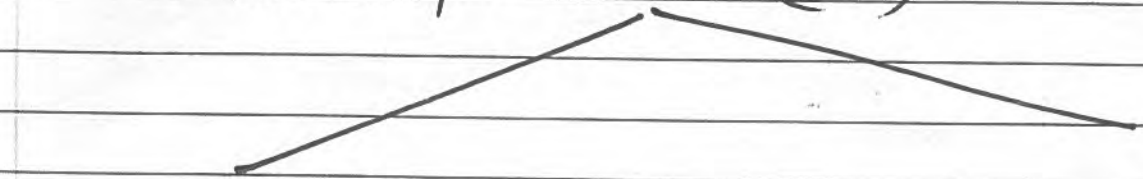
(iii) 35,000 components

(2) Calculate the financial impact on the Group if Y Division ignored the transfer pricing policy and purchased all of the 20,000 components that it needs from an external supplier for ₹255 each. Your answer must consider the impact at each of the three levels of demand (15,000, 19,000 and 35,000 components) from external customers for the component manufactured by X Division.

ANS NO (1)

IF EXTERNAL DEMAND = 15000

CAPACITY = 35000 (X)

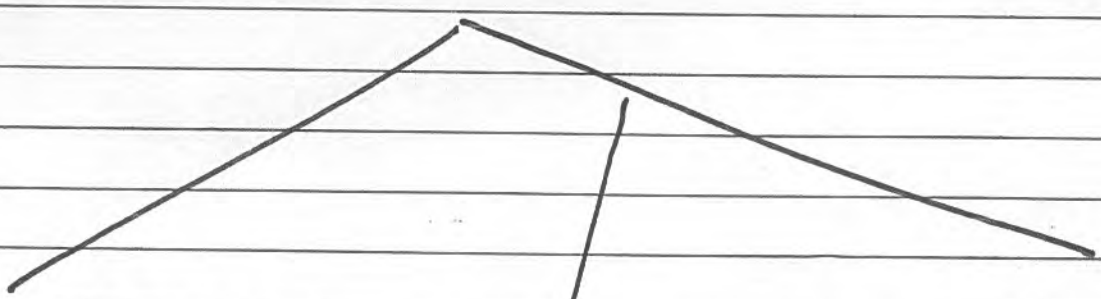


TRANSFER-TO -(Y)
20000

EXTERNAL
15000
NO-OPP-COST

T.P = 157.00 (V.COST

ANS NO IF DEMAND = 19000 NOS



TRANSFER-(Y)
20000

OPP-COST = 572000
V.COST = 3140000
(20000 X 157) 3712000
÷20000

T.P = 185.60

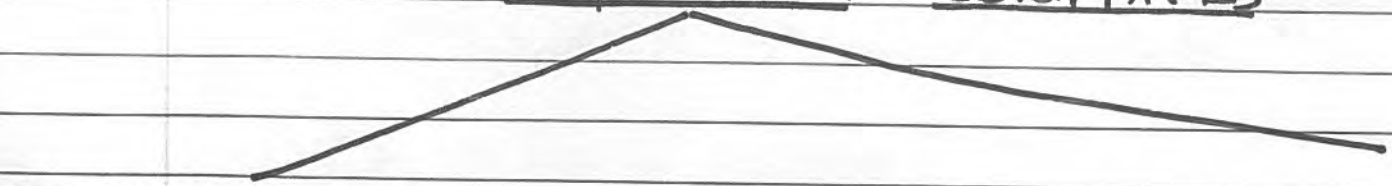
S.P = 300
V.P = (157)
CONT = 143 X 4000 = 572000

EXTERNAL SALES
19000

CUTDOWN 4000
OPPORT!-

Sale
15000

X-Y- GROUP - COMPANIES



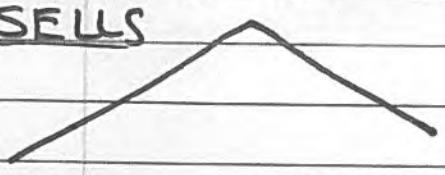
DIVISION-X

CAPACITY = 35000 NOS

↓

OUTPUT- (COMPONENT)

SELLS



EXTNERAL CUSTOMER

DIVISION Y

DEMAND = 20000 NOS

MKT- PRICE = 300.00

VARIABLE COST = 157.00

FIXED COST = 20620000

(X- MUST- SATISFY DEMAND FROM Y- BEFORE MAKING EXTERNAL SALES)

DIVISION-Y

(EXTERNAL- CUSTOMER)

UNITS	COMPONENT
1	2

S.P = 1200 (P.U)

V.P = (T.P)

V.P = 375 (P.U)

FIXEDCOST = 1350000

DEMAND = 10000

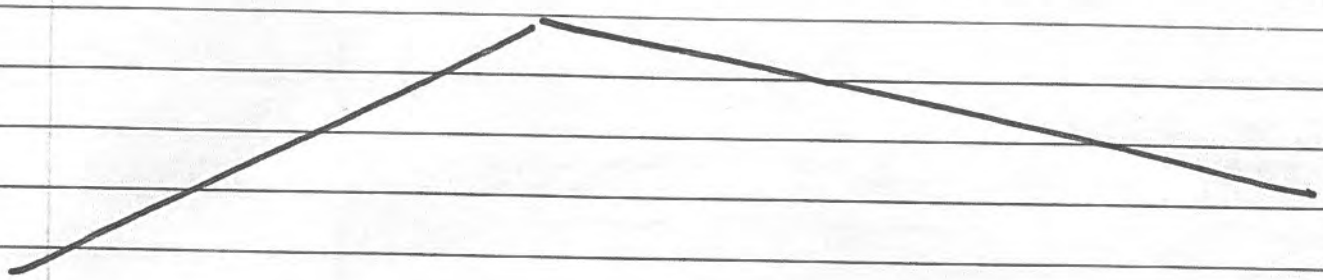
CAPACITY = 10000

GROUP- TRANSFER PRICE POLICY

T.P = OPP-COST

[Y- MUST- BUY COMPONENTS FROM X]

IF DEMAND = 35000 NOS



TRANSFER (Y)
20000 NOS

	₹
OPP COST =	2860000
V. COST = (20000 X 157)	3140000
	6000000
	÷ 20000 Units
T.P =	300.00

EXTERNAL-SALES
35000

CUT DOWN 20000

OPP-UNIT		₹
	S.P =	300
	V.P =	(157)
		143

20000 Units X 143 = 2860000

STATEMENT SHOWING ANALYSIS OF PTLM

IF EXTERNAL DEMAND	15000 NOS	19000 NOS	35000
DIVISION-X	₹	₹	₹
SALES	= 4500000 (15000 X 300)	= 4500000 (15600 X 300)	=4500 (15000X3
DIVISION 'Y'	3140000 (20000X 157)	3712,000 (20000X 185.6)	60000 (20000X 300)
V. COST	(5495000) (35000 X 157)	(5495000) (35000X157)	(549500 (35000X1
FIXED COST	(2062000)	(2062000)	206200
(A) PTLOSS	83000	655000	29430
DIVISION-Y			
SALES	= 12,00,000 (10000 X 1200)	= 12,00,000 (10000X1200)	= 12,0,0 (10000X
V. COST	(3750000) (10000X 375)	(3750000) (10000X 375)	(375000 (10000X3
FCOH	(1350000)	(1350000)	(135000
T.P	(3140000)	(3712000)	(60000
(B) PTLOSS	3760000	3188000	90000
A+B = PTLOSS	3843000	3843000	384300

ANSN(2)

STATEMENT SHOWING FINANCIAL IMP
ON THE GROUP IF Y DIVISION IN
THE TRANSFER PRICE POLICY

DIVISION 'X'	15000NOS	19000NOS	35000
SALES	= 4500000	= 5700000	= 10500
	(15000 X 300)	(19000 X 300)	(35000 X 3
V.P.	(2355000)	(2983000)	(5495,00
	(15000 X 157)	(19000 X 157)	(35000 X 15
FCOST	(2062000)	(2062000)	(2062000
(A) PROFITS	83000	655000	294300
DIVISION 'Y'			
SALES	12,00,000	12000000	12,00,00
	(10000 X 120)	(10000 X 120)	(10000 X 12
V.COST (PURCHASE)	(5100000)	(5100000)	(5100
	(20000 X 255)	(20000 X 255)	(20000 X 25
OTHERS V.COST	(3750000)	(3750000)	(3750
	(10000 X 375)	(10000 X 375)	(10000 X 37
FIXED COST	(1350000)	(1350000)	(1350000
(B) PROFITS	~~1883000~~ 1800000	1800000	1800000
A+B PROFITS	1883000	2455000	4743000
PROFITS ANS(1)	3843000	3843000	3843000
NET TRANSFER	(1960000)	(1388000)	900000

Transportation Problem - Degeneracy

11. A project consists of four (4) major jobs, for which four (4) contractors have submitted tenders. The tender amounts, in thousands of rupees, are given in the each cell. The initial solution of the problem obtained by using Vogel's Approximation Method is given in the Table below:

Contractors	Job P	Job Q	Job R	Job S
A	112.50	100.00	127.50	167.50 [1]
B	142.50	105.00 [1]	157.50	137.50
C	122.50	130.00	120.00 [1]	160.00
D	102.50 [1]	112.50	150.00	137.50

Find the assignment, which minimizes the total cost of the project. Each contractor has to be awarded one job only. (36)

R+C-1 = ALLOCATION (4+4)-1 = (7)

(ONO-11)

	JOB-P	Q	R	S	Ui
A	112.50 (e)	100 (e) +θ	127.50 17.5	167.50 (1) −θ	0
B	142.50 25	105 −θ (1)	157.50 42.5	137.50 +θ −35	5
C	122.50 (e)	130 20	120 (1)	160 17.5	10
D	102.50 (1)	112.50 22.5	150 50	137.50 −20	−10
	112.50	100	110	167.50	

	P	Q	R	S	Ui
A	112.50 (e)	100 (1)	127.50 17.5	167.50 35	0
B	142.50 25	105 (e)	157.50 42.50	137.50 (1)	5
C	122.50 (e)	130 20	120 (1)	160 17.5	10
D	102.50 (1)	112.50 22.50	150 50	137.5 15	−10
	112.50	100	110	132.50	

(37)

Critical Path Analysis – Missing Figures and Network

12. The number of days of total float (TF), earliest start times (EST) and duration in days are given for some of the following activities.

Activity	TF	EST	Duration
1–2	0	0	???
1–3	2	???	???
1–4	5	???	???
2–4	0	4	???
2–5	1	???	5
3–6	2	12	???
4–6	0	12	???
5–7	1	???	???
6–7	???	23	???
6–8	2	???	???
7–8	0	23	???
8–9	???	30	6

(i) Find??? Figures.

(ii) Draw the network.

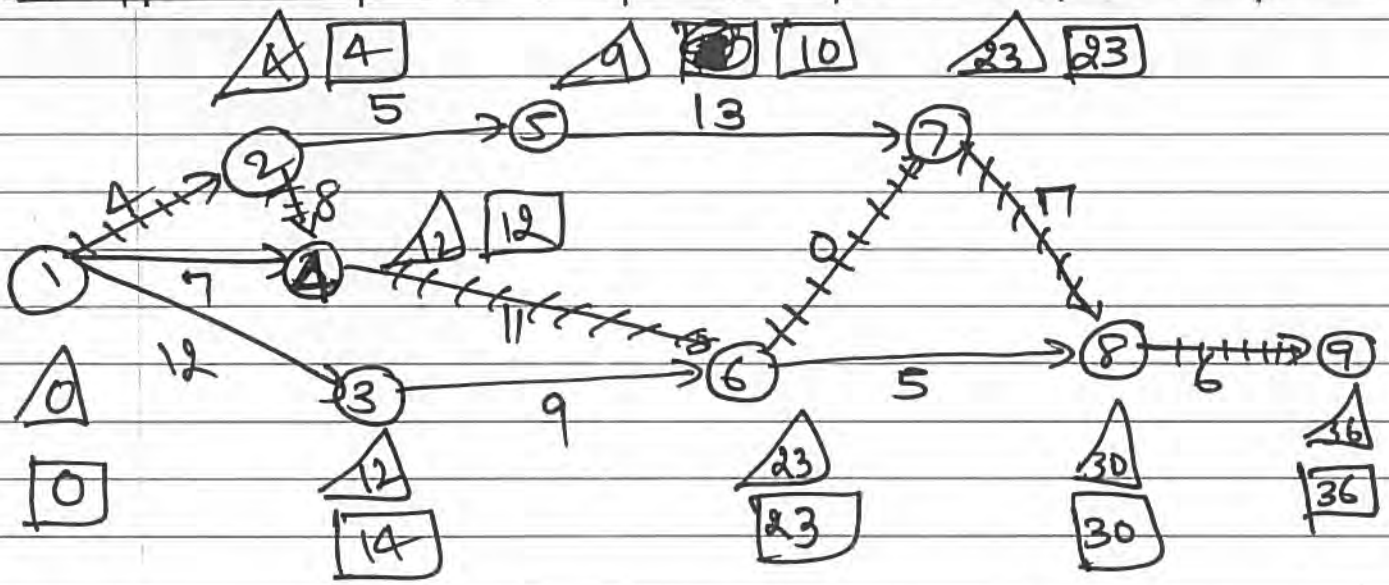
(iii) List the paths with their corresponding durations and state when the project can be completed.

(39)

STATEMENT SHOWING MINIMUM COST

CONTRATOR	JOB	COST OF PROJECT ₹
A	Q	100
B	S	137·50
C	R	120·00
D	P	102·50
		460

ACTIVITY	DURATION = D	E.S.T △	E.S.T+D = E.F.T	L.S.T = (L.F.T-D)	L.F.T = □	TOTAL FLOAT (LST-EST)
1-2	4	0	4	0	4	0
1-3	12	0	12	2	14	2
1-4	7	0	7	5	12	5
2-4	8	4	12	4	12	0
2-5	5	4	9	5	10	1
3-6	9	12	21	14	23	2
4-6	11	12	23	12	23	0
5-7	13	9	22	10	23	1
6-7	0	23	23	23	23	0
6-8	5	23	28	25	30	2
7-8	7	23	30	23	30	0
8-9	6	30	36	30	36	0



Critical Path : 1–2–4–6–7–8–9

(iii) Paths with their corresponding durations

The Various Paths in the Network are:

1–2–4–6–7–8–9 with Duration 36 Days

1–2–5–7–8–9 with Duration 35 Days

1–3–6–7–8–9 with Duration 34 Days

1–2–4–6–8–9 with Duration 34 Days

1–3–6–8–9 with Duration 32 Days

1–4–6–7–8–9 with Duration 31 Days

1–4–6–8–9 with Duration 29 Days

The Critical Path is 1–2–4–6–7–8–9 with Duration 36 Days.

(40)

13. State the validity of following statements along with the reasons:

(i) Two activities have common predecessor and successor activities. So, they can have common initial and final nodes.

(ii) In respect of any activity whether real or dummy, the terminal node should bear a number higher than the initial node number.

(iii) The difference between the latest event time and the earliest event time is termed as free float.

(iv) For every critical activity in a network, the earliest start and the earliest finish time as well as the latest finish time and the latest start time are the same.

(v) The optimal duration of a project is the minimum time in which it can be completed.

(vi) Resource leveling aims at smoothening of the resource usage rate without changing the project duration.

13. (i) Invalid

Reason: As per the rules of network construction, parallel activities between two events, without intervening events, are prohibited. Dummy activities are needed when two or more activities have same initial and terminal events. Dummy activities do not consume time or resources.

(ii) Valid

Reason: As per the conventions adopted in drawing networks, the head event or terminal node always has a number higher than that of initial node or tail event.

(iii) Invalid

Reason: The difference between the latest event time and the earliest event time is termed as slack of an event. Free float is determined by subtracting head event slack from the total float of an activity.

(iv) Invalid

Reason: For every critical activity in a network, the earliest start time and the latest start time is same and also the earliest finish time and the latest finish time is same.

(v) Invalid

Reason: The optimum duration is the time period in which the total cost of the project is minimum.

(vi) Valid

Reason: Resource leveling is a network technique used for reducing the requirement of a particular resource due to its paucity or insufficiency within a constraint on the project duration. The process of resource leveling utilize the large floats available on non-critical activities of the project and cuts down the demand of the resource

14. An Investment Corporation wants to study the investment projects based on four factors: market demand in units, contribution per unit, advertising cost and the investment required. These factors are felt to be independent of each other. In analyzing a new consumer product, the corporation estimates the following probability distributions:

Demand (units)		Contribution per unit		Advertising Cost	
No.	Probability	₹	Probability	₹	Probability
10,000	0.20	25	0.25	50,000	0.22
20,000	0.25	35	0.30	60,000	0.33
30,000	0.30	45	0.35	70,000	0.44
40,000	0.25	55	0.10	80,000	0.01

The data for proposed investments are as follows:

Investment (₹)	50,00,000	55,00,000	60,00,000	65,00,000
Probability	0.10	0.30	0.45	0.15

Using simulation process, repeat the trials 5 times, compute the Return on Investment (ROI) for each trial and find the highest likely return.

Using the sequence (First 4 random numbers for the first trial, etc.)

09 24 85 07 84 38 16 48 41 73 54 57 92 07 99

64 65 04 78 72

Sol^n No (i)

STATEMENT SHOWING Tag Nos

DEMAND UNITS	Prob	Cumulative PROBABILITY	Tag-Nos
10000	·20	·20	00–19
20000	·25	·45	20–44
30000	·30	·75	45–74
40000	·25	1·00	75–99

CONTRIBUTION–PU

₹			
25	·25	·25	00–24
35	·30	·65	25–64
45	·35	·90	65–89
55	·10	1·00	90–99

ADVERTISING COST

₹			
50000	·22	·22	00–21
60000	·33	·55	22–54
70000	·44	·99	55–98
80000	·01	1·00	99–99

INVESTMENT

₹			
5000000	·10	·10	00–09
5500000	·30	·40	10–39
6000000	·45	·85	40–84
6500000	·15	1·00	85–99

STATEMENT SHOWING FINAL ANS

RNOS	DEMAND (UNITS)	RNOS	CONT- (P.U)	RNOS	ADV- COST	RNOS	INVEST MENT	R.O.I (NOGNOI)
09	10000	24	25	85	70000	07	5000,000	3.6%
84	40000	38	35	16	50000	48	6000000	22.5%
41	20000	73	45	54	60000	57	6000000	14%
92	40000	07	25	99	80000	64	6000000	
15	30000	04	25	78	70000	72	6000000	

NOGNOI)

HIGHEST RETURN IS 22.50%.

(DEMAND X CONT P.U) = TOTAL CONTRIBUION	- ADV-COST	TRIAL-2 (PROFIT / INVESTMENT) X100 = R.O.I.
(1) (10000X25)	(70000)	= (180000/5000000 X100) = 3.6%
(2) (40000X35)	(50000)	= (1350000/6000000 X100) = 22.5%
(3) (20000X45)	(60000)	(840000/6000000) X100 = 14%
(4) (40000X25)	(80000)	(920000/6000000 X100) = 15.33%
(5) 30000X25	(70000)	(680000/6000000) X100 = 11.33%

(43)

Application of Learning Curve in Standard Costing

15. Aldi International Co. is a multiproduct firm and operates standard costing and budgetary control system. During the month of June firm launched a new product. An extract from performance report prepared by Sr. Accountant is as follows:

Particulars	Budget	Actual
Output	30 units	25 units
Direct Labour Hours	180.74 hrs.	118.08 hrs.
Direct Labour Cost	₹ 1,19,288	₹ 79,704

Sr. Accountant prepared performance report for new product on certain assumptions but later on he realized that this new product has similarities with other existing product of the company. Accordingly, the rate of learning should be 80% and that the learning would cease after 15 units. Other budget assumptions for the new product remain valid.

The original budget figures are based on the assumption that the labour has learning rate of 90% and learning will cease after 20 units, and thereafter the time per unit will be the same as the time of the final unit during the learning period, i.e. the 20th unit. The time taken for 1st unit is 10 hours.

Show the variances that reconcile the actual labour figures with revised budgeted figures in as much detail as possible.

Note:

The learning index values for a 90% and a 80% learning curve are −0.152 and −0.322 respectively.

[log 2 = 0.3010, log 3 = 0.47712, log 5 = 0.69897, log 7 = 0.8451, antilog of 0.6213 = 4.181, antilog of 0.63096 = 4.275]

The usual learning curve model is I.C.A.I - METHOD

$$y = ax^b$$

Where

y = Average time per unit for x units

a = Time required for first unit

x = Cumulative number of units produced

b = Learning coefficient

W.N.1

Time required for first 15 units based on revised learning curve of 80% (when the time required for the first unit is 10 hours)

$$y = 10 \times (15)^{-0.322}$$
$$\log y = \log 10 - 0.322 \times \log 15$$
$$\log y = \log 10 - 0.322 \times \log (5 \times 3)$$
$$\log y = \log 10 - 0.322 \times [\log 5 + \log 3]$$
$$\log y = 1 - 0.322 \times [0.69897 + 0.47712]$$
$$\log y = 0.6213$$
$$y = \text{antilog of } 0.6213$$
$$y = 4.181 \text{ hours}$$
$$\text{Total time for 15 units} = 15 \text{ units} \times 4.181 \text{ hours}$$
$$= 62.72 \text{ hours}$$

Time required for first 14 units based on revised learning curve of 80% (when the time required for the first unit is 10 hours)

$$y = 10 \times (14)^{-0.322}$$
$$\log y = \log 10 - 0.322 \times \log 14$$
$$\log y = \log 10 - 0.322 \times \log (2 \times 7)$$
$$\log y = \log 10 - 0.322 \times [\log 2 + \log 7]$$
$$\log y = 1 - 0.322 \times [0.3010 + 0.8451]$$
$$\log y = 0.63096$$
$$y = \text{antilog of } 0.63096$$
$$y = 4.275 \text{ hrs}$$
$$\text{Total time for 14 units} = 14 \text{ units} \times 4.275 \text{ hrs}$$
$$= 59.85 \text{ hrs}$$

Time required for 25 units based on revised learning curve of 80% (when the time required for the first unit is 10 hours)

Total time for first 15 units = 62.72 hrs

Total time for next 10 units = 28.70 hrs [(62.72 – 59.85) hours × 10 units]

Total time for 25 units = 62.72 hrs + 28.70 hrs

= 91.42 hrs

W.N.2

Computation of Standard and Actual Rate

Standard Rate $= \frac{₹1,19,288}{180.74 \text{ hrs.}}$

$= ₹ 660.00 \text{ per hr.}$

Actual Rate $= \frac{₹79,704}{118.08 \text{ hrs.}}$

$= ₹ 675.00 \text{ per hr.}$

W.N.3

Computation of Variances

Labour Rate Variance = Actual Hrs × (Std. Rate – Actual Rate)

= 118.08 hrs × (₹660.00 – ₹675.00)

= ₹1,771.20 (A)

Labour Efficiency Variance = Std. Rate × (Std. Hrs – Actual Hrs)

= ₹660 × (91.42 hrs – 118.08 hrs)

= ₹17,595.60 (A)

Statement of Reconciliation (Actual Figures Vs Budgeted Figures)

Actual Cost	79,704.00
Less: Labour Rate Variance (Adverse)	1,771.20
Less: Labour Efficiency Variance (Adverse)	17,595.60
Budgeted Labour Cost (Revised)*	60,337.20

Budgeted Labour Cost (Revised)*

= Std. Hrs. × Std. Rate

= 91.42 hrs. × ₹660

= ₹ 60,337.20

Relevant Cost Approach to Variance Analysis

Traditional approach to variance analysis is to compute variances based on total actual cost for production inputs and total standard cost applied to the production output. This is ambiguous, when inputs are limited. Failure to use limited inputs properly leads not only to increased acquisition cost but also to a lost contribution. Therefore, it is necessary to consider the lost contribution in variance analysis. When this approach is used, price or expenditure variances are not affected.

D.K.C. – METHOD

INITIAL BATCH	HRS PER-BATCH	LEARNING
1 UNITS	10 HRS	80%

IF PRODUCTION = 15 UNITS

$$\text{HRS PER-BATCH} = \log K + \left(\frac{\log \text{LEARNING}}{2}\right) \times \log(X)$$

$$= \log 10 + \left(\frac{\log .80}{\log 2}\right) \times (\log 15)$$

$$= 1.0000 + \left(\frac{-1 + .9031}{0.3010}\right) \times (1.1761)$$

$$= .6213 \quad [\text{ANTILOG}]$$

12.7

4178

ILL- / [illegible]

IF PRODUCTION = 14 UNITS

$$= \text{Log } 10 + \left(\frac{\text{Log } .80}{\text{Log } 2}\right) \times (\text{Log } 14)$$

$$= 1.0000 + \left(\frac{-1 + .9031}{0.3010}\right) \times (1.1461)$$

$= .6310$ (ANTILOG)

4.276

TOTAL HRS - READ = $(4.276 \times 14 \text{ UNIT})$

$= 59.86$ hrs

TIME - READ FOR 25 UNITS BASED ON REVISED CURVE of 80%.

TOTAL TIME 15 UNITS =	62.72
TOTAL TIME 14 " =	(59.86)
	2.86

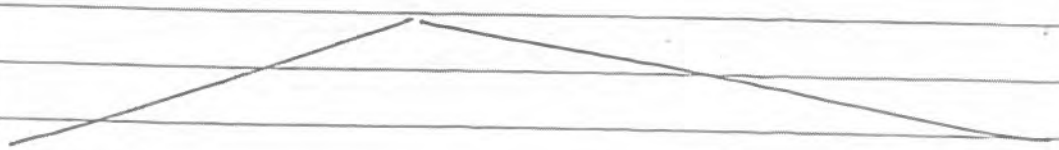
15 UNITS =	62.72 hrs.
10 UNIT =	
(10 X 2.86)	28.60 "
	91.32 "

Labour VARIANCE - ACTUAL PRODUCTION = 25 UNITS

HRS	Rate	Amt	HRS	Rate	Amt
91.32	~~[illegible]~~ 660	60271.20	118.08	675	79704
118.08					

LABOUR COST VARIANCE.

(60271.20 − 79704) = 19432.80 (A)



LabEff VAR

(91.32 − 118.08) 660
17661.6 (A)

Lab Rate VAR.

(660 − 675) × 118.08
= 1771.2 (A)

STATEMENT SHOWING RECONCILIATION

STANDARD COST	60271.20
LabEff VAR	17661.60
Lab Rate VAR	1771.20
	79704

DKC

STATEMENT SHOWING ANALYSIS BUDGET & REVISED

	ORIGINAL BUDGET	REVISED BUDGET
MKT-SALE QTY	1200000	= 1416000 (1200000 X 118%)
COMPNYS SHARE	= 120000 UNITS (1200000 X 10%)	155760 UNITS (1416000 X 11%)
SALE QTY		
LARGE	= 60000 UNITS (50% X 120000)	= 62304 UNITS (40% X 155760)
MEDIUM	= 60000 " (50% X 120000)	= 93456 " (60% X 155760)
CONTRIBUTION :-		
LARGE	= 480000 (60000 X 8)	= 535814.40 (62304 X 8.60)
MEDIUM	600000 (60000 X 10)	= 990633.60 (93456 X 10.60)
EFFECT OF EX		
SALES PLANTATION	-	(78000)
INTEREST	-	9000
REVISED CONTRIBUTION	1080000	1457448
OVERALL INCREASE IN PL	(50)	= 377448

16. **Statement Showing Change in Profit**

Particulars	Large (₹)	Medium (₹)	Total (₹)
I. Effect of Product Mix Changes			
Revised Estimated Sales Quantity (Ratio 40:60)	62,304	93,456	1,55,760
Revised Estimated Sales Quantity (Ratio 50:50)	77,880	77,880	1,55,760
Difference in Sales Quantity	(15,576)	15,576	NIL
Contribution Effect Thereon @ ₹8.60 and ₹10.60	(1,33,953.60)	1,65,105.60	**31,152**
II Effect of Volume Change			
Revised Estimate of Sales Quantity (50:50)	77,880	77,880	
Original Estimate of Sales Quantity (50:50)	60,000	60,000	
Difference in Sales Quantity	17,880	17,880	35,760
Contribution Effect Thereon @ ₹8 and ₹10	1,43,040	1,78,800	**3,21,840**
III. Effect of Price Change			
Revised Estimate of Sales Quantity (Ratio 40:60)	62,304	93,456	1,55,760
Difference in Price p.u.	0.60	0.60	0.60
Contribution Effect	37,382.40	56,073.60	**93,456**
IV. Effect of Expenses			
Sales Promotion Expenses			**(78,000)**
Savings in Interest			**9,000**
Overall Increase in Profit			**3,77,448**

Total Improvement in Profit ₹3,77,448 (11.51%).

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M-20

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Dividend Decisions	4	3	600
leasing	2	1	200
Mutual Fund	3	1	200
Equity Fund	3	1	200
Capital Budgeting	4	1	200
Total	**41**	**25**	**5000**
Duration			70 Hours
Validity			Unlimited
Views			Unlimited
Application			May-18, Nov-18
Last Recorded			Jan-2017

Books Name	Rs.
Foreign Exchange	350
Bond Market & Valuation	200
Portfolio Management	200
Swaps Interest Rate Derivatives	125
Options	180
Futures Forwards	130
Dividend Decisions	110
leasing	205
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Equity Fund	150
Capital Budgeting	200
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- Case Study on Cost Management for Specific Sector cost (Operating Costing)
- Case Study on Decision Making CVP (BEP), (Shut Down Point), (Relevant Costing),(Limiting Factors)
- Case Study on Pricing decisions & Divisional Transfer Pricing
- Case Study on Budgetary Control & Performance Measurement & Evaluation
- Case Study on Strategic Analysis of Operating Income
- Case Study on Standard Costing
- Case Study on Learning Curve
- Case Study on Linear Programming Performance
- Case Study & Theory (No videos)
- Strategic Cost Management & Performance Evalution CASE STUDY PRACTICAL Question Book
- Strategic Cost Management & Performance Evalution Solution & Summary Book
- Strategic Cost Management & Performance Evalution LMR Question Book

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Process Costing- Concept of Equivalent Production
Joint Products By Products
Standard Costing
Marginal Costing
Budgeting Control
Cost sheet (Unit Costing)
Reconciliation Of Cost & Financial Accounts
Marginal & Absorption Costing
Overheads
Activity Based Costing
Material
Labour
Cost Control Accounts Integrated & Non Integrated Accounts
Contract Costing
Operating Costing
Total

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- **90 Hours Lectures**
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- Life Cycle Costing
- Throughout & Throughput Accounting
- Cost Concept in Decision Making
- Pricing Decision & Transfer Pricing
- Budget & Budgetary Control
- Costing of Service Sector
- OR Assignment
- Learning Curve Theory
- Transportation
- Simulation
- L.P.P
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4	Taxation of NRI's
5	Special Rates of Tax
6	Dividend & Income Distribution Tax Taxation on Buyback
7	Special Provision for taxation of Gains from Stock Market Dealings
8	Special Provision for taxation of Business Trust
9	Special Provision for taxation of Investment Funds
10	Dividend & Bonus Stripping Transactions
11	Assessment of Partnership Firms
12	Assessment of Religious & Charitable Trusts
13	Assessment of Political Parties
14	Assessment of Electoral Trusts
15	Minimum Alternate Tax (MAT)
16	Alternate Minimum Tax (AMT)
17	Income Tax Authorities
18	Search Seizure & Survey Proceedings
19	Assessment Procedure, Rectification, Liability in Special Cases
20	Appeals
21	Revision
22	Income Tax Settlement Commission (ITSC)
23	Authority for Advance Rulings (AAR)
24	Tonnage Tax Scheme
25	Penalties & Prosecution
26	Miscellaneous Provisions
27	Recovery of Taxes(TDS & TCS)
28	Advance Tax
29	Refund & Interest on Refund of Tax
30	Interest U/S 234 A /234 B /234 C
31	Recovery Proceedings
32	Transfer pricing
33	Income from Salary
34	Income from House Property
35	Profit & Gains Of Business & Profession
36	Capital Gain
37	Income From Other Sources
38	Clubbing of Income
39	Set Off & Carry Forward of Losses
40	Deductions under Chapter VIA

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EIS-SM New	Guru Gupta	6000	full
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Costing OR	Dani Khandelwal	10000	full
Costing OR	Dani Khandelwal	5000	LMR
Costing OR NEW	Dani Khandelwal	9000	Common Topic
Costing OR	Dani Khandelwal	7000	Crash

Note:- Topic Wise Lectures are also available for same

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Subject	Professor	Price	Course
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Audit	Sanidhya Saraf	6500	Crash
SFM	Manish Ramuka	7500	Crash
Indirect Tax	Mahesh Gour	11000	Full
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ISCA	Bhavna Gargg	6000	Full
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