Amendment Notes for CA Inter CMA

(New Syllabus)

Dear Student Friends,

While going through the new modules of ICAI (released in July 2019), I have noticed that there are some small changes at few places. ICAI had earlier announced some amendments in the new syllabus also.

To save your time and energy, I have made the compilation of all important changes at one place only. It will be specially useful for those students who had studied this subject from earlier module or those who attended the coaching before August, 2019.

The changes given below are topic wise :

Labour Cost / Employee Cost Topic

Labour Remuneration Systems Retained :

1. Time Rate System
2. Straight Piece Rate System
3. Halsey Premium Plan and
4. Rowan Premium Plan.

Labour Remuneration Systems Dropped / Deleted :

1. Taylor's Differential Piece Rate System
2. Merrick's Differential Piece Rate System
3. Gantt Task Bonus Plan
4. Emerson's Efficiency System
5. Bedaux Point System
6. Barth System
7. Accelerating Plan and
8. Group Bonus Schemes

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Cost Sheet Format

NEW FORMAT OF COST SHEET (Revised by ICAI) :

Particulars	Amount (Rs.)
DIRECT MATERIAL CONSUMED :	
Opening stock of Raw Material	
Add : Purchases	
Less : Closing stock of Raw Material	
∴ Consumption of Raw Material	
Add : Direct Labour (Employee) Cost	
Add : Direct Expenses	
∴ **PRIME COST**	
Add : Factory Overheads	
∴ **GROSS FACTORY COST**	
Add : Opening Work-in-Progress	
Less : Closing Work-in-Progress	
∴ **NET FACTORY COST OF FINISHED GOODS**	
Add : Administrative Overheads (related to production)	
Add : Quality Control Cost	
Add : Research & Development Cost	
Add : Primary Packing Cost	
Less : Credit for Scrap / By products / Misc. Income etc.	
∴ **COST OF PRODUCTION**	
Add : Opening Stock of Finished Goods	
Less : Closing Stock of Finished Goods	
∴ **COST OF GOODS SOLD**	
Add : Administrative Overheads (General & Sales related)	
Add : Selling Overheads	
Add : Distribution Overheads	
∴ **COST OF SALES**	
Add / Less : Profit / (Loss)	
∴ **SALES**	

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Important Note :

The previous cost sheet formats are also useful. They are the standard formats and are useful in other topics like Cost Ledger Accounting, Financial Management subject etc. The above format should be used only for solving the question of preparation of Cost Sheet from the given data.

Illustrative Question on Revised Cost Sheet :

From the following data of Arnav Metallic Ltd., prepare Cost Sheet :

Particulars	Amount (₹)
Repair & maintenance paid for plant & machinery	9,80,500
Insurance premium paid for plant & machinery	96,000
Raw materials purchased	64,00,000
Opening stock of raw materials	2,88,000
Closing stock of raw materials	4,46,000
Wages paid	23,20,000
Value of opening Work-in-process	4,06,000
Value of closing Work-in-process	6,02,100
Quality control cost for the products in manufacturing process	86,000
Research & development cost for improvement in production process	92,600
Administrative cost for :	
- Factory & production	9,00,000
- Selling & Others	11,60,000
Amount realised by selling scrap generated during manufacturing process	9,200
Packing cost necessary to preserve the quality of goods	10,200
Packing cost necessary for handling & transportation of finished goods	90,000
Selling & Distribution overheads	2,20,000
Opening stock of Finished goods	3,60,000
Closing stock of Finished goods	4,30,000
Sales Revenue	1,68,55,000

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SOLUTION

Cost Sheet of Arnav Metallic Ltd. for the period :

Particulars	Amount (₹)	Amount (₹)
Direct Material Consumed :		
Raw materials purchased	64,00,000	
Add: Opening stock	2,88,000	
Less: Closing stock	(4,46,000)	62,42,000
Wages paid		23,20,000
PRIME COST		85,62,000
Add : Factory Overheads :		
Repair and maintenance cost of plant & machinery	9,80,500	
Insurance premium paid for plant & machinery	96,000	10,76,500
GROSS FACTORY COST		96,38,500
Add : Opening value of W-I-P		4,06,000
Less : Closing value of W-I-P		(6,02,100)
NET FACTORY COST OF FG		94,42,400
Quality control cost		86,000
Research & development cost		92,600
Administrative overheads related with factory and production		9,00,000
Primary packing cost necessary to preserve quality of goods		10,200
Less: Amount realised by selling scrap		(9,200)
COST OF PRODUCTION		1,05,22,000
Add : Opening stock of Finished goods		3,60,000
Less : Closing stock of Finished goods		(4,30,000)
COST OF GOODS SOLD		1,04,52,000
Add : Selling & Distribution overheads		2,20,000
Add : Administrative overheads related to selling & others		11,60,000
Add : Secondary packing cost necessary for transportation of FG		90,000
COST OF SALES		1,19,22,000
Sales Revenue		1,68,55,000
PROFIT (Balancing Figure)		49,33,000

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Contract Costing

The calculation of net profit to be transferred to Costing P&L Account from Contract Account is now simplified. Now, you don't have to remember the prudent formulae based on notional profit or estimated profit on completion. All these formulae are deleted.

For example - 1/3 of notional profit x CR / WC

OR

2/3 of Notional Profit x CR / WC etc.

The above formulae are now deleted fully from the syllabus.

Now onwards, **entire Notional Profit is to be transferred directly to Costing P&L Account**. Similarly, entire notional loss is also to be transferred to Costing P&L Account as earlier.

Due to the above change, there will not be any Provision for future contingency i.e. **"Profit in Suspense Account" will not exist.**

For Balance Sheet, the Work in Progress of Contract will now be calculated as follows :

Asset Side of B/S	Rs.	Rs.
Value of Work Certified	xxx	
(+) Cost of Work Uncertified	xxx	
(-) Cash Received from Contractee	xxx	xxx

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Budget Ratios - Budgetary Control Topic

ICAI has added some more ratios in the list of Budget Ratios. We have discussed three main ratios in the classroom i.e. (a) Activity Ratio (b) Capacity Ratio and (c) Efficiency Ratio.

ICAI has added three more ratios in the list as follows :

(i) Calendar Ratio = $\frac{\text{Actual No. of Working Days}}{\text{Budgeted No. of Working Days}} \times 100$

Note : The logic of this ratio can be matched with Calendar Variance of standard costing. If actual no. of working days are higher, then the ratio is Favourable. Hence, actual no. of working days to be taken in the numerator.

(ii) Standard Capacity Usage Ratio

$$= \frac{\text{Budgeted Hours}}{\text{Maximum possible hours in a budget period}} \times 100$$

Note : No logic is provided by ICAI for this ratio. But, on careful study we can say that it is the ratio between budgeted hours planned to be used out of total possible hours.

(iii) Actual Capacity Usage Ratio

$$= \frac{\text{Actual Hours}}{\text{Maximum possible hours in a budget period}} \times 100$$

Note : Again no logic is provided by ICAI for this ratio. But, on careful study we can say that it is the ratio between actual hours utilised out of total possible hours.

Let's take an example from new module, to revise the earlier 3 ratios and 3 new ratios -

Following data is available for DKG & 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 in four week period	6,400 hours
Standard hours expected to be earned in four week period	8,000 hours
Actual hours worked in four week period	6,000 hours
Standard hours earned in four week period	7,000 hours

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The related period is of 4 weeks. In this period, there was a special 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

Solution :

Working Notes :

(a) Maximum possible hours in a budget period

= 8 hours/day x 5 days/week x 4 weeks x 50 employees

= 8,000 hours

It is given in the question as standard hours expected to be earned in four week period

(b) Budgeted Hours

= 8 hours/day x 5 days/week x 4 weeks x 40 employees

= 6,400 hours

It is given in the question as Actual hours expected to be worked in four week period

(c) Actual hours worked in four week period (i.e. Actual Hours) = 6,000 hours (given)

(d) Standard hours earned in four week period (i.e. Standard Hours) = 7,000 hours (given)

(e) Budgeted No. of Working Days = 5 days/week x 4 weeks = 20 days

(f) Actual No. of Working Days = 20 days - 1 special holiday = 19 days

(1) Efficiency Ratio

$$= \frac{\text{Standard Hours}}{\text{Actual Hours}} \times 100$$

= 7,000 / 6,000 x 100 = 116.67%

(2) Activity Ratio

$$= \frac{\text{Standard Hours}}{\text{Budgeted Hours}} \times 100$$

= 7,000 / 6,400 x 100 = 109.375%

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Note : The above formula is derived from OH Volume Variance.

(3) Calendar Ratio = $\frac{\text{Actual No. of Working Days}}{\text{Budgeted No. of Working Days}}$ x 100

= 19 / 20 x 100 = 95%

(4) Standard Capacity Usage Ratio

= $\frac{\text{Budgeted Hours}}{\text{Maximum possible hours in a budget period}}$ x 100

= 6,400 / 8,000 x 100 = 80%

(5) Actual Capacity Usage Ratio

= $\frac{\text{Actual Hours}}{\text{Maximum possible hours in a budget period}}$ x 100

= 6,000 / 8,000 x 100 = 75%

(6) Actual Usage of Budgeted Capacity Ratio (i.e. Capacity Ratio)

= $\frac{\text{Actual Hours}}{\text{Budgeted Hours}}$ x 100

= 6,000 / 6,400 x 100 = 93.75%

Note : This is the ratio which we had studied in the classroom as Capacity Ratio. We had derived it from OH Capacity Variance.

Student Note :

The wordings of capacity ratios are confusing. But that is ICAI style and you will have to remember the name and formula to get the marks. ICAI had already asked a question based on the above formulae in May 2019 exam for 5 marks.

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