

# CA Intermediate Cost & Management Accounting

## My views on RTP - November 2020

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Dear Student Friends,

After ICAI released the RTP for November, 2020 exam; I started receiving the questions from students community about certain errors in it.

Hence, I thought of offering my views about it. To understand my views, you need to first download and print this RTP from ICAI website. Then read the question and answer very carefully. First you should form your own opinion about it and then read my comments.

**Disclaimer :** These are my **personal** views. If you need some more clarification / explanation, then you may get in touch with the Faculty at BOS of ICAI through email.

### Question 1 : [ Material Cost ]

- A similar question is covered in our classroom notes also. Please refer Q.27/48 – Volume I – Version 2 notes.
- Calculate weekly consumption (i.e. usage rate) from weekly production.
- In answer (ii), the Maximum level of 'B' is below Reorder Level. The answer is mathematically correct but logically wrong.
- In answer (iv), the Average Stock level of 'A' can also be calculated using 2<sup>nd</sup> formula i.e. [Min. Level + (1/2 of ROQ)]. It works out to be = 27,600 + (1/2 x 12,000) = 33,600. This is missing in ICAI answer.
- Rest everything is OK and correct.

### Question 2 : [ Employee Cost ]

- The designing of this question is little complicated and hence it confused the students.
- Frankly speaking, such questions are to be attempted at the end and not in the beginning.
- The worker has actually worked for 23 days. But he is allowed 3 days paid leave. It means, he will get a salary for 26 days total.
- One has to read the question 2 to 3 times, to understand and interpret it correctly.
- I think the calculation of actual hours worked by Mr. Z is wrong. In my opinion the calculation should be as follows :
- He worked for 23 days i.e. 15<sup>th</sup> August + One Sunday + 5<sup>th</sup> August + 13<sup>th</sup> August + Balance 19 normal days.
- Hence, effective hours should be = 15<sup>th</sup> August (5 hours without break) + One Sunday (6 hours without break) + 5<sup>th</sup> August (10 hours – 0.5 break) + 13<sup>th</sup> August (9 hours – 0.5 break) + Balance 19 normal days (8 hours – 0.5 break per day).
- That is = 5 + 6 + 9.5 + 8.5 + ( 19 days x 7.5 hrs ) = 171.50 effective hours.
- I feel that Working Note 2 is wrong.
- Answer (i) according to me is wrong. Instead the total monthly wages calculated in Answer (ii) should be divided by 23 days to get the earnings per day.
- Effective wages per day should be = 46,254 / 23 days = Rs. 2011 per day (approx.)
- Effective wages per hour should be = 46,254 / 171.5 hrs. = Rs. 269.70 per hour (approx.)
- Wages to be charged to Job no. HT 200 shall be = Rs. 269.70 x 100 hrs. = 26,970

**Question 3 : [ Overheads ]**

- Please read the data per month and per annum very carefully.
- The question says that there is a 20% general increase in wage rates.
- In my opinion salary of Foreman and Attendant should also be increased by 20%.
- Insurance cost is apportioned in the ratio of depreciation i.e. 3 : 3 : 2 in absence of information regarding the value of assets.
- However, as depreciation charges are also dependent on the value of asset, the same basis may be used for insurance also. The ratio for apportionment will remain the same.

**Question 4 : [ Activity Based Costing ]**

- It was a simple question.
- Everything is OK.

**Question 5 : [ Cost Sheet ]**

- Please refer the new format of Cost Sheet given on page 14 – Volume I of our classroom notes.
- In my view, there are no direct expenses in the question.
- Consumable materials are indirect material. It should go to Factory Overheads.
- Cost of power & fuel should also go to Factory Overheads.
- In the new Cost Sheet format, Administration Overheads are splitted in two parts : (a) Related to Production and (b) Related to General Admn. Or Sales Admn. Please watch the treatment of these two types of Admn. OH carefully in the cost sheet.

**Question 6 : [ Cost Accounting System ]**

- A similar question is covered in our classroom notes also. Please refer Q.27/18 – Volume III – Version 2 notes.
- ICAI has considered difference in depreciation as per the two methods. You may take both the figures separately also. It will tally.

**Question 7 : [ Batch Costing ]**

- It was a simple question.
- However, while calculating the total cost of set up and inventory holding, there is some rounding off error.
- In Answer (ii), column no. 2 i.e. No. of set ups, it should be considered up to minimum 2 decimal places in my opinion.
- ICAI has done the rounding off of No. of set ups. Hence, there will be some difference in the final figure. Don't worry, it is not a logical error but a rounding off error.

**Question 8 : [ Job Costing ]**

- It was a lengthy question.
- For better understanding, you will have to prepare stores ledger using weighted average method for the 5 different types of material.
- ICAI calculation is correct.

**Question 9 : [ Process Costing ]**

- It was a lengthy question again.
- Process III has produced main product 4,800 units of 'X' and by product 600 units of Z.
- By-product Z is valued using 'Net Realisable Value' method i.e. NRV method.
- If you divide production overheads by the total of direct wages, then you will get factory overhead recovery rate of 200% of direct wages.

**Question 10 : [ Joint Products & By Products ]**

- A similar question is covered in our classroom notes also. Please refer Q.13/126 – Volume II – Version 2 notes.
- ICAI has considered difference in depreciation as per the two methods. You may take both the figures separately also. It will tally.

**Question 11 : [ Service Costing ]**

- A similar question is covered in our classroom notes also. Please refer Q.39/62 – Volume II – Version 2 notes.
- Calculation of total distance travelled and total ton-km. would be interesting.
- 10% of the vehicles are laid up for repairs every day. It means, 10% of the vehicles are not running on road, but are undergoing repair work in the workshop. Hence, on these 10% vehicles, we are not going to incur diesel cost and these will also be excluded from the calculation of effective ton-kms.
- ICAI calculation is correct.

**Question 12 : [ Standard Costing ]**

- Simple question for those who know the formulae.
- We have solved such all in one questions in the classroom.
- ICAI calculation is correct.

**Question 13 : [ Marginal Costing ]**

- ICAI calculation is correct.
- However, there is a small printing error in the question itself.
- In sub question (iv), the wordings should be “..... at the revised selling price as calculated in **(iii) above**, if a reduction of .....”

**Question 14 : [ Budget & Budgetary Control ]**

- In answer (ii) i.e. budget for FY 2020-21, ICAI has considered variable factory overheads @ 76% of increased wages. It is correct. Because, the question specifically says that the variable factory overheads are absorbed as a % of direct wages.
- However, an alternative view is that : If we treat that variable factory overheads per unit will remain the same, then the answer will be slightly different.

**Question 15 : [ Miscellaneous ]**

- To find theory answer, please refer ICAI module only.

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