

CA INTER CMA

Amendment Batch 2 Notes

(Extra Questions from ICAI Module September, 2021 edition are covered)

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About CA Rakesh Agrawal

- He passed his B. Com examination from Ness Wadia College of Commerce, Pune in 1989 with distinction.
 - He was the Captain of his college Chess Team.
 - He was adjudged as the Best Mountaineer of the College for 1988 – 89 year.
 - He received the Gold Medal from University of Pune in the Special subject of Cost & Management Accountancy at B. Com level.
 - He passed his M. Com. Exam also from University of Pune (external), with the specialization in Advanced Cost & Management Accounting. Of course, he again cleared this exam with distinction.
 - He cleared his ICWA examination in the first attempt in December, 1990 and stood Third in the Pune Chapter of Cost Accountants.
 - He started teaching the subject of Costing at Pune Chapter of Cost Accountants in the year 1991, as a visiting faculty.
 - He completed his CA Final examination in November 1992 attempt with 32nd Rank in All India Merit.
 - He has cleared Information Systems Auditor (ISA) exam of ICAI in the very first attempt.
 - He has passed State Eligibility Test (SET) in Commerce in the very first attempt.
 - He has also passed the Mutual Fund exam and Derivatives Core Module, conducted by National Stock Exchange.
 - He is the Founder of Vidarbha Professional Academy (1996), Nagpur.
 - He has launched a free mobile app titled as “Costing Dictionary by CA Rakesh Agrawal”. You may download it from Google Playstore.
 - He has an online store www.carakeshagrawal.in. Students can buy video lectures from this website and study anytime anywhere.
 - He is a Teacher by Passion and Chartered Accountant by Profession.
 - He is well known for Conceptual Coaching and Student Friendly nature. At the same time he maintains classroom discipline.
 - He teaches you a subject for your life time. He also tries to co-relate the subject with day to day life.
 - He believes that “Education is not merely getting a Degree, but it is gaining Knowledge”.
 - He enjoys teaching and he wants all of you to enjoy learning the subject also.
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Preface to Amendment Batch 2

Changes made in New Module of ICAI (September, 2021 edition)

Dear Student Friends,

ICAI has published a new edition of CMA module in September, 2021. I have done the comparison of this module with October, 2020 module and noticed the following changes. **This new module is applicable from May, 2022 exam and onwards.**

First of all, I am happy to share with you that ICAI has corrected some of the errors of previous module. You may be aware of the fact that I had identified and reported 72 errors to the Board of Studies of ICAI from October, 2020 module. I had requested ICAI to issue corrigendum to study material on their website. However, instead of issuing corrigendum, ICAI issued a new edition of module with some corrections.

Some wrong and complicated questions are dropped in this module and few new questions are also added based on the suggestions given by me. Mainly, this new module is a **rectification of previous errors** of October, 2020 module.

Some errors are still left to be corrected and at few places there is a difference of opinion between my views and ICAI views. Atleast our Institute has started listening and has shown the courage to accept and correct the mistakes. This itself is a welcome change.

If you notice some more errors in the new module, then you are requested to write an email to BOS, ICAI at this email address : **cma-inter@icai.in**. Please remember that you will not get any response or acknowledgement from ICAI. But still do it. When lot of students write an email about the same thing to ICAI, then only it makes the impact. Hence, students unity is important.

Your personal views, suggestions and feedback are always welcome for making further improvement. You may personally write to me on my email : **ngp.rakesh@gmail.com**

I have given page wise details below about the changes made by ICAI in September, 2021 edition of their CMA module.

CA Rakesh Agrawal, Pune

S.N.	Page No.	Changes as compared to October, 2020 edition of module
Chapter 1 - Introduction to Cost & Management Accounting :		
1.		No change
Chapter 2 - Material Cost :		
2.	2.14	A new illustration 1 is added.
3.		Illustration 7 - Page 2.28 of October, 2020 module is dropped. It was a question of M/s Tyrotubes with probability. It was a complicated and time consuming question. My suggestion is accepted.
4.	2.30	A new Illustration 8 : IPL limited is added in the place of above.
5.		Illustration 14 - Page 2.57 of October, 2020 module is dropped. It was a wrong question with illogical answers - Arnav Electronics. We should welcome this change. My suggestion is accepted.
6.	2.61	A new Illustration 15 : Imbrois India Ltd. for weighted average method of valuation of stock is added in the place of above question.
Chapter 3 - Employee Cost / Labour Cost :		
7.		No changes except minor corrections at few places.
Chapter 4 - Overheads - Absorption Costing Method :		
8.		No changes except minor corrections at few places.
Chapter 5 - Activity Based Costing :		
9.		No changes except minor corrections at few places.
Chapter 6 - Cost Sheet :		
10.		No changes in questions & answers except corrections at few places. One major correction done in the Cost Sheet is : Earlier it was mentioned that 'Interest & Financial Charges' should be included in the Cost Sheet and it will form part of 'Cost of Sales'. This view was contradicting from normal view. Now it is corrected. Interest and Financial charges are now excluded from the Cost Sheet and it will not be included in the Cost Sheet anywhere.
Chapter 7 - Cost Accounting System :		
11.		No changes except minor corrections at few places.
Chapter 8 - Unit and Batch Costing :		
12.		No changes except minor corrections at few places.
Chapter 9 - Job and Contract Costing :		
13.		No change at all.
Chapter 10 - Process & Operation Costing :		
14.		No changes except minor corrections at few places.
Chapter 11 - Joint Products & By Products :		
15.		No changes except minor corrections at few places.
Chapter 12 - Service Costing :		
16.		No changes except minor corrections at few places.

S.N.	Page No.	Changes as compared to October, 2020 edition of module
Chapter 13 - Standard Costing :		
17.	13.20	A new illustration no. 4 is added relating to Material cost variance.
18.	13.27	A new illustration no. 6 is added relating to Labour cost variance.
19.	13.42	A new illustration no. 11 is added relating to Fixed OH cost variance.
20.	13.56	A new question no. 4 is added relating to Material cost variance. Missing figure question.
21.	13.57	A new question no. 6 is added relating to Material & Labour cost variance.
22.	13.59	A new question no. 12 is added relating to Variable OH cost variance.
Chapter 14 - Marginal Costing :		
23.	14.35	A new illustration no. 10 is added relating to key factor question.
24.	14.37	A new illustration no. 11 is added relating to key factor question.
25.	14.38	A new illustration no. 12 is added relating to Special order decision.
26.	14.41	A new illustration no. 13 is added relating to Make or Buy Decision.
27.	14.42	A new illustration no. 14 is added relating to Opportunity Cost concept. We already have it in our notes.
28.	14.64	A new question Q.21 in Test Yourself is added.
Chapter 15 - Budgets & Budgetary Control :		
29.		No changes except minor corrections at few places.

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MATERIAL COST

Q. 1 : [ICAI Sept. 2021 Module - Illustration 1 - Page 2.14]

SKD Company Ltd., not registered under GST, purchased material P from a company which is registered under GST. The following information is available for the one lot of 1,000 units of material purchased :

Listed price of one lot	₹ 50,000
Trade discount	@ 10% on listed price
CGST and SGST (credit not available)	6% CGST & 6% SGST
Cash discount (if payment is made in 30 days)	@ 10%
Freight and Insurance	₹ 3,400
Toll Tax paid	₹ 1,000
Demurrage	₹ 1,000
Commission and brokerage on purchases	₹ 2,000
Amount deposited for returnable containers	₹ 6,000
Amount of refund on returning the container	₹ 4,000
Other expenses	@ 2% of total cost

20% of material shortage is due to normal reasons.

The payment to the supplier was made within 20 days of the purchases.

You are required to calculate effective cost per unit of material purchased to SKD Company Ltd.

Q. 2 : [ICAI Sept. 2021 Module - Page 2.30]

IPL Limited uses a small casting in one of its finished products. The castings are purchased from a foundry. IPL Limited purchases 54,000 castings per year at a cost of Rs. 800 per casting.

The castings are used evenly throughout the year in the production process on a 360 day per year basis. The company estimates that it costs Rs. 9,000 to place a single purchase order and about Rs. 300 to carry one casting in inventory for a year. The high carrying costs result from the need to keep the castings in carefully controlled temperature and humidity conditions, and from the high cost of insurance.

Delivery from the foundry generally takes 6 days, but it can take as much as 10 days. The days of delivery time and percentage of their occurrence are shown in the following tabulation :

Delivery Time (Days)	6	7	8	9	10
Percentage of Occurrence	75	10	5	5	5

Required :

- (i) Compute the economic order quantity (EOQ).
- (ii) Assume the company is willing to assume a 15% risk of being out of stock. What would be the safety stock ? The re-order point ?

- (iii) Assume the company is willing to assume a 5% risk of being out of stock. What would be the safety stock ? The re-order point ?
- (iv) Assume 5% stock out risk. What would be the total cost of ordering and carrying inventory for one year ?
- (v) Refer to the original data. Assume that using process re-engineering the company reduces its cost of placing a purchase order to only Rs. 600. In addition, company estimates that when the waste and inefficiency caused by inventories are considered, the true cost of carrying a unit in stock is Rs. 720 per year.
- (a) Compute the new EOQ and
- (b) How frequently would the company be placing an order, as compared to the old purchasing policy?

Q. 3 : [ICAI Sept. 2021 Module - Page 2.61]

Imbrios India Ltd. is recently incorporated start-up company back in the year 2019. It is engaged in creating Embedded products and Internet of Things (IoT) solutions for the industrial market. It is focused on innovation, design, research and development of products and services. One of its embedded products is LogMax, a system on module (SoM) carrier board for industrial use. In the beginning of the month of September 2021, company entered into a job agreement of providing 4,800 LogMax to NIT, Mandi. Following details w.r.t. issues, receipts, returns of Store Department handling Micro-controller, a component used in the designated assembling process have been extracted for the month of September, 2021 :

Date	Particulars
Sept. 1	Opening stock of 6,000 units @ ₹ 285 per unit
Sept. 8	Issued 4875 units to mechanical division vide requisition no. Mech 009/20
Sept. 9	Received 17,500 units @ ₹ 276 per unit vide purchase order no. 159/2020
Sept. 10	Issued 12,000 units to technical division vide requisition no. Tech 012/20
Sept. 12	Returned to stores 2,375 units by technical division against material requisition no. Tech. 012/20.
Sept. 15	Received 9,000 units @ ₹ 288 per unit vide purchase order no. 160/2020
Sept. 17	Returned to supplier 700 units out of quantity received vide purchase order no. 160/2020
Sept. 20	Issued 9,500 units to technical division vide requisition no. Tech 165/20

On 25th September, 2021, the stock manager of the company expressed his need to leave for his hometown due to certain contingency and immediately left the job same day. Later, he also switched his phone off.

As the company has the tendency of stock taking every end of the month to check and report for the loss due to rusting of the components, the new stock manager, on 30th September, 2021, found that 900 units of Micro-controllers were missing which was apparently misappropriated by the former stock manager. He, further reported loss of 300 units due to rusting of the components.

From the above information you are required to prepare the stock ledger account using 'Weighted Average Method' of valuing the issues.

COST SHEET

Important Note : There is one correction made by ICAI in the Cost Sheet format below :

Particulars	Amount (Rs.)
Direct Material CONSUMED :	
Opening stock of Raw Material	
Add : Purchases & purchase expenses	
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)	
Add : Selling Overheads	
Add : Distribution Overheads	
Add : Secondary Packing cost	
Add : Interest and Financial charges (deleted from here)	
∴ Cost of sales	
Add / Less : Profit / (Loss)	
∴ Sales	

STANDARD COSTING

Q. 4 : [ICAI Sept. 2021 Module - Illustration 4 - Page 13.20]

ABC Limited produces an article by blending two basic raw materials. It operates a standard costing system and the following standards have been set for raw materials -

Materials	Standard Mix	Standard Price (₹/kg.)
A	40%	4.00
B	60%	3.00

The standard loss in processing is 15%. During April, 2021 the company produced 1700 kgs. of finished output. The position of stocks and purchases for the month of April, 2021 is as under –

Materials	Stock on 1.4.2021	Stock on 30.4.2021	Purchased during April 2021	
	(kg.)	(kg.)	(kg.)	(₹)
A	35	5	800	3,400
B	40	50	1,200	3,000

Note : Opening stock of raw material is valued at standard price.

Calculate all Material Cost variances.

Q. 5 : [ICAI Sept. 2021 Module - Illustration 6 - Page 13.27]

The standard output of product 'EXE' is 25 units per hour in a manufacturing department of a company employing 100 workers. The standard wage rate per labour hour is ₹ 6.

In a 42 hours week, the department produced 1,040 units of 'EXE' despite 5% of the time paid being lost due to an abnormal reason. The hourly wages actually paid were ₹ 6.20, ₹ 6 and ₹ 5.70 respectively to 10, 30 and 60 workers.

Calculate relevant labour cost variances.

Q. 6 : [ICAI Sept. 2021 Module - Illustration 11 - Page 13.42]

A company has a normal capacity of 120 machines, working 8 hours per day of 25 days in a month. The fixed overheads are budgeted at ₹ 1,44,000 per month. The standard time required to manufacture one unit of product is 4 hours.

In April 2021, the company worked 24 days of 840 machine hours per day and produced 5,305 units of output. The actual fixed overheads were ₹ 1,42,000.

Calculate all possible variances for Fixed Overheads.

Q. 7 : [ICAI Sept. 2021 Module - Q.4 - Page 13.56]

One kilogram of product **K** requires two chemicals **A** and **B**. The following were the details of product **K** for the month of June, 2021.

- Standard mix of Chemical **A** 50% and Chemical **B** is 50%.
- Standard price per kilogram of Chemical **A** ₹ 12 and Chemical **B** ₹ 15.
- Actual input of Chemical **B** is 70 kilograms.
- Actual price per kilogram of Chemical **A** ₹ 15.
- Standard normal loss 10% of the total input.
- Material cost variance total is ₹ 650 adverse.
- Material yield variance total is ₹ 135 adverse.
- Actual output is 90 kg.

You are required to calculate -

- Material Mix Variance Total
- Material Usage Variance total
- Material Price Variance total
- Actual Loss of Actual Input
- Actual Input of Chemical A
- Actual price per kg. of Chemical B

Q. 8 : [ICAI Sept. 2021 Module - Q.6 - Page 13.57]

The following information is available from the cost records of Novell & Co. for the month of March, 2021 :

Material purchased	20,000 units for ₹ 88,000
Material consumed	19,000 units
Actual wages paid for 4,950 hours	₹ 24,750
Units produced	1,800 units
Standard rates and prices are :	
Direct material	₹ 4 per unit
Standard usage	10 units for each unit of output
Direct labour rate	₹ 4 per hour
Standard requirement	2.5 hours per unit

You are required to calculate relevant material and labour cost variances for the month.

Q. 9 : [ICAI Sept. 2021 Module - Q.12 - Page 13.59]

The following data for Pijee Ltd. is given :

Particulars	Budget	Actual
Production (units)	400	360
Man hours to produce above	8,000	7,000
Variable overheads (in ₹)	10,000	9,150

The standard time to produce one unit of product is 20 hours.

Calculate relevant Variable overhead variances.

MARGINAL COSTING

Q. 10 : [ICAI Sept. 2021 Module - Illustration 10 - Page 14.35]

Moon Ltd. produces products 'X', 'Y' and 'Z'. It has decided to analyse its production mix in respect of these three products.

You are provided with the following information :

Particulars	X	Y	Z
Direct material (₹ per unit)	160	120	80
Variable overheads (₹ per unit)	8	20	12
Direct Labour : (hours per unit)			
Department A payable @ ₹ 4 per hour	6	10	5
Department B payable @ ₹ 8 per hour	6	15	11

From the current budget, further details are gathered as follows :

Particulars	X	Y	Z
Present annual production (in units)	10,000	12,000	20,000
Selling price (₹ per unit)	312	400	240
Maximum demand in the coming year (in units)	12,000	16,000	24,000

There is a constraint on supply of labour in Department A and its manpower cannot be increased beyond its present level.

Required :

- (i) Identify the best possible product mix for Moon Ltd.
- (ii) Calculate the total contribution from the best possible product mix.

Q. 11 : [ICAI Sept. 2021 Module - Illustration 11 - Page 14.37]

ABC Ltd. produces and sells two products - X and Y. Following information relating to both the products is available as under :

Particulars	X	Y
Direct material (₹ per unit)	140	180
Direct wages (₹ per unit)	60	100
Variable overheads @ ₹ 5 per machine hour	20	40
Selling price (₹ per unit)	300	450

The company is facing scarcity of machine hours for working. The availability of machine hours is limited to 60,000 hours in a month. At present, the monthly demand of product X and product Y is 8,000 units and 6,000 units respectively. The fixed expenses of the company are ₹ 2,25,000 per month.

You are required to :

Determine the product mix that generates maximum profit to the company in the given situation and also calculate such profit of the company.

Q. 12 : [ICAI Sept. 2021 Module - Illustration 12 - Page 14.38]**Topic : Special Order Decision**

PQR Ltd. manufactures medals for winners of athletic events and other contests. Its manufacturing plant has the capacity to produce 10,000 medals each month. The company has current production and sales level of 7,500 medals per month. The current domestic market price of the medal is ₹ 150.

The cost data for the month of August 2021 is as under :

Particulars	(₹)
Variable Costs :	
Direct material	2,62,500
Direct labour cost	3,00,000
Overheads	75,000
Fixed manufacturing costs	2,75,000
Fixed marketing costs	1,75,000
Total cost	10,87,500

PQR Ltd. has received a special one-time order for 2,500 medals at ₹ 120 per medal.

Required :

- Should PQR Ltd. accept the special order? Why? Explain briefly.
- Suppose the plant capacity was 9,000 medals instead of 10,000 medals each month. The special order must be taken either in full or rejected totally. Analyse whether PQR Ltd. should accept the special order or not.

Q. 13 : [ICAI Sept. 2021 Module - Illustration 13 - Page 14.41]**Topic : Make or Buy Decision**

NN Ltd. manufactures automobile accessories and parts. The following is the total cost of processing 2,00,000 units.

Direct material cost	₹ 375 per unit
Direct labour cost	₹ 80 per unit
Variable factory overheads	₹ 16 per unit
Fixed factory overheads	₹ 500 lakhs

The purchase price of the components is ₹ 485 per unit. The fixed overhead would continue to be incurred even when the component is bought from outside.

Required :

- Should the part be made or bought from outside considering that the present facility when released following a buying decision would remain idle?
- In case the released capacity can be rented out to another manufacturer for ₹ 32 lakhs having good demand. What should be the decision?

Q. 14 : [ICAI Sept. 2021 Module - Q.21 - Page 14.64]

A company is considering four alternative proposals for a new toy manufacturing machine launched in the market. New machine is expected to produce approximately 25,000 toys every year. The proposals are as follows :

- (i) Purchase and maintain the new toy manufacturing machine and bear all related costs. These machines will run on fuel. The average cost of a machine is ₹ 10,00,000. Life of the machine is 4 years with annual production of 25,000 toys and the resale value is ₹ 2,00,000 at the end of the fourth year.
- (ii) Hire from Agency A : It can hire the machine from Agency A and pay hire charges at the rate of ₹ 20 per toy and bear no other cost.
- (iii) Hire from Agency B : It can hire the machine from Agency B and pay hire charges at the rate of ₹ 12 per toy and also bear insurance cost. All other costs will be borne by Agency B.
- (iv) Hire from Agency C : It can hire the machine from Agency C at ₹ 2,50,000 per year. These machines are more advanced and run on electricity and hence the running cost is considerably low. The company will have to bear cost of electricity, licensing fees and spare parts. However, repairs, maintenance and insurance cost are borne by Agency C.

The following further details are available :

The cost of fuel is ₹ 8 per toy, the cost of spare parts is ₹ 0.20 per toy and the cost of electricity is ₹ 2 per toy. Further, the cost of repairs and maintenance is ₹ 0.25 per toy, the amount of licensing fees to be paid is ₹ 5,000 per machine per annum and the cost of insurance to be paid is ₹ 25,000 per machine per annum.

You are required to :

- (i) Calculate the relative cost of four proposals on cost per toy basis.
- (ii) Rank the proposals on the basis of total cost for 25,000 toys per year.
- (iii) Recommend the best proposal to the company in view of (ii) above.

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