

Problem No. 8

Question

10

9) - Blue paper
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Illustration 11: The accounts of a machine manufacturing company disclose the following information for the six months ending 31st March, 1995.

Particulars	Rs.
Material used	1,50,000
Productive Wages	1,20,000
Factory Overhead Expenses	24,000
Establishment & General Expenses	17,640

You are required to prepare a statement showing :

- (a) Factory cost and total cost of production.
- (b) The percentage of,
 - (i) The factory overhead to productive wages.
 - (ii) The establishment and general expenses to factory cost.
- (c) The price which the company should quote for the manufacturing of a machine requiring materials valued at Rs. 1,250 and expenditure on productive wages Rs. 750, so that the price may yield a profit of 20 % on the selling price.

(P. U. Oct., 98)

Problem No. 8 Solution

Statement of Cost

Particulars	Rs.
Material consumed	1,50,000
Productive wages	1,20,000
Prime Cost	2,70,000
Factory Overhead (% of Factory Overhead to Productive Wages $24,000 / 1,20,000 \times 100 = 20\%$)	24,000
Factory Cost	2,94,000
Establishment & General Expenses (% to Factory Cost $17,640 / 2,94,000 \times 100 = 6\%$)	17,640
Total Cost	3,11,640

Statement of Estimated Price of a Machine

Particulars	Rs.
Material required	1,250
Productive wages	750
Prime Cost	2,000
Factory on Cost = 20% of Wages	150
Factory Cost	2,150
Establishment & General Expenses - 6% of Factory Cost	129
Total cost	2,279.00
Profit 20% on Sales i.e. 25% on cost	569.75
Sales Price to be quoted.	2,848.75
	2,849

80 : 20
2279 : ?

Problem No. 9

Illustration 12 : The Himachal Coolers Ltd., manufactured and sold 1,000 coolers in the year ending 31st March, 2001. The summarised accounts are set out below :

Manufacturing, Trading and Profit & Loss Account

Particulars	Rs.	Particulars	Rs.
To Cost of Materials	80,000	By Sales	4,00,000
To Direct Wages	1,20,000		
To Manufacturing Cost	50,000		
To Gross Profit	1,50,000		
	4,00,000		4,00,000
To Management & Staff Salaries	60,000	By Gross Profit	1,50,000
To Rent, Rates & Insurance	10,000		
To Selling Expenses	30,000		
To General Expenses	20,000		
To Net Profit	30,000		
	1,50,000		1,50,000

For the year ending 31st March, 2001, it is estimated that :

- Output and Sales will be 1,200 coolers,
- Price of materials will rise by 20% on the previous year's level.
- Wages per unit will rise by 5%.
- Manufacturing cost will rise in proportion to combined cost of materials and wages. — 25% on prime cost.
- Selling expenses per unit will remain unchanged.
- Other expenses will remain unaffected by the rise in output.

Prepare a cost statement, showing the price at which the coolers should be marked so as to show a profit of 10% on the selling price.

Problem No. 9

Solution

Solution :

**Statement of Cost (estimated) for
Manufacture of 1200 Coolers for the year ending 31-3-2001.**

Particulars	For 1200 Coolers Rs.	Per Cooler Rs.
Cost of Material (20% increase) <i>1000:8000</i>	1,15,200	96.00
Direct Wages (5% increase) <i>1200:?</i>	1,51,200	126.00
<i>then 20%.</i> Prime Cost	2,66,400	222.00
Manufacturing Charges (25% Prime Cost)	66,600	55.50
<i>factory charges.</i> Works Cost	3,33,000	277.50
Management & Staff Salaries	60,000	50.00
Rent & Taxes and Insurance	10,000	8.33
General Expenses	20,000	16.67
Selling Expenses <i>90:10</i>	36,000	30.00
<i>459000:?</i> Total Cost	4,59,000	382.50
Profit @ 10% Selling Price (i.e. 100/9 on Cost)	51,000	42.50
Selling Price	5,10,000	425.00

(Note : Percentage of manufacturing cost is arrived at: on the basis of last year's information i.e. Prime Cost of last year was Rs. 2,00,000 whereas manufacturing cost was Rs. 50,000 i.e. 25% of Prime Cost.)

*1000:30,000
1200: ?
5000*

Thank you