

Govt Engineering College Jhalawar

Department of management Studies

Class: MBA IInd Sem

Subject : Cost Accounting management

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Model Question Paper With Answer

Q.1 Explain the term marginal Costing And Direct Costing.

Ans : MARGINAL COSTING AND DIRECT COSTING

Direct costing is the technique where only direct costs are considered while calculating the cost of the product. Indirect costs are met against the total margin (excess of selling price over direct costs) given by all the products taken together. Many accountants use 'Direct Costing' and 'Marginal Costing' as synonymous terms. This is unfortunate, because all direct costs need not be variable costs. A direct cost, it may be recalled, is a cost that can be identified readily with a department, a function, a unit of product or some other relevant unit. Direct cost can be fixed as well as variable. For example, if rent is paid for a factory building in which only one product is being manufactured, the rent paid will be taken as a direct cost but not as a variable cost. Thus, the cost of the product under Direct Costing and Marginal Costing will be different. Though, most of the direct costs are variable costs but, as explained above, all direct costs may not be variable. The term 'Variable Costing' should be preferred to marginal costing as compared to 'Direct Costing'.

Marginal cost is the cost of one additional unit of output. The concept is used to determine the optimum production quantity for a company, where it costs the least amount to produce additional units. If a company operates within this "sweet spot," it can maximize its profits. The concept is also used to determine product pricing when customers request the lowest possible price for certain orders.

Marginal cost is the change in the total cost when the quantity produced is incremented by one. That is, it is the cost of producing one more unit of a good

Q.2 why marginal costing is required:?

Ans : marginal costing is required for Following Reason :

- Variable cost per unit remains constant; any increase or decrease in production changes the total cost of output.

- Total fixed cost remains unchanged up to a certain level of production and does not vary with increase or decrease in production. It means the fixed cost remains constant in terms of total cost.
- Fixed expenses exclude from the total cost in marginal costing technique and provide us the same cost per unit up to a certain level of production.

Q.3 Explain the Features of Marginal Costing and its Advantages ?

Ans : Features of marginal costing are as follows:

- Marginal costing is used to know the impact of variable cost on the volume of production or output.
- Break-even analysis is an integral and important part of marginal costing.
- Contribution of each product or department is a foundation to know the profitability of the product or department.
- Addition of variable cost and profit to contribution is equal to selling price.
- Marginal costing is the base of valuation of stock of finished product and work in progress.
- Fixed cost is recovered from contribution and variable cost is charged to production.
- Costs are classified on the basis of fixed and variable costs only. Semi-fixed prices are also converted either as fixed cost or as variable cost.

Advantages of Marginal Costing

The advantages of marginal costing are as follows:

- Easy to operate and simple to understand.
- Marginal costing is useful in profit planning; it is helpful to determine profitability at different level of production and sale.
- It is useful in decision making about fixation of selling price, export decision and make or buy decision.
- Break even analysis and P/V ratio are useful techniques of marginal costing.
- Evaluation of different departments is possible through marginal costing.
- By avoiding arbitrary allocation of fixed cost, it provides control over variable cost.

- Fixed overhead recovery rate is easy.
- Under marginal costing, valuation of inventory done at marginal cost. Therefore, it is not possible to carry forward illogical fixed overheads from one accounting period to the next period.
- Since fixed cost is not controllable in short period, it helps to concentrate in control over variable cost.

Q.4 Pepsi Company produces a single article. Following cost data is given about its product:-
Selling price per unit Rs.40 Marginal cost per unit Rs.24 Fixed cost per annum Rs. 16000 .

Calculate:

(a)P/V ratio (b) break even sales (c) sales to earn a profit of Rs. 2,000 (d) Profit at sales of Rs. 60,000 (e) New break even sales, if price is reduced by 10%.

Solution: Contribution =sales –variable cost , c= 40-24=16

Contribution Ratio =S-V/sales *100 OR P/V Ratio = Contribution/sales *100

So, (A) P/V Ratio = Contribution/sales x 100,

$$= (40-24)/40 \times 100 = 16/40 \times 100 \text{ OR } 40\%$$

(B) Break even sales= Fixed Cost/ c per unit

$$\text{BEP} = 16000/16 = 1000 \text{ UNIT}$$

Break even sales= Fixed Cost/ P/V Ratio

$$\text{BEP} = 16000/.40 = \text{Rs } 4,00,000$$

(C) The sales to earn a profit of Rs. 2,000 $S \times \text{P/V Ratio} = F + P$

Putting this values: $s \times 40/100 = 16000 + 2000$ $S = 18,000 \times 100/40$ $S = \text{Rs. } 45,000$ OR
1125 units

(D)Profit at sales of 60,000 $S \times \text{P/V Ratio} = F + P$

Putting this values: $\text{Rs. } 60,000 \times 40/100 = 16000 + P$ $24,000 = 16000 + P$ $24,000 - 16,000 = P$
8,000

(E) New break even sales, if sale price is reduced by10%

New sales price = 40-10% = 40-4 = 36 Marginal cost = Rs. 24 Contribution = Rs. 12

P/V Ratio = Contribution/Sales = 12/36 x100 OR 33.33% Now, $s \times \text{P/V Ratio} = F$

(at B.E.P. contribution is equal to fixed cost) $S \times 100/300 = \text{Rs.}16000$ $S = 16000 \times 300/100$
 $S = \text{Rs.}48,000$.

Q.5 Bansi company manufactures a single product having a marginal cost of Rs. 1.50 per unit. Fixed cost is Rs. 30,000 per annum. The market is such that up to 40,000 units can be sold at a price of Rs. 3.00 per unit, but any additional sale must be made at Rs.2.00 per unit.

Company has a planned profit of Rs. 50,000. How many units must be made and sold?

Ans :- a. Contribution desired = Fixed cost + Desired Profit = 30,000 + 50,000 = 80,000

b. Calculation of contribution by producing 40,000 units. Contribution per unit = Selling price – Marginal cost = 3.00 – 1.50 = 1.50

c. Contribution for producing 40,000 units. = 1.50 x 40,000 units = Rs.60, 000

d. Additional units to be produced and sold at Rs. 2.00 per unit after 40,000 units. =Rs.80, 000 – Rs. 60, 000 =Rs.20, 000

e. Units to be produced for contribution of Rs. 20, 000 after change in price.

Contribution per unit = Rs. 2.00 – Rs. 1.50= Rs. 0.50

f. Additional units to be produced for contribution of Rs. 20, 000.

= (20, 000 x 100)/50 = 40, 000 units.

Total units to be produced to earn planned profit = 40, 000 + 40, 000 = 80, 000 units.