

Costing: Marginal And Decision Making Costing Practice Problem

1.

A company sells its product at Rs. 15 per unit. In a period, if it produces and sells 8,000 units, it incurs a loss of Rs. 5 per unit. If the volume is raised to 20,000 units, it earns a profit of Rs. 4 per unit. Calculate breakeven point both in terms of rupees as well as in units.

2.

A company has three factories situated in North, East and South with its Head Office in Mumbai. The Management has received the following summary report on the operations of each factory for a period:

	Sales		Profit	
	Actual	Over/(Under) Budget	Actual	Over/(Under) Budget
North	1,100	(400)	135	(180)
East	1,450	150	210	90
South	1,200	(200)	330	(110)

Calculated for each factory and for the company as a whole for the period:

(i) The Fixed Costs (ii) Break-Even Sales

3.

A single product manufacturing company has an installed capacity of 3,00,000 units per annum. The normal capacity utilization of the company is 90%. The company has prepared the following budget for a year:

Variable Factory Costs	Rs. 33 per unit
Variable Selling and Administration Costs	Rs. 9 per unit
Fixed Factory Costs	Rs. 21,60,000
Fixed Selling and Administration Costs	Rs. 7,56,000
Selling Price per unit	Rs. 60

The actual production, sales, price and cost data relating to the year under review are as given below:

Production	2,40,000 units
Sales	2,25,000 units
Finished Goods Stock in the beginning of the year:	15,000 units
Actual Factory Variable Costs exceeded the budget by	Rs. 1,20,000

Required:

- Calculate the Budgeted Profit and Break Even Point in units.
- What increase in selling price was necessary during the year under review to maintain the budgeted point?
- Prepare statements showing the actual profit during the year under review by using (1) Absorption Costing Method and (2) Marginal Costing Method.

4.

Tulsian Ltd provides you the following information.

	X	Y	Z
Selling Price per unit	Rs 550	Rs 630	Rs 690
Direct Material Cost per unit	Rs 180	Rs 160	Rs 380
Direct Labour Cost per unit	Rs 160	Rs 220	Rs 140
Variable Overheads per unit	Rs 110	Rs 140	Rs 145
Specific Fixed Overheads	-	2000	4,780
General Fixed Overheads Rs. 20,000			

Required: find out the most profitable product mix

(a) If maximum labour hours available are 1617 hours @ Rs 20 per hour

(b) If Demand is limited to 100 units of X, 115 units of Y 135 units of Z with production facility being limited to 215 units for X, Y and Z put together.

(12 Marks)

5.

A machine manufactures 10,000 units of a part at a total cost of Rs 21 of which Rs 18 is variable. This part is readily available in the market at Rs 19 per unit.

If the part is purchased from the market then the machine can either be utilized to manufactures a component in same quantity contributing Rs 2 per component or it can be hired out at Rs 21,000.

Recommend which of the alternative is profitable.

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6.

The Company at present manufactures component 'X' one unit of which is required for each unit of Product 'A'. The budgeted output of Product 'A' are 1,20,000 units. The cost details for 10,000 units of component 'X' are as under:

Direct materials	Rs. 24,000
Direct labour @ Rs. 5 per hour	30,000
Variable overheads	18,000
Fixed overheads	18,000
Total	90,000

The component 'X' however is available for purchase at the market at Rs. 8.00 each. In the event of the Company deciding to purchase the component 'X' from market, the Company has two alternatives for the use of the capacity so released as under.

(a) Rent out the released capacity at Rs. 1 per hour.

(b) Manufacture component 'Y' which can be sold at Rs. 8.00 per unit. The cost data of his component for 10,000 units are:

Direct materials	Rs. 30,000
Direct labour @ Rs. 5 per hour	15,000
Factory Variable overheads	9,000
Other variable overheads	21,000
Total	75,000

Required:

- (i) Make an appraisal of proposal to manufacture component 'X' and state whether the component 'X' should be manufactured in the factory or purchased from the market. Assume that no alternative use of spare capacity is available.
- (ii) Evaluate the alternative use of the spare capacity and state whether to manufacture or buy the component 'X' and if your decision is to buy the component 'X', which of the two alternatives for the use of spare capacity will you prefer?