

Employee Cost

Notes:

Q.1 Human Resources Department of A Ltd. computed labour turnover by replacement method at 3% for the quarter ended June 2015. During the quarter, fresh recruitment of 40 workers was made. The number of workers at the beginning and end of the quarter was 990 and 1010 respectively.

You are required to calculate the labour turnover rate by Separation method.

Answer:

Calculation of labour turnover by Separation Method:

$$\begin{aligned}\text{Separation Method} &= \frac{\text{No. of worker separated}}{\text{Average No. of workers}} \times 100 \\ &= \frac{50}{1000} \times 100 \\ &= 5\%\end{aligned}$$

Working Note:

1. Calculation for Number of labour replaced:

$$\begin{aligned}\text{Replacement Method} &= \frac{\text{No. of worker replaced}}{\text{Average No. of workers}} \times 100 \\ 3\% &= \frac{\text{No. of workers replaced}}{\frac{990 + 1010}{2}} \times 100\end{aligned}$$

$$\text{No. of worker replaced} = 30$$

2. Calculation for worker Separated:

Worker at beginning of quarter	=	990
(+) Worker newly recruited	=	40
(+) Workers replaced	=	30
(-) Workers left for replacement	=	(30)
(-) Workers at end of quarter	=	<u>(1010)</u>
		20
(+) Separated due to replacement	=	<u>30</u>
No. of separated workers	=	50

Q.2 Human Resources Department of A Ltd. computed labour turnover by replacement method at 3% for the quarter ended June 2015. During the quarter, fresh recruitment of 40 workers was made. The number of workers at the beginning and end of the quarter was 990 and 1010 respectively. You are required to calculate the labour turnover rate by Flux method.

Answer:

Calculation of labour turnover by Flux Method:

$$\begin{aligned}
 \text{Flux Method} &= \frac{\text{No. of worker separated} + \text{No. of worker accession}}{\text{Average No. of workers}} \\
 &= \frac{50 + (30 + 40)}{1000} \times 100 \\
 &= 12\%
 \end{aligned}$$

Q.3 Discuss the difference between allocation and apportionment of overhead.

Answer:

Basis of Difference	Allocation	Apportionment
Meaning	Identifying a cost centre and charging its expenses in full.	Allotment of Pro-portions of common cost to various cost centre.
Nature of expenses	Specific and identifiable	General and common
Number of Centre (Deptt.)	One	Many
Basis	Allocate directly	Allocate Indirectly
Amount of overhead	Charge in full	Charge in proportion able
Assumption	Not required	Required

Q.4 What are the methods of re-apportionment of service department expenses over the production departments? Discuss.

Answer:

The following methods are generally used for re-apportionment according to the specified circumstances:

Methods of Re-apportionment: 1. Direct Re-apportionment Method
 2. Step Method
 3. Reciprocal Service Method

Reciprocal Service Method: 1. Trial & Error Method
 2. Repeated Distribution Method
 3. Simultaneous Equation Method

Q.5 Explain the treatment of over and under absorption of overheads in cost accounts.

Answer:

Treatment of over & under absorption of overheads:

Overhead expenses are usually applied to production on the basis of predetermined rates. Production overheads are to be determined in advance as follows for fixing selling price, quote tender price and formulate budget etc.

$$\text{Pre-determined OHs rate} = \frac{\text{Estimated/Normal OHs for the period}}{\text{Budgeted Number of units during the period}}$$

The actual OHs rate will rarely coincide with the pre-determined OHs rate, due to variation in pre-determined OHs rate and actual OHs rates are differs:

Treatment of over and under absorption of overheads are:-

- i. **Writing off to costing P&L A/c:**
 - If there is a small difference between the actual and absorbed amount should simply be transferred to costing P&L A/c.
 - If difference is large then investigate the causes and after that abnormal loss/gain shall be transferred to costing P&L A/c.
- ii. **Use of supplementary Rate:** In this method the balance of under and over absorbed overheads may be charged to cost of W.I.P., finished stock and cost of sales proportionately with the help of supplementary rate of overhead.
- iii. **Carry Forward to Subsequent Year:** Difference should be carried forward in the expectation that next year the position will be automatically corrected.

Q.6 How would you account for idle capacity cost in Cost Accounting?

Answer:

Idle Capacity Cost:

- Idle capacity is that part of capacity of a plant, machine or equipment which cannot be used due to different reasons which may be avoidable or unavoidable. It is the difference between practical capacity and capacity based on sales expectancy.

Accounting for idle capacity in Cost Accounting:

- Normal idle capacity cost cannot be avoided and it should be absorbed in cost by inflating the rate. But if it is due to un-avoidable reasons, it may be charged to Profit & Loss Account.
-

Marginal Cost

Notes:

Q.1 Elaborate the practical application of Marginal Costing.

Answer:

Practical Application of Marginal Costing:

Marginal costing is a useful technique of decision making, used by the management of most of the manufacturing concerns. Some of the important decision making areas where marginal costing technique is used by these concerns are:

1. Fixation of selling price:

- (i) Under normal circumstances
- (ii) For special market (export market) or for a special customer
- (iii) During recession
- (iv) At marginal cost or below marginal cost.

2. Decision relating to the most profitable product mix:

- (i) Selection of optimal product mix
- (ii) Substitution of one product with another
- (iii) Discontinuing or dropping of a product line

3. Decision relating to make or buy

4. Shut down or continue of determination or output level in period of recession or depression.

5. Retaining or replacing a machine

6. Selling in the home or in the export market

7. Change vs. Status quo

8. Expanding or contracting

9. Decision relating to price-mix.

Q.2 What are the objectives of cost-volume-profit analysis?

Answer:

The main objectives of cost-volume-profit analysis are as below:

- 1. It aims at measuring variations in cost with volume.
 - 2. It enables business managers to fulfill the objectives of profit planning.
 - 3. It facilitates in making short-run tactical decisions such as acceptance of special order, shift working; choice of sales mix etc.
-

Q.3 Why it is a Marginal Costing?

Answer:

Marginal costing is a useful technique of decision making, used by the management of most of the manufacturing concerns. Some of the important decision making areas where marginal costing technique is used by these concerns are:

1. Fixation of selling price:

- (i) Under normal circumstances
- (ii) For special market (export market) or for a special customer
- (iii) During recession
- (iv) At marginal cost or below marginal cost.

2. Decision relating to the most profitable product mix:

- (i) Selection of optimal product mix
- (ii) Substitution of one product with another
- (iii) Discontinuing or dropping of a product line

3. Decision relating to make or buy

4. Shut down or continue of determination or output level in period of recession or depression.

5. Retaining or replacing a machine

6. Selling in the home or in the export market

7. Change vs. Status quo

8. Expanding or contracting

9. Decision relating to price-mix.
