



BLAST FROM THE PAST

- Must Must Must Read Before Exam
- All Important Theory Covered
- Learn in an easy way in "Question-Answer" Format
- Learn "How to Present the Theory" in Exam
- 100% Theory in Multi Colour for Better Retention
- Important Points highlighted for Last Minute Revision



CA Rahul Garg

B.Com, FCA, FCMA, LCS, DISA, CFA (ICFAI), MBA, Adv. Dip. Mgt.
5 Times All India Rankholder in CA CS CMA
3 Times Single Digit Rank (including AIR 1)
Gold Medalist

CA INTERMEDIATE | PAPER 3 | COST & MANAGEMENT ACCOUNTING

Tribute to my Beloved Elder Brother

SACHIN GARG

(Inspiration for me and all my students)

who left for heavenly abode on 3rd May, 2015





**"IF YOU WANT TO BE A LION,
YOU MUST TRAIN WITH LIONS."**

COST AND WORKS ACCOUNTS EXAM

"No excuses for go-getters"

Monetary hardship, partial vision loss and a parent's illness, could not stand in the way of 23-year-old Rahul's success. Today, Rahul who is also a qualified CA and CS, is in a position to care for his parents and chart out a successful career for himself. He aspires to start his own practice at the age of 35

by Urmila Rao

This Chandigarh boy appeared for the CWA exam in June 2009, and simultaneously wrote the Company Secretary (CS) final exams. "I had cleared the second levels i.e., the Intermediate Levels of both CWA and CS, securing first rank in the former and fourth in CS," says Rahul. "One is eligible to attend both the exams, without the dates overlapping," he adds

CWA course can be completed in three stages; Foundation, Intermediate and Final. Minimum eligibility for the Foundation is Class 12. Graduates are exempted from the Foundation Level

The CWA qualification trains a candidate in areas of accounting, cost and management, audit and tax functions among others, and a CWA professional maintains and scrutinises statutory book of accounts, prepares cash budgets, cash flow statements. Of late, they also provide consultancy services to corporate business houses.

"Enrolment to the Intermediate/Foundation Course is open throughout the year and the exams are conducted in June and December," he shares.

A certified CWA and CS, Rahul is

RAHUL'S STUDY STRATEGIES

- Allotted five hours a day for two months to his toughest subjects - Management Accounting & Financial Analysis and Direct Taxes. Coaching in these areas also helped
- Referred to books by Munish Bhandari for Law, V K Aggarwal for Auditing, and Bangar for Indirect Taxes. His favourites are Tulsian and G Sekar
- Coaching classes helped but it was his self-study which helped him ace professional exams such as CA, CS and CWA
- A positive attitude was a must, and he put in "200 percent" in attempt 1, as failure and reappearing for an exam was not an option



Rajesh Thakur/Outlook Group

RAHUL GARG

LOCATION: Chandigarh
 ROLL NO: 900879
 PERCENTAGE: 64.38
 YEAR: 2009

also a qualified Chartered Accountant, currently working as senior In-charge, Accountant and Assurance at global firm Grant Thornton

After completing Class 12 at the Government Model School in 2004 and topping with 90.20 percent marks, Rahul enrolled in the CA course simultaneously with BCom, graduated in 2006 and obtained CA qualification in 2008.

But the journey to the top was not easy. Rahul, the third and youngest child in the family, was no stranger to financial hardships. His father is a driver by profession and his mother, a homemaker. And by sheer bad luck, Rahul lost partial vision during a game of bow and arrows.

But despite tough times during

childhood, Rahul's confidence reigns supreme. "For go-getters, there are no excuses," says Rahul. Inspired by his neighbours whose economic situation improved immensely after a family member became a Chartered Accountant after completing the CA programme successfully, Rahul decided to follow suit. "The fact that a CA has the authority to authenticate a company's balance sheet, also fascinated me," says Rahul.

Currently pursuing Chartered Financial Analyst (CFA) Programme and an MBA (Finance) from ICFAI, the ambitious young man aims to complete both courses in a span of two years and get a dual degree. Next in the line are, an I.S.A (Information Systems Audit) from Institute of Chartered Accountants of India, followed by certificates from CIMA (Chartered Institutes of Management Accountants, UK) and IMA (Institute of Management Accountants, USA).

"I want to study and be recognised in my area of work," he says about his acquisitions. Though the CWA qualification is perceived as being a notch below CA with a 40-45 percent of average salary difference, it's the diverse knowledge and increased perspective that is fascinating. "A wider knowledge base will enable me to hold a top corporate position at an early age," he says.

Despite his doctor's advice not to strain his eyes, Rahul remains academically active. Post work, he coaches CA and CWA aspirants. He has also authored four books for commerce graduates. "I have presented the content in a simple, systematic, interesting format," says Rahul, who wants to start his own practice by the time he turns 35. □

Chandigarh Toppers of
Cost FM (May 2016)

1. Shreshtha (on Left) –
91 Marks

2. Iram (on Right) – 73
Marks



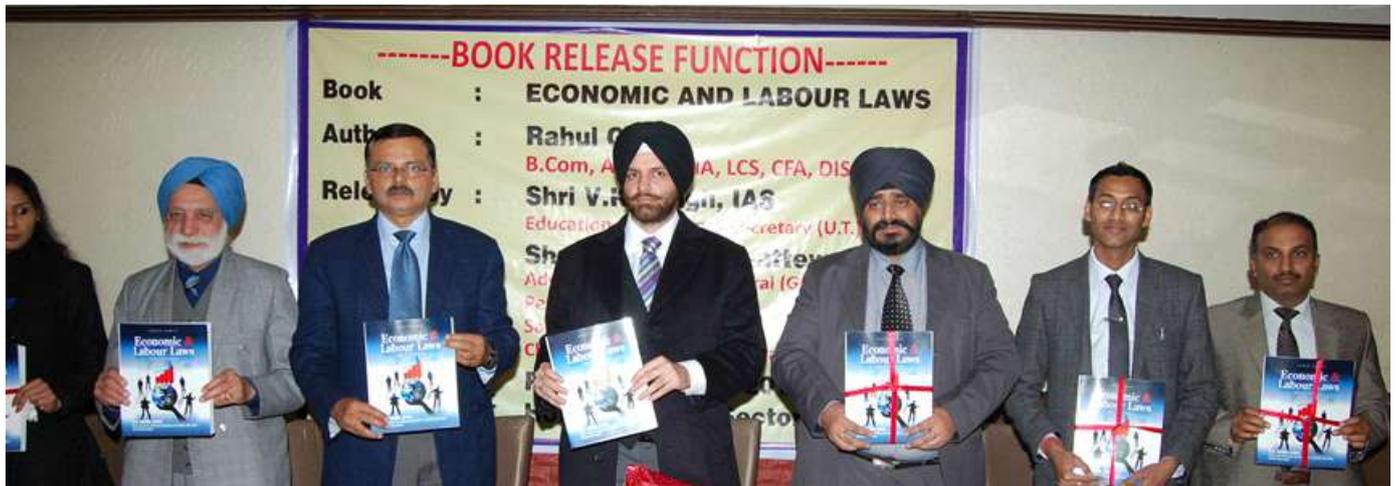
With ICAI(Cost)
President Sh.
Kunal Banerjee
(for getting All India
Rank 1)



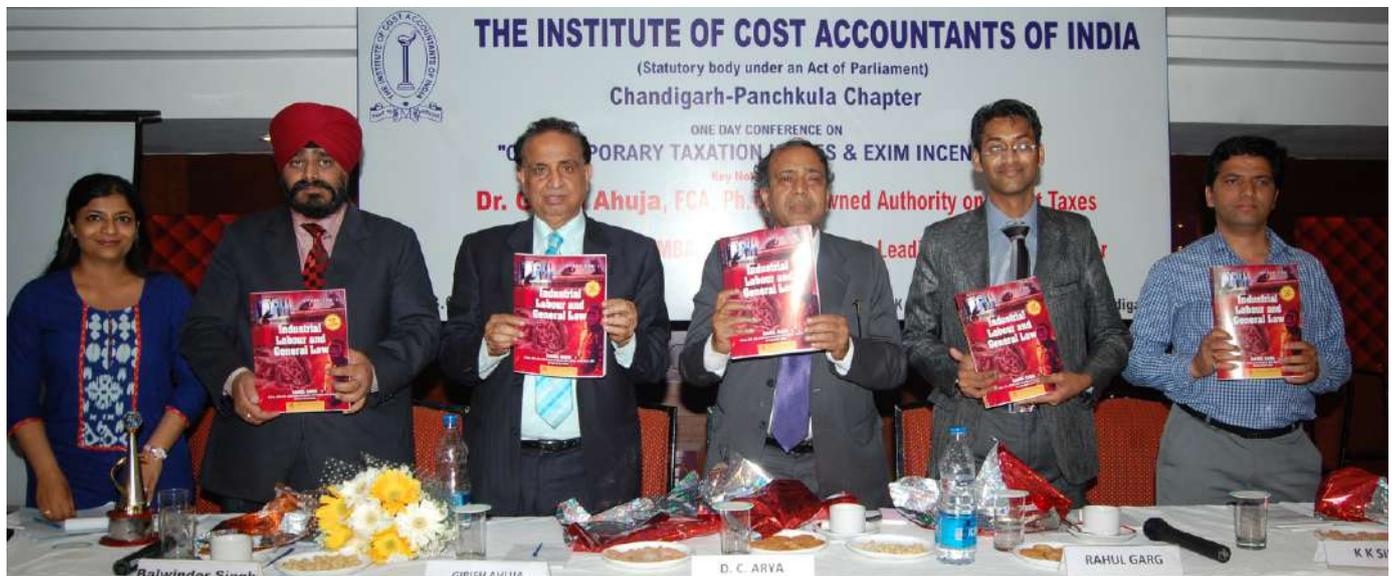
Awarded by Chief
Justice Sh.
P.N. Bhagwati in
presence of Sh. Atal
Bihari Vajpayee



Being Awarded with
CA Degree by ICAI
President Sh.
Amarjit Chopra



“Economic & Labour Laws” book being released by Education Minister of UT Sh. VK Singh (IAS) in presence of then Chairman of Chandigarh chapter of ICAI, ICSI, ICAI (Cost)



“Industrial, Labour & General Laws” book being released by Dr. Girish Ahuja (A Renowned Personality in Direct Taxes) and Dr. D.C. Arya (Director Finance of Indian Railway)

A brief about Rahul Garg

1. Broke **LIMCA BOOK OF RECORDS** by being youngest in India to clear all the 3 professional courses CA, CS, CMA at the age of 22 years 7 months with Ranks (**A Record**).
2. **5 times All India Rankholder in Professional Exams (A Record)**.
3. Scored SINGLE DIGIT RANK 3 times (including **All India Rank 1**).
4. Undisputed achiever of all 3 professional exams with **ALL INDIA RANK in ALL**.
5. Achieved **exemption in 40+ papers** out of total 50 papers held by CA, CS, CMA institutes in his academic career.
6. Awarded by **Mr. Atal Bihari Vajpayee** in 2010 for exceptional performance in Academics.
7. One of the **best motivator** in India.
8. Covered by the National Magazine 'Career 360' amongst **12 National Toppers** in 2010.
9. Specialist in **Time management** and **Stress management skills**.

Love for the subject COST, ACCOUNTING & FM

1. First in India to provide **Multi Colour Theory** notes in Cost FM.
2. **Tabular** and **Diagrammatic presentation** of Theory to create interest.
3. Important points of theory Specially marked for **last minute revision**.
4. **Simple and lucid language** in theory for easy understanding.
5. Only one in India to cover Maximum **Practical Questions** in Accounts, Cost & FM.
6. More than **90% coverage of Practical Questions in CA IPCC & CA INTER** Exams since May 2014 from Rahul sir's notes.
7. Focus on **100% conceptual clarity** and maximum practice of questions.
8. **Special focus on Presentation** and "How to Attempt" to score more than average marks.

RANK Certificate for All India Rank 41 (May 06) in CA PE II Exam (now CA Inter)

Roll No. 07389



**The Institute of
Chartered Accountants of India**

Rank Certificate

This is to certify that

RAHUL GARG

has passed the

Professional Education Examination - II

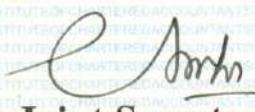
held by

**The Institute of Chartered
Accountants of India**

in the month of **MAY, 2006**

and that he/she obtained **FORTYFIRST** *rank*

in that Examination.


**Joint Secretary
(Examinations)**

Date **29TH JULY, 2006**



RANK Certificate for All India Rank 4 (June 08) in CS Inter Exam



The Institute of
Company Secretaries of India
IN PURSUIT OF PROFESSIONAL EXCELLENCE
Statutory body under an Act of Parliament

Certificate of Merit

This is to certify that

RAHUL GARG

has passed all the papers of the
INTERMEDIATE EXAMINATION
of Company Secretaryship held in the month of

JUNE, 2008

and has secured

FOURTH RANK

in the order of merit in the said examination.

Date of Issue : *1st December, 2008*

Roll Number : *12715*

MC Number : *473*

Authorised Signatory

Secretary & CEO

RANK Certificate for All India Rank 13 (June 09) in CS Professional (Final) Exam



**THE INSTITUTE OF
Company Secretaries of India**
IN PURSUIT OF PROFESSIONAL EXCELLENCE
Statutory body under an Act of Parliament

Certificate of Merit

This is to certify that

RAHUL GARG

has passed all the papers of the
PROFESSIONAL PROGRAMME EXAMINATION
of Company Secretaryship held in the month of

JUNE, 2009

and has secured

THIRTEENTH RANK

in the order of merit in the said examination.

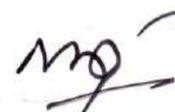
Date of Issue : *11 January, 2010*

Roll Number : *57870*

MC Number : *1,053*



Authorised Signatory



Secretary & CEO

RANK Certificate for All India Rank 1 (June 08) in CMA Inter Exams

Regn. No. NRS/012986

The Institute of Cost and Works Accountants of India



This
Rank Certificate
is awarded to

RAHUL GARG

*for his/her having passed in one sitting all the subjects of the **Intermediate** Examination of The Institute of Cost and Works Accountants of India held in the month of **June 2008** and for his/her having secured the **First Rank**.*

*Given under the Common Seal of The Institute of Cost and Works Accountants of India, this **Twenty fourth** day of **August, 2008**.*




President

Institute's Gold Medal for **All India Rank 1** (June 08) in CMA Inter Exams

NRS/012986

No. 19

The Institute of Cost and Works Accountants of India



This is to certify that

Rahul Garg

has been awarded the following prizes for his having passed the Intermediate Examination of the Institute of Cost and Works Accountants of India held in June 2008

NAME OF THE PRIZE	PRIZE AWARDED FOR
Institute's First Prize for General Proficiency	Gold Medal for securing the highest total marks without exemption in Intermediate (Revised) Examination – June 2008
G. Indira Debi Memorial Gold Medal	For securing the highest total marks without exemption in Intermediate (Revised) Examination – June 2008
U.N. Sur Memorial Cash Prize	For securing the highest total marks without exemption in Intermediate (Revised) Examination – June 2008
A.K. Biswas Foundation Book Prize	For securing the highest total marks without exemption in Intermediate (Revised) Examination – June 2008
Northern Coalfields Limited Merit Award – Book Prize	For securing the highest total marks without exemption in Intermediate (Revised) Examination – June 2008
Bikramjit Majumdar Memorial Book Prize	For securing the highest total marks in Stage - I of Intermediate (Revised) Examination – June 2008

Given under the Common Seal of the Institute of Cost and Works Accountants of India, this Twenty eighth day of January 2009.



Rahul Garg
President

RANK Certificate for All India Rank 3 (June 09) in CMA Final Exams

90167

Regn. No. NRS/012986

The Institute of Cost and Works Accountants of India



This
Rank Certificate
is awarded to

RAHUL GARG

for his/her having passed in one sitting all the subjects of the *Final Examination of The Institute of Cost and Works Accountants of India held in the month of June 2009* and for his/her having secured the *Third Rank*.

Given under the Common Seal of The Institute of Cost and Works Accountants of India, this *Twenty Ninth day of August, 2009*.



President
(G. N. VENKATARAMAN)

Preface

Dear Students,

It gives me immense pleasure and satisfaction to present the publication on subject matter "Cost Accounting".

The book will specifically cater to the needs of **CA Intermediate (IPCC)** Students. It covers the **THOERY QUESTIONS asked by ICAI since Nov 2009 with SOLUTIONS** in an informative and lucid manner.

It's difficult for the students to understand the theory portion, thus the effort has been made to present the matter under **suitable headings and sub headings** with sufficient detail in a manner that can be grasped by the students easily and quickly. The **unique style of presentation** adopted makes the learning easy and interesting for the students.

The book has been drafted in a **student friendly approach** so as to facilitate easy and quick understanding of the subject matter.

Though considerable care has been taken to make the book error free yet some unintended errors may have crept in for which I feel apologies. But as '**the road to improvement is never ending**', I would welcome the suggestions, criticism and feedback of this book for the incorporation of necessary changes in a timely manner.

I believe in words of Carlson Gracie "If you want to be a Lion, you must train with Lions".

This publication stands as a tribute to my elder brother Beloved Sachin Garg, who left for heavenly abode on 3rd May, 2015.

With Best Wishes

CA RAHUL GARG

ALL INDIA RANKHOLDER in CA, CS, CMA

A Special thanks is due to my biggest strength,
my wife SHIKHA GARG;
who has always been my side in all the challenges.

This publication could not have been possible without her.



I am also thankful to
my mother Smt. Prem Lata Garg and father Sh. Pawan Kumar Garg,
who have provided me best education, constant love and affection since
childhood and making me what I am today.

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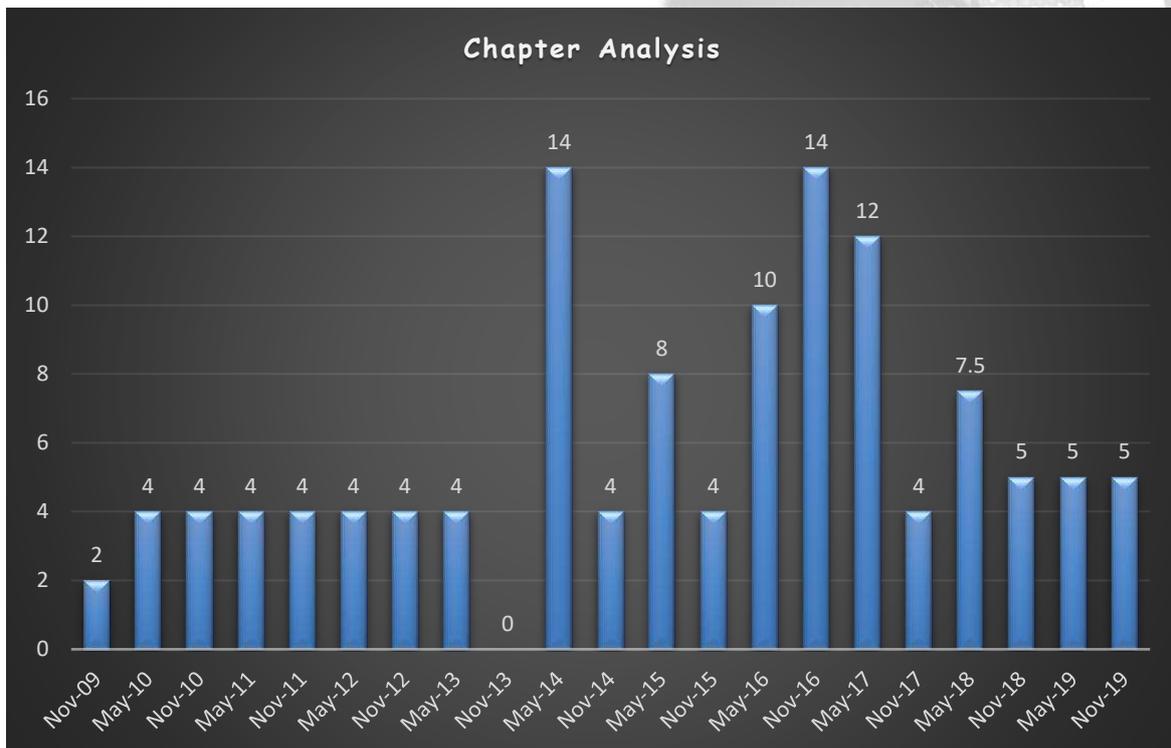
Chapter - 1

Basic Concepts

*"Without inspiration the best powers of the mind remain dormant. There is a fuel in us which needs to be ignited with sparks."
Johann Gottfried Von Herder*

Analysis of Past 21 Attempts

Theory Questions Analysis



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Theory Questions

1.	N 09 (2 M)	Define the following : a. Imputed cost b. Capitalised cost
2.	M 10 (2 M)	What is Cost accounting? Enumerate its important objectives.
3.	M 10 (2 M)	Distinguish between Fixed overheads and Variable overheads.
4.	N 10 (4 M)	Write note on Essential factors for installing a Cost Accounting system.
5.	M 11 (4 M)	Distinguish between cost units and cost centres.
6.	N 11 (4 M)	Distinguish between Cost control and cost reduction.
7.	M 12 (4 M)	State the types of cost in the following cases : a. Interest paid on own capital not involving any cash outflow. b. Withdrawing money from bank deposit for the purpose of purchasing new machine for expansion purpose. c. Rent paid for the factory building which is temporarily closed. d. Cost associated with the acquisition and conversion of material into finished product.
8.	N 12 (4 M)	Briefly explain the essential features of a good cost accounting system.
9.	M 13 (4 M)	Cost of a product or service is required to be expressed in suitable cost unit. State the cost units for the following industries : a. Steel b. Automobile c. Transport d. Power
10.	M 14 (4 M)	Distinguish between cost control and cost reduction.
11.	M 14 (4 M)	Explain the following : a. Explicit costs b. Engineered costs
12.	M 14 (2 M)	State the unit of cost for the following : a. Transport b. Power c. Hotel d. Hospital
13.	N 14 (4 M)	Identify the methods of costing for the following : a. Where all costs are directly charged to a specific job. b. Where all costs are directly charged to a group of products.

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		<p>c. Where cost is ascertained for a single product.</p> <p>d. Where the nature of the product is complex and method can not be ascertained.</p>
14.	M 15 (4 M)	Explain 'Sunk Cost' and 'Opportunity Cost'.
15.	M 15 (4 M)	Define 'Cost Centre' and state its types.
16.	N 15 (4 M)	<p>State the method of costing and also the unit of cost for the following industries:</p> <p>a. Hotel</p> <p>b. Toy-making</p> <p>c. Steel</p> <p>d. Ship Building</p>
17.	M 16 (4 M)	State the difference between cost control and cost reduction.
18.	M 16 (4 M)	Narrate the objectives of cost accounting.
19.	M 16 (2 M)	Explain what do you mean by Profit Centres.
20.	N 16 (4 M)	<p>Write short notes on :</p> <p>a. Sunk Cost</p> <p>b. Opportunity Cost</p>
21.	N 16 (4 M)	What is meant by "cost centre"? What are the different type of cost centres?
22.	N 16 (4 M)	<p>Give the method of costing and the unit of cost against the under noted industries :</p> <p>a. Road transport</p> <p>b. Steel</p> <p>c. Bicycles</p> <p>d. Bridge construction</p>
23.	N 16 (2 M)	Explain the Conversion cost.
24.	M 17 (4 M)	Explain Cost Unit & Cost Centre.
25.	M 17 (4 M)	What are the essential factors for installing a cost accounting system? Explain.
26.	M 17 (4 M)	State the difference between Cost Accounting & Management Accounting.
27.	N 17 (4 M)	<p>Identify the methods of costing for the following :</p> <p>a. Where all costs are directly charged to a specific job.</p> <p>b. Where all costs are directly charged to a group of products.</p> <p>c. Where cost is ascertained for a single product.</p> <p>d. Where the nature of the product is complex and method can not be ascertained.</p>
28.	M 18 (5 M)	Why are cost and management accounting information are

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		required by the staff at operational level? Describe.
29.	M 18 (2.5 M)	Explain Opportunity Cost.
30.	N 18 (5 M)	Mention and explain types of responsibility centres.
31.	M 19 (5 M)	Differentiate between Cost Control and Cost Reduction.
32.	N 19 (5 M)	Mention the cost unit of following industries : a. Electricity b. Automobile c. Cement d. Steel e. Gas f. Brick Making g. Coal Mining h. Engineering i. Professional Services j. Hospital

Answer 1

a	Imputed cost	<ul style="list-style-type: none"> ✓ These costs are notional costs which do not involve any cash outlay. ✓ Interest on capital, the payment for which is not actually made, is an example of imputed cost. ✓ These costs are similar to opportunity costs.
b	Capitalised Cost	<ul style="list-style-type: none"> ✓ These are costs which are initially recorded as assets and subsequently treated as expenses.

Answer 2

Cost Accounting	<ul style="list-style-type: none"> ✓ Cost accounting may be regarded as “a specialised branch of accounting which involves classification, accumulation, assignment and control of costs.”
Objectives	<ul style="list-style-type: none"> ✓ Ascertainment of Cost ✓ Determination of Selling Price ✓ Cost Control ✓ Cost Reduction ✓ Ascertaining the profit of each activity ✓ Assisting management in decision making

Answer 3

Basis	Fixed Overheads	Variable Overheads
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Relation with output	These tend to be unaffected by fluctuations in the levels of activity.	These tend to vary with the volume of activity.
Nature w.r.t. Totality	The total fixed overheads remain same at various levels of output.	The total variable overheads don't remain same at various levels of output.
Nature w.r.t. Per unit	Fixed Overheads keep on changing on per unit basis.	Variable Overheads remain same on per unit basis.
Period or product	These overheads are incurred for a period .	These are expressed in terms of units and not time period.

Answer 4

Objective	✓ The objective of costing system must be considered.
Nature of Business	<ul style="list-style-type: none"> ✓ Every business industry has its own peculiar features and costing objectives. ✓ According to its cost information requirement, cost accounting methods are followed.
Cover all levels	✓ Costing system should fulfil the requirement of different levels of management i.e. Top management, Strategic level management, Operational level management.
Nature of product	<ul style="list-style-type: none"> ✓ Nature of product determines the type of costing system to be implemented. ✓ The product which has by-products requires costing system which account for by-products as well.
Production process	✓ A good costing system can never be established without the complete knowledge of the production process.
Maintenance of cost records	✓ The manner in which Cost and Financial accounts are kept.
Statutory requirement	✓ Records are to be maintained to comply with statutory requirements, standards to be followed (Cost Accounting Standards and Accounting Standards).

Answer 5

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Cost Unit

Meaning	✓ It is a unit of product, service or time (or combination of these) in relation to which costs may be ascertained or expressed.	
Insights	<ul style="list-style-type: none"> ✓ A cost unit is a devise for the purpose of breaking up or separating costs into smaller subdivisions. ✓ These smaller sub-divisions are attributed to products or services to determine product cost or service cost or cost of time spent for a particular job etc. 	
Example	Industry or Product	Basis of Cost Unit
	Automobile	Number
	Cement	Tonne/ per bag etc.
	Chemicals	Litre, gallon, kilogram, tonne etc.
	Power	Kilo-watt hour
	Steel	Tonne

Cost Centre

Meaning	✓ It is defined as a location, person or an item of equipment (or group of these) for which cost may be ascertained and used for the purpose of Cost Control.	
Personal & Impersonal Cost Centre	<i>Personal Cost Centre</i>	<ul style="list-style-type: none"> ✓ It consists of a person or group of persons. ✓ For Example : Mr. X, supervisor, foreman, accountant, engineer, process staffs, mining staffs, doctors etc.
	<i>Impersonal Cost Centre</i>	<ul style="list-style-type: none"> ✓ It consists of a location or an item of equipment (or group of these). ✓ For Example : Ludhiana branch, boiler house, cooling tower, weighing machine, canteen, and generator set etc.
Cost Centres in a manufacturing concern	<i>Production Cost Centre</i>	<ul style="list-style-type: none"> ✓ It is a cost centre where raw material is handled for conversion into finished product. ✓ Here both direct and indirect expenses are incurred. ✓ For Example : Machine shops, welding shops and assembly shops etc.
	<i>Service Cost Centre</i>	<ul style="list-style-type: none"> ✓ It is a cost centre which serves as an ancillary unit to a production cost centre. ✓ Only indirect expenses are incurred. ✓ For Example : Payroll processing department, HRD,

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		Power house, gas production shop, material service centres, plant maintenance centres etc.
	<i>Mixed Cost Centre</i>	<ul style="list-style-type: none"> ✓ Mixed cost centres are those which are engaged on productive works and also on service works. ✓ For instance, a tool shop serves as a productive cost centre when it manufactures dies and jigs for specific order, but serves as servicing cost centre when it does repairs for the factory.

Answer 6

Basis	Cost Control	Cost Reduction
Main focus	Cost control aims at maintaining the costs in accordance with the established standards.	Cost reduction is concerned with reducing costs . It challenges all standards and tries to better them continuously.
Temporary or permanent	Cost control seeks to attain lowest possible cost under existing conditions.	Cost reduction recognises no condition as permanent , since a change will result in lower cost.
Emphasis	In case of Cost Control, emphasis is on past and present .	In case of cost reduction, it is on present and future .
Prevention or detection	Cost Control is a preventive function.	Cost reduction is a corrective function. It operates even when an efficient cost control system exists.
End	Cost control ends when targets are achieved .	Cost reduction has no visible end .

Answer 7

a	Imputed Cost
b	Opportunity Cost
c	Shut Down Cost
d	Product Cost

Answer 8

Informative	✓ Cost Accounting System should be tailor-made, practical, simple and capable of meeting the requirements of a business concern.
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Precise	✓ The system of costing should not have unnecessary details .
Accurate	✓ The data to be used by the Cost Accounting System should be accurate ; otherwise it may distort the output of the system and a wrong decision may be taken.
Support from Management	✓ Necessary cooperation and participation of executives from various departments of the concern is essential for developing a good system of Cost Accounting.
Cost-Benefit	✓ The Cost of installing and operating the system should justify the results .
Procedure	✓ A carefully phased programme should be prepared by using network analysis for the introduction of the system.
Trust	✓ Management should have faith in the Costing System and should also provide a helping hand for its development and success.

Answer 9

a	Tonne
b	Numbers
c	Passenger Kilo-meter/ Tonne Kilo-meter
d	Kilo-watt hour (Kwh)

Answer 10

Please refer answer to Question 6.

Answer 11

Explicit costs	<ul style="list-style-type: none"> ✓ These costs are also known as out of pocket costs and refer to costs involving immediate payment of cash. ✓ Salaries, wages, postage and telegram, printing and stationery, interest on loan etc. are some examples of explicit costs involving immediate cash payment.
Engineered costs	<ul style="list-style-type: none"> ✓ These are costs that result specifically from a clear cause and effect relationship between inputs and outputs. ✓ The relationship is usually personally observable. ✓ Examples of inputs are direct material costs, direct labour costs etc. ✓ Examples of output are cars, computers etc.

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Answer 12

a	Per passenger k.m. or per tonne k.m.
b	Per Kilo – watt (kw) hour
c	Per room day / or per meal
d	Per Patient – day / or per bed/day

Answer 13

a	Job Costing
b	Batch Costing
c	Unit Costing or Single or Output Costing
d	Multiple Costing

Answer 14

Sunk Cost	<ul style="list-style-type: none"> ✓ Historical costs incurred in the past are known as sunk costs. ✓ They play no role in decision making in the current period. ✓ For example, in the case of a decision relating to the replacement of a machine, the written down value of the existing machine is a sunk cost and therefore, not considered.
Opportunity Cost	<ul style="list-style-type: none"> ✓ Opportunity cost is the cost of selecting one course of action and the losing of other opportunities to carry out that course of action. ✓ For example, a firm financing its expansion plan by withdrawing money from its bank deposits. ✓ In such a case, the loss of interest on the bank deposit is the opportunity cost for carrying out the expansion plan. ✓ Opportunity costs are not recorded in the books. ✓ It is important in decision making and comparing alternatives. ✓

Answer 15

Please refer answer to Question 6.

Answer 16

	Method of Costing	Unit of Cost
a	Operating Costing	Room day/ per bed
b	Batch Costing	Units/ Batch
c	Process Costing/ Single Costing	Per Tonne/ Per MT
d	Contract Costing	Project/ Unit

Answer 17

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Please refer answer to Question 6.

Answer 18

Ascertainment of cost	<ul style="list-style-type: none"> ✓ The main objective of a Cost Accounting system is to ascertain cost for cost objects. ✓ Costing may be post completion or continuous but the aim is to arrive at a complete and accurate cost figure to assist the users to compare, control and make various decisions.
Determination of selling price	<ul style="list-style-type: none"> ✓ Cost Accounting System in a manufacturing organisation enables to determine desired selling price after adding expected profit margin with the cost of the goods manufactured.
Cost control and Cost reduction	<ul style="list-style-type: none"> ✓ Cost Accounting System equips the cost controller to adhere and control the cost estimate or cost budget and assist them to identify the areas of cost reduction.
Ascertainment of profit of each activity	<ul style="list-style-type: none"> ✓ Cost Accounting System helps to classify cost on the basis of activity to ascertain activity wise profitability.
Assisting in managerial decision making	<ul style="list-style-type: none"> ✓ Cost Accounting System provides relevant cost information and assists managers to make various decisions.

Answer 19

- ✓ Profit Centres are the part of a business which is **accountable for both cost and revenue.**
- ✓ These are responsible for generating and **maximizing profits.**
- ✓ Performance of these centres is measured with the volume of profit it earns.

Answer 20

Please refer answer to Question 14.

Answer 21

Please refer answer to Question 15.

Answer 22

	Method of Costing	Unit of Cost
A	Operating Costing	Passenger k.m. or tonne k.m.
B	Process Costing/ Single or Unit Costing	Tonne/ Metric Ton (MT)/ kg/ bar

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C	Multiple Costing	Number/ per piece
D	Contract Costing	Project/ Unit

Answer 23

- ✓ It is the **cost of transforming basic material into finished goods.**
- ✓ Conversion Cost consists of direct wages, direct expenses and manufacturing overheads.
- ✓ So, **Conversion Cost = Direct Labour Cost + Direct Expenses + Manufacturing Overhead**
- ✓ Or Conversion Cost = Factory Cost – Direct Materials Cost

Answer 24

Please refer answer to Question 5.

Answer 25

Please refer answer to Question 4.

Answer 26

Basis	Cost Accounting	Management Accounting
Nature	It records the quantitative aspect only.	It records both qualitative and quantitative aspect.
Objective	It records the cost of producing a product and providing a service.	It provides information to management for planning and co-ordination.
Area	It only deals with cost ascertainment.	It is wider in scope as it includes F.A., budgeting, Tax, Planning.
Recording of data	It uses both past and present figures.	It is focused with the projection of figures for future.
Development	It's development is related to industrial revolution.	It develops in accordance to the need of modern business world.
Rules and Regulation	It follows certain principles and procedures for recording costs of different products.	It does not follow any specific rules and regulations.

Answer 27

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Please refer answer to Question 13.

Answer 28

The operational level staffs like supervisors, foreman, team leaders require information

(i) to **know the objectives and performance goals** for them

(ii) to **know product and service specifications** like volume, quality and process etc.

(iii) to **know the performance parameters** against which their performance is measured and evaluated.

(iv) to **know divisional (responsibility centre) profitability** etc.

Answer 29

Please refer answer to Question 14.

Answer 30

Particulars	Cost Centre	Revenue Centre	Profit Centre	Contribution Centre	Investment Centre
Meaning	It is a responsibility centre for which costs are accumulated.	It is a responsibility centre for which only revenues are accumulated.	It is a responsibility centre for which both costs and revenues are accumulated.	It is a responsibility centre for which variable costs and revenues are accumulated.	It is a responsibility centre for which costs, revenues and investment in assets are accumulated.
Definition as per CIMA	"A production or service location, function, activity or item of equipment whose costs may be attributed to cost units."	"A centre devoted to raising revenue with no responsibility for production e.g. a sales centre."	"A part of business accountable for costs and revenues."	"It is a profit centre whose expenditure is reported on a marginal or direct cost basis."	"It is a profit centre whose performance is measured by its return on capital employed."
Objective	The main objective of cost centre is to minimize the centre's	The main objective of revenue centre is to maximize the	The main objective of profit centre is to maximize the centre's	The main objective of contribution centre is to maximize the	The main objective of investment centre is to maximize the

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	costs.	centre's revenue.	profit.	centre's contribution.	centre's Return on investment (ROI) or Return on Capital Employed (ROCE).
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Answer 31

a	Kilo-watt Hours
b	Number
c	Tonne per bag
d	Tonne
e	Cubic Feet
f	1000 Bricks
g	Per tonne
h	Contract, Job
i	Chargeable per Hour, Job, Contract
j	Patient Day

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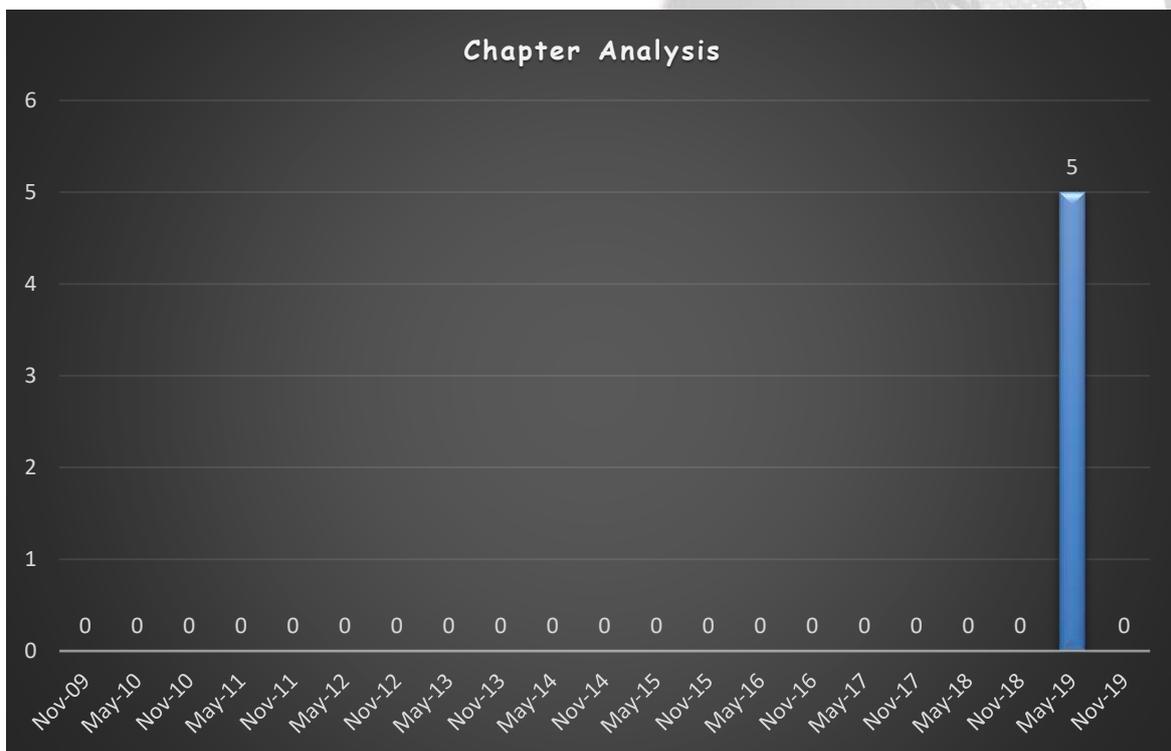
Chapter - 2

Cost Sheet

The ultimate measure of a man is not where he stands in moments of comfort, but where he stands at times of challenge and controversy.
Martin Luther King, Jr.

Analysis of Past 21 Attempts

Theory Questions Analysis



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Theory Questions

1.	M 19 (5 M)	Explain Direct Expenses and how these are measured and their treatment in cost accounting.
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Answer 1

Meaning	<ul style="list-style-type: none"> ✓ All direct costs other than direct material costs and direct labour costs are termed as direct expenses. ✓ These can be readily identified with and thus, can be directly allocated to a particular product, job or process. ✓ Thus, Direct expenses = Direct Costs - Direct Material Cost - Direct Labour Cost
Features	<ul style="list-style-type: none"> ✓ It can easily be identified with a specific job, contract or work order. ✓ It varies directly with the volume of output.
Examples	<ul style="list-style-type: none"> ✓ Excise Duty based on output produced ✓ Royalty based on output produced ✓ Job Processing Charges ✓ Cost of special Moulds ✓ Designs and Hiring Charges for machines
Treatment	<ul style="list-style-type: none"> ✓ Direct expenses form part of prime cost.

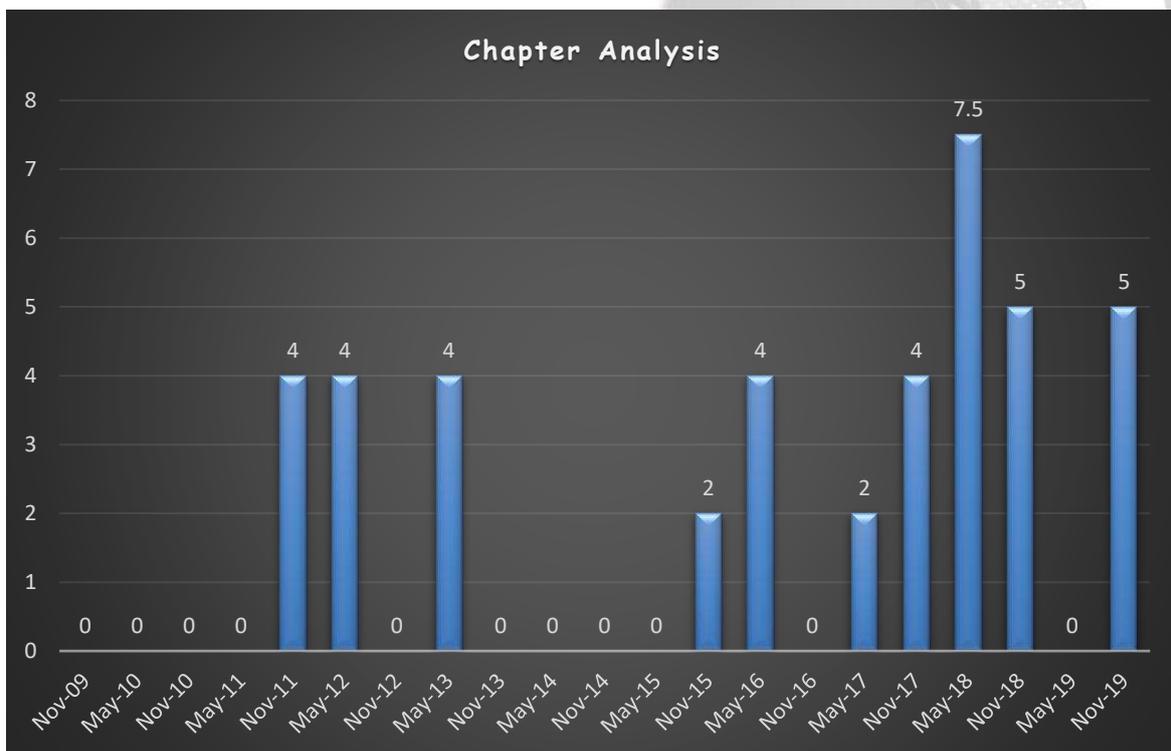
Chapter - 3

Material Costing

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Martin Luther King, Jr.

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Theory Questions

1.	N 11 (4 M)	Discuss ABC analysis as a system of inventory control.
2.	M 12 (4 M)	Distinguish between bill of material and material requisition note.
3.	M 13 (4 M)	"Perpetual inventory system comprises Bin Card and Stores Ledger, but the efficacy of the system depends on continuous stock taking." Comment.
4.	N 15 (2 M)	Distinguish between 'Scraps' and 'Defectives' in costing.
5.	M 16 (4 M)	Write treatment of items associated with purchase of material : a. Cash discount b. Subsidy/ Grant/ Incentives c. VAT or State Sales Tax d. Commission/ brokerage paid
6.	M 17 (2 M)	Explain ABC Analysis.
7.	N 17 (4 M)	Distinguish between 'Bin Card' and 'Stores Ledger'.
8.	M 18 (5 M)	Explain 'Just In Time' (JIT) approach of inventory management.
9.	M 18 (2.5 M)	Explain FIFO and LIFO method of stores issue.
10.	N 18 (5 M)	Explain obsolescence and circumstances under which materials become obsolete. State the steps to be taken for its treatment.
11.	N 19 (5 M)	Define Inventory Control and give its objectives. List down the basis to be adopted for Inventory Control.

Answer 1

Meaning of ABC	<ul style="list-style-type: none"> ✓ It is a system of inventory control. ✓ It exercises discriminating control over different items of stores classified on the basis of the investment involved. ✓ Usually, the items are divided into three categories according to their importance, namely, their value and frequency of replacement during a period. 	
Category of items	<i>A Category</i>	✓ 'A' category of items consists of any small percentage i.e. about 10% of the total items handled by the stores but requires heavy investments about 70% of inventory value , because of their high prices and heavy requirement.
	<i>B Category</i>	✓ 'B' category of items are relatively less important; they may be 20% of the total items of material handled by stores.

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		✓ The percentage of investment required is about 20% of the total investment in inventories.
	<i>C Category</i>	✓ 'C' category of items do not require much investment; it may be about 10% of total inventory value but they are nearly 70% of the total items handled by store.
Advantages	<i>Continuity in production</i>	✓ It ensures that minimum investment will be made in stocks of materials without there being any danger of interruption of production due to materials or stores.
	<i>Lower cost</i>	✓ The cost of placing orders, receiving goods and maintaining stocks is minimised specially if the system is coupled with the determination of proper economic order quantities.
	<i>Less attention required</i>	✓ Management time is saved since attention need be paid only to some of the items rather than all the items.
	<i>Systematic working</i>	✓ Much of the work connected with purchases can be systematized on a routine basis to be handled by subordinate staff .

Answer 2

Basis	Bills of material	Material Requisition Note
Prepared by	It is prepared by the drawing office .	It is prepared by the foreman of the consuming department .
Meaning	It is a complete schedule of component parts and raw materials required for a particular job or work order.	It is a document authorizing Store-Keeper to issue material to the consuming department.
Superiority	It often serves the purpose of a Store Requisition as it shows the complete schedule of materials required for a particular job i.e. it can replace stores requisition .	It cannot replace a bill of material .
Relevant control	It helps in keeping a quantitative control on materials draw through	It shows the material actually drawn from stores .

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	stores Requisition.	
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Answer 3

Perpetual Inventory system represents a system of records maintained by the stores department. Records comprise of :

Bin Card	✓ Bin Card maintains a quantitative record of receipts, issues and closing balances of each item of stores.
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Stores Ledger	<ul style="list-style-type: none"> ✓ The Stores Ledger is maintained to record all receipt and issue transactions in respect of materials. ✓ It is filled up with the help of goods received note and material requisitions.
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But a perpetual inventory system's efficacy depends on the system of continuous stock taking. Continuous stock taking means the physical checking of the records i.e. Bin cards and store ledger with actual physical stock. Perpetual inventory is essentially necessary for material control. It incidentally helps continuous stock taking. The main **advantages of continuous stock taking** are as follows :

Timely Adjustment	✓ Physical stocks can be counted and book balances adjusted as and when desired without waiting for the entire stock-taking to be done.
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Compilation of accounts	✓ Quick compilation of Profit and Loss Accounts (for interim period) due to prompt availability of stock figures .
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Easy location of discrepancies	✓ Discrepancies are easily located and thus corrective action can be promptly taken to avoid their recurrence.
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Nature of stock	✓ A systematic review of the perpetual inventory reveals the existence of surplus, dormant, obsolete and slow-moving materials , so that remedial measures may be taken in time.
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Better control	✓ Fixation of the various levels and check of actual balances in hand with these levels assist the storekeeper in maintaining stocks within limits and in initiating purchase requisitions for correct quantity at the proper time.
-----------------------	--

Answer 4

Basis	Scrap	Defective
Occurrence	It is the loss connected with output .	It is connected with the output but it can be in the input as well.

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Elimination	Scraps cannot be eliminated due to nature of material or process itself.	Defectives can be eliminated through proper control.
Rectification	Generally, scraps are not used or rectified .	Defectives can be used after rectification .
Sale Value	Scraps have insignificant recoverable value .	Defectives are sold at lower value from that of good one .

Answer 5

A	✓ Cash discount is not deducted from the purchase price.
B	✓ Any subsidy/ grant/ incentive received from the Government or from other sources is deducted from the cost of purchase.
C	✓ State Sales Tax/ VAT is paid on intra-state sale and collected from the buyers. It is excluded from the cost of purchase if credit for the same is available . Unless mentioned specifically it should not form part of cost of purchase.
D	✓ Commission or brokerage paid is added with the cost of purchase.

Answer 6

Please refer answer to Question 1.

Answer 7

Basis	Bin Card	Stores Ledger
Meaning	The card tied to or placed outside each bin to record the quantity of materials received, issued, returned and in hand in the bin is called Bin Card.	Stores Ledger is a collection of cards or loose leaves specially ruled for maintaining a record of both quantity and cost of stores received, issued and those in stock.
Maintained by	It is maintained by the storekeeper .	It is maintained by costing department .
Kept at	It is kept outside the bin in store.	It is kept outside the store generally in costing department.
Recording aspects	It contains only quantitative details of material received, issued and	It contains information both in quantity and value .

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	returned to stores.	
Time of recording	Entries are made when transactions take place.	It is always posted after the transaction.
Way of posting	Each transaction is individually posted.	Transactions may be summarized and then posted.

Answer 8

Meaning	✓ Just in time purchasing means purchase when required only or purchase immediately before use. It is also known as 'Demand pull' or 'Pull through' system of production.
Definition	✓ As per CIMA, JIT Purchase is " matching receipts of materials closely with usage so that raw materials inventory is reduced to near zero level."
Objective	✓ The main objective of JIT purchasing is to minimize the carrying costs, storage costs, material handling costs , spoilage, obsolescence etc.
Principles	✓ JIT is based on two principles <ul style="list-style-type: none"> ❖ Produce goods only when it is required and ❖ the products should be delivered to customers at the time only when they want.
Mechanism	✓ In this system, production process actually starts after the order for the products is received. Based on the demand, production process starts and the requirement for raw materials is sent to the purchase department for purchase.
Essential Requirement	✓ An essential requirement of JIT purchasing is to enter into long term agreements with suppliers to deliver the materials even in smaller quantity timely as and when required.
Effect	✓ The effect of JIT purchasing is that the issue price of materials is likely to be closer to market prices.

Answer 9

FIFO	<ul style="list-style-type: none"> ✓ It is a method of pricing the issues of materials, in the order in which they are purchased. ✓ In other words, the materials are issued in the order in which they arrive in the store or the items longest in stock are issued first.
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	<ul style="list-style-type: none"> ✓ Cost of Materials issued represents the cost of earlier purchases. ✓ Cost of Closing Stock represents the cost of latest purchases. ✓ This method is considered suitable in times of falling price because the material cost charged to production will be high while the replacement cost of materials will be low.
LIFO	<ul style="list-style-type: none"> ✓ It is a method of pricing the issues of materials, on the assumption that the items of the last batch (lot) purchased are the first to be issued. ✓ Cost of Materials Issued represents the cost of latest purchases. Cost of Closing Stock represents the cost of earlier purchases. ✓ During inflationary period or period of rising prices, the use of LIFO would help to ensure that the cost of production determined on the above basis is approximately the current one.

Answer 10

Meaning	<ul style="list-style-type: none"> ✓ Obsolescence is defined as the loss in the intrinsic value of an asset due to its supersession.
Reason	<ul style="list-style-type: none"> ✓ Where it is a spare part or a component of a machinery used in manufacture and that machinery becomes obsolete. ✓ Where it is used in the manufacture of a product which has become obsolete. ✓ Where the material itself is replaced by another material due to either improved quality or fall in price.
Treatment	<ul style="list-style-type: none"> ✓ The value of the obsolete material held in stock is a total loss and immediate steps should be taken to dispose it off at the best available price.
Control	<ul style="list-style-type: none"> ✓ Losses due to obsolescence can be minimised through careful forethought and reduced stocking of spares, etc. ✓ Stores records should be continuously gone through to see whether any item is likely to become obsolete. ✓ There will be such likelihood if an item has not been used for a long time.

Answer 11

Meaning	<ul style="list-style-type: none"> ✓ Material Control involves planning, organising and controlling the procurement, storage & usage of materials so as to achieve the objectives of efficiency & economy.
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Objectives

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Avoid under stocking	✓ One of the objective of material control is to avoid the situation of under stocking i.e. to provide continuous supply of required materials so that the activities of production and service departments may smoothly continue.
Avoid over stocking	✓ Proper control over the material avoids the situation of over-stocking i.e. optimum investment is made in inventory considering the operating requirements and financial resources so as to reduce carrying costs.
Minimum cost to purchase	✓ Material control ensures that all the materials and stores are acquired at the lowest possible price considering the quality and other relevant factors.
Avoid wastages	✓ A strict control over the materials ensures minimum wastages due to defective or long storage or from obsolescence.
Proper records	✓ Maintenance of proper records ensures that reliable information is available for all items of materials and stores that not only helps in detecting losses and pilferages but also facilitates proper production planning.
Timely completion	✓ Proper material management is very necessary for fulfilling orders of the firm.
Basis To Be Adopted	
Proper Co-ordination	✓ There should be proper co-ordination of all departments involved viz. Purchasing, Receiving, Inspection, Storage, Production, Cost and Finance.
Proper Purchase System	✓ There should be proper purchase system to ensure the procurement of materials and stores of the required quality at minimum cost from a reliable source.
Proper Storage System	✓ There should be proper storage system to ensure a suitable place for every item and avoidance of losses. ✓ It must also lead to minimum storage cost.
Proper Issue System	✓ There should be proper system for issue of materials to ensure the delivery of required materials at the required time.

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Perpetual Inventory System	✓ There should be perpetual inventory system so as to determine the quantity and value of each item of materials in stock at any point of time.
Continuous Stock Taking	✓ There should be continuous stock taking system so as to ensure accuracy of perpetual inventory records .
Internal Check System	✓ There should be internal check system so that all transactions concerning materials are automatically checked .
Budgetary Control System	✓ There should be proper budgetary control system to ensure economy in purchasing and usage of materials and stores.
Standard Forms	✓ There should be use of proper forms with regard to Purchase Requisition, Purchase Order, Material Received Note, Material Requisition, Bill of Materials, Material Returned Note, Material Transfer Note, Bin Card, Stores Card etc.
Accounting System	✓ There should be proper accounting system so as to determine the cost of materials at time of receipt and consumption.
Proper Reporting System	✓ These should be proper reporting system to ensure regular reporting to the management regarding : <ul style="list-style-type: none"> ❖ Materials purchased ❖ Materials issued ❖ Materials in hand ❖ Slow-moving stock ❖ Obsolete stock ✓ Defective units

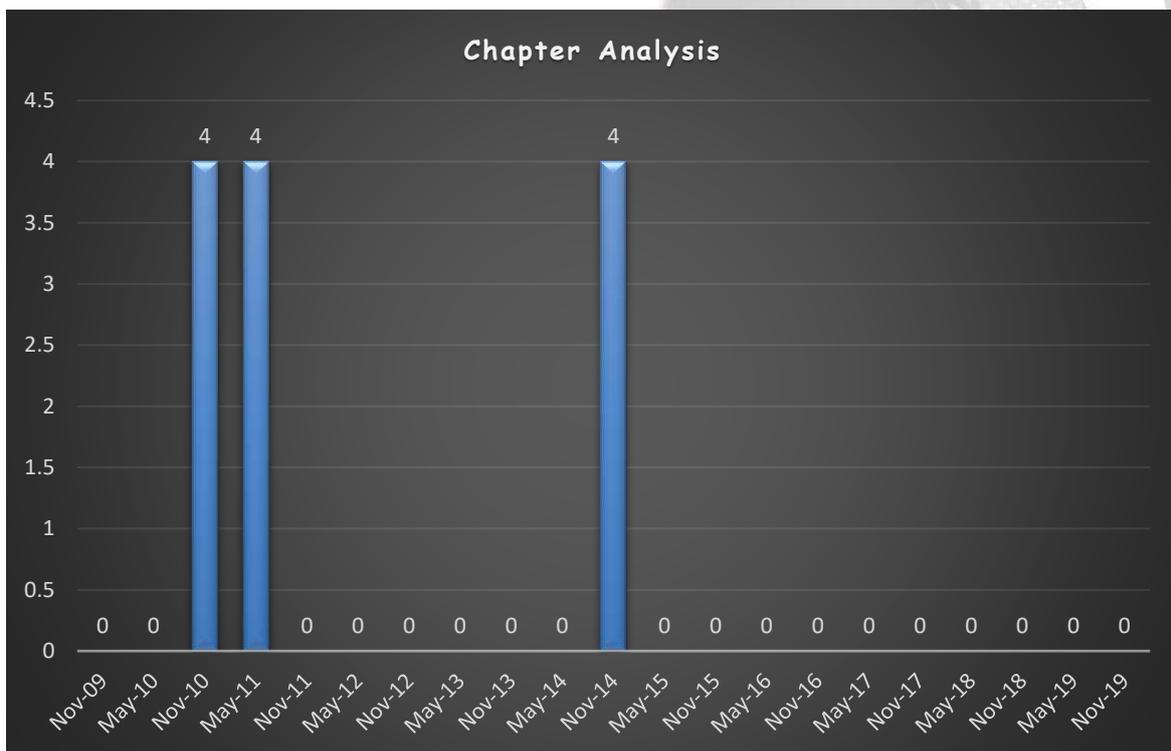
Chapter - 4

Labour Costing

*Knowing is not enough; we must apply.
Willing is not enough; we must do.
Johann Wolfgang von Goethe*

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Theory Questions

1.	N 10 (4 M)	Discuss the three different methods of calculating labour turnover.
2.	M 11 (4 M)	Enumerate the causes of labour turnover.
3.	N 14 (4 M)	Define 'Labour Turnover'. How is it measured? Explain.

Answer 1

Meaning of Labour Turnover	<ul style="list-style-type: none"> ✓ Labour turnover in an organisation is the rate of change in the composition of labour force during a specified period measured against a suitable index. ✓ The standard of usual labour turnover in the industry or labour turnover rate for a past period may be taken as the index or norm against which actual turnover rate should be compared. 	
Methods of calculation	<i>Separation method</i>	<ul style="list-style-type: none"> ✓ In this method, labour turnover is measured by dividing the total no. of separations during the period by average no. of workers on payroll during the same period. $\frac{\text{Number of employees separated during the year}}{\text{Average number of employees on roll during the year}} \times 100$ <p>No. of employees separated = No. of employees Left + No. of employees discharged</p>
	<i>Replacement method</i>	<ul style="list-style-type: none"> ✓ This method takes into consideration actual replacement of labour irrespective of no. of workers leaving. $\frac{\text{Number of employees replaced during the year}}{\text{Average number of employees on roll during the year}} \times 100$ <p>No. of employees Replaced = No. of employees Joined in place of those separated</p>
	<i>Flux method</i>	<ul style="list-style-type: none"> ✓ This method takes into account both the replacements as well as no. of separations during the period. <p>Method 1</p> $\frac{\text{No. of emp. seperated} + \text{No. of emp. replaced during the year}}{\text{Average number of employees on roll during the year}} \times 100$ <p>Method 2</p>

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		<p>$\frac{\text{No. of emp. seperated} + \text{No. of accessions during the year}}{\text{Average number of employees on roll during the year}} \times 100$</p> <p>No. of Accessions = No. of employees joined in place of those separated + No. of employees joined as expansion programme</p>
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Answer 2

Personal causes	<ul style="list-style-type: none"> ✓ Personal causes are those which induce or compel workers to leave their jobs at their will. ✓ Such causes include the following : <ul style="list-style-type: none"> ❖ Change of jobs for betterment ❖ Premature retirement due to ill health or old age ❖ Domestic problems and family responsibilities ❖ Discontent over the jobs and working environment
Unavoidable causes	<ul style="list-style-type: none"> ✓ Unavoidable causes are those under which it becomes obligatory on the part of management to ask one or more of their employees to leave the organization. ✓ Such causes include the following : <ul style="list-style-type: none"> ❖ Seasonal nature of the business ❖ Shortage of raw material, power, slack market for the product etc. ❖ Change in the plant location ❖ Disability, making a worker unfit for work
Avoidable causes	<ul style="list-style-type: none"> ✓ Avoidable causes are those which could prevent the worker from leaving the job if timely action was taken by management. Thus, these require the attention of management on a continuous basis so as to keep the labour turnover ratio as low as possible. ✓ Such causes include the following : <ul style="list-style-type: none"> ❖ Dissatisfaction with job, remuneration, hours of work, working conditions, etc. ❖ Strained relationship with management, supervisors or fellow workers ❖ Lack of training facilities and promotional avenues ❖ Low wages and allowances

Answer 3

Please refer answer to Question 1.

Chapter - 5

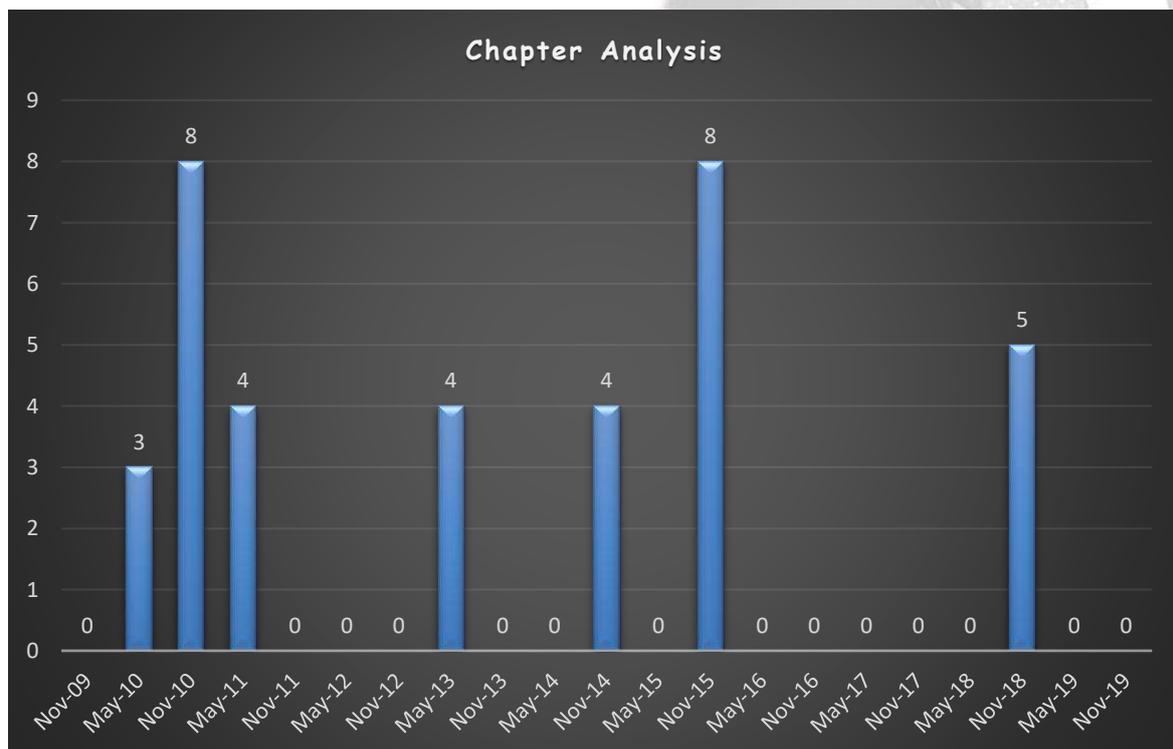
Overheads

If you want to succeed in the world must make your own opportunities as you go on. The man who waits for some seventh wave to toss him on dry land will find that the seventh wave is a long time a coming. You can commit no greater folly than to sit by the roadside until some one comes along and invites you to ride with him to wealth or influence.

John B. Gough

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Theory Questions

1.	M 10 (3 M)	Explain the treatment of over and under absorption of Overheads in Cost accounting.
2.	N 10 (4 M)	Write short note on Treatment of under-absorbed and over-absorbed overheads in Cost Accounting.
3.	N 10 (4 M)	What are the methods of re-apportionment of service department expenses over the production departments? Discuss.
4.	M 11 (4 M)	How do you deal with the following in cost account? a. Packing Expenses b. Fringe benefits
5.	M 13 (4 M)	Distinguish between cost allocation and cost absorption.
6.	M 14 (4 M)	Distinguish between allocation and apportionment of cost.
7.	N 14 (4 M)	Explain the treatment of over and under absorption of overheads in cost accounts.
8.	N 15 (4 M)	How would you account for idle capacity cost in Cost Accounting?
9.	N 15 (4 M)	Explain the treatment of over and under absorption of overheads in cost accounting.
10.	N 18 (5 M)	State the bases of apportionment of following overhead costs : a. Air Conditioning b. Time Keeping c. Depreciation of Plant & Machinery d. Power/ Steam Consumption e. Electric Power (Machine Operation)

Answer 1

Under-absorption has the effect of understating the cost while over-absorption has the effect of overstating the cost.

Over-absorption or under-absorption of overheads may be disposed of in any one of the following ways :

Transfer to Costing Profit And Loss Account

- ✓ The amount of under-absorbed or over-absorbed overheads is transferred (credited or debited) to costing profit and loss account at the end of accounting period when
 - ❖ the **amount** of under-absorbed or over-absorbed overheads is **minor and insignificant** or
 - ❖ the under-absorption or over-absorption has been **caused by abnormal circumstances** i.e., the factors beyond the control of management.

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<p>Carry Forward to the Next Year</p>	<ul style="list-style-type: none"> ✓ The amount of under absorbed or over absorbed overheads is carried over to subsequent years when management is sure that an over absorption in the current period will be more or less neutralized by under-absorption in the next. ✓ Accordingly, the amount of the current period is transferred to a reserve account or suspense account. ✓ This method has a limited application because it is against the costing principle that overhead should be absorbed in a particular year in which it is incurred. ✓ However, this method may be followed when : <ul style="list-style-type: none"> ❖ the industry is seasonal with fluctuating demand and fluctuation in production. ❖ normal business cycle extends beyond one year. ❖ the project is new and output is initially low but there will be more output in the next year which will absorb more overheads.
<p>Use of Supplementary Rates</p>	<ul style="list-style-type: none"> ✓ When the amount of under absorbed and over absorbed overhead is significant or large, because of differences due to wrong estimation, then the cost of product needs to be adjusted by using supplementary rates (under and over absorption/ actual overhead) to avoid misleading impression. ✓ It is calculated by dividing the amount of overabsorption or under-absorption by the equivalent units usually. ✓ Under 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.
<p>Answer 2</p>	
<p>Please refer answer to Question 1.</p>	
<p>Answer 3</p>	
<p>Direct Method</p>	<ul style="list-style-type: none"> ✓ Service department costs under this method are apportioned over the production departments only, ignoring services rendered by one service department to another.
<p>Step Method or Non-Reciprocal Method</p>	<ul style="list-style-type: none"> ✓ This method gives recognition to the service rendered by service department to another service department. ✓ Therefore, as compared to previous method, this method is more complicated because a sequence of apportionments has to be selected here.

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	<ul style="list-style-type: none"> ✓ The sequence begins with the department that renders service to the maximum number of other service departments. ✓ However, if once a service department's overhead has been distributed, then no distribution shall be made in that service department of other service department's overhead later on.
Reciprocal Service Method	<ul style="list-style-type: none"> ✓ This method recognises that where there are two or more service departments, they may render service to each other and, there these inter-departmental services are to be given due weight while re-distributing the expenses of service department. ✓ Thus, if a service department's overhead has been distributed, then the distribution shall be made in that service department also of other service department's overhead later on. ✓ The methods available for dealing with reciprocal services are : <ul style="list-style-type: none"> ❖ Simultaneous equation method ❖ Repeated distribution method ❖ Trial & Error method.

Answer 4

Packing Expenses	<i>As Prime Cost</i>	✓ Cost of primary packing necessary for protecting the product or for convenient handling, should become a part of the prime cost.
	<i>As Distribution Cost</i>	✓ The cost of packing to facilitate the transportation of the product from the factory to the customer should become a part of the distribution cost.
	<i>On Specific Job</i>	✓ If the cost of special packing is at the request of the customer , the same should be charged to the specific work order or the job.
	<i>As Selling Overhead</i>	✓ The cost of fancy packing necessary to attract customers is an advertising expenditure. Hence, it is to be treated as a selling overhead.
Fringe Benefits	<ul style="list-style-type: none"> ✓ These are the additional payments or facilities provided to the workers apart from their salary and direct cost allowances like house rent, dearness and city compensatory allowances. ✓ These benefits are given in the form of overtime, extra shift duty allowance, holiday pay, pension facilities etc. ✓ These indirect benefits stand to improve the morale, loyalty and 	

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stability of employees towards the organisation.

- ✓ Expenditure incurred on fringe benefits in respect of factory workers should be apportioned among all the production and service departments on the basis of the number of workers in each department.
- ✓ If the amount of fringe benefit is considerably large, it may be recovered as direct charge by means of a supplementary wage or labour rate; otherwise these may be collected as part of production overheads.

Answer 5

Basis	Cost Allocation	Cost Absorption
Meaning	Cost allocation is the allotment of whole item of cost to a cost centre or a cost unit.	Cost absorption is the process of absorbing all indirect costs or overhead costs allocated or apportioned over particular cost centre or production department by the units produced.
Sequence	Allocation of overheads occurs before absorption in the process of distribution of overheads	Absorption of overheads is the last step in the entire process of distribution of overheads and result in an ultimate charge to products, jobs or orders etc.

Answer 6

Basis	Cost Allocation	Cost Apportionment
Meaning	The term 'allocation' refers to assignment or allotment of an entire item of cost to a particular cost centre or cost unit.	It is process of splitting up an item of overhead cost and charging it to the cost centers on an equitable basis.
Nature of Expense	This is possible when the nature of expenses is such that it can be easily identified with a particular cost centre.	This is done in case of those overhead items which can't be allocated to a particular department.
Example	For example, the salary paid to a foreman of a particular production department can be directly identified with that department and therefore it will be directly charged to that department.	For example, salary paid to the works manager of the factory cannot be charged wholly to a particular production department but will have to be charged to all departments of the factory on an

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		equitable basis.
Basis of distribution	No basis is required for allocation.	Apportionment is made on some basis which may be area, assets value , number of workers etc.

Answer 7

Please refer answer to Question 1.

Answer 8

Meaning of Idle Capacity	✓ It is that part of the capacity of a plant, machine or equipment which cannot be effectively utilised in production.	
Why does it arise?	<ul style="list-style-type: none"> ✓ The idle capacity may arise due to <ul style="list-style-type: none"> ❖ lack of product demand, ❖ no availability of raw-material, ❖ shortage of skilled labour, ❖ shortage of power, etc. 	
Nature of Such Cost	<ul style="list-style-type: none"> ✓ Costs associated with idle capacity are mostly fixed in nature. ✓ These costs remain unabsorbed or unrecovered due to under-utilisation of plant and service capacity. 	
Treatment of this cost	<i>If the idle capacity cost is due to unavoidable reasons</i>	a supplementary overhead rate may be used to recover the idle capacity cost. In this case, the costs are charged to the production capacity utilised.
	<i>If the idle capacity cost is due to avoidable reasons such as faulty planning, etc.</i>	the cost should be charged to Costing Profit and Loss Account .
	<i>If the idle capacity cost is due to trade depression, etc., - being abnormal in nature</i>	the cost should also be charged to the Costing Profit and Loss Account .

Answer 9

Please refer answer to Question 1.

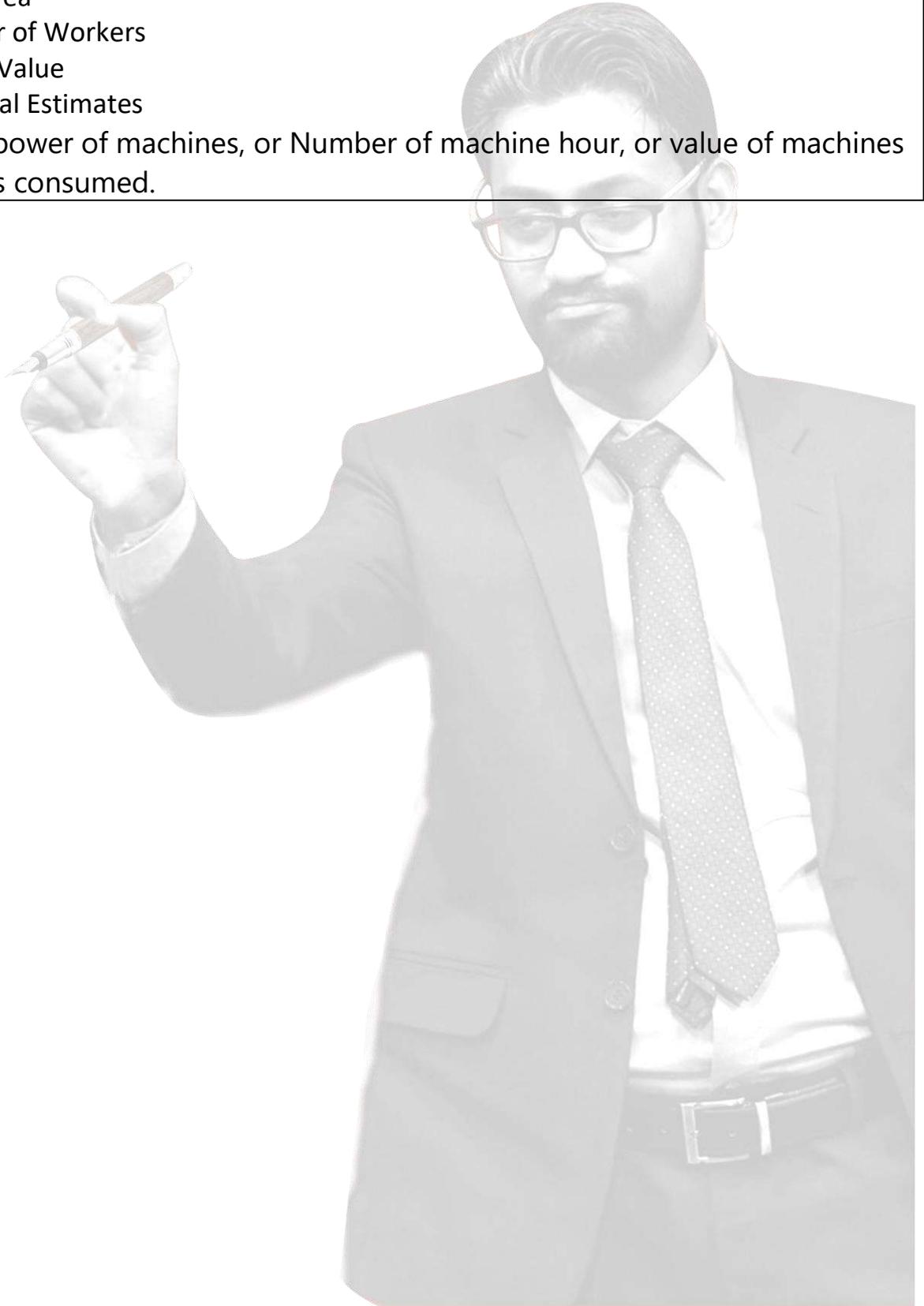
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Answer 10

- a. Floor Area
- b. Number of Workers
- c. Capital Value
- d. Technical Estimates
- e. Horse power of machines, or Number of machine hour, or value of machines or units consumed.



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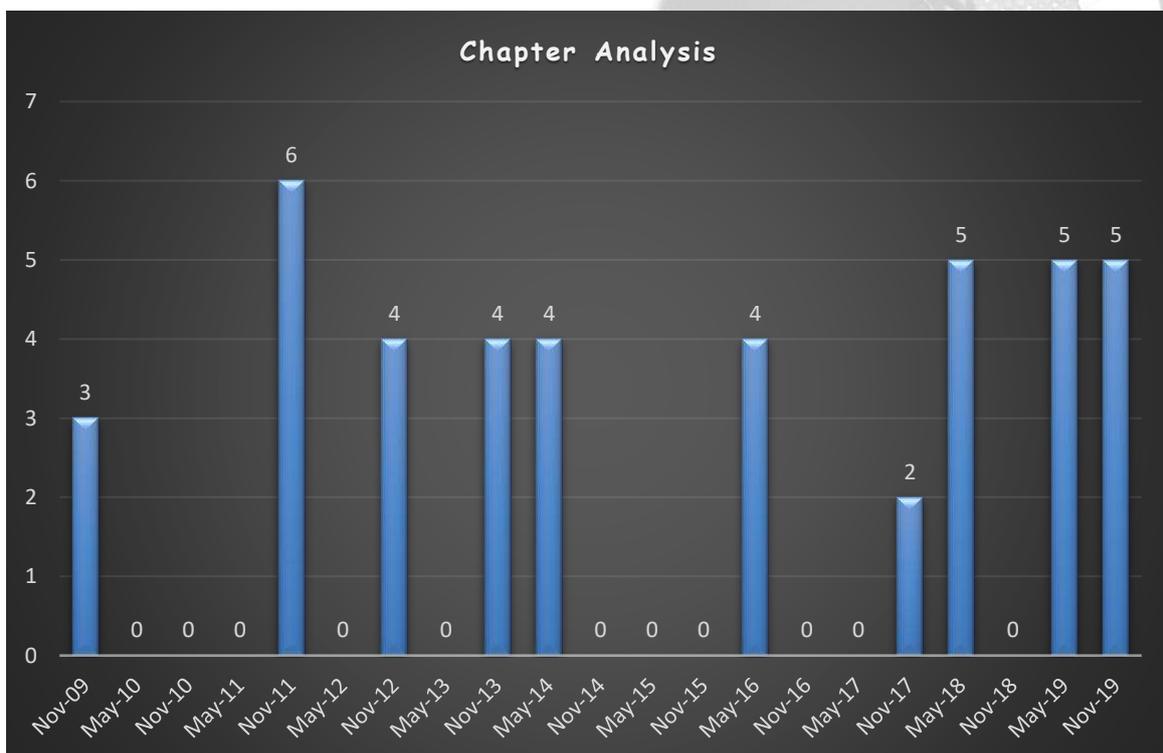
Chapter - 6

Budgetary Control

All truly wise thoughts have been thought already, thousands of times; but to make them truly ours, we must think them over again honestly, until they take firm root in our personal experience.
Johann Wolfgang von Goethe

Analysis of Past 21 Attempts

Theory Questions Analysis



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Theory Questions

1.	N 09 (3 M)	List the eight functional budgets prepared by a business.
2.	N 11 (4 M)	Distinguish between Fixed and flexible budget.
3.	N 11 (2 M)	Explain the Essentials of budget.
4.	N 12 (4 M)	State the considerations on which capital expenditure budget is prepared.
5.	N 13 (4 M)	Describe the steps involved in the budgetary control technique.
6.	M 14 (4 M)	Describe the salient features of budget manual.
7.	M 16 (4 M)	State the difference between Fixed Budget and Flexible Budget.
8.	N 17 (2 M)	Explain flexible budget.
9.	M 18 (5 M)	Why is 'Zero Base Budgeting' (ZBB) considered superior to 'Traditional Budgeting'? Explain.
10.	M 19 (5 M)	What are the cases when a flexible budget is found suitable?
11.	N 19 (5 M)	Define 'Zero Base Budgeting' and mention its various stages.

Answer 1

Meaning of Functional Budget	✓ Budgets which relate to the individual functions in an organisation are known as Functional Budgets.
Types	✓ The various commonly used Functional budgets are : <ul style="list-style-type: none"> ❖ Sales Budget ❖ Production Budget ❖ Plant Utilisation Budget ❖ Direct Material Usage Budget ❖ Direct Material Purchase Budget ❖ Direct Labour (Personnel) Budget ❖ Factory Overhead Budget ❖ Production Cost Budget

Answer 2

Basis	Fixed Budget	Flexible Budget
Flexibility	It is inflexible and does not change with the actual volume of output achieved.	It is flexible and changes according to the level of activity.
Conditions	It assumes that conditions would remain static .	It is prepared according to changing conditions .
Classification of	Costs are not classified according	Costs are classified according to

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Costs	to their variability i.e., fixed, variable and semi variable.	their variability i.e., fixed, variable and semi variable.
Cost control	It has limited applications and is ineffective as tool for cost control.	It has more applications and can be used as tool for cost control.
No. of budgets	Only one budget at a fixed level of activity is prepared.	Under it, series of budgets are prepared at different level of activity.

Answer 3

- ✓ Organisational **structure must be clearly defined** and responsibility should be assigned to identifiable units within the organisation.
- ✓ Setting of **clear objectives and reasonable targets**. Objectives should be in consonance with the long term plan of the organisation.
- ✓ Objectives and degree of responsibility should be **clearly stated and communicated** to the management or person responsible for.
- ✓ Budgets are prepared for the **future periods** based on expected course of actions.
- ✓ Budgets are **updated for the events** that were not kept into the mind while establishing budgets. Hence, budgets should be flexible enough for mid- term revision.
- ✓ The entire organisation must be **committed** to budgeting.
- ✓ Budgets should be **quantifiable** and master budget should be broken down into various functional budgets.
- ✓ Budgets should be **monitored periodically**. Variances from the set yardsticks (standards) should be analysed and responsibility should be fixed.
- ✓ Budgetary performance needs to be **linked effectively to the reward system.**

Answer 4

Meaning	<ul style="list-style-type: none"> ✓ The capital expenditure budget represents the planned outlay on fixed assets like land, building, plant and machinery, etc. during the budget period. ✓ This budget is subject to strict management control because it entails large amount of expenditure. ✓ The budget is prepared to cover a long period of years.
Considerations	<ul style="list-style-type: none"> ✓ Overhead on production facilities of certain departments as indicated by the plant utilisation budget. ✓ Replacement requests from the concerned departments. ✓ Future development plans to increase output by expansion of plant facilities. ✓ Factors like

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- ❖ sales potential to absorb the increased output,
- ❖ possibility of price reductions,
- ❖ increased costs of advertising and sales promotion to absorb increased output, etc.

Answer 5

The steps involved in the budgetary control technique are as follows :

Definition of objectives	<ul style="list-style-type: none"> ✓ A budget is a plan for the achievement of certain operational objectives, so these should be defined precisely. ✓ The areas of control should be demarcated; and items of revenue and expenditure to be covered by the budget stated.
Location of the key (or budget) factor	<ul style="list-style-type: none"> ✓ The factor(s) which sets a limit to the total activity is known as key factor. ✓ For proper budgeting, it must be located and estimated properly.
Appointment of controller	<ul style="list-style-type: none"> ✓ Formulation of a budget usually requires whole time services of a senior executive known as budget controller; he must be assisted in this work by a Budget Committee, consisting of all the heads of department along with the Managing Director as the Chairman.
Budget Manual	<ul style="list-style-type: none"> ✓ Effective budgetary planning relies on the provision of adequate information which are contained in the budget manual. ✓ A budget manual is a collection of documents that contains key information for those involved in the planning process.
Budget period	<ul style="list-style-type: none"> ✓ The period covered by a budget is known as budget period. ✓ The Budget Committee determines the length of the budget period suitable for the business. ✓ It may be months or quarters or such periods as coincide with period of trading activity.
Standard of activity or output	<ul style="list-style-type: none"> ✓ For preparing budgets for the future, past statistics cannot be completely relied upon. ✓ Therefore, though results of the past should be studied but these should only be applied when there is a likelihood of similar conditions repeating in the future.

Answer 6

A budget manual is a collection of documents that contains key information for those involved in the planning process. Typical contents could include the following :

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- ✓ **An introductory explanation** of the budgetary planning and control process, including a statement of the budgetary objective and desired results.
- ✓ A form of **organisation chart** to show who is responsible for the preparation of each functional budget and the way in which the **budgets are interrelated**.
- ✓ A **timetable for the preparation of each budget**. This will prevent the formation of a 'bottleneck' with the late preparation of one budget holding up the preparation of all others.
- ✓ **Copies of all forms** to be completed by those responsible for preparing budgets, with explanations concerning their completion.
- ✓ A list of the **organization's account codes**, with full explanations of how to use them.
- ✓ Information concerning **key assumptions** to be made by managers in their budgets, for example the rate of inflation, key exchange rates, etc.

Answer 7

Please refer answer to Question 2.

Answer 8

Meaning	✓ In a flexible budgetary control system, a series of budgets are prepared one for each of a number of alternative production levels or volumes .
Definition	✓ According to CIMA, "a flexible budget is defined as a budget which, by recognizing the difference between fixed, semi-variable and variable costs is designed to change in relation to the level of activity attained."
Features	<ul style="list-style-type: none"> ✓ It is prepared for different levels of activity. ✓ It changes with the change in the level of activity. ✓ Expenses are classified into fixed, variable and semi – variable. Semi – variable expenses are further segregated into fixed and variable expenses. ✓ Flexible budgets show the expected results of a responsibility center for different activity levels.

Answer 9

Zero based budgeting is superior to traditional budgeting in the following manner:

- ✓ It provides a **systematic approach** for evaluation of different activities.
- ✓ It ensures that the **function undertaken are critical** for the achievement of the objectives.
- ✓ It provides an opportunity for management **to allocate resources to various activities after a thorough – cost benefit analysis**.

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- ✓ It helps in the **identification of wasteful expenditure and then their elimination.**
- ✓ It facilitates the close **linkage of departmental budgets with corporate objectives.**
- ✓ It helps in the introduction of a system of **Management by Objectives.**

Answer 10

- ✓ When there are seasonal fluctuations in sales and/ or production, **for example in soft drinks industry.**
- ✓ When a company keeps on introducing new products or makes changes in the design of its products frequently.
- ✓ Industries which are engaged in **make-to-order business** like ship building.
- ✓ An industry which is influenced by **changes in fashion.**
- ✓ When there are **general changes in sales.**

Answer 11

Meaning	<ul style="list-style-type: none"> ✓ ZBB is an activity based budgeting system where budgets are prepared for each activities rather than functional department. ✓ Justification in the form of cost benefits for the activity is required to be given. ✓ The activities are then evaluated and prioritized by the management on the basis of factors like synchronisation with organisational objectives, availability of funds, regulatory requirement etc.
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Stages in Zero Based Budgeting

Identification and description of Decision packages	<ul style="list-style-type: none"> ✓ Decision packages are the programmes or activities for which decision is required to be taken. ✓ The programmes or activities are described for technical specifications, financial impact in the form of cost benefit analysis and other issues like environmental, regulatory, social etc.
Evaluation of Decision packages	<ul style="list-style-type: none"> ✓ Once Decision packages are identified and described, it is evaluated against factors like synchronisation with organisational objectives, availability of funds, regulatory requirement etc.
Ranking (Prioritisation) of the Decision packages	<ul style="list-style-type: none"> ✓ After evaluation of the decision packages, it is ranked on the basis priority of the activities. ✓ Because of this prioritization feature ZBB is also known as Priority-based Budgeting.
Allocation of resources	<ul style="list-style-type: none"> ✓ After ranking of the decision packages, resources are allocated for decision packages. ✓ Budgets are prepared like it is done first time without taking reference to previous budgets.

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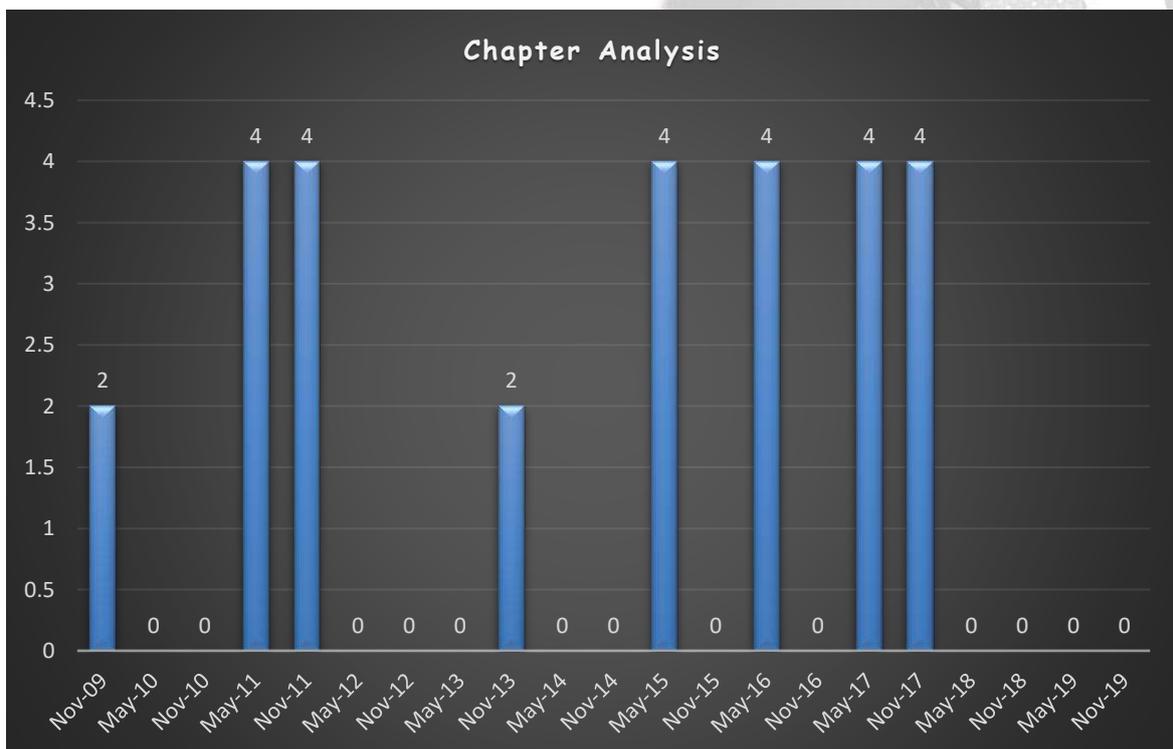
Chapter - 7

Contract Costing

We learn wisdom from failure much more than success. We often discover what we will do, by finding out what we will not do.
Samuel Smiles

Analysis of Past 21 Attempts

Theory Questions Analysis



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Theory Questions

1.	N 09 (2 M)	Mention the main advantage of cost plus contracts.
2.	M 11 (4 M)	Discuss the process of estimating profit/ loss on incomplete contracts.
3.	N 11 (4 M)	Explain the terms notional profit and retention money in contract costing.
4.	N 13 (2 M)	State the escalation clause in contract costing.
5.	M 15 (4 M)	Write notes on 'Escalation Clause'.
6.	M 16 (4 M)	What is cost plus contract? What are its advantages?
7.	M 17 (4 M)	Discuss briefly the principles to be followed while taking credit for profit on incomplete contract.
8.	N 17 (4 M)	Explain 'Retention Money' and 'Progress payment' in contract.

Answer 1

Meaning	<ul style="list-style-type: none"> ✓ Under cost plus contract, the contract price is ascertained by adding a percentage of profit to the total cost of the work. ✓ Such types of contracts are entered into when it is not possible to estimate the contract cost with reasonable accuracy due to unstable condition of material, labour services etc.
Advantages	<ul style="list-style-type: none"> ✓ The contractor is assured of a fixed percentage of profit. There is no risk of incurring any loss on the contract. ✓ It is useful specially when the work to be done is not definitely fixed at the time of making the estimate. ✓ Contractee can ensure himself about the 'cost of contract' as he is empowered to examine the books and documents of the contractor to ascertain the veracity of the cost of contract.

Answer 2

The portion of profit to be credited to profit and loss account depends on the stage of completion of the contract. **THIS ANSWER IS RELEVANT FOR IPC STUDENTS ONLY. INTER STUDENTS NEED NOT STUDY IT.**

Contract less than 25% complete	<ul style="list-style-type: none"> ✓ If the contract has just started or it is less than 25% complete, no profit should be taken into account.
Contract is 25% or more but less than 50% complete	<ul style="list-style-type: none"> ✓ In this case, one third of the notional profit reduced in the ratio of cash received to work certified, may be transferred to the profit and loss account. ✓ The amount of profit to be transferred to the profit and loss account may be determined by using the following formula :

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	$\frac{1}{3} \times \text{Notional Profit} \times \frac{\text{Cash Received}}{\text{Work certified}}$
Contract is 50% or more but less than 90% complete	<ul style="list-style-type: none"> ✓ In this case, two third of the notional profit, reduced by the portion of cash received to work certified may be transferred to the profit and loss account. ✓ In this case the formula to be used is as under : $\frac{2}{3} \times \text{Notional Profit} \times \frac{\text{Cash Received}}{\text{Work certified}}$
Contract nearing completion, say between 90% and 100% complete	<ul style="list-style-type: none"> a. $\text{Estimated Profit} \times \frac{\text{Work Certified}}{\text{Contract price}}$ b. $\text{Estimated Profit} \times \frac{\text{Cash Received}}{\text{Contract price}}$ c. $\text{Estimated Profit} \times \frac{\text{Cost of work to date}}{\text{Estimated total cost}}$ d. $\text{Estimated Profit} \times \frac{\text{Cost of work to date}}{\text{Estimated total cost}} \times \frac{\text{Cash Received}}{\text{Work Certified}}$ e. $\text{Notional Profit} \times \frac{\text{Work Certified}}{\text{Contract price}}$
Answer 3	
Notional profit	<ul style="list-style-type: none"> ✓ Notional Profit is the balancing figure of contract account prepared by contractor if the total of credit side exceeds the total of debit side. ✓ It represents the difference between the value of work certified and cost of work certified. ✓ It is determined as follows : $\text{Notional profit} = \text{Value of work certified} - (\text{Cost of work to date} - \text{Cost of work not yet certified})$
Retention Money	<ul style="list-style-type: none"> ✓ A contractor does not receive full payment of the work certified by the surveyor. ✓ Contractee retains some amount (say 10% to 20%) to be paid, after sometime, when it is ensured that there is no fault in the work carried out by contractor. ✓ If any deficiency or defect is noticed in the work, it is to be rectified by the contractor before the release of the retention money. ✓ Retention money provides a safeguard against the risk of loss due to faulty workmanship. ✓ It is determined as follows : $\text{Retention Money} = \text{Value of work certified} - \text{Payment actually made/ cash paid}$

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Answer 4

- ✓ This clause is usually provided in the contracts as a **safeguard against any likely changes in the price** or utilization of material and labour.
- ✓ If during the period of execution of a contract, **the prices of materials or labour rise beyond a certain limit, the contract price will be increased by an agreed amount.**
- ✓ Inclusion of such a term in a contract deed is known as an 'escalation clause'.
- ✓ An escalation clause usually relates to change in price of inputs, it may also be extended to increased consumption or utilization of quantities of materials, labour etc. (where it is beyond the control of the contractor).
- ✓ In such a situation, **the contractor has to satisfy the contractee that the increased utilization is not due to his inefficiency.**

Answer 5

Please refer answer to Question 4.

Answer 6

Please refer answer to Question 1.

Answer 7

Please refer answer to Question 2.

Answer 8**Retention Money**

Meaning	✓ Retention Money is that portion of value of work certified (usually 10% to 20%) which is retained by the contractee as security for any defective work which may be discovered later within the guarantee period.
Purpose	<ul style="list-style-type: none"> ✓ Its purpose is to provide a safeguard against the risk of loss due to faulty workmanship. ✓ If any deficiency or defect is noticed in the work, it is to be rectified by the contractor before the release of the retention money.
When Paid	✓ Retention Money is generally paid after the expiry of period specified in the contract when it is ensured that there is no fault in the work carried out by the contractor.
Computation	✓ Retention Money = Value of Work Certified – Cash Received

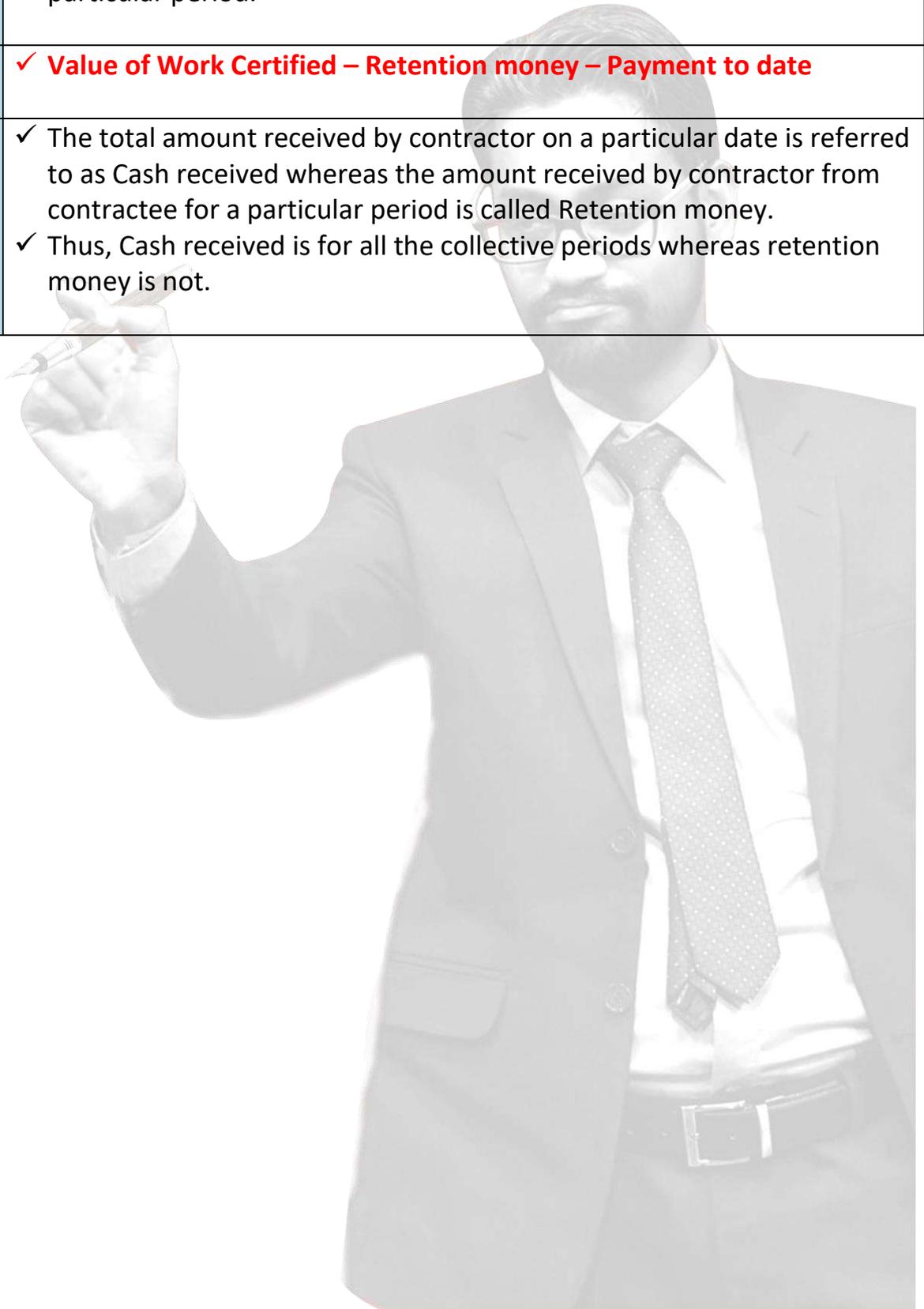
Progress Payment/ Running Payment

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Meaning	✓ It refers to the amount received by contractor from contractee for a particular period.
Computation	✓ Value of Work Certified – Retention money – Payment to date
Cash Received Vs. Progress Payment	<ul style="list-style-type: none"> ✓ The total amount received by contractor on a particular date is referred to as Cash received whereas the amount received by contractor from contractee for a particular period is called Retention money. ✓ Thus, Cash received is for all the collective periods whereas retention money is not.



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Chapter - 8

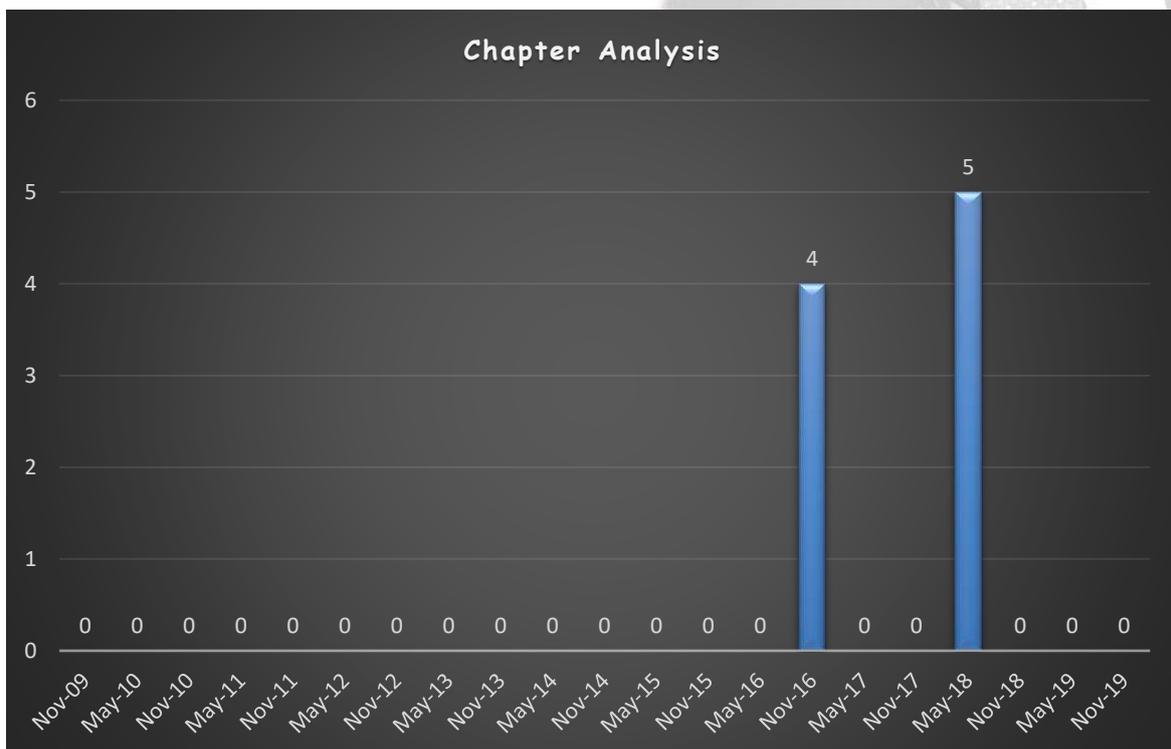
Job & Batch Costing

Every man, as to character, is the creature of the age in which he lives. Very few are able to raise themselves above the ideas of their times.

Voltaire

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Theory Questions Analysis



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Theory Questions

1.	N 16 (4 M)	What is meant by Job Costing? Give examples of (any four) industries where it is used.
2.	M 18 (5 M)	Explain 'Job Costing' and 'Batch Costing'.

Answer 1

Meaning	<ul style="list-style-type: none"> ✓ It is a method of costing which is used when the work is undertaken as per the customer's special requirement. ✓ When an inquiry is received from the customer, costs expected to be incurred on the job are estimated and on the basis of this estimate, a price is quoted to the customer. ✓ Actual cost of materials, labour and overheads are accumulated and on the completion of job, these actual costs are compared with the quoted price and thus the profit or loss on it is determined.
Examples	<ul style="list-style-type: none"> ✓ Job costing is applicable in <ul style="list-style-type: none"> ❖ printing press, ❖ hardware, ❖ ship-building, ❖ heavy machinery, ❖ foundry, ❖ general engineering works, ❖ machine tools, ❖ interior decoration, ❖ repairs ❖ and other similar work.

Answer 2

Job Costing	✓ Refer Answer to Question 1
Batch Costing	<ul style="list-style-type: none"> ✓ Batch Costing is that form of specific order costing under which each batch is treated as a cost unit and costs are accumulated and ascertained separately for each batch. ✓ Each batch consists of a number of like units. ✓ Each batch is treated as a cost unit. ✓ All costs are accumulated and ascertained for each batch. ✓ A separate Batch Cost Sheet is used for each batch and is assigned a certain number by which the batch is identified. ✓ The cost per unit is ascertained by dividing the total cost of a batch by the number of items produced in that batch.

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Chapter - 9

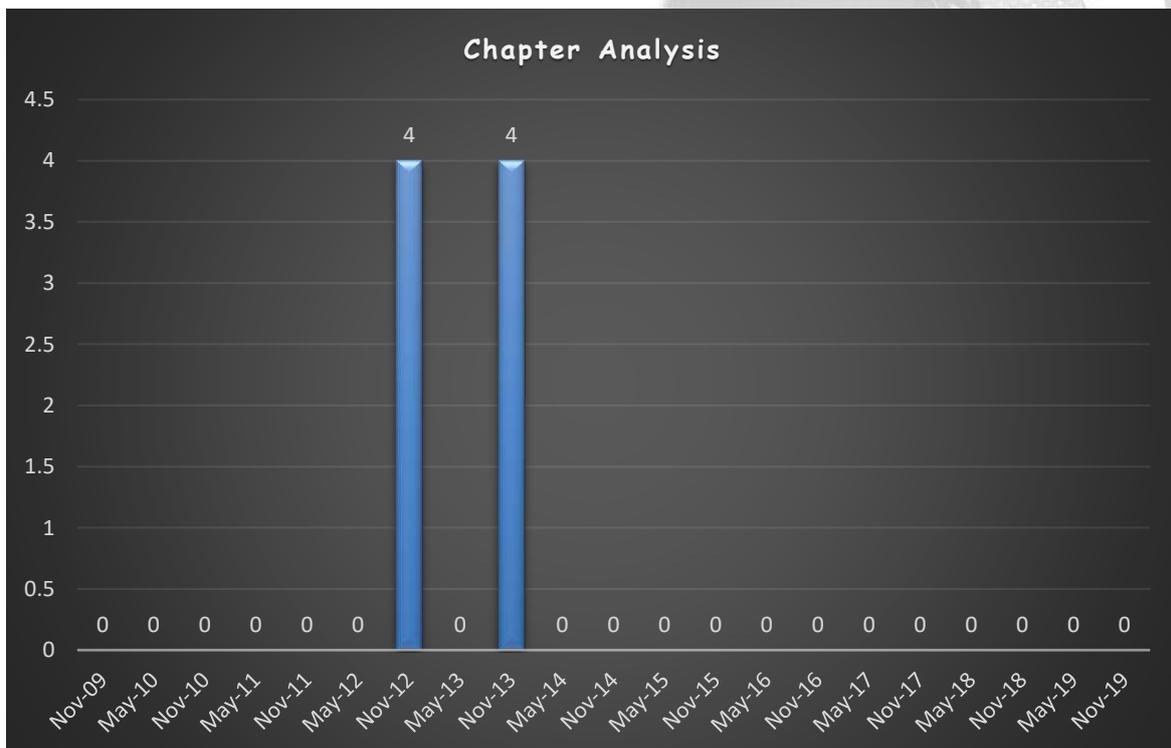
Process Costing

All men dream but not equally. Those who dream by night in the dusty recesses of their minds wake in the day to find that it was vanity; but the dreamers of the day are dangerous men, for they may act their dream with open eyes to make it possible.

T.E. Lawrence

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Theory Questions

1.	N 12 (4 M)	What is inter-process profit? State its advantages and disadvantages.
2.	N 13 (4 M)	Explain the following terms in relation to process costing : a. Equivalent Production b. Inter-process profit

Answer 1

Meaning	<ul style="list-style-type: none"> ✓ In some process industries, the output of one process is transferred to the next process not at cost but at market value or cost plus a percentage of profit. ✓ The difference between cost and the transfer price is known as inter-process profits.
Advantages	<ul style="list-style-type: none"> ✓ Comparison between the cost of output and its market price at the stage of completion is facilitated. ✓ Each process is made to stand by itself as to the profitability.
Disadvantages	<ul style="list-style-type: none"> ✓ The use of inter-process profits involves complication. ✓ The system shows profits which are not realised because of stock not sold out.

Answer 2

Equivalent Production	<ul style="list-style-type: none"> ✓ When opening and closing stocks of work-in-process exist, unit costs cannot be computed by simply dividing the total cost by total number of units still in process. ✓ We can convert the work-in-process units into finished units called equivalent production units so that the unit cost of these uncompleted (W-I-P) units can be obtained. ✓ Equivalent Production units = Actual number of units in production × Percentage of work completed ✓ It consists of <ul style="list-style-type: none"> ❖ balance of work done on opening work-in-process, ❖ current production done fully and ❖ part of work done on closing WIP with regard to different elements of costs viz., material, labour and overhead.
Inter-process profit	Please refer answer to Question 1.

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Chapter - 10

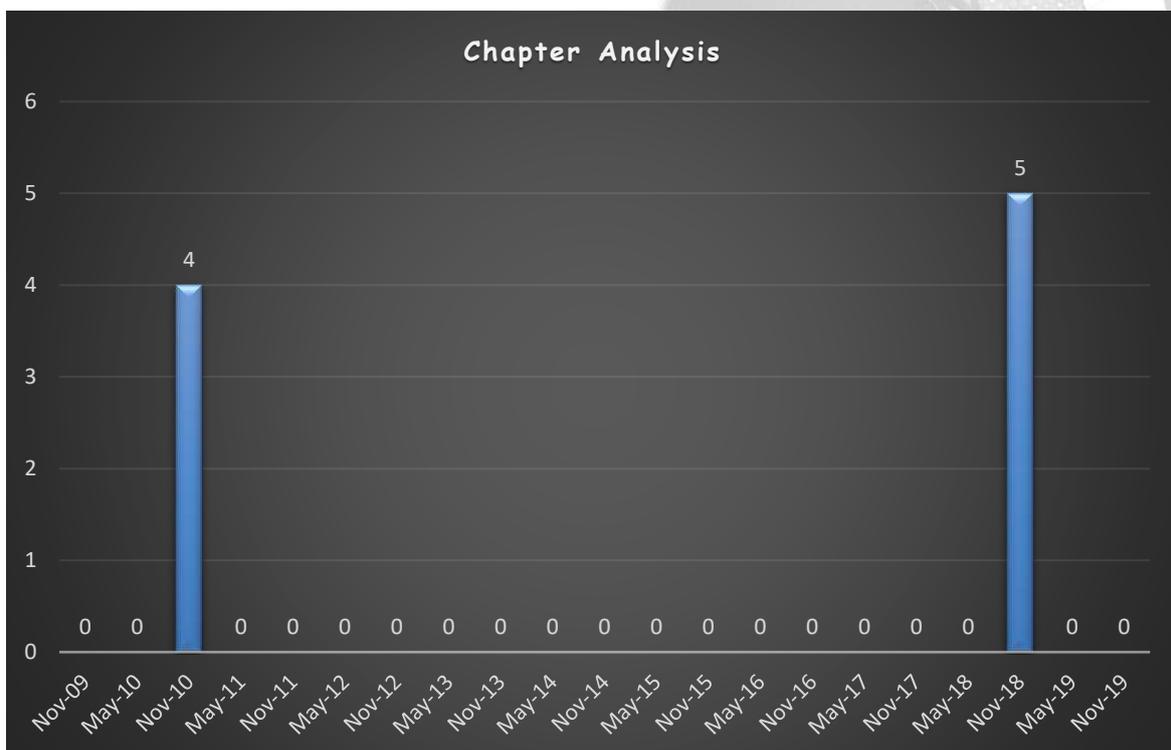
Joint Product & By Product

Rely on your own strength of body and soul. Take for your star self-reliance, faith, honesty and industry. Don't take too much advice — keep at the helm and steer your own ship, and remember that the great art of commanding is to take a fair share of the work. Fire above the mark you intend to hit. Energy, invincible determination with the right motive, are the levers that move the world.

Noah Porter

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Theory Questions

1.	N 10 (4 M)	How apportionment of joint costs upto the point of separation amongst the joint products using market value at the point of separation and net realizable value method is done? Discuss.
2.	N 18 (5 M)	How are By-products treated in Costing?

Answer 1

Apportionment of Joint Cost amongst Joint Products

Market value at the point of separation	<ul style="list-style-type: none"> ✓ This method is used for apportionment of joint costs to joint products upto the split off point. ✓ Under this, the market value of all the joint products is computed at the point of separation and the joint cost is divided on the basis of such market value. ✓ It is difficult to apply if the market value of the product at the point of separation is not available. ✓ It is useful method where further processing costs are incurred disproportionately.
Net realizable value Method	<ul style="list-style-type: none"> ✓ Under this method, Net realizable value of each joint product is found out and Joint costs are apportioned in the ratio of such net realisable value. ✓ Net realizable value is found out by deducting the following from the sales value of the joint products (at finished stage i.e. after further processing) : <ul style="list-style-type: none"> ❖ estimated profit margins, ❖ selling and distribution expenses, if any, and ❖ post-split off costs.

Answer 2

Where By-Products are of Small Total Value	Credit to Profit and Loss Account	✓ The credit to the Profit and Loss Account here is treated either as miscellaneous income or as additional sales revenue.
	Credit to Process account	✓ The sale proceeds of the By-product may be treated as deductions from the total costs.
When the by-products are of considerable		<ul style="list-style-type: none"> ✓ Where By-products are of considerable total value, they may be regarded as joint products rather than as By-products. ✓ To determine exact cost of By-products, the costs incurred upto the point of separation, should be apportioned over By-products and joint

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total value	products by using a logical basis. <ul style="list-style-type: none">✓ Sale proceeds of By-products are credited to the By-product Account.✓ Profit/ loss arising in By-product Account is transferred to Costing Profit & Loss Account.
Where by-products require further processing	✓ In this case, the net realisable value of the By-product at the split-off point may be arrived at by subtracting the further processing cost from the realisable value of by-products.



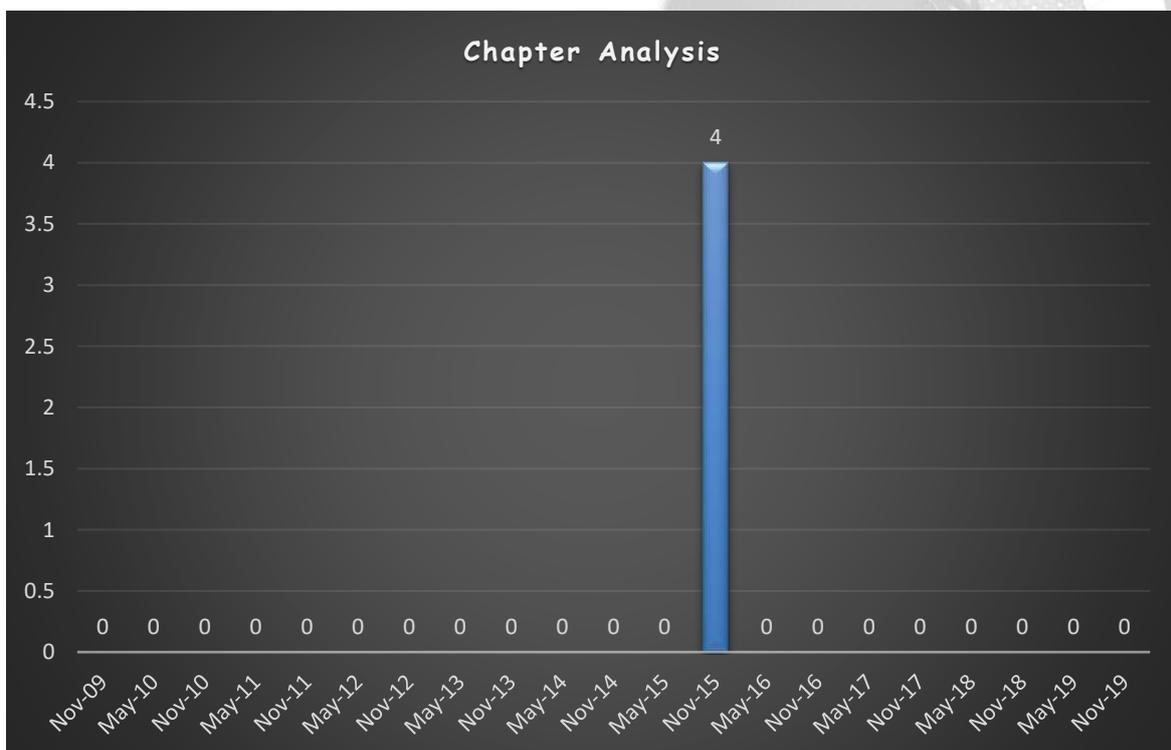
Chapter - 11

Standard Costing

If your actions inspire others to dream more, learn more, do more and become more, you are a leader.
John Quincy Adams

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Theory Questions

1.	N 15 (4 M)	Describe the various steps involved in adopting standard costing system in an organization.
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Answer 1

Setting of Standards	✓ The first step is to set standards which are to be achieved.
Ascertainment of actual costs	<ul style="list-style-type: none"> ✓ The actual cost for each component of cost is ascertained. ✓ Actual costs are ascertained from books of account, material invoices, wage sheet, charge slip etc.
Comparison of actual cost & standard cost	✓ Actual costs are compared with the standards costs and variances are determined.
Investigation of variances	<ul style="list-style-type: none"> ✓ Variances arising are investigated for further action. ✓ Based on this, performance is evaluated and appropriate actions are taken.
Disposition of variances	✓ Variances arising are disposed off by transferring to the relevant accounts (costing profit and loss account) as per the accounting method (plan) adopted.

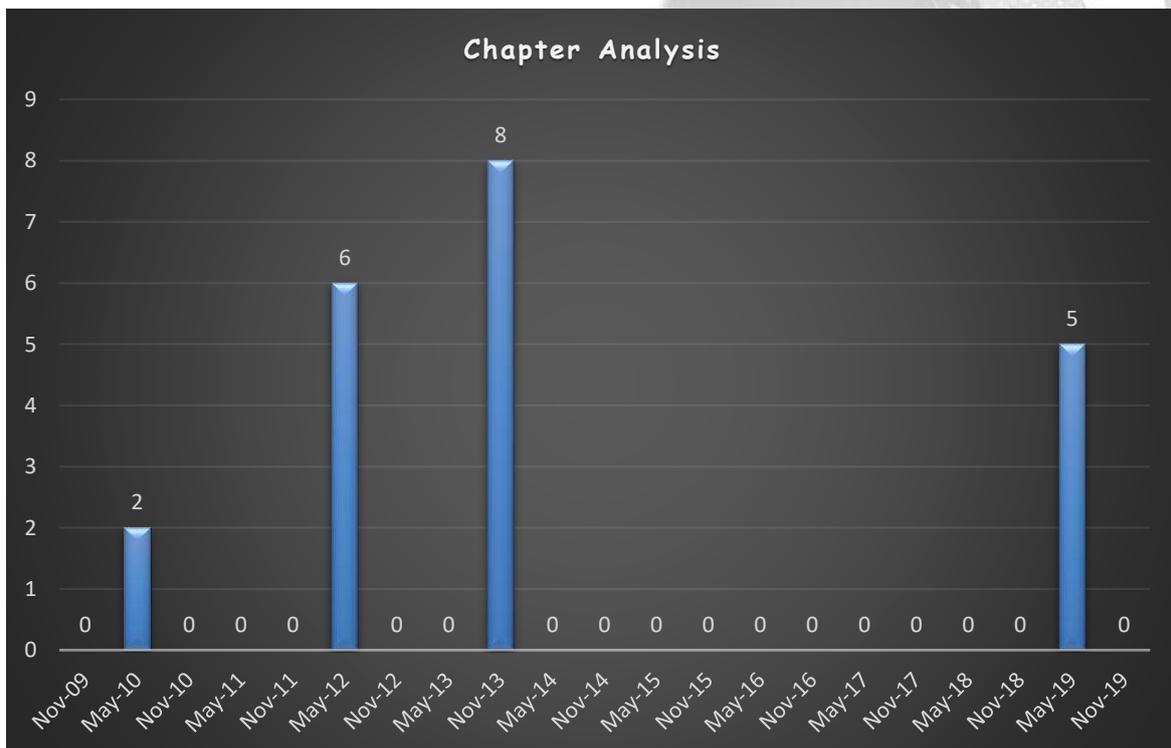
Chapter - 12

Marginal Costing

Nothing can stop the man with the right mental attitude from achieving his goal; nothing on earth can help the man with the wrong mental attitude.
Thomas Jefferson

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Theory Questions

1.	M 10 (2 M)	What do you understand by Key factor? Give two examples of it.
2.	M 12 (2 M)	Write short note on Angle of Incidence.
3.	M 12 (4 M)	Discuss basic assumptions of Cost Volume Profit analysis.
4.	N 13 (4 M)	Elaborate the practical application of Marginal Costing.
5.	N 13 (4 M)	What is the meaning of Margin of Safety (MOS)? State the relationship between Operating Leverage & Margin of Safety Ratio.
6.	M 19 (5 M)	What are the limitations of Marginal Costing?

Answer 1

Meaning	<ul style="list-style-type: none"> ✓ Key factor is a factor which at a particular time or over a period limits the activities of an undertaking. ✓ It may be the level of demand for the products or service or it may be the shortage of one or more of the productive resources.
Examples	<ul style="list-style-type: none"> ✓ Shortage of raw material ✓ Shortage of Labour ✓ Plant capacity available ✓ Sales capacity available

Answer 2

- ✓ This angle is formed by the **intersection of sales line and total cost line** at the break-even point.
- ✓ This angle shows the rate at which profits are being earned once the break-even point has been reached.
- ✓ The **wider the angle, the greater is the rate of earning profits.**
- ✓ A large angle of incidence with a high margin of safety indicates extremely favourable position.

Answer 3

- ✓ Changes in the levels of revenues and costs arise only because of **changes in the number of products** (or service) units produced and sold.
- ✓ Total cost can be separated into two components, **Fixed and variable.**
- ✓ Graphically, the behaviour of total revenues and total cost are linear in relation to output level within a relevant range.
- ✓ **Selling price, variable cost** per unit and total **fixed costs are known and constant.**
- ✓ All revenues and costs can be added, subtracted and compared **without taking into account the time value of money.**

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Answer 4

Pricing Policy	<ul style="list-style-type: none"> ✓ Since marginal cost per unit is constant from period to period, firm decisions on pricing policy can be taken particularly in short term.
Decision Making	<ul style="list-style-type: none"> ✓ Marginal costing helps the management in taking a number of business decisions like make or buy, discontinuance of a particular product, replacement of machines, etc.
Ascertaining Realistic Profit	<ul style="list-style-type: none"> ✓ Under the marginal costing technique, the stock of finished goods and work-in-progress are carried on marginal cost basis and the fixed expenses are written off to profit and loss account as period cost. ✓ This shows the true profit of the period.
Determination of production level	<ul style="list-style-type: none"> ✓ Marginal costing helps in the preparation of break-even analysis which shows the effect of increasing or decreasing production activity on the profitability of the company.

Answer 5

Meaning of Margin of Safety	<ul style="list-style-type: none"> ✓ Margin of Safety (MoS) is the excess of total sales over the Break even sales. ✓ MoS defines the amount upto which level sales can decline before occurring loss. ✓ The margin of safety is the difference between actual sales or output and the break –even sales of production. ✓ It may also be expressed in percentage. ✓ A greater margin of safety reflects the soundness of the business. ✓ If the margin of safety is small, any fall in sales value may even result in loss.
Formula	<ul style="list-style-type: none"> ✓ Margin of safety = Actual sales or output – break –even sales or production ✓ Margin of safety Ratio = $\frac{\text{Sales} - \text{Breakeven Sales}}{\text{Sales}}$
Relationship between Operating Leverage and Margin of Safety	<ul style="list-style-type: none"> ✓ Operating leverage is calculated as Contribution ÷ Operating profit and contribution margin plays an important role in it. ✓ If sales are expected to increase, higher operating leverage will result in higher profit. ✓ When sales are expected to decrease, lower operating leverage will result in higher profit. ✓ Higher variable cost and lower fixed cost will result into higher MoS and risk will be lower and vice versa.

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	<ul style="list-style-type: none"> ✓ So, like Operating leverage, MoS is a measure of risk as to what extent an organisation is exposed to change in sales volume.
Answer 6	
Difficulty in classifying cost	<ul style="list-style-type: none"> ✓ It is difficult to classify exactly the expenses into fixed and variable category. ✓ Most of the expenses are neither totally variable nor wholly fixed. ✓ For example, various amenities provided to workers may have no relation either to volume of production or time factor.
Dependence on key factors	<ul style="list-style-type: none"> ✓ Contribution of a product itself is not a guide for optimum profitability unless it is linked with the key factor.
Scope for Low Profitability	<ul style="list-style-type: none"> ✓ Sales staff may mistake marginal cost for total cost and sell at a price; which will result in loss or low profits. ✓ Hence, sales staff should be cautioned while giving marginal cost.
Faulty valuation	<ul style="list-style-type: none"> ✓ Overheads of fixed nature cannot altogether be excluded particularly in large contracts, while valuing the work-in-progress. ✓ In order to show the correct position, fixed overheads have to be included in work-in-progress.
Unpredictable nature of Cost	<ul style="list-style-type: none"> ✓ Fixed cost will remain static throughout is not correct. ✓ Fixed cost may change from one period to another. ✓ For example, salaries bill may go up because of annual increments or due to change in pay rate etc. ✓ The variable costs do not remain constant per unit of output. ✓ There may be changes in the prices of raw materials, wage rates etc. after a certain level of output has been reached due to shortage of material, shortage of skilled labour, concessions of bulk purchases etc.
Ignores time factor and investment	<ul style="list-style-type: none"> ✓ The marginal cost of two jobs may be the same but the time taken for their completion and the cost of machines used may differ. ✓ The true cost of a job which takes longer time and uses costlier machine would be higher. ✓ This fact is not disclosed by marginal costing.
Apportionment of Fixed Costs	<ul style="list-style-type: none"> ✓ In case of multiple products, separate break even points are to be calculated. This poses a problem of apportionment of fixed costs to each product.

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Chapter - 13

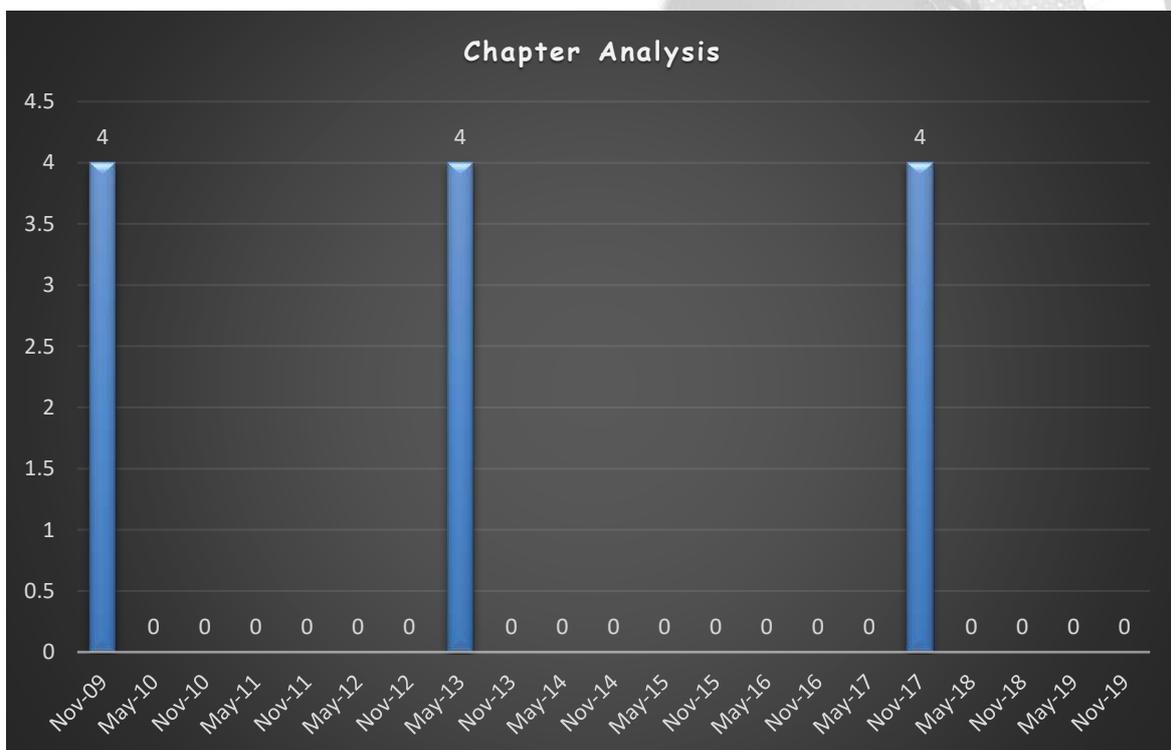
Reconciliation of Cost & Financial Accounts

The greatest results in life are usually attained by simple means and the exercise of ordinary qualities. These may for the most part be summed in these two: common-sense and perseverance.

Owen Feltham

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Theory Questions

1.	N 09 (2 M)	List the Financial expenses which are not included in cost.
2.	N 09 (2 M)	When is the reconciliation statement of Cost and Financial accounts not required?
3.	M 13 (4 M)	"Is reconciliation of cost accounts and financial accounts necessary in case of integrated accounting system?"
4.	N 17 (4 M)	What are the motivational factors for adopting a reconciliation process? Explain.

Answer 1

- ✓ **Interest** on loans or bank mortgages
- ✓ **Expenses relating to the issue and transfer of share and debentures** like stamps duty expenses; discount on share and debentures etc.
- ✓ **Losses on the sales of fixed assets and investments**
- ✓ **Fines** and penalties
- ✓ **Damages** payable under law
- ✓ **Legal charges**

Answer 2

- ✓ **When the Cost and Financial Accounts are integrated**, there is **no need to have a separate reconciliation statement** between the two sets of accounts.
- ✓ Integration means that same set of accounts fulfil requirement of both Cost and Financial Accounts.

Answer 3

- ✓ **In integrated accounting system, cost and financial accounts are kept in the same set of books.**
- ✓ Such a system will have to afford **full information** required for Costing as well as for Financial Accounts.
- ✓ In other words, information and data should be recorded in such a way so as to enable the firm to ascertain the cost (together with the necessary analysis) of each product, job, process, operation or any other identifiable activity.
- ✓ It also **ensures the ascertainment of marginal cost, variances, abnormal losses and gains.**
- ✓ In fact, all information that management requires from a system of Costing for doing its work properly is made available.
- ✓ The integrated accounts give full information in such a manner so that the profit and loss account and the balance sheet can be prepared according to the requirements of law and the management maintains full control over the liabilities and assets of its business.

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- ✓ Since, **only one set of books are kept for both cost accounting and financial accounting purpose so there is no necessity of reconciliation** of cost and financial accounts.

Answer 4

When the cost and financial accounts are kept separately, it is imperative that these should be reconciled, otherwise the cost accounts would not be reliable. The reconciliation of two set of accounts can be made, if both the sets contain sufficient detail as would enable the causes of differences to be located. It is therefore, important that in the financial accounts, the expenses should be analysed in the same way as in cost accounts.

Motivation for reconciliation is :

- ✓ **To ensure reliability of cost data.**
- ✓ **To ensure ascertainment of correct product cost.**
- ✓ **To ensure correct decision making by the management based on Cost & Financial data.**

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Chapter - 14

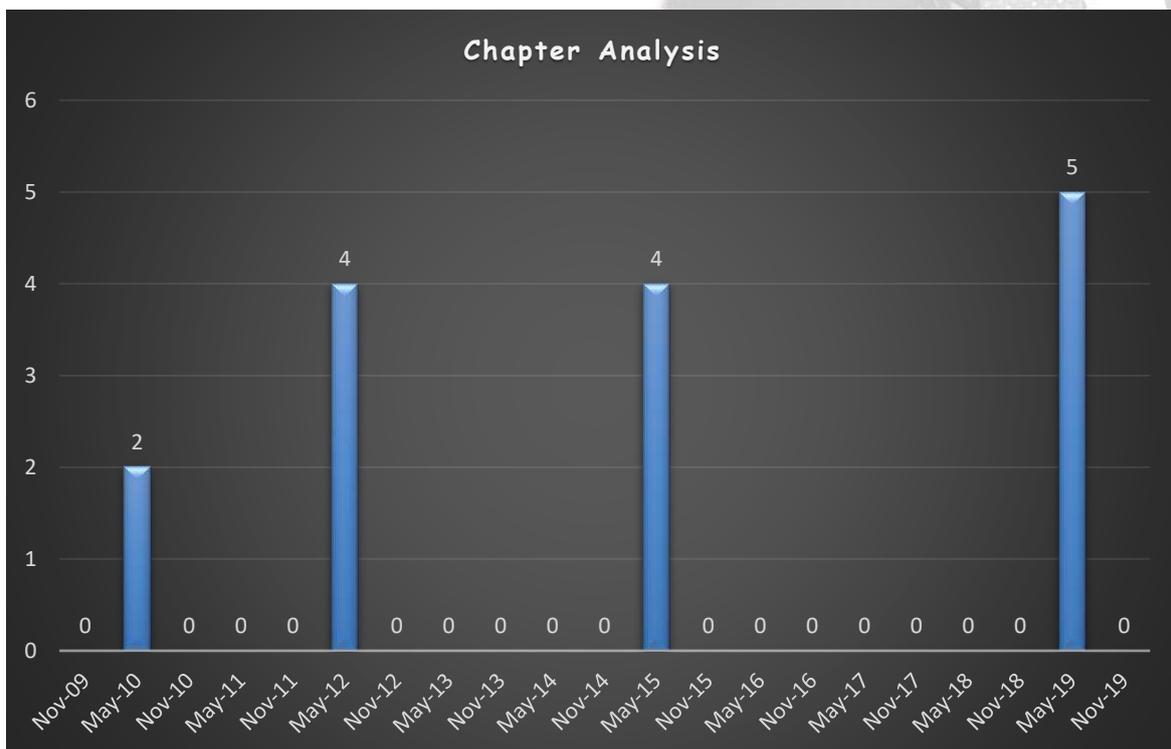
Integral & Non Integral System

The difference between a successful person and others is not a lack of strength, not a lack of knowledge, but rather a lack in will.

Vince Lombardi

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Theory Questions

1.	M 10 (2 M)	What are the main advantages of integrated accounts?
2.	M 12 (4 M)	What is an Integrated Accounting System? State its advantages.
3.	M 15 (4 M)	State benefits of Integrated Accounting.
4.	M 19 (5 M)	Explain Integrated Accounting System and state its advantages.

Answer 1

Meaning	✓ It's a system of accounting where both costing and financial transactions are recorded in the same set of books.	
Advantages	<i>No need for Reconciliation</i>	✓ The question of reconciling costing profit and financial profit does not arise, as there is only one figure of profit.
	<i>Less efforts</i>	✓ Due to use of one set of books, there is significant saving in efforts made.
	<i>Less time consuming</i>	✓ No delay is caused in obtaining information provided in books of original entry.
	<i>Economical Process</i>	✓ It is economical also as it is based on the concept of 'Centralization of Accounting Function' .

Answer 2

Please refer answer to Question 1.

Answer 3

Please refer answer to Question 1.

Answer 4

Please refer answer to Question 1.

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Chapter - 15

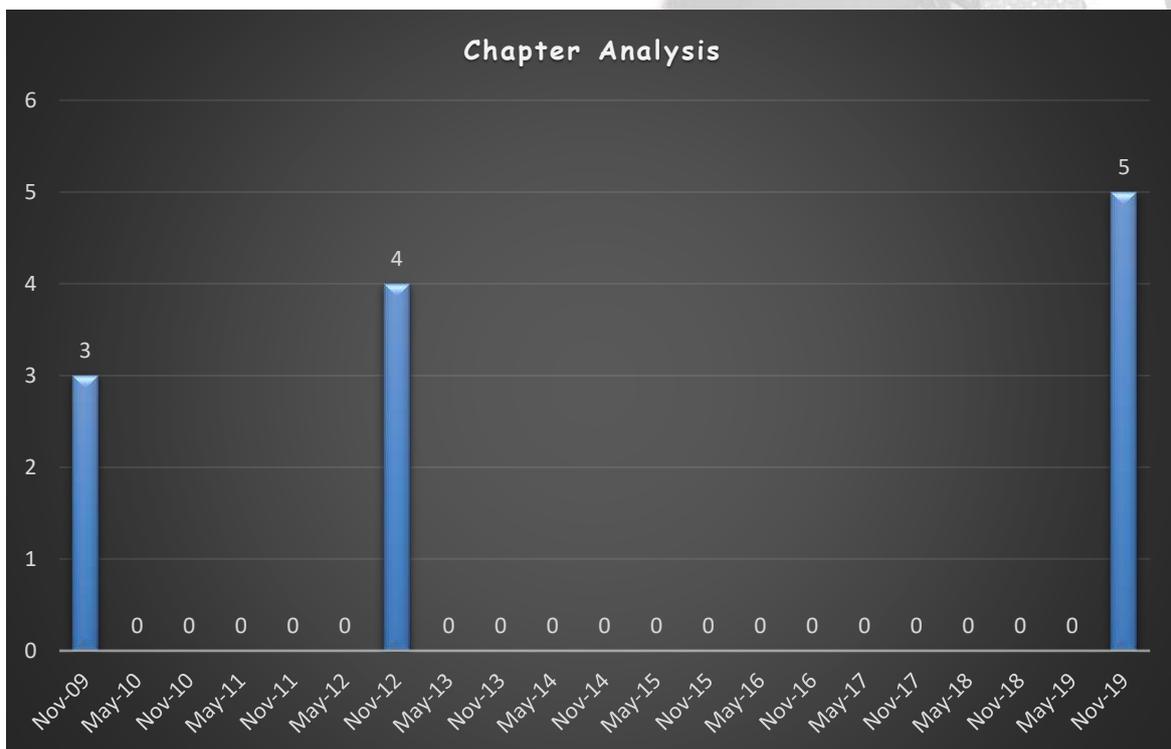
Service Costing

Every great dream begins with a dreamer. Always remember, you have within you the strength, the patience, and the passion to reach for the stars to change the world.

Harriet Tubman

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Theory Questions

1.	N 09 (3 M)	Explain briefly, what do you understand by Operating Costing. How are composite units computed?
2.	N 12 (4 M)	What do you understand by operating costing? How are composite units computed?
3	N 19 (5 M)	Describe Composite Cost Unit as used in Service Costing and discuss the ways of computing it.

Answer 1

Meaning	<ul style="list-style-type: none"> ✓ Operating Costing is a method of ascertaining costs of providing or operating a service. ✓ This method of costing is applied by those undertakings which provide services rather than production of commodities. ✓ This costing method is usually made use of by transport companies, gas and water works departments, electricity supply companies, canteens, hospitals, theatres, schools etc. 	
Computation of Composite units	<ul style="list-style-type: none"> ✓ When two units are merged into one, it is called Composite units. ✓ Composite units i.e. tonnes kms., quintal kms. etc. may be computed in two ways. 	
<i>Absolute (weighted average) tonnes-kms.</i>	<ul style="list-style-type: none"> ✓ Absolute tonnes-kms., are the sum total of tonnes-kms., arrived at by multiplying various distances by respective load quantities carried. 	
<i>Commercial (simple average) tonnes-kms.</i>	<ul style="list-style-type: none"> ✓ Commercial tonnes-kms., are arrived at by multiplying total distance kms., by average load quantity. 	

Answer 2

Please refer answer to Question 1.

Answer 3

Please refer answer to Question 1.

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Chapter - 16

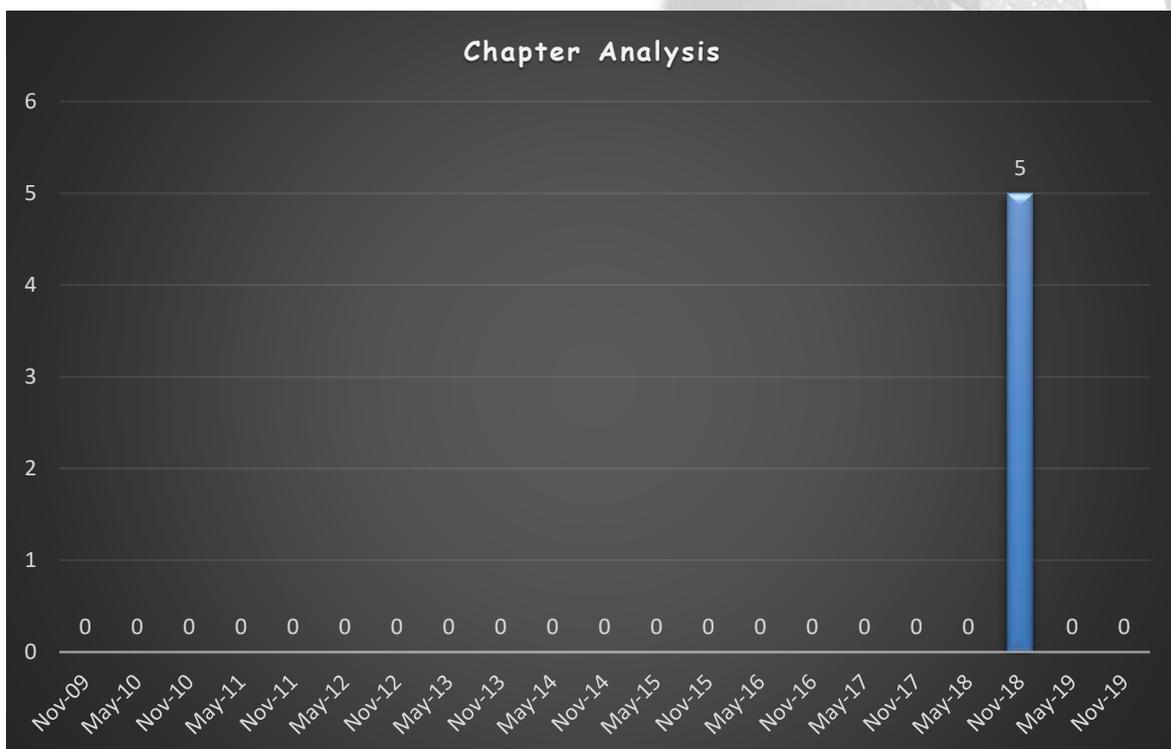
Activity Based Costing

Every great dream begins with a dreamer. Always remember, you have within you the strength, the patience, and the passion to reach for the stars to change the world.

Harriet Tubman

**Analysis of Past 3 Attempts
(chapter newly added from May 2018)**

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Theory Questions

1. N 18 (5 M) Explain Activity Based Budgeting.

Answer 1

Meaning	<ul style="list-style-type: none"> ✓ Activity based budgeting analyses the resource input or cost for each activity. ✓ It provides a framework for estimating the amount of resources required in accordance with the budgeted level of activity. ✓ Actual results can be compared with budgeted results both in financial and non-financial terms and the activities with major discrepancies can be highlighted. ✓ It is a planning and control system which seeks to support the objectives of continuous improvement.
Insights	<ul style="list-style-type: none"> ✓ The traditional budgeting is based on traditional cost accounting i.e. on the basis of allocation, apportionment and absorption of overheads in the products. ✓ However, the Activity Based Budgeting is different from the traditional budgeting in the sense that it provides a strong link between the objectives of organisation and objectives of a particular activity. ✓ In other words, it involves identification of activities and dividing them in value adding and non value adding activities. ✓ The non value adding activities are eliminated in due course of time. ✓ Activity Based Budgeting thus requires identification of activities of the organisation, establishing the factors which cause costs, the cost drivers and then collecting the costs of the activities in cost pools.
Features	<ul style="list-style-type: none"> ✓ It uses the activity analysis to relate costs to activities. ✓ It identifies cost improvement opportunities. ✓ There is a clear link between strategic objectives & planning and the strategic planning of the ABC process.
Key Elements	<ul style="list-style-type: none"> ✓ Type of work to be done ✓ Quantity of work to be done ✓ Cost of work to be done

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