

Cost Accounting MCQ Booklet

CMA Inter
Group I (Paper-8)

For a strong grip over the subject

CA SATISH JALAN



© SJC Institute LLP

This book shall not be reproduced or shared by photocopying, recording, or otherwise by any unauthorised person without prior written permission from the publisher. All disputes are subject to Kolkata Jurisdiction

Study from CA Satish Jalan
Cost 1 & 2 | FM | OM SM
| SCM | SFM | SPM BV | Cost Audit

Preface

Dear Students,

I am delighted to introduce you this latest compilation of Objective Questions of Cost Accounting for CMA Inter. This book covers short questions of Multiple Choice, Fill in the blanks and True/False Type.

The hardest of efforts have been put forth to handpick all the possible varieties of theory as well as practical questions of a chapter, which would be building up your concepts of theory and check your practical sum solving skills.

What is now required from your side is that once you are prepared with your course, you should try to solve all the questions, and check with the answers given at the end of the respective topics. One thing I must mention here that the students who have studied Costing Subject with me, would be able to solve almost 100 percent of the questions here swiftly.

Have a fun filled learning!

Regards,

CA Satish Jalan

Contents as per ICMAI Mat

Chapter Name		Page No.
1	Introduction to Cost Accounting	1
2	Cost Ascertainment - Elements of Cost	
1	Material Cost	7
2	Employee Cost	14
3	Direct Expenses	21
4	Overheads	23
3	Cost Accounting Standards	30
4	Cost Book Keeping	
1	Cost Accounting Records, Ledgers and Cost Statements	36
2	Control Accounts	42
3	Reconciliation of Cost Accounting Records with Financial Accounts	46
5	Methods of Costing	
1	Job Costing	51
2	Batch Costing	56
3	Contract Costing	59
4	Process Costing - Joint & By-Products	63
5	Operating Costing or Service Costing – Transport, Hotel and Hospital	71
6	Cost Accounting Techniques	
1	Marginal Costing	78
2	Standard Costing & Variance Analysis	88
3	Budget and Budgetary Control	97

CA SATISH JALAN

Introduction to Cost Accounting

I. Multiple Choice Questions

1. Depreciation is a example of-
 - (a) Fixed Cost
 - (b) Variable Cost
 - (c) Semi Variable Cost
 - (d) None
2. The most important element of cost is-
 - (a) Material
 - (b) Labour
 - (c) Overheads
 - (d) All of these
3. The main purpose of Cost Accounting is
 - (a) to maximise profit.
 - (b) to help in inventory valuation.
 - (c) to help in the fixation of selling price.
 - (d) to provide information to management for decision making
4. Costs which are ascertained after they have been incurred are known as
 - (a) Sunk Costs
 - (b) Imputed Costs
 - (c) Historical Costs
 - (d) Opportunity Costs
5. Process costing method is suitable for:
 - (a) Steel industry
 - (b) Crane manufacturing organization
 - (c) Road roller manufacturing company
 - (d) Transport industry
 - (e) None of the above



6. Which of the following classification is meant for distinction between direct cost and indirect cost?
 - (a) Function
 - (b) Element
 - (c) Variability
 - (d) Controllability
 - (e) None of the above
7. Which of the following is applicable for Cost Control?
 - (a) It is related with the future
 - (b) It is a corrective function
 - (c) It ends when the targets are achieved
 - (d) It challenges the standards set
 - (e) None of the above
8. _____ is anything for which a separate measurement of cost is required.
 - (a) Cost driver
 - (b) Cost centre
 - (c) Cost unit
 - (d) Cost object
9. Ticket counter in a Metro station is an example of:
 - (a) Profit centre
 - (b) Investment centre
 - (c) Cost centre
 - (d) Revenue centre
10. Which of the following is an example of functional classification of cost?
 - (a) Direct labour cost
 - (b) Direct material cost
 - (c) Factory overhead
 - (d) Indirect material cost
11. Cost Control represents
 - (a) efforts made towards achieving target or goal
 - (b) the achievement in reduction of cost
 - (c) existence of concealed potential savings in standards or norms
 - (d) a corrective function

12. Accounts that are concerned with external transactions i.e. transactions between business concern and third party, comes under the purview of:
- Which one of the choices from below according to you most appropriately completes the above sentence?
- (a) Financial Accounting
 - (b) Cost Accounting
 - (c) Responsibility Accounting
 - (d) None of the above
13. The cost of remuneration for employee's efforts and skills applied directly to a product or saleable service and which can be identified separately in product costs are called as:
- (a) Direct labour cost
 - (b) Indirect labour cost
 - (c) Employee cost
 - (d) Overtime cost

Answer

- 1. (a) Fixed Cost
- 2. (a) Material
- 3. (d) to provide information to management for decision making
- 4. (c) Historical Costs
- 5. (a) Steel industry
- 6. (b) Element
- 7. (c) It ends when the targets are achieved
- 8. (d) Cost object
- 9. (d) Revenue centre
- 10. (c) Factory overhead
- 11. (b) the achievement in reduction of cost
- 12. (a) Financial Accounting
- 13. (a) Direct labour cost

II. Fill in the blanks

1. Prime Cost is the aggregate of all _____
2. In India, commercial papers can be issued in multiples of ₹ _____
3. Current Ratio is the ratio of Current Assets to _____
4. Where the cost and financial accounts are maintained independently of each other, it is indispensable to _____ them, as there are differences in the profits of two sets of books.
5. Differential cost is the change in the cost due to change in _____ from one level to another.
6. _____ costs are historical costs which are incurred in the past.
7. Management accounting is primarily concerned with _____.
8. In Cost Accounting stock are valued at _____ only.
9. Profit is the resultant of two varying factors viz _____ and _____.
10. A responsibility centre in which a manager is responsible for costs only is called _____.
11. _____ costs are not considered for decision making because all past costs are not relevant.
12. _____ expenses are not included in the cost sheet.
13. Costs which involves immediate payment of cash. Salaries, wages, etc is known as _____.
14. Centre is a segment of a business that is responsible for all the activities involved in the production and sales of products, systems and services is called _____.

Answer

1. Direct expenses
2. 5 lacs
3. Current Liabilities
4. reconcile
5. Activity
6. Sunk
7. management
8. cost
9. sales, cost
10. Cost Centre
11. Sunk

12. Notional
13. Explicit cost
14. Cost centre

III. True or False

1. Cost Control and Cost Reductions are one and the same.
2. Cost Accounting is defined as technique and process of ascertaining costs.
3. Cost Accounting is not a branch of Financial Accounting.
4. The sum of direct material, direct wages, direct expenses and manufacturing overheads is known as conversion cost.
5. Differential Cost is the change in the cost due to change in activity from one level to another.
6. Multiple Costing is suitable for the banking Industry.
7. Cost Accounting is not required for a non-profit organisation such as medical hospital.
8. Notional costs and imputed costs means the same thing.
9. Opportunity cost is recorded in the costing books of accounts.
10. Conversion costs are recorded as direct cost.
11. All store items such as lubricant oil, cotton waste etc. is regarded as direct material cost
12. Cost centre is a location, person or item of equipment for which cost may be ascertained
13. Implicit costs involve immediate cash payment

Answer

True - 3, 5, 8, 12

False - 1, 2, 4, 6, 7, 9, 10, 11, 13

Cost Ascertainment Elements of Cost

Unit 1 Material Cost

Unit 2 Employee Cost

Unit 3 Direct Expenses

Unit 4 Overheads

Unit 1
Material Cost

I. Multiple Choice Questions

- At the economic ordering quantity level, the following is true:
 - The ordering cost is minimum
 - The carrying cost is minimum
 - The ordering cost is equal to the carrying cost
 - The purchase price is minimum
- Which of the following is considered as normal loss of material?
 - Pilferage
 - Loss due to accident
 - Loss due to careless handling of material
 - None of these
- Warehouse expense is an example of
 - Production overhead
 - Selling overhead
 - Distribution overhead
 - None of above
- Continuous stock taking is a part of-
 - ABC analysis
 - Annual stock taking
 - Perpetual Inventory
 - None of these
- Which of the following is considered as accounting record?
 - Bin Card
 - Bill of material
 - Store Ledger
 - None of these



Material Cost

6. Direct material is a –
 - (a) Adiministration Cost
 - (b) Selling and Distribution cost
 - (c) All of these
 - (d) None of these
7. Direct material can be classified as
 - (a) Fixed cost
 - (b) Semi–variable cost
 - (c) Variable cost
 - (d) Prime cost
 - (e) None of the above
8. In most of the industries, the most important element of cost is
 - (a) Labour
 - (b) Overheads
 - (c) Administration Cost
 - (d) Material
 - (e) All of the above
9. In which of following methods of pricing, costs lag behind the current economic values?
 - (a) Replacement price method
 - (b) Last–in–first out price method
 - (c) First–in–first out price method
 - (d) Weighted average price method
 - (e) None of the above
10. In which of the following methods, issues of materials are priced at pre–determined rate?
 - (a) Replacement price method
 - (b) Inflated price method
 - (c) Specific price method
 - (d) Standard price method
 - (e) None of the above
11. Which of the following methods smoothes out the effect of fluctuations when material prices fluctuate widely?
 - (a) FIFO
 - (b) Simple Average

- (c) LIFO
- (d) Weighted average
- (e) None of the above
12. Under the FSN system of inventory control, inventory is classified based on:
- (a) Value of items of inventory
- (b) Criticality of the item of inventory for production
- (c) Frequency of items of inventory use
- (d) Volume of material consumption
- (e) None of the above
13. Materials are issued from one process to another, based on:
- (a) Bill of Materials
- (b) Material Requisition Note
- (c) Purchase Requisition Note
- (d) Material Transfer Note
- (e) None of the above
14. _____ is the value of alternatives foregone by adopting a particular strategy or employing resources in specific manner.
- (a) Replacement cost
- (b) Imputed cost
- (c) Opportunity cost
- (d) Relevant cost
15. _____ is a quantitative record of receipts, issues and closing balance of items of stores.
- (a) Stores records
- (b) Stores ledger
- (c) Bin Card
- (d) None of the above
16. The _____ is an analytical method of stock control which aims at concentrating efforts on those items where attention is needed most.
- (a) VED Analysis
- (b) FSN Analysis
- (c) JIT Analysis



17. If the raw material price is affected by inflation, which of the following methods of valuing stocks will give the lowest gross profit?
 - (a) FIFO
 - (b) Simple average
 - (c) LIFO
 - (d) Replacement Cost
18. If the activity based costing, cost are accumulated by
 - (a) Cost pool
 - (b) Cost Objectives
 - (c) Cost benefit analysis
 - (d) None of the above
19. The Valuation of Closing stock according to Last in first out method of pricing is done at
 - (a) The latest Prices
 - (b) The earliest Prices
 - (c) At average Prices
 - (d) None of the above
20. What is scrap?
 - (a) Discarded material having no or insignificant value
 - (b) Loss in the production process
 - (c) Production that does not meet the quality requirements
 - (d) None of the above

Answer

1. (c) The ordering cost is equal to the carrying cost
2. (d) None of these
3. (c) Distribution overhead
4. (c) Perpetual Inventory
5. (c) Store Ledger
6. (d) None of these
7. (c) Variable cost
8. (d) Material
9. (c) First-in-first out price method
10. (d) Standard price method
11. (d) Weighted average

12. (c) Frequency of items of inventory use
13. (d) Material Transfer Note
14. (c) Opportunity cost
15. (c) Bin Card
16. (d) ABC Analysis
17. (c) LIFO
18. (a) Cost pool
19. (a) The latest Prices
20. (a) Discarded material having no or insignificant value

II. Fill in the blanks

1. VED analysis is primarily used for control of _____ (indicate type of material).
2. Bin card shows _____ details of materials.
3. Store Ledger is maintained by _____ department.
4. The excess of Total Cost of production of an article over the direct material cost is known as _____ Cost.
5. Bin Card is maintained by _____ department.
6. In the _____ method of pricing material issues, where the prices are falling, profits will rise.
7. Material Transfer Note is a _____ for transferring the materials from one job to other job.
8. $\text{Maximum Level} = (\text{_____} + \text{Re-order Quantity}) - (\text{Minimum Consumption Rate} \times \text{Minimum Re-order Period})$.
9. Store Ledger is kept and maintained in _____.
10. _____ is a document which records the return of unused materials.
11. _____ is discount allowed to the bulk purchaser.
12. $\text{Re-order level} = \text{_____ usage multiplied by _____ lead time}$.

Answer

1. Components or Spare Parts
2. Quantitative
3. costing
4. Conversion
5. Store Keeper or Stores Personnel



6. LIFO
7. Document
8. Reorder Level
9. cost office
10. Material Return Note
11. Quantity Discount / Trade Discount / Cash discount
12. Maximum & Minimum

III. True or False

1. At EOQ Ordering Cost and Carrying Cost are at Minimum and also equal.
2. Under the average price method of valuing material issues, a new issue price is determined after each purchase.
3. Bincard shows the Quantity of a material at any movement of time.
4. While working out the EOQ, carrying cost has the element of interest cost. Hence it can be stated that interest cost is treated as part of material cost under CAS—6.
5. Danger Level of Inventory should be fixed below the minimum level.
6. Materials which can be identified with the given product unit of cost centre is called as indirect materials.
7. In case of materials that suffers loss in weight due to evaporation etc. the issue price of the materials is inflated to cover up the losses.
8. ABC analysis is not based on the concept of selection inventory management.
9. Perpetual inventory system enables management to ascertain stock at any time without physical inventory being taken.
10. Continuous stock taking is not an essential feature to the perpetual inventory system.
11. Bin card is a record of both quantities and value.
12. VED analysis is used primarily for control of spare parts.
13. Stores ledger is maintained in the stores department.
14. Purchase requisition is usually prepared by the storekeeper.
15. In centralized purchasing all purchases are made by the purchasing department.
16. Weighted average method of pricing issue of materials involves adding all the different prices and dividing by the number of such prices.
17. Material returned note is prepared to keep a record of return of surplus materials to stores.
18. Under the average price method of valuing material issues, a new issue price is determined after each purchase.

19. Slow moving materials have a high turnover ratio.
20. Bin card are not the part of accounting records.
21. ABC analysis is based on the principle of management by exception.
22. Store ledger is maintained inside the stores by store keeper.
23. FIFO method is followed for evaluation of equivalent production when prices are fluctuating.
24. There is inverse relationship between batch size and carrying costs.
25. Bin card is maintained by the costing department.
26. Fixed Costs vary with volume rather than time.
27. Materials which can be identified with the given product unit of cost centre is called as indirect materials.
28. Spoilage is the production that does not meet the quality requirements or specifications and cannot be rectified economically.
29. Waste is the material lost during production or storage and discarded material which have very high

Answer

True - 1, 2, 3, 7, 9, 12, 14, 15, 17, 18, 20, 21, 28

False - 4, 5, 6, 8, 10, 11, 13, 16, 19, 22, 23, 24, 25, 26, 27, 29

Unit 2

Employee Cost

I. Multiple Choice Questions

- When a direct worker is paid on a monthly fixed salary basis, the following is true:
 - There is no idle time lost.
 - There is no idle time cost.
 - Idle time cost is separated and treated as overhead.
 - The salary is fully treated as factory overhead cost.
- Idle time is
 - Time spent by workers in factory
 - Time spent by workers in office
 - Time spent by workers off their work
 - Time spent by workers on their job
- Cost of idle time arising due to non-availability of raw material is
 - Charged to costing profit and loss A/c
 - Charged to factory overheads
 - Recovered by inflating the wage rate
 - Ignored
- Time and motion study is conducted by the
 - Time –keeping department
 - Personnel department
 - Payroll department
 - Engineering department
- Time keeping refers to
 - Time spent by workers on their job
 - Time spent by workers in factory
 - Time spent by workers without work
 - Time spent by workers on their job

6. In which of the following incentive plan of payment, wages on time basis are not Guaranteed?
 - (a) Halsey plan
 - (b) Rowan plan
 - (c) Taylor's differential piece rate system
 - (d) Gantt's task and bonus system
7. Under the high wage plan, a worker is paid
 - (a) At a time rate higher than the usual rate
 - (b) According to his efficiency
 - (c) At a double rate for overtime
 - (d) Normal wages plus bonus
8. When overtime is required for meeting urgent orders, overtime premium should be
 - (a) Charged to costing profit and loss A/c
 - (b) Charged to overhead costs
 - (c) Charged to respective jobs
 - (d) Ignored
9. Wages sheet is prepared by
 - (a) Time -keeping department
 - (b) Personnel department
 - (c) Payroll department
 - (d) Engineering department
10. Labour turnover is measured by
 - (a) Number of workers replaced average number of workers
 - (b) Number of workers left / number in the beginning plus number at the end
 - (c) Number of workers joining / number in the beginning of the period
 - (d) All of these
11. Over time is
 - (a) Actual hours being more than normal time
 - (b) Actual hours being more than standard time
 - (c) Standard hours being more than actual hours
 - (d) Actual hours being less than standard time



12. For reducing the labour cost per unit, which of the following factors is the most important?
 - (a) Low wage rates
 - (b) Longer hours of work
 - (c) Higher input-output ratio
 - (d) Strict control and supervision
13. Labour productivity is measured by comparing
 - (a) Total output with total man–hours
 - (b) Added value for the product with total wage cost
 - (c) Actual time and standard time
 - (d) All of the above
14. If the time saved is less than 50% of the standard time, then the wages under Rowan and Halsey premium plan on comparison gives:
 - (a) Equal wages under two plans
 - (b) More wages to workers under Halsey plan than Rowan plan
 - (c) More wages to workers under Rowan plan than Halsey Plan
 - (d) None of the above
15. Idle time is the time under which
 - (a) No productivity is given by the workers
 - (b) Full wages are paid to workers
 - (c) None of the above
 - (d) All of the above
16. Identify, which one of the following, does not account for increasing labour productivity
 - (a) Motivating workers
 - (b) Job satisfaction
 - (c) Proper supervision and control
 - (d) High labour turnover
 - (e) None of the above
17. Under Taylor's differential piece rate scheme, if a worker fails to complete the task within the standard time, then he is paid
 - (a) 83% of the piece work rate
 - (b) 175% of the piece work rate
 - (c) 67% of the piece work rate

- (d) 125% of the piece work rate
 - (e) None of the above
18. Normal rate per hour for worker X in a factory is 3.6 Standard time per unit for the worker is one minute. Normal piece rate per unit for the worker is
- (a) 0.09
 - (b) 0.08
 - (c) 0.06
 - (d) None of the above
19. The total earnings of a worker both under Halsey and Rowan plan will be equal when:
- (a) Time save is 40% of time allowed
 - (b) Time save is 50% of time allowed
 - (c) Time save is 40% of time allowed
 - (d) None of the above
20. Normal Idle time cost shall be assigned to:
- (a) Employee cost
 - (b) Overheads
 - (c) Any one of (a) or (b)
 - (d) None of the above

Answer

- 1. (b) There is no idle time cost.
- 2. (c) Time spent by workers off their work
- 3. (a) Charged to costing profit and loss A/c
- 4. (d) Engineering department
- 5. (b) Time spent by workers in factory
- 6. (c) Taylor's differential piece rate system
- 7. (a) At a time rate higher than the usual rate
- 8. (b) Charged to overhead costs
- 9. (c) Payroll department
- 10. (a) Number of workers replaced average number of workers
- 11. (a) Actual hours being more than normal time
- 12. (c) Higher input-output ratio
- 13. (d) All of the above
- 14. (c) More wages to workers under Rowan plan than Halsey Plan



15. (d) All of the above
16. (d) High labour turnover
17. (a) 83% of the piece work rate
18. (c) 0.06
19. (b) Time save is 50% of time allowed
20. (b) Overheads

II. Fill in the blanks

1. The Overtime worked at the request of Customer is treated as _____ wages
2. The Objective of Wage Incentives is to improve _____
3. The abnormal idle time cost is charged to _____ Account.
4. E is an exporter who relinquishes his right to a receivable due at a future date in exchange for immediate cash payment at an agreed discount, passing on all the risks and responsibilities for collecting the debt to B. This arrangement is called _____.
5. Cost of idle time (idle hours x hourly rate) incurred by a worker directly working on a product is treated as _____ (give the element of cost).
6. When time saved is equal to time taken then earnings of a worker under Halsey Plan and Rowan Plan are the _____
7. In _____ Systems, basis of wages payment is the quantity of work.
8. One of the disadvantages of overtime working is incurring _____ labour cost.
9. In a company there were 1200 employee on the rolls at the beginning of a year and 1180 at the end. During the year 120 persons left services and 96 replacements were made. The labour turnover to flux method is _____.
10. Ideal time arises only when workers are paid on _____ basis.
11. Normal idle time costs should be charged to _____ while that due to abnormal reasons should be charged to _____.
12. The formula for computing wages under time rate is _____.
13. In Halsey plan, a worker gets bonus equal to _____ of the time saved.
14. Under Gantt Task and Bonus Plan, no bonus is payable to a worker, if his efficiency is less than _____.
15. Wages sheet is prepared by _____ department.
16. Cost of normal idea time is charged to _____.
17. The extra amount payable beyond the normal wages and salaries for beyond the normal working hours is _____.
18. In _____ systems, two piece rates are set for each job.

Answer

1. Direct
2. Productivity
3. Costing Profit and Loss
4. Forfeiting
5. Factory overheads or works overhead
6. Same
7. Piece Rate
8. excess (or additional or more or high)
9. 9.08
10. Time
11. Production overhead, Costing P & L A/c
12. Hour worked x Rate per hour
13. 50%
14. 100%
15. Pay Roll
16. Factory Overhead
17. Overtime premium
18. Taylors Differential Piece Rate

III. True or False

1. When overtime wages are incurred due to the general policy of the company arising due to lack of capacity, normal wages are treated as direct labour cost and the premium on overtime wages is treated as factory overheads.
2. Cost of Concealed Idle Time is charged to Jobs.
3. Wages paid for abnormal idle time are added to wages for calculating prime cost.
4. Cost of abnormal idle time is charged to the Product Labour Cost.
5. Labour Turnover is the change in labour force during a period of time.
6. Increasing Labour Turnover increases the productivity of labour resulting in low costs.
7. Under Halsey - Weir Plan, bonus equals to $33\frac{1}{3}$ % of wages of the time saved.
8. In India, if a worker works for more than 8 hours on any day or for more than 40 hours in a week, he is treated to be engaged in overtime.
9. The balancing in costing profit and loss account represents under or over absorption of overheads.



10. Time recording clocks can be successfully used for recording time of workers in large undertakings.
11. Idle time arises only when workers are paid on time basis.
12. Personnel department is concerned with proper recruitment, placement and training of workers.
13. The two principal systems of wage payment are payment on the basis of time and payment on the basis of work done.
14. The piece rate system of wage payment cannot be successfully applied where quantity of output can be measured.
15. A good system of wage payment should not ensure equal pay for equal work.
16. Overtime premium is directly assigned to cost object.
17. Direct employee cost shall be presented as a separate cost head in the financial statement.
18. As per the Payment of Bonus Act, 1965 the maximum limit of bonus is 20% of gross earning.
19. Is overtime premium is directly assigned to cost object?
20. Idle time represents the wages paid for the time cost during which the workkrs not work.
21. Flux method is means for measurement of labour turnover.
22. Idle time due to a strike is an abnormal idle time.
23. Overtime premium is directly assigned to cost object.

Answer

True - 2, 5, 7, 10, 11, 12, 13, 16, 18, 19, 21, 20, 21, 22, 23

False - 1, 3, 4, 6, 8, 9, 14, 15, 17

Direct Expenses

I. Multiple Choice Questions

- Royalty paid on sales ₹ 89,000 and Software development charges related to product is ₹ 22,000. Calculate Direct Expenses.
 - 1,11,100
 - 1,11,000
 - 1,11,110
 - 1,10,000
- Direct Expenses that does not meet the test of materiality can be _____ part of overhead.
 - Treated
 - Not treated
 - All of the these
 - None of these
- Direct Expenses _____ include imputed cost.
 - Shall
 - Shall not
 - None of these
- Example of Direct Expenses.
 - Rent
 - Royalty charged on production
 - Bonus to employee
 - None of these
- A manufacturing Industry produces product P, Royalty paid on sales is ₹ 23,500 and design charges paid for the product is ₹ 1,500. Compute the Direct Expenses.
 - 25,000
 - 22,000
 - 26,500
 - None of these



Answer

1. (c) 1,11,000
2. (a) Treated
3. (b) Shall not
4. (b) Royalty charged on production
5. (a) 25,000

II. Fill in the blanks

1. Direct Expenses incurred for brought out resources shall be determined at _____.
2. Direct Expenses incurred lump-sum shall be _____.
3. Direct Expenses relate to _____ or _____.
4. Penalties/ damages paid to statutory authorities' _____ be form part of Direct Expenses.
5. A Direct Expenses related to a _____ form part of the Prime Cost.

Answer

1. invoice price
2. Amortized
3. manufacturing of a product or rendering of service
4. shall not
5. product

III. True or False

1. Royalty based on units produced is considered as direct expenses.
2. If an expense can be identified with a specific cost unit, it is treated as direct expense.
3. Direct Expenses are expenses related to manufacture of a product or rendering of services.
4. If an expense can be identified with a specific cost unit, it is treated as direct expense.
5. Travelling expenses to site is a direct expense.
6. Identification of direct expenses shall be based on traceability in an economically feasible manner.
7. Finance Cost shall form part of Direct Expense.

Answer

True - 1, 2, 3, 4, 5, 6

False - 7

Unit 4 Overheads

I. Multiple Choice Questions

- The following is not treated as a manufacturing overhead:
 - Lubricants
 - Cotton waste
 - Apportioned administration overheads
 - Night shift allowance paid to a factory worker due to general work pressure.
- The allotment of whole items of cost centres or cost unit is called
 - Cost allocation
 - Cost apportionment
 - Overhead absorption
 - None of the above
- Selling and distribution overheads are absorbed on the basis of
 - rate per unit.
 - percentage on works cost.
 - percentage on selling price of each unit.
 - Any of the above
- When the amount of under-or-over-absorption is significant, it should be disposed of by
 - Transferring to costing profit and loss A/c
 - The use of supplementary rates
 - Carrying over as a deferred charge to the next accounting year
 - None of above
- Charging to a cost center those overheads that result solely for the existence of that cost Center is known as
 - Allocation
 - Apportionment
 - Absorption
 - Allotment



6. Packing cost is a
 - (a) Production of cost
 - (b) Selling cost
 - (c) Distribution cost
 - (d) It may be any or the above
7. Directors remuneration and expenses form a part of
 - (a) Production overhead
 - (b) Administration overhead
 - (c) Selling overhead
 - (d) Distribution overhead
8. Absorption means
 - (a) Charging or overheads to cost centers
 - (b) Charging or overheads to cost units
 - (c) Charging or overheads to cost centers or cost units
9. Which method of absorption of factory overheads do you suggest in a concern which produces only one uniform type of product :
 - (a) Percentage of direct wages basis
 - (b) Direct labour rate
 - (c) Machine hour rate
 - (d) A rate per units of output
10. When the amount of overhead absorbed is less than the amount of overhead incurred, It is called
 - (a) Under- absorption of overhead
 - (b) Over-absorption of overhead
 - (c) Proper absorption of overhead
11. Warehouse expense is an example of
 - (a) Production overhead
 - (b) Selling overhead
 - (c) Distribution overhead
 - (d) None of above
12. Which of the following is not an element of works overhead?
 - (a) Sales manager's salary
 - (b) Plant manager's salary

- (c) Factory repairman's wages
 - (d) Product inspector's salary
13. Which of the following is a service department?
- (a) Refining department
 - (b) Machining department
 - (c) Receiving department
 - (d) Finishing department
14. Which method of absorption of factory overheads do you suggest in a concern which Produces only one uniform time of product
- (a) Percentage of direct wages basis
 - (b) Direct labour rate
 - (c) Machine hour rate
 - (d) A rate per units of output
15. When the amount of overhead absorbed is less than the amount of overhead incurred, It is called
- (a) Under- absorption of overhead
 - (b) Over-absorption of overhead
 - (c) Proper absorption of overhead
16. Primary packing cost is a part of
- (a) Direct material cost
 - (b) Distribution overheads
 - (c) Selling overheads
 - (d) Production cost
 - (e) None of the above
17. Chairman's remuneration and expenses form part of
- (a) Administration overhead
 - (b) Production overhead
 - (c) Distribution overhead
 - (d) Selling overhead
 - (e) None of the above
18. Normal capacity of a plant refers to the difference between:
- (a) Maximum capacity and practical capacity
 - (b) Maximum capacity and actual capacity
 - (c) Practical capacity and estimated idle capacity as revealed by long term sales trend



Overheads

- (d) Practical capacity and normal capacity
 - (e) None of the above
19. Find out from the following a scientific and accurate method of factory overhead absorption:
- (a) Percentage of prime cost method
 - (b) Machine hour rate method
 - (c) Percentage of direct material cost method
 - (d) Percentage of direct labour cost method
 - (e) None of the above
20. _____ are those which vary in total direct proportion to the volume of output. These costs per unit remain relatively constant with changes in production.
- (a) Fixed overhead
 - (b) Variable overhead
 - (c) Semi variable overhead
 - (d) None of the above

Answer

- 1. (d) Night shift allowance paid to a factory worker due to general work pressure
- 2. (a) Cost allocation
- 3. (d) Any of the above
- 4. (b) The use of supplementary rates
- 5. (d) It may be any or the above
- 6. (b) Administration overhead
- 7. (a) Allocation
- 8. (b) Charging or overheads to cost units
- 9. (d) A rate per units of output
- 10. (a) Under- absorption of overhead
- 11. (c) Distribution overhead
- 12. (a) Sales manager's salary
- 13. (c) Receiving department
- 14. (d) A rate per units of output
- 15. (a) Under- absorption of overhead
- 16. (d) Production cost
- 17. (a) Administration overhead

18. (c) Practical capacity and estimated idle capacity as revealed by long term sales trend
19. (b) Machine hour rate method
20. (b) Variable overhead

II. Fill in the blanks

1. Administration overheads are usually absorbed as a percentage of _____
2. Distribution of all items of Overheads to Product or Departments is known as _____.
3. Variable overheads are absorbed by products based on _____ level of capacity utilization.
4. Under-absorption of _____ results in higher amount of profit.
5. Overhead incurred ₹ 16,000 and overhead absorbed ₹ 15,300. There is under absorption of _____
6. Overheads are an aggregate of _____ and _____ and _____
7. Example of after sales services are _____ and _____
8. The difference between actual and absorbed factory overhead is called _____.
9. The term used for charging of overheads to cost units is known as _____
10. The difference between practical capacity and the capacity based on sales expectancy is known as _____.
11. The _____ rate is computed by dividing the overheads by the aggregate of the productive hours of direct workers.
12. Under or over absorption of overheads arises only when overheads are absorbed by _____.
13. The term used to charge overheads to cost units is called _____.
14. There are two ways to treat the costs of the beginning inventory: _____ and _____
15. Distribution of identifiable expenses to any department is called _____.
16. Charging of fair share of overhead expenses to cost centre or a department is called _____.
17. The variable production overhead shall be absorbed to product or service based on _____.
18. The fixed production overhead shall be absorbed to product or service based on _____.



Answer

1. Work Cost
2. Apportionment/Allocation
3. Actual
4. Overhead
5. ₹ 700
6. Indirect Material, Indirect Labour, Indirect Expenses
7. Repair and Maintenance , Replacement of components
8. Overheads
9. Absorptions
10. idle capacity,
11. direct labour hour,
12. predetermined overheads rates,
13. Cost allocation
14. Weighted average costing, First in- First out (FIFO)
15. Allocation
16. Apportionment
17. Actual production
18. Normal capacity

III. True or False

1. In marginal and absorption costing, variable factory overhead is treated as direct cost.
2. Overhead and conversion cost are inter-changeable terms.
3. Fixed Overheads per unit remains fixed irrespective of volume of output.
4. Normal bad debt is considered as a selling overhead and included in the cost.
5. When under absorption of overheads is corrected by applying supplementary rates, there is no impact in the current period profits due to under absorption as it is corrected and all overheads are charged in the current period.
6. M Ltd. provides free service for its cars for the first year of purchase. The cost of this service for M. Ltd. is treated as selling and distribution overhead.
7. When the output level is more than the estimated level in a given production period, there is an over absorption of overheads.
8. The principal based used for applying factory overhead are: units of production, material cost, direct wages, direct labour hours and machine hours.

9. The balancing in costing profit and loss account represents under or over absorption of overheads.
10. Departments that assist producing Department indirectly are called service departments.
11. Factory overhead cost applied to a job is usually based on a per-determined rate.
12. Variable overhead vary with time.
13. When actual overhead are more than absorbed overheads, it is known as overabsorption.
14. Cash discounts are generally excluded completely from the costs.
15. Cost of indirect materials is apportioned to various departments.
16. A blanket overhead rate is a single overhead rate computed for the entire factory.
17. Under-absorption of overhead means that actual overhead are more than absorbed overhead.
18. The principal based used for applying factory overhead are: units of production, material cost, direct wages, direct labour hours and machine hours.
19. Allocation, for overhead implies the identification of overhead cost centres to which they relate.
20. Overheads are taken on estimated basis in financial accounts.
21. Factory overhead cost applied to a job is usually based on a pre-determined rate.
22. Salary to employees is apportioned according to the floor are occupied.
23. Over or Under absorption of overhead is transferred to Costing P/L account when the amount is insignificant.
24. Any subsidy received with respect to production overheads shall be reduced for ascertainment of cost of the object.

Answer

True - 1, 2, 3, 6, 7, 10, 11, 14, 19, 21, 23, 24

False - 4, 5, 8, 9, 12, 13, 15, 16, 17, 18, 20, 22

Chapter 3

Cost Accounting Standards

I. Multiple Choice Questions

- The following is an example of direct expenses as per CAS-10:
 - Special raw material which is a substantial part of the prime cost.
 - Travelling expenses to site.
 - Overtime charges paid to direct worker to complete work before time.
 - Catalogue of prices of finished products.
- _____ deals with the principles and methods of determining the production or operation overheads.
 - CAS-3
 - CAS-5
 - CAS-9
 - CAS-16
- Standards deals with determination of averages/equalized transportation cost –
 - CAS 6
 - CAS 22
 - CAS 9
 - CAS 5
- Standards deals with the principles and methods of determining depreciation and amortization cost-
 - CAS 9
 - CAS 12
 - CAS 15
 - CAS 16
- CAS 21 stands for
 - Capacity Determination
 - Joint Cost

- (c) Direct Expenses
 - (d) None of these.
6. CAS 13 stands for
- (a) Joint Cost
 - (b) Interest and financing charges
 - (c) Employee Cost
 - (d) Cost of Service cost centre
7. Standard deals with the principles and methods of determining the manufacturing Cost of excisable goods-
- (a) CAS 12
 - (b) CAS 15
 - (c) CAS 22
 - (d) CAS 2
8. Standard deals with the cost of service cost center is
- (a) CAS-9
 - (b) CAS-13
 - (c) CAS-16
 - (d) CAS-22
9. CAS 10 stand for :
- (a) Direct expenses
 - (b) Repairs & Maintenance cost
 - (c) Selling and Distribution overhead
 - (d) Research & Development cost
10. Uniformity and Consistency in the principles and method of depreciation and Amortization deals by:
- (a) CAS 19
 - (b) CAS 24
 - (c) CAS 16
 - (d) CAS 14
11. Packing material cost deals by :
- (a) CAS 9
 - (b) CAS 10
 - (c) CAS 11
 - (d) CAS 12



12. Research & Development cost are linked with:
 - (a) CAS 17
 - (b) CAS16
 - (c) CAS19
 - (d) CAS 18
13. Standard deals with captive consumption:
 - (a) CAS 3
 - (b) CAS 4
 - (c) CAS 5
 - (d) CAS 18
14. Any perquisites provided to an employee by the employer deals by.
 - (a) CAS 10
 - (b) CAS11
 - (c) CAS 12
 - (d) CAS 7

Answer

1. (b) Travelling expenses to site
2. (a) CAS-3
3. (d) None of these.
4. (d) CAS 5
5. (d) CAS 16
6. (d) Cost of Service cost centre
7. (c) CAS 22
8. (b) CAS-13
9. (a) Direct expenses
10. (c) CAS 16
11. (a) CAS 9
12. (d) CAS 18
13. (b) CAS 4
14. (d) CAS 7

II. Fill in the blanks

1. CAS-2 deals with Cost Accounting Standard on _____ determination.
2. CAS-8 deals with the principles and methods of determining the _____.
3. CAS ___ stands for cost of service cost Centre.
4. CAS ___ stands for cost of utilities.
5. CAS 9 stands for _____.
6. The _____ of the CASB will be nominated by the council of The Institute of Cost Accountants of India.
7. _____ nominee from the regulate like CAG, RBI to the CASB Board.
8. The function of CASB is to assists the members in preparations of uniform _____ under various statue.
9. The objective of CAS-1 is to bring _____ and consistency in principle of classification of cost for disclosure and presentation in cost statements.
10. The Cost Statement shall disclose the any abnormal portion of direct expenses of as per CAS _____ .
11. CAS 6 deals with _____ .
12. Repairs and maintenance cost deals as per CAS _____ .
13. Bring uniformity and consistency in the principles and methods of determining the Joint Costs deals with _____ .

Answer

1. capacity
2. Cost of utilities
3. 13
4. 8
5. packing material cost
6. chairman
7. four
8. cost statement
9. Uniformity
10. 10
11. Material cost
12. 12
13. CAS 19



III. True or False

1. CAS -13 is related to "Pollution Control Cost".
2. CAS 9 is for Direct Expenses as issued by the Cost Accounting Standards Board (CASB) of the Institute of Cost Accountants of India.
3. CAS-19 deals with the principles and methods of determining the manufacturing cost of excisable goods.
4. CAS-8 deal with the principles and methods of determining the direct expenses.
5. CAS 19 stands for Joint Cost.
6. Cost Accounting Standard Board Should have minimum three eminent practicing members of the Insitute of Cost Accounts of India.
7. Is issue the fromwork for The Cost Accounting Standard is the function of CASB.
8. CAS 2 stands for classification of cost.
9. CAS-5 is for Capacity Determination as issued by the Cost Accounting Standards Board (CASB) of the Institute of Cost Accountants of India.
10. The objective of CAS 10 is to bring uniformity and consistency in the period and methods of determining the direct expenses with reasonable accuracy.
11. Selling and Distribution overhead recorded as per CAS17.
12. Manufacturing cost is one of the vital parts of total cost and it should deals as per CAS 22.
13. CAS 6 helps us to determine equalized transportation cost.
14. Determination of employee cost becomes reasonably accurate if we follow CAS 7.
15. CAS 10 deals with handling of carriage on materials.

Answer

True - 5, 7, 9, 12, 14, 15

False - 1, 2, 3, 4, 6, 8, 10, 11, 13

Chapter **4**
Cost Book Keeping

Unit 1 Cost Accounting Records,
Ledgers and Cost Statements

Unit 2 Control Accounts

Unit 3 Reconciliation of Cost Accounting
Records with Financial Accounts

Cost Accounting Records, Ledgers and Cost Statements

I. Multiple Choice Questions

- Which of the following items is not included in preparation of cost sheet?
 - Carriage inward
 - Purchase returns
 - Sales Commission
 - Interest paid
- Which of the following is considered as accounting record?
 - Bin Card
 - Bill of material
 - Store Ledger
 - None of these
- Which of the following items is not excluded while preparing a cost sheet?
 - Goodwill written off
 - Provision for taxation
 - Property tax on Factory building
 - Transfer to reserves
 - Interest paid
- Which of the following are direct expenses?
 - The cost of special designs, drawings or layouts
 - The hire of tools or equipment for a particular job
 - Salesman's wages
 - Rent, rates and insurance of a factory
 - (1) and (2)
 - (1) and (3)

- (c) (1) and (4)
(d) (3) and (4)
5. What is prime cost
- (a) Total direct costs only
(b) Total indirect costs only
(c) Total non-production costs
(d) Total production costs
6. Prime cost plus variable overheads is known as
- (a) Factory Cost
(b) Marginal Cost
(c) Cost of Production
(d) Total Cost
7. Which of the following is not an element of works overhead?
- (a) Sales manager's salary
(b) Plant manager's salary
(c) Factory repairman's wages
(d) Product inspector's salary
8. For the purpose of Cost sheet preparation, costs are classified based on:
- (a) Functions
(b) Relevance
(c) Variability
(d) Nature
(e) All of the above
9. Salary paid to an office supervisor is a part of:
- (a) Direct expenses
(b) Administration cost
(c) Quality control cost
(d) Factory overheads
(e) None of the above
10. Audit fees paid to cost auditors is part of:
- (a) Selling & Distribution cost
(b) Production cost
(c) Administration Cost



- (d) Not recorded in the cost sheet
 - (e) None of the above
11. A company has set up a laboratory for testing of products for compliance with standards. Salary of this laboratory staffs are part of:
- (a) Direct Expenses
 - (b) Quality Control Cost
 - (c) Works overheads
 - (d) Research & Development Cost
 - (e) None of the above
12. Canteen expenses for factory workers are part of:
- (a) Administration Cost
 - (b) Factory overhead
 - (c) Marketing cost
 - (d) None of the above
 - (e) All of the above
13. Which of the following does not form part of prime cost:
- (a) GST Paid on raw materials (input credit can be claimed)
 - (b) Cost of transportation paid to bring materials to factory
 - (c) Cost of packing
 - (d) Overtime premium paid to workers.
 - (e) None of the above
14. A company pays royalty to State Government on the basis of production, it is treated as:
- (a) Direct Expenses
 - (b) Factory overheads
 - (c) Direct Material Cost
 - (d) Administration cost
 - (e) None of the above
15. Losses due to Scrapping of machinery is an items of
- (a) Cost Accounts
 - (b) Financial Accounts
 - (c) Management Accounts
 - (d) Human Resource Accounts
16. The complimentary status of cost and financial accounts shown in

- (a) Cost Accounting
- (b) Financial Accounting
- (c) Integral Accounting
- (d) Non Integral Accounting

Answer

1. (d) Interest paid
2. (c) Store Ledger
3. (c) Property tax on Factory building
4. (a) (1) and (2)
5. (a) Total direct costs only
6. (b) Marginal Cost
7. (a) Sales manager's salary
8. (a) Functions
9. (b) Administration cost
10. (c) Administration Cost
11. (b) Quality Control Cost
12. (b) Factory overhead
13. (c) Cost of packing
14. (a) Direct Expenses
15. (b) Financial Accounts
16. (c) Integral Accounting

II. Fill in the blanks

1. Prime Cost is the aggregate of all _____.
2. Interest on capital is an example for _____ Cost.
3. In a textile factory, yarn is starched before it is made into textile. The cost of starch is _____ (give the element of cost).
4. Royalty payable based on the right to sell is treated as _____ (give the element of cost).
5. Prime cost + Overheads = _____
6. _____ + Profit = Sales.
7. Direct Material + _____ + Direct Expenses = Prime Cost.
8. Salary paid to factory manager is an item of _____.



9. WIP ledger contains the accounts of all the _____ which are under _____.
10. Purchases for special job is debited to _____ Accounts.
11. The reconciliation is needed in _____ accounting system.
12. The year ending balance of cost of sales accounts transferred to _____.
13. Dividend received is recorded in _____.

Answer

1. direct expenses
2. Opportunity/Notional/Imputed
3. direct material
4. Selling Overheads or Selling and Distribution Overheads
5. Total Cost
6. Cost of Sales
7. Direct Wages
8. Factory Overhead
9. Jobs, Execution
10. Work-in- Progress Control A/C
11. Non- Integral
12. Costing P/L A/C or Sales A/C
13. Financial Accounting

III. True or False

1. Closing stock of finished goods should be valued on the basis of cost of sales.
2. Carriage and Cartage expenses (inward freight) of fuel for a furnace in a factory is treated as direct material cost.
3. Penalties and fines are included in cost accounts to determine the cost of production.
4. Wages paid for abnormal idle time are added to wages for calculating prime cost.
5. Total cost = prime cost + All indirect costs.
6. Closing stock of work-in-progress should be valued on the basis of prime cost.
7. Production cost includes only direct costs related to the production.
8. Primary packaging cost is included in distribution cost.
9. Cost ledger control account makes the cost ledger self balancing.
10. Stock ledger contains the accounts of all items of finished goods.
11. Notional interest on Owner's capital appears only in financial profit and loss A/c.

12. Overheads are taken on estimated basis in financial accounts.
13. Expenses which appears only in financial accounts and not in cost accounts, are Generally notional items.
14. Need for Reconciliation arise in case of integrated system of accounts.
15. The balancing in costing profit and loss account represents under or over absorption of overheads
16. Credit balance of administrative overhead represents under absorption of these expenses.
17. Debit balance of selling and distribution overheads represent over absorption of selling and distribution overheads.
18. Cost ledger accounting is a system of integrating financial and cost accounts.

Answer

True - 5, 9, 10

False - 1, 2, 3, 4, 6, 7, 8, 11, 12, 13, 14, 15, 16, 17, 18

CA SATISH JALAN

Unit 2

Control Accounts

I. Multiple Choice Questions

- Under non-integrated accounting system
 - Separate ledgers are maintained for cost and financial accounts
 - Same ledger is maintained for cost and financial accounts by accountants
 - (a) and (b) both
 - None of the above
 - All of the above
- Under non-integrated accounting system, the account made to complete double entry is:
 - Finished goods control account
 - Work in progress control account
 - Stores ledger control account
 - General ledger adjustment account
 - None of the above
- Under non-integrated system of accounting, purchase of raw material is debited to
 - Purchase account
 - Material control account/ stores ledger control account
 - General ledger adjustment account
 - None of the above
- When costing loss is ₹ 5,600, administrative overhead under-absorbed being ₹ 600, the loss as per financial accounts should be
 - ₹ 5,000
 - ₹ 5,600
 - ₹ 6,200
 - None of the above

5. Non- integral accounting means
 - (a) Cost Ledger accounting
 - (b) Financial accounting
 - (c) Management accounting
 - (d) Cost & Management accounting
6. What entry will be passed under integrated system for purchase of stores on credit?
 - (a) Dr. Stores
Cr. Creditors
 - (b) Dr. Purchases
Cr. Creditors
 - (c) Dr. Stores Ledger Control A/c
Cr. Creditors
 - (d) Dr. Stores Ledger Control A/c
Cr. General Ledger Adjustment A/c
7. Integral accounts eliminate the necessity of operating
 - (a) Cost Ledger control account
 - (b) Store Ledger control account
 - (c) Overhead adjustment account
 - (d) None of the above
8. What entry will be passed under integrated system for payment to creditors for supplies made?
 - (a) Dr. Creditors
Cr. Cash
 - (b) Dr. Creditors
Cr. Stores Ledger Control A/c
 - (c) No entry
9. What will be the accounting entry for absorption of factory overhead?
 - (a) Dr. Works in progress control A/c
Cr. Factory overhead control A/c
 - (b) Dr. Factory overhead
Cr. Factory overhead control A/c
 - (c) No entry is required



10. Integrated accounting means
 - (a) Cost & Financial Management
 - (b) Cost & Financial Reporting
 - (c) Cost & Financial Transactions
 - (d) Cost & Management Accounting.

Answer

1. (a) Separate ledgers are maintained for cost and financial accounts
2. (d) General ledger adjustment account
3. (b) Material control account/ stores ledger control account
4. (c) ₹ 6,200
5. (a) Cost Ledger accounting
6. (c) Dr. Stores Ledger Control A/c
Cr. Creditors
7. (a) Cost Ledger control account
8. (a) Dr. Creditors
Cr. Cash
9. (a) Dr. Works in progress control A/c
Cr. Factory overhead control A/c
10. (c) Cost & Financial Transactions

II. Fill in the blanks

1. When special material is purchased for direct use in a job, _____ account is debited in the Integral Accounts System.
2. Salary paid to factory manager is an item of _____.
3. Notional remuneration to owner is expense debited only in _____.
4. The two traditional systems of accounting for integration of cost and financial accounts are the _____ and _____.
5. Under integrated accounting system, the accounting entry for payment of wages is to debit _____ and to credit cash.
6. A cost which does not involve any cash outflow is called _____.
7. _____ of accounts is possible in integrated accounts.

Answer

1. is constant
2. Factory Overhead
3. Cost Accounts
4. Double entry method –the third entry method
5. Wages control Accounts
6. Opportunity Cost
7. Concentration

CA SATISH JALAN

Reconciliation of Cost Accounting Records with Financial Accounts

I. Multiple Choice Questions

- When you attempt a reconciliation of profits as per Financial Accounts and Cost Accounts, the following is done:
 - Add the under absorption of overheads in Cost Accounts if you start from the profits as per Financial Accounts.
 - Add the under absorption of overheads in Cost Accounts if you start from the profits as per Cost Accounts.
 - Add the over absorption of overheads in Cost Accounts if you start from the profits as per Financial Accounts.
 - Add the over absorption of overheads in Cost Accounts if you start from the profits as per Cost Accounts.
- In Reconciliations Statements Expenses shown only in financial accounts are.
 - Added to financial profit
 - Deducted from financial profit
 - Ignored
 - Added to costing profit
- There is a loss as per financial accounts ₹ 10,600, donations not shown in cost accounts ₹ 6,000. What would be the profit or loss as per cost accounts?
 - Loss ₹ 16,600
 - Profit ₹ 16,600
 - Loss ₹ 4,600
 - Profit ₹ 4,600
- In Reconciliations Statements, transfers to reserves are.
 - Added to financial profit
 - Deducted from financial profit
 - Ignored
 - Added to costing profit

5. In Reconciliations Statements, Incomes shown only in financial accounts are.
 - (a) Added to financial profit
 - (b) Deducted from financial profit
 - (c) Ignored
 - (d) Deducted from costing profit
6. In Reconciliations Statements, Closing Stock Undervalued in Financial accounts is
 - (a) Added to financial profit
 - (b) Deducted from financial profit
 - (c) Ignored
 - (d) Added to costing profit
7. Which of the following items should be added to costing profit to arrive at financial profit:
 - (a) Income tax paid
 - (b) Over-absorption of works overhead
 - (c) Interest paid on debentures
 - (d) All of the above
 - (e) None of the above
8. When Reconciliation start with cost accounts profit, the under charges of depreciation in Cost A/Cs to be
 - (a) Added with Cost Accounts profit
 - (b) Added with Financial Accounts profit
 - (c) No Adjustment is required
 - (d) Deducted from Cost Accounts profit.
9. There is no need to open a Cost Ledger Control Account in:
 - (a) Integral Accounting System;
 - (b) Non-integral Accounting System;
 - (c) Management Accounting System
 - (d) Both a and b

Answer

1. (a) Add the under absorption of overheads in Cost Accounts if you start from the profits as per Financial Accounts
2. (a) Added to financial profit
3. (c) Loss ₹ 4,600
4. (a) Added to financial profit



5. (b) Deducted from financial profit
6. (a) Added to financial profit
7. (b) Over-absorption of works overhead
8. (d) Deducted from Cost Accounts profit
9. (a) Integral Accounting System

II. Fill in the blanks

1. Total cost + Profit = _____.
2. Goods Received Note is prepared by the _____.
3. In Reconciliations Statements, Incomes shown only in Financial accounts are _____.
4. In Reconciliations Statements, Expenses shown only in cost accounts are _____.
5. In Reconciliations Statements, overheads Over-Recovered in cost accounts are _____.
6. Notional remuneration to owner is expense debited only in _____.
7. All the transactions relating to materials are recorded through _____.
8. The net balance of _____ represents net profit or net loss.
9. The two traditional systems of accounting for integration of cost and financial accounts are the _____ and the _____.
10. The reconciliation is needed in _____ accounting system.
11. _____ is a system of accounting under which separate ledger are maintained for cost and financial accounts by accountants.
12. Cost Ledger contain all _____ accounts. What word(s) appropriately fill in the blank above.

Answer

1. Selling Price
2. Receiving Department
3. Added to Costing Profit
4. Deducted from Costing Profit.
5. Added to financial profit.
6. Cost Accounts
7. Stores Ledger Control Accounts
8. Costing Profit and Loss Account

9. Double Entry Method, Third Entry Method
10. Non- Integral
11. Non- integrated accounting system
12. Impersonal

III. True or False

1. Multiple Costing is suitable for the banking Industry.
2. Preliminary expenses in the Balance Sheet is included under Fixed Assets.
3. Goodwill written off appears only in cost accounts.
4. The purpose of cost control accounts is to control the cost.
5. Cost control accounts are prepared on the basis of double entry system.
6. Cost ledger control account makes the cost ledger self-balancing.
7. In Reconciliation statements, expenses shown only in financial accounts are added to financial profit.
8. In Cost ledger accounting transactions are recorded on the basis of single entry system.
9. Control accounts are the total accounts maintained in the cost ledger.
10. Loss on sale of capital assets is not included in accounts under integral system

Answer

True - 5, 6, 7, 9

False - 1, 2, 3, 4, 8, 10

Chapter 5

Methods of Costing

Unit 1 Job Costing

Unit 2 Batch Costing

Unit 3 Contract Costing

Unit 4 Process Costing-Joint & By-Products

Unit 5 Operating Costing or Service Costing
– Transport, Hotel and Hospital

Unit 1

Job Costing

I. Multiple Choice Questions

- Job costing is used in
 - Furniture making
 - Repair shops
 - Printing press
 - All of the above
- Equivalent production of 1,000 units, 60% complete in all respects, is:
 - 1000 units
 - 1600 units
 - 600 units
 - 1060 units
- In a job cost system, costs are accumulated
 - On a monthly basis
 - By specific job
 - By department or process
 - By kind of material used
- The most suitable cost system where the products differ in type of material and work performed is
 - Process Costing
 - Batch Costing
 - Job Costing
 - Operating Costing
- In job costing to record the issue of direct materials to a job which of the following document is used?
 - Purchase order
 - Goods receipt note



- (c) Material requisition
 - (d) Purchase requisition
6. Job Costing is:
- (a) Suitable where similar products are produced on mass-scale
 - (b) Method of costing used for non-standard and non-repetitive products
 - (c) Technique of costing
 - (d) Applicable to all industries regardless of the products or services provided
 - (e) None of the above
7. Economic batch quantity is that size of the batch of production where:
- (a) Carrying cost is minimum
 - (b) Set-up cost of machine is minimum
 - (c) Average cost is minimum
 - (d) Both A. and B
 - (e) None of the above
8. Job costing is similar to that under Batch costing except with the difference that:
- (a) Batch becomes the cost unit instead of a job
 - (b) Job becomes a cost unit
 - (c) Process becomes a cost unit
 - (d) None of the above
 - (e) All of the above
9. Which of the following statements is true:
- (a) Batch costing is a variant of jobs costing
 - (b) Job cost sheet may be used for estimating profit of jobs
 - (c) Job costing cannot be used in conjunction with marginal costing
 - (d) In cost plus contracts, the contractor runs a risk of incurring a loss
10. Which of the following statements is true:
- (a) Job costing can be suitably used for concerns producing any specific product uniformly
 - (b) Job costing cannot be used in companies applying standard costing
 - (c) Job cost sheet may be prepared to facilitate routing and scheduling of the job
 - (d) Neither A. nor B. nor C
11. In sugar manufacturing industry molasses is also produced along with sugar. Molasses may be of smaller value as compared with the value of sugar and is known as:

- (a) Joint product
 - (b) Common product
 - (c) By-product
 - (d) None of them
12. Method of apportioning joint costs on the basis of output of each joint product at the point of splitoffs is known as:
- (a) Physical unit method
 - (b) Sales value method
 - (c) Average cost method
 - (d) Marginal cost and contribution method
 - (e) None of the above
13. Which of the following costing methods is most likely to be used by a company involved in the construction of hotels?
- (a) Batch costing
 - (b) Contract costing
 - (c) Job costing
 - (d) Process costing
14. Which of the following item is not contained in a typical job cost?
- (a) Actual material cost
 - (b) Actual manufacturing overheads
 - (c) Absorbed manufacturing overheads
 - (d) Actual labour cost
15. Which of the following is a feature of job costing?
- (a) Production is carried out in accordance with the wishes of the customer
 - (b) Associated with continuous production of large volumes of low-cost items
 - (c) Establishes the cost of services rendered
 - (d) Costs are charged over the units produced in the period
16. A job is budgeted to require 3,300 productive hours after incurring 25% idle time. If the total labour cost budgeted for the job is ₹ 36,300, what is the labour cost per hour?
- (a) ₹ 8.25
 - (b) ₹ 8.80
 - (c) ₹ 11.00
 - (d) ₹ 14.67



17. The main points of distinction between job and contract costing includes
- (a) Length of time to complete
 - (b) Big jobs
 - (c) Activities to be done outside the factory area
 - (d) All of the above

Answer

1. (d) All of the above
2. (c) 600 units
3. (b) By specific job
4. (c) Job Costing
5. (c) Material requisition
6. (b) Method of costing used for non-standard and non-repetitive products
7. (d) Both A and B
8. (b) Job becomes a cost unit
9. (b) Job cost sheet may be used for estimating profit of jobs
10. (d) Neither A. nor B. nor C
11. (c) By-product
12. (a) Physical unit method
13. (b) Contract costing
14. (b) Actual manufacturing overheads
15. (a) Production is carried out in accordance with the wishes of the customer
16. (a) ₹ 8.25
17. (d) All of the above

II. Fill in the blanks

1. Transfer of surplus material from one job or work order is recorded in _____.
2. While job-costing systems assign costs to distinct units of a product or service _____ assign costs to masses of identical or similar units and compute unit costs on an average basis. Thus these two costing systems represent opposite ends of a continuum.
3. Job costing is similar to that under Batch costing except with the difference that a _____
4. In order for job costs to be available on a timely basis, it is customary to apply factory overhead by using a _____

Answer

1. Material Transfer Note
2. Process Costing system
3. Job becomes a cost unit
4. Predetermined factory overhead rate

III. True or False

1. Contact costing is variant of job costing.
2. Job costing is applied only in small concerns.
3. In contact costing, the unit of cost is a job.
4. Job costing is also known as specific order costing, production order costing, and lot costing

Answer

True - 1, 3

False - 2, 4

CA SATISH JALAN

Unit 2

Batch Costing

I. Multiple Choice Questions

1. Batch Costing is applied effectively in the following situation:
 - (a) paper manufacturing
 - (b) drug manufacturing
 - (c) designer clothes manufacturing
 - (d) oil refining
2. Batch Costing is suitable for-
 - (a) Sugar Industry
 - (b) Chemical Industry
 - (c) Pharma Industry
 - (d) Oil Industry
3. The most suitable cost system where the products differ in type of material and work performed is
 - (a) Operating Costing
 - (b) Job costing
 - (c) Process costing
 - (d) All of these.
4. In order to determine cost of the products or services, different business firms follow:
 - (a) Different techniques of costing
 - (b) Uniform Costing
 - (c) Different method of costing
 - (d) None of the above
 - (e) All of the above
5. In case product produced or jobs undertaken are of diverse nature, the system of costing to be used should be:
 - (a) Operating Costing

- (b) Process Costing
 - (c) Job costing
 - (d) None of the above
 - (e) All of the above
6. Batch costing is a type of:
- (a) Direct costing
 - (b) Process costing
 - (c) Job costing
 - (d) Differential costing
 - (e) None of the above
7. Batch Costing is similar to that under job costing except with the difference that:
- (a) Process becomes a cost unit
 - (b) Job becomes a cost unit
 - (c) Batch become the cost unit instead of a job
 - (d) None of the above
 - (e) All of the above
8. _____ costing is must for Inter-firm comparison
- (a) Batch
 - (b) Uniform
 - (c) Marginal
 - (d) None of the above

Answer

- 1. (b) drug manufacturing
- 2. (c) Pharma Industry
- 3. (b) Job costing
- 4. (c) Different method of costing
- 5. (c) Job costing
- 6. (c) Job costing
- 7. (c) Batch become the cost unit instead of a job
- 8. (c) Marginal



II. Fill in the blanks

1. _____ and _____ are examples of industries where batch costing is applied.
2. _____ is a form of costing where each batch is treated as cost unit.

Answer

1. Toys Manufacturing Industries, Tyre and Tubes Manufacturing Industries, Readymade Garments Manufacturing Industries, Pharmaceutical/ Drug Industries, Spare parts and Components Manufacturing Industries (any two).
2. Batch Costing

CA SATISH JALAN

I. Multiple Choice Questions

1. In the context of Contract a/c, work completed and not yet certified will be shown
 - (a) at cost plus + 2/3rd of the notional profit under 'Completed Work'.
 - (b) at cost plus notional profit less retention money under 'Completed Work'.
 - (c) at cost under 'Completed Work'.
 - (d) at cost under WIP a/c.
2. Cost plus contract is usually entered into those cases where
 - (a) Cost can be easily estimated
 - (b) Cost of certified and uncertified work
 - (c) Cost of certified work, cost of uncertified work and amount of profit transferred to Profit and Loss Accounts.
3. Cost Price is not fixed in case of
 - (a) Cost plus contracts
 - (b) Escalation clause
 - (c) De escalation clause
 - (d) All of the above
4. Most of the expenses are direct in
 - (a) Job costing
 - (b) Batch costing
 - (c) Contract costing
 - (d) None of the above
5. The main points of distinction between job and contract costing includes
 - (a) Length of time to complete
 - (b) Big jobs
 - (c) Activities to be done outside the factory area
 - (d) All of the above



6. Which of the following would best describe the characteristics of contract costing?
1. Homogeneous products;
 2. Customer driven production;
 3. Short period of time between the commencement and completion of the cost unit
- (a) (1) and (2) only
(b) (2) and (3) only
(c) (1) and (3) only
(d) (2) only
7. Which of the following statements about contract costing are correct?
1. Work is undertaken to customers' special requirements
 2. Work is usually undertaken on the contractor's premises
 3. Work is usually of a relatively long duration
- (a) (1) and (2) only
(b) (1) and (3) only
(c) (2) and (3) only
(d) All of them
8. Assignment number 652 took 86 hours of a senior consultant's time and 220 hours of junior time. What price should be charged for assignment number 652? The following information is also given;
- | | |
|--|---------|
| Overhead absorption rate per consulting hour | ₹ 12.50 |
| Salary cost per consulting hour (senior) | ₹ 20.00 |
| Salary cost per consulting hour (junior) | ₹ 15.00 |
- The firm adds 40% to total cost to arrive at a selling price
- (a) ₹ 7028
(b) ₹ 8845
(c) ₹ 12383
(d) ₹ 14742
9. Contract number 145 commenced on 1st March and plant from central stores was delivered to the site. The book value of the plant delivered was ₹ 420,000. On 1 July further plant was delivered with a book value of ₹ 30,000. Company policy is to depreciate all plant at a rate of 20% of the book value each year. The depreciation to be charged to contract number 145 for the year ending 31 December is;
- (a) ₹ 37000
(b) ₹ 57000

- (c) ₹ 73000
- (d) ₹ 89000

Answer

1. (d) at cost under WIP a/c
2. (b) Cost of certified and uncertified work
3. (a) Cost plus contracts
4. (c) Contact costing
5. (d) All of the above
6. (d) (2) only
7. (c) (2) and (3) only
8. (c) ₹ 12383
9. (c) ₹ 73000

II. Fill in the blanks

1. X factory outsources the manufacture of a major component to a contractor. The transportation of the component of X factory's premises is borne by X. This transportation cost will be treated as _____ cost (give the element of cost).
2. In contract costing, the cost unit is _____.
3. _____ is applicable to engineering concerns, construction companies, ship-building, furniture making, hardware and machine manufacturing industries, repair shops, automobile garages and several such other industries.

Answer

1. Material
2. per contract
3. Job Order Costing

III. True or False

1. If a project's annual cash flows have positive and negative signs, there will certainly be multiple internal rates of return.
2. Outworkers are those who are sent to sites or customer's premises for performing work.
3. Primary packaging cost is included in distribution cost.
4. Expenses which appears only in financial accounts and not in cost accounts, are Generally notional items.



Contract Costing

5. Need for Reconciliation arise in case of integrated system of accounts.
6. Contract Costing which is also known as Terminal Costing is a variant of the job costing system
7. Sub-contracting is necessary for work of a specialized nature for which facilities are not internally available within the concern.
8. In Contract Accounts, the value of the work-in-progress consists of the cost of work completed, both certified and uncertified and the cost of work not yet complete.
9. Cost of such rectification for defective work should not be charged to the Contract Account but shown separately.

Answer

True - 1, 2, 6, 7

False - 3, 4, 5, 8, 9

CA SATISH JALAN

Process Costing-Joint & By-Products

I. Multiple Choice Questions

- In process, conversion cost means
 - Cost of direct materials, direct labour, direct expenses
 - Direct labour, direct expenses, indirect material, indirect labour, indirect expenses
 - Prime cost plus factory overheads
 - All costs up to the product reaching the consumer, less direct material costs
- In a process 8000 units are introduced during a period. 5% of input is normal loss. Closing work in progress 60% complete is 1000 units. 6600 completed units are transferred to next process. Equivalent production for the period is:
 - 9000 units
 - 7440 units
 - 5400 units
 - 7200 units
- Joint Cost is suitable for-
 - Infrastructure Industry
 - Ornament Industry.
 - Oil Industry
 - Fertilizer Industry
- In a process 6,000 units are introduced during a period. 5% of input is normal loss. Closing work-in-process 60% complete is 800 units. 4,900 completed units are transferred to next process. Equivalent production for the period is
 - 6,800 units
 - 5,700 units
 - 5,680 units
 - 5,380 units
- In a process 10000 units are introduced during a period. 10% of input is normal loss. Closing work-in-process 70% complete is 1500 units. 7500 completed units are transferred to next process. Equivalent production for the period is



- (a) 9550 units
 - (b) 9000 units
 - (c) 8550 units
 - (d) 8500 units
6. In a process 4000 units are introduced during a period. 5% of input is normal loss. Closing work-in-progress 60% complete is 500 units. 3300 completed units are transferred to next process. Equivalent production for the period is
- (a) 3550 units
 - (b) 3600 units
 - (c) 3800 units
 - (d) 3950 units
7. The main purpose of accounting of joint products and by-products is to
- (a) determine the profit/loss on each product line.
 - (b) determine the selling price.
 - (c) comply with the statutory requirements.
 - (d) identify the cost and load it on the main product.
8. Most of the expenses are direct in
- (a) Job costing
 - (b) Batch costing
 - (c) Contract costing
 - (d) None of the above
9. The type of process loss that should not be allowed to affect the cost of good units is called:
- (a) Standard loss
 - (b) Normal loss
 - (c) Abnormal loss
 - (d) Seasonal loss
 - (e) None of the above
10. 400 units were introduced in a process in which 40 units is the normal loss. If the actual output is 300 units, then there is:
- (a) No abnormal gain
 - (b) Abnormal loss of 60 units
 - (c) No abnormal loss
 - (d) Abnormal gain of 60 units

- (e) None of the above
11. In which of the following situations an abnormal gain in a process occurs:
- (a) When normal loss is equal to actual loss
 - (b) When the actual output is greater than the planned output.
 - (c) When actual loss is more than the expected
 - (d) When actual loss is less than the expected loss
 - (e) None of the above
12. Under net realisable value method of apportioning joint costs to joint products, the selling & distribution cost is:
- (a) Ignored
 - (b) Deducted from sales value
 - (c) Deducted from further processing cost
 - (d) Added to joint cost
 - (e) None of the above
13. Which of the following is an example of by-product:
- (a) Mustard seeds and mustard oil.
 - (b) Diesel and Petrol in an oil refinery
 - (c) Edible oils and oil cakes
 - (d) Curd and butter in a dairy
 - (e) All of the above
14. Which of following methods can be used when the joint products are of unequal quantity and used for captive consumption:
- (a) Physical units method
 - (b) Net realisable value method
 - (c) Technical estimates, using market value of similar goods
 - (d) Market value at split-off method
15. Which of the following is not a step in the analysis of process costing;
- (a) compute output in terms of equivalent units, summarize the total costs to be accounted for by cost categories
 - (b) compute the unit costs per equivalent unit
 - (c) apply total costs to units completed
 - (d) allocate overhead on the equivalent units

16. An abnormal gain in a process occurs in which of the following situations?
- (a) When the actual output is greater than the planned output.
 - (b) When actual loss is more than the expected.
 - (c) When actual loss is less than the expected loss
 - (d) When normal loss is equal to actual loss.
17. The value of abnormal loss is equal to
- (a) Total cost of materials
 - (b) Total process cost less realizable value of normal loss
 - (c) Total process cost less cost of scrap
 - (d) Total process cost less realizable value of normal loss less value of transferred out goods.
18. What is an equivalent unit?
- (a) A unit of output which is identical to all others manufactured in the same process
 - (b) Notional whole units used to represent uncompleted work
 - (c) A unit of product in relation to which costs are ascertained
 - (d) The amount of work achievable, at standard efficiency levels, in an hour
19. Process B had no opening inventory. 13,500 units of raw material were transferred in at ₹ 4.50 per unit.
- Additional material at ₹ 1.25 per unit was added in process. Labour and overheads were ₹ 6.25 per completed unit and ₹ 2.50 per unit incomplete.
- If 11,750 completed units were transferred out, what was the closing inventory in Process B?
- (a) ₹ 6,562.50
 - (b) ₹ 12,250.00
 - (c) ₹ 14,437.50
 - (d) ₹ 25,375.00
20. In process costing, a joint product is
- (a) a product which is later divided into many parts
 - (b) a product which is produced simultaneously with other products and is of similar value to at least one of the other products
 - (c) a product which is produced simultaneously with other products but which is of a greater value than any of the other products
 - (d) a product produced jointly with another organisation

21. In process costing by-product is defined as;
- (a) A product produced at the same time as other products which has no value
 - (b) A product produced at the same time as other products which requires further processing to put it in a saleable state
 - (c) A product produced at the same time as other products which has a relatively low volume compared with the other products
 - (d) A product produced at the same time as other products which has a relatively low value compared with the other products
22. In process costing, where losses have a positive scrap value, when an abnormal gain arises the abnormal gain account is;
- (a) debited with the normal production cost of the abnormal gain units and debited with the scrap value of the abnormal gain units
 - (b) debited with the normal production cost of the abnormal gain units and credited with the scrap value of the abnormal gain units
 - (c) credited with the normal production cost of the abnormal gain units and debited with the scrap value of the abnormal gain units
 - (d) credited with the normal production cost of the abnormal gain units and credited with the scrap value of the abnormal gain units
23. The following information is available for SM Co for last month.
- Conversion costs ₹105,280
- Completed during the period 18,000 units
- Closing work in progress 2,000 units (40% complete as to conversion costs)
- The conversion cost per unit of production is;
- (a) ₹. 6.50
 - (b) ₹. 5.60
 - (c) ₹. 7.20
 - (d) ₹. 5.90
24. A food manufacturing process has a normal wastage of 10% of input. In a period, 3,000 kg of material were input and there was an abnormal loss of 75 kg. No inventories are held at the beginning or end of the process.
- What is the quantity of good production achieved?
- (a) 2625 Kg.
 - (b) 2700 kg.
 - (c) 2925 kg
 - (d) None of the above



Answer

1. (b) Direct labour, direct expenses, indirect material, indirect labour, indirect expenses
 2. (d) 7200 units
 3. (c) Oil Industry
 4. (d) 5,380 units
 5. (c) 8550 units
 6. (b) 3600 units
 7. (a) determine the profit/loss on each product line
 8. (c) Contract costing
 9. (c) Abnormal loss
 10. (b) Abnormal loss of 60 units
 11. (d) When actual loss is less than the expected loss
 12. (b) Deducted from sales value
 13. (c) Edible oils and oil cakes
 14. (c) Technical estimates, using market value of similar goods
 15. (d) allocate overhead on the equivalent units
 16. (c) When actual loss is less than the expected loss
 17. (d) Total process cost less realizable value of normal loss less value of transferred out goods.
 18. (b) Notional whole units used to represent uncompleted work
 19. (c) ₹ 14,437.50
 20. (b) a product which is produced simultaneously with other products and is of similar value to at least one of the other products*
 21. (d) A product produced at the same time as other products which has a relatively low value compared with the other products
 22. (c) credited with the normal production cost of the abnormal gain units and credited with the scrap value of the abnormal gain units**
 23. (b) ₹. 5.60
 24. (a) 2625 Kg.
- * CIMA terminology defines joint products as 'Two or more products produced by the same process and separated in processing, each having a sufficiently high saleable value to merit recognition as a main product'
- ** CIMA terminology defines By products as "Output of some value produced incidentally while manufacturing the main product"

II. Fill in the blanks

1. A process account is credited with value for _____ loss when scrap value is zero (indicate the type of loss).
2. Cost of _____ loss is not borne by good units.
3. If the actual loss in a process is less than the normal loss, the difference is known as _____.
4. _____ Costs are incurred after split off point.
5. The _____ product generally has a greater sale value than by product.
6. _____ is the process of regulating the action so as to keep the element of cost within the set parameters.
7. Process costing is appropriate for companies that produce a continuous mass of _____ through a series of _____.
8. When there are no beginning _____ inventories, equivalent units produced are the same as _____.
9. In process costing, 100 units that are 60 percent completed are the equivalent of _____ completed units in terms of conversion costs.
10. There are two ways to treat the costs of the beginning inventory: _____ and _____.
11. _____ are those that have a relatively significant sales value, while _____ are those whose sales value is relatively minor in comparison with the value of the main, or joint, products.

Answer

1. Abnormal
2. Abnormal
3. Abnormal Gain
4. Subsequent
5. Main
6. Cost Control
7. Like units, operations or processes.
8. Work in process, the current equivalent units.
9. 60 units
10. weighted average costing, first-in, first-out (FIFO)
11. Joint product, By product

III. True or False

1. The allocation of joint cost on by-products affects the total profit or loss.
2. A firm's WIP inventory will not have any element of allocated administration overhead.
3. Abnormal Costs are uncontrollable.
4. By-products may undergo further processing before sale.
5. Waste and Scrap of material have small realization value.
6. Work in progress is the inherent feature of processing industries.
7. No distinction is made between Co products and Joint Products.
8. Costs incurred prior to the split off point are known as "Joint Costs"
9. Contact costing is variant of job costing.
10. The process cost is derived by dividing the process cost by number of units produced in the process during the period
11. Chemical works, soap making and Milk dairy production are examples of process costing.
12. Split-off point is a point beyond input factors are commonly used for production of multiple products, which can be either joint products or by-products. After this point, the joint products or by-products gain individual identity.

Answer

True - 2, 4, 6, 8, 9, 11

False - 1, 3, 5, 7, 10, 12

Operating Costing or Service Costing – Transport, Hotel and Hospital

I. Multiple Choice Questions

- Cost Unit of Hospital Industry is
 - Tonne
 - Student per year
 - Kilowatt Hour
 - Patient Day
- A hotel having 100 rooms of which 80% are normally occupied in summer and 25% in winter. Period of summer and winter be taken as 6 months each and normal days in a month be assumed to be 30. The total occupied room days will be
 - 1525 Room days
 - 18900 Room days
 - 36000 Room days
 - None of the above
- Cost units of Automobile Industry is-
 - Cubic meter
 - Bed Night
 - Number of Call
 - Number of vehicle
- Cost Price is not fixed in case of
 - Cost plus contracts
 - Escalation clause
 - De escalation clause
 - All of the above
- Cost of service under operating costing is ascertained by preparing:
 - Cost sheet



- (b) Process account
 - (c) Job cost sheet
 - (d) Production account
6. Operating costing is applicable to:
- (a) Hospitals
 - (b) Cinemas
 - (c) Transport undertaking
 - (d) All of the above
7. Maximum possible productive capacity of a plant when no operating time is lost is its
- (a) Normal capacity
 - (b) Practical capacity
 - (c) Theoretical capacity
 - (d) Capacity based on sales expectancy
8. Spoilage that occurs under inefficient operating conditions and is generally controllable is called
- (a) Normal defectives
 - (b) Abnormal spoilage
 - (c) Normal spoilage
 - (d) None of the above
9. The value of abnormal loss is equal to:
- (a) Total cost of materials
 - (b) Total process cost less cost of scrap
 - (c) Total process cost less realisable value of normal loss less value of transferred out goods.
 - (d) Total process cost less realisable value of normal loss
 - (e) None of the above
10. A process account is debited by abnormal gain, the value is determined as:
- (a) Equal to the value of goods units less closing stock
 - (b) Equal to the value of normal loss
 - (c) Cost of good units less realisable value of normal loss
 - (d) Cost of goods units less realisable value of actual loss
 - (e) None of the above

11. Cost units used in power sector is called:
- (a) Number of hours
 - (b) Number of electric points
 - (c) Kilowatt-hour(KWH)
 - (d) Kilo meter (K. M)
 - (e) All of the above
12. Absolute Tonne-km. is an example of:
- (a) Composite unit for bus operation
 - (b) Composite unit of transport sector
 - (c) Composite unit for oil and natural gas
 - (d) Composite unit in power sector
 - (e) All of the above
13. _____ is a segment of a business that is responsible for all the activities involved in the production and sales of products, systems and services.
- (a) Profit centre
 - (b) Cost centre
 - (c) Responsibility centre
 - (d) Service cost centre
14. Given that sales = ₹ 1,50,000, Variable cost = 60 % ,Fixed cost = ₹40,000,the operating leverage will be
- (A) 2.2
 - (B) 2.5
 - (C) 3
 - (D) None of the above
15. Which method of costing Interior decoration
- (A) Process Costing
 - (B) Multiple Costing
 - (C) Operating Costing
 - (D) Job Costing
16. State which of the following are characteristics of service costing.
- 1. High levels of indirect costs as a proportion of total costs
 - 2. Use of composite cost units
 - 3. Use of equivalent units



- (a) (1) only
 - (b) (1) and (2) only
 - (c) (2) only
 - (d) (2) and (3) only
17. Which of the following organisations should not be advised to use service costing?
- (a) Distribution service
 - (b) Hospital
 - (c) Maintenance division of a manufacturing company
 - (d) A light engineering company
18. Which of the following would be appropriate cost units for a transport business?
- 1. Cost per tonne-kilometre
 - 2. Fixed cost per kilometre
 - 3. Maintenance cost of each vehicle per kilometre
- (a) (1) only
 - (b) (1) and (2) only
 - (c) (1) and (3) only
 - (d) All of them
19. Which of the following are characteristics of service costing?
- (a) High levels of indirect costs as a proportion of total cost
 - (b) Cost units are often intangible
 - (c) Use of composite cost units
 - (d) Use of equivalent units

Answer

- 1. (d) Patient Day
- 2. (b) 18900 Room days
- 3. (d) Number of vehicle
- 4. (a) Cost plus contracts
- 5. (a) Cost sheet
- 6. (d) All of the above
- 7. (c) Theoretical capacity
- 8. (c) Normal spoilage
- 9. (c) Total process cost less realisable value of normal loss less value of transferred out goods.

10. (c) Cost of good units less realisable value of normal loss
11. (c) Kilowatt-hour(KWH)
12. (b) Composite unit of transport sector
13. (a) Profit centre
14. (c) 3
15. (d) Job Costing
16. (b) (1) and (2) only
17. (d) A light engineering company
18. (c) Use of composite cost units
19. (a) High levels of indirect costs as a proportion of total cost

II. Fill in the blanks

1. Two principle method of evaluation of equivalent production are _____ and _____.
2. In hospital the cost unit is _____.
3. In electricity companies, the cost unit is _____.
4. The method of costing used in undertaking like gas companies, cinema houses, hospitals etc is known as _____.
5. In motor transport costing two example of fixed cost are _____ and _____.
6. The main objective of operating costing is to compute the _____ offered by the organization.
7. To calculate cost or pricing of two more different grade of services which uses common resources, each grade of service is assigned a weight and converted in to _____.
8. One main problem with service costing is being able to define a _____ that represents a suitable measure of the service provided. If the service is a function of two activity variables, a _____ may be more appropriate.

Answer

1. FIFO, Average Method
2. Per Bed
3. Kilowatt
4. Operating Cost
5. Insurance and Depreciation
6. Cost of Services



7. Equivalent units
8. realistic cost unit, composite cost unit

III. True or False

1. Operation Costing and Operating Costing are interchangeably used for the same technique of costing.
2. Operating Cycle means time required to Produce One Quantity of a Product.
3. Cost unit of Hotel industry is student per year.
4. Operating costing is applied to ascertain the cost of products.
5. Cost of operating the service is ascertained by preparing job account.
6. The problem of equivalent production arises in case of operating costing.
7. FIFO methods are followed for evaluation of equivalent production when prices are fluctuating.
8. According to CIMA [London] operating costing is, 'that form of costing which applies where standardized services are provided either by an undertaking or by a service cost centre within an undertaking'.
9. Operating Costing is a special case of specific order costing.
10. Costs of a transport organisation can be classified and accumulated as Fixed or stand-by costs, Maintenance Charges and Operating and Running costs

Answer

True - 8, 9, 10

False - 1, 2, 3, 4, 5, 6, 7

Chapter **6**
Cost Accounting Techniques

Unit 1

Marginal Costing

Unit 2

Standard Costing & Variance Analysis

Unit 3

Budget and Budgetary Control

Unit 1
Marginal Costing

I. Multiple Choice Questions

- If sales are ₹ 90,000 and variable cost to sales is 75%. Contribution is
 - ₹ 21,500
 - ₹ 22,500
 - ₹ 23,500
 - ₹ 67,500
- P/V Ratio will increase if the
 - There is a decrease in fixed cost
 - There is an increase in fixed cost
 - There is a decrease in selling price per unit
 - There is a decrease in variable cost per unit.
- A firm has fixed expenses ₹ 90,000, sales ₹ 3,00,000 and profit ₹ 60,000. The P/V ratio of the firm is
 - 10%
 - 20%
 - 30%
 - 50%
- Variable cost
 - Remains fixed in total
 - Remains fixed per unit
 - Varies per unit
 - Nor increase or decrease
- If sales are ₹ 150,000 and variable cost are ₹ 50,000. Compute P/V ratio.
 - 66.66%
 - 100%
 - 133.33%

- (d) 65.66%
6. Marginal Costing technique follows the following basis of classification
- (a) Element wise
 - (b) Function Wise
 - (c) Behaviour wise
 - (d) Identifiability wise
7. P/V ratio will increase if the
- (a) There is an decrease in fixed cost
 - (b) There is an increase in fixed cost
 - (c) There is a decrease in selling price per unit.
 - (d) There is a decrease in variable cost per unit.
8. The technique of differential cost is adopted when
- (a) To ascertain P/V ratio
 - (b) To ascertain marginal cost
 - (c) To ascertain cost per unit
 - (d) To make choice between two or more alternative courses of action
9. Difference between the costs of two alternative is known as the
- (a) Variable cost
 - (b) Opportunity cost
 - (c) Marginal cost
 - (d) Differential cost
10. Contribution is ₹ 300,000 and sales is ₹ 1,500,000. Compute P/V ratio.
- (a) 15%
 - (b) 20%
 - (c) 22%
 - (d) 17.5%
11. Variable cost to sales ratio is 40%. Compute P/V ratio.
- (a) 60%
 - (b) 40%
 - (c) 100%
 - (d) None of the these
12. Fixed cost is 30,000 and P/V ratio is 20%. Compute breakeven point.
- (a) ₹ 160,000



- (b) ₹ 150,000
(c) ₹ 155,000
(d) ₹ 145,000
13. Which of the following best describes a fixed cost?
- (a) It may change in total where such change is unrelated to changes in production.
(b) It may change in total where such change is related to changes in production.
(c) It is constant per unit of change in production.
(d) It may change in total where such change depends on production within the relevant range.
14. Z Ltd. is planning to sell 1,00,000 units of product A for ₹ 12.00 per unit. The fixed costs are ₹ 2,80,000. In order to realize a profit of ₹ 2,00,000, what would the variable costs be?
- (a) ₹ 4,80,000
(b) ₹ 7,20,000
(c) ₹ 9,00,000
(d) ₹ 9,20,000
15. The sales and profit of a firm for the year 2016 are ₹1,50,000 and ₹20,000 and for the year 2017 are ₹1,70,000 and ₹25,000 respectively. The P/V Ratio of the firm is
- (a) 15%
(b) 20%
(c) 25%
(d) 30%
16. Product A generates a contribution to sales ratio of 40%. Fixed cost directly attributable to A amount ₹ 60,000. The sales revenue required to achieve a profit of ₹15,000 is
- (a) ₹ 2,00,000
(b) ₹ 1,85,000
(c) ₹ 1,87,500
(d) ₹ 2,10,000
17. PQR Ltd. manufactures a single product which it sells for ₹40 per unit. Fixed cost is ₹ 60,000 per year. The contribution to sales ratio is 40%. PQR Ltd.'s Break Even Point in units is
- (a) 3500
(b) 3700
(c) 3750
(d) 4000

18. The cost of a product under marginal costing system includes:
- (a) Prime cost plus variable overhead
 - (b) Prime cost plus fixed overhead
 - (c) Prime cost plus factory overhead
 - (d) Only prime cost
 - (e) None of the above
19. The difference between absorption costing and marginal costing is in regard to the treatment of :
- (a) Direct materials
 - (d) Fixed overhead
 - (c) Prime cost
 - (d) Variable overhead
 - (e) All of the above
20. Fixed costs are treated as:
- (a) Overhead costs
 - (b) Prime costs
 - (c) Period costs
 - (d) Conversion costs
 - (e) None of the above
21. When sales and production (in units) are same then profits under:
- (a) Marginal costing is lower than that of absorption costing
 - (b) Marginal costing is higher than that of absorption costing
 - (c) Marginal costing is equal to that of absorption costing
 - (d) None of the above
22. When sales exceed production (in units) then profit under:
- (a) Marginal costing is higher than that of absorption costing
 - (b) Marginal costing is equal to that of absorption costing
 - (c) Marginal costing is lower than that of absorption costing
 - (d) None of the above
23. Which of the following factors responsible for change in the break-even point?
- (a) Change in selling price
 - (b) Change in variable cost
 - (c) Change in fixed cost
 - (d) All of the above



24. Selling price of a product is ₹ 6 per unit, variable cost ₹ 4 per unit fixed cost is ₹ 15,000. then Brake Even point in units will be:
- (a) 10,000
 - (b) 7,500
 - (c) 5,000
 - (d) 15,000
25. Marginal Cost is
- (a) the amount at any given volume of output by which aggregate costs are changed if the volume of output is increased or decreased by one unit.
 - (b) Prime Cost plus Fixed Overheads
 - (c) a variable ratio which may be expressed in terms of an amount per unit of output
 - (d) not normally traceable to particular unit
26. Marginal costing is
- (a) A cost accounting technique where valuation of stocks such as finished goods, work-in-progress is made at Total Cost.
 - (b) A cost accounting technique where there is no need to segregate between Fixed Cost and Variable Cost.
 - (c) the ascertainment of marginal costs and of the effect on profit of changes in volume or type of output by differentiating between fixed costs and variable costs.
 - (d) A simple cost accounting technique as fixed cost need not be considered as period cost and can be apportioned on each unit of goods produced.
27. A private hospital has a budgeted annual overhead cost for cleaning of ₹12,50,000. There are 300 beds in the hospital and these are expected to be in use 95% of the year. The hospital uses a composite cost unit of occupied bed per night. What is the overhead absorption rate for cleaning? (Assume a year has 365 days).
- (a) ₹ 10.36
 - (b) ₹ 11.54
 - (c) ₹ 12.02
 - (d) ₹ 16.04
28. A technical writer is to set up her own business. She anticipates working a 40-hour week and taking four weeks' holiday per year. General expenses of the business are expected to be ₹ 10,000 per year, and she has set herself a target of ₹ 40,000 a year salary. Assuming that only 90% of her time worked will be chargeable to customers, her charge for each hour of writing (to the nearest Rupee) should be;
- (a) ₹ 32.04 per hour
 - (b) ₹ 35.06 per hour

- (c) ₹ 28.94 per hour
(d) ₹ 27.20 per hour
29. A company makes a single product and incurs fixed costs of ₹ 30,000 per month. Variable cost per unit is ₹ 5 and each unit sells for ₹ 15. Monthly sales demand is 7,000 units. The breakeven point in terms of monthly sales units is:
- (a) 2,000 units
(b) 3,000 units
(c) 4,000 units
(d) 6,000 units
30. A company's single product has a contribution to sales ratio of 20%. The unit selling price is ₹ 12. In a period when fixed costs were ₹ 48,000 the profit earned was ₹ 5,520. Direct wages were 30% of total variable costs, and so the direct wages cost for the period was:
- (a) ₹ 64,224
(b) ₹ 22,624
(c) ₹ 44,226
(d) ₹ 75,000
31. A company produces and sells a single product whose variable cost is ₹ 15 per unit. Fixed costs have been absorbed over the normal level of activity of 500,000 units and have been calculated as ₹ 5 per unit. The current selling price is ₹ 25 per unit. Profit made under marginal costing if the company sells 625,000 units would be;
- (a) 25,00,000
(b) 37,00,000
(c) 42,50,000
(d) None of the above
32. The fixed-variable cost classification has a special significance in the preparation of
- (a) Cash budget
(b) Master budget
(c) Flexible budget
(d) Capital budget

Answer

1. (b) ₹ 22,500
2. (d) There is a decrease in variable cost per unit
3. (d) 50%



Marginal Costing

4. (b) Remains fixed per unit
5. (a) 66.66%
6. (c) Behaviour wise
7. (d) There is a decrease in variable cost per unit
8. (d) To make choice between two or more alternative courses of action
9. (d) Differential cost
10. (b) 20%
11. (a) 60%
12. (b) ₹ 150,000
13. (a) It may change in total where such change is unrelated to changes in production
14. (b) ₹ 7,20,000
15. (c) 25%
16. (c) ₹ 1,87,500
17. (c) 3750
18. (a) Prime cost plus variable overhead
19. (b) Fixed overhead
20. (c) Period costs
21. (c) Marginal costing is equal to that of absorption costing
22. (a) Marginal costing is higher than that of absorption costing
23. (d) All of the above
24. (b) 7,500
25. (a) the amount at any given volume of output by which aggregate costs are changed if the volume of output is increased or decreased by one unit.
26. (b) A cost accounting technique where there is no need to segregate between Fixed Cost and Variable Cost.
27. (c) ₹ 12.02
28. (c) ₹ 28.94 per hour
29. (b) 3,000 units
30. (a) ₹ 64,224
31. (d) None of the above
32. (c) Flexible budget

II. Fill in the blanks

1. Profit volume ratio _____ with increase in fixed cost (indicate the nature of change).
2. In the graph showing the angle of incidence, when the quantity is zero, the total cost line cuts the costs axis (y axis) at _____. (indicate the value)
3. Variable cost per unit is _____.
4. Contribution earned on Break-even sales equals to _____ of the firm.
5. Profit / P/v Ratio = _____
6. Fixed cost per unit _____ varies with the no. of units.
7. Variable cost per unit is _____
8. Marginal cost is the _____ of sales over contribution.
9. P/V ratio is the ratio of _____ to sales.
10. If variable cost to sales ratio is 60%, P/V ratio is _____.
11. _____ + Variable overhead = Marginal Cost.
12. When sales are ₹ 300,000 and variable cost is ₹ 180,000, P/V ratio will be _____.
13. Variable cost remains _____.
14. Margin of safety is _____.
15. Breakeven point is _____.
16. Contribution margin equals to _____
17. At _____ contribution available is equal to total fixed cost.
18. Variance analysis is a costing technique based on management by _____.
19. Breakeven point = contribution = _____.
20. _____ are not assigned to the product but are recognized as expenses in the period incurred. All nonmanufacturing costs are period costs.
21. Under marginal costing the difference in the magnitude of _____ does not affect the unit cost of production.
22. _____ compare favourably with the economist's definition of marginal cost, viz. that marginal cost is the amount which at any given volume of output is changed if output is increased or decreased by one unit.

Answer

1. is constant
2. Fixed Cost Value
3. Fixed
4. Fixed Cost



5. Margin of Safety
6. Inversely
7. Fixed
8. Excess
9. Contribution
10. 40
11. Prime Cost
12. 40%
13. fixed per unit
14. Actual sales – Sales at Break Even Point
15. Total Fixed Cost / PV Ratio
16. Sales – Variable Cost
17. Break Even point
18. Exception
19. Fixed Cost
20. Period Cost
21. opening stock and closing stock
22. Differential costs

III. True or False

1. For decision making, absorption costing is more suitable than marginal costing.
2. Marginal cost is the Prime cost plus Variable Overheads.
3. Marginal cost per unit remains constant irrespective of the number of units produced within the normal output level.
4. Profit is result of two varying factors - sales and variable cost.
5. Contribution = Sales * P/V ratio.
6. Margin of Safety = Profit / P/V ratio
7. P/V ratio remains constant at all levels of activity.
8. Marginal Costing follows the behaviour wise classification of costs.
9. At breakeven point, contribution available is equal to total fixed cost.
10. Breakeven point = Profit / P/V ratio.
11. Marginal cost is aggregate of Prime Cost and Variable cost.
12. Variable cost remains fixed per unit.

13. Contribution margin is equal to Sales – Fixed cost.
14. Variable cost per unit is variable.
15. Marginal costing follows the identifiability wise classification of costs.
16. Profit Volume ratio remains constant at all levels of activity.
17. Marginal costing is useful long term planning.
18. Opportunity cost is the value of benefit sacrificed in favour of an alternative course of action.
19. P/V ratio remains constant at all levels of activity.
20. Margin of Safety is a sales point within the Breakeven Point.
21. Differential costs compare favourably with the economist's definition of marginal cost, viz. that marginal cost is the amount which at any given volume of output is changed if output is increased or decreased by one unit.
22. When closing stock is more than opening stock: In other words, when production during a period is more than sales, then profit as per absorption approach will be more than that by marginal approach.
23. Absorption costing system is simple to operate than marginal costing because they do not involve the problems of overhead apportionment and recovery
24. One of the limitations of marginal costing is that the separation of costs into fixed and variable present's technical difficulties and no variable cost is completely variable nor is a fixed cost completely fixed.
25. Though for short-term assessment of profitability marginal costs may be useful, long term profit is correctly determined on full costs basis only.

Answer

True - 2, 3, 5, 6, 7, 8, 9, 12, 16, 18, 19, 20, 21, 22, 24, 25

False - 1, 4, 10, 11, 13, 14, 15, 17, 23

Standard Costing & Variance Analysis

I. Multiple Choice Questions

1. A certain process needed standard labour of 24 skilled labour hours and 30 unskilled labour hours at ₹ 60 and ₹ 40 respectively as the standard labour rates. Actually, 20 and 25 labour hours were used at ₹ 50 and ₹ 50 respectively. Then, the labour mix variance will be
 - (a) Adverse
 - (b) Favourable
 - (c) Zero
 - (d) Favourable for skilled and unfavourable for unskilled
2. Standard price of material per kg is ₹ 20, standard usage per unit of production is 5 kg. Actual usage of production 100 units is 520 kgs, all of which was purchased at the rate of ₹ 22 per kg. Material cost variance is
 - (a) 2,440 (A)
 - (b) 1,440 (A)
 - (c) 1,440 (F)
 - (d) 2,300 (F)
3. Standard cost of material for a given quantity of output is ₹ 15,000 while the actual cost of material used is ₹ 16,200. The material cost variance is:
 - (a) ₹ 1,200 (A)
 - (b) ₹ 16,200 (A)
 - (c) ₹ 15,000 (F)
 - (d) ₹ 31,200 (A)
4. Excess of actual cost over standard cost is known as
 - (a) Abnormal effectiveness
 - (b) Unfavourable variance
 - (c) Favourable variance
 - (d) None of these.

5. Difference between standard cost and actual cost is called as
 - (a) Wastage
 - (b) Loss
 - (c) Variance
 - (d) Profit
6. Standards cost is used
 - (a) To ascertain the breakeven point
 - (b) To establish cost-volume profit relationship
 - (c) As a basis for price fixation and cost control through variance analysis.
7. Standard price of material per kg ₹ 20, standards consumption per unit of production is 5 kg. Standard material cost for producing 100 units is
 - (a) ₹ 20,000
 - (b) ₹ 12,000
 - (c) ₹ 8,000
 - (d) ₹ 10,000
8. For the purpose of Proof, Material Cost Variance is equal to:
 - (a) Material Usage Variance + Material Mix variance
 - (b) Material Price Variance + Material Usage Variance
 - (c) Material Price Variance + Material yield variance
 - (d) Material Mix Variance + Material Yield Variance
9. Cost variance is the difference between
 - (a) The standard cost and marginal cost
 - (b) The standards cost and budgeted cost
 - (c) The standards cost and the actual cost
 - (d) None of these
10. Standard price of material per kg is ₹ 20, standard usage per unit of production is 5 kg. Actual usage of production 100 units is 520 kgs, all of which was purchase at the rate of ₹ 22 per kg. Material usage variance is
 - (a) ₹ 400 (F)
 - (b) ₹ 400 (A)
 - (c) ₹ 1,040 (F)
 - (d) ₹ 1,040 (A)



11. Standard quantity of material for one unit of output is 10 kgs. @ ₹ 8 per kg. Actual output during a given period is 800 units. The standard quantity of raw material
 - (a) 8,000 kgs
 - (b) 6,400 Kgs
 - (c) 64,000 Kgs
 - (d) None of these.
12. Standard quantity of material for one unit output is 10 kg @ ₹8 per kg. Actual output during a given period is 600 units. The standard quantity of material for actual output is
 - (a) 1200 kg
 - (b) 6000 kg
 - (c) 4800 kg
 - (d) 48000 kg
13. During a period 13600 labour hours were worked at a standard rate of ₹ 8 per hour. The direct labour efficiency variance was ₹ 8,800 (Adv). How many standard hours were produced?
 - (a) 12000 hours
 - (b) 12500 hours
 - (c) 13000 hours
 - (d) 13500 hours
14. During a period 2560 labour hours were worked at a standard rate of ₹ 7.50 per hour. The direct labour efficiency variance was ₹ 825 (A). How many standard hours were produced?
 - (a) 2400
 - (b) 2450
 - (c) 2500
 - (d) 2550
15. Standards cost is used
 - (a) To ascertain the breakeven point
 - (b) To establish cost-volume profit relationship
 - (c) As a basis for price fixation and cost control through variance analysis.
16. The cost of the product determined at the beginning of production under standard cost system is known as :
 - (a) Actual cost
 - (b) Direct cost
 - (c) Pre-determined cost
 - (d) Historical cost
 - (e) None of the above

17. The deviation between standard and actual cost is known as
- (a) Variable cost analysis
 - (b) Variance analysis
 - (c) Linear trend analysis
 - (d) Multiple analysis
 - (e) None of the above
18. From cost control point of view the standard most commonly used is:
- (a) Expected standard
 - (b) Theoretical standard
 - (c) Normal standard
 - (d) Basic standard
 - (e) None of the above
19. When more than one material is used in the manufacture of a product, which of the following variances arises:
- (a) Material yield variance
 - (b) Material mix variance
 - (c) Material price variance
 - (d) Material usage variance
 - (e) None of the above
20. Standard price of material per kg ₹ 20, standards consumption per unit of production is 5 kg. Standard material cost for producing 100 units is
- (a) ₹ 20,000
 - (b) ₹ 12,000
 - (c) ₹ 8,000
 - (d) ₹ 10,000
21. Standard quantity of material for one unit of output is 10 kgs. @ ₹ 8 per kg. Actual output during a given period is 800 units. The standards quantity of raw material
- (a) 8,000 kgs
 - (b) 6,400 Kgs
 - (c) 64,000 Kgs
 - (d) None of these
22. What is the labour rate variance if standard hours for 100 units of output are 400 @ ₹ 2 per hour and actual hours taken are 380 @ ₹ 2.25 per hour?
- (a) ₹ 120 (adverse)
 - (b) ₹ 100 (adverse)



- (c) ₹ 95 (adverse)
 - (d) ₹ 25 (favourable)
 - (e) None of the above
23. Selling price of a product is ₹6 per unit, variable cost is ₹4 per unit and fixed cost is 24,000. Then Breakeven point in units will be
- (a) 4,000
 - (b) 6,000
 - (c) 12,000
 - (d) None of the above
24. Under standard cost system the cost of the product determined at the beginning of production is its:
- (a) Direct cost
 - (b) Pre-determined cost
 - (c) Historical cost
 - (d) Actual cost
25. Which of the following variance arises when more than one material is used in the manufacture of a product?
- (a) Material price variance
 - (b) Material usage variance
 - (c) Material yield variance
 - (d) Material mix variance
26. Favourable variance is when;
- (a) The standard cost is equal to actual cost
 - (b) Standard cost is greater than actual cost
 - (c) Standard cost is less than actual cost
 - (d) None of the above
27. The standard operating capacity of Vermont Manufacturing, Inc., is 2,000 units. It should take three hours of direct labour time to produce one unit of product, at a standard rate of 15 per hour. It actually took 6,500 direct labour hours to produce the 2,000 units, at an actual wage rate of 16 per hour. The labour cost variance comprises of labour rate variance and labour efficiency variance which are;
- (a) 6500 (Adverse) and 7500 (Adverse) respectively
 - (b) 14000 (Adverse) and 14000 (Favourable) respectively
 - (c) 6500 (Favourable) and 7500 (Favourable) respectively
 - (d) None of the above

Answer

1. (c) Zero
2. (b) 1,440 (A)
3. (a) ₹ 1,200 (A)
4. (b) Unfavourable variance
5. (c) Variance
6. (c) As a basis for price fixation and cost control through variance analysis.
7. (d) ₹ 10,000
8. (b) Material Price Variance + Material Usage Variance
9. (c) The standards cost and the actual cost
10. (b) ₹ 400 (A)
11. (a) 8,000 kgs
12. (b) 6000 kg
13. (b) 12500 hours
14. (b) 2450
15. (c) As a basis for price fixation and cost control through variance analysis.
16. (c) Pre-determined cost
17. (b) Variance analysis
18. (a) Expected standard
19. (b) Material mix variance
20. (d) ₹ 10,000
21. (a) 8,000 kgs
22. (c) ₹ 95 (adverse)
23. (c) 12,000
24. (b) Pre-determined cost
25. (d) Material mix variance
26. (c) Standard cost is less than actual cost
27. (a) 6500 (Adverse) and 7500 (Adverse) respectively

II. Fill in the blanks

1. Sum of material price variance and material usage variance is equal to _____ variance.
2. An activity level of 1000 hours cost is ₹ 10,000 and an activity level for 2000 hours the total cost is ₹ 16,000. The cost at 3000 hours of level of activity is _____
3. _____ is must for meaningful inter-firm comparison.
4. The actual capacity of a manufacturing unit based on temporary sales expectancy is 10,000 units due to lack of orders. The practical capacity is 11,500 units. Then, 1500 units is _____ capacity.
5. In a certain factory, normal capacity was 50000 units. Actual capacity utilization was 52000 units. Fixed production overheads should be absorbed based on _____ capacity.
6. When raw material is accounted at standard cost, variances due to normal reasons will be treated as _____ cost (give the element of cost).
7. In standard costs, _____ norm is applied as a scale of reference for assessing actual cost to serve as a basis of cost control.
8. Standard cost is a _____ cost.
9. Standard cost when fixed is recorded on _____ card.
10. Historical costing uses post period costs while standards costing uses _____ costs.
11. Three types of standards are _____.
12. The _____ is usually the co-ordinator of the standards committee.
13. Standards cost when fixed are recorded on _____ card.
14. Basically there are two types of standards viz, a) Basic standards, and _____.
15. When actual cost is less than the standards cost, it is known as _____ variance.
16. Standard means a criterion or a yardstick against which actual activity can be compared to determine the _____ between two.
17. Standard costing is one of the _____ techniques.
18. Profit is the resultant two varying factors viz _____ and _____.
19. Purchases for special job is debited to _____ Accounts.
20. A labour cost standard is based on estimates of the _____ to produce a unit of product and the cost of labour per unit.
21. Variance analysis is a costing technique based on management by _____.
22. materials cost standard is based on estimates of the quantity of materials required for a unit of product and the _____ to purchase the materials used
23. A labour cost standard is based on estimates of the _____ to produce a unit of product and the cost of labour per unit.

24. Variances measure _____ or _____ in usage (quantity of materials used or number of labour hours worked) and price (cost of materials and wage rates).
25. Companies also use nonfinancial performance measures to evaluate operations. This is recognised through an approach called the _____

Answer

1. material cost
2. ₹ 22,000
3. Uniform Costing
4. Idle
5. Actual
6. Direct Material
7. Predetermined
8. Predetermined
9. Standard Cost
10. Predetermined
11. Current, Basic and Normal Standard
12. Cost Accountants
13. Standard Cost
14. Current Standard
15. Favourable
16. Difference
17. Cost Control
18. Sales ,Cost
19. Work in progress ledger control
20. Labour hours required
21. Exception
22. unit cost
23. labour hours required
24. efficiencies,inefficiencies
25. balanced scorecard approach

III. True or False

1. Uniform Costing is a unique method of costing to determine costs accurately.
2. Standard Costs are costs that are estimated costs that are likely in the future production period.
3. Variances are calculated for both material and labour.
4. Ideal standards are achievable in normal course.
5. Standards costing are more profitability employed in job order industries than in process type industries.
6. Excess of Actual cost over Standards Cost is treated as unfavourable variance.
7. Variances are calculated for both material and labour.
8. While fixing standards, normal losses and wastages are taken into account.
9. Under the system of standard costing, there is no need for variance analysis.
10. Standard costing is an ideal name given to the estimate making.
11. Standards cost, once fixed cannot be altered.
12. Predetermined standards provide a yardstick for the measurement of efficiency.
13. Material cost variance and labour cost variance are always equal.
14. Fixing standards is the work of industrial engineer or the production people and not of cost accountant.
15. Standard costs and budgeted costs are inter-related and inter-dependent.
16. A standard is a norm against which the actual performance can be measured.
17. Fixing standards is the work of industrial engineer or the production people and not of cost accountant.
18. Standard Cost is also termed as Scientific Cost.
19. The purpose of standard cost accounting is to control costs and promote efficiency.
20. Any deviation from the standards can be quickly detected and responsibility pinpointed so that the company can take appropriate action to eliminate inefficiencies or take advantage of efficiencies. This is termed as management by exception.

Answer

True - 3, 6, 7, 8, 11, 12, 16, 17, 18, 19, 20

False - 1, 2, 4, 5, 9, 10, 13, 14, 15

Budget and Budgetary Control

I. Multiple Choice Questions

1. If an organization has all the resources it needs for production, then the principal budget factor is most likely to be
 - (a) non-existing
 - (b) sales demand
 - (c) raw materials
 - (d) labour supply
2. Sales Budget is a-
 - (a) Expenditure budget
 - (b) Functional budget
 - (c) Master budget
 - (d) None of the above
3. Which of the following is not a potential benefit of using a budget?
 - (a) More motivated managers
 - (b) Enhanced co-ordination of firm activities
 - (c) Improved inter-departmental communication
 - (d) More accurate external financial statements
4. The basic difference between a fixed budget and flexible budget is that a fixed budget -
 - (a) is concerned with a single level of activity, while flexible budget is prepared for different levels of activity
 - (b) is concerned with fixed costs, while flexible budget is concerned with variable costs.
 - (c) is fixed while flexible budget changes
 - (d) None of these.
5. Budgets are shown in _____ Terms
 - (a) Qualitative
 - (b) Quantitative



- (c) Materialistic
(d) both (b) and (c)
6. Which of the following is not an element of master budget?
- (a) Capital Expenditure Budget
(b) Production Schedule
(c) Operating Expenses Budget
(d) All above
7. Which of the following is not a potential benefit of using a budget?
- (a) Enhanced coordination of firm activities
(b) More motivated managers
(c) Improved interdepartmental communication
(d) More accurate external financial statements
8. Materials become key factor, if
- (a) quota restrictions exist
(b) insufficient advertisement prevails
(c) there is low demand
(d) there is no problem with supplies of materials
9. The difference between fixed cost and variable cost assumes significance in the preparation of the following budget.
- (a) Master Budget
(b) Flexible Budget
(c) Cash Budget
(d) Capital Budget
10. The budget that is prepared first of all is
- (a) Master budget
(b) Budget, with key factor
(c) Cash Budget
(d) Capital expenditure budget
11. A flexible budget requires a careful study of
- (a) Fixed, semi-fixed and variable expenses
(b) Past and current expenses
(c) Overheads, selling and administrative expenses.
(d) None of these.

12. Which of the following is a long-term Budget?
- (a) Master Budget
 - (b) Production Budget
 - (c) Flexible Budget
 - (d) Capital Budget
13. Cash Budget of ABC Ltd. forewarns of a short-term surplus. Which of the following would be appropriate action to be taken in such a situation?
- (a) Purchase new fixed assets
 - (b) Repay long-term loans
 - (c) Write off preliminary expenses
 - (d) Pay creditors early to obtain a cash discount
14. The fixed-variable cost classification has a special significance in the preparation of
- (a) Cash budget
 - (b) Master budget
 - (c) Flexible budget
 - (d) Capital budget
15. When a company wants to prepare a factory overhead budget in which the estimated costs are directly derived from the estimates of activity levels, which of the following budget should be prepared by the company?
- (a) Flexible budget
 - (b) Fixed budget
 - (c) Master budget
 - (d) R & D budget
 - (e) None of the above
16. Which of the following budgets facilitates classification of fixed and variable costs:
- (a) Capital expenditure budget
 - (b) Flexible budget
 - (c) Cash budget
 - (d) Raw materials budget
 - (e) All of the above
17. The entire budget organisation is controlled and headed by a senior executive known as:
- (a) General Manager
 - (b) Accountant



- (c) Budget Controller
(d) None of the above
18. Which of the following is generally a long term budget?
- (a) Cash budget
(b) Sales budget
(c) Research and Development budget
(d) Capital expenditure budget
(e) None of the above
19. If an organization has all resources it needs for production, then the principal budget factor is most likely to be
- (a) Non-existing
(b) Sales demand
(c) Raw materials
(d) Labour Supply
20. If a company wishes to establish a factory overhead budget system in which estimated costs can be derived directly from estimates of activity levels, it should prepare a _____.
Choose the most appropriate word from the choices below.
- (a) Master budget
(b) Cash budget
(c) Flexible budget
(d) Fixed budget
21. Budget are _____ plans.
- (a) Control
(b) Action
(c) Profit
(d) Finance
22. Which of the following is not a major step in preparing the master budget?
- (a) Prepare a standard cost card
(b) Estimate manufacturing costs and operating expenses.
(c) Determine cash flow and other financial effects.
(d) Formulate projected financial statements.
23. Principles of responsibility accounting are as follows:
- (a) A target is fixed for each department or responsibility center.

- (b) Actual performance is compared with the target.
 - (c) The variances from plan are analyzed so as to fix the responsibility.
 - (d) Operating budget is prepared to carry out responsibility.
24. The classification of fixed and variable cost is useful for the preparation of
- (a) Master budget
 - (b) Flexible budget
 - (c) Cash budget
 - (d) Capital budget
25. The basic steps to effective zero-base budgeting are:
- (a) Describe each organization's activity in a "decision" package.
 - (b) Analyze, evaluate, and rank all these packages in priority on the basis of cost-benefit analysis.
 - (c) Allocate resources accordingly.
 - (d) All of the above

Answer

- 1. (b) sales demand
- 2. (b) Functional budget
- 3. (d) More accurate external financial statements
- 4. (a) is concerned with a single level of activity, while flexible budget is prepared for different levels of activity
- 5. (d) both (b) and (c)
- 6. (b) Production Schedule
- 7. (d) More accurate external financial statements
- 8. (d) Capital Budget
- 9. (a) quota restrictions exist
- 10. (b) Flexible Budget
- 11. (b) Budget, with key factor
- 12. (a) Fixed, semi-fixed and variable expenses
- 13. (d) Pay creditors early to obtain a cash discount
- 14. (c) Flexible budget
- 15. (a) Flexible budget
- 16. (b) Flexible budget
- 17. (c) Budget Controller



18. (d) Capital expenditure budget
19. (c) Raw materials
20. (c) Flexible budget
21. (b) Action
22. (a) Prepare a standard cost card
23. (d) Operating budget is prepared to carry out responsibility
24. (b) Flexible budget
25. (b) Analyze, evaluate, and rank all these packages in priority on the basis of cost-benefit analysis.

II. Fill in the blanks

1. Budget is a quantitative and / or a _____ statement.
2. Budgets are _____ plans.
3. The key factor in a budget does not remain the _____ every year.
4. Cash budget is a part of _____ budget.
5. _____ budgets are subsidiary to master budget.
6. _____ leads to budgeting and budgeting leads to budgetary control.
7. _____ Control involves checking and evaluation of actual performance.
8. A budget is a _____ to management.
9. The principle budget factor for consumer goods manufacture is normally _____.
10. A budget is a projected plan of action in _____.
11. The document which describes the budgeting organisation, budgeting procedure etc. is known as _____.
12. The principal budget factor for consumer goods manufacturer is normally _____.
13. _____ is the summary of all functional budgets.
14. _____ is a system for reporting revenue and cost information to the individual responsible for the revenue-causing and/or cost-incurring function.
15. Budgets are useful for _____ the operating activities and _____ of a business enterprise.
16. The _____ is the starting point in preparing the master budget.
17. Responsibility Accounting is a system of accounting that recognizes various _____ throughout the organization.

Answer

1. Financial
2. Action
3. Same
4. Financial
5. Functional
6. Forecasting
7. Budgetary
8. Aid
9. Sales, Demand
10. Physical units and monetary terms
11. Budget Manual
12. Sales Demand / Market Demand / Lack of Demand
13. Master Budget
14. Responsibility accounting
15. Forecasting, financial position
16. Sales Budget
17. responsibility centers

III. True or False

1. Fixed budget is also known as rigid budget.
2. To achieve the anticipated targets, Planning, Co-ordination and Control are the important main tasks of management, achieved through budgeting and budgetary control.
3. A flexible budget recognises the difference between fixed, semi-fixed and variable cost and is designed to change in relation to the change in level of activity.
4. Budget is a means and budgetary control is the end result.
5. To achieve the anticipated targets, Planning, Co-ordination and Control are the important main tasks of management, achieved through budgeting and budgetary control.
6. A key factor or principal factor does not influence the preparation of all other budgets.
7. Budgetary control does not facilitate introduction of 'Management by Exception'.
8. Generally, budgets are prepared to coincide with the financial year so that comparison of the actual performance with budgeted estimates would facilitate better interpretation and understanding.
9. A flexible budget is one, which changes from year to year.



10. Sales budget, normally, is the most important budget among all budgets.
11. A budget manual is the summary of all functional budgets.
12. The principal factor is the starting point for the preparation of various budgets.
13. A Budget may be expressed either in quantitative form or qualitative form.
14. Budgetary Control may be defined as the process of continuous comparison of actual costs and performance with the pre-established.
15. Performance Budgeting is synonymous with Responsibility Accounting.
16. Cash budgets should include noncash charges such as depreciation:
17. Operating budgets would include cash budgets:

Answer

True - 1, 2, 3, 4, 5, 8, 10, 12, 14, 15

False - 6, 7, 9, 11, 13, 16, 17

CA SATISH JALAN