

Chapter no :

01

INTRODUCTION TO COST AND MANAGEMENT ACCOUNTING

Question 1:

Which of the following is the primary objective of management accounting:

- (a) To provide information to statutory bodies
- (b) To provide information to shareholders and investors for decision-making
- (c) To provide information to lenders and creditors for evaluation of credit risk
- (d) To provide information to management for planning and controlling

Answer: (d) To provide information to management for planning and controlling

Question 2:

Which of the following is not a function of management accounting:

- (a) Identification and reporting of variances between the actual and the budgeted one.
- (b) Providing information to shareholders in their decision making
- (c) Provision of information for making better managerial decisions.
- (d) Computation and classification of costs for determination of costs.

Answer: (b) Providing information to shareholders in their decision making

Description: Management account provides information for internal managerial decisions

Question 3:

Which of the following is not a function of cost accounting system?

- (a) Provision of information to help managers in making make or buy decisions.
- (b) Ascertainment of cost for a cost object,
- (c) Classification of costs on the basis of functions.
- (d) Valuation of raw materials.

Answer: (a) Provision of information to help managers in making make or buy decisions

Description: Management accounting provides information to managers for decision making.

Question 4:

Identify amongst the following which is/are in the scope of cost and management accounting

- (a) Maintenance of accounting records relating to utilization of materials, labour and other items of cost
- (b) Preparation of cost reports for planning, control and performance evaluation.
- (c) Performing analysis to know whether cost is not exceeding its budgeted cost and whether further cost reduction is possible or not.
- (d) All of the above

Answer: (d) All of the above

Question 5:

Which of the following is Not true about the cost control and cost reduction

- (a) Cost control seeks to attain lowest possible cost under best conditions.
- (b) Cost control emphasizes on past and present.
- (c) Cost reduction is a corrective function. It operates even when an efficient cost control system exists.



(d) Cost control ends when targets are achieved.

Answer: (a) Cost control seeks to attain lowest possible cost under best conditions.

Question 6:

Which of the following is Not true about the three-fold assumptions of cost reduction

- (a) There is possibility of saving in cost per unit.
- (b) Such saving is of temporary in nature.
- (c) The quality and utility of product remain unaffected.
- (d) All of the above three.

Answer: (b) Such saving is of temporary in nature.

Description: Saving in cost is permanent in nature.

Question 7:

Which of the following is NOT a part of Cost Control

- (a) Conducting continuous research and study to know the most optimal way to manufacture a product or render a service.
- (b) Determination of pre-determined standard or results.
- (c) Comparison of actual performance with set standard or target.
- (d) None of the above.

Answer: (a) Conducting continuous research and study to know the most optimal way to manufacture a product or render a service.

Question 8:

Which of the following is true about cost control

- (a) It is a corrective function
- (b) It challenges the set standards
- (c) It ends when targets achieved
- (d) It is concerned with future

Answer: (c) It ends when targets achieved

Question 9:

..... is anything for which a separate measurement is required.

- (a) Cost Unit
- (b) Cost Object
- (c) Cost Driver
- (d) Cost centre

Answer: (b) Cost Object

Question 10:

Classification of a cost element as direct, indirect, fixed or variable, all depends on

- (a) Cost Object
- (b) Cost centre
- (c) Cost unit
- (d) Cost Driver

Answer: (a) Cost Object

Description: Cost object remains in nucleus of cost classification and analysis of the cost behaviour

Question 11:

Ticket counter in a Railway Station is an example of

- (a) Cost Centre
- (b) Revenue Centre
- (c) Profit Centre
- (d) Investment Centre

Answer: (b) Revenue Centre

Question 12:

A Ltd. has three production department and each department has two machines, which of the following cannot be treated as cost centre for cost allocation:

- (a) Machines under the production department
- (b) Production departments
- (c) Both Production department and machines
- (d) A Ltd.

Answer: (d) A Ltd.

Question 13:

H Holding Ltd. has five subsidiary companies spread over five states in India. All subsidiaries are further divided into units which manufactures goods. Only the H Holdings Ltd. has the power to make decision on capital expenditures across the all subsidiaries. The subsidiary companies have the liberty to fix prices of the products. The manufacturing units make plans of material procurement and production operation. Each subsidiary has separate Research & development, publicity & advertisement and corporate social responsibility (CSR) departments.

Which type of responsibility centre the H Holding Ltd. is

- (a) Profit centre
- (b) Investment centre
- (c) Discretionary cost centre
- (d) Cost centre

Answer: (b) Investment centre

Description: H Holding company only has the power to make capital expenditure

Question 14:

H Holding Ltd. has five subsidiary companies spread over five states in India. All subsidiaries are further divided into units which manufactures goods. Only the H Holdings Ltd. has the power to make decision on capital expenditures across the all subsidiaries. The subsidiary companies have the liberty to fix prices of the products. The manufacturing units make plans of material procurement and production operation. Each subsidiary has separate Research & development, publicity & advertisement and corporate social responsibility (CSR) departments.

Which type of responsibility centre the subsidiaries are

- (a) Profit centre
- (b) Investment centre
- (c) Discretionary cost centre
- (d) Cost centre

Answer: (a) Profit centre

Description: The subsidiaries have the power to fix price of the product.



Question 15:

H Holding Ltd. has five subsidiary companies spread over five states in India. All subsidiaries are further divided into units which manufactures goods. Only the H Holdings Ltd. has the power to make decision on capital expenditures across the all subsidiaries. The subsidiary companies have the liberty to fix prices of the products. The manufacturing units make plans of material procurement and production operation. Each subsidiary has separate Research & development, publicity & advertisement and corporate social responsibility (CSR) departments.

Which type of responsibility centre the corporate social responsibility (CSR) department is

- (a) Profit centre
- (b) Revenue centre
- (c) Discretionary cost centre
- (d) Standard cost centre

Answer: (c) Discretionary cost centre

Description: Expenditure on corporate social responsibility (CSR) is discretionary in nature and the output of the department cannot be measured with certainty and co-related with cost incurred on inputs.

Question 16:

H Holding Ltd. has five subsidiary companies spread over five states in India. All subsidiaries are further divided into units which manufactures goods. Only the H Holdings Ltd. has the power to make decision on capital expenditures across the all subsidiaries. The subsidiary companies have the liberty to fix prices of the products. The manufacturing units make plans of material procurement and production operation. Each subsidiary has separate Research & development, publicity & advertisement and corporate social responsibility (CSR) departments.

Which type of responsibility centre the research and development department is

- (a) Profit centre
- (b) Revenue centre
- (c) Discretionary cost centre
- (d) Standard cost centre

Answer: (c) Discretionary cost centre

Description: Expenditure on research & development is discretionary in nature and the output of the department cannot be measured with certainty and co-related with cost incurred on inputs.

Question 17:

H Holding has five subsidiary companies spread over five states India. All subsidiaries are further divided into units which manufactures goods. Only the H Holdings Ltd. has the power to make decision on capital expenditures across the all subsidiaries. The subsidiary companies have the box prices of the products. The manufacturing units make plans of material procurement and production operation. Each subsidiary has separate Research & development, publicity & advertisement and corporate social responsibility (CSR) departments.

Which type of responsibility centre the publicity and advertisement department is

- (a) Profit centre
- (b) Revenue centre
- (c) Discretionary cost centre
- (d) Standard cost centre

Answer: (c) Discretionary cost centre

Description: Expenditure on publicity and advertisement is discretionary in nature and the output of the department cannot be measured with certainty and co-related with cost incurred on inputs.



Question 18:

H Holding Ltd. has five subsidiary companies spread over five states in India. All subsidiaries are further divided into units which manufactures goods. Only the H Holdings Ltd. has the power to make decision on capital expenditures across the all subsidiaries. The subsidiary companies have the liberty to fix prices of the products. The manufacturing units make plans of material procurement and production operation. Each subsidiary has separate Research & development, publicity & advertisement and corporate social responsibility (CSR) departments.

Which type of responsibility centre the manufacturing units are

- (a) Profit centre
- (b) Investment centre
- (c) Revenue centre
- (d) Cost centre

Answer: (d) Cost centre

Description: The manufacturing units are only cost centers as these cannot decide on prices and investments.

Question 19:

Which of the following is an example of functional classification of cost:

- (a) Direct Material Cost
- (b) Fixed Cost
- (c) Administrative Overheads
- (d) Indirect Overheads.

Answer: (c) Administrative Overheads

Question 20:

Which of the following is not true about the variable cost:

- (a) Cost tends to increase or decrease with the changes in output.
- (b) Cost per unit remains unaffected with the change in volume of production.
- (c) Cost remains variable irrespective of level of cost object like from unit level to batch level or plant level.
- (d) In general, it is relevant for making decision on make or buy.

Answer: (c) Cost remains variable irrespective of level of cost object like from unit level to batch level or plant level.

Description: The nature of cost changes with the change in level of cost object. The fixed cost at unit level may be variable cost at batch or plant level.

Question 21:

Which of the following is not true about the fixed cost

- (a) Cost per unit tend to increase or decrease with the changes in output.
- (b) Cost remains unaffected with the change in volume of production.
- (c) Cost remains fixed irrespective of level of cost object like from unit level to batch level or plant level.
- (d) It is irrelevant for making decision on make or buy.

Answer: (c) Cost remains fixed irrespective of level of cost object like from unit level to batch level or plant level.

Description: The nature of cost changes with the change in level of cost object. The fixed cost at unit level may be variable cost at batch or plant level.



Question 22:

Distinction between direct cost and indirect cost is an example of Classification

- (a) By Element
- (b) By Function
- (c) By Controllability
- (d) By Variability

Answer: (a) By Element

Question 23:

A taxi provider charges minimum ₹ 80 thereafter ₹ 12 per kilometer of distance travelled, the behaviour of conveyance cost is:

- (a) Fixed Cost
- (b) Semi-variable Cost
- (c) Variable Cost
- (d) Administrative cost.

Answer: (b) Semi-variable Cost

Question 24:

Cost units used in power sector is:

- (a) Kilometer (K.M)
- (b) Kilowatt-hour (kWh)
- (c) Number of electric points
- (d) Number of hours

Answer: (b) Kilowatt-hour (kWh)

Question 25:

Which of the following is the least suited pair of industry and cost unit

- (a) Power- kWh (Kilowatt hour)
- (b) Coal mining. Cubic meter
- (c) Hotel room per day
- (d) Goods Transport- Tonne

Answer: (d) Goods Transport Tonne

Description: In goods transport industry composite cost unit Tonne-km is used considering both weight and distance. Cost unit which only considers the weight is least suited. In Coal mining the commonly used cost unit is Tonne. However, Cubic meter is also used in coal mining industry to measure the volume of overburden material in open cast mining projects,

Question 26:

Processes Costing method is suitable for

- (a) Transport sector
- (b) Chemical industries
- (c) Dam construction
- (d) Furniture making

Answer: (b) Chemical industries



Question 27:

The advantage of using IT in Cost Accounting does not include:

- (a) Integration of various functions
- (b) Stock needs to be reconciled with Goods Received Note
- (c) Reduction in multicity of documents
- (d) Customised reports can be prepared.

Answer: (b) Stock needs to be reconciled with Goods Received Note

Question 28:

Costs which do not involve any cash outlay, is called:

- (a) Product cost
- (b) Imputed cost
- (c) Period cost
- (d) Relevant cost

Answer: (b) Imputed cost

Description: These costs are notional costs which do not involve any cash outlay.

Question 29:

Fixed costs, which cannot be avoided during the temporary closure of a plant, will be known as:

- (a) Sunk cost
- (b) Shut-down cost
- (c) Opportunity cost
- (d) National Cost

Answer: (b) Shut-down cost

Description: All fixed costs, which cannot be avoided during the temporary closure of a plant, will be known as shut down costs.



Chapter no :

02**MATERIAL COST****Question 1:**

In most of the industries, the most important element of cost is

- (a) Material
- (b) Labour
- (c) Overheads
- (d) Administration Cost

Answer: (a) Material

Question 2:

Direct material can be classified as

- (a) Fixed cost
- (b) Variable cost
- (c) Semi-variable cost.
- (d) Prime Cost

Answer: (b) Variable cost

Question 3:

Identify the correct sequence of material procurement amongst the followings

- (a) Request for proposal (RFP), Purchase Order, Bill of Material, Goods Received Note (GRN)
- (b) Material Requisition Note (MRN), Request for proposal (RFP), Purchase Order, Goods Received Note (GRN)
- (c) Notice Inviting Tender (NIT), Purchase Requisition, Purchase Order, Goods Received Note (GRN)
- (d) Purchase Requisition, Notice Inviting Tender (NIT), Purchase Order, Bill of Materials.

Answer: (b) Material Requisition Note (MRN), Request for proposal (RFP), Purchase Order, Goods Received Note (GRN)

Description: Material requisition causes the requirement of purchase and the rest follow.

Question 4:

This is a document which is used for making a formal request to the purchasing department to purchase materials

- (a) Purchase order
- (b) Bill of Material
- (c) Material Requisition
- (d) Purchase Requisition

Answer: (d) Purchase Requisition

Description: Purchase requisition is a form used for making a formal request to the purchasing department to purchase materials.



Question 5:

The document which specifies the standard quantities and qualities of material required for producing a product is known as:

- (a) Purchase order
- (b) Bill of Material
- (c) Material Requisition
- (d) Purchase Requisition

Answer: (b) Bill of Material

Description: Bill of material is a detailed list specifying the standard quantities and qualities of materials and components required for producing a product or carrying out of any job.

Question 6:

While calculation of Economic Order Quantity (EOQ), Annual requirement (A), represents

- (a) Annual demand for the products to be sold.
- (b) Annual demand for the materials to be consumed.
- (c) Annual requirement for capital.
- (d) Annual requirement for storage space.

Answer: (b) Annual demand for the materials to be consumed.

Description: Annual requirement means the demand for input materials required for production.

Question 7:

Which of the following is not an assumption for the calculation of economic order quantity

- (a) Ordering cost per order and carrying cost per unit per annum are known.
- (b) Cost per unit of the material is to be derived.
- (c) Anticipated usage of material in units is known.
- (d) The quantity of material ordered is received immediately.

Answer: (b) Cost per unit of the material is to be derived.

Description: Cost per unit of the material is constant and is known as well.

Question 8:

At which of the following level fresh order should be placed for replenishment of stock:

- (a) Minimum stock level
- (b) Maximum stock level
- (c) Re-order level
- (d) Danger stock level

Answer: (c) Re-order level

Description: This level lies between minimum and the maximum levels in such a way that before the material ordered is received into the stores.

Question 9:

While setting the quantity to be re-ordered, consideration is given to:

- (a) maintenance of minimum level of stock
- (b) maintenance of maximum level of stock
- (c) maintenance of average stock level.
- (d) maintenance of minimum carrying cost.

Answer: (a) maintenance of minimum level of stock

Description: While setting the quantity to be re-ordered, consideration is given to the maintenance of minimum level of stock, re-order level, minimum delivery time and the cost.



Question 10:

Which of the following is Not deducted from cost of material:

- (a) Subsidy
- (b) Cash discount
- (c) Govt. Incentives
- (d) Trade discount

Answer: (b) Cash discount

Description: Cash discount is not deducted from the purchase price. It is treated as interest and finance charges.

Question 11:

Which of the following is not a normal reason of material shortage:

- (a) Evaporation
- (b) Spillage
- (c) Pilferage
- (d) Bulk breaking

Answer: (c) Pilferage

Description: Pilferage is a theft of material, which is not a normal reason for material shortage.

Question 12:

Which of the following is not added to the cost of material

- (a) Demurrage Paid
- (b) Freight Paid
- (c) Transit insurance Paid
- (d) Brokerage Paid

Answer: (a) Demurrage Paid

Description: Demurrage is a penalty imposed by the transporter for delay in unloading or offloading of materials. It is an abnormal cost and not included with the cost of purchase

Question 13:

Which of the following is considered to be the normal loss of materials?

- (a) Loss due to accidents
- (b) Pilferage
- (c) Loss due to breaking the bulk
- (d) Loss due to careless handling of materials.

Answer: (c) Loss due to breaking the bulk

Question 14:

Which of the following is not added to the cost of material

- (a) Road/toll Tax
- (b) GST on which ITC is available
- (c) Custom Duty
- (d) All of the above

Answer: (b) GST on which ITC is available

Description: It is excluded from the cost of material if credit for the same is available. Unless mentioned specifically it should not form part of cost of material.



Question 15:

Which of the following statement is true:

- (a) Cost of container is added to cost of material if it is non-returnable.
- (b) Cost of container is added to cost of material if it is returnable.
- (c) Cost of container is not added to cost of material, it is capitalised.
- (d) All the above statement are incorrect.

Answer: (a) Cost of container is added to cost of material if it is non-returnable.

Description: Cost of non-returnable containers is added with the cost of purchase of materials.

Question 16:

Which of the following is NOT true about Government e Marketplace (GeM):

- (a) It aims to enhance transparency, efficiency and speed in public procurement.
- (b) It provides the tools of e-bidding, reverse e-auction and demand aggregation to facilitate the government users.
- (c) The participants of this marketplace are public sector undertakings.
- (d) The purchases through GeM are authorised by the Ministry of Finance.

Answer: (c) The participants of this marketplace are public sector undertakings.

Description: Though GeM is mandatory for purchases made by public sector undertakings but participants can be anybody.

Question 17:

According to JIT inventory management approach material should only be purchased when it is actually:

- (a) Requisitioned by the user department
- (b) Requisitioned by the stores department
- (c) Made available by the vendor
- (d) Required for production

Answer: (d) Required for production

Description: Material should only be purchased when it is actually required for production

Question 18:

JIT inventory management is also known as:

- (a) Demand Push system of production
- (b) Supply Push system of production
- (c) Demand Pull system of production
- (d) Supply Pull system of production

Answer: (c) Demand Pull system of production

Description: JIT inventory is also known as 'Demand pull' or 'Pull through' system of production.

Question 19:

Which of the following is not true about "Bin card":

- (a) It is maintained in the cost accounting department
- (b) Each transaction is individually posted
- (c) Entries are made when transaction made place
- (d) It contains only quantitative details of material received and issued

Answer: (a) It is maintained in the cost accounting department

Description: It is maintained by the shopkeeper in the store

Question 20:

This system of inventory classification, classify inventory according to their relative importance, namely, their value and frequency of replenishment during a period.

- (a) Fast, Slow and Non-moving (FSN)
- (b) ABC Analysis
- (c) Vital, Essential and Desired (VED)
- (d) High, Medium and Low (HML)

Answer: (b) ABC Analysis

Description: ABC system exercises discriminating control over different items of inventory on the basis of the investment involved.

Question 21:

This system of inventory classification, classify inventory on the basis of its criticality for the production function and final product

- (a) Fast, Slow and Non-moving (FSN)
- (b) ABC Analysis
- (c) Vital, Essential and Desired (VED)
- (d) High, Medium and Low (HML)

Answer: (c) Vital, Essential and Desired (VED)

Description: VED system exercises discriminating control over different items of **inventory** on the basis of importance of inventory based on discretion of management

Question 22:

This system of inventory classification, classify inventory on the basis of the cost of an individual item.

- (a) Fast, Slow and Non-moving (FSN)
- (b) ABC Analysis
- (c) Vital, Essential and Desired (VED)
- (d) High, Medium and Low (HML)

Answer: (d) High, Medium and Low (HML)

Description: Unlike ABC analysis inventories are classified on the basis of cost of the individual items of inventory.

Question 23:

Under the FSN system of inventory control, inventory is classified on the basis of:

- (a) Volume of material consumption
- (b) Frequency of usage of items of inventory
- (c) Criticality of the item of inventory for production
- (d) Value of items of inventory

Answer: (b) Frequency of usage of items of inventory

Question 24:

ABC analysis is an inventory control technique in which:

- (a) Inventory levels are maintained.
- (b) Inventory is classified into A, B and C category with A being the highest quantity, lowest value.
- (c) Inventory is classified into A, B and C Category with A being the lowest quantity, highest value.
- (d) Either b or c.

Answer: (c) Inventory is classified into A, B and C Category with A being the lowest quantity, highest value.



Question 25:

Which of the following not true about "Store Ledger":

- (a) Entries are made when transaction takes place.
- (b) It is maintained in cost accounting department.
- (c) Transactions may be summarized and then posted.
- (d) It is always posted after the transaction.

Answer: (a) Entries are made when transaction takes place.

Description: It is always posted after the transaction.

Question 26:

Continuous stock taking is a part of

- (a) Annual stock taking
- (b) Perpetual inventory
- (c) ABC analysis.
- (d) Bin Cards

Answer: (b) Perpetual inventory

Question 27:

In which of the following methods of pricing, costs lag behind the current economic values?

- (a) Last-in-first out price
- (b) First-in-first out price
- (c) Replacement price
- (d) Weighted average price

Answer: (b) First-in-first out price

Question 28:

In which of the following methods, issues of materials are priced at pre-determined rate?

- (a) Inflated price method
- (b) Standard price method
- (c) Replacement price method
- (d) Market price method.

Answer: (b) Standard price method

Question 29:

When material prices fluctuate widely, the method of pricing that gives absurd results is

- (a) Simple average price
- (b) Weighted average price
- (c) Moving average price
- (d) Inflated price.

Answer: (a) Simple average price

Question 30:

When prices fluctuate widely, the method that will smooth out the effect of fluctuations is

- (a) Simple average
- (b) Weighted average
- (c) FIFO
- (d) LIFO



Answer: (b) Weighted average

Question 31:

Which of the following method of inventory valuation is considered suitable in times of falling price:

- (a) Standard cost method
- (b) Cost price method
- (c) FIFO method
- (d) LIFO method

Answer: (c) FIFO method

Description: the material cost charged to production is high while the replacement cost of materials remain low.

Question 32:

Which of the following method of inventory valuation is considered least suitable when materials are purchased in uneven lot sizes:

- (a) Weighted Average price method
- (b) Simple Average price method
- (c) FIFO method
- (d) LIFO method

Answer: (b) Simple Average price method

Description: This method is simple to use for an entity which orders materials in a lot of standard quantity, as only price per lot is taken to calculate average price.

Question 33:

A Ltd. produces a final product X, which requires two components, and B. The following are the information related to both the components:

Normal usage	50 per week each
Maximum usage	75 per week each
Minimum usage	25 per week each
Re-order quantity	A: 300; B: 500
Re-order period	A: 4 to 6 weeks B: 2 to 4 weeks

Average stock level for the component A is:

- (a) 350 units
- (b) 425 units
- (c) 450 units
- (d) 300 units

Answer: (b) 425

Description: Average stock level for component A = $\frac{1}{2}$ (200units + 650 units) = 425 units.

Question 34:

Maximum level for the component A is

- (a) 650 units
- (b) 750 units
- (c) 450 units
- (d) 300 units

Your Answer: (a) 650 units

Description: Maximum level for component A = (450 units + 300 units) - (25 units x 4 weeks) = 650 units



Question 35:

Minimum level for the component A is:

- (a) 300 units
- (b) 250 units
- (c) 150 units
- (d) 200 units

Answer: (d) 200 units

Description: Minimum level for component A = 450 units - (50 units x 5 weeks) = 200 units

Question 36:

Maximum level for the component B is:

- (a) 650 units
- (b) 750 units
- (c) 450 units
- (d) 300 units

Answer: (b) 750 units

Description: Maximum level for component B = (300 units + 500 units) - (25 units x 2 weeks) = 750 units

Question 37:

Re-order level for the component B is

- (a) 300 units
- (b) 150 units
- (c) 450 units
- (d) 200 units

Answer: (a) 300 units

Description: Re-ordering level for component B = 75 units 4 weeks = 300 units.

Question 38:

Minimum level for the component B is

- (a) 300 units
- (b) 250 units
- (c) 150 units
- (d) 200 units

Answer: (c) 150 units

Description: Minimum level for component B = 300 units - (50 units x 3 weeks) = 150 units



Chapter no :

03

EMPLOYEE COST & DIRECT EXPENSES

Question 1:

Employee Cost includes

- (a) Wages and salaries
- (b) Allowances and incentives
- (c) Payment for overtime
- (d) All of the above

Answer:(d) All of the above

Question 2:

Important factors for control of employee cost can be-

- (a) Time and Motion Study
- (b) Control over idle time and overtime
- (c) Control over employee turnover
- (d) All of the above

Answer:(d) All of the above

Question 3:

Time and motion study is conducted by-

- (a) Time keeping department
- (b) Personnel department
- (c) Payroll department
- (d) Engineering department

Answer: (d) Engineering department

Question 4:

Identify, which one of the following, does not account for increasing labour productivity-

- (a) Job satisfaction
- (b) Motivating workers
- (c) High labour turnover
- (d) Proper supervision and control

Answer:(c) High labour turnover

Question 5:

Labour turnover is measured by

- (a) Number of persons replaced/ average number of workers
- (b) Numbers of persons separated / number of workers at the beginning of the year
- (c) Number of persons replaced + number of persons separated)/(number of persons at the beginning + the number of persons at the end of the year)
- (d) None of the above



Answer: (a) Number of persons replaced/ average number of workers

Question 6:

Idle time is the time under which-

- (a) Full wages are paid to workers
- (b) No productivity is given by the workers
- (c) Both (a) and (b)
- (d) None of the above

Answer:(c) Both (a) and (b)

Question 7:

Idle time which arises due to non-availability of raw materials, strikes, lockouts, poor supervision, fire, flood, power failure, breakdown of machines, etc. is:

- (a) Normal idle time and is treated as part of cost of production
- (b) Abnormal idle time and is treated as item of Profit & Loss A/c
- (c) Normal idle time and is not treated as part of cost of production
- (d) Normal idle time and is treated as item of Profit & Loss A/c

Answer: (b) Abnormal idle time and is treated as item of Profit & Loss A/c

Description: Time lost due to the above reasons are abnormal and the cost of the idle item is not treated as cost of production.

Question 8:

Idle time which arises due to setting up time for the machine is:

- (a) Normal idle time and is treated as part of cost of production
- (b) Abnormal idle time and is treated as item of Profit & Loss A/c
- (c) Normal idle time and is not treated as part of cost of production
- (d) Normal idle time and is treated as item of Profit & Loss A/c

Answer: (a) Normal idle time and is treated as part of cost of production

Description: It is the time which cannot be avoided or reduced in the normal course of business

Question 9:

Idle time which arises due to time interval between one job and another is:

- (a) Normal idle time and is treated as part of cost of production
- (b) Abnormal idle time and is treated as item of Profit & Loss A/c
- (c) Normal idle time and is not treated as part of cost of production
- (d) Normal idle time and is treated as item of Profit & Loss A/c

Answer: (a) Normal idle time and is treated as part of cost of production

Description: It is the time which cannot be avoided or reduced in the normal course of business

Question 10:

Idle time which arises due to loss of time between factory gate and the place of work is:

- (a) Normal idle time and is treated as part of cost of production
- (b) Abnormal idle time and is treated as item of Profit & Loss A/c
- (c) Normal idle time and is not treated as part of cost of production
- (d) Normal idle time and is treated as item of Profit & Loss A/c

Your Answer: (a) Normal idle time and is treated as part of cost of production

Description: It is the time which cannot be avoided or reduced in the normal course of business

Question 11:

If overtime is resorted to meet the sudden demand on account of an earthquake, the overtime premium paid is charged to:

- (a) the production department as overhead cost
- (b) all the departments on the basis of labour hours
- (c) the sales department as overhead cost
- (d) Costing profit and loss account

Answer: (d) Costing profit and loss account

Description: Overtime worked on account of abnormal conditions such as flood, earthquake etc., should not be charged to cost, but to costing profit and loss A/c

Question 12:

If overtime is resorted to make up a shortfall in production due to wrong estimation of sales department, the overtime premium paid is charged to:

- (a) the production department as overhead cost
- (b) all the departments on the basis of labour hours
- (c) the sales department as overhead cost
- (d) Costing profit and loss account

Answer: (c) the sales department as overhead cost

Description: If overtime is worked in a department due to the fault of another department, the overtime premium should be charged to the latter department.

Question 13:

If overtime is resorted at the desire of the customer, the overtime premium paid is charged to:

- (a) the concerned department as overhead cost
- (b) the job (customer order) directly
- (c) all the department on the basis of labour hours
- (d) Costing profit and loss account

Answer: (b) the job (customer order) directly

Description: if overtime is resorted to at the desire of the customer, the overtime premium may be charged to the job directly.

Question 14:

If overtime is required for meeting urgent orders, the overtime premium should be charged as-

- (a) Respective job
- (b) Overhead cost
- (c) Costing P& L A/c
- (d) None of above

Answer: (a) Respective job

Question 15:

Time booking refers to a method wherein of an employee is recorded.

- (a) Attendance
- (b) Food expenses
- (c) Health status
- (d) Time spent on a particular job

Answer:(d) Time spent on a particular job



Question 16:

Out of the following methods attendance is marked by recognizing an employee based on physical and behavioural traits-

- (a) Punch Card Attendance method
- (b) Bio- Metric Attendance system
- (c) Attendance Register method
- (d) Token Method

Answer: (b) Bio- Metric Attendance system

Question 17:

If the time saved is less than 50% of the standard time, then the wages under Rowen and Halsey Premium plan on comparison gives:

- (a) More wages to workers under Rowan plan than Halsey Plan
- (b) More wages to workers under Halsey plan than Rowan Plan
- (c) Equal wages under two plans
- (d) None of the above

Answer: (a) More wages to workers under Rowan plan than Halsey Plan

Question - 18:

Standard time of a job is 60 hours and guaranteed time rate is ₹0.30 per hour. What is the amount of wages under Rowan plan if job is completed in 48 hours?

- (a) ₹ 16.20
- (b) ₹ 17.28
- (c) ₹ 18.00
- (d) ₹ 14.40

Answer: (b) ₹ 17.28



Chapter no :

04

OVERHEADS – ABSORPTION COSTING METHOD

Question 1:

Bad debt is an example of:

- (a) Distribution overhead
- (b) Production overhead
- (c) Selling overhead
- (d) Administration overhead

Answer:(c) Selling overhead

Question 2:

Which of the following is not the classification of overhead based on its functionality:

- (a) Factory Overhead
- (b) Administration Overhead
- (c) Fixed Overhead
- (d) Selling Overhead

Answer: (c) Fixed Overhead

Question 3:

Director's remuneration and expenses form part of:

- (a) Production Overhead
- (b) Administration Overhead
- (c) Fixed Overhead
- (d) Selling Overhead

Answer: (c) Fixed Overhead

Question 4:

Primary packing cost is a part of:

- (a) Direct material cost
- (b) Production Cost
- (c) Selling overheads
- (d) Distribution overheads

Answer: (b) Production Cost

Question 5:

The allotment of whole items of cost to cost centres or cost units is called:

- (a) Overhead absorption
- (b) Cost apportionment
- (c) Cost allocation
- (d) None of the above

Answer: (c) Cost allocation



Question 6:

Charging to a cost centre those overheads that result solely for the existence of that cost centre is known as

- (a) Apportionment
- (b) Allocation
- (c) Absorption
- (d) Allotment

Answer: (b) Allocation

Question 7:

Which of the following overhead cost may not be apportioned on the basis of direct wages?

- (a) Worker's holiday pay
- (b) Perquisites to workers
- (c) ESI Contribution
- (d) Managerial Salaries

Answer: (d) Managerial Salaries

Question 8:

_____ refers to the maximum capacity of producing goods or services

- (a) Rated Capacity
- (b) Normal Capacity
- (c) Practical capacity
- (d) Actual Capacity

Answer : (a) Rated Capacity

Question 9:

Normal capacity of a plant refers to the difference between:

- (a) Maximum capacity and practical capacity
- (b) Practical capacity and normal capacity
- (c) Practical capacity and estimated idle capacity as revealed by long term sales trend.
- (d) Maximum capacity and actual capacity

Answer: (c) Practical capacity and estimated idle capacity as revealed by long term sales trend.

Question 10:

..... capacity is defined as actually utilised capacity of a plant

- (a) Theoretical
- (b) Installed
- (c) Practical
- (d) Normal

Answer: (c) Practical

Question 11:

"Fixed overhead costs are not affected in monetary terms during a given period by a change in output". But this statement holds good provided:

- (a) Increase in output is not substantial
- (b) Increase in output is substantial
- (c) Both (a) and (b)
- (d) None of the above

Answer: (a) Increase in output is not substantial

Question 12:

The Difference between actual factory overhead and absorbed factory overhead will be usually at the minimum level, provided pre-determined overhead rate is based on:

- (a) Maximum Capacity
- (b) Direct Labour Hours
- (c) Machine Hours
- (d) Normal Capacity

Answer: (d) Normal Capacity

Question 13:

When the amount of under-or-over-absorption is significant, it should be disposed of by

- (a) Defer it to the next accounting year
- (b) Calculate supplementary rates and charge it to Cost of goods sold, WIP, Finished Goods
- (c) Transfer it to costing profit and loss A/c
- (d) None of above

Answer: (b) Calculate supplementary rates and charge it to Cost of goods sold, WIP, Finished Goods

Question 14:

The accountant for Brilliant Tools Ltd applies overhead based on machine hours. The budgeted overhead and machine hours for the year are 130,000 and 8,000, respectively. The actual overhead and machine hours incurred were 137,500 and 10,000. The cost of goods sold and inventory data compiled for the year is as follows:- Direct Material 25,000 Cost of Goods Sold 225,000 Units: WIP 50,000 and Finished Goods 75,000 What is the amount of over/underapplied overhead for the year?

- (a) Overapplied by 25,000
- (b) Underapplied by 25,000
- (c) Overapplied by 32,500
- (d) Underapplied by 32,500

Answer: (a) Overapplied by 25,000

Description: Predetermined Overhead Rate = Budgeted Overhead / Budgeted hours i.e. $130,000 / 8,000 = 16.25$ per hour. Hence, applied overhead = $10,000 \times 16.25 = 162,500$. Since actual overhead incurred were 137,500, hence the overhead were over applied by $162,500 - 137,500 = 25,000$.



Chapter no :

05**ACTIVITY BASED COSTING****Question 1:**

In activity based costing, costs are accumulated by activity using:

- (a) Cost drivers
- (b) Cost objects
- (c) Cost pools
- (d) Cost benefit analysis

Answer: (c) Cost pools

Question 2:

Transactions undertaken by support department personnel are the appropriate cost drivers. Find the one which is **not** appropriate:

- (a) The number of purchase, supplies and customers' orders drives the cost associated with new material inventory, work-in-progress and finished goods inventory
- (b) The number of production runs undertaken drives production scheduling, inspection and material handling
- (c) The quality of raw material issued drives the cost of receiving department costs
- (d) The number of packing orders drives the packing costs

Answer: (c) The quality of raw material issued drives the cost of receiving department costs

Question 3:

A cost driver is:

- (a) An item of production overheads
- (b) A common cost which is shared over cost centres
- (c) Any cost relating to transport
- (d) An activity which generates costs

Answer: (d) An activity which generates costs

Question 4:

Which of the following statements are true:

- (1) Activity based Management involves activity analysis and performance measurement.
- (2) Activity based costing serves as a major source of information in ABM.

- (a) (1) True; (2) False
- (b) (1) True; (2) True
- (c) (1) False; (2) True
- (d) (1) False; (2) False

Answer: (b) (1) True; (2) True

Question 5:

A cost driver:

- (a) Is a force behind the overhead cost
- (b) Is an allocation base
- (c) Is a transaction that is a significant determinant of cost



(d) All of the above

Answer: (d) All of the above

Question 6:

Steps in ABC include:

- (a) Identification of activities and their respective costs
- (b) Identification of cost driver of each activity and computation of an allocation rate per activity
- (c) Allocation of overhead cost to products/services based on the activities involved
- (d) All of the above

Answer: (d) All of the above

Question 7:

The key elements of activity based budgeting are:

- (a) Type of activity to be performed
- (b) Quantity of activity to be performed
- (c) Cost of activity to be performed
- (d) All of the above

Answer: (d) All of the above

Question 8:

The steps involved for installation of ABC in a manufacturing company include the following except:

- (a) Borrowing fund
- (b) Feasibility study
- (c) Building up necessary IT infrastructure and training of line employees
- (d) Strategy and value chain analysis

Answer: (b) Feasibility study

Question 9:

ABC analysis is an inventory control technique in which:

- (a) Inventory levels are maintained.
- (b) Inventory is classified into A, B and C category with A being the highest quantity, lowest value.
- (c) Inventory is classified into A, B and C Category with A being the lowest quantity, highest value.
- (d) Either b or c.

Answer: (c) Inventory is classified into A, B and C Category with A being the lowest quantity, highest value.

Question 10:

Which of the following is not a correct match:

Activity	Cost Driver
(a) Production Scheduling	Number of Production runs
(b) Despatching	Number of dispatch orders
(c) Goods receiving	Goods received orders
(d) Inspection	Machine hours

Answer: (d)

Question 11:

Which of the following is not a benefit of ABC?

- (a) Accurate cost allocation
- (b) Improved decision making
- (c) Better control on activity and costs
- (d) Reduction of prime cost

Answer: (d) Reduction of prime cost

