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**BY CA SANKALP KANSTIYA**

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## CA INTER COST & MANAGEMENT ACCOUNTING

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*Sankalp Kanstiya*



## **CH. 1 Introduction To Cost And Management Accounting**

- 1) Which of the following is the least suited pair of industry and cost unit
  - a) Power- kWh (Kilo-watt hour)
  - b) Coal mining- Cubic meter
  - c) : Hotel-room per day
  - d) Goods Transport- Tonne

**Answer: 4**

**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.

- 2) Which of the following is Not true about the cost control and cost reduction
  - a) (A) Cost control seeks to attain lowest possible cost under best conditions.
  - b) (B) Cost control emphasizes on past and present.
  - c) (C) Cost reduction is a corrective function. It operates even when an efficient cost control system exists.
  - d) (D) Cost control ends when targets are achieved.

**Answer: 1**

**Description:** Cost control seeks to attain lowest possible cost under existing conditions.





- 3) 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: 4**

**Description:** The primary objective of the management accounting is help management in making informed decisions.

- 4) 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) Notional Cost

**Answer: 2**

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

- 5) 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: 1**

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





- 6) 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: 4**

**Description:** The scope of cost and management accounting includes maintenance of all records related to costs, preparation of cost reports to help management in decision making and analyzing costs for cost control and cost reduction.

- 7) 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: 3**

**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.





- 8) 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: 2**

**Description: Management account provides information for internal managerial decisions.**

- 9) Which of the following is NOT a part of Cost Control
- a) (A) Conducting continuous research and study to know the most optimal way to manufacture a product or render a service. (C) Comparison of actual performance with set standard or target. (D) None of the above.
  - b) (B) Determination of pre- determined standard or results.
  - c) (C) Comparison of actual performance with set standard or target.
  - d) (D) None of the above.

**Answer: 1**

**Description: Conducting continuous research and study to know the optimal way is part of Cost Reduction.**

- 10) Which of the following is Not true about the three-fold assumptions of cost reduction
- a) (A) There is possibility of saving in cost per unit.
  - b) (B) Such saving is of temporary in nature.
  - c) (C) The quality and utility of product remain unaffected.
  - d) (D) All of the above three.

**Answer: 2**

**Description: Saving in cost is permanent in nature**





- 11) Classification of a cost element as direct, indirect, fixed or variable, all depends on
- Cost Object
  - Cost centre
  - Cost unit
  - Cost Driver

**Answer: 1**

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

- 12) Responsibility Centre can be categorised into:
- Cost Centres only
  - Profit Centres only
  - Investment Centres only
  - Cost Centres, Profit Centres and Investment Centres

**Answer: 4**

**Description:**

**Self Explanatory**

- 13) Costs which do not involve any cash outlay, is called:
- Product cost
  - Imputed cost
  - Period cost
  - Relevant cost

**Answer: 2**

**Description:**

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

- 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 publicity and advertisement department is

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

**Answer: 3**

**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.

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 manufacturing units are

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

**Answer: 4**

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





16) H Holding Ltd. has five subsidiary companies spread over five states in India. All subsidiaries are further divided into units which manufacture goods. Only the H Holdings Ltd. has the power to make decision on capital expenditures across 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: 1**

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

17) H Holding Ltd. has five subsidiary companies spread over five states in India. All subsidiaries are further divided into units which manufacture goods. Only the H Holdings Ltd. has the power to make decision on capital expenditures across 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: 2**

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





- 18) Which of the following is not true about the fixed cost
- Cost per unit tend to increase or decrease with the changes in output.
  - Cost remains unaffected with the change in volume of production.
  - Cost remains fixed irrespective of level of cost object like from unit level to batch level or plant level.
  - It is irrelevant for making decision on make or buy.

**Answer: 3**

**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.

- 19) 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

- Profit centre
- Revenue centre
- Discretionary cost centre
- Standard cost centre

**Answer: 3**

**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.





- 20) The table below shows the total cost of producing three types of products at two different output levels. Output level (units) Product X (â€) Product Y (<sup>1</sup>) Product Z (N)
- |        |        |        |        |        |        |
|--------|--------|--------|--------|--------|--------|
| 10,000 | 60,000 | 50,000 | 50,000 | 15,000 | 85,000 |
| 75,000 | 50,000 |        |        |        |        |
- a) X-110, Y-15 & Z-a 15  
b) X-15, Y-15 & Z-a 10  
c) X- â 15, Y-âg 110 & Z-a 10  
d) X- â 15, Y-â 110 & Z-a 15

**Answer: 2**

**Description:** Variable cost per unit =  $\frac{\text{Change in expenses}}{\text{Change in output level}}$

Product X (1)	Product Y (1)	Product Z (1)
A Change in Expenses 25,000	25,000	0
B Change in output level 5,000	5,000	5,000
C Variable cost per unit (AA-B)	55-	

- 21) 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 department is (CSR)

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

**Answer: 3**

**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.





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

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

**Description:**

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

*Sankalp Kanstiya*





ICAI MODULE QUESTIONS

1 is anything for which a separate measurement is required.

- (a) Cost unit
- (b) Cost object
- (c) Cost driver
- (d) Cost centre

**Answer: b**

2. 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**

3. 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**

4. Process Costing method is suitable for

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

**Answer: b**





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 emphasises 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**

6. 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**

7. 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**

8. 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**





9. 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**

10. Ticket counter in a Railway Station is an example of
- (a) Cost Centre
  - (b) Revenue Centre
  - (c) Profit Centre
  - (d) Investment Centre

**Answer: b**



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## CH. 2 Material Cost

- 1) This system of inventory classification, classify inventory on the basis of the cost of an individual item.
- Fast, Slow and Non-moving (FSN)
  - ABC Analysis
  - Vital, Essential and Desired (VED)
  - High, Medium and Low (HML)

**Answer: 4**

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

- 2) Identify the correct sequence of material procurement amongst the followings
- Request for proposal (RFP), Purchase Order, Bill of Material, Goods Received Note (GRN)
  - Material Requisition Note (MRN), Request for proposal (RFP), Purchase Order, Goods Received Note (GRN)
  - Notice Inviting Tender (NIT), Purchase Requisition, Purchase Order, Goods Received Note (GRN)
  - Purchase Requisition, Notice Inviting Tender (NIT), Purchase Order, Bill of Materials.

**Answer: 2**

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

- 3) Which of the following is Not added with cost of material:
- Demurrage paid
  - Freight paid
  - Transit insurance paid
  - Brokerage paid

**Answer: 1**

**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 cost of purchase**





- 4) The document which specifies the standard quantities and qualities of materials required for producing a product is known as:. The document which specifies the standard quantities and qualities of materials required for producing a product is known as:
- a) Purchased Order
  - b) Bill of Material
  - c) Material Requisition
  - d) Purchase Requisition

**Answer: 2**

**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

- 5) 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 : 3**

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

- 6) This is a document which is used for making a formal request to the purchasing department to purchase materials.
- a) Purchased Order
  - b) Bill of Material
  - c) Material Requisition
  - d) Purchase Requisition

**Answer: 4**

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





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

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

**Answer: 2**

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

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: 3**

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

9) Which of the following not true about "Bin card":

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

**Answer: 1**

**Description :** It is maintained by the storekeeper in the store

10) 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: 1**

**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.





- 11) 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: 3**

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

- 12) 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: 1**

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

- 13) 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: 4**

**Description: material should only be purchased when it is actually required for production.**





14) 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 : 3**

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

15) 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: 2**

**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.

16) Which of the following method of inventory valuation is useful when materials are purchased for a specific job or work order:

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

**Answer: 2**

**Description:**

Under Cost price method materials are issued to specific job or work order at the price at which they were purchased.





17) 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: 2**

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

18) Which of the following is Not added with cost of material:

- a) Road/toll tax
- b) GST on which ITC is available.
- c) Custom duty.
- d) All of the above.

**Answer: 2**

**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.

19) 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: 3**

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





20) Which of the following method of inventory valuation is considered suitable during inflationary period or period of rising prices:

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

**Answer: 4**

**Description:** LIFO ensure that the cost of production determined is approximately the current one.

21) 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: 2**

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

22) Minimum level for the component B is

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

**Answer: 3**

**Description:** Minimum level for component B =  $300 \text{ units} - (50 \text{ units} \times 3 \text{ weeks}) = 150 \text{ units}$





- 23) A Ltd. produces a final product X, which requires two components, A 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 Re-order level for the component A is:
- a) 300 units
  - b) 150 units
  - c) 450 units
  - d) 200 units

**Answer : 3**

**Description: Re-ordering level for component A = 75 units i' 6 weeks = 450 units**

- 24) A Ltd. produces a final product X, which requires two components, A 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 B is:
- a) 350 units
  - b) 425 units
  - c) 450 units
  - d) 300 units

**Answer: 3**

**Description:**

**Average stock level for component A =  $1\frac{1}{2}$  (150 units + 750 units) = 450 units.**

- 25) Re-order level for the component B is
- a) 300 units
  - b) 150 units
  - c) 450 units
  - d) 200 units

**Answer: 1**

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







26) Maximum level for the component A is

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

**Answer: 1**

**Description:** Maximum level for component A = (450 units + 300 units)  $\hat{a}$  MN (25 units  $\bar{A}$  4 weeks) = 650 units'

27) Minimum level for the component A is:

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

**Answer: 4**

**Description:** Minimum level for component A = 450 units  $\hat{a}$  (50 units  $\bar{A}$  R 5 weeks) = 200 units

28) Maximum level for the component B is:

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

**Answer: 2**

**Description :** Maximum level for component B = (300 units + 500 units)  $\hat{a}$ ™ (25 units  $\bar{A}$  2 weeks) = 750 units

29) 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: 2**

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





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

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

**Answer : 3**

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

31) 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: 1**

**Description:** It is always posted after the transaction.

*Sankalp Kanstiya*





**ICAI MODULE QUESTIONS**

1. Direct material can be classified as

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

**Answer: b**

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

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

**Answer: a**

3. 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**

4. In which of 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**

5. Continuous stock taking is a part of

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

**Answer: b**





6. 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**

7. 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**

8. 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**

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

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

**Answer: b**

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10. Form used for making a formal request to the purchasing department to purchase materials is a - :

- (a) Material Transfer Note
- (b) Purchase Requisition Note
- (c) Bill of Materials
- (d) Material Requisition Note

**Answer: b**



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### CH. 3 Employee Cost And Direct Expenses

- 1) Idle time which arises due to time interval between one job and another is:
- Normal idle time and is treated as part of cost of production.
  - Abnormal idle time and is treated as item of profit & loss a/c.
  - Normal idle time and is not treated as part of cost of production.
  - Normal idle time and is treated as item of profit & loss a/c.

**Answer: 1**

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

- 2) Idle time which arises due to setting up time for the machine is:
- Normal idle time and is treated as part of cost of production.
  - Abnormal idle time and is treated as item of profit & loss a/c.
  - Normal idle time and is not treated as part of cost of production.
  - Normal idle time and is treated as item of profit & loss a/c.

**Answer: 1**

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

- 3) Idle time which arises due to loss of time between factory gate and the place of work is:
- Normal idle time and is treated as part of cost of production.
  - Abnormal idle time and is treated as item of profit & loss a/c.
  - Normal idle time and is not treated as part of cost of production
  - Normal idle time and is treated as item of profit & loss a/c.

**Answer: 1**

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

- 4) If overtime is resorted to meet the sudden demand on account of an earthquake, the overtime premium paid is charged to:
- the production department as overhead cost.
  - all the departments on the basis of labour hours.
  - the sales department as overhead cost.
  - costing profit and loss account.

**Answer: 4**





**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 account.

- 5) Idle time which arises due to power failure, breakdown of machines is:
- Normal idle time and is treated as part of cost of production.
  - Abnormal idle time and is treated as item of profit & loss a/c.
  - Normal idle time and is not treated as part of cost of production.
  - Normal idle time and is treated as item of profit & loss a/c.

**Answer: 2**

**Description:** Failure of power and breakdown of machine is controllable and can be avoided.

- 6) If overtime is resorted at the desire of the customer, the overtime premium paid is charged to:
- the concerned department as overhead cost.
  - the job (customer order) directly.
  - all the departments on the basis of labour hours.
  - costing profit and loss account.

**Answer: 2**

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

- 7) 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:
- The production department as overhead cost.
  - All the departments on the basis of labour hours.
  - The sales department as overhead cost.
  - Costing profit and loss account.

**Answer: 3**

**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.





- 8) Idle time which arises due to non-availability of raw materials, strikes, lockouts, poor supervision, fire, flood 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: 2**

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

- 9) 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) 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: 1**

**Description:**

**Self Explanatory**

- 10) Which of the following is not an avoidable cause of labour turnover:
- a) Dissatisfaction with Job
  - b) Lack of training facilities
  - c) Low wages and allowances
  - d) Disability, making a worker unfit for work

**Answer: 4**

**Description:**

**Self Explanatory**







**ICAI MODULE QUESTIONS**

1. 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**

2. Cost of idle time due to non- availability of raw material is-

- (a) Charged to overhead costs
- (b) Charged to respective jobs
- (c) Charged to costing profit and loss account
- (d) None of the above

**Answer: c**

3. Time and motion study is conducted by-

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

**Answer: d**





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**

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)  $(\text{Number of persons replaced} + \text{number of persons separated}) / (\text{number of persons at the beginning} + \text{the number of persons at the end of the year})$
- (d) None of the above

**Answer: a**

6. 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**

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7. Employee Cost includes-

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

**Answer: d**

8. 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) 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**

9. 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**





10. 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**

11. 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**

12. 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**





## CH. 4 Overheads-Absorption Costing Method

- 1) Primary packing cost is a part of:
- Direct material cost
  - Production Cost
  - Selling overheads
  - Distribution overheads

**Answer: 2**

- 2) .....capacity is defined as actually utilised capacity of a plant.
- Theoretical
  - Installed
  - Practical
  - Normal

**Answer: 3**

- 3) The allotment of whole items of cost to cost centres or cost units is called:
- Overhead absorption
  - Cost apportionment
  - Cost allocation
  - None of the above

**Answer: 3**

- 4) When the amount of under-or-over- absorption is significant, it should be disposed of by
- Defer it to the next accounting year
  - Calculate supplementary rates and charge it to Cost of goods sold, WIP, Finished Goods
  - Transfer it to costing profit and loss A/c
  - None of above

**Answer: 2**





- 5) "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: 1**

**Self Explanatory**

- 6) Which of the following is not the classification of overhead based on its functionality?
- a) Factory Overhead
  - b) Administrative Overhead
  - c) Fixed Overhead
  - d) Selling Overhead

**Answer: 3**

- 7) Director's remuneration and expenses form part of:
- a) Production overhead
  - b) Administration overhead
  - c) Selling overhead
  - d) Distribution overhead

**Answer: 2**

- 8) Which of the following overhead cost may not be apportioned on the basis of direct wages?
- a) Worker's Holiday Pay
  - b) Perquisites to worker
  - c) ESI contribution
  - d) Managerial Salaries

**Answer: 4**

**Description: Self Explanatory**





9) refers to the maximum capacity of producing goods or services

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

**Answer: 1**

**Description:**

**Self Explanatory**

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

- a) A. Apportionment
- b) B. Allocation
- c) C. Absorption
- d) D. Allotment

**Answer: 2**

**Description**

**Self Explanatory**

11) Research expenses will for part of:

- a) A. Factory overheads
- b) B. Office and administration overheads
- c) C. Selling and distribution expenses
- d) D. Can be part of anyone depending upon the fact and circumstances in each case.

**Answer: 4**

**Description:**

**Self Explanatory**

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12) Bad debt is an example of:

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

**Answer: 3**

**Description: Self Explanatory**

13) 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 : 4**

**Description: Self Explanatory**

14) 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: 3**

**Description: Self Explanatory**







15) 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: 1**

**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  $162,500 - 137,500 = 25,000$ .

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**ICAI MODULE QUESTIONS**

1. "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**

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

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

**Answer: c**

3. 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**

4. Primary packing cost is a part of:

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

**Answer: b**

5. Director's remuneration and expenses form part of:

- (a) Production overhead
- (b) Administration overhead





- (c) Selling overhead
- (d) Distribution overhead

**Answer: b**

6. Which of the following is not the classification of overhead based on its functionality?

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

**Answer: c**

7. Bad debt is an example of:

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

**Answer: c**

8. 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**

9. 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**





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

- (a) Worker's Holiday Pay
- (b) Perquisites to worker
- (c) ESI contribution
- (d) Managerial Salaries

**Answer: d**

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## CH. 5 Activity Based Costing

- 1) 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: 4**

- 2) ABC analysis is technique in which: an inventory control
- 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: 3**

**Description:**

**Self Explanatory**

- 3) In activity based costing, costs are accumulated by activity using:
- a) Cost drivers
  - b) Cost objects
  - c) Cost pools
  - d) Cost benefit analysis

**Answer: 3**

**Description: Self Explanatory**





- 4) 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: 4**

- 5) 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: 4**

- 6) 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: 4**

**Description: Self Explanatory**

- 7) 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: 2**





- 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: 1**

**Description:**

**Self Explanatory**

- 9) 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 : 4**

10) 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 : 3**

**Description: Self Explanatory**





- 11) 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: 1**

**Description: Self Explanatory**

  
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ICAI MODULE QUESTIONS

1. 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**

2. 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**

3. 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**

4. 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**





5. 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**

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**

7. 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**





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: a**

9. 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**

10. 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**





## CH. 6 Cost Sheet

- 1) Salary paid to factory store staff is part of:
- Factory overheads
  - Production Cost
  - Direct Employee cost
  - Direct Material Cost.

**Answer: 1**

- 2) Audit fees paid to auditors is part of:
- Administration Cost
  - Production cost
  - Selling & Distribution cost
  - Not shown in cost sheet.

**Answer: 1**

- 3) Canteen expenses for factory workers are part of:
- Factory overhead
  - Administration Cost
  - Marketing cost
  - None of the above

**Answer: 1**

- 4) A Ltd. received an order, purchased a special manufacturing, it is a part of:  
for which it frame for
- Direct Materials
  - Direct expenses
  - Factory Overheads
  - Administration Overheads

**Answer : 2**





- 5) Salary paid to plant supervisor is a part of
- a) Direct expenses
  - b) Factory overheads
  - c) Quality control cost
  - d) Administration cost

**Answer: 2**

- 6) Generally, for the purpose of cost sheet preparation, costs are classified on the basis of:
- a) Functions
  - b) Variability
  - c) Relevance
  - d) Nature

**Answer: 1**

- 7) A manufacture has set-up a lab for testing of products for compliance with standards, salary of this lab staffs are part of:
- a) Works overheads
  - b) Quality Control Cost
  - c) Direct Expenses
  - d) Research & Development Cost

**Answer: 2**

**Description: Self Explanatory**

- 8) Which of the following is not indirect costs?
- a) Research and development cost, Primary packing cost, Admin overheard related to production
  - b) Cost of making a design, pattern for a specific job
  - c) Factory supervisor salary, Depreciation on Plant and Machinery
  - d) Stores and spares consumed, repairs and maintenance of plant and machinery

**Answer: 2**





- 9) Cost of production + Opening stock of finished goods - closing stock of finished goods equals to:
- a) Prime cost
  - b) Cost of goods sold
  - c) Sales
  - d) Cost of sales

**Answer: 2**

**Description:**

**Self Explanatory**

- 10) Postage and telegram is an example of:
- a) A. Prime Cost
  - b) B. Production Overheads
  - c) C. Selling and Distribution Overheads
  - d) D. Office and Administration Overheads

**Answer : 4**

**Description:**

**Self Explanatory**

- 11) Depreciation of director's laptop is treated as a part of:
- a) Administration Overheads
  - b) Factory Overheads
  - c) Direct Expenses
  - d) Research & Development cost.

**Answer: 1**

**Description: Self Explanatory**





12) Which of the following does not form part of prime cost:

- a) Cost of packing
- b) Cost of transportation paid to bring materials to factory
- c) GST paid on raw materials (input credit cannot be claimed)
- d) Overtime premium paid to workers.

**Answer: 1**

**Description: Self Explanatory**

13) The following details are given to you:

Raw materials consumed 2,40,000

Factory overheads

3/4 of direct wages

Quality control cost and research and development cost cost 20% of factory

Cost of production 7,50,000

The amount of direct wages will be:

- a) 2,50,000
- b) 2,20,000
- c) 2,00,000
- d) 3,00,000

**Answer: 2**

**Description: Hint: Let the wages be  $x$ . Therefore: Material 240000 Wages  $x$  Factory overheads  $0.75x$  Quality control cost and 20%  $(240000 + 1.75x)$  research and development cost Cost of Production 750000**  
 $240000 + x + 0.75x + 0.2(240000 + 1.75x) = 750000$   
 $240000 + 2.1x = 750000$   
 $x = 220000$





14) Material consumed is 8,00,000, Opening stock of raw material is 2,00,000 and Closing stock of raw material is 175,000. What is the cost of raw material purchased?

- a) 11,75,000
- b) 7,75,000
- c) 8,25,000
- d) 4,25,000

**Answer: 2**

**Description:**

**Raw material consumed = opening stock + Purchase - Closing stock**

15) A company pays royalty to State Government on the basis of production, it is treated as:

- a) Direct Material Cost
- b) Factory Overheads
- c) Direct Expenses
- d) Administration cost.

**Answer: 3**

**Description: Self Explanatory**

16) The production cost incurred for one unit of finished goods was 80. Direct materials were 1/4 of the total cost, and direct labour was 45% of the combined total of direct labour and factory overhead. The cost for direct materials, direct labour and factory overhead will be:

- a) 20, 27 and 33 respectively
- b) 20, 33 and 27 respectively
- c) 20, 36 and 24 respectively
- d) 20, 24 and 36 respectively

**Answer: 1**

**Description: Material cost =  $80/4 = 20$  Labour =  $60 \times 45\% = 27$**







**ICAI MODULE QUESTIONS**

1. Generally, for the purpose of cost sheet preparation, costs are classified on the basis of:

- (a) Functions
- (b) Variability
- (c) Relevance
- (d) Nature

**Answer: a**

2. Which of the following does not form part of prime cost:

- (a) Cost of packing
- (b) Cost of transportation paid to bring materials to factory
- (c) GST paid on raw materials (input credit cannot be claimed)
- (d) Overtime premium paid to workers.

**Answer: a**

3. A Ltd. received an order, for which it purchased a special frame for manufacturing, it is a part of:

- (a) Direct Materials
- (b) Direct expenses
- (c) Factory Overheads
- (d) Administration Overheads

**Answer: b**

4. Salary paid to plant supervisor is a part of

- (a) Direct expenses
- (b) Factory overheads
- (c) Quality control cost
- (d) Administration cost

**Answer: b**

5. Depreciation of director's laptop is treated as a part of:

- (a) Administration Overheads
- (b) Factory Overheads
- (c) Direct Expenses
- (d) Research & Development cost.

**Answer: a**





6. A manufacture has set-up a lab for testing of products for compliance with standards, salary of this lab staffs are part of:

- (a) Works overheads
- (b) Quality Control Cost
- (c) Direct Expenses
- (d) Research & Development Cost.

**Answer: b**

7. Audit fees paid to auditors is part of:

- (a) Administration Cost
- (b) Production cost
- (c) Selling & Distribution cost
- (d) Not shown in cost sheet.

**Answer: a**

8. Salary paid to factory store staff is part of:

- (a) Factory overheads
- (b) Production Cost
- (c) Direct Employee cost
- (d) Direct Material Cost.

**Answer: a**

9. Canteen expenses for factory workers are part of:

- (a) Factory overhead
- (b) Administration Cost
- (c) Marketing cost
- (d) None of the above.

**Answer: a**

10. A company pays royalty to State Government on the basis of production, it is treated as:

- (a) Direct Material Cost
- (b) Factory Overheads
- (c) Direct Expenses
- (d) Administration cost.

**Answer: c**





## CH. 7 Cost Accounting Systems

- 1) Which of the following items should be added to costing profit to arrive at financial profit?
- a) Over-absorption of works overhead
  - b) Interest paid on debentures
  - c) Income tax paid
  - d) All of the above

**Answer: 1**

- 2) Under Non-integrated system of accounting, purchase of raw material is debited to which account
- a) Material control account / Stores ledger control account
  - b) General ledger adjustment account
  - c) Purchase account
  - d) None of the above

**Answer : 1**

- 3) Which of the following items is included in cost accounts?
- a) Notional rent
  - b) Donations
  - c) Transfer to general reserve
  - d) Rent receivable

**Answer: 1**

- 4) Under Non-integrated accounting system, the account made to complete double entry is
- a) Stores ledger control account
  - b) Work in progress control account
  - c) Finished goods control account
  - d) General ledger adjustment account

**Answer: 4**





- 5) Integrated systems of accounts maintained are
- a) In separate books of accounts for costing and financial accounting purposes
  - b) In same books of accounts
  - c) Both (a) & (b)
  - d) None of the above

**Answer: 2**

- 6) Which account is to be debited if materials worth 500 are returned to vendor under Non- integrated accounts
- a) Cost ledger control account
  - b) Finished goods control account
  - c) WIP control account
  - d) None of the above

**Answer: 1**

- 7) Under the Non-integrated accounting system
- a) Same ledger is maintained for cost and financial accounts by accountants
  - b) Separate ledgers are maintained for cost and financial accounts
  - c) (a) and (b) both
  - d) None of the above

**Answer: 2**

- 8) Notional costs
- a) May be included in Integrated accounts
  - b) May be included in Non- integrated accounts
  - c) Cannot be included in Non- integrated accounts
  - d) None of the above

**Answer: 2**





- 9) Under Non-integrated accounts, if materials worth 1,500 are purchased for a special job, then which account will be debited:
- a) Special job account / Work in Process account
  - b) Material Control account
  - c) Cost Control account
  - d) None of the above

**Answer: 1**

- 10) When costing loss is 5,600, administrative overhead under-absorbed being 600, the loss as per financial accounts should be
- a) 5,600
  - b) 6,200
  - c) 5,000
  - d) None of the above

**Answer: 2**

- 11) Under Non-integrated accounts, if materials worth Rs. 1,500 are purchased for a special job, then which account will be debited:
- a) Special job account / Work in Process account
  - b) Material Control account
  - c) Cost Control account
  - d) None of the above

**Answer: 1**

**Description:**

**Self Explanatory**





**ICAI MODULE QUESTIONS**

1. Under the Non-integrated accounting system

- (a) Same ledger is maintained for cost and financial accounts by accountants
- (b) Separate ledgers are maintained for cost and financial accounts
- (c) (a) and (b) both
- (d) None of the above

**Answer: b**

2. Notional costs

- (a) May be included in Integrated accounts
- (b) May be included in Non- integrated accounts
- (c) Cannot be included in Non-integrated accounts
- (d) None of the above

**Answer: b**

3. Under Non-integrated accounting system, the account made to complete double entry is

- (a) Stores ledger control account
- (b) Work in progress control account
- (c) Finished goods control account
- (d) General ledger adjustment account

**Answer: d**

4. Integrated systems of accounts are maintained

- (a) In separate books of accounts for costing and financial accounting purposes
- (b) In same books of accounts
- (c) Both (a) & (b)
- (d) None of the above

**Answer: b**





5. Under Non-integrated system of accounting, purchase of raw material is debited to which account

- (a) Material control account / Stores ledger control account
- (b) General ledger adjustment account
- (c) Purchase account
- (d) None of the above

**Answer: a**

6. Under Non-integrated accounts, if materials worth ` 1,500 are purchased for a special job, then which account will be debited:

- (a) Special job account / Work in Process account
- (b) Material Control account
- (c) Cost Control account
- (d) None of the above

**Answer: a**

7. Which account is to be debited if materials worth ` 500 are returned to vendor under Non-integrated accounts:

- (a) Cost ledger control account
- (b) Finished goods control account
- (c) WIP control account
- (d) None of the above

**Answer: a**

8. Which of the following items is included in cost accounts?

- (a) Notional rent
- (b) Donations
- (c) Transfer to general reserve
- (d) Rent receivable

**Answer: a**

9. When costing loss is ` 5,600, administrative overhead under-absorbed being ` 600, the loss as per financial accounts should be (a) ` 5,600

- (b) ` 6,200
- (c) ` 5,000
- (d) None of the above

**Answer: b**





10. Which of the following items should be added to costing profit to arrive at financial profit?

- (a) Over-absorption of works overhead
- (b) Interest paid on debentures
- (c) Income tax paid
- (d) All of the above

**Answer: a**



*Sankalp Kanstiya*







## CH. 8 Unit & Batch Costing

- 1) In order to determine cost of the product or service, following are used:
- Techniques of costing like Marginal, Standard etc.
  - Methods of Costing
  - Comparatives
  - All of the above

**Answer: 2**

- 2) Job Costing is:
- Applicable to all industries regardless of the products or services provided
  - Technique of costing
  - Suitable where similar products are produced on mass scale
  - Method of costing used for non- standard and non- repetitive products

**Answer: 4**

- 3) In product produced case or jobs undertaken are of diverse nature, the system of costing to be used should be:
- Process costing
  - Operating costing
  - Job costing
  - None of the above

**Answer: 3**

- 4) Unit Costing is applicable where:
- Product produced are unique and no 2 products are same
  - Dissimilar articles are produced as per customer specification
  - homogeneous articles are produced on large scale
  - Products made require different raw materials

**Answer: 3**





- 5) Different businesses in order to determine cost of their product or service offering follow:
- a) Different methods of Costing
  - b) Uniform Costing
  - c) Different techniques of costing
  - d) None of the above

**Answer: 1**

- 6) Batch costing is a type of:
- a) Process costing
  - b) Job Costing
  - c) Differential costing
  - d) Direct costing

**Answer: 2**

**Description: Self Explanatory**

- 7) The production planning department prepares a list of materials and stores required for the completion of a specific job order, this list is known as:
- a) Bin card
  - b) Bill of material
  - c) Material requisition slip
  - d) None of the above

**Answer : 2**

**Description: Self Explanatory**

- 8) Batch costing is similar to that under job costing except with the difference that a:
- a) Job becomes a cost unit.
  - b) Batch becomes the cost unit instead of a job
  - c) Process becomes a cost unit

**Answer: 2**

**Description: Self Explanatory**





9) Economic batch quantity is that size of the batch of production where:

- a) Average cost is minimum
- b) Set-up cost of machine is minimum
- c) Carrying cost is minimum
- d) Both (b) and (c)

**Answer: 4**

**Description: Self Explanatory**

10) 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: 4**

**Description: Self Explanatory**

*Sankalp Kanstiya*





### Case scenarios

Arnav Ltd. operates in beverages industry where it manufactures soft-drink in three sizes of Large (3 litres). Medium (1.5 litres) and Small (600ml) bottles. The products are processed in batches. The 5,000 litres capacity processing plant consumes electricity of 90 Kilowatts per hour and a batch takes 1 hour 45 minutes to complete. Only symmetric size of products can be processed at a time. The machine set-up takes 15 minutes to get ready for next batch processing. During the set-up power consumption is only 20%.

- (i) The current price of Large, Medium and Small are 150, 90 and 50 respectively.
- (ii) To produce a litre of beverage, 14 litres of raw material-W and 25 ml of Material-C are required which costs 0.50 and 1,000 per litre respectively.
- (iii) 20 direct workers are required. The workers are paid 880 for 8 hours shift of work.
- (iv) The average packing cost per bottle is '3
- (v) Power cost is 7 per Kilowatt-hour (Kwh)
- (vi) Other variable cost is 30,000 per batch.
- (vii) Fixed cost (Administration and marketing) is 4,90,00,000.
- (viii) The holding cost is '1 per bottle per annum.

The marketing team has surveyed the following demand (bottle) of the product:

Large

Medium

Small

3,00,000

7,50,000

7,50,000

The following information has been sought from you for the purpose of performance review meeting:





1) Profit/loss per batch:

- a) 7,72,17,370
- b) 5,52,54,550
- c) 2,82,17,370
- d) 4,50,25,225

**Answer : 3**

**Description:**

**1. No. of Man-shift required:**

		Large	Medium	Small	Total
A	No. of batches	180	225	240	645
B	Hours required per batch (Hours)	2	2	2	2
C	Total hours required (Hours) [AxB]	360	450	480	1,290
D	No. of shifts required [C÷8]	45	57	60	162
E	<b>Total manshift [Dx20 workers]</b>	<b>900</b>	<b>1,140</b>	<b>1,200</b>	<b>3,240</b>

**2. Power Consumption in Kwh**

		Large	Medium	Small	Total
<b>For processing</b>					
A	No. of batches	180	225	240	645
B	Hours required per batch (Hours)	1.75	1.75	1.75	1.75
C	Total hours required (Hours) [AxB]	315	393.75	420	1,128.75
D	Power consumption per hour	90	90	90	90
E	<b>Power consumption in Kwh [Cx D]</b>	<b>28,350</b>	<b>35,437.5</b>	<b>37,800</b>	<b>1,01,587.5</b>
F	<b>Per batch consumption (Kwh) [E÷A]</b>	<b>157.5</b>	<b>157.5</b>	<b>157.5</b>	<b>157.5</b>
<b>For set up</b>					
G	Hours required per batch (Hours)	0.25	0.25	0.25	0.25
H	Total hours required (Hours) [AxG]	45	56.25	60	161.25





I	Power consumption per hour[20%×90]	18	18	18	18
J	Power consumption in Kwh [h×I]	810	1,012.5	1,080	2,902.5
K	Per batch consumption (Kwh) [J÷A]	4.5	4.5	4.5	4.5

Calculation of Profit/loss per batch:

	Particulars	Large	Medium	Small	Total
A	Demand (bottle)	3,00,000	7,50,000	20,00,000	30,50,000
B	Price per bottle (₹)	150	90	50	
C	Sales value (₹) [A×B]	4,50,00,000	6,75,00,000	10,00,00,000	21,25,00,000
<b>Direct Material cost:</b>					
E	Material-W (₹) [Qty in WN-3 × 0.50]	63,00,000	78,75,000	84,00,000	2,25,75,000
F	Material-C (₹) [Qty in WN-3 × 1,000]	2,25,00,000	2,81,25,000	3,00,00,000	8,06,25,000
G	[E+F]	2,88,00,000	3,60,00,000	3,84,00,000	10,32,00,000
H	Direct Wages (₹) [Man-shift in WN-4 × 880]	7,92,000	10,03,200	10,56,000	28,51,200
I	Packing cost (₹) [A×3]	9,00,000	22,50,000	60,00,000	91,50,000
<b>Power cost (₹)</b>					
J	For processing (₹) [WN-5 × 7]	1,98,450	2,48,062.5	2,64,600	7,11,112.5
K	For set-up time (₹) [WN-5 × 7]	5,670	7,087.5	7,560	20,317.5
L	[J+K]	2,04,120	2,55,150	2,72,160	7,31,430
M	Other variable cost (₹) [No. of batch in WN-2 × 30,000]	54,00,000	67,50,000	72,00,000	1,93,50,000
N	<b>Total Variable cost per batch</b> [G+H+I+L+M]	3,60,96,120	4,62,58,350	5,29,28,160	13,52,82,630
O	<b>Profit/ loss before fixed cost</b> [C-N]	89,03,880	2,12,41,650	4,70,71,840	7,72,17,370
P	Fixed Cost				4,90,00,000

2) Number of large size bottles that can be processed in a batch?





- a) 5,000 bottles
- b) 1,666 bottles
- c) 3,333 bottles
- d) 8,333 bottles

**Answer : 2**

Description:

Maximum number of bottles that can be processed in a batch:

$$\frac{5,000 \text{ Itrs}}{\text{Bottle Volume}}$$
$$= 5000/3 = 1,666 \text{ bottles}$$

- 3) What is the Economic Batch Quantity (EBQ) small bottles?
- a) 1,34,234 bottles
  - b) 2,12,243 bottles
  - c) 3,46,592 bottles
  - d) 4,12,268 bottles

Answer: 3

Description:

Computation of Economic Batch Quantity (EBQ):

$$EBQ = \sqrt{2 \times D \times S / C}$$

$$EBQ = \sqrt{\frac{2 \times D \times S}{C}}$$

D = Annual Demand for the Product = Refer A below

S = Set-up cost per batch = Refer D below

C = Carrying cost per unit per annum =Refer E below





	Particulars	Large	Medium	Small
A	Annual Demand (bottle)	3,00,000	7,50,000	20,00,000
<b>Set-up Cost:</b>				
B	Power cost for set-up time (₹) [Consumption per batch in WN-5 × ₹7]	31.50	31.50	31.50
C	Other variable cost (₹) *	30,000	30,000	30,000
D	Total Set-up cost [B+C]	30,031.50	30,031.50	30,031.50
E	Holding cost:	1.00	1.00	1.00
F	<b>EBQ (Bottle)</b>	<b>1,34,234</b>	<b>2,12,243</b>	<b>3,46,592</b>

- 4) Total number of batches to be run to process medium size bottles
- 180
  - 225
  - 240
  - 645

**Answer: 2**

**Description :**

1. Number of batches to be run:

		Large	Medium	Small	Total
A	Demand	3,00,000	7,50,000	20,00,000	
B	Bottles per batch (Refer WN-1)	1,666	3,333	8,333	
C	No. of batches [A÷B]	180	225	240	645

For simplicity of calculation small fractions has been ignored.







5) Material -W required for small size bottles

- a) 1,26,00,000 ltrs
- b) 1,68,00,000 ltrs
- c) 1,57,50,000 ltrs
- d) 1,51,50,000 ltrs

**Answer : 2**

**Description:**

**Quantity of Material-W and Material C required to meet demand:**

	Particulars	Large	Medium	Small	Total
A	Demand (bottle)	3,00,000	7,50,000	20,00,000	
B	Qty per bottle (Litre)	3	1.5	0.6	
C	Output (Litre) [AxB]	9,00,000	11,25,000	12,00,000	32,25,000
D	Material-W per litre of output (Litre)	14	14	14	
E	Material-W required (Litre) [CxD]	1,26,00,000	1,57,50,000	1,68,00,000	4,51,50,000
F	Material-C required per litre of output (ml)	25	25	25	

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**ICAI MODULE QUESTIONS**

1. Different businesses in order to determine cost of their product or service offering follow:

- (a) Different methods of Costing
- (b) Uniform Costing
- (c) Different techniques of costing
- (d) None of the above

**Answer: a**

2. In order to determine cost of the product or service, following are used:

- (a) Techniques of costing like Marginal, Standard etc.
- (b) Methods of Costing
- (c) Comparatives
- (d) All of the above

**Answer: b**

3. Unit Costing is applicable where:

- (a) Product produced are unique and no 2 products are same
- (b) Dissimilar articles are produced as per customer specification
- (c) homogeneous articles are produced on large scale
- (d) Products made require different raw materials

**Answer: c**

4. In case product produced or jobs undertaken are of diverse nature, the system of costing to be used should be:

- (a) Process costing
- (b) Operating costing
- (c) Job costing
- (d) None of the above

**Answer: c**





5. Job Costing is:

- (a) Applicable to all industries regardless of the products or services provided
- (b) Technique of costing
- (c) Suitable where similar products are produced on mass scale
- (d) Method of costing used for non- standard and non- repetitive products.

**Answer: d**

6. The production planning department prepares a list of materials and stores required for the completion of a specific job order, this list is known as:

- (a) Bin card
- (b) Bill of material
- (c) Material requisition slip
- (d) None of the above

**Answer: b**

7. Batch costing is a type of:

- (a) Process costing
- (b) Job Costing
- (c) Differential costing
- (d) Direct costing

**Answer: b**

8. Batch costing is similar to that under job costing except with the difference that a:

- (a) Job becomes a cost unit.
- (b) Batch becomes the cost unit instead of a job
- (c) Process becomes a cost unit
- (d) None of the above

**Answer: b**

9. 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: d**





10. Economic batch quantity is that size of the batch of production where:

- (a) Average cost is minimum
- (b) Set-up cost of machine is minimum
- (c) Carrying cost is minimum
- (d) Both (b) and (c)

**Answer: d**



*Sankalp Kanstiya*





## CH. 9 Job Costing

- 1) Which of the following statements is true:
- a) Job cost sheet may be used for estimating profit of jobs.
  - b) Job costing cannot be used in conjunction with marginal costing
  - c) A production order is an order received from a customer for particular jobs.
  - d) None of these.

**Answer: 1**

- 2) In job costing which of the following documents are used to record the issue of direct material to a job':
- a) Goods received note
  - b) Material requisition
  - c) Purchase order
  - d) Purchase requisition

**Answer: 2**

- 3) Job costing is similar to that under Batch costing except with the difference that a:
- a) Job becomes a cost unit
  - b) Batch becomes the cost unit instead of a job
  - c) Process becomes a cost unit
  - d) None of the above.

**Answer: 1**

- 4) Which of the following statements is true:
- a) Job cost sheet may be prepared for facilitating routing and scheduling of the job
  - b) Job costing can be suitably used for concerns producing uniformly any specific product
  - c) Job costing cannot be used in companies using standard costing
  - d) Neither (a) nor (b) nor (c)

**Answer: 4**





- 5) The most suitable cost system where the products differ in type of materials and work performed is :
- a) Job Costing
  - b) Process Costing
  - c) Operating Costing
  - d) None of these

**Answer: 1**

- 6) 1. Which of the following statements is/are correct?
- 1. A materials requisition note is used to record the issue of direct material to a specific job.
  - 2. A typical job cost will contain actual costs for material, labour and production overheads, and non production overheads are often added as a percentage of total production cost
  - 3. The job costing method can be applied in costing batches
- a) (1) only
  - b) (1) and (2) only
  - c) (1) and (3) only
  - d) (2) and (3) only

**Answer: 3**

**Description:**

**Self Explanatory**

- 7) Non-production overheads might be added to the cost of the job:
- a) As a percentage of the prime cost of the job
  - b) As a percentage of the production cost of the job
  - c) Either A or B
  - d) None

**Answer : 3**

**Description:**

**Self Explanatory**





- 8) 1. Which of the following statements is/are correct?
1. A materials requisition note is used to record the issue of direct material to a specific job.
  2. A typical job cost will contain actual costs for material, labour and production overheads, and non production overheads are often added as a percentage of total production cost
  3. The job costing method can be applied in costing batches
- a) (1) only
  - b) (1) and (2) only
  - c) (1) and (3) only
  - d) (2) and (3) only

**Answer : 3**

**Description:**

**Self Explanatory**

- 9) In case product produced or jobs undertaken are of diverse nature, the system of costing to be used should be:
- a) Process costing
  - b) Operating costing
  - c) Job costing
  - d) None of the above

**Answer: 3**

**Description: Self Explanatory**

- 10) The production planning department prepares a list of materials and stores required for the completion of a specific job order, this list is known as:
- a) Bin card
  - b) Bill of material
  - c) Material requisition slip
  - d) None of the above

**Answer: 2**

**Description: Self Explanatory**





**ICAI MODULE QUESTIONS**

1. In case product produced or jobs undertaken are of diverse nature, the system of costing to be used should be:

- (a) Process costing
- (b) Operating costing
- (c) Job costing
- (d) None of the above

**Answer: c**

2. The production planning department prepares a list of materials and stores required for the completion of a specific job order, this list is known as:

- (a) Bin card
- (b) Bill of material
- (c) Material requisition slip
- (d) None of the above

**Answer: b**

3. Job costing is similar to that under Batch costing except with the difference that a:

- (a) Job becomes a cost unit.
- (b) Batch becomes the cost unit instead of a job
- (c) Process becomes a cost unit
- (d) None of the above.

**Answer: a**

4. In job costing which of the following documents are used to record the issue of direct material to a job':

- (a) Goods received note
- (b) Material requisition
- (c) Purchase order
- (d) Purchase requisition

**Answer: b**







5. The most suitable cost system where the products differ in type of materials and work performed is :

- (a) Job Costing
- (b) Process Costing
- (c) Operating Costing
- (d) None of these.

**Answer: a**

6. Which of the following statements is true:

- (a) Job cost sheet may be used for estimating profit of jobs.
- (b) Job costing cannot be used in conjunction with marginal costing.
- (c) A production order is an order received from a customer for particular jobs.
- (d) None of these.

**Answer: a**

7. Which of the following statements is true:

- (a) Job cost sheet may be prepared for facilitating routing and scheduling of the job
- (b) Job costing can be suitably used for concerns producing uniformly any specific product
- (c) Job costing cannot be used in companies using standard costing
- (d) Neither (a) nor (b) nor (c)

**Answer: d**

*Sankalp Kanstiya*





## CH. 10 Process & Operation Costing

1) In electricity supply company uses unit. ...as cost

- a) Kilo watt hour
- b) per household
- c) voltage
- d) none of these

**Answer: 1**

**Description: Self Explanatory**

2) In process costing, each producing department is a

- a) Cost centre
- b) Cost unit
- c) Investment centre
- d) Revenue centre

**Answer: 1**

**Description: Self Explanatory**

3) The following information is given to you: Input of raw material is 30,000 units, output 28,750 units. If the normal loss is 5% of input, then:

- a) Normal loss of 1550 units
- b) Abnormal loss of 250 units
- c) Abnormal gain of 250 units
- d) Either abnormal loss of 250 units or abnormal gain of 250 units

**Answer: 3**

**Description: Input 30000 Normal loss @ 5% (1500) Expected Output 28500 Actual output 28750 Therefore abnormal gain is 250 units**

4) In a process 20,000 units are introduced during a period. 5% of input is normal loss. Closing work-in- process 40% complete is 2000 units. 16,500 completed units are transferred to next process. Unit scrapped are 60% complete. Equivalent production for the period is

- a) 20,000 units
- b) 17,300 units
- c) 18,200 units
- d) 17,600 units

**Answer: 4**





Description: Equivalent Units: Units transferred:  $16500 \times 100\% = 16500$   
Abnormal loss:  $500 \times 60\% = 300$   
Closing WIP:  $2000 \times 40\% = 800$   
Total Equivalent units 17600

5) Boiler house costing is an example of.....costing

- a) Contract
- b) Process
- c) Service
- d) All of above

**Answer: 3**

**Description: Self Explanatory**

6) What will be the impact of normal loss on the overall per unit cost?

- a) Per unit cost will decrease
- b) Per unit cost remain unchanged
- c) Per unit cost will increase
- d) Normal loss has no relation to unit cost

**Answer : 3**

**Description: Self Explanatory**

7) In process, conversion cost means:

- a) Cost of direct materials, direct labour, direct expenses
- b) Direct labour, direct expenses, indirect material, indirect labour, indirect expenses
- c) Prime cost plus factory overheads
- d) All costs up to the product reaching the consumer, less direct material costs

**Answer: 2**

8) In electricity supply company uses as cost unit.

- a) Kilo watt hour
- b) per household
- c) voltage
- d) none of these

**Answer: 1**

**Description:**

**Self Explanatory**





9) Process cost is very much applicable in

- a) Construction Industry
- b) Telecommunication Industry
- c) Pharmaceutical Industry
- d) None of above

**Answer: 3**

**Description: Self Explanatory**

10) The hospital is opened for 365 days and consist of 40 beds and 10 more beds can be hired if required. It was estimated that for 165 days in a year 30 beds were occupied; for 120 days 38 beds were occupied. The hospital hired extra 800 beds @ 200 per bed. Calculate the number of patient beds.

- a) 9,510
- b) 10,310
- c) 10,130
- d) 13,510

**Answer: 4**

**Description: Calculation of patient beds:  $165 \text{ days} \times 30 \text{ beds} + 120 \text{ days} \times 38 \text{ beds} + 80 \text{ days} \times 40 \text{ beds} + 800 \text{ extra beds} = 13510 \text{ patient beds}$**

11) In a particular process 28000 units are introduced during a period. 5% of input is normal loss. Closing work in progress 60% complete is 2600 units. 24000 completed units are transferred to next process. Equivalent production for the period is:

- a) 25040 units
- b) 28000 units
- c) 25560 units
- d) 24000 units

**Answer : 3**

12) In a process 10000 units are introduced during 2022- 23. 10% of input is normal loss. Closing work-in- progress 80% complete is 1800 units. 7000 completed units are transferred to next process. Equivalent no of units for closing WIP will be:

- a) 1440 units
- b) 360 units
- c) 8440 units





d) 7000 units

**Answer: 1**

**Description: Equivalent units for closing WIP:  $1800 \times 80\% = 1440$**

13) In XYZ Ltd. 12,000 units of raw material were introduced in Process-A. The actual output and normal loss of respective processes are as follows:  
Process Output Normal loss A 10500 10% B 8800 15% C 7200 20%  
Abnormal Gain in Process C will be

a) 140 Units

b) 150 Units

c) 160 Units

d) 155 Units.

**Answer: 3**

**Description: Input of Process C 8800 units Normal loss @20% 1760 units Expected output 7040 units Actual output 7200 units Abnormal Gain 160 units**

14) In a process 30000 units are introduced during a period. 5% of input is normal loss. Closing work-in-process 60% complete is 3000 units. 26500 completed units are transferred to next process. Unit scrapped are 60% complete. Equivalent production for the period is

a) 30000 units

b) 28900 units

c) 29200 units

d) 27300 units

**Answer: 4**

**Description: Equivalent Units: Units transferred:  $26500 \times 100\% = 26500$  Abnormal Gain:  $1000 \times 100\% = (1000)$  Closing WIP:  $3000 \times 60\% = 1800$  Total Equivalent units 27300**

15) The following information is given: Input of raw material 35,000 units, Process cost 278000, Actual output transferred to next process 30,200 units, Normal Loss 10% of inputs, Sale of scrap 3 per unit. Calculate the amount to be transferred to costing profit and loss account:

a) 7,139.68 Cr side

b) 7,139.68 Dr side

c) 11,039.68 Dr side

d) 11,039.68 Cr side





**Answer: 2**

**Description:**  $278000 - 10500 / 35000 - 3500 = 8.492$  Therefore: Value of abnormal loss  $(1300 \times 8.492)$  11039.68 Scrap sold  $(1300 \times 3)$  (3900) Transferred to costing P&L 7139.68

16) ABC Ltd manufactures chemical 'X' that passes through three different process before being converted into final product. The output of each process is transferred to next process and there is no opening and closing stock of WIP. Process loss is 10% of total inputs in each process. Following are the details of abnormal loss in each process.

Process I: 3000 units

Process II: 2300 units

Process III: 2400 units

Final output of process III is 80580 units. Inputs introduced in Process III will be:

- a) 100000 units
- b) 110000 units
- c) 120000 units
- d) 115860 units

**Answer: 3**

**Description:** Final output process III 80580

Input of process III  $(80580 + 2400 / 90\%)$  92200

Input of process II  $(92200 + 2300 / 90\%)$  105000 Input of process I  $(105000 + 3000 / 90\%)$  120000

17) The following information is available in respect of Process I: Raw material purchased and introduced 10,000 units @ 5 per unit Raw Material received from store 4000 units @ 6 per unit Direct Labour 40,000 Overheads 28,000 Output of Process is 13,500 units, Normal wastage 5% of inputs Scrap value of wastage 4 per unit The value of Abnormal Gain is:

- a) 2062.68
- b) 2135.34
- c) 2103.70
- d) 2093.2

**Answer: 4**

**Description:** Process a/c Particulars Units Amount Particulars units Amount Raw material 10000 50000 Normal loss 700 2800 Stores 4000





24000 Units transferred 13500 141293.2 Direct Wages 40000  
Production overheads 28000 Abnormal gain 200 2093.2 144093.2  
144093.2 Cost per unit=  $142000 - 2800 / 14000 - 700 = 10.466$  per unit

18) The following information is given: Input of raw material 20,000 units @ 8 per unit Direct Wages 1,20,000 Production Overhead 75,500 Actual output transferred to next process 19,250 units Normal Loss 5% of inputs, Sale of scrap 8 per unit. Calculate the amount to be transferred to costing profit and loss account:

- a) 4,572.25 Cr side
- b) 4,572.25 Dr side
- c) 2,572.25 Dr side
- d) 2,572.25 Cr side

**Answer: 4**

19) ABC Ltd manufactures chemical 'Y' that passes through three different process before being converted into final product. The output of each process is transferred to next process and there is no opening and closing stock of WIP. Process loss is 5% of total inputs in each process. Following are the details of abnormal loss/gain in each process.

Process I: 50 units Abnormal gain

Process II: 135 units Abnormal loss

Process III: 125 units Abnormal loss

Final output of process III is 29800 units. Inputs introduced in Process III will be:

- a) 35500 units
- b) 34818 units
- c) 34515 units
- d) 35000 units

**Answer: 4**

**Description:** Final output process III 29800 Input of process III  $(29800 + 125/95\%)$  31500 Input of process II  $(31500 + 135/95\%)$  33300

Input of process I  $(33300 - 50/95\%)$  35000





**ICAI MODULE QUESTIONS**

1. The type of process loss that should not be allowed to affect the cost of good units is:

- (a) Abnormal loss
- (b) Normal loss
- (c) Seasonal loss
- (d) Standard loss

**Answer: a**

2. 200 units were introduced in a process in which 20 units is the normal loss. If the actual output is 150 units, then there is:

- (a) No abnormal loss
- (b) No abnormal gain
- (c) Abnormal loss of 30 units
- (d) Abnormal gain of 30 units

**Answer: c**

3. 100 units are processed at a total cost of ` 160, normal loss is 10%, & scrap units are sold @ ` 0.25 each. If the output is 80 units, then the value of abnormal loss is:

- (a) ` 2.50
- (b) ` 16
- (c) ` 17.50
- (d) ` 17.75

**Answer: c**

4. When average method is used in process costing, the opening inventory costs are:

- (a) Subtracted from the new costs
- (b) Added to the new costs
- (c) Kept separate from the costs of the new period
- (d) Averaged with other costs to arrive at total cost

**Answer: b**







5. Spoilage that occurs under inefficient operating conditions and is ordinarily controllable is called:

- (a) Normal spoilage
- (b) Abnormal spoilage
- (c) Normal defectives
- (d) None of the above

**Answer: b**

6. The cost of normal process loss is -

- (a) Absorbed by good units produced and amount realised by the sale of loss units should be debited to the process account.
- (b) Debited to costing profit and loss account.
- (c) Absorbed by good units produced.
- (d) Debited to costing profit and loss account and amount realised by the sale of loss units should be credited to the process account.

**Answer: c**

7. 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.

**Answer: d**

8. Inter-process profit is calculated, because:

- (a) a process is a cost centres
- (b) each process has to report profit
- (c) the efficiency of the process is measured
- (d) the wages of employees are linked to the process profitability.

**Answer: c**





9. Under Weighted Average (Average) Method:

- (a) The cost to complete the opening WIP is ignored.
- (b) The cost to complete the opening WIP and other completed units are calculated separately.
- (c) The cost of opening work-in-process and cost of the current period are aggregated and the aggregate cost is divided by output in terms of completed units.
- (d) Closing stock of work in process is valued at current cost.

**Answer: c**

10. A process account is debited by abnormal gain, the value is determined as:

- (a) Equal to the value of normal loss
- (b) Cost of good units less realizable value of normal loss
- (c) Cost of good units less realizable value of actual loss
- (d) Equal to the value of good units less closing stock

**Answer: b**

11. Lean Labs develops 55mm film using a four-step process that moves progressively through four departments. The company specializes in overnight service and has the largest drug store chain as its primary customer. Currently, direct labor, direct materials, and overhead are accumulated by departments. The cost accumulation system that best describes the system Lean Labs is using is:

- (a) Operation costing.
- (b) Activity-based costing.
- (c) Job-order costing.
- (d) Process costing.

**Answer: d**

12. When compared with normal spoilage, abnormal spoilage:

- (a) Arises more frequently from factors that are inherent in the manufacturing process.
- (b) Is given the same accounting treatment as normal spoilage.
- (c) Is generally thought to be more controllable by purchase department than production department.
- (d) Is not typically influenced by the "tightness" of production standards.

**Answer: d**





13. Assume 550 units were worked on during a period in which a total of 500 good units were completed. Normal spoilage consisted of 30 units; abnormal spoilage, 20 units. Total production costs were ` 2,200. The company accounts for abnormal spoilage separately on the income statement as loss due to abnormal spoilage. Normal spoilage is not accounted for separately. What is the cost of the good units produced?

- (a) ` 2,080
- (b) ` 2,115
- (c) ` 2,200
- (d) ` 2,332

**Answer: b**

14. IC Limited uses process costing systems and inspects its goods post manufacturing. An engineer noticed on May 31st the following:

Good units completed	15,000
Normal spoilage (units)	300
Abnormal spoilage (units)	100

Unit costs were: Material ` 2.50 and conversion costs (Labour & overheads) ` 6.00. The number of units that company would transfer to its finished goods stock and the related cost of these units are:

- (a) 15,000 units transferred at a cost of ` 127,500
- (b) 15,000 units transferred at a cost of ` 130,050
- (c) 15,000 units transferred at a cost of ` 135,000
- (d) 15,300 units transferred at a cost of ` 130,050

**Answer: b**





## CH. 11 Joint Products & By Products

- 1) For the purpose of allocating joint costs to joint products, the sales price at point of sale, reduced by cost to complete after split-off, is assumed to be equal to the:
- Joint costs
  - Sales price less a normal profit margin at point of sale
  - Net sales value at split off
  - Total costs.

**Answer: 3**

- 2) When a by-product does not have any realisable value, the cost of by-product is:
- Transferred to Costing Profit & Loss A/c
  - By-product cost is borne by the good units
  - By-product cost is ignored
  - By-product cost is determined taking value of similar goods

**Answer : 2**

- 3) Which of the following statement is not correct in relation to Co-products:
- Co-products may also have joint products
  - Costing for co-products are done according to process costing method
  - Co-products do not have any by- products
  - Co-products are treated as a separate cost object for costing purpose.

**Answer : 3**

- 4) A budget which is prepared in a manner so as to give the budgeted cost for any level of activity is known as:
- Master budget
  - Zero base budget
  - Functional budget
  - Flexible budget

**Answer: 4**

**Description :**

**Self Explanatory**





- 5) When a company produces two different products through a common production process, the factor that determines whether the two products are joint products or one main product and one by-product is the:
- a) Management policy about individual products
  - b) Relative sales value of individual products
  - c) Potential marketability for individual products
  - d) Amount of work done in the production of individual products

**Answer: 2**

**Description:**

**Self Explanatory**

- 6) In the Net realisable value method, for apportioning joint costs over the joint products, the basis of apportionment would be:
- a) Selling price per unit of each of the joint products
  - b) Selling price multiplied by units sold of each of the joint products
  - c) Sales value of each joint product less further processing costs of individual products
  - d) Both (b) and (c)

**Answer : 4**

**Description: Self Explanatory**

- 7) When a company produces two different products through a common production process, the factor that determines whether the two products are joint products or one main product and one by-product is the:
- a) Management policy about individual products
  - b) Relative sales value of individual products
  - c) Potential marketability for individual products
  - d) Amount of work done in the production of individual products

**Answer : 2**

**Description:**

**Self Explanatory**





- 8) Under net realizable value method of apportioning joint costs to joint products, the selling & distribution cost is:
- a) Added to joint cost
  - b) Deducted from further processing cost
  - c) Deducted from sales value
  - d) Ignored

**Right Answer: 3**

**Description: Self Explanatory**

- 9) When a company produces two different products through a common production process, the factor that determines whether the two products are joint products or one main product and one by-product is the:
- a) Management policy about individual products
  - b) Relative sales value of individual products
  - c) Potential marketability for individual products
  - d) Amount of work done in the production of individual products

**Answer : 2**

**Description:**

**Self Explanatory**

- 10) In sugar manufacturing industries 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) Common product
- b) By- product
- c) Joint product
- d) None of them

**Answer: 2**

**Description: Self Explanatory**





11) SG Ltd manufactures two products from a joint milling process. The two products developed are Mine support (MS) and Commercial building (CB). A standard production run incurs joint costs of 1,00,000 and results in 60,000 units of MS and 90,000 units of CB. Each MS sells for 200 per unit, and each CB sells for 450 per unit.

Assuming no further processing work is done after the split-off point, the amount of joint cost allocated to Commercial building (CB) on a physical quantity allocation basis would be:

- a) 60,000.
- b) 180,000.
- c) 225,000.
- d) 120,000.

**Answer: 1**

12) In case of joint products, the main objective of accounting of the cost is to apportion the joint costs incurred up to the split off point. For cost apportionment one company has chosen Physical Quantity Method. Three joint products A, B and C are produced in the same process. Up to the point of split off the total production of A, B and C is 60,000 kg, out of which A produces 30,000 kg and joint costs are Rs. 3,60,000. Joint costs allocated to product A is

- a) Rs. 1,20,000
- b) Rs. 60,000
- c) Rs. 1,80,000
- d) None of these

**Answer : 3**

**Description:** costs allocated to product A is =  
 $(60,000\text{kg}/30,000\text{kg}) * 3,60,000 = 1,80,000$

13) Method of apportioning joint costs on the basis of output of each joint product at the point of split off is:

- a) Sales value method
- b) Physical unit method
- c) Average cost method
- d) Marginal cost and contribution method

**Answer: 2**

**Description: Self Explanatory**





14) The main purpose of accounting of joint products and by-products is to:

- a) Determine the opportunity cost
- b) Determine the replacement cost
- c) Determine profit or loss on each product line
- d) None of the above

**Answer: 3**

**Description: Self Explanatory**

15) Which of the following is an example of by-product

- a) Diesel and Petrol in an oil refinery
- b) Edible oils and oil cakes
- c) Curd and butter in a dairy
- d) Mustard seeds and mustard oil.

**Answer: 2**

**Description: Self Explanatory**

16) Which of following method can be used when the joint products are of unequal quantity and used for captive consumption:

- a) Technical estimates, using market value of similar goods
- b) Net Realisable value method
- c) Physical Units method
- d) Market value at split-off method.

**Answer: 1**

**Description: Self Explanatory**

17) Kay Company manufactures two hair care lotions, Livi and Sili, out of a joint process. The joint (common) costs incurred are 6,30,000 for a standard production run that generates 1,80,000 gallons of Livi and 1,20,000 gallons of Sili. Livi sells for 240 per gallon, and Sili sells for 390 per gallon.

If additional processing costs beyond the split-off point are 140 per gallon for Livi and 90 per gallon for Sili, the amount of joint cost of each production run allocated to Livi on a physical-quantity basis is:

- a) 340,000.
- b) 378,000.
- c) 232,000.
- d) 580,000

**Answer : 2**







**ICAI MODULE QUESTIONS**

1. In sugar manufacturing industries 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) Common product
- (b) By- product
- (c) Joint product
- (d) None of them

**Answer: b**

2. Method of apportioning joint costs on the basis of output of each joint product at the point of split off is:

- (a) Sales value method
- (b) Physical unit method
- (c) Average cost method
- (d) Marginal cost and contribution method

**Answer: b**

3. In the Net realisable value method, for apportioning joint costs over the joint products, the basis of apportionment would be:

- (a) Selling price per unit of each of the joint products
- (b) Selling price multiplied by units sold of each of the joint products
- (c) Sales value of each joint product less further processing costs of individual products
- (d) Both (b) and (c)

**Answer: d**

4. The main purpose of accounting of joint products and by- products is to:

- (a) Determine the opportunity cost
- (b) Determine the replacement cost
- (c) Determine profit or loss on each product line
- (d) None of the above





**Answer: c**

5. Under net realizable value method of apportioning joint costs to joint products, the selling & distribution cost is:

- (a) Added to joint cost
- (b) Deducted from further processing cost
- (c) Deducted from sales value
- (d) Ignored

**Answer: c**

6. Which of the following is a co-product:

- (a) Diesel and Petrol in an oil refinery
- (b) Edible oils and oil cakes
- (c) Curd and butter in a dairy
- (d) Mustard oil and Sunflower oil in an oil processing company.

**Answer: d**

7. Which of the following is an example of by-product

- (a) Diesel and Petrol in an oil refinery
- (b) Edible oils and oil cakes
- (c) Curd and butter in a dairy
- (d) Mustard seeds and mustard oil.

**Answer: b**

8. Which of following method can be used when the joint products are of unequal quantity and used for captive consumption:

- (a) Technical estimates, using market value of similar goods
- (b) Net Realisable value method
- (c) Physical Units method
- (d) Market value at split-off method.

**Answer: a**





9. Which of the following statement is not correct in relation to Co-products:

- (a) Co-products may also have joint products
- (b) Costing for co-products are done according to process costing method
- (c) Co-products do not have any by-products
- (d) Co-products are treated as a separate cost object for costing purpose.

**Answer: c**

10. When a by-product does not have any realisable value, the cost of by-product is:

- (a) Transferred to Costing Profit & Loss A/c
- (b) By-product cost is borne by the good units
- (c) By-product cost is ignored
- (d) By-product cost is determined taking value of similar goods

**Answer: b**

11. SG Ltd manufactures two products from a joint milling process. The two products developed are Mine support (MS) and Commercial building (CB). A standard production run incurs joint costs of ` 1,00,000 and results in 60,000 units of MS and 90,000 units of CB. Each MS sells for ` 200 per unit, and each CB sells for ` 450 per unit.

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- (a) ` 60,000.
- (b) ` 180,000.
- (c) ` 225,000.
- (d) ` 120,000.

**Answer: a**





12. Kay Company manufactures two hair care lotions, Livi and Sili, out of a joint process. The joint (common) costs incurred are ₹ 6,30,000 for a standard production run that generates 1,80,000 gallons of Livi and 1,20,000 gallons of Sili. Livi sells for ₹ 240 per gallon, and Sili sells for ₹ 390 per gallon.

If additional processing costs beyond the split-off point are ₹ 140 per gallon for Livi and ₹ 90 per gallon for Sili, the amount of joint cost of each production run allocated to Livi on a physical-quantity basis is:

- (a) ₹ 340,000.
- (b) ₹ 378,000.
- (c) ₹ 232,000.
- (d) ₹ 580,000.

**Answer: b**

13. For the purpose of allocating joint costs to joint products, the sales price at point of sale, reduced by cost to complete after split-off, is assumed to be equal to the:

- (a) Joint costs
- (b) Sales price less a normal profit margin at point of sale
- (c) Net sales value at split off
- (d) Total costs.

**Answer: c**

*Sankalp Kanstiya*





## CH. 12 service Costing

Q-1:

Cost units used in power sector is:

- 1 Kilo meter (K.M)
- 2: Kilowatt-hour (kWh)
- 3 Number of electric points
- 4 Number of hours

**Right Answer: Kilowatt-hour (kWh)**

**Description : Self Explanatory**

Q-2:

In service costing, costs are classified as:

- 1 Variable cost, fixed cost & marginal cost
- 2: Standing charges, running charges & maintenance costs
- 3: Fixed cost, normal cost & standard cost
- 4 Standard cost, marginal cost & fixed cost

**Right Answer: Standing charges, running charges & maintenance costs**

Q-3:

In case of goods transport, which of the following is suitable cost unit to be used for cost ascertainment

- 1 Kilometre
- 2: Per day.
- 3: Ton - kilometre
- 4: Per litre

**Right Answer: Ton - kilometre**

Q-4:

Absolute Tonne-km. is an example of

- 1 Composite units in power sector
- 2: Composite unit of transport sector
- 3: Composite unit for bus operation
- 4: Composite unit for oil and natural gas

**Right Answer: Composite unit of transport sector**

**Description: Self Explanatory**





Q-5:

In Toll Road costing, the repetitive costs includes:

- 1: Maintenance cost
- 2: Annual operating costs
- 3: None of the above
- 4 Both (a) and (b)

**Right Answer: Maintenance cost**

**Description: Self Explanatory**

Q-6:

Composite cost unit for a hospital is:

- 1 Per patient
- 2: Per patient-day
- 3 Per day
- 4: Per bed

**Right Answer: Per patient-day**

**Description: Self Explanatory**

Q-7:

Jobs undertaken by IT & ITES organizations are considered as:

- 1: Project
- 2 Batch work
- 3: Contract
- 4: All the above

**Right Answer: Project**

**Description: Self Explanatory**

Q-8:

Pre-product development activities in insurance companies, include:

- 1: Processing of Claim
- 2: Selling of policy
- 3: Provision of conditions
- 4: Policy application processing

**Right Answer: Provision of conditions**

**Description: Self Explanatory**





Q-9:

Cost of diesel and lubricant is an example of:

- 1: Operating cost
- 2: Fixed charges
- 3 Semi-variable cost
- 4: None of the above

**Right Answer: Operating cost**

**Description: Self Explanatory**

Q-10:

In service costing, costs are classified as

- 1 Variable cost, fixed cost & marginal cost
- 2: Standing charges, running charges & maintenance costs
- 3 Fixed cost, normal cost & standard cost
- 4 Standard cost, marginal cost & fixed cost

**Right Answer: Standing charges, running charges & maintenance costs**

**Description: Self Explanatory**

Q-11:

Total passenger km run by VRL logistic Ltd. was 43,80,480 for the year between Jodhpur and Pali. The bus made 3 round trips per day. Seating capacity of the bus was 52 passengers and average daily occupancy was 75% and the bus runs on an average 26 days in a month. Calculate the distance between Jodhpur and Pali.

- 1: 55 km
- 2: 720 km
- 3: 65 km
- 4: 60 km

**Right Answer: 60 km**

**Description: Let's assume distance between Jodhpur and Pali is x**

**Therefore:  $X \times 39 \times 2 \times 3 \times 26 \times 12 = 4380480$  X=60**





Q-12:

A hotel having 200 rooms of which 80% are normally occupied in summer 60% in Autumn and 25% in winter. Period of summer, autumn and winter be taken as 4 months each and normal days in a month be assumed to be 30. The total occupied room days will be

- 1: 39200 Room days
- 2: 39600 Room days
- 3: 39000 Room days
- 4: None of the above

**Right Answer: 39600 Room days**

**Description: Rooms days**

Summer  $200 \times 80\% \times 30 \times 4 = 19200$

Winter  $200 \times 25\% \times 30 \times 4 = 6000$

Autumn  $200 \times 60\% \times 30 \times 4 = 14400$

**Total room days: 39600**

Q-13:

BOT approach means

- 1 Build, Operate and Transfer
- 2: Buy, Operate and Transfer
- 3: Build, Operate and Trash
- 4: Build, Own and Trash

**Right Answer: Build, Operate and Transfer**

**Description: Self Explanatory**

Q-14:

A transport company is running 5 buses between two towns, which are 30 km apart. Seating capacity of each bus is 50 passengers. Normal occupancy in onwards journey is 90% and in return journey is 80% of its seating capacity. All the buses ran on 30 days of the month. Each bus made 3 round trip per day.

Passenger km per month will be:

- 1: 10,51,00
- 2: 9,56,250
- 3: 11,47,500
- 4: None of the above

**Right Answer: 11,47,500**

**Description: Calculation of Passenger Km  $(30\text{km} \times (50 \text{ passenger} \times 90\%) + 30\text{km} \times (50 \text{ passenger} \times 80\%)) \times 3 \text{trips} \times 30 \text{days} \times 5 \text{buses} = 11,47,500$**







Q-15:

Sharma Ferry services Pvt Ltd. provide ferry services between two towns. Distance one way is 18.52 nautical miles. Seating capacity of a ferry is 125 passengers. Actual passengers carried in each trip is 80% of seating capacity. Ferry run on all days of month (30 days). Ferry makes a round trips in a day. company is expecting a monthly revenue of 55,56,000. Calculate fare to be charged from a passenger for round trip.

- 1: 100
- 2: 926
- 3: 1852
- 4: 50.95

**Right Answer: 1852**

**Description:** Calculation of fare per passenger nautical mile:  $\frac{5556600}{125 \times 80\% \times 2 \times 30} = 18.52$  per passenger nautical mile  
Fare for round trip =  $18.52 \times 2 = 37.04$

Q-16:

Ayush transport service company incurred a total operating cost of Rs. 4,86,000 in June 2023 to operate six buses between two places which are 50 kms apart. Each bus is having a seating capacity of 50 passengers and all buses run on all days with two round trips in a day. If the operating cost per passenger km, is Rs. 0.30, then the capacity occupied in each bus is:

- 1: 90%
- 2: 80%
- 3: 75%
- 4: 100%

**Right Answer: 90%**

**Description:** Lets assume the capacity occupied be  $y$   
 $\frac{486000}{50 \times y \times 2 \times 2 \times 6 \times 30} = 0.3$  Therefore  $y = 0.9$  Or 90%





### CASE SCENARIOS

A LMV Pvt. Ltd, operates cab/ car rental service in Delhi/NCR. It provides its service to the offices of Noida, Gurugram and Faridabad. At present it operates CNG fuelled cars but it is also considering to upgrade these into Electric vehicle (EV). The following details related with the owning of CNG & EV propelled cars are as tabulated below:

Particulars	CNG Car	EV Car
Car purchase price (Rs.)	9,20,000	15,20,000
Govt. subsidy on purchase of car (Rs.)	--	1,50,000
Life of the car	15 years	10 years
Residual value (Rs.)	95,000	1,70,000
Mileage	20 km/kg	240 km per charge
Electricity consumption per full charge	--	30 Kwh
CNG cost per Kg (Rs.)	60	--
Power cost per Kwh (Rs.)	--	7.60
Annual Maintenance cost (Rs.)	8,000	5,200
Annual insurance cost (Rs.)	7,600	14,600
Tyre replacement cost in every 5 -year (Rs.)	16,000	16,000
Battery replacement cost in every 8- year (Rs.)	12,000	5,40,000

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Apart from the above, the following are the additional information:

Particulars
verage distance covered by a car in a month
Driver's salary (Rs.)
Garage rent per car (Rs.)
Share of Office & Administration cost per car (Rs.)

You have been approached by the management of A LMV Pvt. Ltd. for consultation on the two options of operating the cab service. The expected questions that may be asked by the management are as follows:

Q-1:

What would be the depreciable value of CNG Car and EV Car respectively?

- 1: Rs. 13,50,000 and Rs.14,40,000
- 2: Rs. 15,20,000 and Rs.8,25,000
- 3: Rs.8,25,000 and Rs. 14,40,000
- 4: Rs.8,25,000 and Rs. 12,00,000

**Right Answer: Rs.8,25,000 and Rs.12,00,000**

**Description:**

Particulars	CNG Car	EV Car
A Car purchase price (Rs.)	9,20,000	15,20,000
B Less: Govt. subsidy (Rs.)	--	(1,50,000)
C Less: Residual value (Rs.)	(95,000)	(1,70,000)
D Depreciable value of car (Rs.) [A-B-C]	8,25,000	12,00,000
E Life of the car	15 years	10 years
F Annual depreciation (Rs.) [D÷E]	55,000	1,20,000

Q-2:

What would be the total cost to be incurred for replacement of battery for CNG and EV car respectively?

- 1 Rs.5,40,000 and Rs. 12,000
- 2: Rs. 12,000 and Rs.5,40,000
- 3: Rs.2,00,000 and Rs. 12,000
- 4 Rs. 1,00,000 and Rs.2,00,000

**Right Answer: Rs.12,000 and Rs.5,40,000**

**Description:**





	Particulars	CNG Car	EV Car
A	Life of vehicle	15 years	10 years
B	Replacement interval	8 years	8 years
C	No. of time replacement required	1 time	1 time
D	Cost of battery for each replacement (Rs.)	12,000	5,40,000
E	Total replacement cost (Rs.) [C×D]	12,000	5,40,000
F	Amortised cost per year (Rs.) [E÷A]	800	54,000

Q-3:

What would be the operating cost of vehicle per month per car for both CNG & EV options?

- 1: Rs. 36,627.78 and Rs. 43,708.33
- 2: Rs. 36,627.78 and Rs. 48,523.26
- 3: Rs. 48,523.26 and Rs. 28,510.29
- 4: Rs. 48,523.26 and Rs. 28,510.29

**Right Answer: Rs. 36,627.78 and Rs. 43,708.33**

**Description:**

*Sankalp Kanstiya*





	Particulars	CNG Car (Rs.)	EV Car (Rs.)
<b>A</b>	<b>Running cost:</b>		
	Fuel cost/ Power consumption cost [Refer WN-2]	4,500	1,425
<b>B</b>	<b>Maintenance cost:</b>		
	Annual Maintenance cost [Annual cost ÷12]	666.67	433.33
	Annual Insurance cost [Annual cost ÷12]	633.33	1,216.67
	Amortised cost of Tyre replacement [Refer WN-3]	177.78	133.33
	Amortised cost of Battery replacement [Refer WN-4]	66.67	4,500
		1,544.45	6,283.33
<b>C</b>	<b>Fixed cost:</b>		
	Depreciation [Refer WN-1]	4,583.33	10,000
	Driver's salary	20,000	20,000
	Garage rent	4,500	4,500
	Share of Office & Administration cost	1,500	1,500
		30,583.33	36,000

Q-4: *Sankalp Kanstiya*  
What would be the monthly cost of fuel and electricity for an CNG and EV car respectively?

- 1: Rs.4,500 and Rs.1,425
- 2: Rs.1,500 and Rs.4,500
- 3: Rs.1,525 and Rs.1,450
- 4 Rs. 1,525 and Rs.1,425

**Right Answer: Rs.4,500 and Rs.1,425**

**Description:**





	Particulars	CNG Car	EV Car
A	Average distance covered in a month (KM)	1,500	1,500
B	Mileage (KM)	20	240
C	Qty. of CNG/ Full charge required [A÷B]	75 kg.	6.25
D	Electricity Consumption [C×30kwh]	-	187.5
E	Cost of CNG per kg (Rs.)	60	-
F	Power cost per Kwh (Rs.)	-	7.60
G	<b>CNG Cost per month (Rs.)</b> [C×E]	<b>4,500</b>	-

Q-5:

What would be the total cost to be incurred for replacement of tyres for CNG and EV car respectively?

- 1: Rs.32,000 and Rs.24,000
- 2: Rs. 12,000 and Rs.32,000
- 3: Rs.32,000 and Rs.16,000
- 4: Rs. 16,000 and Rs. 12,000

**Right Answer: Rs.32,000 and Rs.16,000**

**Description:**

	Particulars	CNG Car	EV Car
A	Life of vehicle	15 years	10 years
B	Replacement interval	5 years	5 years
C	No. of time replacement required	2 times	1 time
D	Cost of tyres for each replacement (Rs.)	16,000	16,000
E	Total replacement cost (Rs.) [C×D]	32,000	16,000
F	Amortised cost per year (Rs.) [E÷A]	2,133.33	1,600





ICAI MODULE QUESTIONS

1. Composite cost unit for a hospital is:

- (a) Per patient
- (b) Per patient-day
- (c) Per day
- (d) Per bed

**Answer: b**

2. Cost of diesel and lubricant is an example of:

- (a) Operating cost
- (b) Fixed charges
- (c) Semi-variable cost
- (d) None of the above

**Answer: b**

3. Cost units used in power sector is:

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

**Answer: b**

4. Absolute Tonne-km. is an example of:

- (a) Composite units in power sector
- (b) Composite unit of transport sector
- (c) Composite unit for bus operation
- (d) Composite unit for oil and natural gas

**Answer: b**

5. Depreciation is treated as fixed cost if it is related to:

- (a) Activity level
- (b) Related with machine hours
- (c) Efflux of time
- (d) None of the above

**Answer: c**





6. Jobs undertaken by IT & ITES organizations are considered as:

- (a) Project
- (b) Batch work
- (c) Contract
- (d) All the above

**Answer: a**

7. In Toll Road costing, the repetitive costs include:

- (a) Maintenance cost
- (b) Annual operating costs
- (c) one of the above
- (d) Both (a) and (b)

**Answer: a**

8. BOT approach means:

- (a) Build, Operate and Transfer
- (b) Buy, Operate and Transfer
- (c) Build, Operate and Trash
- (d) Build, Own and Trash

**Answer: a**

9. Pre-product development activities in insurance companies, include:

- (a) Processing of Claim
- (b) Selling of policy
- (c) Provision of conditions
- (d) Policy application processing

**Answer: c**

10. Which of the following costing method is not appropriate for costing of educational institutes:

- (a) Batch Costing
- (b) Activity Based Costing
- (c) Absorption Costing
- (d) Process Costing

**Answer: d**







## CH. 13 Standard Costing

Q-1:

Material Price variance can be calculated using the formula—

- 1 (Standard quantity for actual output  $\hat{A}$  Actual quantity)  $\hat{A}$  Actual price
- 2 (Standard quantity for actual output  $\hat{A}$  Actual quantity)  $\hat{A}$  Standard price
- 3: (Standard price  $\hat{A}$  Actual price)  $\hat{A}$  Actual quantity
- 4: (Standard price  $\hat{A}$  Actual price)  $\hat{A}$  Standard quantity

**Right Answer: (Standard price  $\hat{A}$  Actual price)  $\hat{A}$  Actual quantity**

**Description : Self Explanatory**

Q-2:

The standard hourly rate is 7.50 per hour and actual rate 6.80 per hour. If the labour rate variance is 2,800(F), the actual labour hours worked is -

- 1 : 2,800 hours
- 2: 4,000 hours
- 3: 3,500 hours
- 4: 6,150 hours.

**Right Answer: 4,000 hours**

Q-3:

Material yield variance = .....

- 1 Material usage variance  $\hat{A}$  Material price variance
- 2: Material usage variance  $\hat{A}$  Material mix variance
- 3 Material mix variance  $\hat{A}$  Material usage variance
- 4: Material mix variance  $\hat{A}$  Material price variance

**Right Answer: Material usage variance  $\hat{A}$  Material mix variance**

Q-4:

The budgeted overheads is 9,600, absorbed overheads is 10,650, fixed overheads at actual hours is 10,000 and actual overheads is 11,650. The overheads volume variance is -

- 1 600 (A)
- 2 2050 (A)
- 3 650 (F)
- 4: 1050 (F)

**Right Answer: 1050 (F)**





Q-5:

The information relating to the direct material cost of a company is as under:  
Actual quantity purchased in units 1,800 @ ₹19 per unit.

Standard quantity allowed for actual production in units 1,950 Material Price Variance on purchase (Adverse) 2700 What is the Standard price per unit?

- 1: ₹17.62
- 2: ₹110.50
- 3: ₹17.50
- 4: ₹110.38

**Right Answer: ₹17.50**

Q-6:

In a factory where standard costing system is followed, the production department consumed 1500 kgs of a material @ ₹110 per kg for product X resulting in material price variance of ₹13000 (F) and material usage variance of ₹11500 (A). What is the standard material cost of actual production of product X?

- 1: 10,500
- 2: 19,500
- 3: 14,500
- 4: 16,500

**Right Answer: 16,500**

Q-7:

The budgeted fixed overheads for a budgeted production of 20,000 units is 60,000. For a certain period the actual production was 23,000 units and actual expenditure 62,000. The volume variance is-

- 1: 9,000 (F)
- 2: 9,000 (A)
- 3: 2,000(A)
- 4: 2,000 (F).

**Right Answer: 9,000 (F)**





Q-8:

For producing one unit of product X, standard labour hours are 25. Wages rate is ` 3.5 per hour. In April, 2023, output was 2,000 units. 53,000 labour hours actually paid, costing 2,17,300. These 53,000 hours include 600 hours arise due to machine breakdown. Labour rate variance was:

- 1: Rs. 31,800 (A)
- 2: Rs. 31,440 (A)
- 3: Rs. 42,300 (A)
- 4: Rs, 31,440 (F)

**Right Answer: Rs. 31,800 (A)**

Q-9:

The following figures are extracted from the books of a company: Budgeted overheads `120,000 (Fixed `112,000, Variable `18,000) Budgeted Hours 2500 Actual Overheads `121,800 (Fixed `111,800, Variable `10,000) Actual Hours 3000 Calculate Variable Overheads fixed overheads cost variance will be:

- 1: 400 (A) and 200 (F)
- 2: 400 (F) and 200 (A)
- 3: 2000 (A) and 200 (F)
- 4: 2000 (F) and 200 (A)

**Right Answer: 400 (A) and 200 (F)**

Q-10:

The following information is given: Standard : 360 kg material for 200 units of finished output @ ` 2 per kg. Actual: Output 6,900 units, material used 13830 kg., cost of material ` 38,724. Material usage variance will be.

- 1: Rs. 13884(A)
- 2: Rs. 3948 (A)
- 3: Rs. 7698 (F)
- 4: Rs. 2820 (A)

**Right Answer: Rs. 2820 (A)**

Q-11:

Controllable variances are best disposed- off by transferring to::

- 1: Cost of goods sold
- 2: Cost of goods sold and inventories
- 3: Inventories of work in progress and finished goods
- 4: Costing profit and loss account

**Right Answer: Costing profit and loss account**





Q-12:

Overhead cost variance is` 12,000 (A), overhead expenditure variance is 4,000 (A) and overhead efficiency variance is 4,000 (F). In this case, overhead capacity variance is :

- 1: Rs. 12,000 (A)
- 2: Rs. 8,000 (A)
- 3: Rs. 8,000 (F)
- 4: Rs. 12,000 (A)

**Right Answer: Rs. 12,000 (A)**

Q-13:

A chemical is manufactured by combining two standard items Input-X (Standard price 20 per kg) and Input-Y (Standard price 25 per kg) in the ratio 60%:40%. Ten percent of input is lost during processing. If during a month 1,800 Kgs. of chemical is produced incurring a total cost of 45,960, the total material cost variance will be

- 1: 1,960 (A)
- 2: 6,360 (A)
- 3 2,400(A)
- 4: 4,000(A).

**Right Answer: 1,960 (A)**

Q-14:

Which of the following is not a reason for an idle time variance?

- 1: Wage rate increase
- 2: Machine breakdown
- 3: Illness or injury to worker
- 4: Non- availability of material

**Right Answer: Wage rate increase**

**Description: Self Explanatory**

Q-15:

The capacity variance is 36,000 (F), calendar variance is 20,850 (A), expenditure variance is 5000 (A). The volume variance will be -

- Answer 1: 15,150 (F)  
Answer 2: 10,150 (F)  
Answer 3 10,150 (A)  
Answer 4 16,150 (F).

**Right Answer: 15,150 (F)**





Q-16:

The information relating to the direct material cost of a company is as follows:  
Standard price per unit ₹16.50 Actual quantity purchased in units 2000 Standard quantity allowed for actual production in units 1860 Material price variance on purchase (Favourable) ₹11000 What is the actual purchase price per unit?

1: ₹16.00

2: ₹17.00

3 ₹16.50

4 ₹17.50

**Right Answer: ₹16.00**

Q-17:

Direct labour cost data are as follows: Actual hours worked 30,000, Actual direct labour cost 2,40,000, Direct labour rate variance 22,500 (A), Direct labour efficiency variance 20,800 (A) Standard labour hour rate will be

1: Rs. 7.52

2: Rs. 5.25

3: Rs. 7.25

4: Rs. 5.52

**Right Answer: Rs. 7.25**

Q-18:

The standard material required to manufacture one unit of Product-A is 4.5 Kgs. and the standard price per Kg. of material is ₹13.2. The cost accountant's records, however, reveal that 16,000 Kgs. of material costing 54,000 were used for producing 3,500 units of Product-A. Material price variance will be -

Answer 1: 2,800 (A)

Answer 2 2,800 (F)

Answer 3 3,600 (A)

Answer 4: 3,600 (F).

**Right Answer: 2,800 (A)**





Q-19:

Records of XYZ Ltd. reveal the following data: Fixed overhead capacity variance = 2,000 (F) Fixed overhead efficiency variance = 1,000 (F) Fixed overhead expenditure variance = 5,000 (A) Fixed overhead cost variance will be:

Answer 1: Rs. 8,000 (A)

Answer 2: Rs. 2,000 (A)

Answer 3: Rs. 2,000 (F)

Answer 4 Rs. 8,000 (F)

**Right Answer: Rs. 2,000 (A)**

Q-20:

AB Ltd. uses standard cost system. The following information pertains to direct labour for Product X for the month of March, 2023: Standard rate per hour ₹ 5. Actual rate per hour ₹ 5.50. Standard hours allowed for actual production 2000 hours Labour Efficiency variance ₹ 2,500 (Adverse) What were the actual hours worked?

1: 1,800

2: 2,500

3 2,200

4: 2,190

**Right Answer: 2,500**

Q-21:

The following are relating to Job No. 0510:

Standard hours planned 450

Actual hours worked 498

Standard wage rate Rs. 3.58

Actual wage rate Rs. 4.28

Idle hours 7

The total labour efficiency variance for Job No. 0510 is:

1: Rs. 171.84 (A)

2: Rs. 146.78 (A)

3: Rs. 175.48 (A)

4: Rs. 205.44 (A)

**Right Answer: Rs. 146.78 (A)**





Q-22:

PQR Ltd. has normal monthly machine hour capacity of 120 machines working 8 hours per day for 24 working days in a month. The budgeted fixed overhead is 4,50,000. The actual production was 4,500 units. The actual fixed overhead was 4,75,000. Expenditure variance will be

1: 25,000 (A)

2 25,000 (F)

3 20,000 (F)

4: 20,000 (A)

**Right Answer: 25,000 (A)**

Q-23:

A company operates a standard absorption costing system. The budgeted fixed production overheads for the company for last year were 5,00,000 and budgeted output was 2,50,000 units. At the end of the company's financial year, the total of the fixed production overheads debited to the Fixed Production Overhead Control Account was 4,70,000 and the actual output achieved was 2,00,000 units. The under/ over absorption of overhead was

1: 70,000 under absorbed

2: 30,000 under absorbed

3: 70,000 over absorbed

4: 30,000 over absorbed

**Right Answer: 70,000 under absorbed**

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**ICAI MODULE QUESTIONS**

1. 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

**Answer: b**

2. The deviations between actual and standard cost is known as:

- (a) Multiple analysis
- (b) Variable cost analysis
- (c) Variance analysis
- (d) Linear trend analysis

**Answer: c**

3. The standard which is attainable under favourable conditions is:

- (a) Theoretical standard
- (b) Expected standard
- (c) Normal standard
- (d) Basic standard

**Answer: a**

4. The standard most suitable from cost control point of view is:

- (a) Normal standard
- (b) Theoretical standard
- (c) Expected standard
- (d) Basic standard

**Answer: c**







5. Overhead cost variances is:
- (a) The difference between overheads recovered on actual output - actual overhead incurred.
  - (b) The difference between budgeted overhead cost and actual overhead cost.
  - (c) Obtained by multiplying standard overhead absorption rate with the difference between standard hours for actual output and actual hours worked.
  - (d) None of the above

**Answer: a**

6. 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

**Answer: d**

7. If standard hours for 100 units of output are 400 @ ` 2 per hour and actual hours take are 380 @ ` 2.25 per, then the labour rate variance is:
- (a) ` 95 (adverse)
  - (b) ` 100 (adverse)
  - (c) ` 25 (favourable)
  - (d) ` 120 (adverse)

**Answer: a**

8. Controllable variances are best disposed-off by transferring to:
- (a) Cost of goods sold
  - (b) Cost of goods sold and inventories
  - (c) Inventories of work-in-progress and finished goods
  - (d) Costing profit and loss account

**Answer: d**

9. Idle time variance is obtained by multiplying:
- (a) The difference between standard and actual hours by the actual rate of labour per hour
  - (b) The difference between actual labour hours paid and actual labour hours worked by the standard rate
  - (c) The difference between standard and actual hours by the standard rate of labour per hour
  - (d) None of the above.

**Answer: b**





10. Basic standards are:
- (a) Those standards, which require high degree of efficiency and performance.
  - (b) Average standards and are useful in long term planning.
  - (c) Standards, which can be attained or achieved
  - (d) Assuming to remain unchanged for a long time.

**Answer: d**



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## CH. 14 Marginal Costing

Q-1:

Make or buy decisions are made by comparing cost with the outside purchase price.

- 1 Fixed
- 2: Sunk
- 3: Variable
- 4: Opportunity

**Right Answer: Variable**

**Description: Self Explanatory**

Q-2:

Variable cost:

- 1 Nor increase or decrease
- 2: Remains fixed per unit
- 3: Varies per unit
- 4 Remains fixed in total

**Right Answer: Remains fixed per unit**

Q-3:

A manufacturer produces 2,00,000 units of a product at a cost of ₹ 4.5 per unit. Later on, he produces 3,50,000 units at a cost of ₹ 4.20 per unit, when its fixed overheads have decreased by 30%. The marginal cost per unit and originally fixed overheads will be:

- 1 ₹ 2 and ₹ 80,000 respectively
- 2: ₹ 3 and ₹ 90,000 respectively
- 3: ₹ 4 and ₹ 1,00,000 respectively
- 4: ₹ 5 and ₹ 1,20,000 respectively

**Right Answer: ₹ 4 and ₹ 1,00,000 respectively**

Q-4:

The fixed expenses are ₹ 64,000 and the break-even point is ₹ 1,60,000. The new break-even point, if the selling price is reduced by 10% is

- 1 ₹ 1,60,000
- 2 ₹ 182,000
- 3: ₹ 192,000
- 4 ₹ 2,00,000

**Right Answer: ₹ 192,000**

**Description: Self Explanatory**





Q-5:

For a given product, the sales of a company @ ₹ 200 per unit is ₹ 40,00,000. Variable cost is ₹ 24,00,000 and fixed cost is ₹ 9,00,000. The capacity of the factory is 30,000 units. Capacity utilization at break-even point level

- 1: 37.5%
- 2: 66.67%
- 3 62.5%
- 4 100%

**Right Answer: 37.5%**

Q-6:

The following information is given about RS Impex Ltd. dealing in Men's wear: P/V ratio 40% Margin of safety 50%

If the sales volume is ₹ 60,00,000 the net profit will be

- 1 ₹ 18,00,000
- 2: ₹ 10,00,000
- 3: ₹ 12,00,000
- 4 ₹ 9,00,000

**Right Answer: ₹ 12,00,000**

Q-7:

Which of the following assumptions are made while calculating marginal cost?

- 1 Total fixed cost is constant at all levels of output
- 2: All elements of cost can be divided into fixed and variable components
- 3 Total variable cost varies according to the volume of output
- 4: All of the above

**Right Answer: All of the above**

**Description: Self Explanatory**

Q-8:

The selling price of a product-A is ₹ 30 per unit, variable cost ₹ 20 per unit and 2 Hrs of Skilled Labour are needed to produce a unit of product-A. The contribution per Labour Hour will be -

- 1 ₹ 20
- 2: ₹ 5
- 3 ₹ 15
- 4 ₹ 10

**Right Answer: ₹ 5**

**Description: Self Explanatory**





Q-9:

The ratio of variable cost to sales is 60%. The Margin of Safety occurs at 25% of the capacity sales when fixed cost is ₹ 1,80,000. The 100% capacity sales will be

- 1: ₹ 18,00,000
- 2: ₹ 12,00,000
- 3: ₹ 6,00,000
- 4: None of the above

**Right Answer: ₹ 6,00,000**

**Description: Self Explanatory**

Q-10:

XYZ Ltd. had a marginal costing profit of ₹ 1,28,600 in April 2018. The opening stock was 1,600 units and the closing stock was 1,150 units. The company is considering changing to an absorption costing system. The fixed overhead absorption rate is ₹ 4 per unit. Profit under absorption costing will be:

- 1: ₹ 1,26,800
- 2: ₹ 1,30,400
- 3: ₹ 1,15,700
- 4: ₹ 1,28,070

**Right Answer: ₹ 1,26,800**

**Description: Self Explanatory**

Q-11:

Selling price per unit ₹ 40, Trade discount 10% of selling price, cash discount 5% on sales, Material cost ₹ 6, Labour cost ₹ 8, Fixed overheads ₹ 51,600 and variable overheads 60% of labour cost. what would be the net profit if sales are 20% above the BEP?

- 1: ₹ 10,318
- 2: ₹ 10,526
- 3: ₹ 10,320
- 4: ₹ 10,800

**Right Answer: ₹ 10,320**

**Description: Self Explanatory**





Q-12:

When the sales volume is 4,000 units, the average cost is ₹ 4 per unit. When the volume is 6,000 units, the average cost is ₹ 3.50 per unit. The break-even point is 4800 units.

What is the P/V ratio of the firm

- 1 25%
- 2: 33.33%
- 3 30%
- 4 32.5%

**Right Answer: 33.33%**

**Description: Self Explanatory**

Q-13:

If the standard output for 8 hours is 280 units and the actual output in 10 hours is 420 units, the efficiency level will be:

- 1 150%
- 2: 120%
- 3 83.33%
- 4 66.66%

**Right Answer: 120%**

**Description: Self Explanatory**

Q-14:

Which of the following formula cannot be used for calculating the contribution

- 1 Fixed cost + profit
- 2: Fixed cost + loss
- 3 Sales - variable cost
- 4: Fixed - minus loss

**Right Answer: Fixed cost + loss**

Q-15:

The P/V ratio of a company is 40%. If the company's variable cost per unit is increased by 13-1/3%, the required percentage of increase in sales value to maintain the same profit is:

- 1: 60%
- 2: 35%
- 3 30%
- 4: 25%

**Right Answer: 25%**

**Description: Self Explanatory**





Q-16:

Which of the following techniques of costing is also known as Direct costing?

- 1 Standard Costing
- 2 Historical Costing
- 3: Marginal Costing
- 4 Uniform Costing

**Right Answer: Marginal Costing**

**Description: Self Explanatory**

Q-17:

In 2022, the variable cost was 8500 per unit and fixed cost ₹ 50 per unit. Production was 1,50,000 units. It is expected that production in 2023 will increase to 1,80,000 units. The variable cost will increase by 30% and fixed cost by 28% in 2023. The amount of fixed cost in 2023 will be

- 1 ₹ 75,00,000
- 2: ₹ 70,40,000
- 3: ₹ 96,00,000
- 4 ₹ 1,15,20,000

**Right Answer: ₹ 96,00,000**

**Description : Self Explanatory**

Q-18:

Miss Simran has a sum of ₹ 30,00,000 which is invested in a business. She wishes for a 10% return (after tax) on her fund. It is revealed from the present cost data analysis that the variable cost of operation is 60% of sales and fixed costs are ₹11,75,000 p.a. On the basis of this information, you are required to find out the sales volume to earn a 10% return (after tax). Assume tax @20%

- 1: ₹ 13.75 Lakhs
- 2: ₹ 13.375 Lakhs
- 3 ₹ 7.5 Lakhs
- 4 ₹ 12.75 Lakhs

**Right Answer: ₹ 13.75 Lakhs**

**Description: Self Explanatory**





Q-19: A newspaper presently sells 1,00,000 copies of its morning daily. It wants to publish evening daily. The particulars are: Actual for Morning daily Estimates for Evening Sales Price ₹ 2 per paper ₹ 0.50 per paper Variable cost ₹ 1.20 per paper ₹ 0.22 per paper Fixed cost ₹ 2,40,000 per week ₹ 10,000 per week Sales of Morning daily will fall @ 1 copy of every 10 copies sold of Evening daily. Calculate the Break Even sales for Evening daily per week.

- 1: 3,00,000 Copies
- 2: 35,714 Copies
- 3: 50,000 Copies
- 4: 32,514 Copies

**Right Answer: 50,000 Copies**

Q-20:

A company that has a margin of safety of ₹ 8,00,000 makes a profit of ₹ 3,20,000. If its fixed cost is ₹ 5,00,000, then Actual sales is:

- 1: ₹ 20.5 lakh
- 2: ₹ 20 lakh
- 3: ₹ 16.2 lakh
- 4: ₹ 15 lakh

**Right Answer: ₹ 20.5 lakh**

**Description: Self Explanatory**

Q-21:

Prow shirts Ltd. manufactures three types of shirts Standard, Premium and Elite. The unit selling price of these shirts are ₹ 500, ₹ 800 and ₹ 1200 respectively. The corresponding unit variable costs are ₹ 300, ₹ 500 and ₹ 600. The proportions (quantity-wise) in which these products are manufactured and sold are 50%, 30% and 20% respectively. Total fixed costs are ₹ 60,00,000. Overall breakeven quantity is

- 1: 19,453 Units
- 2: 19,354 Units
- 3: 18,194 Units
- 4: 19,153 Units

**Right Answer: 19,354 Units**







Q-22:

X Ltd manufactures product-G which sells at ₹ 20 per unit. Total fixed costs is ₹ 7,92,000 and marginal cost ₹ 14 per unit. Calculate the no of units to be sold to earn a profit of 10% on sales

- 1: 1,98,000 Units
- 2 1,89,000 Units
- 3: 1,32,000 Units
- 4: 1,23,000 Units

**Right Answer: 1,98,000 Units**

**Description: Self Explanatory**

Q-23:

₹ 3 (12

A company sells its product at ₹ 15 per unit. In a period, it produces and sells 8,000 units and incurs a loss of ₹ 5 per unit. If the sales volume were to be raised to 20,000 units, it could earn a profit of ₹ 4 per unit. The Break-even point (in units) will be

- 1: 12,000 Units
- 2 18,000 Units
- 3 16,000 Units
- 4: 24,000 Units

**Right Answer: 12,000 Units**

Q-24:

A Toy manufacturer finds that it costs ₹ 8.5 per unit to make component C-21 that is used to manufacture a toy. A supplier is ready to provide the same component at ₹ 7.25 each. Continuous supply is also fully assured. The break-down cost per unit as follows: Materials ₹ 3.60, Labour ₹ 2.40 other variable expenses ₹ 1.00, Depreciation and other fixed cost ₹ 1.50. What would be your decision?

- 1: Make
- 2: Buy
- 3 Sell
- 4: None of the above

**Right Answer: Make**

**Description: Self Explanatory**





Q-25:

ABC Limited has current PBIT of ₹121.60 lakhs on total assets of ₹120 lakhs. The company has decided to increase assets by ₹130 lakhs, which is expected to increase the operating profit before depreciation by ₹18.60 lakhs. There will be a net increase in depreciation by ₹11.70 lakhs. This will result in ROI

- 1 to decrease by 1%
- 2 to increase by 1%
- 3 to decrease by 1.25%
- 4 to remain the same

**Right Answer: to increase by 1%**

**Description:** Old ROI =  $21.6/120 = 18\%$  New ROI =  $(21.6+8.6-1.7)/(120+30) = 19\%$  Increase in ROI = 1%

Q-26:

Statement (S):

The business earns a surplus of sale revenue over variable costs, which is called a contribution.

Reason (R):

Once fixed costs are fully recovered such excess contribution is termed as profit.

Select the correct answer from the options given below

- 1: Both A and R are true, but R is not the correct explanation of S
- 2: Both A and R are true and R is the correct explanation of S
- 3 S is false, but R is true
- 4: S is true, but R is false

**Right Answer: Both A and R are true, but R is not the correct explanation of S**

**Description: Self Explanatory**

Q-27:

Sales increased from ₹1700 Lakh to ₹1900 Lakh. If P/V Ratio is 40%, then the % increase in variable cost per unit and total contribution will be:

- 1: Nil and ₹1200 Lakhs
- 2: No Change
- 3: 40% and ₹180 Lakhs
- 4: Nil and ₹180 Lakhs

**Right Answer: Nil and ₹180 Lakhs**

**Description: Self Explanatory**





**ICAI MODULE QUESTIONS**

1. Under marginal costing the cost of product includes:

- (a) Prime costs only.
- (b) Prime costs and variable overheads.
- (c) Prime costs and fixed overheads.
- (d) Prime costs and factory overheads.

**Answer: b**

2. Reporting under marginal costing is accomplished by:

- (a) Treating all costs as period costs.
- (b) Eliminating the work-in-progress inventory account.
- (c) Matching variable costs against revenue and treating fixed costs as period costs.
- (d) Including only variable costs in income statement.

**Answer: c**

3. Period costs are:

- (a) Variable costs.
- (b) Fixed costs.
- (c) Prime costs.
- (d) Overheads costs.

**Answer: b**

4. When sales and production (in units) are same then profit under:

- (a) Marginal costing is higher than that of absorption costing.
- (b) Marginal costing is lower than that of absorption costing.
- (c) Marginal costing is equal to that of absorption costing.
- (d) None of the above.

**Answer: c**

5. When sales exceed production (in units) then profit under:

- (a) Marginal costing is higher than that of absorption costing.
- (b) Marginal costing is lower than that of absorption costing.
- (c) Marginal costing is equal than that of absorption costing.
- (d) None of above.

**Answer: a**

6. The main difference between marginal costing and absorption costing is regarding the treatment of:

- (a) Prime cost.





- (b) Fixed overheads.
  - (c) Direct materials.
  - (d) Variable overheads.
7. Under profit volume ratio, the term profit:
- (a) Means the sales proceeds in excess of total costs.
  - (b) Means the same thing as is generally understood.
  - (c) Is a misnomer, it in fact refers to contribution i.e. (sales revenue-variable costs).
  - (d) None of the above.

**Answer: b**

8. Factors which can change the break-even point:
- (a) Change in fixed costs.
  - (b) Change in variable costs.
  - (c) Change in the selling price.
  - (d) All of the above.

**Answer: c**

9. If P/V ratio is 40% of sales then what about the remaining 60% of sales:
- (a) Profit.
  - (b) Fixed cost.
  - (c) Variable cost.
  - (d) Margin of safety.

**Answer: c**

10. The P/V ratio of a product is 0.6 and profit is ` 9,000. The margin of safety is:
- (a) ` 5,400
  - (b) ` 15,000
  - (c) ` 22,500
  - (d) ` 3,600

**Answer: b**





## CH. 15 Budget And Budgetary Control

Q-1:

Which of the following is usually a short-term budget:

- 1 Capital expenditure budget
- 2: Research and development budget
- 3: Cash budget
- 4 Sales budget

**Right Answer: Cash budget**

**Description: Self Explanatory**

Q-2:

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:

- 1 Master budget
- 2: Cash budget
- 3: Flexible budget
- 4: Fixed budget

**Right Answer: Flexible budget**

Q-3:

The classification of fixed and variable cost is useful for the preparation of:

- 1 Master budget
- 2: Flexible budget
- 3: Cash budget
- 4 Capital budget

**Right Answer: Flexible budget**

Q-4:

A favourable budget variance is always an indication of efficient performance". Do you agree, give reason?

- 1: A favourable variance indicates, saving on the part of the organization hence it indicates efficient performance of the organization.
- 2: Under all situations, a favourable variance of an organization speaks about its efficient performance.
- 3: A favourable variance does not necessarily indicate efficient performance, because such a variance might have been arrived at by not carrying out the expenses mentioned in the budget.
- 4: None of the above.





**Right Answer:** A favourable variance does not necessarily indicate efficient performance, because such a variance might have been arrived at by not carrying out the expenses mentioned in the budget.

Q-5:

Budget manual is a document

- 1: Which contains different type of budgets to be formulated only.
- 2: Which contains the details about standard cost of the products to be made.
- 3: Setting out the budget organization and procedures for preparing a budget including fixation of responsibilities, formats and records required for the purpose of preparing a budget and for exercising budgetary control system.
- 4: None of the above

**Right Answer:** Setting out the budget organization and procedures for preparing a budget including fixation of responsibilities, formats and records required for the purpose of preparing a budget and for exercising budgetary control system.

Q-6:

The budget control organization is usually headed by a top executive who is known as:

- 1: General manager
- 2: Budget director/budget controller
- 3: Accountant of the organization
- 4: None of the above

**Right Answer:** Budget director/ budget controller

Q-7:

A budget which is prepared in a manner so as to give the budgeted cost for any level of activity is known as:

- 1 Master budget
- 2: Zero base budget
- 3: Functional budget
- 4: Flexible budget

**Right Answer:** Flexible budget

**Description:** Self Explanatory





Q-8:

Efficiency ratio is:

- 1 The extent of actual working days avoided during the budget period
- 2: Activity ratio/ capacity ratio
- 3: Whether the actual activity is more or less than budgeted activity
- 4: None of the above

**Right Answer: Activity ratio/ capacity ratio**

**Description: Self Explanatory**

Q-9:

Activity Ratio depicts:

- 1 : Whether actual capacity utilized exceeds or falls short of the budgeted capacity
- 2: Whether the actual hours used for actual production were more or less than the standard hours
- 3: Whether actual activity was more or less than the budgeted capacity
- 4: None of the above

**Right Answer: Whether actual activity was more or less than the budgeted capacity**

**Description: Self Explanatory**

Q-10:

A budget report is prepared on the principle of exception and thus-

- 1 Only unfavourable variances should be shown
- 2: Only favourable variance should be shown
- 3 Both favourable and unfavourable variances should be shown
- 4: None of the above

**Right Answer: Both favourable and unfavourable variances should be shown**

**Description: Self Explanatory**





Q-11:

Purchases budget and materials budget are same:

1 Purchases budget is a budget which includes only the details of all materials purchased

2: Purchases budget is a wider concept and thus includes not only purchases of materials but also other items as well

3: Purchases budget is different from materials budget; it includes purchases of other items only

4: None of the above

**Right Answer: Purchases budget is a wider concept and thus includes not only purchases of materials but also other items as well**

**Description: Self Explanatory**



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**ICAI MODULE QUESTIONS**

1. 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:

- (a) Master budget
- (b) Cash budget
- (c) Flexible budget
- (d) Fixed budget

**Answer: c**

2. 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

**Answer: b**

3. Budget manual is a document:

- (a) Which contains different type of budgets to be formulated only.
- (b) Which contains the details about standard cost of the products to be made.
- (c) Setting out the budget organization and procedures for preparing a budget including fixation of responsibilities, formats and records required for the purpose of preparing a budget and for exercising budgetary control system.
- (d) None of the above

**Answer: c**

4. The budget control organization is usually headed by a top executive who is known as:

- (a) General manager
- (b) Budget director/budget controller
- (c) Accountant of the organization
- (d) None of the above

**Answer: b**





5. "A favourable budget variance is always an indication of efficient performance". Do you agree, give reason?

- (a) A favourable variance indicates, saving on the part of the organization hence it indicates efficient performance of the organization.
- (b) Under all situations, a favourable variance of an organization speaks about its efficient performance.
- (c) A favourable variance does not necessarily indicate efficient performance, because such a variance might have been arrived at by not carrying out the expenses mentioned in the budget.
- (d) None of the above.

**Answer: c**

6. A budget report is prepared on the principle of exception and thus-

- (a) Only unfavourable variances should be shown
- (b) Only favourable variance should be shown
- (c) Both favourable and unfavourable variances should be shown
- (d) None of the above

**Answer: c**

7. Purchases budget and materials budget are same:

- (a) Purchases budget is a budget which includes only the details of all materials purchased
- (b) Purchases budget is a wider concept and thus includes not only purchases of materials but also other item's as well
- (c) Purchases budget is different from materials budget; it includes purchases of other items only
- (d) None of the above

**Answer: b**

8. Efficiency ratio is:

- (a) The extent of actual working days avoided during the budget period
- (b) Activity ratio/ capacity ratio
- (c) Whether the actual activity is more or less than budgeted activity
- (d) None of the above

**Answer: b**





9. Activity Ratio depicts:
- (a) Whether actual capacity utilized exceeds or falls short of the budgeted capacity
  - (b) Whether the actual hours used for actual production were more or less than the standard hours
  - (c) Whether actual activity was more or less than the budgeted capacity
  - (d) None of the above

**Answer: c**

10. Which of the following is usually a short-term budget:
- (a) Capital expenditure budget
  - (b) Research and development budget
  - (c) Cash budget
  - (d) Sales budget

**Answer: c**



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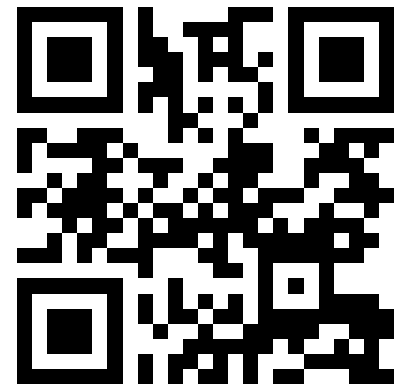


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