Amendment in Cost & Management Accounting

Question 1

M/s Tyrotubes trades in four wheeler tyres and tubes. It stocks sufficient quantity of tyres of almost every vehicle. In year end 20X1-X2, the report of sales manager revealed that M/s Tyrotubes experienced stock-out of tyres.

The stock-out data is as follows:

Stock-out of Tyres*	No. of times
100	2
80	5
50	10
20	20
10	30
0	33

M/s Tyrotubes loses Rs.150 per unit due to stock-out and spends Rs. 50 per unit on carrying of inventory.

Determine optimum safest stock level.

Solution:- Computation of probability of stock-out

Stock-Out units	No. of times	Probability (%)
100	2	2%
80	5	5%
50	10	10%
20	20	20%
10	30	30%
0	33	33%
	Total	**100%**

Special Note:- stock out units = unexpected demand – safety stock units

Total Stock –out cost = stock out units x Rs. 150

Expected stock-out cost = total stock-out cost x probability (%)

Carrying cost = safety stock x Rs. 50

Computation of stock-out and inventory carrying cost

Unexpected demand	Safety units	Stock-out units	Probability (%)	stock-out cost Rs.	Carrying cost Rs.	Total cost Rs.
100 units	0	100 units	2%	300	NIL	
80 units	0	80 units	5%	600		
50 units	0	50 units	10%	750		
20 units	0	20 units	20%	600		
10 units	0	10 units	30%	450		
Total				**2700**	**NIL**	**2700**
100 units	10	90 units	2%	270	500	
80 units	10	70 units	5%	525		
50 units	10	40 units	10%	600		
20 units	10	10 units	20%	300		
10 units	10	NIL units	30%	----		
Total				**1695**	**500**	**2195**
100 units	20	80 units	2%	240	1000	
80 units	20	60 units	5%	450		
50 units	20	30 units	10%	450		
20 units	20	NIL units	20%	------		
10 units	20	NIL units	30%	----		
Total				**1140**	**1000**	**2140**
100 units	50	50 units	2%	150	2500	
80 units	50	30 units	5%	225		
50 units	50	NIL units	10%	---		
20 units	50	NIL units	20%	------		
10 units	50	NIL units	30%	----		
Total				**375**	**2,500**	**2,875**
100 units	80	20 units	2%	60	4,000	
80 units	80	NIL units	5%	----		
50 units	80	NIL units	10%	---		
20 units	80	NIL units	20%	------		
10 units	80	NIL units	30%	----		
Total				**60**	**4,000**	**4,060**
100 units	100	NIL units	2%	-----	5,000	
80 units	100	NIL units	5%	----		
50 units	100	NIL units	10%	---		
20 units	100	NIL units	20%	------		
10 units	100	NIL units	30%	----		
Total				**----**	**5,000**	**5,000**

If safety stock of 20 units is maintained then total cost is least i.e. Rs.2,140

Question 2

From the following details, draw a plan of ABC selective control:

Item	Units	Unit cost (Rs.)
1	7,000	5.00
2	24,000	3.00
3	1,500	10.00
4	600	22.00
5	38,000	1.50
6	40,000	0.50
7	60,000	0.20
8	3,000	3.50
9	300	8.00
10	29,000	0.40
11	11,500	7.10
12	4,100	6.20

Solution:- Statement showing Total cost and ranking of items

Item	**Units**	**Unit Cost (Rs.)**	**Total Cost (Rs.)**	**% of total Cost**	**Ranking based on % of total cost**	**Category (70:20:10 Based)**	**Category (Other Basis)**
1	7,000	5.00	35,000	9.8378	4	A	B
2	24,000	3.00	72,000	20.2378	2	A	A
3	1,500	10.00	15,000	4.2162	7	B	B
4	600	22.00	13,200	3.7103	8	B	C
5	38,000	1.50	57,000	16.0216	3	A	A
6	40,000	0.50	20,000	5.6216	6	B	B
7	60,000	0.20	12,000	3.3730	9	C	C
8	3,000	3.50	10,500	2.9513	11	C	C
9	300	8.00	2,400	0.6746	12	C	C
10	29,000	0.40	11,600	3.2605	10	C	C
11	11,500	7.10	81,650	22.9502	1	A	A
12	4,100	6.20	25,420	7.1451	5	B	B
Total	**2,19,000**		**3,55,770**	**100.00**			

Rule of 70%, 20% & 10% to categorise in ABC is not only method. An enterprise if free to choose any other basis.

Suppose entity decides to category as follows:

- Rs.50000 and above – Category “A” Items
- Rs.15000 to Rs.50000 – Category “B” Items

- Below Rs.15000 – Category "C" Items

Question 3

Aditya Ltd. is an engineering manufacturing company producing job order on the basis of specification given by the customers. During the last the month it has completed three job works namely A, B and C. The following are the items of expenditures which are incurred apart from direct materials and direct employee cost:

(i) Office and administration cost- Rs.3,00,000.
(ii) Product blueprint cost for job A – Rs.1,40,000
(iii) Hire charges paid for machinery used for job work B- Rs.40,000
(iv) Salary to office attendants- Rs.50,000
(v) One time license fee paid for software used to make computerised graphics for job C- Rs.50,000.
(vi) Salary paid to marketing manager- Rs.1,20,000.

Required: CALCULATE direct expenses attributable to each job.

Solution

Calculation of Direct expenses

	Job A	Job B	Job C
Product blueprint cost	140000		
Hire charges paid for machine		40000	
License fee paid for software			50000
Total	**140000**	**40000**	**50000**

Note:
(i) Office and administration cost is classified as overheads.
(ii) Salary paid to office attendants is classified under office and administration cost.
(iii) Salary paid to marketing manager is classified under selling overheads

Question 4

The following expenditures were incurred in Aditya Ltd. For the month of March 2023:
(i) Paid for power & fuel 4,80,200
(ii) Wages paid to factory workers 8,44,000
(iii) Bill paid to job workers 9,66,000
(iv) Royalty paid for production 8,400
(v) Fee paid to technician hired for the job 96,000
(vi) Administrative overheads 76,000
(vii) Commission paid to sales staffs 1,26,000
You are required to CALCULATE direct expenses for the month

Solution

Calculation of Direct expenses

	Amount
Paid for Power & Fuel	480200
Bill paid to job workers	966000
Royalty paid for production	8400
Fee Paid to the technician	96000
Total	**1550600**

Notes

(i) Wages paid to factory workers is direct employee cost.

(ii) Administrative overhead is indirect expense.

(iii) Commission paid to sales staffs comes under selling expenses.

Question 5

The following figures are extracted from the Trial Balance of × Ltd. on 31st March.

Inventories*:*	Rs.		Rs.
Finished stock	80,000	Indirect labour	18,000
Raw materials	1,40,000	Factory supervision	10,000
Work-in-process	2,00,000	Repairs and upkeep-factory	14,000
Office appliances	17,400	Heat, light and power	65,000
Plant & machinery	4,60,500	Rates and taxes	6,300
Buildings	2,00,000	Miscellaneous factory expenses	18,700
Sales	7,68,000	Sales commission	33,600
Sales return & rebates	14,000	Sales travelling	11,000
Materials purchased	3,20,000	Sales promotion	22,500
Freight incurred on materials	16,000	Distribution dept. salaries and expenses	18,000
Purchase returns	4,800	Office salaries and expenses	8,600
Direct labour	1,60,000		

Further details are available as follows :

(i) ***Closing Inventories****:*		(iii)	**Depreciation to be provided on**:	
Finished goods	1,15,000		Office appliances	5%
Raw materials	1,80,000		Plant and machinery	10%
Work-in-process	1,92,000		Buildings	4%
(ii) ***Accrued expenses on****:*				
Direct labour	8,000			
Indirect labour	1,200			

Distribution of the following costs:

Heat, light and power to factory, office and selling in the ratio 8:1:1. Rates and taxes two-thirds to factory and one-third of office. Depreciation on buildings to factory, Office and selling in the ratio 8:1:1.

With the help of the above information, you are required to prepare a condensed Profit and Loss Statement of X Ltd. for the year ended 31st March along with the schedules showing (i) Cost of sales (ii) Selling and distribution expenses (iii) Administration expenses.

Solution: Statement showing Factory Overhead

Particulars	**Amount (Rs.)**
Depreciation on Plant & machinery (Rs. 460500 x 10%	46050
Depreciation on buildings (Rs. 200000 x 4% x $\frac{8}{10}$)	6400
Indirect labour (Rs. 18000 + 1200 – Accrued Exp.)	19200
Factory supervision	10000
Repairs and upkeep factory	14000
Heat, light & power (Rs. 65000 x $\frac{8}{10}$)	52000
Rates & taxes (Rs. 6300 x $\frac{2}{3}$)	4200
Misc. Factory Exp.	18700
Total	**170550**

Statement showing Office and admin Overhead

Particulars	**Amount (Rs.)**
Depreciation of office appliances (Rs. 17400 x 5%)	870
Depreciation on buildings (Rs. 200000 x 4% x $\frac{1}{10}$)	800
Heat, light & power (Rs. 65000 x $\frac{1}{10}$)	6500
Rates & taxes (Rs. 6300 x $\frac{1}{3}$)	2100
Office salaries & expenses	8600
Total	**18870**

Statement showing Selling & Distribution Overhead

Particulars	**Amount (Rs.)**
Depreciation on buildings (Rs. 200000 x 4% x $\frac{1}{10}$)	800
Heat, light & power (Rs. 65,000 x $\frac{1}{10}$)	6500
Sales commission	33600
Sales travelling	11000
Sales promotion	22500
Distribution deptt. – Salaries & expenses	18000
Total	**92400**

SCHEDULE 1: COST OF SALES

Particulars	**Amt (Rs.)**	**Total units**
Opening stock of raw material	1,40,000	
Add:- Purchase of raw material including carriage inwards (320000 +16000 -4800)	3,31,200	
Less:- Closing stock of raw material	(180000)	
Direct material consumed / DMC	**291200**	
Direct Labour Cost (160000 +8000)	168000	
Direct Expenses / Chargeable Expenses	-	
Prime Cost/Direct Cost	**459200**	
Factory/works/Manufacturing/Production overhead	170550	
Plus Opening stock of WIP	200000	
Less closing stock of WIP	(192000)	
Factory Cost	**637550**	
Quality Control Cost	**-**	
Research & Development Cost (Process Related)	**-**	
Adm. Overheads (Related to Production Activity)	**-**	
Less:- Credit for Recoveries / Scrap / By – Products / Misc. Income	**-**	
Primary Packing Cost	**-**	
~~Office and administration overhead~~	-	
Cost of Production (For FG Produced)	**637550**	
Plus opening stock of finished goods	80000	
Less closing stock of finished goods	(115000)	
Cost of goods Sold (For FG Sold)	**602750**	
Selling and distribution overhead	92400	
General Admin Overheads	18870	
Total cost / Cost of sales	**7,14,020**	
Total Profit (Difference)	**39,980**	
Total Sales (768000-14000)	**754000**	

Question 6

X Ltd. is committed to supply 48,000 bearings per annum to *Y* Ltd. on a steady basis. It is estimated that it costs 20 paise as inventory holding cost per bearing per month and that the set-up cost per run of bearing manufacture is Rs. 384.

(a) What would be the optimum run size for bearing manufacture?

(b) Calculate interval between two consecutive optimum runs?

(c) Assuming that the company has a policy of manufacturing 8,000 bearings per run, how much extra costs would the company be incurring as compared to the optimum run?

(d) Give your opinion regarding run size of bearing manufacture. Assume 365 days in a year?

Solution:-

(a) Optimum Production Run Size (Q) = $\sqrt{\frac{2AS}{C}}$

Where, A = No. of units to be produced within one year

O = Set-up cost per production run

C = Carrying cost per unit per annum

$= \sqrt{\frac{2 \times 48,000 \times 384}{2.4}}$ = 3919.18 or 3920 bearings

Number of optimum runs = 48000 / 3920 = 12.245 or 13 Runs

(b) Interval between 2 runs (in days) = 365 days ÷ 13 = 28 days

Or 365÷12.24=29.82 days

(c) STATEMENT SHOWING TOTAL COST AT PRODUCTION RUN SIZES OF 3,920 AND 8,000 BEARINGS

A.	Annual requirements	24,000	24,000
B.	Run size	3,920	8,000
C.	No. of runs (A/B)	12.245	6
D.	Set up cost per run	Rs. 384	Rs. 384
E.	Total set up cost (C × D)	Rs. 4702	Rs. 2304
F.	Average inventory (B/2)	1920	4000
G.	Carrying cost per unit p.a.	2.40	2.40
H.	Total carrying cost (F × G)	4704	9600
I.	Total cost (E + H)	9406	11904

Extra cost incurred, if run size is of 8,000 = Rs.11904 – Rs.9406 = Rs.2498

(d) To save cost the company should run at optimum batch size ie 3,920 Units. It saves Rs. 2,498. Run size should match with the Economic production run of

bearing manufacture. When managers of a manufacturing operation make decisions about the number of units to produce for each production run, they must consider the costs related to setting up the production process and the costs of holding inventory

Question 7

AP Ltd. received a job order for supply and fitting of plumbing materials. Following are the details related with the job work:

Direct Materials

AP Ltd. uses a weighted average method for the pricing of materials issues.

Opening stock of materials as on 12th August 2020:

- 15mm GI Pipe, 12 units of (15 feet size) @ Rs.600 each
- 20mm GI Pipe, 10 units of (15 feet size) @ Rs. 660 each
- Other fitting materials, 60 units @ Rs. 26 each
- Stainless Steel Faucet, 6 units @ Rs. 204 each
- Valve, 8 units @ Rs. 404 each

Purchases:

On 16th August 2020:

- 20mm GI Pipe, 30 units of (15 feet size) @ Rs. 610 each
- 10 units of Valve @ Rs. 402 each

On 18th August 2020:

- Other fitting materials, 150 units @ Rs. 28 each
- Stainless Steel Faucet, 15 units @ Rs. 209 each

On 27th August 2020:

- 15mm GI Pipe, 35 units of (15 feet size) @ Rs. 628 each
- 20mm GI Pipe, 20 units of (15 feet size) @ Rs. 660 each
- Valve, 14 units @ Rs. 424 each

Issues for the hostel job:

On 12th August 2020:

- 20mm GI Pipe, 2 units of (15 feet size)
- Other fitting materials, 18 units

On 17th August 2020:

- 15mm GI Pipe, 8 units of (15 feet size)
- Other fitting materials, 30 units

On 28th August 2020:

- 20mm GI Pipe, 2 units of (15 feet size)
- 15mm GI Pipe, 10 units of (15 feet size)
- Other fitting materials, 34 units
- Valve, 6 units

On 30th August 2020:

- Other fitting materials, 60 units
- Stainless Steel Faucet, 15 units

Direct Labour:

Plumber: 180 hours @ Rs.100 per hour (includes 12 hours overtime)
Helper: 192 hours @ Rs.70 per hour (includes 24 hours overtime)
Overtimes are paid at 1.5 times of the normal wage rate.

Overheads:

Overheads are applied @ Rs.26 per labour hour.

Pricing policy:

It is company's policy to price all orders based on achieving a profit margin of 25% on sales price.

You are required to

(a) CALCULATE the total cost of the job.

(b) CALCULATE the price to be charged from the customer.

Solution:-

(a) Calculation of Total Cost for the Job:

Particulars	Amount (Rs.)	Amount (Rs.)
Direct Material Cost:		
- 15mm GI Pipe (Working Note- 1)	11,051.28	
- 20mm GI Pipe (Working Note- 2)	2,588.28	
- Other fitting materials (Working Note- 3)	3,866.07	
- Stainless steel faucet	3,113.57	
- Valve	2,472.75	23,091.95
Direct Labour:		
-Plumber [(180 hours × Rs.100) + (12 hours × Rs.50)]	18,600.00	
-Helper [(192 hours × Rs.70) + (24 hours × Rs.35)]	14,280.00	32,880.00

-Overheads[Rs.26 × (180 + 192) hours]		9,672.00
Total Cost		**65,643.95**

(b) Price to be charged for the job work:

	Amount (Rs.)
Total Cost incurred on the job	65,643.95
Add: 25% Profit on Job Price x ($\frac{65,643.95}{75\%}$ x 25%)	21,881.32
	87,525.27

W. Note 1 – Calculation of Cost of 15mm material used

Date	Receipts			Issues			Balance		
	Qty	Rate	Amt	Qty	Rate	Amt	Qty	Rate	Amt
12th Aug							12	600	7200
17th Aug				8	600	4800	4	600	2400
27th Aug	35	628	21980				39	625.1282	24380
28th Aug				10	625.1282	6251.282	29	625.1282	18128.718
Total						**11051.282**			

W. Note 2 – Calculation of Cost of 20mm material used

Date	Receipts			Issues			Balance		
	Qty	Rate	Amt	Qty	Rate	Amt	Qty	Rate	Amt
12th Aug							10	660	6600
12th Aug				2	660	1320	8	660	5280
16th Aug	30	610	18300				38	620.526	23580
27th Aug	20	660	13200				58	634.1379	36780
28th Aug				2	634.1379	1268.28			
Total						**2588.28**			

W. Note 3 – Calculation of Cost of Other Fittings material

Date	Receipts			Issues			Balance		
	Qty	Rate	Amt	Qty	Rate	Amt	Qty	Rate	Amt
12th Aug							60	26	1560
12th Aug				18	26	468	42	26	1092
17th Aug				30	26	780	12	26	312
18th Aug	150	28	4200				162	27.85	4512
28th Aug				34	27.85	946.96	128	27.85	3565.03
30th Aug				60	27.85	1671.11	68	27.85	1893.92
Total						**3866.07**			

W. Note 4 – Calculation of Cost of Stainless Steel

Date	Receipts			Issues			Balance		
	Qty	Rate	Amt	Qty	Rate	Amt	Qty	Rate	Amt
12th Aug							6	204	1224
16th Aug	15	209	3135				21	207.5714	4359
30th Aug				15	207.5714	3113.57			
Total						**3113.57**			

W. Note 5 – Calculation of Cost of Valve

Date	Receipts			Issues			Balance		
	Qty	Rate	Amt	Qty	Rate	Amt	Qty	Rate	Amt
12th Aug							8	404	3232
16th Aug	10	402	4020				18	402.8888	7252
27th Aug	14	424	5936				32	412.125	13188
28th Aug				6	412.125	2472.75	26	412.125	10715.25
Total						**2472.75**			

Question 8

RST Limited produces three joint products X, Y and Z. The products are processed further. Pre-separation costs are apportioned on the basis of weight of output of each joint product. The following data are provided for a particular month: Cost incurred up to separation point: Rs. 10,000

	Product X	Product Y	Product Z
Output (in Litre)	100	70	80
	Rs.	Rs.	Rs.
Cost incurred after separation point	2,000	1,200	800
Selling Price per Litre:			
After further processing	50	80	60
At pre-separation point (estimated)	25	70	45

You are required to:

(i) Prepare a statement showing profit or loss made by each product after further processing using the presently adopted method of apportionment of pre-separation cost.

(ii) Advise the management whether, on purely financial consideration, the three products are to be processed further or not.

Solution

(i) Statement showing profit/loss by each product after further processing products

	Product X	Product Y	Product Z
Sales value after further processing	5000	5600	4800
Less further processing cost	2000	1200	800
Less Joint Cost	4000	2800	3200
Profit	**(1000)**	**1600**	**800**

W. Note – Apportionment of Joint Cost

	Product X	Product Y	Product Z	Total
Output (in litre)	100	70	80	250
Joint Cost	4000	2800	3200	10000

JC shall be apportioned in output ratio.

(i) Decision whether to process further or not

Particulars	X	Y	Z
Incremental Sales Revenue	2500 [(50-25) × 100]	700 [(80-70) × 70]	1200 [(60-45) × 80]
Less Further Processing Cost	2000	1200	800
Incremental profit	**500**	**(500)**	**400**

Advise:- it is beneficial to further process Product X & Z and sale product Y at separation point itself.

Question 9

OPR Ltd. purchases crude vegetable oil. It does refining of the same. The refining process results in four products at the spilt-off point - S, P, N and A. Product 'A' is fully processed at the split-off point. Product S, P and N can be individually further refined into SK, PM, and NL respectively. The joint cost of purchasing the crude vegetable oil and processing it were Rs. 40,000 which is apportioned on the basis of Sales Value at split-off point. Other details are as follows:

Products	Further Processing Cost (Rs.)	Sales at Split Off Point (Rs.)	Sales After Further Processing (Rs.)
S	80,000	20,000	1,20,000
P	32,000	12,000	40,000
N	36,000	28,000	48,000
A	-	20,000	-

You are required to identify the products which can be further processed for maximizing profits and make suitable suggestions

Solution

Note: Joint Cost of Rs.40,000 shall be apportioned in ratio of Sales value at split Off Point.

Decision whether to process further or not

Particulars	S	P	N	A
Incremental Sales after Further processing	100000	28000	20000	
Less Further processing Cost	80000	32000	36000	
Incremental Profit	**20000**	**(4000)**	**(16000)**	

Suggestion – it is beneficial to further process Product S Only and sale product P & N at separation point itself.

Question 10

Solar Power Ltd. has a power generation capacity of 1000 Megawatt per day. On an average it operates at 85% of its installed capacity. The cost structure of the plant is as under:

	Cost Particulars	Amount (Rs. In Lakh)
1.	Employee cost per year	2500
2.	Solar panel maintenance cost per year	250
3.	Site maintenance cost per year	150
4.	Depreciation per year	5940

CALCULATE cost of generating 1kW of power. [1 Megawatt = 1,000 kW]

Solution

Estimated power generated in a year = 1000 Megawatt × 85% × 365 days
= 3,10,250 Megawatt

Particulars	Amount (Rs. In Lakh)
Employee cost per year	2500

Solar panel maintenance cost per year	250
Site maintenance cost per year	150
Depreciation per year	5940
Total Cost	**8840**
Estimated power generated in a year	3,10,250 Megawatt
Cost of generating 1 Megawatt (Rs.)	**2,849.31**
Cost of 1 kW (Rs.) [G÷1,000]	**2.849**

Question 11

A Ltd., manufactures two products A and B. The manufacturing division consists of two production departments P1 and P2 and two service departments S1 and S2. Budgeted overhead rates are used in the production departments to absorb factory overheads to the products. The rate of Department P1 is based on direct machine hours, while the rate of Department P2 is based on direct labour hours. In applying overheads, the pre-determined rates are multiplied by actual hours.

For allocating the service department costs to production departments, the basis adopted is as follows:

(i) Cost of Department S1 to Department P1 and P2 equally, and

(ii) Cost of Department S2 to Department P1 and P2 in the ratio of 2 : 1 respectively.

The following budgeted and actual data are available:

Annual profit plan data:

Factory overheads budgeted for the year:

Production Departments		**Service Departments**	
P1	P2	S1	S2
Rs.25,50,000	Rs.21,75,000	Rs.6,00,000	Rs.4,50,000

Budgeted output in units:

Product A 50,000; B 30,000.

Budgeted raw-material cost per unit:

Product A Rs. 120; Product B Rs. 150.

Budgeted time required for production per unit:

Department P1 : Product A : 1.5 machine hours

Product B : 1.0 machine hour

Department P2 : Product A : 2 Direct labour hours

Product B : 2.5 Direct labour hours

Average wage rates budgeted in Department P2 are:

Product A - Rs. 72 per hour and Product B – Rs. 75 per hour.

All materials are used in Department P1 only.

Actual data: (for the month of July, 2022)

Units actually produced: Product A: 4,000 units

Product B: 3,000 units

Actual direct machine hours worked in Department P1:

On product A- 6,100 hours, Product B- 4,150 hours.

Actual direct labour hours worked in Department P2:

on product A- 8,200 hours, Product B- 7,400 hours.

Cost Actually Incurred	**Product A**	**Product B**
Raw Materials	Rs.4,89,000	Rs.4,56,000
Wages	Rs.5,91,900	Rs.5,52,000
Overheads		
Department P1	Rs.2,31,000 S1	Rs.60,000
Department P2	Rs.2,04,000 S2	Rs.48,000

You are required to:

(i) COMPUTE the pre-determined overhead rate for each production department.

(ii) PREPARE a performance report for July, 2022 that will reflect the budgeted costs and actual costs.

Solution

(i) Computation of Pre-determined Overhead rates

	Prod. Depts.		**Service Depts.**	
	P1	P2	S1	S2
Budgeted FOH (Given)	Rs.25,50,000	Rs.21,75,000	Rs.6,00,000	Rs.4,50,000
OH of S1 distributed in P1&P2 in Equal Ratio	Rs.3,00,000	Rs.3,00,000	(Rs.6,00,000)	-
OH of S2 distributed in P1&P2 in 2:1 Ratio	Rs.3,00,000	Rs.1,50,000	-	(Rs.4,50,000)
Total	**Rs.31,50,000**	**Rs.26,25,000**	**-**	**-**
Budgeted Machine Hours P1 – 50000 units x 1.50 Hrs + 30000 units x 1 Hrs = 105000 P2 - 50000 units x 2 Hrs + 30000 units x 2.50 Hrs = 175000	105000 Hrs	175000 Hrs.		
Budgeted Machine hour Rate	Rs.30	Rs.15		

(ii) Performance Report for July 2022

	Budgeted (Rs.)	**Actual (Rs.)**
Raw Material in P1		
A: 4000 units x Rs.120	4,80,000	4,89,000
B: 3000 units x Rs.150	4,50,000	4,56,000
Direct Labour Cost in P2		

A: 4000 units x 2 Hrs. x Rs.72 B: 3000 units x 2.5 Hrs. x Rs.75	5,76,000 5,62,500	5,91,900 5,52,000
Overheads absorbed in P1 A: 4000 units x 1.5 Hrs. x Rs.30 B: 3000 units x 1 Hrs. x Rs.30	 1,80,000 90,000	 1,74,400 (6100 Hrs. x Rs.28.59) 1,18,649 (4150 Hrs. x Rs.28.59)
Overheads absorbed in P2 A: 4000 units x 2 Hrs. x Rs.15 B: 3000 units x 2.50 Hrs. x Rs.15	 1,20,000 1,12,500	 1,31,364 (8200 Hrs. x Rs.16.02) 1,18,649 (7400 Hrs. x Rs.16.02)
Total	**25,71,000**	**26,31,861**

Computation of Actual Overhead rates

	Prod. Depts.		**Service Depts.**	
	P1	**P2**	**S1**	**S2**
Actual FOH (Given)	**231000**	**204000**	**60000**	**48000**
OH of S1 distributed in P1&P2 in Equal Ratio	30000	30000	(60000)	-
OH of S2 distributed in P1&P2 in 2:1 Ratio	32000	16000	-	(48000)
Total	**293000**	**250000**	**-**	**-**
Actual Machine Hours P1 – 6100 Hrs + 4150 Hrs = 10250 Hrs. P2 - 8200 Hrs + 7400 Hrs = 15600 Hrs.	10250 Hrs.	15600 Hrs.		
Actual Machine hour Rate	**Rs.28.59**	**Rs.16.02**		

Multiple Choice Questions (MCQs)

Question 1

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

(a) Cost unit

(b) Cost object

(c) Cost driver

(d) Cost Centre

Solution- (b)

Question 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

Solution- (c)

Question 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

Solution- (b)

Question 4

Processes Costing method is suitable for

(a) Transport sector

(b) Chemical industries

(c) Dam construction

(d) Furniture making

Solution- (b)

Question 5

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

(a) By Element

(b) By Function

(c) By Controllability

(d) By Variability

Solution- (a)

Question 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.
Solution- (b)

Question 7
A taxi provider charges minimum Rs 80 thereafter Rs 12 per kilometer of distance travelled, the behavior of conveyance cost is:
(a) Fixed Cost
(b) Semi-variable Cost
(c) Variable Cost
(d) Administrative cost.
Solution- (b)

Question 8
A Ltd. has three production department, and each department has two machines, which of the following cannot be treated as cost centre for costs allocation:
(a) Machines under the production department
(b) Production departments
(c) Both Production department and machines
(d) A Ltd.
Solution- (d)

Question 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.
Solution- (c)

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

Question 11
Direct material can be classified as
(a) Fixed cost
(b) Variable cost
(c) Semi-variable cost.
(d) Prime Cost
Solution- (b)

Question 12
In most of the industries, the most important element of cost is

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

Question 13
Which of the following is considered to be the normal loss of materials?
(a) Loss due to accidents
(b) Pilferage
(c) Loss due to breaking the bulk
(d) Loss due to careless handling of materials.
Solution- (c)

Question 14
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
Solution- (b)

Question 15
Continuous stock taking is a part of
(a) Annual stock taking
(b) Perpetual inventory
(c) ABC analysis.
(d) Bin Cards
Solution- (b)

Question 16
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.
Solution- (b)

Question 17
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
Solution- (a)

Question 18
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
Solution- (b)

Question 19
Under the FSN system of inventory control, inventory is classified on the basis of:
(a) Volume of material consumption
(b) Frequency of usage of items of inventory
(c) Criticality of the item of inventory for production
(d) Value of items of inventory.
Solution- (b)

Question 20
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
Solution- (b)

Question 21
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
Solution- (c)

Question 22
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
Solution- (c)

Question 23
Time and motion study is conducted by-
(a) Time keeping department
(b) Personnel department
(c) Payroll department
(d) Engineering department
Solution- (d)

Question 24
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
Solution- (c)

Question 25

Labour turnover is measured by-
(a) Number of persons replaced/ average number of workers
(b) Numbers of persons separated / number of workers at the beginning of the year
(c) (Number of persons replaced + number of persons separated)/(number of persons at the beginning + the number of persons at the end of the year).
(d) None of the above
Solution- (a)

Question 26
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
Solution- (d)

Question 27
Employee Cost includes-
(a) Wages and salaries
(b) Allowances and incentives
(c) Payment for overtime
(d) All of the above
Solution- (d)

Question 28
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
Solution- (a)

Question 29
Standard time of a job is 60 hours and guaranteed time rate is Rs 0.30 per hour. What is the amount of wages under Rowan plan if job is completed in 48 hours?
(a) Rs.16.20
(b) Rs. 17.28
(c) Rs. 18.00
(d) Rs. 14.40.
Solution- (b)

Question 30
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

Solution- (d)

Question 31

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

Solution- (b)

Question 32

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

Solution- (a)

Question 33

"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

Solution- (a)

Question 34

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

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

Solution- (c)

Question 35

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

Solution- (c)

Question 36

Primary packing cost is a part of:

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

Solution- (b)

Question 37
Director's remuneration and expenses form part of:
(a) Production overhead
(b) Administration overhead
(c) Selling overhead
(d) Distribution overhead
Solution- (b)

Question 38
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
Solution- (c)

Question 39
Bad debt is an example of:
(a) Distribution overhead
(b) Production overhead
(c) Selling overhead
(d) Administration overhead
Solution- (c)

Question 40
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
Solution- (c)

Question 41
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
Solution- (d)

Question 42
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 contributions
(d) Managerial Salaries
Solution- (d)

Question 43
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
Solution- (d)

Question 44
In activity based costing, costs are accumulated by activity using:
(a) Cost drivers
(b) Cost objects
(c) Cost pools
(d) Cost benefit analysis
Solution- (c)

Question 45
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
Solution- (d)

Question 46
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

Solution- (d)

Question 47
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
Solution- (c)

Question 48
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
Solution- (d)

Question 49

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

Solution- (d)

Question 50

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

Solution- (a)

Question 51

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

Solution- (b)

Question 52

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

Solution- (d)

Question 53

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

(a) Functions

(b) Variability

(c) Relevance

(d) Nature

Solution- (a)

Question 54

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.

Solution- (a)

Question 55
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
Solution- (b)

Question 56
Salary paid to plant supervisor is a part of
(a) Direct expenses
(b) Factory overheads
(c) Quality control cost
(d) Administration cost
Solution- (b)

Question 57
Depreciation of director's laptop is treated as a part of:
(a) Administration Overheads
(b) Factory Overheads
(c) Direct Expenses
(d) Research & Development cost
Solution- (a)

Question 58
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.
Solution- (b)

Question 59
Audit fees paid to auditors is part of:
(a) Administration Cost
(b) Production cost
(c) Selling & Distribution cost
(d) Not shown in cost sheet.
Solution- (a)

Question 60
Salary paid to factory store staff is part of:
(a) Factory overheads
(b) Production Cost
(c) Direct Employee cost.
(d) Direct Material Cost.
Solution- (a)

Question 61
Canteen expenses for factory workers are part of:
(a) Factory overhead
(b) Administration Cost
(c) Marketing cost

(d) None of the above.
Solution- (a)

Question 62
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.
Solution- (c)

Question 63
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
Solution- (b)

Question 64
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
Solution- (b)

Question 65
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
Solution- (d)

Question 66
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
Solution- (b)

Question 67
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

Solution- (a)

Question 68

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

Solution- (a)

Question 69

Which account is to be debited if materials worth Rs 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

Solution- (a)

Question 70

Which of the following items is included in cost accounts?

(a) Notional rent
(b) Donations
(c.) Transfer to general reserves
(d) Rent receivable

Solution- (a)

Question 71

When costing loss is Rs 5,600, administrative overhead under-absorbed being Rs 600, the loss as per financial accounts should be

(a) Rs 5,600
(b) Rs 6,200
(c) Rs 5,000
(d) None of the above.

Solution- (b)

Question 72

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

Solution- (a)

Question 73

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
Solution- (a)

Question 74
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
Solution- (b)

Question 75
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
Solution- (c)

Question 76
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
Solution- (c)

Question 77
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.
Solution- (d)

Question 78
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
Solution- (b)

Question 79

Batch costing is a type of:

(a) Process costing

(b) Job Costing

(c) Differential costing

(d) Direct costing

Solution- (b)

Question 80

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

Solution- (b)

Question 81

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

Solution- (d)

Question 82

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)

Solution- (d)

Question 83

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

Solution- (c)

Question 84

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

Solution- (b)

Question 85

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.
Solution- (a)

Question 86

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
Solution- (b)

Question 87

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.
Solution- (a)

Question 88

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.
Solution- (a)

Question 89

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)
Solution- (d)

Question 90

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

Solution- (a)

Question 91

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

Solution- (c)

Question 92

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

(a) Rs.2.50
(b) Rs.16
(c) Rs.17.50
(d) Rs.17.75

Solution- (c)

Question 93

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

Solution- (b)

Question 94

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

Solution- (b)

Question 95

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.

Solution- (c)

Question 96

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.
Solution- (d)

Question 97
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.
Solution- (c)

Question 98
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.
Solution- (c)

Question 99
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
Solution- (b)

Question 100
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.
Solution- (d)

Question 101
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.

Solution- (d)

Question 102

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 Rs 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) Rs 2,080
(b) Rs 2,115
(c) Rs 2,200
(d) Rs 2,332

Solution- (b)

Question 103

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 Rs 2.50 and conversion costs (Labour & overheads) Rs 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 Rs 127,500
(b) 15,000 units transferred at a cost of Rs 130,050
(c) 15,000 units transferred at a cost of Rs 135,000
(d) 15,300 units transferred at a cost of Rs 130,050

Solution- (b)

Question 104

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

Solution- (b)

Question 105

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

Solution- (b)

Question 106

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)
Solution- (d)

Question 107
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
Solution- (c)

Question 108
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
Solution- (c)

Question 109
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.
Solution- (d)

Question 110
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.
Solution- (b)

Question 111
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.
Solution- (a)

Question 112

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.

Solution- (c)

Question 113

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

Solution- (b)

Question 114

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 Rs 1,00,000 and results in 60,000 units of MS and 90,000 units of CB. Each MS sells for Rs 200 per unit, and each CB sells for Rs 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) Rs.60,000.

(b) Rs.180,000.

(c) Rs.225,000.

(d) Rs.120,000..

Solution- (a)

Question 115

Kay Company manufactures two hair care lotions, Livi and Sili, out of a joint process. The joint (common) costs incurred are Rs 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 Rs 240 per gallon, and Sili sells for Rs 390 per gallon. If additional processing costs beyond the split-off point are Rs 140 per gallon for Livi and Rs 90 per gallon for Sili, the amount of joint cost of each production run allocated to Livi on a physical-quantity basis is:

(a) Rs.340,000.

(b) Rs.378,000.

(c) Rs.232,000.

(d) Rs.580,000

Solution- (b)

Question 116

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

.**Solution**- (c)

Question 117
Composite cost unit for a hospital is:
(a) Per patient
(b) Per patient-day
(c) Per day
(d) Per bed
Solution- (b)

Question 118
Cost of diesel and lubricant is an example of:
(a) Operating cost
(b) Fixed charges
(c) Semi-variable cost
(d) None of the above
Solution- (a)

Question 119
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
Solution- (b)

Question 120
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
Solution- (b)

Question 121
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
Solution- (c)

Question 122
Jobs undertaken by IT & ITES organizations are considered as:
(a) Project
(b) Batch work
(c) Contract
(d) All the above

Solution- (a)

Question 123
In Toll Road costing, the repetitive costs include:
(a) Maintenance cost
(b) Annual operating costs
(c) None of the above
(d) Both (a) and (b)
Solution- (a)

Question 124
BOT approach means:
(a) Build, Operate and Transfer
(b) Buy, Operate and Transfer
(c) Build, Operate and Trash
(d) Build, Own and Trash
Solution- (a)

Question 125
Pre-product development activities in insurance companies, include:
(a) Processing of Claim
(b) Selling of policy
(c) Provision of conditions
(d) Policy application processing
Solution- (c)

Question 126
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
Solution- (d)

Question 127
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
Solution-(b)

Question 128
The deviations between actual and standard cost is known as:
(a) Multiple analysis
(b) Variable cost analysis
(c) Variance analysis
(d) Linear trend analysis

Solution-(c)

Question 129

The standard which is attainable under favourable conditions is:

(a) Theoretical standard

(b) Expected standard

(c) Normal standard

(d) Basic standard

Solution-(a)

Question 130

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

(a) Normal standard

(b) Theoretical standard

(c) Expected standard

(d) Basic standard

Solution-(c)

Question 131

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

Solution-(a)

Question 132

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

Solution-(d)

Question 133

If standard hours for 100 units of output are 400 @ Rs 2 per hour and actual hours take are 380 @ Rs.2.25 per, then the labour rate variance is:

(a) Rs.95 (adverse)

(b) Rs.100 (adverse)

(c) Rs.25 (favourable)

(d) Rs.120 (adverse)

Solution-(a)

Question 134

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
Solution-(d)

Question 135
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.
Solution-(b)

Question 136
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.
Solution-(d)

Question 137
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.
Solution- (b)

Question 138
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.
Solution- (c)

Question 139
Period costs are:
(a) Variable costs.
(b) Fixed costs.
(c) Prime costs.
(d) Overheads costs.
Solution- (b)

Question 140
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.
Solution- (c)

Question 141
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.
Solution- (a)

Question 142
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.
Solution- (b)

Question 143
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.
Solution- (c)

Question 144
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.
Solution- (d)

Question 145
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.
Solution- (c)

Question 146
The P/V ratio of a product is 0.6 and profit is Rs 9,000. The margin of safety is:

(a) Rs 5,400
(b) Rs 15,000
(c) Rs 22,500
(d) Rs 3,600
Solution- (b)

Question 147
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
Solution- (c)

Question 148
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
Solution- (b)

Question 149
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
Solution- (c)

Question 150
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
Solution- (b)

Question 151
"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.
Solution- (c)

Question 152
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
Solution- (c)

Question 153
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
Solution- (b)

Question 154
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
Solution- (b)

Question 155
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
Solution- (c)

Question 156
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
Solution- (c)