

## Star Rating

On the basis of Maximum marks from a chapter

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On the basis of Questions included every year from a chapter

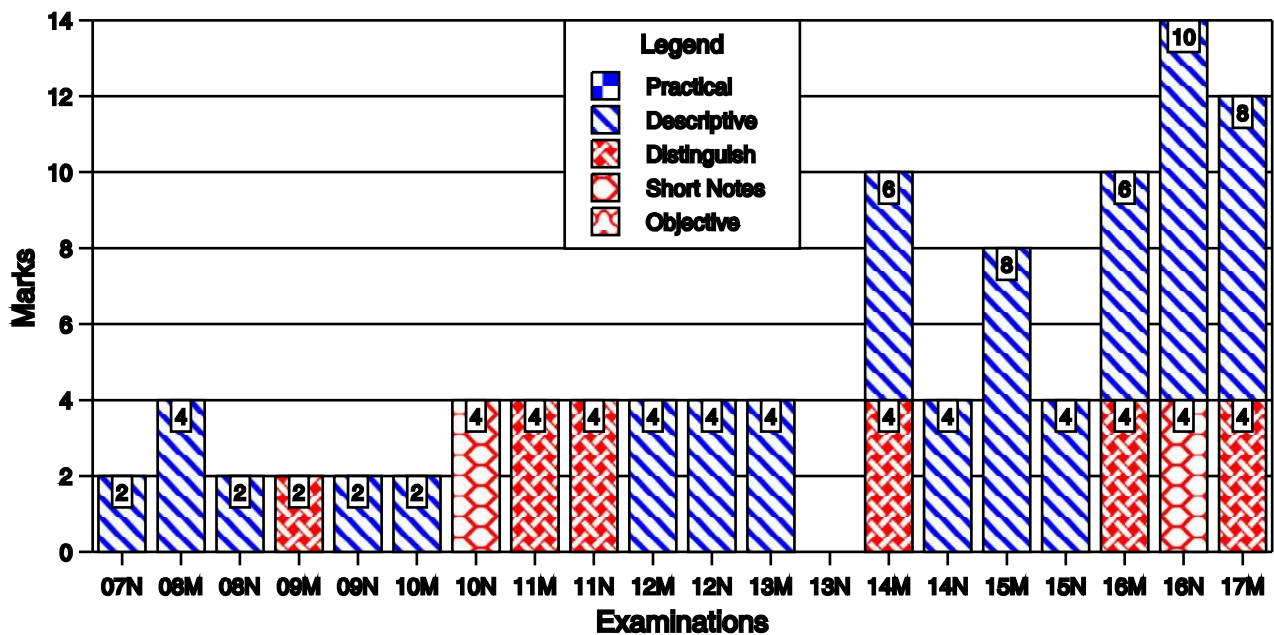
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On the basis of Compulsory questions from a chapter

Nil

<b>CHAPTER</b>	
<b>1</b>	<b>Introduction to Cost and Management Accounting</b>
<b>THIS CHAPTER COMPRISES OF</b>	
<p>☞ Objectives of Cost Accounting ☞ Scope of Cost Accounting ☞ Users of Cost and Management Accounting ☞ Essentials of a Good Cost Accounting System ☞ Installation of Costing System ☞ Cost Objects ☞ Responsibility Centres ☞ Limitations of Cost Accounting ☞ Classification of Costs ☞ Methods of Costing ☞ Techniques of Costing</p>	

### Marks of Objective, Short Notes, Distinguish Between, Descriptive & Practical Questions



**SHORT NOTES**

**2010 - Nov [6]** (b) Write short note on the following :

- (i) Essential factors for installing a Cost Accounting system. (4 marks)

**Answer :**

**Essential Factors for installing a Cost Accounting System**

Before setting up a system of cost accounting the under mentioned factors should be studied:

1.	<b>Objective</b>	The objective of the system i.e. whether it is being introduced for fixing prices or for insisting a system of cost control should be reviewed.
2.	<b>Nature of business</b>	A thorough study of the nature of business, its technical aspects, products, methods etc. should be done to select a proper method of costing.
3.	<b>Structure of organization</b>	A study of the structure of the organisation, its size and layout etc. should be made to enable the management to determine the scope of responsibilities of various managers.
4.	<b>Staff assistance</b>	The assistance of staff members and their participation at all levels of management are essential for the successful operation of the system.
5.	<b>Impact of expansion on cost</b>	The manner in which different variable expenses would be affected with expansion or cessation of different operations should be studied carefully.
6.	<b>Reconciliation of cost and financial accounts</b>	Arrangements should be made for regular reconciliation of costs and financial accounts, if maintained separately.
7.	<b>The Technical Details</b>	Technical aspects of the concern and the attitude and behaviour that will be successful in winning sympathetic assistance or support of the supervisory staff and workmen.

8.	<b>Information</b>	The maximum amount of information that would be sufficient and how the same should be secured without too much clerical labour, especially the possibility of collection of data on a separate printed form designed for each process; also the possibility of instruction as regards filling up of the forms in writing to ensure that these would be faithfully carried out.
9.	<b>Informative and Simple</b>	The manner in which the benefits of introducing Cost Accounting could be explained to various persons in the concern, especially those in charge of production department and awareness created for the necessity of promptitude, frequency and regularity in collection of costing data.
10.	<b>Accuracy</b>	How the accuracy of the data collected can be verified? Who should be made responsible for making such verification in regard to each operation and the form of certificate that he should give to indicate the verification that he has carried out.
11.	<b>Support</b>	Support of top management and employees are essential for installing a Cost Accounting System in any organisation.

**2016 - Nov [5]** (a) Write short notes on:

(i) Sunk Cost

(ii) Opportunity Cost

(4 marks)

**Answer:**

**(i) Sunk Cost:** Sunk costs are historical costs incurred in the past. They play no role in decision making during the current period. Sunk Costs are independent of any event that may occur in the future. e.g. in case of a decision related to the replacement of a machine, the written down value of the existing machine is a sunk cost and therefore, not considered.

**(ii) Opportunity Cost:** This cost refers to the value of sacrifice made or benefit or opportunity foregone in accepting an alternative course of action.

E.g. the opportunity cost of going to college is the money you would have earned if you worked instead, on the one hand, you lose four years of salary while getting your degree, on other hand, you hope to earn more during your career, thanks to your education to offset the lost wages.

### ► DISTINGUISH BETWEEN

**2009 - May [1]** Answer the following:

- (ii) Distinguish between product cost and period cost. (2 marks)

**Answer :**

Please refer KZ - 3 on page no. [32](#)

**2011 - May [6]** (b) Distinguish between cost units and cost centres.

(4 marks)

**Answer :**

#### **Difference between Cost Unit and Cost Centre**

**Cost Unit:** It is a unit of production, service, time or a combination of these, in relation to which costs may be ascertained or expressed. It should be one with which expenditure can be most readily associated or ascertained.

Cost Unit differs from one business to another. They are usually units of physical measurement like weight, area, volume, number, time, length and value.

**Some illustrations of cost unit are as follows:**

<b>Industry/Product/Input</b>	<b>Cost Unit</b>
Cement	Tonne
Power	Kilo watt hour
Transport	Tonne Km. or Passenger Km.
Sugar	Quintal/Tonne
Nuts and Bolts	Gross or Kilogram
Construction or Interior Decoration	Each contract
Automobiles	Number

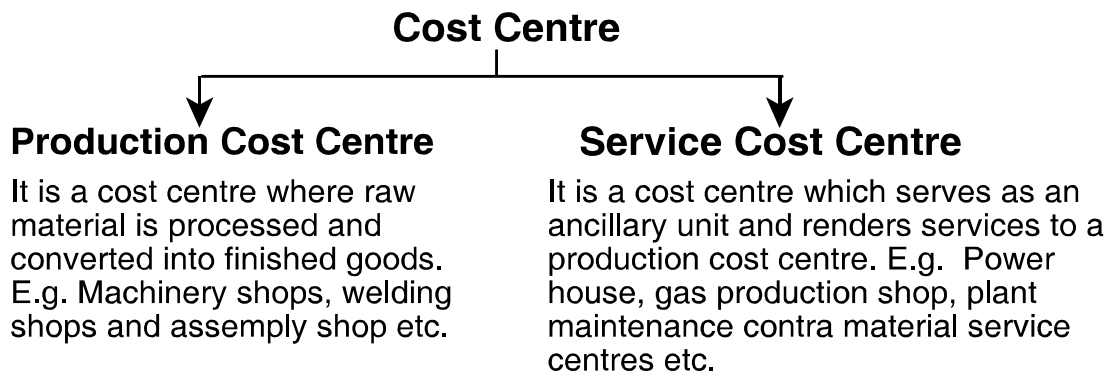
#### **Cost Centre:**

It is defined as:

- A location e.g. Noida plant, Hyderabad factory etc.
- A person e.g. Area sales officer, Manager etc.
- An item or equipment e.g. Machine 1, 2, or Process A, B, etc.

Or a group of these, for which cost can be ascertained and used for the purpose of cost control. Cost centres are of two types viz. Personal and Impersonal.

**A Personal cost centre** consists of a person or a group of persons while Impersonal cost centre consists of a location or an item of equipment or group of all these. In a Manufacturing concern there are 2 types of cost centres:



**2011 - Nov [5]** Distinguish between :

(i) Cost control and cost reduction

(4 marks)

**Answer:**

<b>Difference Between Cost Control and Cost Reduction</b>			
<b>Sl. No.</b>	<b>Basis of Difference</b>	<b>Cost Control</b>	<b>Cost Reduction</b>
1	<b>Meaning</b>	Cost control is the guidance and regulation by executive action of the cost of operating an undertaking.	Cost reduction is the achievement of real and permanent reduction in the unit cost of goods and services without impairing their suitability.
2	<b>Emphasis</b>	It emphasises on past performance and variance analysis.	It emphasises on present and future performance without considering the past performance.

<b>3</b>	<b>Approach</b>	It is a conservative approach which stresses on the conformity to the set norms.	It is a dynamic approach where in every function is analysed in view of its contribution.
<b>4</b>	<b>Focus</b>	It is a short term review with focus on reducing cost in a particular period.	It seeks to reduce unit cost on a permanent basis based on a systematic approach.
<b>5</b>	<b>Nature of Function</b>	It is a preventive function.	It is a corrective function.

**2014 - May [5]** (a) Distinguish between cost control and cost reduction.

(4 marks)

**Answer:**

Please refer 2011 - Nov [5] (i) on page no. [29](#)

**2016 - May [5]** (a) State the difference between cost control and cost reduction.

(4 marks)

**Answer:**

Please refer 2011 - Nov [5] (i) on page no. [29](#)

**2017 - May [7]** (b) State the difference between Cost Accounting and Management Accounting.

(4 marks)

**Answer:**

	<b>Basis</b>	<b>Cost Accounting</b>	<b>Management Accounting</b>
<b>1.</b>	<b>Nature</b>	It records the quantitative aspect only.	It records both qualitative and quantitative aspect.
<b>2.</b>	<b>Objective</b>	It records the cost of producing a product and providing a service.	It provides information to management for planning and co-ordination.
<b>3.</b>	<b>Area</b>	It only deals with cost Ascertainment.	It is wider in scope as it includes F.A., budgeting, Tax, planning.

4.	<b>Recording of Data</b>	It uses both past and present figures.	It is focused with the projection of figures for future.
5.	<b>Development</b>	It's development is related to industrial revolution.	It develops in accordance to the need of modern business world.
6.	<b>Rules and Regulation</b>	It follows certain principles and procedures for recording costs of different products.	It does not follow any specific rules and regulations.

**KZ - 1****Knowledge Zone****Difference between Controllable costs and Uncontrollable costs**

Controllable costs are the costs which can be influenced by the action of the specified member of an undertaking. Controllable costs incurred in a particular responsibility centre can be influenced by the action of the executive heading that responsibility centre.

Uncontrollable costs are the costs which cannot be influenced by the action of a specified member of an undertaking.

The distinction between these two costs is a very thin line & is sometimes left to individual judgment infact no cost is uncontrollable, it is only a relation to a particular individual that we may specify a particular cost to be either controllable or uncontrollable.

**KZ - 2****Knowledge Zone****Difference between Profit Centres and Investment Centres**

Profit centre is an organisational sub-units for which both cost and profit can be traced which are engaged mainly on maximization of profit where as investment centre is an organisational sub-unit for which both profit and return on investment are considered for performance appraisal which are mainly engaged to earn return on investment. In investment centres, the manager is responsible for investment, revenue and cost.

**Difference between Product Cost and Period Cost**

**Product costs** are associated with the purchase and sale of goods. In the production scenario, such costs are associated with the acquisition and conversion of materials and all other manufacturing inputs into finished product for sale. Hence under absorption cost, total manufacturing costs constitute inventoriable or product cost.

**Periods costs** are the costs, which are not assigned to the products but are charged as expense against revenue of the period in which they are incurred. General Administration, marketing, sales and distributor overheads are recognized as period costs.

**► DESCRIPTIVE QUESTIONS**

**2007 - Nov [1]** Answer the following :

- (i) Discuss briefly the relevant costs with examples. (2 marks)

**Answer :**

**Relevant cost** helps in specific management decision making. Business decisions involve planning for future and consideration of various alternative courses of action. In the planning process the costs which are affected by the decisions are future costs. Such future costs are called relevant cost because they are pertinent to the decisions in hand. The cost is said to be relevant if it helps the manager in taking a right decision in furtherance of the company's objectives. Relevant cost is a future cost which causes the difference between alternatives.

**For example:** For sales promotion if the company extends the period of warrantee, the additional cost incurred during the extended period of warrantee.

**2008 - May [1]** Answer the following :

- (i) What are the main objectives of cost accounting? (2 marks)

**Answer :**

**The objectives of Cost accounting :**

Please refer 2010 - May [1] (i) on page no. [33](#)



**2008 - May [1]** Answer the following :

(iii) Explain controllable and non-controllable cost with examples.

(2 marks)

**Answer:**

Please refer KZ - 5 on page no. [43](#)

**2008 - Nov [1]** Answer the following :

(iv) State the method of costing that would be most suitable for :

- (a) Oil refinery
- (b) Bicycle manufacturing
- (c) Interior decoration
- (d) Airlines company

(2 marks)

**Answer :**

**The suitable method of costing for the following is :**

(a)	Oil Refinery	Process costing
(b)	Bicycle manufacturing	Multiple costing
(c)	Interior decoration	Job costing but if on a larger basis then Contract costing
(d)	Airlines company	Operating costing

**2009 - Nov [1]** Answer the following :

(i) Define the following :

- (a) Imputed cost
- (b) Capitalised cost.

(2 marks)

**Answer :**

**(a) Imputed Cost:** Imputed costs are notional costs which do not involve any cash outlay. Examples of imputed cost are Interest on capital, the payment for which is not actually made, these costs are similar to opportunity costs.

**(b) Capitalised Cost:** Capitalised costs are costs which are initially recorded as assets and subsequently treated as expenses.

**2010 - May [1]** Answer the following :

(i) What is Cost accounting? Enumerate its important objectives.

(2 marks)

**Answer :**

**Cost Accounting is defined as** “the process of accounting for cost which begins with the recording of income and expenditure or the bases on which they are calculated and ends with the preparation of periodical statements and reports for ascertaining and controlling costs.”

**KZ - 4**

**Knowledge Zone**

**Cost Accounting**

1. Cost accounting primarily deals with collection and analysis of relevant cost data for interpretation and presentation for various problems of management.
2. Cost accounting is the application of accounting and costing principles, methods and techniques in the ascertainment of costs and analysis of saving and /or excess as compared with previous experience or with standards.
3. CIMA defines cost accounting as *“the establishment of budgets, standard costs and actual costs of operation, processes, activities or products, & the analysis of variances, profitability or the social use of funds.”*

**The objectives of cost accounting are as follows:**

1.	<b>To ascertain and analyse costs</b>	The primary objective of cost accounting is to ascertain and analyse costs incurred on the production of various products, jobs and services etc.
2.	<b>To control costs</b>	There are a number of techniques in cost accounting like standard costing and budgetary control for controlling cost.
3.	<b>To reduce costs</b>	By now, the objective of cost accounting has been extended to reduce costs. For cost reduction plan, products, processes, procedures, organisation, and methods are continuously reviewed or scrutinized in order to improve efficiency and to reduce cost.
4.	<b>To fix the selling price</b>	Under cost accounting, reliable data is provided to act as a base for fixing selling prices.

5.	<b>To prepare periodic statements</b>	In cost accounting system, periodic cost statements (viz. monthly, quarterly) for review of operating results are prepared.
6.	<b>To provide information</b>	Cost accounting provides useful information for planning and control and for taking various decisions regarding increase in production, installation or replacement of a machine, making or buying of a component, continuing or closing down of a business etc.
7.	<b>To ascertain the profit of each activity</b>	The profit of any activity can be ascertained by matching cost with the revenue of that activity. The purpose under this step is to determine costing profit or loss of any activity on an objective basis.
8.	<b>To assist the management in decision making</b>	Decision making is defined as a process of selecting a course of action out of two or more alternative courses. For making a choice between different courses of action, it is necessary to make a comparison of the outcomes, which may be arrived under different alternatives.

**2012 - May [5]** (b) State the types of cost in the following cases:

- (i) Interest paid on own capital not involving any cash outflow.
- (ii) Withdrawing money from bank deposit for the purpose of purchasing new machine for expansion purpose.
- (iii) Rent paid for the factory building which is temporarily closed.
- (iv) Cost associated with the acquisition and conversion of material into finished product. (4 marks)

**Answer:**

**Type of costs**

- (i) Imputed Cost
- (ii) Opportunity Cost
- (iii) Shut Down Cost
- (iv) Product Cost

**2012 - Nov [5]** (a) Briefly explain the essential features of a good cost accounting system. (4 marks)

Answer :

<b>To be successful, a good cost accounting system should possess the following essential features:</b>		
<b>1.</b>	<b>Simple and easy to operate</b>	The system to be simple practical, flexible & capable of meeting the requirements of a concern.
<b>2.</b>	<b>Accuracy</b>	The data to be used by the cost accounting system should be exact & accurate otherwise the output of the system will not be correct.
<b>3.</b>	<b>Cost-effective</b>	The cost of installing and operating the system should justify the results. The benefit from the system should exceed the amount to be spent on it.
<b>4.</b>	<b>Management's Role</b>	The top management should have full faith in the costing system and should provide help towards its development and success.
<b>5.</b>	<b>Relevance of Data</b>	The system should handle and report relevant data for use of managers for decision making. It should not sacrifice its utility by introducing meticulous and unnecessary details.
<b>6.</b>	<b>Participation by executives</b>	Necessary co-operation and participation of executives from various deptts. of the concern is essential for developing a good system of cost accounting.

**2013 - May [5]** (a) Cost of a product or service is required to be expressed in suitable cost unit. State the cost units for the following industries:

- (i) Steel
- (ii) Automobile
- (iii) Transport
- (iv) Power

(4 marks)

**Answer:**

	Industry	Cost Unit
(i)	Steel	Tonne
(ii)	Automobile	Numbers
(iii)	Transport	Passenger Kilo-meter//Tonne Kilo-meter
(iv)	Power	Kilo-watt hour (Kwh)

**2014 - May [5]** (b) Explain the following:

- (i) Explicit costs
- (ii) Engineered costs (4 marks)

**Answer:**

- (i) **Explicit costs:** These are also known as out of pocket costs. They refer to costs involving immediate payment of cash. Salaries, postage and telegram, printing and stationery, interest on loan etc. are some of the examples of explicit costs involving immediate cash payment.
- (ii) **Engineered Costs:** These are cost that result specifically from a clear cause and effect relationship between inputs and outputs. The relationship is usually personally observable examples of input are direct material costs, direct labour costs, etc.  
Examples of output are cars, computers, etc.

**2014 - May [7]** Answer the following :

(e) (ii) State the unit of cost for the followings :

1. Transport
2. Power
3. Hotel
4. Hospital

(2 marks)

**Answer:**

**Unit of Cost:**

1.	<b>Transport</b>	Passenger km., Tonne km.
2.	<b>Power</b>	Per kilowatt - hours
3.	<b>Hotel</b>	Per room, per day
4.	<b>Hospital</b>	Patient per day, room per day or per bed, per operation, etc.

**2014 - Nov [5]** (a) Identify the methods of costing for the following:

- (i) Where all costs are directly charged to a specific job.
- (ii) Where all costs are directly charged to a group of products.
- (iii) Where cost is ascertained for a single product.
- (iv) Where the nature of the product is complex and method can not be ascertained. (4 marks)

**Answer:**

**Methods of costing are as follows:**

- (i) Job costing
- (ii) Batch costing
- (iii) Single / Output costing
- (iv) Multiple costing.

**2015 - May [5]** (a) Explain 'Sunk Cost' and 'Opportunity Cost'. (4 marks)

**Answer:**

*Please refer 2016 - Nov [5] (a) (i) (ii) on page no. [27](#)*

**2015 - May [7]** Answer the following:

(a) Define 'Cost Centre' and state its types. (4 marks)

**Answer:**

<b>Cost Centre</b>	
<b>Meaning</b>	<p>It is defined as a location, person, or an item of equipment (or group of these) for which cost may be ascertained and used for the purpose of cost control. It is a part of an organization that does not produce direct profits and adds to the cost of running a company.</p> <p>Eg. R&amp;D, marketing departments, help desk and customer services.</p> <p>Cost Centre are of two types:</p> <ul style="list-style-type: none"> <li>(i) Personal</li> <li>(ii) Impersonal</li> </ul>
<p>A personal cost centre consists of a person and an impersonal Cost Centre of a location or item of equipment.</p>	

1. <b>Production Cost Centre</b>	It is cost centre where raw material is handled for conversion into finished product. Here both direct & indirect expenses are incurred. Machine shops, welding shops and assembly shops are examples of production Cost Centre.
2. <b>Service Cost Centre</b>	It is Cost Centre which serves as an ancillary unit to a production cost centre. Power house, gas production shop, material service centres, and plant maintenance centres are examples of service Cost Centre.
3. <b>Profit Centre</b>	Centres, which have the responsibility of generating and maximizing profits are called profit centres. The profit centre's revenues and expenses are kept separate from the main company's profit in order to maintain the profit centre's profitability.
4. <b>Investment Centres</b>	Investment centres are similar to profit centres but they have additional decision rights in terms of capital expenditure & investment. The manager is assumed to have better knowledge of input & output markets but also investment opportunities.

**2015 - Nov [5]** (a) State the method of costing and also the unit of cost for the following industries:

- (i) Hotel
- (ii) Toy-making
- (iii) Steel
- (iv) Ship Building

(4 marks)

**Answer :**

(i) **Hotel:**

- Method of costing used in hotel is **Operating Costing**.
- The rate for unit of cost used is per room, per day or per half day or per bed for costing.

(ii) **Toy - Making:**

- Method of costing used in toy making industry is **Unit Costing/Batch Costing**.
- The unit of cost used in toy making industry is per unit of output of toy or per batch.

(iii) **Steel:**

- The method of costing used in steel company is **Process Costing**.
- The unit of cost used in costing is the percentage of output on the basis of the some factory or administrative overhead etc.

(iv) **Ship Building:**

- The method of costing used in ship buildings is **Contract Costing**.
- The unit cost or per unit used for ship building is Project or Unit.

**2016 - May [7]** Answer the following:

(b) Narrate the objectives of cost accounting.

(4 marks)

**Answer:**

*Please refer 2010 - May [1] (i) on page no. [33](#)*

**2016 - May [7]** Answer the following:

(e) Explain what do you mean by :

(ii) Profit Centres.

(2 marks)

**Answer:**

**Profit Centres:** Profit Centres is a branch or division of a company that is accounted for on a standalone basis for the purpose of profit calculation. A profit center is responsible for generating its own result and earnings, and as such, its managers generally name decision making authority related to product pricing and operating expenses. Profit centres are crucial in determining which units are the most and least profitable within an organisation.

**2016 - Nov [5]** (b) What is meant by “cost centre”? What are the different types of cost centres?

(4 marks)

**Answer:**

*Please refer 2015 - May [7] (a) on page no. [38](#)*

**2016 - Nov [7]** Answer the following:

(b) Give the method of costing and the unit of cost against the under noted industries:

(i) Road transport

(ii) Steel

(iii) Bicycles

(iv) Bridge construction

(4 marks)



(d) Explain the following:

(ii) Conversion cost

(2 marks)

**Answer:**

(b)

	Industry	Method of Costing	Suggestive Unit of Cost
(i)	Road transport	Operating Costing	Passenger km. or tonne km.
(ii)	Steel	Process Costing/Single or Unit Costing	Tonne/ Metric Tonne (MT)/Per kg/ per bar
(iii)	Bicycles	Multiple Costing	Number/per piece
(iv)	Bridge construction	Contract Costing	Project /Unit

(d) (ii) **Conversion cost:** It is the cost incurred to convert raw materials into finished goods. It is the sum of direct wages, direct expenses and manufacturing overheads.

**Formula:**

Conversion Cost = Direct Labour Cost + Direct Expenses + Manufacturing Overhead

Or

Conversion Cost = Factory Cost - Direct Materials Cost.

**2017 - May [5]** (a) Explain 'Cost Unit' and 'Cost Centre'. (4 marks)

(b) What are the essential factors for installing a cost accounting system? Explain. (4 marks)

**Answer:**

(a) **Cost Unit:**

It is a unit of product, service or time (or combination of these) in relation to which costs is ascertained or expressed. It is unit of measurement. For example the cost of carrying a passenger in terms of km, cost of hotel room expressed as cost per day etc.

**Cost Centre:**

It is a location, person or an item of equipment (or group of these) for which cost is ascertained and used for the purpose of cost control. The main purpose of ascertaining cost centre is to control the cost and to fix responsibility of the person in charge of a cost centre.

**Cost Centres are of two types:**

1. Personal Cost Centre.
2. Impersonal Cost Centre.

**Cost centres in a manufacturing concern:**

1. Production Cost Centre
2. Service Cost Centre.

**(b) Essential Factors for installing a Cost Accounting System:**

1. <b>Objective</b>	The objective of cost system should be considered before installation. Whether to fix selling prices or control costs or both.
2. <b>Nature of Business</b>	The costing system, which is suitable to the business organisation, should be introduced.
3. <b>Organisational Hierarchy</b>	Costing system should fulfill the requirement of different level of management. Organisation structure should be studied to determine the manner in which costing system should be introduced.
4. <b>Knowing the Product</b>	Nature of Product determines the type of costing system to be implemented. The product which has by-products requires costing system which account for by-products as well.
5. <b>Knowing the production process</b>	A good costing system can never be established without the complete knowledge of production process.
6. <b>Method of Maintenance of cost records</b>	The manner in which Cost and Financial accounts could be inter-locked into a single integral accounting system and in which results of separate sets of accounts, cost and financial, could be reconciled by means of control accounts.

## KZ - 5

## Knowledge Zone

## Cost Classification

## 1. Classification on the basis of variability:

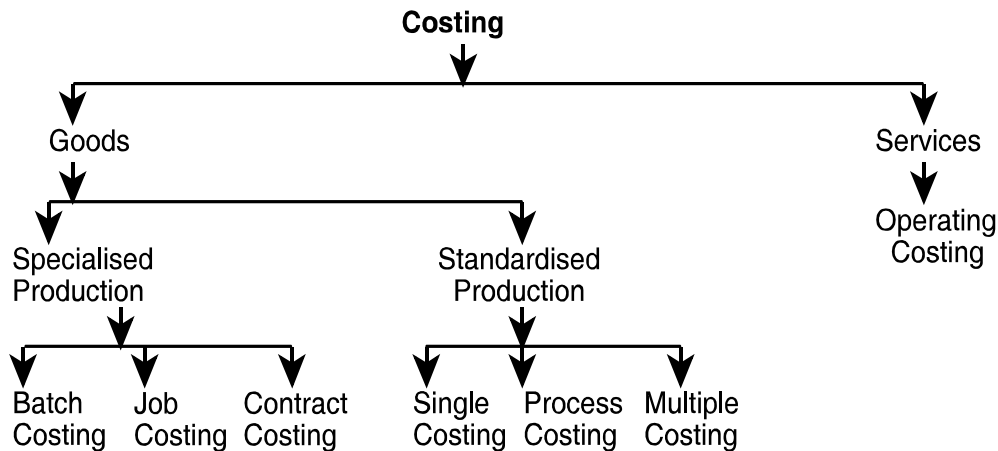
On the basis of variability, cost are classified into three types:

- (i) Fixed cost
- (ii) Variable cost
- (iii) Semi-variable cost.

<b>(i)</b>	<b>Fixed Cost</b>	<p><b>CIMA defines fixed cost as:</b> A cost which accrues in relation to the passage of time and which within certain output or turnover limits, tends to be unaffected by fluctuation in volume of output or turnover.</p> <p><b>Characteristics of fixed cost:</b></p> <ul style="list-style-type: none"> <li>(a) Amount of fixed cost remains constant for every level of output.</li> <li>(b) Average fixed cost (i.e. fixed cost per unit) decreases with increased output.</li> <li>(c) Fixed cost is generally managed and controlled by the higher management.</li> </ul> <p><b>Examples of F. C.:</b> Insurance, salary, rent etc.</p>
<b>(ii)</b>	<b>Variable Cost</b>	<p>CIMA defines variable cost as “A cost which in aggregate tends to vary in direct proportion to changes in the volume of output or turnover.”</p> <p><b>Characteristics of Variable cost:</b></p> <ul style="list-style-type: none"> <li>(a) Variable cost varies directly with output/Sales.</li> <li>(b) Variable cost is easily chargeable to output or department.</li> <li>(c) Variable cost is generally managed and controlled by the department heads.</li> </ul> <p><b>Examples of V. C.:</b> Direct materials cost Direct Labour Cost.</p>

(iii)	<b>Semi variable Cost</b>	<p>CIMA defines semi variable cost as “A cost containing both fixed and variable elements, which is, therefore, partly affected by fluctuations in the volume of output or turnover”</p> <p><i>Characteristics of semi-variable cost:</i></p> <p>(a) Amount of semi-variable cost is neither fixed nor varies directly along with the output.</p> <p>(b) Semi-variable expense is generally managed by various levels of management jointly.</p> <p><b>Example of semi variable cost:</b> Telephone bill, electricity bill etc.</p>
<p><b>2. Classification on the basis of Controllability:</b>  On the basis of controllability cost is classified into two types:</p> <p>(i) Controllable cost</p> <p>(ii) Non-controllable cost</p>		
(i)	<b>Controllable Cost</b>	<p>CIMA defines controllable cost as “Cost chargeable to a cost centre, which can be influenced by the action of the person in whom control of the centre is vested.”</p> <p>In practices all variable costs are controllable costs.</p> <p><b>Example:</b> Direct cost i.e. direct material cost, direct labour cost.</p>
(ii)	<b>Non - Controllable Cost</b>	<p>CIMA defines non-controllable cost as a “Cost chargeable to a cost centre which cannot be influenced by the action of the person in whom control of the centre is vested.”</p> <p>In practice all fixed costs are non-controllable cost. Therefore such cost cannot be controlled by the responsible manager.</p> <p><b>Example:</b> Expenditure on any service department is controlled by the manager of that service department but if such expenditure is apportioned to production department then manager of that production dept. cannot control the expenditure of the service department.</p>

### The various method of costing



1. **Batch Costing:** This costing is based on the concept of contract costing. This method is used to determine the cost of a group of identical or similar products.  
The batch costing of similar products is the unit and not single item within the batch. This method can be applied for the production of nuts, bolts, medicines and other items which are manufactured in distinct batches.
2. **Job costing:** This method is used in those concerns where production is carried out as per specific orders and specifications. Each job is separate and distinct from other jobs and products. This method is popular in enterprises engaged in house building, ship-building, machinery production and repairs etc.
3. **Contract costing:** This method of costing, based on the principle of job costing, is used by builders and civil contractors. The contract becomes the cost unit for which relevant costs are accumulated.
4. **Single or unit costing:** This method is used where a single item is produced and the final production is composed of homogenous units. The per unit cost is obtained by dividing the total cost by the total number of unit of units manufactured.

5. **Process costing:** Under this method of costing, the cost of completing each stage of work is ascertained, like cost of making pulp and cost of making paper from pulp. This method is used in those industries where manufacturing is done continuously like chemicals, oil, gas paper etc.
6. **Multiple costing:** This method is used in those industries where the nature of product is complex such as motor cars, aeroplanes etc. In such cases costs are accumulated for different component making the final product and then totaled to ascertain total cost of product.
7. **Operating costing:** Ascertainment of cost of rendering or operating a service is called "service or operating costing". It is used in case of concerns rendering services like transport, cinema, hotels etc. where there is no identifiable tangible cost limit.

**KZ - 7****Knowledge Zone****Practical difficulties which a cost accountant faces in installing a costing system:**

1.	<b>Lack of top management support</b>	Installation of a costing system does not receive the support from top level management. They believe that by installing such system paperwork will increase and thus will interfere in their work. They have a mis-concept that the system is meant for keeping a check on their activities.
2.	<b>Resistance from cost Accounting staff</b>	The staff members resist because of their fear of losing jobs and importance after the installation.
3.	<b>Non-co-operation at other levels of organizations</b>	The foreman, supervisors and other staff members may not co-operate in providing required data as this can increase their responsibility and add the paper work.
4.	<b>Shortage of trained staff</b>	Since installation of this system requires specialized work, there may be shortage of trained and skilled staff.

**To overcome the above difficulties, following steps are suggested:**

1.	<b>Support from top management</b>	Before the installation or operation of the costing system management must be convinced of the utility of the system.
2.	<b>Utility of system to existing staff</b>	The existing accounting staff should be convinced about the need to supplement the existing financial accounting system.
3.	<b>Worker's confidence for cooperation</b>	Resistance and non-co-operation should be overcome by behavioural approach by dealing with the staff concerned effectively.
4.	<b>Training to the staff</b>	Proper training should be given to the staff at each level.
5.	<b>Proper supervision</b>	Regular meetings should be held with the cost accounting staff, user dept., staff and top management to clarify their doubts and suspicious.

**KZ - 8****Knowledge Zone**

**A good uniform costing manual should contain**

1.	<b>Introduction</b>	(i) Statement of objectives. (ii) Purpose of the systems. (iii) Scope of the system. (iv) Need for the system.
2.	<b>Organisation</b>	(i) Organisational structure for developing and operating the system. (ii) Stages or steps for implementing the system.
3.	<b>System of Accounting</b>	(i) Principles of accounting to be followed. (ii) Span of accounting period. (iii) Classification of accounts (iv) Description of accounts.

4.	<b>Method of Costing</b>	(i) Costing period (ii) Unit of Production (iii) Departmentalisation (iv) Treatment of material cost, labour cost and OH cost, (v) Reconciliation between financial accounts and cost accounts.
5.	<b>Reporting</b>	(i) Reporting period (ii) Ratio (iii) Levels of reporting (iv) Cost statements.

#### Similarly Asked Questions\*

No.	Category	Question	Marks	Frequency
1	Descriptive	What are the main objectives of Cost Accounting? 08 - May [1] (i), 10 - May [1] (i), 16 - May [7] (b)	2, 2, 4	3 Times
2	Dt. Between	Distinguish between Cost control and cost reduction. 11 - Nov [5] (i), 14 - May [5] (a), 16 - May [5] (a)	4, 4, 4	3 Times
3	Short Notes/ Descriptive	Write short notes on: (i) Sunk Cost (ii) Opportunity Cost 15 - May [5] (a), 16 - Nov [5] (a)	4, 4	2 Times
4	Descriptive	What is meant by "cost centre"? What are the different types of cost centres? 15 - May [7] (a), 16 - Nov [5] (b)	4, 4	2 Times
5	Descriptive	What are the essential factors for installing a cost accounting system? Explain. 10 - Nov [6] (b) (i), 17 - May [5] (b)	4, 4	2 Times

\* This table contains the Similarly Asked Questions. Please pay more attention to such questions.