

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

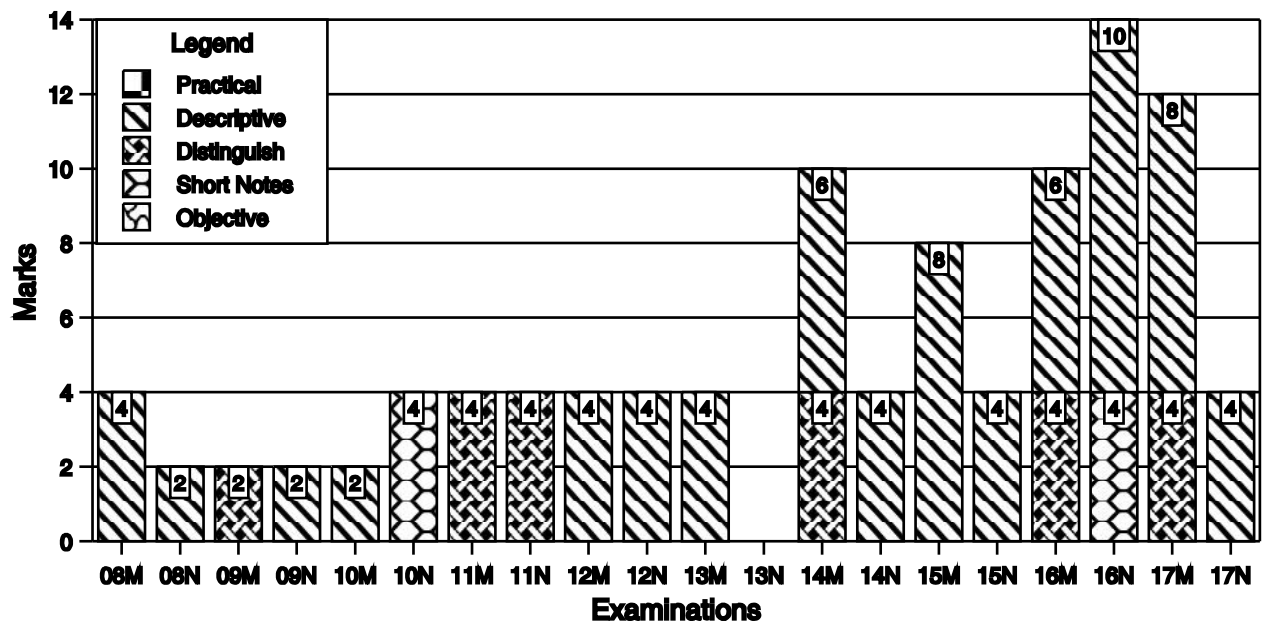
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On the basis of Compulsory questions from a chapter

Nil

CHAPTER	Introduction to Cost and Management Accounting
1	
THIS CHAPTER COMPRISES OF	
<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.	Objective	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.	Nature of business	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.	Structure of organization	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.	Staff assistance	The assistance of staff members and their participation at all levels of management are essential for the successful operation of the system.
5.	Impact of expansion on cost	The manner in which different variable expenses would be affected with expansion or cessation of different operations should be studied carefully.
6.	Reconciliation of cost and financial accounts	Arrangements should be made for regular reconciliation of costs and financial accounts, if maintained separately.
7.	The Technical Details	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.	Information	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.	Informative and Simple	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.	Accuracy	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.	Support	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:

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.

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:

<i>Industry/Product/Input</i>	<i>Cost Unit</i>
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

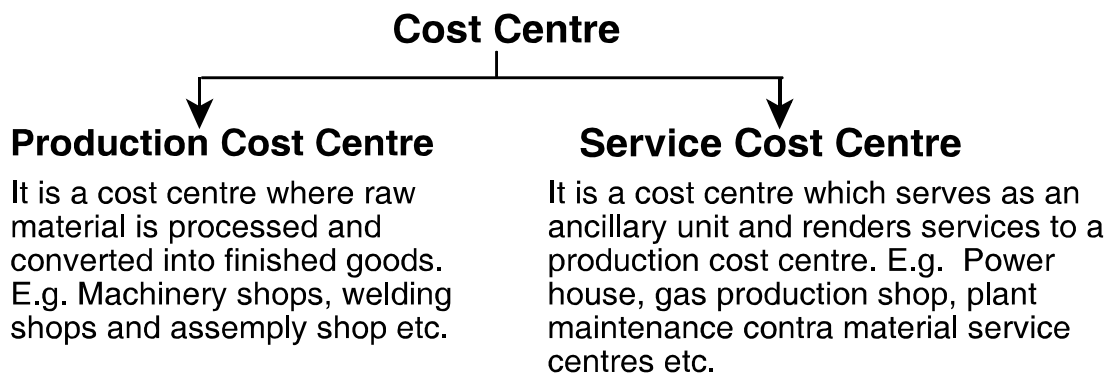
Cost Centre:

It is defined as:

- (a) A location e.g. Noida plant, Hyderabad factory etc.
- (b) A person e.g. Area sales officer, Manager etc.
- (c) 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:

Difference Between Cost Control and Cost Reduction			
Sl. No.	Basis of Difference	Cost Control	Cost Reduction
1.	Meaning	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.	Emphasis	It emphasises on past performance and variance analysis.	It emphasises on present and future performance without considering the past performance.
3.	Approach	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.
4.	Focus	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.
5.	Nature of Function	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:

	Basis	Cost Accounting	Management Accounting
1.	Nature	It records the quantitative aspect only.	It records both qualitative and quantitative aspect.
2.	Objective	It records the cost of producing a product and providing a service.	It provides information to management for planning and co-ordination.

3.	Area	It only deals with cost Ascertainment.	It is wider in scope as it includes F.A., budgeting, Tax, planning.
4.	Recording of Data	It uses both past and present figures.	It is focused with the projection of figures for future.
5.	Development	It's development is related to industrial revolution.	It develops in accordance to the need of modern business world.
6.	Rules and Regulation	It follows certain principles and procedures for recording costs of different products.	It does not follow any specific rules and regulations.

► 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:

On the basis of controllability cost is classified into two types:

- (i) Controllable cost
- (ii) Non-controllable cost

(i)	Controllable Cost	<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>Example: Direct cost i.e. direct material cost, direct labour cost.</p>
(ii)	Non - Controllable Cost	<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>Example: 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>

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.”

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:

To be successful, a good cost accounting system should possess the following essential features:		
1.	Simple and easy to operate	The system to be simple practical, flexible & capable of meeting the requirements of a concern.
2.	Accuracy	The data to be used by the cost accounting system should be exact & accurate otherwise the output of the system will not be correct.
3.	Cost-effective	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.
4.	Management's Role	The top management should have full faith in the costing system and should provide help towards its development and success.
5.	Relevance of Data	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.
6.	Participation by executives	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.	Transport	Passenger km., Tonne km.
2.	Power	Per kilowatt - hours
3.	Hotel	Per room, per day
4.	Hospital	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:

Cost Centre	
Meaning	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. Eg. R&D, marketing departments, help desk and customer

	services. Cost Centre are of two types: (i) Personal (ii) Impersonal
A personal cost centre consists of a person and an impersonal Cost Centre of a location or item of equipment.	
1. Production Cost Centre	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. Service Cost Centre	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. Profit Centre	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. Investment Centres	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 have 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. 36

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)

Answer:

	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

2016 - Nov [7] (d) Explain the following:

- (ii) Conversion cost

(2 marks)

Answer:

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)

Answer:

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.

2017 - May [5] (b) What are the essential factors for installing a cost accounting system? Explain. (4 marks)

Answer:

Essential Factors for installing a Cost Accounting System:

1. Objective	The objective of cost system should be considered before installation. Whether to fix selling prices or control costs or both.
2. Nature of Business	The costing system, which is suitable to the business organisation, should be introduced.
3. Organisational Hierarchy	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. Knowing the Product	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. Knowing the production process	A good costing system can never be established without the complete knowledge of production process.
6. Method of Maintenance of cost records	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.

2017 - Nov [5] (a) Identify the methods of costing where:

- (i) all costs are directly charged to a specific job.

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

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.

6	Descriptive	<p>Identify the methods of costing where:</p> <ul style="list-style-type: none"> (i) all costs are directly charged to a specific job. (ii) all costs are directly charged to a group of products. (iii) the nature of the product is complex and method cannot be ascertained. (iv) cost is ascertained for a single product. <p>14 - Nov [5] (a), 17 - Nov [5] (a)</p>	4, 4	2 Times
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