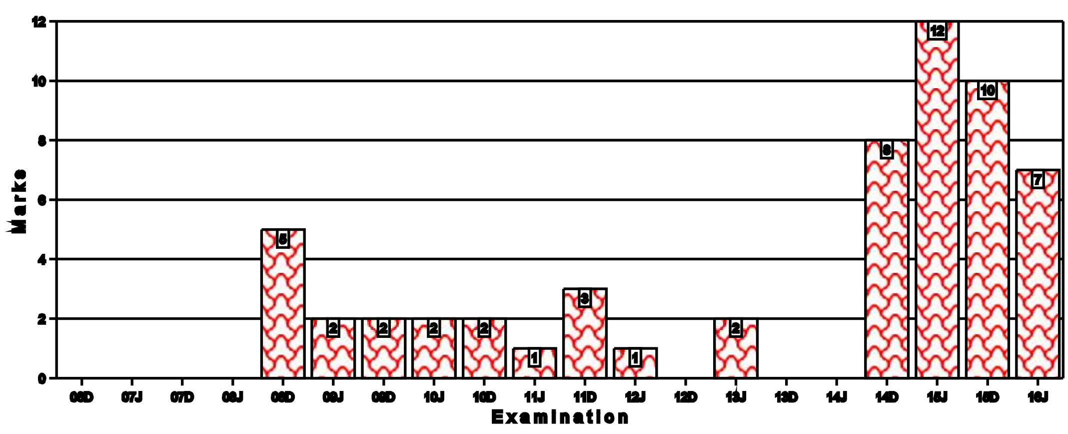
1 Introduction to Cost and Management Accounting

This Chapter Includes

- Concept of Cost
- Evolution of Cost Accounting
- Costing, Cost Accounting and Cost Accountancy
- Objectives, Importance and Scope of cost accounting
- Classifications and Elements of Cost
- Cost Centre and Cost Unit
- Methods and Techniques of Costing
- Cost Accounting Standards
- Installation of a Costing System
- Practical Difficulties in Installing a Costing System
- Role of Cost Accountant in Decision Making
- Management Accounting and its evolution, Meaning, Objectives, Nature and Scope
- Tools and Techniques of Management Accounting
- Relationship of Cost Accounting, Financial Accounting, Management Accounting and Financial Management
- Limitations of Management Accounting
- Conflicts in Profit versus Value Maximisation Principle
- Role of Management Accountant in Decision Making.

Marks of Objective Questions



Chapter at a Glance

MEANING	1. **Cost:** Cost refers to the expenditure incurred in producing a product or in rendering a service. It is expressed from the producer or manufacturer's viewpoint. (not that of consumer/ end user.) Cost ascertainment is based on uniform principles and techniques. 2. **Costing:** The technique and process of ascertaining cost. 3. **Cost Accounting:** The process of accounting for cost which begins with 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. 4. **Cost Accountancy:** The application of costing and cost accounting principles, methods and techniques to the science, art and practice of cost control and the ascertainment of profitability. It includes the presentation of information derived for the purpose of managerial decision-making.
OBJECTIVES OF COST ACCOUNTING	**Ascertainment of Cost:** This involves collection of cost information, by recording them under suitable heads of account and reporting such information on a periodical basis. 1. **Determination of selling price:** Selling price is influenced by a number of factors. However, prices cannot be fixed below cost save in exceptional circumstances. Hence, cost accounting is required for determination of correct selling price. 2. **Cost Control and Cost Reduction:** In the long run, higher profits can be achieved only through Cost Reduction and Cost Control.

	3. **Ascertaining the profit of each activity:** Profit of each department/ activity/product can be determined by comparing its revenue with appropriate cost. Hence, cost accounting ensures profit measurement on an objective basis. 4. **Assisting management in decision-making:** Business decisions are taken after conducting Cost-Benefit Analysis. Hence, cost and benefits of each option are analysed and the Manager chooses the least cost option.
ADVANTAGES OF A COST ACCOUNTING SYSTEM	1. **Profit Measurement and Analysis:** Cost should be accurately ascertained and matched with revenues to measure profits of a firm. Further, Cost Accounting is useful for identifying the exact cause for decrease or increase in the profit / loss of the business. 2. **Cost Reduction:** The application of cost reduction techniques, operations research techniques and value and analysis technique, helps in achieving the objective of economy in concern's operations. 3. **Cost Comparison and Cost Control:** Cost comparison helps in cost control. Such a comparison may be made from period to period by using the figures in respect of the same firm or of several units in an industry by employing uniform costing and inter-firm comparison methods. 4. **Identification of losses and inefficiencies:** A good Cost Accounting System helps in identifying unprofitable activities, losses or inefficiencies in any form, so that appropriate actions are taken. The use of Standard Costing and Variance Analysis techniques points out the deviations from pre-determined level and thus demands suitable action to eliminate its recurrence.

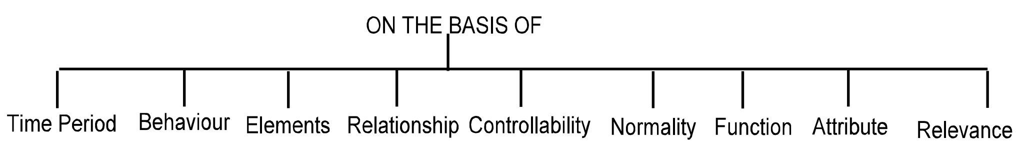
	5. **Financial Decision Making:** Managers can obtain relevant information from the Cost Accounting System, to serve as guides in making decisions involving financial considerations. Guidance whether to purchase or manufacture a given component, whether to accept orders below cost, which machine to purchase when a number of choices are available. The use of Marginal Costing techniques helps managers in taking short-term decisions. 6. **Price Determination:** Cost Accounting is quite useful for price fixation. It serves as guide to test the adequacy of selling prices. The price determined may be useful for preparing estimates or filing tenders.
FEATURES OF A GOOD COST ACCOUNTING SYSTEM	1. **Accuracy of data:** The data to be used by the Cost Accounting System should be accurate. Otherwise it may distort the output of the system. 2. **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. 3. **Simple and easy to operate:** The system should be tailor-made, practical, simple and capable of meeting the requirements of a business concern. 4. **Participative Roll of executives:** Necessary cooperation and participation of executives from various departments of the concern is essential for developing a good system of cost Accounting. 5. **Cost - Effective:** The cost of installing and operating the system should justify the results. The benefits from the system should exceed the amount to be spent on it. 6. **Management's Role:** The top management

	should have a faith in the Costing System and should also provide a helping hand for its development and success. 7. **Smooth implementation:** The system should be effectively implemented. A carefully phased programme should be prepared by using network analysis for the introduction of the system.
FACTORS FOR INSTALLING A COST ACCOUNTING SYSTEM	1. **Scope of Coverage:** The areas of operation of business wherein the managements' action will be most beneficial. The system of costing in each case should be designed to highlight, in significant areas, factors considered important for improving the efficiency of operations in that area. 2. **Objective:** The objective of the system e.g. whether it is being introduced for fixing prices or for insisting a system of cost control. 3. **Technical aspects:** The technical aspects of the concern, methods and techniques of production used, extent of services rendered to manufacturing departments by other services departments, standards of production efficiency. 4. **Organisational Set-up:** The general organisation of the business, with a view to find out the manner in which the system of cost control could be introduced, without altering or extending the organisation set-up appreciably. 5. **Impact of expansion on cost:** The manner in which different variable expenses would be affected with expansion or cessation of different operations. 6. **Psycho-social aspects:** The attitude and behaviour of people in the organisation, the manner in which the benefits of introducing Cost Accounting could be explained to various peoples in the concern, specially those incharge of

production department and awareness created for the necessity of promptitude, frequency and regularity in collection of cost data.

7. **Impact on Accounting System:** 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.
8. **Information requirements:** The maximum amount of information that would be sufficient and how the same should be secured without much clerical labour, Degree of accuracy of data collected, responsibility for verification of data etc.

CLASSIFICATION OF COST



1. **On the basis of Time Period**
   (a) **Historical Cost :** Cost relating to the past time period; Cost which has already been incurred.
   (b) **Current Cost:** Cost relating to the present period.
   (c) **Pre-determined Cost:** Cost relating to the future period; Cost which is computed in advance, on the basis of specification of all factors affecting it.
2. **On the basis of Behaviour/ Nature / Variability**
   (a) **Variable Cost :** This is the cost that tends to vary or change in relation to volume of production. It increases in total as production increases and vice-versa e.g. cost of raw materials, direct wages etc. However, variable

costs per unit are generally constant for every unit of the additional output.

(b) **Fixed Cost :** This is the cost that remains constant at various levels of production. They are not affected by volume of production e.g. Factory Rent, Insurance etc. Fixed Costs per unit vary inversely with volume of production,

(c) **Semi – variable Cost:** This is the cost which is partly fixed and partly variable. It is fixed upto a particular volume of production and become variable thereafter for the next level of production. Hence, it is also called Step Cost. Examples are Repairs and Maintenance, Electricity.

3. **On the basis of Elements**

(a) **Materials:** Cost of tangible, physical input used in relation to output/ production; e.g. costs of raw materials, consumable stores, maintenance items etc.

(b) **Labour:** Cost incurred in relation to human resources of enterprise; e.g. wages to workers, salary to office staff, training expenses etc.

(c) **Expenses:** Cost of operating and running the enterprise, other than materials and labour; this is the residual category of costs. e.g., Factory Rent.

4. **On the basis of Relationship**

(a) **Direct Cost:** Cost that is directly related to / identified with / attributable to a Cost Centre or a Cost unit. e.g., Cost of basic raw material used in the finished product, wages paid to site labour in a construction contract etc.

(b) **Indirect Cost:** Cost that is not directly identified with a cost centre or a cost unit. Such costs are apportioned over different cost centres using appropriate basis. e.g., Factory Rent incurred over various departments;

5. **On the basis of Controllability**
   (a) **Controllable Costs:** Costs which can be influenced and controlled by managerial action. However, Controllability is a relative term and is subject to the following factors.
      (i) **Time:** Certain costs are controllable in the long run and not in the short run.
      (ii) **Location:** Certain costs are not influenced and decided at a particular location / cost centre. If rent agreements of all factor premises are executed centrally at the Head Office, factory managers cannot control the incurrence of costs.
      (iii) **Product / Output:** Certain costs are controllable by reference to one product or market segment and not by reference to the other. For example, cost of common raw material input for exports is lower than that of domestically sold goods since excise duty concession duty drawback is available for export sales.
   (b) **Non-Controllable Cost:** The cost that cannot be influenced and controlled by a specific member of the organisation. The Line of difference between controllable and non-controllable costs is thin.
6. **On the basis of Normality**
   (a) **Normal cost :** Cost that can be reasonably expected to incur under normal, routine and regular operating conditions.
   (b) **Abnormal Cost:** Cost over and above normal cost; that is not incurred under normal operating conditions e.g. fines and penalties.

7. **On the basis of Functions**

(a) **Production Costs:** The costs of the set of operations commencing with supply of materials, labour and services and ends with the primary packing of product. Thus it is equal to the total of Direct Materials, Direct Labour, Direct Expenses and Production Overheads.

(b) **Administration Costs:** The cost of formulating the policy, directing the organisation and controlling the operations of the undertaking, which is not directly related to production, selling, distribution, research or development activity or function. Some examples are Office Rent, Accounts Department Expenses.

(c) **Selling Cost:** The cost of incurred to create and stimulate demand and of securing orders. These are sometimes called marketing costs. Some examples are Advertisement, Salesmen remuneration, Show-room Expenses, Cost of samples etc.

(d) **Distribution Cost:** The cost of the sequence of operations which begins with making the packed product available for despatch and ends with making the reconditioned returned empty package, if any, available for re-use. Some examples are Distribution packing (secondary packing), carriage outwards, maintenance of delivery vans, expenditure incurred in transporting articles to central or local storage, expenditure incurred in moving articles to and from prospective customers (as in or Return) etc.

(e) **Research cost:** The cost of research for new or improved products, new applications of materials or improved methods.

(f) **Development Costs:** The cost of the process which begins with the implementation of the decision to produce a new or improved product, or to employ a new or improved method and ends with commencement of formal production of that product or by that method.

(g) **Pre-Production Cost:** The part of development cost incurred in making a trial production run prior to formal production.

(h) **Conversion Cost:** The sum of direct wages, direct expenses and overhead costs of converting raw materials to the finished stage or converting a material from one stage of production to the other.

8. **On the basis of Attributability to the Product**

(a) **Period cost:** The cost which is not assigned to the product but is charged as expense against the revenue of the period in which they are incurred. Non-manufacturing cost e.g. Selling and Distribution Cost are generally recognised as period costs. This is not included in inventory valuation.

(b) **Product Cost:** The cost which is assigned to the product and is included in inventory valuation. These are also called Inventoriable costs. Under absorption costing total manufacturing costs are regarded as product cost while under marginal costing, only variable manufacturing cost is considered. The purpose of computing product cost is as under:

(i) **Preparation of Financial Statements:** Focus on inventory valuation and reporting profits.

(ii) **Product pricing:** Focus on cost assigned and incurred on the product till it is made available to the customer / user.

(iii) **Cost-plus-Contract with Government Agencies:** Focus is on reimbursement of cost specifically assigned to the particular job / contract.

9. **On the basis of Relevance to decision making**

(a) **Relevant Cost:** The cost which is relevant and useful for decision-making purposes.

(i) **Marginal Cost:** Marginal cost is the total variable cost i.e. prime cost plus variable overheads. It is assumed that variable cost varies directly with production whereas fixed cost remains fixed irrespective of volume of production. Marginal cost is a relevant cost for decision making as this cost will be incurred in future for additional units of production.

(ii) **Differential Cost:** It is the change in cost due to change in the level of activity or pattern or method of production. Where the change results in increase in cost it is called incremental cost, whereas if cost is reduced due to decrease of output, the difference is called decremental cost.

(iii) **Opportunity Cost:** This refers to the value of sacrifice made or benefit of opportunity foregone in accepting an alternative course of action. For example, a firm may finance its expansion plan by withdrawing money from its bank deposits. In such a case, the loss of interest on the bank deposit is the opportunity cost for carrying out the expansion plan. Opportunity cost is a relevant cost where alternatives are available. However, opportunity cost does not find any place in formal accounts and is computed only for decision making and analytical purposes.

(iv) **Out-of-pocket Cost:** This entails current or near future outlays of cash for the decision it had as opposed to cost which do not require any cash outlay such as depreciation. Such cost is relevant for decision-making, as this will occur in near future. It is that portion of total cost which involves cash outflow. This cost concepts is a short-run concept and is used in decisions relating to fixation of selling price in recession, make or buy, etc. Out-of-pocket cost can be avoided or saved if a particular proposal under consideration is not accepted.

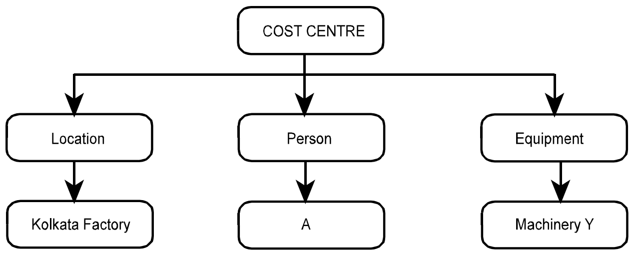
(v) **Replacement Cost:** It is the cost at which there could be purchase of an asset or material identical to that which is being replaced or revalued. It is the cost of replacement at current marketing price and is relevant for decision-making.

(vi) **Imputed Cost:** This is notional cost appearing in the cost accounts only e.g. notional rent charges, interest on capital for which no interest has been paid. Where alternative capital investment projects are being evaluated, it is necessary to consider the imputed interest on capital before a decision is arrived at as to which is the most profitable project.

	(vii) **Discretionary Cost:** These are "escapable" or "avoidable" cost. These can be avoided if a particular course of action is not chosen. In other words, these are cost, which are essential for the accomplishment of a managerial objective. (b) **Irrelevant Costs:** These are costs which are not relevant or useful for decision-making. (i) **Sunk Cost:** It is a cost which has already been incurred or sunk in the past. It is not relevant for decision-making and is caused by complete abandonment as against temporary shut-down. Thus, if a firm has obsolete stock of materials amounting to ₹ 10,000 which can be sold as scrap for ₹ 2,000 or can be utilised in a special job, the value of opening stock of ₹ 10,000 is a sunk cost and is not relevant for decision-making. (ii) **Committed Cost:** A cost which has been already committed by the management is not relevant for decision-making. This should be contrasted with discretionary cost, which is avoidable cost. (iii) **Absorbed Fixed Cost:** Fixed cost which does not change due to increase or decrease in activity is irrelevant for decision-making. Although such fixed costs are absorbed in cost of production at a normal rate, they are irrelevant for managerial decision-making. However if fixed costs are specific, they become relevant.
OTHER COSTS	1. **Explicit Cost:** This is also known as out of pocket cost. It refer to cost involving immediate payment of cash. Salaries, wages, postage and telegram. 2. **Implicit Cost:** This cost do not involve any

	immediate cash payment. It is not recorded in the books of account. It is also known as economic cost or imputed cost. 3. **Estimated cost:** Estimated cost are prospective cost since they refer to prediction of cost. 4. **Shut down cost:** In other words, all fixed cost which cannot be avoided during the temporary closure of a plant will be known as shut down cost. 5. **Absolute cost:** It refers to the cost of any product, process or unit in its totality. Here the cost depicted in absolute amount may be called absolute cost and are base cost on which further analysis and decisions are based.
COST SHEET	**Meaning:** A Cost Sheet is a statement which shows the break-up and build-up of costs. It is a document which provides for the assembly of the detailed cost of a cost centre of a cost unit. **Uses:** The following are the uses of the Cost Sheet. 1. Presentation of Cost information. 2. Determination of Selling Price. 3. Ascertainment of Selling Price. 4. Product-wise and Location-wise Cost Analysis. 5. Inter-firm and Intra-firm Cost Comparison. 6. Preparation of Cost Estimates for submitting tenders / quotations.
COST PERIOD	The period to which the Cost relates is called Cost period. It is also called the control period since cost ascertainment is for the purpose of control. Generally, the cost period is shorter than the financial period used for reporting purposes.

Cost Centre & Its Classification:



CLASSIFICATION

1. Based on Type:

Personal Cost Centre	Impersonal Cost Centre
It consists of a person or group of persons.	It consists of a location or an item of equipment or group of these.

2. Based on Role:

Production Cost Centre	Service Cost Centre
It is a cost centre where raw material is processed and converted into finished product.	It is a cost centre which serves as an ancillary unit and renders services to a production cost centre.
Here both direct and indirect costs are incurred.	Here only indirect cost is incurred. This is not a direct cost and has no measurable and saleable output.
Machine shops, welding shops and assembly shops are examples of production cost centres.	Power-house, gas production shop, material service centres, plant maintenance centres are examples of service cost centres.

3. Based on Activity

Operation Cost Centre	Process Cost Centre
It consists of machines and / or persons, carrying out similar operations.	It consists of machines and / or persons, engaged on a specific process or a continuous sequence of operations.
All machines / operators performing the same operation are brought together under a cost centre, the purpose being ascertainment of cost of each operation.	Cost is analysed and related to a series of operations in sequence.

COST UNIT

It is a unit of production, service or time or combination of these, in relation to which costs may be ascertained or expressed. Cost units differ from one business to the other. They are usually units of physical measurement like number, weight, area, volume, time, length and value. Illustrations are as under:

Industry or Product	Cost Unit	Industry or Product	Cost Unit
Paints	Litres	Automobiles	Number
Cement	Tonne	Gas	Cubic metre
Power	Kilo-watt hour	Brickworks	Thousands
Transport	Tonne - kilometre or Passenger- kilometre	Interior Decoration	Each Contract

RESPONSIBILITY CENTRE

It is an activity centre of a business organisation entrusted with a special task.

It is a unit of function of a business organisation headed by an executive responsible for its performance.

TYPES OF RESPONSIBILITY CENTRES

Particulars	Cost Centres	Revenue Centres	Profit Centres	Investment Centres
Meaning	A centre for which a standard amount of cost is predetermined and used for control.	A center devoted to raising revenue (no responsibility for production)	A centre whose performance is measured in terms of income earned and cost incurred (profit earning)	A centre responsible for earning profits and also for asset utilisaiton.
Primary responsibility	Cost reduction and cost control	Generation of sale revenue.	Profit earning	Earning return of investments
Performance evaluation	Standard cost less actual cost	Budgeted revenue less actual revenue	Budgeted profits less actual profits	Budgeted ROI less actual ROI.

DIFFERENCE BETWEEN FINANCIAL ACCOUNTING AND COST ACCOUNTING

Particulars	Financial Accounting	Cost Accounting
1. **Users of Information**	Financial statements are used by internal management and also outside parties like Government, Creditors, Customers, Employees etc.	Detailed cost information is presented to internal management for proper planning, decision-making and cost control.
2. **Nature/ Objectivity**	Transactions are recorded in a subjective manner. Accounting Policies may differ from one firm to another.	Expenditure is recorded in an objective manner. Costing principles and techniques are generally uniform to all firms.
3. **Focus**	Focus of accounting is on recording the transactions.	Focus of accounting is to control cost.

4. **Statutory Requirements**	Requirements of Companies Act and the Income Tax Act are to be met through Financial Accounting.	Generally Cost Accounting is voluntary except when Cost Accounting Records Rules apply to the enterprise.
5. **Nature of Costs**	Generally historical costs are used for recording purposes. Projected financial statements may also be drawn for budgeting purposes.	It considers both historical costs and pre-determined costs and extends to plans and policies to improve future performance.
6. **Time period**	One year.	Continuous basis year.
7. **Cost Analysis**	Cost / Expenditure and Profits are shown as a whole for the period.	Costs are analysed product wise, department-wise, activity-wise etc.
8. **Stock valuation**	Stocks are valued at Cost or Net Realisable Value whichever is less.	Stocks are valued generally at cost.

Difference between Cost Accounting and Management Accounting.

Cost Accounting	Management Accounting
1. It deals with ascertainment allocation, apportionment and accounting aspect of costs.	It deals with the effect and impact of costs on the business.
2. It provides a base for management accounting.	It is derived from both cost accounting and financial accounting.
3. The status of cost accountant comes after the management accountant.	Management accountant is senior in position to cost accountant.

4.	It has a narrow approach. He has to refer to economic and statistical data for analysing cost effects.	It reports the effect of cost on the business alongwith cost analysis.
5.	It does not include financial accounting, tax planning and tax accounting.	It includes financial and cost accounting, tax planning and tax accounting.
6.	It can be installed without management accounting.	It needs financial and cost accounting as its base for its installation.

METHODS OF COSTING

1. **Job Costing:** The cost of each job is ascertained separately. It implies that the direct cost of each job is traceable and identifiable. It is suitable in all cases where work is undertaken on receiving a customer's order/ assignment. Some examples are printing press, motor workshop, etc.
2. **Batch Costing:** It is used where the output under a particular work order consists of similar units. It may not be economically feasible to ascertain cost per unit. Hence a collection or a lot of units called a batch is taken for cost ascertainment purposes. Each batch is treated as a unit of cost and thus separately costed. Here cost per unit is determined by dividing the cost of the batch by the number of units produced in the batch.
3. **Contract Costing:** A larger job is called a contract. Generally, execution of work is distributed over two or more financial years. Hence, the cost of each contract is ascertained separately. It is suitable for firms engaged in the construction of bridges, roads, buildings etc.
4. **Single or Output Costing:** Cost is ascertained for a product, the product being the only one produced like bricks, coals, etc.
5. **Process Costing and Operation Costing:** The cost completing each stage of work is ascertained, like cost of making pulp and cost of making paper from pulp. In mechanical operations, the cost of each operation may be ascertained separately, the name given is operation costing.
6. **Operating or Services Costing:** Ascertainment of cost of rendering or operating a service is called Service Costing or Operating Costing. It is used in the case of concerns rendering services like transport, cinema, hotels, etc. where there is no identifiable tangible cost unit.

7. **Multiple Costing:** It represents a combination of two or more methods of costing outlined above. For example, if a firm manufactures bicycles including its components; the parts will be costed by batch costing system but the cost of assembling the bicycle will be computed by the Single or output costing method. The whole system of costing is known as multiple costing.

Nature of Output	Method	Cost Ascertainment	Examples of industries
Output based on Customer Specifications: Single Unit	Job Costing	For each order/ assignment/ job	Automobile workshop/ Interior Decoration.
Number of similar units	Batch Costing	For each batch/lot of units produced	Printing Press – for cards, invitations etc./Pharmaceutical
Execution of work	Contract costing	For each contract	Civil Construction / Ship Building
Similar units of a single product, produced by: Single process	Unit or Output or single Costing	For the entire activity, but averaged for the output	Quarries, brickworks, Colliery, Paints etc.
A series of Process	Process Costing or Operation Costing	For each Process or operation	Oil Refining, breweries, Chemicals etc.
Consisting of multiple varieties of activities and processes	Multiple Costing	Combination of any of the methods listed above	Bicycle Assembly
Rendering of Services	Operating Costing	For every type of service	Transport, Hotels, Cinema

FOR ASCERTAINING COST, FOLLOWING TYPES OF COSTING ARE USUALLY USED

1. **Uniform Costing:** When a number of firms in

an industry agree among themselves to follow the same system of costing, by adopting common terminology for various items and processes they are said to follow a system of uniform costing. Such a system of cost ascertainment facilitates inter-firm comparison, determination of true costs of the industry.

2. **Marginal Costing:** It is defined as the ascertainment of marginal cost by differentiating between fixed and variable costs. It is used to ascertain effect of changes in volume or type of output on profit. It is a tool of decision-making on various management issues. Under this method, stocks are valued at variable cost. Fixed Costs are treated as period costs are not included in Stock Valuation.
3. **Absorption Costing :** It is the practice of charging all costs, both variable and fixed to operations, processes or products. Stocks are valued at total cost, inclusive of proportionate amount of fixed costs. This differs from marginal costing where fixed costs are excluded.
4. **Direct Costing:** It is the practice of charging all direct costs to operations, processes or products leaving all indirect costs to be written off against profits in which they arise. It may be distinguished from Marginal Costing, where only variable costs are identified with products.
5. **Standard Costing:** It is the name given to the technique whereby actual costs are compared with already set standards. It is thus a technique of both cost ascertainment and cost control. This technique may be used along with any method of costing. It is especially suitable

where the manufacturing method involves production of standardisation of repetitive nature.

6. **Historical Costing:** It is the ascertainment of costs after they have been incurred. This type of costing has limited utility.

REPORTS PROVIDED BY THE COST ACCOUNTING DEPARTMENT FOR DECISION-MAKING PURPOSE

1. **General:**
   (a) **Cost Sheets:** Setting out the Total cost, analysed into various elements of cost, giving comparative figures for various periods and / or various departments.
   (b) Reconciliation of actual profit earned with estimated or budgeted profit.
   (c) Reports of Capital Expenditure, R&D Expenditure etc. compared with budgets.
2. **Materials:**
   (a) Materials consumption statements, showing total quantity of materials issued for production, materials actually used in production and wastage.
   (b) The total cost of abnormally spoiled work in the factory and abnormal losses in the store
3. **Labour:**
   (a) Labor utilisation statements providing details about the total number of hours paid for, standard hours for the output, idle time hours, cost and causes thereof.
   (b) Labour turnover, and the cost of recruitment and training of new employees.
   (c) Labour Overtime payment statement, and the causes thereof.

	4. **Overheads:** (a) Overheads incurred compared with budgets. (b) Overheads actually charged to production and the difference between the amount actually incurred (Actual Overheads) and the amount charged (Absorbed Overheads). 5. **Sales:** (a) Sales effected compared with budgets. (b) Statements of reasons for difference between budgeted and actual sales viz. Price, Quantity, Sales Mix etc.
COST ACCOUNTING STANDARDS:	Cost Accounting Standards (CAS) had been issued by the Institute of Cost Accountants of India (ICAI). The Preface to Cost Accounting Standards issued by the ICAI has set out the following objectives to be achieved through CAS: (a) To provide better guidelines on standard cost accounting practices; (b) To assist cost accountants in preparation of uniform cost statements; (c) To provide guidelines to bring standard approach towards maintenance of cost accounting records under various statutes; (d) To assist the management to follow the standard cost accounting practices in the matter of compliance with statutory obligations; and (e) To help Indian industry and the government towards better cost management.

The Board has so far released 15 Cost Accounting Standards and document on Generally Accepted Cost Accounting Principles (GAAP), which are as under:

LIST OF COST ACCOUNTING STANDARDS

CAS No.	Title	Objective
CAS 1	Classification of Cost	For preparation of Cost Statements.
CAS 2	Capacity Determination	For determination of capacity.
CAS 2 (Revised 2012)	Capacity Determination	To bring uniformity and consistency in the principles and methods of determination of capacity with reasonable accuracy.
CAS 3	Overheads	For Collection, Allocation, Apportionment and Absorption of overheads.
CAS 3 (Revised 2011)	Overheads	To bring uniformity and consistency in the principles and methods of determining the overheads with reasonable accuracy.
CAS 4	Cost of Production for Captive Consumption	To determine the assessable value of excisable goods used for captive consumption.
CAS 5	Average (equalized) Cost of Transportation	To determine averaged/equalized transportation cost.
CAS 6	Material Cost	To bring uniformity and consistency in the principles and methods of determining the material cost with reasonable accuracy in an economically feasible manner.

CAS 7	Employee Cost	To bring uniformity and consistency in the principles and methods of determining the Employee cost with reasonable accuracy.
CAS 8	Cost of Utilities	To bring uniformity and consistency in the principles and methods of determining the Cost of Utilities with reasonable accuracy.
CAS 9	Packing Material Cost	To bring uniformity and consistency in the principles and methods of determining the Packing Material Cost with reasonable accuracy.
CAS 10	Direct Expenses	To bring uniformity and consistency in the principles and methods of determining the Direct Expenses with reasonable accuracy.
CAS 11	Administrative Overheads	To bring uniformity and consistency in the principles and methods of determining the Administrative Overheads with reasonable accuracy.
CAS 12	Repairs and Maintenance Cost	To bring uniformity and consistency in the principles and methods of determining the Repairs and Maintenance Cost with reasonable accuracy.

CAS 13	Cost of Service Cost Centre	To bring uniformity and consistency in the principles and methods of determining the Cost of Service Cost Centre with reasonable accuracy.
CAS 14	Pollution Control Cost	To bring uniformity and consistency in the principles and methods of determining the Pollution Control Costs with reasonable accuracy.
CAS 15	Selling & Distribution Overheads	To bring uniformity and consistency in the principles and methods of determining the selling and distribution overheads with reasonable accuracy.

CS Executive Programme (Module I)

OBJECTIVE QUESTIONS

2008 - Dec [5] (b) Choose the most appropriate answer from the given options in respect of the following:

(iii) The type of process loss that should not affect the cost of inventories is:
(a) Abnormal loss
(b) Normal loss
(c) Seasonal loss
(d) Standard loss. (1 mark)

(c) Re-write the following sentences after filling -up the blank spaces with appropriate word (s)/ figure (s) :

(i) Cost is a fact whereas price is a ___________ .
(ii) Imputed costs are relevant for ___________ .

(iii) A _______ is the cost that has already been incurred and cannot be avoided by decisions taken in the future.

(iv) A profit centre is a division or organisational unit concerned with controlling both ______ and costs. (1 mark each)

Answer :

(b) (iii) (a) Abnormal loss

(c) (i) policy;

(ii) decision making;

(iii) sunk cost;

(v) sales / (revenue);

2009 - June [5] (b) Re-write the following sentences after filling-in the blank spaces with appropriate word(s)/figures(s) :

(ii) Abnormal wastage_________ part of cost of production.

(iv) Direct material + direct labour + factory overheads = _____.

(1 mark each)

Answer :

(b) (ii) is not

(iv) Factory cost/Works cost.

2009 - Dec [5] (b) Choose the most appropriate answer from the given options in respect of the following :

(iii) Non-controllable cost is the cost which –

(a) Is not subject to control at any level of managerial supervision

(b) Cannot be controllable during a particular financial year

(c) Cannot be controllable at any cost

(d) None of the above. (1 mark)

(c) Re-write the following sentences after filling-in the blank spaces with appropriate word(s)/figure(s) :

(v) ______is the allotment of proportion of items of cost to cost centre/cost units. (1 mark)

Answer:

(b)(iii) (a)

(c) (v) Apportionment

2010 - June [5] (b) Choose the most appropriate answer from the given options in respect of the following:

(iv) Fixed costs remain fixed—
   (a) Over a short period
   (b) Over a long period and within relevant range
   (c) Over a short period and within a relevant range
   (d) Over a long period. (1 mark)

(c) Re-write the following sentences after filling-in the blank spaces with appropriate word(s)/figure(s):
   (i) _________ expenses are excluded from cost. (1 mark)

Answer :

(b) (iv) (c)

(c) (i) Notional

2010 - Dec [5] (b) Choose the most appropriate answer from the given options in respect of the following :

(v) The management accounting is an extension of –
   (a) Financial accounting
   (b) Responsibility accounting
   (c) Cost accounting
   (d) All of the above. (1 mark)

(c) Re-write the following sentences after filling-in the blank spaces with appropriate word(s)/figure(s) :
   (iv) _________costs are not useful for decision making as all past costs are irrelevant. (1 mark)

Answer :

(b) (v) (d) All of the above.

(c) (iv) **Sunk** costs are not useful for decision making as all past costs are irrelevant.

2011 - June [5] (b) Re-write the following sentences after filling-in the blank spaces with appropriate word(s)/figure(s) :

(iii) A responsibility centre in which a manager is accountable for costs only is called_________. (1 mark)

Answer :

(iii) A responsibility centre in which a manager is accountable for cost only is called **Cost centre**

2011 - Dec [5] (b) Write the most appropriate answer from the given options in respect of the following:

(i) Opportunity cost helps in —
- (a) Ascertainment of cost
- (b) Controlling cost
- (c) Making managerial decisions
- (d) None of the above.

(ii) Fixed cost per unit-increases when —
- (a) Production volume decreases
- (b) Production volume increases
- (c) Variable cost per unit decreases
- (d) Variable cost per unit increases.

(v) The type of spoilage that does not affect the cost of inventories is —
- (a) Normal spoilage
- (b) Standard spoilage
- (c) Abnormal spoilage
- (d) Seasonal spoilage. (1 mark each)

Answer :

(b) (i) (c) Making management decisions
(ii) (a) Production volume decreases
(v) (a) Normal spoilage

2012 - June [5] (b) Re-write the following sentences after filling-in the blank spaces with appropriate word(s)/figure(s) :

(i) Variable cost per unit does not remain __________. (1 mark)

Answer :

(i) Variable.

2013 - June [5] (b) Write the most appropriate answer from the given options in respect of the following:

(ii) Differential cost analysis is incorporated in the —
- (a) Cost books
- (b) Financial books
- (c) Statutory books
- (d) None of the above. (1 mark)

(c) Re-write the following sentences after filling-in the blank spaces with appropriate word(s)/figure(s):

(i) A document which provides for assembly of different costs in respect of a cost centre or a cost unit is called _______. (1 mark)

Answer:

(b) (ii) (a) Cost books.

(c) (i) Cost sheet.

2014 - Dec [16] Which of the following is not true?
Fixed costs remain fixed -

(a) Over a short period
(b) Over a long period and within relevant range
(c) Over a short period and within a relevant range
(d) Over a long period. (1 mark)

Answer:

(c) Over a short period and within a relevant range

2014 - Dec [22] Which of the following costs are treated as product cost under variable costing-

(a) Only direct costs
(b) Only variable production costs
(c) Only material and labour costs
(d) All variable and fixed manufacturing costs. (1 mark)

Answer:

(b) Only variable production costs

2014 - Dec [44] The term used for 'process of ascertaining the cost' is known as —

(a) Cost (b) Costing
(c) Cost accounting (d) Cost accountancy. (1 mark)

Answer:

(b) Costing

2014 - Dec [47] The cost that increases as the volume of activity decreases within the relevant range, is known as —

(a) Average cost per unit (b) Average variable cost per unit
(c) Total fixed cost (d) Total variable cost. (1 mark)

Answer:

(a) Average cost per unit

2014 - Dec [51] Which of the following is not considered as a function of management accounting —

(a) Financial planning (b) Decision making
(c) Reporting (d) Cost computation. (1 mark)

Answer:

(d) Cost computation.

2014 - Dec [61] The cost of selecting one course of action and forgoing the other is known as-

(a) Sunk cost (b) Differential cost
(c) Opportunity cost (d) Joint cost. (1 mark)

Answer:

(c) Opportunity cost

2014 - Dec [62] Companies characterised by the production of heterogeneous products will most likely use which of the following methods for the purpose of averaging costs and providing management with unit cost data-

(a) Process costing (b) Job-order costing
(c) Direct costing (d) Absorption costing. (1 mark)

Answer:

(b) Job-order costing

2014 - Dec [84] For a manufacturing company, which of the following is an example of period cost rather than a product cost —

(a) Depreciation on factory equipment
(b) Commission to salesman
(c) Wages of machine operator
(d) Insurance on factory equipment. (1 mark)

Answer:

(b) Commission to salesman

2015 - June [23] Which of the following is an objective to be achieved through Cost Accounting Standards —

(a) To assist cost accountants in preparation of uniform cost statements
(b) To provide better guidelines on standard cost accounting practices
(c) To help Indian industry and the Government towards better cost management
(d) All of the above.

Answer:

(d) All of the above. (1 mark)

2015 - June [32] Rent, rates and insurance of factory and office are examples of —

(a) Direct expenses
(b) Indirect expenses
(c) Notional expenses
(d) Miscellaneous expenses. (1 mark)

Answer:

(b) Indirect expenses

2015 - June [40] Which of the following is generally used as cost unit in cement industry —

(a) Per tonne
(b) Per kilolitre
(c) Per kilogram
(d) Per gallon. (1 mark)

Answer:

(a) Per tonne

2015 - June [42] The objective of CAS-1 is —

(a) Collection, allocation, apportionment and absorption of overheads
(b) Determination of capacity
(c) Preparation of cost statement
(d) Determination of average/equalised transportation cost. (1 mark)

Answer:

(c) Preparation of cost statement

2015 - June [44] Which of the following is not an objective of management accounting —
(a) Formulation of plans and policy
(b) Assisting in decision making
(c) Preparation of financial statements
(d) Interpretation of financial documents. (1 mark)

Answer:

(c) Preparation of financial statements

2015 - June [51] According to Chartered Institute of Management Accountants (CIMA), cost attribution to cost units on the basis of benefits received from indirect activities e.g. ordering, setting-up, assuring quality is known as —
(a) Absorption costing
(b) Marginal costing
(c) Activity based costing
(d) Job costing. (1 mark)

Answer:

(c) Activity based costing

2015 - June [56] The establishment of budgets, standard costs and actual costs of operations, processes, activities or products and the analysis of variances, profitability or the social use of funds is known as —
(a) Costing
(b) Cost Accounting
(c) Cost Accountancy
(d) Financial Accounting. (1 mark)

Answer:

(b) Cost Accounting

2015 - June [58] Costs which are constant for a given level of output and then increase by a fixed amount at a higher level of output are called —
(a) Step costs
(b) Differential costs
(c) Committed costs
(d) Opportunity costs. (1 mark)

Answer:

(a) Step costs

2015 - June [60] Interest on internally generated funds is an example of —
(a) Differential cost
(b) Joint cost
(c) Common cost
(d) Imputed cost. (1 mark)

Answer:

(d) Imputed cost.

2015 - June [68] Cost unit applicable to bicycle industry is —
(a) Per part of bicycle
(b) Per bicycle
(c) Per thousand bicycles
(d) Per day. (1 mark)

Answer:

(b) Per bicycle

2015 - June [72] Sunk costs are -
(a) Opportunity costs
(b) Costs to be incurred in future
(c) Not relevant for decision making
(d) Controllable costs. (1 mark)

Answer:

(c) Not relevant for decision making

2015 - June [77] Fixed cost is a cost -
(a) Which remains fixed for each unit of output
(b) Which remains fixed in total during a given period despite changes in output
(c) Which is partly fixed and partly variable in relation to the output
(d) Which changes in total in proportion to the changes in output. (1 mark)

Answer:

(b) Which remains fixed in total during a given period despite changes in output

2015 - Dec [1] In management accounting, firm decisions on pricing policy can be taken.

Reason (R):

As marginal cost per unit is constant from period to period within a short span of time. Select the correct answer from the option given below –

(a) Both A and R are true and R is the correct explanation of A

(b) Both A and R are true, but R is not the correct explanation of A

(c) A is true, but R is false

(d) A is false, but R is true. (1 mark)

Answer:

(a) Both A and R are true and R is the correct explanation of A

2015 - Dec [12] A business unit is known to be a profit centre –

(a) If its operations or departments are not directly involved in revenue generating activities, but instead focus on elements of cost control

(b) If its management is evaluated not only on revenues and expenses, but also on asset investment

(c) If its management is compensated based on the level of profitability

(d) If its management is held accountable for both revenues and expenses and has the authority to make decision regarding its products, markets and source of supply. (1 mark)

Answer:

(d) If its management is held accountable for both revenues and expenses and has the authority to make decision regarding its products, markets and source of supply.

2015 - Dec [36] Statement - I

The activities or operations of every cost centre should be homogeneous so as to ensure uniform basis of charging expenses within the centre.

Statement-II

The activities or operation of each cost centre must be well defined and clearly identifiable.

Select the correct answer from the following-

(a) Both statements are correct

(b) Both statements are incorrect

(c) Statement-I is correct, but Statement-II is incorrect

(d) Statement-I is incorrect, but Statement-II is correct (1 mark)

Answer:

(a) Both statements are correct

2015 - Dec [41] Allotment of the entire costs to a cost centre or unit is known as.

(a) Cost apportionment
(b) Cost allocation
(c) Cost absorption
(d) Machine hour rate. (1 mark)

Answer:

(b) Cost allocation

2015 - Dec [49] Match the following:

List-I	List-II
P. Cost control purposes	1. __is a predetermined cost
Q. Standard cost	2. Responsibility accounting fixes responsibility for ___
R. Integrates	3. Cost accounting guides future ____
S. Production policies	4. Budgeting system ___ key managerial functions

Select the correct answer from the options given below-

	P	Q	R	S
(a)	4	3	2	1
(b)	2	1	4	3
(c)	2	3	4	1
(d)	3	2	4	1

(1 mark)

Answer:

(b)	P	Q	R	S
	2	1	4	3

2015 - Dec [52] *Assertion (A) :*

Cost accounting hides the relative efficiencies of different workers.

Reason (R) :

Cost accounting does not disclose profitable and non-profitable activities.

Select the correct answer from the following-

(a) Both A and R are true and R is the correct explanation of A
(b) Both A and R are true, but R is not the correct explanation of A
(c) A is true, but R is false
(d) Both A and R are false (1 mark)

Answer:

(d) Both A and R are false

2015 - Dec [87] Management accounting is basically concerned with —

(a) The problem of choice (b) Causative relationship
(c) Recording of transaction (d) Both (A) and (B) above.
(1 mark)

Answer:

(d) Both (A) and (B) above.

2015 - Dec [88] Cost accounting is —

(a) Nothing more than a detailed analysis of expenditure
(b) An instrument of management control
(c) Useful only in such organisation which has profit as the aim
(d) Not needed if prices are beyond the control of the firm. (1 mark)

Answer:

(b) An instrument of management control

2015 - Dec [90] Conversion cost is the summation of —

(a) Direct material and direct wages
(b) Direct wages and office overheads
(c) Direct wages , direct charges and works overheads
(d) None of the above. (1 mark)

Answer:

(c) Direct wages , direct charges and works overheads

2015 - Dec [91] A cost centre which is engaged in production activity by conversion of raw material into finished product is called —

(a) Production cost centre (b) Impersonal cost centre
(c) Process cost centre (d) Production unit. (1 mark)

Answer:

(a) Production cost centre

2016 - June [8] A direct cost is a cost which can be classified on the basis of:

(a) Behaviour (b) Traceability

(c) Controllability (d) Relevance. (1 mark)

2016 - June [16] Management accounting does not include the function of:

(a) Planning and control

(b) Product costing

(c) Preparation of financial statements

(d) Decision-making. (1 mark)

2016 - June [54] Which of the following statements are true:

(i) Conversion costs and overheads are interchangeable terms

(ii) Notional cost and imputed cost means the same thing

(iii) Cost accounting is not needed by a non-profit organisation

(iv) Rent on owned building is included in cost accounts.

Select the correct answer from the options given below:

(a) (i) and (ii) (b) (iii) and (iv)

(c) (ii) and (iv) (d) All of the above. (1 mark)

2016 - June [57] Match the following industry/product with appropriate cost unit:

	Industry/Product		Cost unit
(i)	Toy Industry	(a)	Per batch
(ii)	Steel Industry	(b)	Tonne-kilometre
(iii)	Chemical	(c)	Tonne
(iv)	Transport	(d)	Gallon

Select the correct answer using the codes given below:

	(i)	(ii)	(iii)	(iv)
(a)	(a)	(c)	(d)	(b)
(b)	(a)	(b)	(d)	(c)
(c)	(a)	(d)	(c)	(b)
(d)	(b)	(a)	(c)	(d)

(1 mark)

2016 - June [58] Which one of the following statements is false:

(a) Management accountant uses cost accounting tools and techniques for planning and decision making

(b) Management accounting is mostly historical in its approach and it projects the past
(c) Cost accounting system can be installed without management accounting
(d) Management accounting focuses on wealth maximisation. (1 mark)

2016 - June [84] Cost Accounting Standard _______________ is related to bringing uniformity and consistency in the principles and methods of determining the selling and distribution overheads with reasonable accuracy.
(a) 10 (b) 12
(c) 15 (d) 4 (1 mark)

2016 - June [100] Those fixed costs which continue to be incurred even when there is no production are called:
(a) Period costs (b) Discretionary costs
(c) Committed costs (d) Output costs. (1 mark)

Multiple Choice Questions

1. Which of the following concept is used in absorption costing?
   (a) Matching concept (b) Cost concept
   (c) Cash concept (d) None of the given options
   Answer:
2. Unique Co. sells a single product for ₹ 28 per unit. If variable costs are 65% of sales and fixed costs total ₹ 9,800, the break-even point will be:
   (a) 15,077 units (b) 18,200 units
   (c) 539 units (d) 1,000 units
   Answer:
3. Which of the following is not true about differential costs?
   (a) It is a broader concept than variable cost as it takes into account additional fixed costs caused by management decisions
   (b) With the passage of time and change in situation, differential costs will vary
   (c) The difference in cost between buying them from outside or make them in the company is differential cost, irrelevant for decisions
   (d) They are extra or incremental costs caused by a particular decision

Answer:

4. Which one of the following is the Traditional approach for costing?
   (a) Contribution approach
   (b) Absorption costing approach
   (c) Decision making approach
   (d) Marginal costing approach

   Answer:

5. The following are features of a relevant cost EXCEPT:
   (a) They affect the future cost
   (b) They cause an increment in cost
   (c) Relevant cost is a sunk cost
   (d) They affect the future cash flows

   Answer:

6. Which of the following statement is TRUE about the relevant cost?
   (a) It is a sunk cost
   (b) It is an opportunity cost
   (c) It do not affect the decision making process
   (d) All costs are relevant

   Answer:

7. Decision making all costs already incurred in past should always be:
   (a) Ignored
   (b) Considered
   (c) Partially ignored
   (d) Partially considered

   Answer:

8. Which of the following statement is TRUE about historical cost?
   (a) It is always relevant to decision making
   (b) It is always irrelevant to decision making
   (c) It is always an opportunity cost
   (d) It is always realizable value

   Answer:

9. In Cost accounting, unavoidable loss is charged to which of the following?
   (a) Factory over head control account
   (b) Work in process control account

(c) Marketing overhead control account
(d) Administration overhead control account

Answer: [ ]

10. An average cost is also known as:
(a) Variable cost (b) Unit cost
(c) Total cost (d) Fixed cost

Answer: [ ]

11. Period costs are:
(a) Expensed when the product is sold
(b) Included in the cost of goods sold
(c) Related to specific period
(d) Not expensed

Answer: [ ]

12. When production is equal to sales, which of the following is true?
(a) No change occurs to inventories for either use absorption costing or variable costing methods
(b) The use of absorption costing produces a higher net income than the use of variable costing
(c) The use of absorption costing produces a lower net income than the use of variable costing
(d) The use of absorption costing causes inventory value to increase more than they would though the use of variable costing

Answer: [ ]

13. Under which of the following, all cost of production is considered as product cost, regardless of whether they are variable or fixed in nature?
(a) Absorption costing
(b) Direct costing
(c) Marginal costing
(d) Variable costing

Answer: [ ]

14. What would be the attitude of the management in treating Sunk costs in decision making?
(a) A periodic investment of cash resources that has been made and should be relevant for decision making

(b) It is a past cost which is not directly relevant in decision making
(c) Management will treat it as variable cost each time in decision making
(d) None of the given options

Answer:

15. Mohan is running his own personal Financial services business. He has been offered a job for a salary of ₹ 45,000 per month which he does not availed. ₹ 45,000 will be considered as:
(a) Sunk cost
(b) Opportunity cost
(c) Avoidable cost
(d) Historical cost

Answer:

16. Which of the given cost does not become the part of cost unit?
(a) Advertising expenses
(b) Direct labour cost
(c) Factory overhead
(d) Cost raw material

Answer:

17. Basic assumption made in direct costing with respect to fixed costs is that:
(a) Fixed cost is a controllable cost
(b) Fixed cost is a uncontrollable cost
(c) Fixed cost is an irrelevant cost
(d) Fixed cost is a period cost

Answer:

18. Cost accounting concepts include all of the following except:
(a) Planning
(b) Controlling
(c) Sharing
(d) Costing

Answer:

19. Which of the following would be considered a major aim of a job order

costing system?

(a) To determine the costs of producing each job
(b) To compute the cost per unit
(c) To include separate records for each job to track the costs
(d) All of the given options

Answer:

20. Re-ordering level is equal to:
(a) Maximum consumption × minimum re-order period
(b) Maximum consumption × maximum re-order period
(c) Minimum consumption × minimum re-order period
(d) Normal usage × normal delivery period.

Answer:

21. Imputed cost is also called
(a) Explicit cost (b) Implicit cost
(c) Firm cost (d) Period cost

Answer:

22. Cost of production report summarizes data of:
(a) Quantities produced by production department only
(b) Cost incurred by production department only
(c) Quality of purchased units only
(d) Quantities produced and Cost incurred by production department

Answer:

23. Which of the following statement measures the financial position of the entity on particular time?
(a) Income Statement (b) Balance Sheet
(c) Cash Flow Statement (d) Statement of Retained Earning

Answer:

24. Indirect material, indirect labour and indirect expenses collectively form _______ cost.
(a) Overhead (b) Contribution
(c) Job, process (d) None of above.

Answer:

25. Prime cost consists of direct ________ cost, direct wages and direct expenses.
    (a) Materials (b) Selling, distribution
    (c) Operating (d) None of the above
    Answer:
26. Cost _______ is the allotment of the whole items of cost to cost centers.
    (a) allocation (b) costing
    (c) job, process (d) None of the above
    Answer:
27. The techniques and process of ascertaining costs is called ________
    (a) costing (b) allocation
    (c) operating (d) None of the above
    Answer:
28. A good costing system gives equal emphasis on cost ______ and cost ______
    (a) ascertainment; control (b) variable ,fixed
    (c) job, process (d) None of the above
    Answer:
29. The factory cost is obtained by adding _______ cost and factory _____,or______ cost and ______ material.
    (a) prime, overhead, conversion, direct
    (b) costing
    (c) selling
    (d) None of the above
    Answer:
30. Basic methods of costing are _____ costing and ______ costing.
    (a) job, process (b) variable, fixed
    (c) fixed, variable (d) None of the above
    Answer:

31. Indirect material is a _______ overhead whereas managerial salary is a _______ overhead.
    (a) variable, fixed (b) overhead, materials

(c) conversion, direct (d) None of the above

Answer: ______

32. The method of costing used in hospital is __________ costing.
 (a) operating (b) fixed
 (c) job (d) None of the above

 Answer: ______

33. Electricity charges are partly ________ and Partly________.
 (a) fixed, variable (b) allocation, operating
 (c) job, process (d) None of the above

 Answer: ______

34. In cotton textile, the cost unit is __________ of cloth.
 (a) metre (b) overhead
 (c) process (d) None of the above

 Answer: ______

35. Single or output costing is used when the production is_________ identical and a _______ Article is produced.
 (a) uniform, single (b) fixed, variable
 (c) operating, fixed (d) None of the above

 Answer: ______

36. Cost of sales is cost of production plus_______ and_______ overhead.
 (a) Selling, distribution (b) overhead, process
 (c) uniform, fixed (d) None of the above

 Answer: ______

37. Basic principles of costing are_______ costing and_______ costing.
 (a) marginal, absorption (b) selling, allocation
 (c) single, uniform (d) None of the above

 Answer: ______

38. Rent on own premises is a_________ cost.
 (a) notional (b) selling
 (c) single (d) None of the above

 Answer: ______

39. ______ is obtained by deducting_______ cost from_________ .
 (a) contribution, variable, sales
 (b) selling, distribution, selling

(c) single, notional, uniform
(d) None of the above

Answer:

40. Telephone expenses is a
(a) Fixed cost (b) Variable cost
(c) Semi-fixed cost (d) None of the above

Answer:

41. A cost which has no involvement of cash outlay is called
(a) Notional Cost (b) Out-of-pocket cost
(c) Sunk cost (d) None of the above

Answer:

42. Step costs are classified as
(a) Conversion cost (b) Mixed cost
(c) Prime cost (d) None of the above

Answer:

43. In job costing P. F. and ESI paid by the company for factory employees are accounted for as
(a) Administrative Costs (b) Factory overhead
(c) Indirect labour (d) None of above

Answer:

44. In a process cost system the unit cost is determined for a
(a) Department (b) Job
(c) Batch of goods (d) None of above

Answer:

45. The main purpose of cost accounting is to
(a) Fix selling price
(b) Earn maximum profit
(c) Provide data to management for decision making
(d) None of the above

Answer:

46. Holiday pay is treated as:
(a) Fringe benefits cost
(b) Indirect labour cost

(c) Overheads
(d) Abnormal loss charged to profit and loss account.

Answer:

47. Cost Accounting is:
(a) Part of Management Accounting
(b) Part of Financial Accounting
(c) Part of Responsibility Accounting
(d) None of these

Answer:

48. The head office of the institute of Cost and Works Accountants of India is situated at:
(a) New Delhi (b) Mumbai
(c) Kolkata (d) Dehradun

Answer:

49. When the Cost and Works Accountants Act was passed in India?
(a) 1947 (b) 1951
(c) 1959 (d) 1969

Answer:

50. Ascertainment of cost with the help of actual expenses incurred in termed as:
(a) Historical Costing (b) Standard Costing
(c) Marginal Costing (d) Absorption Costing

Answer:

51. Which method of Costing is used in oil industry?
(a) Process Costing (b) Batch Costing
(c) Unit Costing (d) Cost Plus Costing

Answer:

52. Cost accounts are maintained compulsorily for compliance to statutory obligation in:
(a) All Business Concerns
(b) Manufacturing Concerns
(c) Certain specific manufacturing companies
(d) All of the above

Answer:

53. Cost Accounting is based:
    (a) On Double Entry System
    (b) On Single Entry System
    (c) On Indian Book-keeping System
    (d) On American Accounting System

Answer:

54. Cost Accounting is:
    (a) An Art (b) A Science
    (c) Art and Science both (d) None of these

Answer:

55. Which method of costing is used in Motor Car Industry:
    (a) Operating Costing (b) Process Costing
    (c) Multiple Costing (d) Job Costing

Answer:

56. Multiple costing methods is used in:
    (a) Oil refinery (b) Car manufacturing company
    (c) Sugar mill (d) Multi-product company

Answer:

57. Electricity generation company should employ:
    (a) Unit costing (b) Process costing
    (c) Operation costing (d) Job costing

Answer:

58. Job costing is used in:
    (a) Paper mills (b) Chemical works
    (c) Printing press (d) Textile mill

Answer:

59. Which method of costing is used in hospitals?
    (a) Job costing (b) Unit costing
    (c) Operating Costing (d) No method is used.

Answer:

60. Contract costing is used in:
    (a) Ship building (b) Aeroplane industry

(c) Automobile vehicle industry (d) None of these

Answer:

61. Cost accounting is a branch of...................................
    (a) Accounting (b) Cost Accounting
    (c) Financial Accounting (d) None of the above

Answer:

62. Cost accounting originated due to................................
    (a) Limitation of Financial Accounting
    (b) Advantage of Financial Accounting
    (c) Objectives of Financial Accounting
    (d) None of the above

Answer:

63. ....costing method is used in cinemas.
    (a) Operating (b) Working
    (c) Service (d) None of the above

Answer:

64. .... is the technique of ascertaining cost.
    (a) Costing (b) Financial
    (c) Accounting (d) None of the above

Answer:

65. The method of costing used in job order industries is known as....................
    (a) Batch Costing (b) Job Costing
    (c) Work Costing (d) None of the above

Answer:

66. In...............................costing, the cost of a group of products is ascertained.
    (a) Job Costing (b) Batch
    (c) Work Costing (d) None of the above

Answer:

67. The ascertainment of costs after they have been incurred is known as................
    (a) Historical Costing (b) Conservation Costing

(c) Absorption Costing (d) Uniform Costing

Answer:

68. Financial accounts..........................necessary information for management.
    (a) Do not provide (b) Can not provide
    (c) Will not provide (d) None of the above

Answer:

69. To ascertain the cost of a given thing is called.............
    (a) Financial Accounting (b) Costing
    (c) Management Accounting (d) None of the above

Answer:

70. Which of these is not an objective of Cost Accounting?
    (a) Ascertainment of Cost
    (b) Determination of Selling Price
    (c) Cost Control and Cost reduction
    (d) Assisting Shareholders in decision making

Answer:

71. A profit centre is a centre
    (a) Where the manager has the responsibility of generating and maximising profits
    (b) Which is concerned with earning an adequate Return on Investment
    (c) Both of the above
    (d) Which manages cost

Answer:

72. Responsibility Centre can be categorised into:
    (a) Cost Centres only
    (b) Profit Centres only
    (c) Investment Centres only
    (d) Cost Centres, Profit Centres and Investment Centres

Answer:

73. Cost Unit is defined as:
    (a) Unit of quantity of product, service or time in relation to which costs

may be ascertained or expressed
(b) A location, person or an item of equipment or a group of these for which costs are ascertained and used for cost control.
(c) Centres having the responsibility of generating and maximising profits
(d) Centres concerned with earning an adequate return on investment

Answer: [ ]

74. Fixed cost is a cost:
(a) Which changes in total in proportion to changes in output
(b) Which is partly fixed and partly variable in relation to output
(c) Which do not change in total during a given period despise changes in output
(d) Which remains same for each unit of output

Answer: [ ]

75. Uncontrollable costs are the costs which be influenced by the action of a specified member of an undertaking.
(a) can not
(b) can
(c) may or may not
(d) must

Answer: [ ]

76. Elements of Cost of a product are:
(a) Material only
(b) Labour only
(c) Expenses only
(d) Material, Labour and expenses

Answer: [ ]

77. Abnormal cost is the:
(a) Cost normally incurred at a given level of output
(b) Cost not normally incurred at a given level of output
(c) Cost which is charged to customer
(d) Cost which is included in the cost of the product

Answer: [ ]

78. Sunk costs are:
(a) relevant for decision making
(b) Not relevant for decision making
(c) cost to be incurred in future
(d) future costs

Answer:

79. Describe the cost unit applicable to the Bicycle industry:
    (a) per part of bicycle (b) per bicycle
    (c) per tonne (d) per day

    Answer:

80. Allotment of whole item of cost to a cost centre or cost unit is known as:
    (a) Cost Apportionment (b) Cost Allocation
    (c) Cost Absorption (d) Machine hour rate

    Answer:

81. Which of the following production batch sizes will minimize cost where annual output is 20,000 units; set-up costs per batch are ₹ 25; holding costs are ₹ 3 per unit.
    (a) 79 units (b) 467 units
    (c) 577 units (d) 280 units

    Answer:

82. Maintenance department in a factory is a.....
    (a) Cost Unit (b) Profit Centre
    (c) Cost Driver (d) Service Centre

    Answer:

83. Indirect costs are_________ to cost centres or cost units.
    (a) Allocated (b) Apportioned
    (c) Allocation (d) Disallowed

    Answer:

84. Service costing is also known as__________________
    (a) Marginal Costing (b) Operating Costing
    (c) Indirect Costing (d) Uniform Costing

    Answer:

85. Differential costs are also known as ________________
    (a) Incremental Cost (b) Sunk Cost
    (c) Operation Cost (d) Controllable Cost

    Answer:

86. The cost audit order can be given by the Central Government only in respect of Class of Companies which is required to maintain books of

account under the provisions of ______________ of the Companies Act, 2013.

(a) Section 148 (b) Section 140

(c) Section 209(1)(d) (d) Section 118

Answer:

87. Conversion Cost = ________________

(a) Direct wages + Direct expenses

(b) Direct wages + Direct expenses + Manufacturing overhead

(c) Direct material + Direct wages + Direct expenses

(d) Direct material + Direct wages + Direct expenses + Manufacturing overhead

Answer:

88. _________ are also known as out of pocket costs.

(a) Explicit Costs (b) Implicit Costs

(c) Opportunity Cost (d) Sunk Cost

Answer:

89. Which of the following is not a relevant cost?

(a) Replacement cost (b) Historical cost

(c) Marginal cost (d) Standard cost

Answer:

90. Which of the following costs would NOT be a period cost?

(a) Standard cost

(b) Administrative salaries

(c) Advertising cost

(d) Selling costs

Answer:

91. Which of the following is not a technique of costing?

(a) Absorption costing (b) Opportunity costing

(c) Multiple costing (d) Standard costing

Answer:

92. Loss by fire is an example of __________

(a) Normal Loss (b) Abnormal Loss

(c) Incremental Loss (d) None of the above

Answer: [ ]

93. Which of the following is a cost-behavior oriented approach to product costing?

(a) Absorption Costing (b) Marginal Costing
(c) Standard (d) None of the above

Answer: [ ]

94. For external financial statement purpose. Inventories must be reported at:

(a) Standard costs (b) Batch costs
(c) Actual costs (d) Indirect costs

Answer: [ ]

95. Step costs are classified as a

(a) Direct cost (b) Fixed Cost.
(c) Sunk Cost (d) Mixed Cost or semi variable cost

Answer: [ ]

96. The term 'sunk costs' refer to:

(a) Past costs that are now irrevocable.
(b) Costs that are indirectly inflected by unit managers.
(c) Costs that should be incurred in a particular manufacturing process.
(d) Benefits lost from rejecting the next best alternative.

Answer: [ ]

97. A company wishes to earn a 15% profit margin on selling price when quoting for a job which of the following is the profit mark-up on cost which will achieve the required profit margin?

(a) 20% (b) 17.65%
(c) 95% (d) 14.01%

Answer: [ ]

Answer

1	(a)	**2**	(d)	**3**	(c)	**4**	(b)	**5**	(c)
6	(b)	**7**	(a)	**8**	(b)	**9**	(a)	**10**	(b)
11	(c)	**12**	(a)	**13**	(a)	**14**	(b)	**15**	(b)
16	(a)	**17**	(d)	**18**	(c)	**19**	(a)	**20**	(b)
21	(b)	**22**	(d)	**23**	(b)	**24**	(a)	**25**	(a)
26	(a)	**27**	(a)	**28**	(a)	**29**	(a)	**30**	(a)
31	(a)	**32**	(a)	**33**	(a)	**34**	(a)	**35**	(a)
36	(a)	**37**	(a)	**38**	(a)	**39**	(a)	**40**	(c)
41	(a)	**42**	(b)	**43**	(b)	**44**	(a)	**45**	(c)
46	(c)	**47**	(b)	**48**	(c)	**49**	(c)	**50**	(a)
51	(a)	**52**	(c)	**53**	(a)	**54**	(c)	**55**	(c)
56	(b)	**57**	(c)	**58**	(c)	**59**	(c)	**60**	(a)
61	(a)	**62**	(a)	**63**	(c)	**64**	(a)	**65**	(b)
66	(b)	**67**	(a)	**68**	(a)	**69**	(b)	**70**	(d)
71	(a)	**72**	(d)	**73**	(a)	**74**	(c)	**75**	(a)
76	(d)	**77**	(b)	**78**	(b)	**79**	(b)	**80**	(b)
81	(c)	**82**	(d)	**83**	(b)	**84**	(b)	**85**	(a)
86	(a)	**87**	(b)	**88**	(a)	**89**	(b)	**90**	(a)
91	(b)	**92**	(b)	**93**	(b)	**94**	(c)	**95**	(d)
96	(a)	**97**	(b)								