

Cost Accounting

CLASS-XII (COMMERCE)



**SCHEDULED CASTES & SCHEDULED TRIBES
RESEARCH & TRAINING INSTITUTE (SCSTRI)
ST & SC DEVELOPMENT DEPARTMENT
BHUBANESWAR**

COST ACCOUNTING

Workbook Cum Question Bank with Answers

CLASS-XII (CHSE)
COMMERCE

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FOREWORD



The ST & SC Development Department, Government of Odisha has introduced an innovative education programme for the students appearing in +2 Science and Commerce examination pursuing studies in the ST & SC Development Department Schools (EMRS & HSS) to ensure quality education at +2 level. In this regard it is to mention that an Academic Performance Monitoring Cell (APMC) has been set up in SCSTRTI to monitor the Training and Capacity Building of Teachers of SSD Higher Secondary Schools and Ekalavya Model Residential Schools (EMRS) to enhance quality education for better performance of the students appearing +2 Science and Commerce examination.

Since March 2020 due to Covid-19 Pandemic Situation, the state government has closed all the HSS & EMRS and online classes were going on. The CBSE & CHSE Board were unable to conduct the offline examinations in 2020 and 2021. Since a few months, offline classes are going on. To combat the situation, the CBSE & CHSE Boards have introduced alternate comprehensive examination patterns such as 1st and 2nd Term End Examinations and Quarter End Examinations etc. to be operative from 2021-22 academic session. Accordingly the Question patterns have completely being changed by both Boards.

To face this situation, the APMC has designed Workbook-Cum-Question Bank with Answers as per the new direction of the Boards. The best of subject experts have been roped to formulate self-contained and self-explanatory "Workbook-Cum-Question Bank with Answers" as per the new pattern of examinations of CHSE & CBSE Boards. They have tried to make the material as far as activity based and solution based as feasible.

I would like to extend my sincere thanks to Prof. (Dr.) A. B. Ota, Advisor-Cum-Director and Special Secretary, SCSTRTI. I would also like to thank Dr. S. C. Das, SLPM, APMC and the team of subject experts for their sincere effort in bringing out the Question Bank in a very short time.

The Workbook-Cum-Question Bank with Answers will cater to the needs of students during this pandemic situation and will be extremely useful for students of Science and Commerce of CBSE and CHSE to face the new pattern of examination, as these are designed accordingly.

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Ranjana Chopra
Principal Secretary
ST & SC Development Department
Govt. of Odisha

PREFACE



An innovative education programme has been initiated by setting up an Academic Performance Monitoring Cell (APMC) in Scheduled Castes and Scheduled Tribes Research and Training Institute (SCSTRTI) to monitor the Training and Capacity Building of Teachers of SSD Higher Secondary Schools and Ekalavya Model Residential Schools (EMRS) and to ensure quality education of students studying at +2 level under the administrative control of the ST & SC Development Department.

Due to Covid-2019 pandemic situation, all the schools under administrative control of ST & SC Development Department are closed since March 2020. As a result different Boards were not able to conduct offline examinations in 2020 and 2021. As an alternative, CBSE Board and CHSE Board have made comprehensive examination patterns in the form of 1st & 2nd Term End and 3rd Quarter End examinations respectively to be followed from 2021-22 academic session.

The present situation demands to fulfill the desire of students and designed new pattern of questions, which will cater to the need of students to face the examinations boldly without any fear and nervousness. The APMC under the banner of SCSTRTI has taken the initiative to prepare Workbook-Cum-Question Bank with Answers in Physics, Chemistry, Biology (Botany & Zoology), Mathematics, Information Technology / Computer Science, English and Odia of Science stream and Business Mathematics and Statistics, Business Studies and Management, Accounting, Cost Accountancy, Fundamentals of Management Accounting, Fundamentals of Entrepreneurship, Banking & Insurance etc. of Commerce stream as per the new pattern of questions to be adopted in both CBSE and CHSE Boards and prepared books separately.

The subject experts, who are the best in their respective subjects in the state have been roped in for this exercise. They have given their precious time to make the new pattern of Question Bank as activity and solution based as per the direction of both CBSE and CHSE Boards.

I hope this material will be extremely useful for the students preparing for the +2 examination in different subject of Science and Commerce streams.

A handwritten signature in black ink, consisting of stylized loops and strokes, representing the name of the signatory.

Prof. (Dr.) A. B. Ota

Advisor-Cum-Director & Special Secretary
SCSTRTI, Govt. of Odisha

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UNIT - I**INTRODUCTION TO COST ACCOUNTING
GROUP - A****A-I Multiple Choice Questions**

1. **Financial accounting is useful for:**
 - a) Ascertaining cost
 - b) Controlling cost
 - c) Presentation of cost information to management
 - d) Ascertaining profit earned and financial position of business.
2. **Cost accounting is useful for:**
 - a) Ascertaining the financial position of a firm
 - b) Ascertaining the profit or loss of a firm
 - c) Controlling cost
 - d) None of the above
3. **Telephone expense is an example of:**
 - a) Variable expense
 - b) Fixed expense
 - c) Semi-variable expense
 - d) None of the above
4. **Cost accounting is based on:**
 - a) Actual figures
 - b) Estimated figures
 - c) Projected figures
 - d) Historical figures
5. **Cost accounting as a branch of accounting has emerged due to limitations of :**
 - a) Management accounting
 - b) Financial accounting
 - c) Inflation accounting
 - d) Income tax
6. **Which is the authorising body to set up Cost Accounting Standard Board (CASB) ?**
 - a) Cost Auditors
 - b) Income Tax Department
 - c) Institute of Chartered Accountants
 - d) Institute of Cost Accountants of India
7. **CAS-I pertains to:**
 - a) Pollution control cost
 - b) Classification of costs
 - c) Material cost
 - d) Overheads
8. **What is referred to as a technique and process of ascertaining costs?**
 - a) Costing
 - b) Cost accountancy
 - c) Cost accounting
 - d) Price fixation

Cost Accounting

- 9. Which of the following is not a method of costing?**
- a) Contract costing
 - b) Marginal costing
 - c) Batch costing
 - d) Process costing
- 10. Which of the following is not a technique of costing?**
- a) Differential costing
 - b) Marginal costing
 - c) Job costing
 - d) Standard costing
- 11. Which of the following is not a technique of costing?**
- a) Standard costing
 - b) Operating costing
 - c) Marginal costing
 - d) Absorption costing
- 12. Which method of costing is suitable to a road transport company?**
- a) Contract costing
 - b) Process costing
 - c) Output costing
 - d) Operating costing
- 13. Which method of costing is suitable to an automobile repair workshop?**
- a) Service costing
 - b) Batch costing
 - c) Job costing
 - d) Output costing

Question Bank with Answers

- 14. Which method of costing is suitable for paper manufacturing company?**
- a) Process costing
 - b) Job costing
 - c) Output costing
 - d) Contract costing
- 15. Batch costing is not suitable for which of the following industry?**
- a) Garment manufacturing
 - b) Bakeries
 - c) Repair shop
 - d) Toy manufacturing
- 16. Specify the method of costing suitable to a toy making unit:**
- a) Batch costing
 - b) Operating costing
 - c) Contract costing
 - d) Unit or output costing
- 17. Absorption costing charges:**
- a) Only fixed cost
 - b) Only variable cost
 - c) Both variable and fixed
 - d) None of the above
- 18. Which of the following area is not covered under farm costing?**
- a) Poultry farming
 - b) Animal husbandry
 - c) Hospital
 - d) Sericulture

- 19. In which of the following industries, cost unit is composite?**
- a) Chemical industry
 - b) coal industry
 - c) Brick kiln
 - d) Transport industry
- 20. Which will not become a part of the cost?**
- a) Cost of the machine
 - b) Depreciation
 - c) Repairs
 - d) Labour charges
- 21. Which method of costing is appropriate to ship building?**
- a) Batch costing
 - b) Service costing
 - c) Contract costing
 - d) Process costing
- 22. Conversion cost is:**
- a) Direct material + labour
 - b) Works cost – Direct material
 - c) Works cost – Direct labour
 - d) Direct material+labour+ Overheads
- 23. Three elements of cost are:**
- a) Production overheads, office overheads, selling overheads
 - b) Indirect material, indirect labour, other expenses
 - c) Material, labour, other expenses
 - d) Direct material, Direct labour, Other expenses
- 24. Works cost is calculated by:**
- a) Direct material + Direct labour + Chargeable expenses
 - b) Direct material + Direct labour + Administrative overheads
 - c) Direct material + Direct labour + Direct expenses + Works expenses
 - d) Prime cost – Works overheads
- 25. Prime cost is calculated by:**
- a) Direct Material + Direct labour + Works expenses
 - b) Direct Material + Direct labour + Chargeable expenses
 - c) Direct Material + Direct labour + Office overheads
 - d) None of the above
- 26. Which of the following is not included in cost?**
- a) Dividend
 - b) Indirect labour
 - c) Distribution overheads
 - d) Consumable stores
- 27. Which of the following is not included as cost?**
- a) Abnormal wastage of materials
 - b) Factory overheads
 - c) Direct labour
 - d) Office overheads
- 28. When cost price is Rs.900 and profit is 10% on sales, then profit is:**
- a) Rs. 100
 - b) Rs. 130
 - c) Rs. 200
 - d) Rs. 150

Cost Accounting

29. Which of the following expenses is excluded from cost?

- a) Excise duty
- b) Discount on shares and debentures
- c) Hire charges of a special plant
- d) Cost of patent rights

30. Which of the following is not selling and distribution expense?

- a) Cost of samples
- b) Carriage outward
- c) Bad debts
- d) Primary packing material

31. Value of raw materials consumed is:

- a) Opening stock of raw materials + closing stock of raw materials
- b) Opening stock of raw materials + Purchases – Closing stock of raw materials
- c) Average of opening and closing stock of raw materials
- d) Purchase of raw materials – closing stock of raw materials

32. Selling overheads are charged on:

- a) The number of units purchased
- b) The number of units sold
- c) The number of units produced
- d) The total number of units

33. Profit is:

- a) Sales minus factory cost
- b) Sales minus cost of production
- c) Sales minus cost of sales
- d) Sales minus cost of goods sold

Question Bank with Answers

34. Cost of production is equal to:

- a) Prime cost plus works cost
- b) Total cost plus prime cost
- c) Works cost plus Administrative overheads
- d) Prime cost plus Administrative overheads

35. Rent and rates belongs to:

- a) Fixed cost
- b) Variable cost
- c) Semi-Variable cost
- d) Abnormal cost

36. Aggregate of direct material, direct labour and direct expenses is known as:

- a) Total cost
- b) Prime cost
- c) Factory cost
- d) Cost of production

37. Ware housing cost belongs to:

- a) Office overhead
- b) Distribution overhead
- c) Material cost
- d) Direct cost

38. Bad debt is:

- a) Factory overhead
- b) Administrative overhead
- c) Distribution overhead
- d) Selling overhead

39. Carriage inward is a part of:

- a) Selling on cost
- b) Office on cost
- c) Manufacturing on cost
- d) Prime cost

A-II Fill in the blanks

1. Costing is a technique of _____.
2. Cost accounting is developed because of _____ of financial accounting.
3. Cost accountancy is the science, art and _____ of a cost accountant.
4. Cost accounting provides data for managerial _____.
5. Cost accounting is a separate _____ of accounting.
6. Cost accounting serves the information needs of _____.
7. Cost accounting is based on _____ figures.
8. Cost accounting provides detailed information about _____.
9. Cost accounting records both monetary and _____ units.
10. The method of costing used in a refinery is _____.
11. In automobile industry, cost unit is _____.
12. _____ costing is used in transport undertakings.
13. Cost unit in a college may be a _____.
14. In _____ costing, the cost of a group of products is ascertained.
15. Printing press uses _____ method of costing.
16. Prime cost + _____ = works cost.
17. Works cost + office overheads = _____.
18. _____ is also known as period costs.
19. Cost of production = Total cost – _____.
20. Indirect materials form part of _____.
21. Wages paid to labour employed other than on production constitute _____ labour cost.
22. Another name of office overhead is _____ overhead.
23. The total of all direct expenses is known as _____ cost.
24. _____ costs are partly fixed and partly variable in relation to output.
25. Variable cost change _____ with change in output.
26. Fixed cost per unit _____ with increase in output.
27. Out of pocket costs involve payment to _____.
28. Selling price = Cost of sales + _____.
29. Telephone expense is an example of _____.
30. Manufacturing overheads are also known as _____ overheads.
31. Depreciation is _____ expenditure.
32. _____ means the amount of expenditure incurred in producing a product or rendering a service.
33. _____ costing is suitable for readymade garment.
34. Supervisor's salary is _____ overhead.
35. Selling and distribution overheads added to cost of production is _____ cost.
36. Prime cost = Direct material + Direct labour + _____.
37. Factory cost = Prime cost + _____.
38. Cost of sales = Cost of goods sold + _____.

A-III Answer the following in one word / term each

1. Name the unit of product, service or time in relation to which costs may be ascertained.
2. Which statement should be prepared to ascertain the cost per unit of a product?
3. Which type of costing is used in automobile industry?
4. Which type of costing is used in industry providing service?
5. Which costing method is considered as an extension of job costing?
6. Which method of costing is suitable for a paper mill?
7. Give one argument against installation of a costing system.
8. What do you add to prime cost to determine the factory cost?
9. What type of costing is suitable for Odisha State Road Transport corporation?
10. Which type of costing would you recommend for cement industry?
11. What shall be deduced from cost of production to arrive at works cost?
12. Give another name of fixed cost.
13. Give another name of Variable cost.
14. Primary packing expenses form part of which cost?
15. The total of direct material, direct labour and direct expenses constitutes what ?
16. What is the difference between sales and cost of sales?
17. Indirect material is a part of which cost?
18. What type of overhead is carriage outward?
19. The type of overhead under which advertisement expenses come.

A-IV Answer in one sentence

1. What do you mean by direct cost?
2. Define fixed cost?
3. What constitutes cost of production?
4. Define semi-variable cost .
5. Define Job costing.
6. What do you mean by inventory?
7. What do you mean by Fixed overhead?
8. What constitutes works cost?
9. What do you mean by indirect cost?
10. What do you mean by Cost Centre?
11. What is work-in-progress?
12. What do you mean by cost sheet?
13. What is prime cost?
14. What is an overhead?
15. What is material cost?
16. What is Variable cost?
17. Why cash discount is excluded from cost?
18. What is Cost unit?
19. What is costing?
20. What is conversion cost?
21. What is absorption costing?
22. What do you mean by Cost of sales?
23. What is cost control?
24. What is meant by cost audit?
25. What type of overhead is discount?

ANSWER KEYS**GROUP - A****A-I Multiple Choice Questions**

- | | |
|--|---|
| 1. d) Ascertaining profit earned and financial position of business. | 22. b) Works cost- Direct material |
| 2. c) Controlling cost | 23. c) Material, Labour, other expenses |
| 3. c) Semi-variable expense | 24. c) Direct material + Direct labour + Direct expenses + Works expenses |
| 4. b) Estimated figures | 25. b) Direct material + Direct labour + Chargeable expenses |
| 5. b) Financial accounting | 26. a) Dividend |
| 6. d) Institute of cost Accountants of India | 27. a) Abnormal wastage of materials |
| 7. b) Classification of costs | 28. a) Rs. 100 |
| 8. a) Costing | 29. b) Discount on shares and debentures |
| 9. b) Marginal costing | 30. d) Primary packing material |
| 10. c) Job costing | 31. b) Opening stock of raw materials + purchases – closing stock of raw materials. |
| 11. b) Operating costing | 32. b) The number of units sold |
| 12. d) Operating costing | 33. c) Sales minus cost of sales |
| 13. c) Job costing | 34. c) Works cost plus Administrative overheads |
| 14. a) Process costing | 35. a) Fixed cost |
| 15. c) Repair shop | 36. b) Prime cost |
| 16. a) Batch costing | 37. b) Distribution overhead |
| 17. c) Both variable and fixed | 38. d) Selling overhead |
| 18. c) Hospital | 39. d) Prime cost |
| 19. d) Transport industry | |
| 20. a) Cost of machine | |
| 21. c) Contract costing | |

A-II Fill in the blanks

- | | |
|--|--|
| 1. Ascertaining cost | 20. Overheads |
| 2. Limitations | 21. Indirect |
| 3. Practice | 22. Administrative |
| 4. Decision making | 23. Prime |
| 5. Branch | 24. Semi variable |
| 6. Management | 25. Proportionately |
| 7. Estimated | 26. Decreases |
| 8. Cost | 27. Outsiders |
| 9. Physical | 28. Profit |
| 10. Process costing | 29. Semi-variable expense |
| 11. Number | 30. Works |
| 12. Service | 31. Semi-variable |
| 13. Student | 32. Cost |
| 14. Batch | 33. Batch |
| 15. Job costing | 34. Factory |
| 16. Factory overheads | 35. Cost of sales or total cost |
| 17. Cost of production | 36. Direct expenses |
| 18. Fixed cost | 37. Factory overheads |
| 19. Selling and distribution overheads | 38. Selling and distribution overheads |

A-III Answer the following in one word / term each

- | | |
|---------------------------------|---|
| 1. Cost unit | 11. Office and administrative overheads |
| 2. Cost sheet | 12. Period cost |
| 3. Multiple costing | 13. Product cost |
| 4. Operating or service costing | 14. Direct material cost |
| 5. Unit or output costing | 15. Prime cost |
| 6. Process costing | 16. Profit |
| 7. Heavy installation cost | 17. Overheads |
| 8. Factory overhead | 18. Distribution overhead |
| 9. Operating costing | 19. Selling and distribution overhead |
| 10. Process costing | |

A-IV Answer in one sentence

1. Direct costs are those which can be directly or conveniently identified with a product, process or job.
2. The cost which does not change due to change in the volume of production is called fixed cost.
3. The direct material, direct labour, direct expenses, factory overhead and office and administrative overheads constitute cost of production.
4. The costs which are partly fixed and partly variable are called semi-variable costs.
5. It is a method of costing in which costs are determined in terms of specific jobs or orders, which are undertaken as per requirements of customers.
6. Inventory means and includes raw materials, stores, supplies, spare parts, tools, components, work-in-progress and finished goods.
7. The overhead which does not change due to change in the volume of production is called fixed overhead.
8. It constitutes the total of all items of expenses incurred in manufacturing an article, such as direct material, direct labour, direct expenses & factory expenses.
9. The expenses which are not easily identified with a particular product, service or job are called indirect costs.
10. It consists of a person, location or an item of equipment (or group of these) for which cost is determined and used for the purpose of cost control.
11. It refers to half finished goods. It is neither raw materials nor finished goods, but in between these two.
12. It is a statement which shows total cost, total profit, cost per unit, profit per unit etc.
13. The aggregate of direct material, direct wages and direct expenses, is the prime cost.
14. The aggregate of indirect material, indirect wages and indirect expenses, is called overhead.
15. The cost of raw materials, components or consumables supplied to an organisation for manufacturing a product is called material cost.
16. The costs which changes directly with volume of output is called variable cost.
17. Cash discount is pure financial in nature and it has nothing to do with manufacture and marketing of goods.

Cost Accounting

- 18. A cost unit is a unit of quantity of product, service or time in relation to which cost may be ascertained.
- 19. It is the technique and process of determining the cost of products or services.
- 20. It is the cost of transforming direct materials into finished products, exclusive of direct material costs.
- 21. It is the type of costing where all costs both fixed and variable, are charged to operations, processes or products.

Question Bank with Answers

- 22. It is the total cost which is arrived by adding selling and distribution overheads to cost of production.
- 23. It is the guidance and regulation by executive action of the costs of operating an undertaking.
- 24. It is the verification of the correctness of cost accounts and a check on the adherence to the cost accounting plan.
- 25. Discount is a selling overhead.

GROUP - B

Short Answer Type Questions

1. Define cost accounting.
2. What is Costing?
3. State two important objectives of cost accounting.
4. State two important limitations of cost accounting.
5. Name the methods of costing.
6. Name the techniques of costing.
7. State two advantages of cost accounting.
8. What do you mean by cost?
9. What is cost unit?
10. What is cost centre?
11. State some expenses which are excluded from cost.
12. State the elements of cost.
13. What do you mean by cost sheet?
14. Give the purposes for which cost sheet is prepared.
15. What do you mean by direct cost?
16. What do you mean by indirect cost?
17. Define fixed costs.
18. Explain Variable costs.
19. Give two examples of fixed cost, variable cost and semi-variable cost.
20. What is prime-cost?
21. What is work-in-progress?
22. How work-in-progress is adjusted in cost sheet?
23. How raw materials consumed is calculated?
24. What constitutes factory overhead?
25. State the components of total cost.
26. Direct materials Rs.50, Direct labour Rs.40, Direct expenses Rs.10. Determine Prime cost.
27. Why cash discount is excluded from cost accounts?
28. State three characteristics of an ideal costing system.
29. What constitutes works cost?
30. What constitutes cost of production?
31. What do you mean by inventory?
32. Give three examples of office and Administrative overhead.
33. Give three examples of selling and distribution overhead.
34. What is meant by Direct Expenses?
35. Give three examples of indirect expenses.
36. What is distribution overheads ?
37. Give two examples of indirect material, indirect labour, indirect expenses.
38. How is the selling price determined?
39. How would you calculate cost of goods sold?
40. Into how many groups can you divide the indirect expenses? Name them.
41. What is Semi-variable cost?

ANSWER KEYS**GROUP - B****Short Answer Type Questions**

1. Cost accounting is the process of accounting for costs. It begins with the recording of income and expenditure and ends with the preparation of periodical statements for ascertaining and controlling costs.
2. Costing is a technique and process of ascertaining costs. This includes principles and rules which govern the procedure of ascertaining the cost of products or services.
3.
 - i) To find out total cost and cost per unit of the goods produced during a period.
 - ii) To analyse cost element wise, behaviour wise and centre wise for the purpose of cost control.
4.
 - i) Cost accounting lacks a uniform procedure.
 - ii) In cost accounting, there are a large number of conventions, estimates and flexible factors.
5. **Methods of costing:** Job costing, contract costing, Batch costing, Process costing, Single or output costing, Service costing, Farm costing, multiple costing.
6. **Techniques of costing:** Uniform costing, marginal costing, standard costing, Absorption costing.
7.
 - i) Discloses profitable and unprofitable activities.
 - ii) Inventory control.
8. Cost is defined as that which is given or sacrificed to obtain something. The sum total of all expenses incurred to manufacture and sale of a product is known as cost of the product.
9. Cost unit is a unit of quantity of product, service or time in relation to which costs may be ascertained or expressed.
10.
 - i) A cost centre is the smallest segment of activity or area or responsibility for which costs are accumulated.
 - ii) It is 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.
11. Purely financial charges, purely financial incomes, Appropriation of profits, writing off intangible and fictitious assets, Abnormal gains and losses.

Question Bank with Answers

Cost Accounting

12. The primary classification of costs according to the factors upon which expenditure is incurred such as materials cost, labour cost and expenses.
13. Cost sheet or statement of cost is a statement showing various components of total costs in a classified manner. It shows total cost as well as cost per unit for a given period.
14. A cost sheet is a statement designed to show the output of a particular accounting period alongwith break-up of costs. It shows prime cost, works cost, cost of production, cost of goods sold and total cost.
15. Direct costs are those costs which can be directly and conveniently identified with a product, process or job.
- For example, in the manufacture of a chair, the cost of timber and the wages paid to the carpenter are direct costs.
16. Indirect costs are those costs which cannot be easily identified with a particular product, process or job.
- For example, rent of the factory building, salary of the watchman are indirect costs.
17. It refers to the costs which remain unchanged by changes in volume of output. It is otherwise known as period costs. Examples are rent of the factory building, salary of the managers, insurance of the building etc.
18. These cost increase or decrease in direct proportion to changes in the volume of output but variable cost per unit remains constant. Examples are direct materials, direct labour, direct expenses etc.
19. i) **Fixed cost** : Rent of factory building, salary of the manager
- ii) **Variable cost** : Direct materials, direct wages
- iii) **Semi-variable costs**: Depreciation on machinery, telephone expense.
20. The aggregate of direct material, direct wages and direct expenses is the prime cost.
- Prime cost = Direct material + Direct labour + Direct expenses.
21. Work-in-progress means units on which some work has been done but which are not yet complete. It is neither raw materials nor finished goods, but in between these two.
22. Work-in-progress is valued at prime cost or works cost, basis, but the later adjustment is preferred.
- | | |
|-----------------------|-----|
| Prime cost | xxx |
| Add factory overheads | xxx |
| Add opening WIP | xxx |
| | ——— |
| | xxx |
| Less closing WIP | xxx |
| | ——— |
| Factory or works cost | xxx |

Cost Accounting

23. Calculation of raw materials consumed:

Opening stock of raw materials	xxx
Add purchases of raw materials	xxx
Add carriages on purchases	xxx
	——
	xxx
Less closing stock of raw materials	xxx
	——
Value of raw materials consumed	xxx

24. All indirect expenses such as indirect material, indirect labour and indirect other expenses incurred in the factory on processes and operations and are concerned with production of goods, constitute factory overhead.

25. i) Prime cost and overheads, or

ii) Direct material, Direct labour, Direct expenses, Indirect material, Indirect labour and indirect expenses.

26. Calculation of prime cost:

Direct materials	Rs. 50
Add Direct Labour	Rs. 40
Add Direct Expenses	Rs. 10
	——
Prime cost	Rs. 100

27. Cash discount is pure financial in nature and it has nothing to do with manufacture and marketing of goods. Hence it is excluded from cost accounts.

28. Simplicity, Flexibility, Economy, Comparability.

Question Bank with Answers

29. The direct material, direct labour, direct expenses, factory overheads constitute works cost.

Mathematically,

Works cost = Direct material + Direct labour + Direct Expenses + Factory overheads.

30. The direct material, direct labour, direct expenses, factory overheads and office and administrative overheads constitute cost of production.

Mathematically,

Cost of production = Direct material + Direct labour + Direct expenses + Factory overheads + Administrative overheads.

31. Inventory means and includes raw materials, stores, supplies, spare parts, tools, components, assemblies, partly finished goods and finished goods.

32. Office rent, salaries of office staff, legal expenses.

33. Remuneration & salary of salesman, Advertisement, show-room expenses.

34. Expenses other than the direct material and direct labour cost, which can be identified with a particular cost unit, is called direct expenses. These are also known as chargeable expenses, prime cost expenses, productive expenses.

35. i) Rent, rates and insurance of factory

ii) Welfare and medical expenses

iii) Commission on sales

Question Bank with Answers

36. It consists of those expenses incurred in getting finished products from the factory to the customers such as packing expenses, carriage outward etc.
37. i) Indirect material – Lubricants, cotton waste
ii) Indirect labour – Salary of foreman , salary of time-keeper
iii) Indirect expense – Welfare and medical expense, commission on sales.
38. The selling price is determined by adding profit percentage to total cost or cost of sales.
- Mathematically,
- Selling price = Cost of sales + % of profit

Cost Accounting

39. **Calculation of cost of goods sold :**
Cost of goods sold = Cost of production + Opening stock of finished goods – Closing stock of Finished goods.
40. Indirect expenses can be divided into three groups such as,
i) Indirect material
ii) Indirect labour, and
iii) Other indirect expenses.
41. It refers to the cost which are partly fixed and partly variable. These costs are also known as semi-fixed costs. These costs increase or decrease with change in volume of output, but not in the same proportion as the change in the volume of output.
- Examples:- Depreciation of plant, supervision charges, light & power.

GROUP - C**Long Answer Type Questions**

1. Define cost accounting. Explain nature and scope of cost accounting.
2. Discuss advantages and disadvantages of cost accounting.
3. Explain briefly the different elements of cost.
4. Explain various methods of costing.
5. Explain various techniques of costing.
6. Describe important limitations of cost accounting.
7. Describe important functions of cost accounting.
8. Explain briefly various factors to be considered before installation of a costing system.
9. What do you mean by cost? Describe briefly about the expenses which are not included in cost accounts.
10. Draw a proforma of statement of cost and profit with some imaginary figures.

ANSWER HINTS**GROUP - C**

1. Cost accounting is the application of accounting and costing principles, methods and techniques in the ascertainment of costs and its accounting and control relating to the various elements of cost.

Nature:

- a) Branch of accounting
- b) Developed due to limitations of financial accounting
- c) Record income and expenditure relating to production
- d) Concerned with cost ascertainment, cost presentation, cost control and cost reduction.

Scope :

- a) Cost ascertainment
- b) Cost accounting
- c) Cost control
- d) Cost reduction
- e) Cost audit

2. Advantages:

- a) Discloses unprofitable activities
- b) Aids in price fixation
- c) Helps in estimates
- d) Wastages are minimised
- e) Helps in inventory control
- f) Benefits employees
- g) Benefits creditors
- h) Benefits society
- i) Measures and improves efficiency

Disadvantages :

- a) Lacks uniform procedure
 - b) Large number of conversion, estimates and flexible factors
 - c) Large varieties of formalities and applicability
 - d) Handling futuristic situation has not much in contribution.
3. In a manufacturing organisation, expenditure is incurred for materials purchased, paying wages and certain other services. Thus, elements of cost for a manufacturing concern are:
- a) Material
 - i) Direct material
 - ii) Indirect material
 - b) Labour
 - i) Direct labour
 - ii) Indirect labour
 - c) Other expenses
 - i) Direct expenses
 - ii) Indirect expenses
4. Methods of costing
- a) Job costing
 - b) Contract costing
 - c) Batch costing
 - d) Process costing
 - e) Unit or output costing
 - f) Service or operating costing
 - g) Multiple costing
 - h) Farm costing
5. Techniques of costing
- a) Uniform costing
 - b) Marginal costing
 - c) Standard costing
 - d) Historical costing
 - e) Direct costing
 - f) Absorption costing
6. Important limitations:
- a) Expensive
 - b) Inapplicability
 - c) Unreliable
 - d) Unnecessary
7. Important functions:
- a) To work out cost per unit
 - b) To provide an accurate analysis of cost
 - c) To facilitate decision – making
 - d) To eliminate wastages
 - e) To prevent fraud
 - f) To help in preparation of budget
 - g) To advise management on future expansion
 - h) To provide data in fixing of selling price of the products manufactured.
8. Various factors to be considered:
- a) Objects
 - b) The technical details
 - c) The product
 - d) Factors
 - e) Type of materials
 - f) Type of labour
 - g) Management
 - h) Use of financial books
 - i) Choice of cost unit

Cost Accounting

9. Expenses excluded from costs:

- a) Purely financial charges
- b) Appropriations of profit

10. Statement of cost and profit:

Opening stock of Raw materials	xxx
Add purchases of Raw materials	xxx
	<hr/>
	xxx
Less closing stock of Raw materials	xxx
	<hr/>
Cost of materials consumed	xxx
Add Direct wages	xxx
Add Direct Expenses	xxx
	<hr/>
Prime cost	xxx
Add factory overheads	xxx
	<hr/>
Factory cost incurred	xxx
Add op. stock of work-in-progress	xxx
	<hr/>
	xxx
Less closing stock of work-in-progress	xxx
	<hr/>
Works cost	xxx
Add Administrative overheads	xxx
	<hr/>
Cost of production	xxx
Add op. stock of finished goods	xxx
	<hr/>
	xxx
Less closing stock of finished goods	xxx
	<hr/>
Cost of goods sold	xxx
Add selling and Distribution overheads	xxx
	<hr/>
Cost of sales	xxx
Add Profit	xxx
	<hr/>
Sales	xxx

Question Bank with Answers

- c) Writing off intangible and fictitious assets
- d) Purely financial incomes
- e) Abnormal gains and losses

UNIT - II**MATERIALS
GROUP - A****A-I Multiple Choice Questions**

1. **Purchase budget should be prepared by the :**
 - a) Production manager
 - b) Purchase manager
 - c) Financial manager
 - d) Marketing manager
2. **In open tender method, quotations are invited:**
 - a) From limited number of suppliers
 - b) From a sole supplier
 - c) From many suppliers by giving advertisement in the press.
 - d) From the Government only
3. **Single tender method is resorted to :**
 - a) Where the supplier is a sole supplier
 - b) Where there are many suppliers
 - c) Where there are limited suppliers
 - d) Where there are five suppliers
4. **Which of the following is not classified as material?**
 - a) Components
 - b) Spare parts
 - c) Consumable stores
 - d) Haulage
5. **Which of the following is not direct material?**
 - a) Raw material
 - b) Primary packing material
 - c) Consumable stores
 - d) Parts of components specially purchased.
6. **Which of the following is not indirect material?**
 - a) Cotton waste
 - b) Lubricating oil
 - c) Grease
 - d) Primary packing material
7. **Purchases must be made at:**
 - a) The average price
 - b) The maximum price
 - c) The minimum price which gives ultimately lowest cost
 - d) The selling price
8. **The purchase Requisition is generally prepared in:**
 - a) Duplicate
 - b) Triplicate
 - c) Quadruplicate
 - d) Five copies

Cost Accounting

- 9. The original copy of the purchase order is sent to:**
- a) The receiving department.
 - b) The person who initiated the purchase requisition
 - c) The supplier
 - d) Accounting Department
- 10. The number of copies of Goods Received Note required to be prepared is:**
- a) Six b) Five
 - c) Four d) Three
- 11. Centralised system of stores:**
- a) Leads to better layout of stores
 - b) Makes maximum investment in stores
 - c) Reduces transportation cost
 - d) Gives more botheration in inventory checks
- 12. Perpetual inventory system:**
- a) Is based on physical stock taking
 - b) Provides information about stock once in a year
 - c) Does not provide basis for control
 - d) Is based on records and continuous physical stock taking
- 13. Bin card:**
- a) Makes a record of quantities only
 - b) Is maintained by the costing department
 - c) Make posting of transactions periodically
 - d) Is usually kept outside the stores

Question Bank with Answers

- 14. Bin card is maintained by:**
- a) Personnel manager
 - b) Store keeper
 - c) Cost Accountant
 - d) Accountant
- 15. Stores ledger:**
- a) Makes a record of quantities only
 - b) Is maintained by the storekeeper
 - c) Makes a record of both quantities and values
 - d) Is usually kept inside the stores
- 16. Stores ledger is maintained in:**
- a) Stores department
 - b) Accounts department
 - c) Cost Accounting department
 - d) Personnel department
- 17. Materials are issued by store keeper to production dept. on the basis of:**
- a) Purchase requisition
 - b) Material note
 - c) Goods received note
 - d) Material requisition
- 18. Which document gives a complete list of all materials required with quantities for a particular job, order or process?**
- a) Material requisition
 - b) Bill of materials
 - c) Material return note
 - d) Material transfer note

- 19. FIFO pricing is suitable, when:**
- a) Prices are rising
 - b) Prices are falling
 - c) Prices are fluctuating
 - d) Prices remain stable
- 20. LIFO pricing is suitable when:**
- a) Prices are rising
 - b) Prices are falling
 - c) Prices are fluctuating
 - d) Prices remain stable
- 21. Base stock method will be more useful:**
- a) If it is used with FIFO method
 - b) If it is used with average price method
 - c) If it is used with LIFO method
 - d) None of the above
- 22. Materials returned from job or work order should be valued:**
- a) At the maximum price
 - b) At the lowest price
 - c) At the average price
 - d) At the same price at which it was issued.
- 23. During the period of rising prices, the most suitable method of pricing material issues is:**
- a) Base stock
 - b) LIFO
 - c) FIFO
 - d) Average price
- 24. During the period of falling prices, the most suitable method of pricing material issues is:**
- a) Base stock
 - b) LIFO
 - c) FIFO
 - d) Average price
- 25. In which method of material issues, production is charged at the recent prices?**
- a) LIFO
 - b) FIFO
 - c) Base stock
 - d) Simple average
- 26. Under which method of material issue, closing stock is valued at market price?**
- a) FIFO
 - b) LIFO
 - c) Base stock
 - d) Weighted average
- 27. Which document is prepared to transfer material from one job to other jobs?**
- a) Material transfer note
 - b) Material return note
 - c) Bill of materials
 - d) Goods received note

Cost Accounting

- 28. What is the other name of material return note?**
- a) Material transfer note
 - b) Shop credit note
 - c) Goods received note
 - d) Material requisition
- 29. Decentralised system of stores:**
- a) Reduces investment in stock
 - b) Is economical
 - c) Provides expertise of specialized staff
 - d) Reduces risk of loss on account of fire.
- 30. In which of the following methods of pricing, cost lag behind the current economic value?**
- a) LIFO
 - b) FIFO
 - c) Simple average price
 - d) Weighted average price
- 31. When prices fluctuate widely, the method that smooth out the effect of fluctuation is:**
- a) Simple average
 - b) Weighted average
 - c) LIFO
 - d) FIFO

Question Bank with Answers

- 32. Benefits of localised purchasing can be availed under:**
- a) Centralised purchasing
 - b) De-centralised purchasing
 - c) On-line purchasing
 - d) Purchasing through agent
- 33. The department by which issue of materials is generally valued is:**
- a) Costing department
 - b) Accounts department
 - c) Stores department
 - d) Purchase department
- 34. Stores department is an example of:**
- a) Service department
 - b) Production department
 - c) Main department
 - d) Advertisement department
- 35. Direct material is a:**
- a) Fixed cost
 - b) Variable cost
 - c) Semi-variable cost
 - d) None of the above
- 36. Which of the following is an accounting record?**
- a) Bill of materials
 - b) Bin card
 - c) Stores ledger
 - d) All of these.

- 37. Which of the following note is used in issue of material to production department.**
- a) Purchase Requisition Note
 - b) Stores Requisition Note
 - c) Goods Received Note
 - d) Stores Credit Note
- 38. According to which of the following methods of pricing, issues are close to current economic values?**
- a) Last in first out price
 - b) First in first out price
 - c) Replacement price
 - d) Weighted average price
- 39. Continuous stock taking is a part of:**
- a) Annual stock taking
 - b) Perpetual inventory system
 - c) Periodic inventory system
 - d) Halsey premium plan
- 40. When prices of material are showing a rising trend, which method of pricing will show lower cost of production.**
- a) FIFO
 - b) LIFO
 - c) Weighted average
 - d) Replacement price
- 41. When prices are showing a falling tendency, which method of pricing of material issues will show higher closing stock value?**
- a) FIFO
 - b) LIFO
 - c) Weighted average
 - d) Simple average

A-II Fill in the blanks

1. _____ is the first and foremost element of cost.
2. Indirect material is a part of _____.
3. Direct material is a _____ cost.
4. Direct material can be identified in the _____.
5. There are _____ R's in the principles of scientific purchasing.
6. A purchase requisition is usually initiated by _____.
7. Bin card is maintained by _____.
8. Stores Ledger Account is maintained by _____.
9. Bill of material is prepared by _____ office.
10. Bin card is a record of _____ only.
11. FIFO method is suitable in times of _____ price of materials.
12. Stores Ledger makes a record of both _____ and _____.
13. When price fluctuates widely, _____ method of pricing smooth out the effect of fluctuation.
14. Sunmica used in the table is an example of _____.
15. Sand paper is an example of _____ in furniture industry.
16. The store keeper issues materials only on presentation of an authorised document known as _____.
17. A document known as _____ is used for transferring materials from one job to another.
18. Value of materials in stock divided by total quantity in stock is the _____ price.
19. The original copy of the purchase order is sent to _____.
20. The purchase requisition is generally prepared in _____.
21. The number of copies of Goods Received Note required to be prepared is _____.

A-III Answer the following in one word / term each

1. Which is the first and foremost element of cost?
2. Who is in charge of stores department?
3. Name the method of purchasing of material when all purchases are made by one department.
4. Which document is maintained by store keeper for record of material?
5. Who is the head of purchase department?
6. Which document is sent to supplier to invite quotations?
7. Who issues material to production departments?
8. Which document serves the purpose of authority to store keeper to issue material?
9. Name the inventory control method with a peculiar feature of continuous stock taking.
10. Name the direct material for wooden furniture.
11. How many number of copies, the purchase requisition is usually prepared.

A-IV Answer in one sentence

1. What do you mean by purchase requisition?
2. What is recorded in stores ledger?
3. FIFO should be used in which type of price situation?
4. LIFO should be used in which type of price situation?
5. Which department prepares material inspection report?
6. What do you mean by direct material?
7. What do you mean by bill of materials?
8. What is FIFO?
9. Who prepares the purchase requisition?
10. Define material.
11. Who prepares the bill of materials?
12. Define purchase order.
13. What is Bin card?
14. Why material Abstract is used?
15. What is material requisition?
16. What is material return note?
17. What is weighted average price?
18. What do you mean by Base stock?
19. What is LIFO?
20. What is material transfer note?

ANSWER KEYS**GROUP - A****A-I Multiple Choice Questions**

- | | |
|---|---|
| 1. b) Purchase manager | 20. a) Prices are rising |
| 2. c) From many suppliers by giving advertisement in the press | 21. c) If it is used with LIFO method |
| 3. a) Where the supplier is a sole supplier | 22. d) At the same price at which it was issued |
| 4. d) Haulage | 23. b) LIFO |
| 5. c) Consumable stores | 24. c) FIFO |
| 6. d) Primary packing material | 25. a) LIFO |
| 7. c) The minimum price which gives ultimately lowest cost | 26. a) FIFO |
| 8. b) Triplicate | 27. a) Material transfer note |
| 9. c) The supplier | 28. b) Shop credit note |
| 10. b) Five | 29. d) Reduces risk of loss on account of fire |
| 11. a) Leads to better layout of stores | 30. b) FIFO |
| 12. d) Is based on records and continuous physical stock taking | 31. b) Weighted average |
| 13. a) Makes a record of quantities only | 32. b) Decentralised purchasing |
| 14. b) Store keeper | 33. c) Stores department |
| 15. c) Makes a record of both quantities and values | 34. a) Service department |
| 16. c) Cost Accounting department | 35. b) Variable cost |
| 17. d) Material requisition | 36. c) Stores ledger |
| 18. b) Bill of materials | 37. b) Stores Requisition Note |
| 19. b) Prices are falling | 38. a) Last in first out price |
| | 39. b) Perpetual inventory system |
| | 40. a) FIFO |
| | 41. b) LIFO |

A-II Fill in the blanks

- | | |
|-----------------------|----------------------------|
| 1. Material | 12. Quantities and value |
| 2. Overheads | 13. Weighted average |
| 3. Variable | 14. Component |
| 4. Finished products | 15. Indirect material |
| 5. Six | 16. Stores requisition |
| 6. Store keeper | 17. Material Transfer Note |
| 7. Store keeper | 18. Weighted average |
| 8. Costing Department | 19. The supplier |
| 9. Drawing | 20. Triplicate |
| 10. Quantities | 21. Five |
| 11. Falling | |

A-III Answer the following in one word / term each

- | | |
|---------------------------|-------------------------------|
| 1. Material | 7. Store Keeper |
| 2. Store keeper | 8. Material Requisition |
| 3. Centralised purchasing | 9. Perpetual inventory system |
| 4. Bin card | 10. Timber |
| 5. Purchase manager | 11. Triplicate |
| 6. Tender | |

A-IV Answer in one sentence

- | | |
|---|---|
| 1. A formal request made to the purchase department for purchase of goods and services on the specified form is known as purchase requisition. | 3. FIFO method should be used when prices are falling. |
| 2. A stores ledger records the information regarding receipts, issues and balance of each item of material in the store both in quantity and money value. | 4. LIFO method should be used when prices are rising. |
| | 5. Goods Receipt and Inspection department prepares material inspection report. |

Cost Accounting

6. It is the material which can be directly identified with each unit of finished product.
7. It is a complete list of materials and components required with quantities for a particular work-order, job or process.
8. It is a method of pricing the issue of materials at actual cost in the order in which they are received in the store.
9. The purchase requisition is prepared by the storekeeper for regular supply of materials and by the production department for special items.
10. It refers to those commodities supplied to an organisation which are used as raw materials, components or consumables for manufacturing a product.
11. Production department prepares the bill of materials.
12. Purchase order is a written request to supply certain specified quantity of materials of specified quality at specified rate and according to the terms and conditions of the order.
13. A card, which is attached to a bin for the purpose of showing stock position is called bin card.

Question Bank with Answers

14. Material Abstract is used to determine the cost of materials issued to different jobs on the basis of material requisition slip, material returned notes, material transfer notes.
15. A formal request made by the foreman or head of the production department to the storekeeper for issue of materials from store, is called material requisition.
16. It refers to a printed form specifying the details of materials returned to store by the production department, where there is excess of materials.
17. The price which is determined by dividing the total cost of materials in stock by the total quantity of material in stock is known as Weighted average price.
18. The minimum quantity of stock, which is kept inside the store, for the purpose of emergency is known as safety stock or base stock.
19. It is a method of pricing the issue of materials at actual cost from the latest purchase.
20. It is a document prepared when some excess materials are transferred from one department to another.

GROUP - B

Short Answer Type Questions

1. What is material?
2. How can materials be classified?
3. What is direct material?
4. What is indirect material?
5. What are the six R's in scientific purchasing?
6. How do you identify direct material cost?
7. Distinguish between direct material and raw material.
8. Distinguish between direct materials and indirect materials.
9. What is purchase requisition?
10. Why purchase requisition is generally prepared in triplicate?
11. Who prepares the purchase requisition?
12. What is Material Transfer Note?
13. What is Material Return Note?
14. What is bill of material?
15. What is Goods Received Note?
16. Define purchase order.
17. Write two advantages of Bill of material.
18. What is the use of quotation?
19. How a supplier is selected?
20. Name important stores /records.
21. What are the advantages of centralised purchasing?
22. What is perpetual inventory system?
23. What is meant by Decentralised store?
24. States various types of stores.
25. What is a debit note?
26. When FIFO method is suitable and why?
27. When LIFO method is suitable and why?
28. Write two advantages of FIFO method.
29. Write two disadvantages of FIFO method.
30. Write two advantages of Weighted average price method.
31. Write two disadvantages of weighted average price method.
32. What is a Bin card?
33. What is a stores Ledger?
34. Differentiate between Bin card and stores / ledger.
35. What are the documents prepared by the purchase department for procuring materials?
36. Write down three important advantages of perpetual inventory system.
37. What is periodic inventory system?

ANSWER KEYS**GROUP - B****Short Answer Type Questions**

1. Material is the first and most important element of cost. Material refer to physical substances used as inputs to production or manufacturing.
2. Materials may be classified as:
Raw materials, components, Tools, spare parts, consumable stores.
3. Materials which form part of a finished product are known as direct materials. In other words, direct materials can be conveniently and accurately allocated to a particular unit of cost.
4. Indirect materials are those materials which cannot be easily identified with finished product. Such materials have no direct relationship with the volume of output.
5. The fundamental principles of scientific purchasing constitute purchasing materials of Right quality, Right quantity, at Right time, from Right source, at Right price and taking delivery at Right place.
6. The principles must be followed:
 - i) The cost of all materials specifically purchased for a job, process or a production order is taken as direct cost.
 - ii) In process costing, the output of one process will be the materials of the next process.
 - iii) Cost of all primary packing materials is also treated as direct material cost.
 - iv) Costs incurred to bring the materials and make those for consumption are also the part of direct material cost.
7. Raw material is that material which gets converted into finished goods during the process of production. The raw material, which can be conveniently identified with the finished products, are treated as direct materials.
8. But all direct materials may not necessarily be raw materials. Components purchased from outside, though form a part of the finished product, are not raw materials.
 - i) Direct materials are those materials which can be easily identified with finished products whereas indirect materials cannot.
 - ii) Direct material is a part of prime cost whereas indirect material is a part of overhead.

Question Bank with Answers

Cost Accounting

- iii) Direct material is also known as prime cost material, production material or process material whereas indirect material is known as repairs material or office material.
9. A purchase requisition is a form used as a formal request to the purchase department to purchase required materials and supplies. It is otherwise known as indent for materials.
10. One copy for purchase department, one copy for production and control department and third copy is retained by the storekeeper or initiating department.
11. i) Store keeper – For regular supply of materials
ii) Production dept. – For purchase of special items.
12. Material Transfer Note is prepared when materials or equipments are transferred from one sub-store to another sub-store or from one production section to another or from one job to another in the factory. It is prepared in duplicate.
13. It is a printed form, which specifies the details of materials returned to store by the production department, when there is excess of materials.
14. It is a complete list of materials and components required for a particular work-order. By this, the purchase department is informed regarding the quality, quantity and other specifications of materials required.
15. The Goods Received Note is prepared when goods are received by the receiving section from supplier. It is a certificate to accounts for payment and for debiting to stores the value of goods received. It is also a notification to purchase department that goods are received.
16. Purchase order is a written request to supply certain specified quantity of materials of specified quality at specified rate and according to the terms and conditions of the order. It is a proof of contract between buyer and seller.
17. i) It serves as an authorised stores requisition.
ii) It serves as a purchase requisition.
18. Quotation means quoting the minimum price for obtaining a specific order. Thus, quotation is used by the producer (seller) to obtain orders from suppliers.
19. Quotations are invited from the suppliers of the required items by issuing tenders to them. On receipt of

Cost Accounting

the quotations from the suppliers, a comparative statement of various quotations received should be prepared and the desirable supplier quoting lowest price of the items as per specifications, should be selected.

20. Important stores records:

Bin card, Stores Transfer Note, Material Return Note, Goods Receipts Note, Material Requisition Form, etc.

21. Advantages of Centralised Purchasing:

- i) Better quality of materials
- ii) Better layout of stores
- iii) Less transport cost
- iv) Non-shifting of responsibility

22. A system of records maintained by controlling department which reflects the physical movement of stocks and their current balance. Thus, perpetual inventory system is a method of recording stores balances after every receipt and issue, so as to facilitate regular checking and to avoid closing down of business for stock-taking.

23. Under this system, independent stores are situated in different departments. Receiving and handling of materials are undertaken by the storekeeper in each department. Departments requiring materials can draw from their respective stores, located in their departments.

Question Bank with Answers

24. Types of stores:

- i) Centralised stores
- ii) Decentralised stores
- iii) Central stores with sub-stores.

25. When materials are received either in damaged condition or not in accordance with specification, these are returned to the supplier along with a document known as debit note.

26. FIFO stands for First In First Out. It is suitable when prices are falling because cost of replacement of materials will be low.

27. LIFO stands for Last In First Out. It is suitable in times of rising prices. The current cost of materials are charged to production during rising prices. This results lower profit which leads to lower tax liability.

28. i) This method is suitable when prices are falling.

- ii) This method is suitable for slow moving materials.

29. i) When prices fluctuate frequently, this method increases the possibility of clerical errors.

- ii) During rising prices, this method leads to higher profits causing higher tax liability.

Question Bank with Answers

Cost Accounting

30. i) Under this method, cost of materials issued to production is fully recovered.
- ii) This method stabilizes costs when prices rapidly fluctuates.
31. i) This method requires considerable amount of detailed clerical work in computing the average rates.
- ii) The rate is influenced by the high or low prices in the past and does not reflect current conditions.
32. On receipt of goods, as evident from the Stores Received Note, the storekeeper enters the goods on a bin card, which is an account to record receipt, issue and balance in terms of quantity.
33. In an organisation it would be necessary to have continuous information about the values of materials and stores purchased, issued and still in balance. For this purpose, it is necessary to maintain a stores ledger account for each item both as regards amount and quantity.
34. Bin card:
- i) The Bin card is purely a quantitative record of receipt, issue and stores in hand.
- ii) A separate Bin card is maintained for each item by the store-keeper.

Stores ledger:

- i) A stores ledger is a stock record showing the receipts, consumption or issues and the balance both in quantity and value.
- ii) It is maintained by stores accounting section.
35. a) Schedule of quotations/tenders
- b) Comparative statement of tenders
- c) Purchase order
36. i) There is no need of closing business for the purpose of stock-taking.
- ii) It eliminates the elaborate and costly periodical stock-taking.
- iii) Discrepancies between physical stock and stocks as per records are detected easily and quickly.
37. Under this system, physical counting of inventory is made at the end of each accounting year. During the period of verification, all production functions as well as other transactions relating to store operations are to be suspended.

GROUP - C**Long Answer Type Questions**

1. Define purchasing, Explain six R's principle.
2. Describe various steps involved in purchase procedure.
3. What is perpetual inventory system? Discuss its advantages.
4. State important stores/material records. Describe the differences between Bin card and stores ledger.
5. What do you mean by stores? Describe briefly various types of stores.
6. Explain FIFO method of valuation of material issues.
7. Discuss briefly about average cost method of material issues.
8. What is Goods Received Note? Give a specimen form. What purpose does it serve?
9. Distinguish between purchase requisition and stores requisition.
10. What do you mean by centralised and decentralised purchasing?

ANSWER HINTS**GROUP - C**

1. Purchasing means procurement of goods and services from some external agencies.
Six R's principle
 - a) Right quality
 - b) Right quantities
 - c) Right time
 - d) Right price
 - e) Right source
 - f) Right place
2. Steps involved
 - a) Receiving purchase requisitions
 - b) Exploring the sources of supply and choosing the supplier
 - c) Preparation and execution of purchase orders
 - d) Receiving and inspecting materials
 - e) Checking and passing of bills for payment.
3. It is a system of ascertaining balance after every receipt and issue of materials through stock records to facilitate regular checking and to avoid closing down the firm for stock taking.
Advantages:
 - a) There is no need of closing business for the purpose of stock taking.

- b) Discrepancies between physical stock and stocks as per records are detected easily and quickly.
- c) It is possible to prepare periodical profit & loss account and balance sheet.
- d) Stock levels can be revised from time to time to avoid under or overstocking of materials.
- e) A system of internal check remains in operation.
- f) Deterioration, obsolescence etc. can be avoided.
- g) Surprise checking on materials prevents employees from playing mischief with stores materials.
- h) Planning of production can be done.

4. Important stores records:

- a) Bin card
- b) Stores ledger

Differences:

Bin card:-

- a) A record of quantities only.
- b) Maintained by the storekeeper.
- c) Normally posted just before the transaction takes place.
- d) Each transaction is individually posted.
- e) Usually kept inside the stores.

Stores ledger:-

- a) A record of both quantities & values.
- b) Maintained by costing department.
- c) Always posted after the transaction takes place.
- d) Transactions may be summarised and posted periodically.
- e) Kept outside the stores.

5. Stores

Direct and indirect materials purchased for stock purposes to be issued to different jobs, work orders or departments as and when required are known as stores.

Types of stores:

- a) Centralised stores
- b) Decentralised stores
- c) Central stores with sub-stores.

6. FIFO Method: The full form of FIFO is First In First Out.

Under this method, materials received first are issued first. It follows that unit costs are apportioned to cost of production according to their chronological order of receipts in the store. This method is most suitable in times of falling prices.

Cost Accounting

Advantages:

- a) Easy and simple
- b) Recovers the cost price of the materials.
- c) Useful when prices are falling.
- d) Closing stock is valued at the market price.

Disadvantages:

- a) Increases the possibility of clerical errors.
- b) Multiple prices may be taken for pricing one requisition of material.
- c) When prices, rise the issue price does not reflect the market price.

7. Average cost method:

The principle on which the average cost method is based is that all of the materials in store are so mixed up that an issue cannot be made from any particular lot of purchases and, therefore, it is proper if the materials are issued at the average cost of materials in store.

There are two types of average cost method.

a) Simple average method:

A price which is calculated by dividing the total of the prices of the

Question Bank with Answers

materials in the stock from which the material to be priced could be drawn by the number of the prices used in that total.

b) Weighted average method:

A price which is calculated by dividing the total cost of materials in the stock from which the materials to be priced could be drawn by the total quantity of materials in that stock.

Advantages:

- a) Rational, systematic and not subject to manipulation.
- b) Best method when prices fluctuate considerably.
- c) No calculation of price at each time of issues.
- d) Recovers the cost of materials from production.
- e) Maintains the issue prices as near to the market prices.

Disadvantages:

- a) Calculation of issue price is required at each time of purchase.
- b) Issue price does not represent actual cost price of materials.
- c) Closing stock is not valued at current cost.

8. Goods Received Note is a document on the basis of which purchases are verified and payment is made to the supplier. It provides a complete record of all materials received.

On completion of the inspection, the goods receiving clerk should enter details of materials received in store or Goods Received Note. Five copies of the note should be prepared.

This document shows details of the materials received such as code no., quantity, date of receipt, amount of the materials etc.

9. **Purchase Requisition:**

A purchase requisition is a form used as a formal request to the purchasing department to purchase materials.

This form is prepared by the storekeeper for regular stock materials and by the departmental head for special materials not stocked.

The purchase requisition is generally prepared in triplicate.

Stores Requisition:

Stores requisition is a document which serves the purpose of an authority to the storekeeper to issue the materials, so it is signed only by the person authorised to do so, so that there may be no wrong drawal of materials.

10. **Centralised Purchasing:**

It means that all purchases should be made by the purchase department to avoid duplication, overlapping, the non-uniform procurements etc. The advantage of centralised purchasing is that the purchase officer will be able to make purchases at the most opportune time and from the best source.

Decentralised Purchasing:

In decentralised purchasing, each department, branch or division of the organization is given the authority to make their own purchases. Under this system, branches can purchase from local markets and enjoy local economies without unnecessary delays.

UNIT - III**LABOUR
GROUP - A****A-I Multiple Choice Questions**

1. The payment to indirect labour will not form part of which of the following heads:
 - a) Works overheads
 - b) Prime cost
 - c) Administrative overheads
 - d) Selling and distribution overheads
2. Wages sheet is prepared by:
 - a) Personnel department
 - b) Payroll department
 - c) Cost Accounting department
 - d) Time keeping department
3. Which of the following is not a part of labour cost?
 - a) Basic wage
 - b) Dearness allowance
 - c) Employer's contribution to provident fund
 - d) Employee's contribution to provident fund
4. The department which is concerned with selection & training of workers is:
 - a) Engineering department
 - b) Personnel department
 - c) Costing department
 - d) Payroll department
5. Which of the following documents is not used for time booking?
 - a) Weekly time sheets
 - b) Daily time sheets
 - c) Time card
 - d) Job cards
6. Which of the following is not a monetary benefit?
 - a) Basic wage
 - b) Recreational facilities
 - c) Dearness allowance
 - d) Employer's contribution to provident fund
7. Which item is not a fringe benefit?
 - a) Subsidised food
 - b) Subsidised education to children of workers
 - c) Employer's contribution to provident fund
 - d) Recreational facilities
8. Which of the following reason is not a reason of abnormal idle time?
 - a) Time wasted on account of breakdown of machinery
 - b) Time wasted due to strike
 - c) Time wasted due to unnecessary waiting for instruction
 - d) Time wasted for personal needs

- 9. A worker is treated to be engaged on overtime, if:**
- a) He works for more than 48 hours in a week
 - b) He works for more than 8 hours a day
 - c) He works for more than 8 hours a day or for more than 48 hours in a week
 - d) He works for more than 9 hours a day or for more than 48 hours in a week.
- 10. Two types of idle time are:**
- a) Direct and indirect
 - b) Fixed and variable
 - c) Normal and abnormal
 - d) Controllable and uncontrollable
- 11. Which of the following is a manual method of time-keeping?**
- a) Time recording clock
 - b) Dial time record
 - c) Job card
 - d) Attendance Register method
- 12. Which of the following methods of wage payment does not guarantee wages on time basis?**
- a) Piece rate system
 - b) Time rate system
 - c) Halsey premium system
 - d) Rowan premium system
- 13. Two Principal wage system are:**
- a) Time and piece rate
 - b) Halsey and Rowan
 - c) Halsey and weir
 - d) Merrick and Gant
- 14. Which of the following methods of wage payment is most suitable where quality of goods produced is of extreme importance?**
- a) Time wage system
 - b) Piece rate system
 - c) Rowan premium system
 - d) Halsey premium system
- 15. The process of recording the time spent by each worker on the job is known as:**
- a) Time study
 - b) Time keeping
 - c) Time booking
 - d) Motion study
- 16. In Halsey plan the portion of the wages of time saved, paid as bonus is:**
- a) $\frac{1}{4}$
 - b) $\frac{1}{4}$ to $\frac{1}{3}$
 - c) $\frac{1}{3}$ to $\frac{2}{3}$
 - d) $\frac{1}{2}$
- 17. Which of the following methods of wage payment is most suitable where workers are paid according to their merits?**
- a) Time wage system
 - b) Piece rate system
 - c) Rowan premium plan
 - d) Halsey premium plan

Cost Accounting

18. In which of the following methods of wage payment, idle time is not paid?
- a) Piece rate system
 - b) Time wage system
 - c) Halsey premium plan
 - d) Rowan premium plan
19. Which of the following incentive methods of wage payment, should be used for indirect workers?
- a) Rowan plan
 - b) Taylor's differential piece rate system
 - c) Halsey plan
 - d) None of the above
20. Cost of idle time arising due to non-availability of raw material is:
- a) Charged to costing profit and loss account
 - b) Charged to factory overhead
 - c) Recovered by inflating the wage rate
 - d) None of the above
21. When overtime is required for meeting orders, overtime premium should be:
- a) Charged to costing profit and loss account
 - b) Charged to overhead costs
 - c) Charged to respective jobs
 - d) None of these

Question Bank with Answers

22. Given that for a job, standard time is 8 hours, actual time taken is 6 hours and time rate is Rs. 2 per hour. What is the total wages under Halsey premium plan?
- a) Rs.18
 - b) Rs.16
 - c) Rs.14
 - d) Rs.12
23. When time saved exceeds 50% of the standard time, Halsey scheme allows:
- a) More wages than Rowan scheme
 - b) Less wages than Rowan scheme
 - c) Equal wages to Rowan scheme
 - d) None of the above
24. By direct labour we mean:
- a) Labour which is directly recruited and not supplied by contractors
 - b) Labour completing the job manually
 - c) Labour which can be conveniently associated with a specific cost unit
 - d) Permanent workers of the production department
25. Given that standard Time for a job is 10 hours, actual time taken is 6 hours and the time rate is Rs.3 per hour, what is the total wages under Halsey-weir scheme (30% to workers) ?
- a) Rs. 18
 - b) Rs. 21.60
 - c) Rs. 21
 - d) Rs. 15.20

A-II Fill in the blanks

1. In time wage system, wages are paid according to the _____.
2. Under piece rate system of wage payment, payment is made according to the _____.
3. The oldest method of time keeping is _____.
4. _____ is most suitable when quality of work is of prime importance.
5. In _____ method of wage payment, idle time is not paid.
6. Formula for the calculation of wages under Halsey premium system is _____.
7. Formula for the calculation of wages under Rowan plan is _____.
8. Overtime is paid at a _____ rate.
9. Idle time cards are prepared to know the reasons of _____.
10. Two types of idle time are _____ and _____.
11. The time spent on various jobs by the worker is shown in _____ card.
12. Holiday pay is an example of _____.
13. Cost of abnormal idle time is transferred to _____.
14. The workers who are sent to the premises of the customers are known as _____.
15. The payment of idle time arises only when workers are paid on _____ basis.
16. Wages sheet is prepared by the _____ department.
17. _____ workers are kept due to extra work for a few days or hours.
18. _____ can be successfully applied where work is of repetitive nature and quantity of output can be measured.
19. _____ method of wage payment does not guarantee wages on time basis.
20. _____ method of wage payment is most suitable where workers are paid according to their merits.
21. High wages give workers incentive to become _____.
22. Under Rowan plan, Bonus = _____.
23. Standard time is ascertained with the help of _____ study.
24. Job evaluation is a method of evaluating the job in terms of its _____.
25. Taylor's differential piece rate system provides for higher rate to _____ workers.
26. In Taylor's differential piece rate system _____ piece rates are set for each job.

A-III Answer the following in one word / term each

- | | |
|---|--|
| 1. Which department is concerned with the recording of time of workers? | 6. Name any mechanical method of time keeping. |
| 2. Name any one fringe benefit of workers. | 7. Name any one individual premium plan. |
| 3. Name any manual method of time keeping. | 8. Which method of wage payment is suitable when quality is important? |
| 4. The difference between time recorded in time card and time recorded in job card, is known as what? | 9. Which method is known as payment by result method? |
| 5. Which department prepares wage sheets? | 10. On what basis Wages are paid under piece rate system? |

A-IV Answer in one sentence

- | | |
|--|--|
| 1. What are two types of labour? | 12. What is abnormal idle time? |
| 2. Name two methods of payments of bonus to workers. | 13. Who are casual workers? |
| 3. What do you mean by payments by result? | 14. Define labour/wage. |
| 4. Why overtime wage is paid? | 15. Why incentive plans are used? |
| 5. What is idle time? | 16. Who are out workers? |
| 6. What is meant by motion study? | 17. What do you mean by Time wages? |
| 7. What do you mean by indirect wages? | 18. What are two types of time recording? |
| 8. What is standard Time? | 19. What is Wage sheet? |
| 9. What is Daily Muster roll? | 20. Where can piece wage system be successfully applied? |
| 10. What is annual bonus? | 21. What is job card? |
| 11. Define Gross wages. | |

ANSWER KEYS**GROUP - A****A-I Multiple Choice Questions**

- | | |
|--|---|
| 1. b) Prime cost | 12. a) Piece rate system |
| 2. b) payroll department | 13. a) Time and piece rate |
| 3. d) Employee's contribution to provident fund | 14. a) Time wage system |
| 4. b) Personnel department | 15. c) Time booking |
| 5. c) Time card | 16. c) 1/3 to 2/3 |
| 6. b) Recreational facilities | 17. b) Piece rate system |
| 7. c) Employer's contribution to provident fund | 18. a) Piece rate system |
| 8. d) Time wasted for personal needs | 19. d) None of the above |
| 9. d) He works for more than 9 hours a day or for more than 48 hours in a week | 20. a) Charged to costing profit and loss account |
| 10. c) Normal and abnormal | 21. c) Charged to respective jobs |
| 11. d) attendance Register Method | 22. c) Rs.14 |
| | 23. a) More wages than Rowan scheme |
| | 24. c) Labour which can be conveniently associated with a specific cost unit. |
| | 25. b) Rs.21.60 |

A-II Fill in the blanks

- | | |
|---|-------------------------------------|
| 1. Time worked | 8. Higher |
| 2. Quantity of work done | 9. Idle time |
| 3. Attendance Register Method | 10. Normal and Abnormal |
| 4. Time wage system | 11. Job |
| 5. Piece rate system | 12. Fringe benefit |
| 6. $(T \times R) + \% (S - T)R$ | 13. Costing Profit and Loss Account |
| 7. $(T \times R) + \frac{S - T}{S} \times T \times R$ | 14. Outworkers |
| | 15. Time |

Cost Accounting

16. Payroll
17. Casual
18. Piece rate system
19. Piece rate
20. Piece Rate
21. Efficient

Question Bank with Answers

22. $\frac{S - T}{S} \times T \times R$
23. Time
24. Money value
25. Efficient
26. Two

A-III Answer the following in one word / term each

1. Time keeping department
2. Recreational facilities
3. Attendance Register method
4. Idle time
5. Pay roll department
6. Time recording clocks
7. Halsey Premium Plan
8. Time wage system
9. Piece rate system
10. Number of units produced

A-IV Answer in one sentence

1. Two types of labour are direct labour and indirect labour.
2. a) Halsey Premium Plan
b) Rowan Premium Plan
3. It is a system of wage payment, under which the workers are paid wages on the basis of their results, i.e. number of units produced.
4. The overtime wage is paid to a worker for the purpose of his extra time work, over and above his normal working hours.
5. It is the time for which the employer pays, but for which he obtains no benefit.
6. It is the study of movements of an employee in doing an operation for the purpose to eliminate unnecessary and inefficient motions.
7. Wages which can not be directly identified with a job are indirect wages.
8. It is the time to do a job or operation by an average qualified worker at a standard rate of working under standard conditions.
9. The daily attendance register to note the exact time of arrival and departure of worker in a factory is called 'Daily Muster Roll'.

Question Bank with Answers

10. An amount given to a worker in addition to his salary/wages annually for gain resulting to employer from worker's efficiency.
11. Gross wages is defined as sum total of money paid to a worker as time or piece wages, dearness allowance, bonus and overtime premium.
12. Abnormal idle time is one which occurs over and above the normal idle time such as power failure, machine breakdown, shortage of materials etc.
13. Casual workers are those workers who are engaged casually whenever there is extra load in the factory or against the workers who remain absent temporarily.
14. The workers employed in a manufacturing organisation for converting materials into finished goods or for doing various jobs in the organisation is called labour.

Cost Accounting

15. To compensate the efficient labour for his extra efforts used in minimising the time or cost.
16. Workers, who work outside the factory premises are called out-workers.
17. The wages paid to a worker on the basis of time spent by him inside the factory, irrespective of production is called 'Time wages'.
18. Manual method and mechanical method.
19. It discloses the wages due to each worker.
20. Piece wage system can be applied to repetitive type of work.
21. It is a card which records the time spent by a worker on each job so that labour cost of a job can be conveniently ascertained.

GROUP - B**Short Answer Type Questions**

1. Define labour.
2. What is direct labour cost?
3. What is indirect labour cost?
4. Distinguish between direct labour and indirect labour.
5. Name two methods of payments of bonus to workers.
6. What is labour turnover?
7. Why overtime Wage is paid?
8. State important methods of remunerating labour.
9. What is payment by result?
10. What are the cases where piece rate system can be successfully applied?
11. What are the cases where time wage system is suitable?
12. What is idle time?
13. Who is an outworker?
14. Name two systems of time keeping under manual method.
15. Write down the important causes of abnormal idle time.
16. What is Job evaluation?
17. State two important advantages of job evaluation.
18. State some important objectives of Motion study.
19. What are the purposes of time-keeping?
20. What are the advantages of time wage system?
21. What are the functions of a job card?
22. Give other names of direct labour.
23. State some advantages of piece rate system of wage payment.
24. Who are casual workers?
25. Why incentive plans are used?
26. How overtime wages is treated in cost accounts?
27. How idle time is treated in cost accounts?
28. Give three advantages of Halsey premium plan.
29. What do you understand by the term wages Abstract?
30. Name two deferred monetary benefits provided to workers.
31. What is Bonus?
32. What is E.S.I?
33. Give two examples of fringe benefits.
34. Name two systems of time-keeping under mechanical method.
35. What do you mean by time booking?
36. State three documents used for time booking.
37. What is Metal Disc method?
38. Write any two features of a good wage system.
39. What is Halsey weir Premium Plan?
40. What purpose does a job card serve?
41. What are the causes of normal idle time?

ANSWER KEYS**GROUP - B****Short Answer Type Questions**

1. The physical and mental effort put to manufacture a product is called labour. Labour is of two types such as direct labour and indirect labour.
2. Direct labour refers to labour engaged directly in the manufacture of a product or in a particular job or services and which can be conveniently allocated to the job, process or commodity unit.
3. Indirect labour refers to labour which is not directly engaged in manufacturing of goods or services but indirectly helps in production.
4. The direct labour cost is charged to jobs and forms a part of prime cost. On the other hand, indirect labour cost becomes part of overhead.
5. a) Halsey premium Plan
b) Rowan Premium Plan
6. Percentage change in labour force of an organization is known as labour turnover. Movements of labour force into and out of organization due to internal and external factors is called labour turnover.
7. The overtime wage is paid to workers for the purpose of his extra time work, over and above his normal working hours.
8. a) Time rate or Time Wage system
b) Piece Rate or Piece wage system
9. Under this system, payment is made according to the quantity of work done and no consideration is given to the time taken by the workers to perform the work. The worker gets payment according to his speed, efficiency, ability etc.
$$\text{Total Earnings} = \text{Rate per unit} \times \text{Units completed.}$$
10. Piece rate system is suitable when:
 - i) The work is of repetitive type.
 - ii) Quantity of output can be measured
 - iii) It is possible to fix an equitable and acceptable rate
 - iv) The system is flexible and rates can be adjusted to changes in the price level.
 - v) Quality of work is not important.
11. Time wage system is suitable where:
 - i) Strict supervision is possible.
 - ii) Quality of output is more important than quantity.
 - iii) It is not possible to measure the work-done.
12. It is the time for which the employer pays, but for which he obtains no benefit. It is determined by subtracting time booked to different jobs from gate time (time keeping).

Cost Accounting

Mathematically,

Idle time =

Gate time – Time booked to different jobs

13. A worker, who works outside the factory premises is called an outworker.

Such worker takes materials, from the factory and make finished articles at their own premises with their own tools and equipments.

14. i) Attendance Register Method
ii) Metal Disc method
15. a) Power failure
b) Break down of machinery
c) Waiting for materials and instructions
d) Strikes, lock-outs and fire accidents.
16. Job evaluation is breaking up of a job into basic elements or operations and studying them in detail to find out the duties, responsibilities and skill involved in it.
17. i) It facilitates selection of right type of workers according to job requirements. It helps in training the workers accordingly.
ii) It helps in placing the employees in suitable jobs.
iii) It helps in fixing suitable wage rates for different jobs depending upon their characteristics, required skills etc.

Question Bank with Answers

18. a) To improve the systems of working.
b) To find out easier method of doing a work.
c) To reduce fatigue
d) To eliminate unnecessary movements.
19. Time-Keeping is a system of recording the time of arrival and departure of workers. This provides a record of total time spent by workers in the factory. It is on the basis of this record that their total entitlements for the work under time rate system is determined.
20. a) Simplicity
b) Security of workers
c) Quality production
21. i) It provides a link between production control and costing.
ii) It ascertains the labour cost of each individual job or work order.
iii) It determines the idle or unproductive time and so also efficiency of each worker.
22. i) Productive labour
ii) Process labour
iii) Prime-cost labour
23. a) Equitable
b) Incentive to workers
c) Less supervision
d) Innovations

Question Bank with Answers

Cost Accounting

24. Casual workers are those workers who are engaged casually whenever there is extra load in the factory, or whenever a regular worker remains absent from the job temporarily. They are not regular workers.
25. i) To avoid the objections to time rate system as well as piece rate system.
ii) To compensate the efficient labour for his extra efforts used in minimising the time or cost.
26. a) Charged to cost unit – If overtime is worked at the customer's request or at the special needs of a particular job.
b) Charged to overheads – when the employee worked overtime in order to help clear a backlog orders, then obviously overtime wages be treated as overheads.
c) Debited to costing profit and loss account – If overtime arises due to any abnormal reason such as breakdown of machinery, power failure etc.
27. a) Charged to factory overhead – If idle time is normal and controllable.
b) Inflating wage rate – If idle time cost is normal and controllable.
c) Transferring to costing profit & loss account – If idle time cost is abnormal and uncontrollable.
28. i) It is simple method of premium plan.
ii) It gives incentives to the efficient workers
iii) Fixed overhead per unit of output is reduced with increased production.
29. It is a columnar statement prepared by the Cost Accounting Department analysing the total wages paid by the departments, processes, jobs etc. Preparation of wages abstract helps in effective labour cost accounting and control. It is otherwise known as Wages Analysis Sheet.
30. a) Gratuity
b) Pension
31. It is a premium paid to employees of an organization in addition to their normal wages for their efficiency or as per the statute.
32. E.S.I stands for Employees' state insurance. It is one type of deferred monetary incentive allowed by the employer to the employees. Both employer and employee contributes proportionately to this, but benefits are derived only by the employees.
33. i) Subsidised food
ii) Free medical facilities
34. a) Time recording clocks
b) Dial Time Records

Cost Accounting

35. Time booking is the recording of time spent by the worker on the different jobs or work orders carried out by him during his period of attendance in the factory for the purposes of cost analysis.
36. i) Daily Time sheets
ii) Weekly Time sheets
iii) Job cards or Job Tickets
37. Under this time-keeping method, each worker is allotted a metal disc or a token with a hole bearing his identification number. A board is kept at the gate with pegs on it and all token are hung on the board known as metal disc method.
38. a) The system of remuneration must be defined in clear terms.
b) The system of remuneration must be fair to employer and employee.

Question Bank with Answers

39. It is a variation of Halsey premium plan. Under this plan, the premium is set at 30% of the wages of the time saved.
40. Job card is used for recording time spent by a worker on different jobs during the total time he has spent in a factory. Time shown by job cards becomes a basis of charging labour cost to various jobs.
41. a) Time consumed in moving from one job to another.
b) Time taken for personal needs.
c) Time taken in picking up the work for the day.
d) Time taken in going from factory gate to the working spot and back.

GROUP - C**Long Answer Type Questions**

- | | | | | | | | | | |
|--|--|----------------|-----|----------------------|-----|--------------------|----|---------------------|---|
| <ol style="list-style-type: none"> 1. Describe the characteristics of an ideal wage system. 2. Describe some important objectives of the payroll department. 3. What are different methods of time keeping? Describe them briefly. 4. What do you mean by time-keeping? State the importance of time-keeping. 5. Distinguish between time-keeping and time-booking. 6. Explain the advantages and disadvantages of time wage system and piece rate system. | <ol style="list-style-type: none"> 7. Describe the important factors to be considered in a premium plan. 8. Describe Halsey premium plan briefly. 9. Describe briefly Rowan premium plan. 10. Calculate the earnings of 'X' and wage rate per unit from the following information under Halsey Premium Plan and Rowan Premium Plan. <table border="0" style="margin-left: 40px;"> <tr> <td>Units produced</td> <td style="text-align: right;">100</td> </tr> <tr> <td>Time allowed (hours)</td> <td style="text-align: right;">150</td> </tr> <tr> <td>Time taken (hours)</td> <td style="text-align: right;">60</td> </tr> <tr> <td>Rate per hour (Rs.)</td> <td style="text-align: right;">5</td> </tr> </table> | Units produced | 100 | Time allowed (hours) | 150 | Time taken (hours) | 60 | Rate per hour (Rs.) | 5 |
| Units produced | 100 | | | | | | | | |
| Time allowed (hours) | 150 | | | | | | | | |
| Time taken (hours) | 60 | | | | | | | | |
| Rate per hour (Rs.) | 5 | | | | | | | | |

ANSWER HINTS**GROUP - C**

- | | |
|---|--|
| <ol style="list-style-type: none"> 1. Characteristics of ideal wage system: <ol style="list-style-type: none"> a) Fair to both employer and employee b) Guaranteed minimum wages c) Payment on merit basis d) Division of skilled and unskilled workers e) Flexibility f) Assurance of equal pay for equal work g) Minimum labour turnover | <ol style="list-style-type: none"> h) Based on capacity of the employer i) Simple j) No hidden criteria k) Reward criteria 2. Objectives of payroll department: <ol style="list-style-type: none"> a) To determine gross and net earnings of each worker and to provide information as to cost of wages according to departments, jobs etc. b) To summarise wages according to cost centres. |
|---|--|

Cost Accounting

- c) To determine deductions that should be posted to the credit of respective accounts, i.e.EPF, ESI and LIC premiums etc.
 - d) To help in ascertaining hourly rate of labour cost of each department.
 - e) To calculate and summerise employer's contribution in respect of ESI, provident Fund etc.
 - f) To summerise the cost of overtime premium incurred and cost of bonus payment.
3. Methods of time-keeping:
- A. Manual method:
 - i) Attendance Register method
 - ii) Metal Disc method
 - B. Mechanical method:
 - i) Time recording clock
 - ii) Dial Time Records
4. Time-keeping is a system of recording the time of arrival and departure of workers which provides a record of total time spent by workers in the factory.
- Importance of time-keeping:
- a) Ensures punctuality of workers and identifies late comers.
 - b) Improves discipline among workers.
 - c) Boosts morale of personnel.
 - d) Promotes a productive environment in the organization.

Question Bank with Answers

- e) Checks idle time and increase output adherence to production schedules.
 - f) Helps recording of time for statistical analysis.
 - g) Assists computation of labour cost per unit or per process of production.
5. Time – keeping:
- a) Recording of time of arrival and departure of workers.
 - b) It helps to find total time spent by workers inside factory.
 - c) It helps in preparing payroll.
- Time – booking:
- a) Recording of time spent by a worker on different jobs.
 - b) It is equally important to know how time in factory spent on different jobs, work orders.
 - c) It helps to calculate labour cost, ascertain idle time, calculate bonus.
6. Time Wage System:
- Advantages*
- a) Simplicity
 - b) Quality of work
 - c) Security to workers
 - d) Promotes a sense of equality and unity
- Disadvantages*
- a) No financial incentives
 - b) No extra incentive to efficient workers

Question Bank with Answers

- c) Needs a close supervision
- d) Encourages overtime
- e) Increases cost of production
- f) Payment for idle time

Piece rate system:

Advantages

- a) Incentives to efficient workers
- b) Increase in production
- c) No payment for idle time
- d) Exact labour cost
- e) Reduction in supervision cost

Disadvantages

- a) Poor quality of work
- b) Difficulty in fixing piece rate
- c) No effective use of material
- d) No security of wages
- e) Causes discontentment among the slower workers

7. Factors to be considered

- a) The plan should be simple and should be easily understood by all workers.
- b) The plan should appear reasonable both to employer and employee.
- c) Standard time should be determined on the basis of time and motion study.

Cost Accounting

- d) Standard time once fixed should not be altered unless there is a permanent change in method of work.
- e) Working condition should be such that a worker can produce more with extra efforts.
- f) Indirect workers should also be covered in the incentive scheme.
- g) Quality of the product should be assured.

8. Halsey Premium Plan:

Under this method, standard time for doing each job or operation is fixed and worker is given wages for the actual time he takes to complete the job or operation at the agreed rate per hour plus a bonus equal to (usually) one half of the wages of the time saved.

In practice, the bonus may vary from $33\frac{1}{3}\%$ to $66\frac{2}{3}\%$ of the wages of the time saved.

Total earnings of a worker will be calculated as follows:

$$\text{Total earnings} = (T \times R) + \% (S - T) R$$

Where S → Standard time

R → Labour rate per hour

T → Time taken

Cost Accounting

Advantages:

- a) Simple to understand
- b) Guarantee for wages for actual time
- c) Reduction in labour cost
- d) Distinction between efficient and inefficient workers
- e) Reduction in fixed overhead cost per unit
- f) Reduce cost of production

Disadvantages:

- a) Quality of the work suffers
- b) Criticism from workers

9. Rowan Premium Plan:

Under this method, a worker gets wages at hourly rate for the actual time taken by him plus a bonus if he completes the work within the standard time. Bonus is calculated as the proportion of the wages of the time taken which the time saved bears to the standard time allowed.

$$\text{Total earnings} = (T \times R) + \frac{S - T}{S} \times T \times R$$

Where S → Standard time

T → Time taken

R → Labour rate per hour

Question Bank with Answers

Advantages:

- a) Guarantees time wages
- b) The quality of work does not suffer
- c) Reduction in labour cost per unit
- d) Fixed overhead cost per unit is reduced

Disadvantages:

- a) Workers do not get full benefit of the time saved
- b) An efficient worker and another inefficient worker may get the same bonus.

10. Halsey Premium Plan →

Earnings = Rs. 525

Wage rate per unit = Rs. 5.25

Rowan Premium Plan →

Earnings = Rs. 480

Wage rate per unit = Rs. 4.80

