

12. An example of fixed cost is :
- (a) Materials consumed (b) Depreciation
(c) Factory power (d) Packing material
13. A cost per unit which increases or decreases when volume of output increases or decreases is known as
- (a) Fixed cost (b) Variable cost
(c) Semi-variable cost (d) None of the above
14. Which of the following would not be considered a fixed cost ?
- (a) Rent (b) Depreciation
(c) Cost of bottles used in the production of soft drinks
(d) Property taxes
15. An example of variable cost is
- (a) Property taxes (b) Interest on capital
(c) Direct material cost (d) Depreciation of machinery
16. Variable cost per unit
- (a) varies when output varies (b) remains constant
(c) increases when output increases (d) decreases when output decreases
17. Which of the following is not an example of a variable cost ?
- (a) Straight-line depreciation on a machine expected to last five years
(b) Piece-rate wages paid to manufacturing workers
(c) Wood used to make furniture
(d) Commissions paid to sales personnel
18. Which of the following costs will vary directly with the level of production?
- (a) Total manufacturing costs (b) Total cost of sales
(c) Variable selling costs (d) Variable product costs
19. If the level of activity increases,
- (a) variable cost per unit and total fixed costs increase
(b) fixed cost per unit and total variable cost increase
(c) total cost will increase and fixed cost per unit will decrease
(d) variable cost per unit and total cost increase
20. When 10,000 units are produced, variable costs are ₹ 6 per unit. Therefore, when 20,000 units are produced
- (a) variable costs will total ₹ 1,20,000
(b) variable costs will total ₹ 60,000
(c) variable unit costs will increase to ₹ 12 per unit
(d) variable unit costs will decrease to ₹ 3 per unit
21. Costs which are ascertained after they have been incurred are known as
- (a) Imputed costs (b) Sunk costs
(c) Historical costs (d) Opportunity costs
22. Prime costs plus variable overhead is known as
- (a) Production cost (b) Marginal costs
(c) Total cost (d) Cost of sales
23. When premises are owned, a charge in lieu of rent is
- (a) an opportunity cost (b) an imputed cost
(c) a sunk cost (d) an avoidable cost
24. Costs which are not relevant for decision-making and are not affected by increase or decrease in volume are
- (a) Imputed costs (b) Sunk costs
(c) Historical costs (d) Opportunity costs
25. When amount deposited in a bank is withdrawn for financing a project, the loss of interest on bank deposit will be referred to as
- (a) Sunk cost (b) Pre-production cost
(c) Opportunity cost (d) Replacement cost

26. The cost of a special device that is necessary if a special order is accepted is a
 (a) Relevant cost (b) Sunk cost
 (c) Historical cost (d) Opportunity cost
27. A cost centre is
 (a) A unit of product or service in relation to which costs are ascertained
 (b) An amount of expenditure attributable to an activity
 (c) A production or service location, function, activity or item of equipment for which costs are accumulated
 (d) A centre for which an individual budget is drawn up
28. A cost unit is
 (a) the cost per hour of operating a machine
 (b) the cost per unit of electricity consumed
 (c) a unit of product or service in relation to which costs are ascertained
 (d) a measure of work output in a standard hour
29. Costs that can be easily traced to a specific department are called
 (a) Direct costs (b) Indirect costs
 (c) Overheads (d) Processing costs
30. The three major elements of product costs are all except
 (a) Direct materials (b) Factory overhead
 (c) Direct labour (d) Indirect labour
31. Indirect costs
 (a) can be traced to a cost object (b) cannot be traced to a particular cost object
 (c) are not important (d) are always variable costs
32. Indirect costs are known as
 (a) Variable costs (b) Fixed costs
 (c) Overheads (d) None of the above
33. A functional classification of costs would classify "depreciation on office equipment" as a
 (a) Product cost (b) Administrative expense
 (c) Selling expense (d) Variable cost
34. Direct material is a
 (a) Manufacturing cost (b) Administration cost
 (c) Selling and distribution cost (d) Any of the above
35. A particular cost is classified as being semi-variable. What is the effect on the TOTAL COST if activity increases by 20%?
 (a) Stays the same (b) Decreases by less than 20%
 (c) Increases by 20% (d) Increases by less than 20%
36. Costs that change in response to alternative courses of action are called
 (a) Relevant costs (b) Differential costs
 (c) Target costs (d) Sunk costs
37. A production worker paid salary of ₹ 700 per month plus an extra ₹ 5 for each unit produced during the month. This labour cost is best described as
 (a) A fixed cost (b) A variable cost
 (c) A semi-variable cost (d) A step fixed cost
38. The functional classification of costs include the following except
 (a) Prime cost (b) Production cost
 (c) Administration cost (d) Marketing cost
39. Which of the following is not included in the administration cost ?
 (a) Salaries of general office staff (b) Salaries of foremen
 (c) Office supplies and expenses (d) Postage, stationary, telephone, etc.
40. You are given the cost and volume information below :

| Volume | Cost |
|-----------|---------|
| 1 unit | ₹ 15 |
| 10 units | ₹ 150 |
| 100 units | ₹ 1,500 |

What type of a cost is given ?

- (a) Fixed cost (b) Variable cost
(c) Step cost (d) Mixed cost

41. Which of the following statements regarding graphs of fixed and variable costs is true ?
(a) Variable costs can be represented by a straight line where costs are the same for each data point
(b) Fixed costs can be represented by a straight line starting at the origin and continuing through each data point
(c) Fixed costs are zero when production is equal to zero
(d) Variable costs are zero when production is equal to zero

B. Numerical

42. From the following details, compute **cost of goods manufactured** : Cost of goods sold ₹ 2,00,000; Opening stock of finished goods ₹ 50,000; Closing stock of finished goods ₹ 1,00,000 and Closing stock of work-in-progress ₹ 10,000.

- (a) ₹ 2,00,000 (b) ₹ 2,50,000
(c) ₹ 2,40,000 (d) ₹ 3,00,000

43. The opening stock of finished goods is ₹ 50,000; closing stock of finished goods is ₹ 1,00,000 and the cost of goods manufactured is ₹ 2,00,000. What is **cost of goods sold** ?

- (a) ₹ 2,00,000 (b) ₹ 2,50,000
(c) ₹ 1,00,000 (d) ₹ 1,50,000

44. Vinayaka Ltd. furnishes the following information for a period, pertaining to its product "T" :

| | |
|---------------------------------------|----------|
| Cost of production (for 11,000 units) | ₹ 44,000 |
| Selling expenses (per unit) | ₹ 0.40 |
| Sales (for 9,000 units) | ₹ 54,000 |

The **profit per unit** of the product was

- (a) ₹ 1.15 (b) ₹ 1.20
(c) ₹ 2.60 (d) ₹ 1.60

45. For product A of Shilpa Ltd., the prime cost is ₹ 20 per unit, factory overheads are 20% of prime cost and administration overheads are 25% of Works cost. If the company desires to earn a profit of 25% on selling price, the **selling price per unit** of product A would be

- (a) ₹ 40 (b) ₹ 33
(c) ₹ 90 (d) ₹ 30

46. M & Co. used in a particular year ₹ 3,00,000 of direct materials. The year-end direct material inventory was ₹ 50,000 more than it was at the beginning of the year. Calculate **direct material purchases**.

- (a) ₹ 3,00,000 (b) ₹ 2,50,000
(c) ₹ 3,50,000 (d) ₹ 4,00,000

47. Consider the following:

| | |
|------------------------------|-------------|
| Raw material used | ₹ 1,40,000 |
| Direct labour | ₹ 5,00,000 |
| Total manufacturing overhead | ₹ 6,00,000 |
| Beginning work-in-progress | ₹ 15,000 |
| Cost of goods sold | ₹ 12,05,000 |

What is the value of the **closing work-in-progress**?

- (a) ₹ 65,000 (b) ₹ 35,000
(c) ₹ 50,000 (d) ₹ 70,000

48. R Company manufactures desks. The beginning balance of Raw Material Inventory was ₹ 4,500; raw material purchases of ₹ 29,600 were made during the month. At month end, ₹ 7,700 of raw material was on hand. **Raw material used** during the month was

- (a) ₹ 26,400 (b) ₹ 34,100
(c) ₹ 37,300 (d) ₹ 29,600

49. M Company manufactures tables. If raw material used was ₹ 80,000 and Raw Material Inventory at the beginning and end of the period, respectively, was ₹ 17,000 and ₹ 21,000, what was the amount of **raw material purchased**?

- (a) ₹ 76,000 (b) ₹ 1,18,000
 (c) ₹ 84,000 (d) ₹ 1,01,000
50. T Company manufactures computer stands. What is the **opening stock of Finished Goods** if Cost of Goods Sold is ₹ 1,07,000; the ending balance of Finished Goods Inventory is ₹ 20,000; and Cost of Goods Manufactured is ₹ 50,000 less than Cost of Goods Sold?
 (a) ₹ 70,000 (b) ₹ 77,000
 (c) ₹ 1,57,000 (d) ₹ 1,27,000
51. The following data relate to two output levels of a department :
- | | | |
|---------------|----------|----------|
| Machine Hours | 17,000 | 18,500 |
| Overheads (₹) | 2,46,500 | 2,51,750 |
- The variable overhead rate per hour is ₹ 3.50. The amount of fixed overheads is
 (a) ₹ 5,250 (b) ₹ 59,500
 (c) ₹ 1,87,000 (d) ₹ 2,46,500

19.2 FILL IN THE BLANKS

- _____ is a measurement, in monetary terms, of the amount of resources used for the purpose of production of goods or rendering services.
- _____ means the process of ascertainment of costs.
- _____ is the guidance and regulation by executive action of the costs of operating an undertaking.
- _____ is the process of accounting for the costs from the point at which expenditure is incurred, to the establishment of its ultimate relationship with cost centres and cost units.
- _____ of costs is the arrangement of items of costs in logical groups having regard to their nature or purpose.
- _____ (Subjective / Objective) Classification of costs is the arrangement of items of costs in logical groups having regard to their nature.
- _____ (Subjective / Objective) Classification of costs is the arrangement of items of costs in logical groups having regard to their purpose.
- Costs are classified, on the basis of _____, into Fixed Cost, Variable Cost and Semi-fixed or Semi-variable cost.
- Costs are classified, on the basis of behaviour, into Fixed Cost, Variable Cost and Semi-fixed or Semi-variable cost, depending upon the response to the changes in _____ level.
- Costs are classified, on the basis of behaviour, into Fixed Cost, Variable Cost and _____ cost.
- _____ Cost is the cost which does not vary with the change in the volume of activity in the short run.
- Fixed Cost is the cost which does not vary with the change in the volume of _____ in the short run.
- Fixed Cost is the cost which does not vary with the change in the volume of activity in the _____ (long / short) run.
- _____ Cost is the cost of elements which tends to directly vary with the volume of activity.
- Variable Cost is the cost of elements which tends to directly vary with the _____ of activity.
- Variable cost has two parts - (a) Variable _____ cost; and (b) Variable _____ costs.
- _____ Costs contain both fixed and variable elements.
- _____ Costs are the actual costs of acquiring assets or producing goods or services.
- _____ costs for a product are computed in advance of production, on the basis of a specification of all the factors affecting cost and cost data.
- _____ costs are costs calculated in advance of production or even before accepting sales order.
- _____ Cost is the aggregate of variable costs.
- _____ Cost is the aggregate of prime cost plus variable overhead.
- _____ Cost is hypothetical or notional cost not involving any actual cash payment computed only for the purpose of decision-making.
- _____ Cost is historical cost which is incurred in the past, and not relevant to the decision required to be made by the management at present.
- _____ Cost is an unusual or atypical cost whose occurrence is usually irregular and unexpected and due to some abnormal situation of the production.

26. _____ Costs are inescapable costs which are essentially to be incurred, within the limits or norms provided for.
27. _____ Cost is the change in cost due to change in activity from one level to another.
28. If an expenditure can be allocated to a cost centre or a cost unit then it is called _____.
29. Indirect cost is also known as _____.
30. Cost _____ is any unit of cost selected with a view of accumulating all costs under that unit.
31. Cost _____ is a form of measurement of volume of production or service.
32. _____ (Direct / Indirect) Material Cost is the cost of material which can be readily allocated to a cost centre or a cost object in an economically feasible way.
33. _____ (Direct / Indirect) Labour Cost is the cost of wages of those workers who are readily identified or linked with a cost centre or cost object.
34. Direct Expenses are the expenses _____ (such as / other than) direct material or direct labour which can be identified or linked with the cost centre or cost object.
35. _____ is "a system of symbols designed to be applied to a classified set of items to give a brief account reference, facilitating entry collation and analysis."
36. A _____ is a unit of product or service in relation to which costs are ascertained.
37. A _____ cost is an expenditure which can be economically identified with and specifically measured in respect to a relevant cost object.
38. _____ cost is the total cost of direct material, direct labour and direct expenses.
39. An _____ or _____ cost is an expenditure on labour, materials or services which cannot be economically identified with a specific saleable cost unit.
40. A cost _____ is a production or service location, function, activity or item of equipment for which costs are accumulated.
41. A _____ cost is a cost which is incurred for an accounting period and which tends to be unaffected by fluctuations in the levels of activity.
42. A _____ cost is a cost which is directly related to output.
43. Cost Accounting Standard _____ deals with Material Cost.

19.3 MATCH THE FOLLOWING

| [A] | COLUMN A | COLUMN B |
|-----|--|--------------------------|
| 1. | Amount of resources used for production of goods | (a) Financial Accounting |
| 2. | Cost accounting records | (b) Capital expenditure |
| 3. | Used by investors, creditors | (c) Internal records |
| 4. | Cost control | (d) Cost Accounting |
| | | (e) Cost |
| | | (f) Reduction of costs |
| | | (g) Regulation of costs |

| [B] | COLUMN A | COLUMN B |
|-----|---------------------|--------------------------------------|
| 1. | Total fixed cost | (a) Remains constant per unit |
| 2. | Total variable cost | (b) Cost not assigned to products |
| 3. | Unit variable cost | (c) What cost should be? |
| 4. | Unit fixed cost | (d) Remains constant in total |
| 5. | Standard cost | (e) What costs are expected to be |
| 6. | Period cost | (f) Decreases with rise in output |
| 7. | Actual cost | (g) Added value of a new product |
| 8. | Labour and overhead | (h) Incurred cost |
| 9. | Incremental cost | (i) Cost of conversion |
| 10. | Budgeted cost | (j) Increase in proportion to output |

| [C] | COLUMN A | COLUMN B |
|-----|--|--|
| | 1. Costs classified on basis of natural elements | (a) Relevant, Differential, Opportunity and Sunk Costs |
| | 2. Costs classified on basis of traceability to object | (b) Fixed, Variable and Semi-variable Costs |
| | 3. Costs classified on basis of Functions | (c) Material, Labour and Expenses |
| | 4. Costs classified on basis of variability | (d) Production, Administration, Selling and Distribution Costs |
| | 5. Costs classified for decision-making | (e) Direct and Indirect Costs |

[D] Match the terms in Column A with statements in Column B

COLUMN A

1. Cost
2. Costing
3. Cost control
4. Cost Accounting
5. Classification
6. Subjective Classification of costs
7. Objective Classification of costs
8. Classification of costs on basis of behaviour
9. Fixed Cost
10. Variable Cost
11. Semi Variable Cost
12. Historical Costs
13. Pre-determined Costs
14. Estimated Costs
15. Marginal Cost
16. Imputed Cost
17. Sunk Cost
18. Abnormal Cost
19. Unavoidable Cost
20. Differential Cost
21. Direct Cost
22. Overhead
23. Cost centre
24. Cost unit
25. Direct Material Cost
26. Direct Labour Cost
27. Direct Expenses
28. Code

COLUMN B

- (i) Inescapable costs which must be incurred.
- (ii) The cost of elements which tends to directly vary with the volume of activity.
- (iii) A measurement, in monetary terms, of the amount of resources used for the purpose of production of goods or rendering services.
- (iv) The change in cost due to change in activity from one level to another.
- (v) Costs containing both fixed and variable elements.
- (vi) The process of ascertainment of costs.
- (vii) An expenditure that can be allocated to a cost centre or a cost unit.
- (viii) The actual costs of acquiring assets or producing goods or services.
- (ix) The guidance and regulation by executive action of the costs of operating an undertaking.
- (x) Indirect cost
- (xi) Costs for a product are computed in advance of production, on the basis of a specification of all the factors affecting cost and cost data.

- (xii) The process of accounting for the costs from the point at which expenditure is incurred, to the establishment of its ultimate relationship with cost centres and cost units.
- (xiii) Any unit of cost selected with a view of accumulating all costs under that unit.
- (xiv) Costs calculated in advance of production or even before accepting sales order.
- (xv) The arrangement of items of costs in logical groups having regard to their nature or purpose.
- (xvi) Form of measurement of volume of production or service.
- (xvii) The aggregate of variable costs.
- (xviii) The arrangement of items of costs in logical groups having regard to their nature.
- (xix) Cost of material which can be readily allocated to a cost centre or a cost object in an economically feasible way.
- (xx) Hypothetical or notional cost not involving any actual cash payment computed only for the purpose of decision-making.
- (xxi) The arrangement of items of costs in logical groups having regard to their purpose.
- (xxii) Cost of wages of those workers who are readily identified or linked with a cost centre or cost object.
- (xxiii) Historical cost which is incurred and not relevant to the decision required to be made by the management at present.
- (xxiv) Fixed Cost, Variable Cost and Semi-fixed or Semi-variable cost.
- (xxv) Expenses other than direct material or direct labour which can be identified or linked with the cost centre or cost object.
- (xxvi) An unusual or atypical cost whose occurrence is usually irregular and unexpected and due to some abnormal situation of the production.
- (xxvii) The cost which does not vary with the change in the volume of activity in the short run.
- (xxviii) A system of symbols designed to be applied to a classified set of items to give a brief account reference, facilitating entry collation and analysis.

19.4 STATE WHETHER TRUE OR FALSE

1. Financial Accounts fail to give a product-wise break-up of profit or loss.
2. Financial Accounts fail to show whether there was any abnormal waste during the process of production.
3. Cost Accounting ascertains the individual costs of each contract.
4. Cost Accounting helps the management to control the cost of Materials, Labour and Expenses.
5. Cost Accounting helps in controlling the leakage and wastage of materials.
6. Cost Accounting is used by investors, creditors etc.
7. Costing is a comprehensive term which includes Cost Accounting.
8. Periodical Matching of income and expenses is one of the fundamental assumptions of Cost Accounting.
9. Cost Accounting provides data for managerial decision-making.
10. Cost Accounting gets its basic data for estimates from the financial accounting system.
11. Cost accounting can be used only in manufacturing concerns.
12. Costing, cost accounting and cost accountancy mean one and the same thing.
13. Cost accounting is a branch of financial accounting.
14. Cost accounting provides cost information not only to management but also to shareholders.
15. Cost accounting information focuses on external reporting.
16. A profitable business concern does not need costing system.
17. Cost accounting is not needed by a non-profit organization such as a hospital.
18. Cost accounting is not needed if the price is beyond the control of the firm.
19. Cost accounting assists financial accounting with regard to the valuation of inventory.
20. The scope of cost accounting includes cost ascertainment, cost presentation and cost control.
21. Since pricing is a matter of managerial policy, cost information is useless for price fixation.
22. Cost accounting provides information for ascertaining the financial position as on a particular date.
23. Cost accounting helps in controlling cost.
24. Costing and cost accounting are the same.

25. Cost Control means a lower amount of profit to the company.
26. Cost reduction is the primary responsibility of the cost accountant in any organization.
27. All costs are controllable.
28. Interest on capital, payment for which is not actually made, is an example of imputed cost.
29. An item of cost which is uncontrollable by one Manager may be controllable by another.
30. Only variable costs are controllable.
31. Variable cost remains constant per unit within a range of activity.
32. Sunk costs are relevant to present decisions.
33. Imputed costs are a type of opportunity costs.
34. Variable overheads vary with time.
35. Fixed costs vary with the level of production or sales volume.
36. Marginal costs are not at all helpful to management for decision-making.
37. Cost Accounting Standard 2 deals with Classification of Cost.

19.5 ANSWER IN BRIEF (INTERNAL TESTS)

Q.1 : Indicate whether the following materials are direct or indirect with reference to the final product:

- (a) Oil used for lubricating machines
- (b) Wire for making electric motors
- (c) Bottles used for filling in a soft drink
- (d) Gunny bags used for filling in sugar
- (e) Ignots used by a foundry making castings
- (f) Cushion seats to be fixed in a passenger car
- (g) Sugarcane used for making sugar
- (h) Speakers in a radio set
- (i) Paper used for printing a book
- (j) Nails used in a shoe
- (k) Milk used for making ice-cream

[Ans.: Direct Materials : (b), (c), (d), (e), (f), (g), (h), (i), (j), (k); Indirect Materials : (a)]

Q.2 : State whether the following items should be classified as direct or indirect labour :

- (a) Overtime premium paid for specific jobs
- (b) Wages paid to piece workers
- (c) Wages paid to maintenance workers
- (d) Directors' fees
- (e) Salesmen's Commission
- (f) Salaries paid to sweepers

[Ans.: Direct Wages : (a), (b); Indirect Wages : (c), (d), (e), (f)]

Q.3 : A company manufactures and retails clothing. You are required to group the costs which are listed below and numbered 1 to 20 into the following classification : (Each cost is intended to belong to only one classification).

- (a) Direct Materials
 - (b) Direct Labour
 - (c) Direct Expenses
 - (d) Indirect Production Overhead
 - (e) Selling and Distribution Costs
 - (f) Research and Development Costs
 - (g) Finance Cost
 - (h) Administration Costs
1. Telephone rental plus metered calls
 2. Wages of security guards for factory
 3. Parcels sent to customers
 4. Wages of operatives in cutting department
 5. Developing a new product in the laboratory
 6. Wage of fork lift truck drivers who handle raw materials
 7. Wages of storekeepers in materials store