

CHAPTER 1

BASIC CONCEPTS

Question 1

Briefly discuss, how the synergetic effect help in reduction in costs.

(May 2007, 2 Marks)

Answer

Two or more products are produced and managed together.

The result of combined efforts are higher than sum of the results of individual products.

Analysis of synergetic effect is helpful in cost control.

Question 2

What items are generally included in good uniform costing manual?

(May 2007, 3 Marks)

Answer

Uniform costing manual includes essential informations and instructions to implement accounting procedures.

- (a) Introduction: It includes objects and scope of the planning.
- (b) Accounting procedure and planning includes rules, and general principle to be followed.
- (c) Cost accounting planning includes methods of costing, relation between cost and financial accounts and methods of integration.

Question 3

Explain in brief the explicit cost with examples.

(May 2007, 2 Marks)

Answer

Out of pocket cost, involving immediate payment of Cash. Salaries, Wages, Postage and Telegram, Printing and Stationery, Interest on Loan are some examples of Explicit Costs.

Question 4

Discuss briefly the relevant costs with examples.

(Nov 2007, 2 Marks)

Answer

Relevant costs are those expected future cost which are essential but differ for alternative course or action.

- (a) Historical cost or sunk costs are irrelevant as they do not play any role in the decision making process.
- (b) Variable costs which will not differ under various alternatives are irrelevant.

Question 5

What are the main objectives of cost accounting?

(Nov 2007, 2 Marks)

Answer

The Main objectives of Cost Accounting are

1. Ascertainment of cost.
2. Determination of selling price.
3. Cost control and cost reduction.
4. Ascertaining the project of each activity.
5. Assisting management in decision-making.
6. Determination of break even point.

Question 6

Explain controllable and non-controllable cost with examples.

(May 2008, 2 Marks)

Answer

Controllable costs are those which can be influenced by the action of a specified member of an undertaking. A business organization is usually divided into a number of responsibility centres and each such centre is headed by an executive. Controllable costs incurred in a particular responsibility centre can be influenced by the action of the executive heading that responsibility centre. Direct costs comprising direct labour, direct materials, direct expenses and some of the overhead are generally controllable by the shop level management.

Non-controllable costs are those which cannot be influenced by the action of a specified member of an undertaking. For example, expenditure incurred by the tool room is controllable by the tool room manager but the share of the tool room expense which is apportioned to the

machine shop cannot be controlled by the machine shop manager. It is only in relation to a particular individual that a cost may be specified as controllable or not.

Note: 1. A supervisor may be unable to control the amount of managerial remuneration allocated to his department but for the top management this would be a controllable cost.

2. Depreciation would be a non-controllable cost in the short-term but controllable in the long terms.

Question 7

State the unit of cost for the following industries

- (a) Transport
- (b) Power
- (c) Hotel
- (d) Hospital

(Nov 2008, 2 Marks)

Answer

Industry		Unit of Cost
(a) Transport	–	Per passenger k.m. or per tonne. k.m.
(b) Power	–	Per Kilo – watt (kw) hour
(c) Hotel	–	Per room day / or per meal
(d) Hospital	–	Per patient – day

Question 8

Distinguish between product cost and period cost.

(May 2009, 2 Marks)

Answer Product Cost vis-à-vis Period cost

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

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

Question 9

Discuss accounting treatment of spoilage and defectives in cost accounting.

(May 2009, 3 Marks)

Answer**Accounting of Spoilage and Defectives:**

Spoilage is the term used for materials which are badly damaged in manufacturing operations, and it cannot be rectified economically and hence taken out of the process to be disposed of in some manner without further processing.

Normal spoilage costs are included in costs either charging it to production order or by charging it to production overheads so that it is spread over all products. Any value realized from spoilage is credited to production order or production overhead account as the case may be.

Cost of abnormal spoilage is charged to costing P/L A/c.

Defectives: Signifies those units or portions of production which can be rectified and turned out as good units by application of additional material, labour or other service. Defectives are charged to general overheads or department overheads depending upon their traceability. They are charged to good production, when second hand have a normal value and defective rectified into 'second' or 'first' are normal.

Costing P/L A/c – in case of abnormal nature

Question 10

Define the following:

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

(November 2009, 2 Marks)

Answer

- (a) **Imputed Cost:** These costs are notional costs which do not involve any cash outlay. Interest on capital, the payment for which is not actually made, is an example of Imputed Cost. These costs are similar to opportunity costs.
- (b) **Capitalised Cost:** These are costs which are initially recorded as assets and subsequently treated as expenses.