Write short notes on the following: 2003, 2007- June |8|

(b) Direct expense

Answer:

CIMA has defined direct expenses as" direct expenses are those expenses which connote be identified with and allocated to cost centers or units." Thus, they are directly identifiable and chargeable to a product process, job, contracts and service. They form major part of prime cost. Example: Cost of patent rights, hire charges of special plant, experimental cost, Royalty paid in mining, costs of special layouts and designs, etc.

Write shot notes on the following: 2004-Dec |8|

(b) Pre-requisites for computerization of accounts

Answer:

Today Computerization of accounts is a necessity as it has many advantages.

Advantages:

1. It can store large volume of data.
2. It can do arithmetic and logic operation more quickly.
3. It can store past records for infinite life.
4. It always gives accurate results without human intervention.
   (Garbage in garbage out)

But for proper working of computer it is necessary to feed correct and complete data in computers. If the data is incorrect or incomplete the result will be misleading.

Pre-requisite:

- Proper coding system for various departments, products, raw materials, etc.
- Basic documents like GRN, MTN, time card, job card, MRN, etc
- Reconciliation of cost and financial accounts.

Write short on the following: 2006-Dec|8|

(d) Installation of a cost system

Answer: Installation of a cost system:

Steps:

1. Investigation regarding technical aspects of the business
2. Scope of authority to be attained
3. Methods of purchase, storage & issue to be ascertained
4. Method of remuneration to be ascertained
5. Introduction of factory layout
6. Effective cost control & cost reduction system is brought into effect
7. System is introduced gradually

Write short notes know the following: **2009- June |8|**

Profit Centre

Answer:

Profit Centre: Profit centre is a responsibility centre for which both costs and revenues are accumulated.

As defined by CIMA, London profit centre “a part of business accountable for costs and revenues” It may be called a Business Unit or Strategic Business Unit. The object of profit centre is to maximize the centre’s profit i.e. difference between revenues and expenses.

Material Control

Write short notes on the following: **2003-june |8|**

(a) Material Transfer Note

Answer:

Material transfer note: The surplus material arising on a job may sometimes be unsuitable for transfer to stores. When materials are transferred from one dept. to another within same organization a MTN is raised. It is made in duplicate and is send to following depts.

- Cost dept.
- Dept. making transfer

No entry is made in stores records.

Material Transfer note			
From job No………………… No………………………. To job No……………………. Date …………………….			
Item No.	Particulars	Rate Rs.	Amount Rs.
Transferred By Received By……………………………. Job Ledger Clerk……………………….			

Write short on the following: 2005-Dec |8|

(a) ABC analysis

Answer:

- The item of inventory are classified according to value of usage
- The higher value items have lower safety stocks because the cost of production is very high in respect of higher value items.

A class items High consumption Value	B class items moderate consumption value	C class items Low consumption value
1. Very strict control	Moderate control	Lose control
2. No safety stocks	Low safety follow-up	High safety stocks
3. Maximum follow-up & expending	Periodic follow-up	Follow-up & exception cases
4. Rigorous value analysis	Moderate value analysis	Minimum value analysis
5. Must be handled by senior officers	Can be handled by middle management	Can be fully delegated

Write short notes on the following: 2006-June |8|

(a) Economic Oder Quantity (EOQ)

Answer:

- Quantity for which order is placed when stock reaches re-order level.
- The optimum level will be that quantity which minimizes the total cost associated with inventory.
- The optimum size of the order for an item is known as Economic order Quantity (EOQ)and is calculated so that total inventory costs are at a minimum for that particular stock item.

  EOQ=

  Where, EOQ= Economic Order Quantity
  A= Annual Consumption
  B= Buying cost per order
  C= Cost per unit
  S= storage and other inventory Carrying Cost

Write short notes on the following: 2008-June |8|

(b) Obsolescence

Answer:

Obsolescence: It means sudden loss in value of the asset as it needs to be discarded before the expiry of its normal life due to one or more of the following reasons.

i. Change in the technology
ii. Discontinuance of the product line
iii. Introduction of a new machine
iv. Change in production specification

Obsolescence is not treated as overhead expenses and is charged to Profit & Loss Account directly because obsolescence loss is an abnormal loss.

Write short notes on the following: 2009-Dec |8|

(a) perpetual Inventory System:

Answer:

Perpetual Inventory System:
Perpetual Inventory system mean continuous stock taking. Under this system, a continuous record of receipt and issue of materials is maintained by the stores department and the information about the stock of materials is always available. Entries in the Bin Card and the Stores Ledge are made ager every receipt and issue and the balance is reconciled in regular basis with the physical stock.
The main advantage of this system is that it avoids disruptions in the prediction caused by periodic stock taking.
Similarly this system helps in having a detailed and more reliable check in the stocks. The Stock records are more reliable and stock discrepancies are investigated and appropriate action is taken immediately.

Write short notes on the following: 2010-Dec |8|

(a) Treatment of scrap in cost accounts;

(d)VED Analysis;

Distinguish between Scrap. Spoilage and Defectives in engineering in an engineering industry. **2009-Dec |2|**

Answer:

Scrap is a residual material resulting from a manufacturing process. It has a recovery value and is measurable. Its treatment in cost account will depend on the total value of scrap.
For the control purposes, scrap could be divided into: legitimate scrap, administrative scrap and defective scrap.
It can be controlled through selection of right type of material and manpower, determination of acceptable limits of scrap and reporting the source or waste.

Spoilage is the production that fails to meet quality or dimensional requirements and so much damaged in manufacturing operations that they are not capable of rectification and hence has to be withdrawn and sold off without further processing. Rectification can be but its costs may be uneconomic.

Defective: are a part of production units, which do not conform to the standards of quality but can be rectified with additional application of material, labour and / or processing and made it into saleable conditions either as firsts or seconds, depending upon the characteristics of the product.
The accounting treatment of defectives is same as those of spoilage.
Thus the difference between scrap, spoilage and defective is very subtle.
In some engineering units, even they are all clubbed under one head

Explain the term Economic Ordering Quantity (EOQ). What are the basic assumptions of EOQ model? 2001-Dec |2|

Answer:

Economic Order Quantity

Re –order quantity or Economic order quantity

- Quantity for which order is placed when stock reaches re-order level.
- The optimum level will be that quantity which minimizes the total cost associated with inventory.
- The optimum size of the order for an item is known as Economic Order Quantity (EOQ) and is calculated so that total inventory costs are at a minimum for that particular stock item.
- Ordering cost includes preparation of purchase order, cost of receiving goods, transport cost, etc.
- Carrying cost includes storages cost, insurance & security cost, handling cost, etc.

EOQ=

Where, EOQ=Economic Order Quantity
A= Annual Consumption
B= Buying cost per order
C= Cost per unit
S= Storage and other inventory Carrying Cost in percentage

Basic Assumption of EOQ Model:-

The calculation of EOQ presumes that:-

- There is a known stock-holding cost
- There is a known constant ordering cost.
- The rates of demand are known and constant
- Constant price per unit is known
- Replenishment is made instantaneously,

What are the implications of Economic Order Quantity in proper inventory management? 2007-Dec |4|

Answer:

Inventory control is concerned with minimizing the total cost of inventory. The three main factors in inventory control decision making process are:

- The cost of holding the stock (e.g., bases on the interest rate).
- The cost of placing an order (e.g., for row material stocks) or the set-up cost of production.
- The cost of shortage, i.e., what is lost of the stock is insufficient to meet all demand.

The inventory control manager must understand inventory management principles to remain valuable.

First, he must know how much inventory to have on and to ensure continuity of supply in the event of an uncharacteristic increase in either demand and / or lead time. This quantity of inventory is called the safety stock.

Second, he must know when to reorder materials for inventory. Generally, this point time is determined when the quantity of materials in stock decreases to a certain level, called the **reorder point.**

Third, he must know how much to order.

The solution of all above problems is Economic Order Quantity Model (EOQ)

The EOQ recognizes the tug of war between acquisition costs and inventory carrying costs: when you order bigger quantities less frequently, your affricate acquisition costs are low but your inventory costs are high due to higher inventory levels. Conversely, when you order smaller quantities more often, your inventory expending more resources on ordering. The EOQ is the order quantity that minimizes the sum of these two costs.

Write a note on ABC system of Stores Control. **2010-June |2|**

Answer:

ABC concept of classifying goods in an inventory is very commonly used for exercising effective inventory control. Under this technique, the items in inventory are classified according to the value of usage. The higher value items have lower safety stocks, because the cost of predictions is very high in respect of higher value items. The lower value items carry higher safety stocks.

The annual consumption analyses of any organization would indicate that a handful of top high Value items, less than 10% of total number, will account for a substantial portion of about 75% of the total consumption value and such vital few items are called “A” items. The items falling under this category require careful attention of bottom items- account for only 10% of the consumption value and are referred to as “C “category items. The items that lie between the top and the bottom are referred to as “B “Category items. This is explained in the table give below:

Category	%of items	% of value
A	10	70
B	20	20
C	70	10

Labour Accounting

Write short notes on the following: 2002- Dec, 2004- June, 2010-Dec |8|

(b) Labour Turnover

Answer:

Labour turnover (LT): In every organization change of labour takes place. There are many reason of change of labour force e. g. to leave for better opportunity, new appointments, sorting of (excess) labour by organization due to change of technology or recession, etc., this trend of change of labour force from one organization to another organization is called labour turnover. Labour turn over may be calculated with the following methods.

Method of labour turnover

Replacement method	No. of employees replaced -------------------------------------*100 Average no. of employees no roll
Separation method	No. of employees separate during the year --*100 Average no. of employees no roll during the period
Flux method	No. of employees separated + No. of employees replaced --*100 Average no. of employees on roll during the period

Write short notes on the following: 2005-June, 2009-Dec |8|

(c) Job evaluation

(e) Incentive to indirect workers

Answer:

Job Evaluation: A technique used for determination of net worth of one job with respect to another job. Thus, it is a process of analysis and evaluation of each job within an organization so that an appropriate wage and salary structure is ascertained.

Objectives:

- ❖ Helps employer in understanding worth of one job in comparison to another.
- ❖ Promotes reliability and equity in designing wage structure.
- ❖ Helps personnel department in selection and training of employees.
- ❖ It facilitates cost control.
- ❖ Use of job evaluation avoids anomalies, confusing and unrest, unrest, which are rampant in industrial sector

Method job Evaluation: – It can be classified into four groups as following:

a. **Ranking method:-** Jobs are ranked according to their requirements and responsibilities
b. **Grading method: -** Jobs are rated according in order of their importance.
c. **Point ration method: -** Jobs are rated according to Responsibility, working conditions, Skill, Training & Experience, complexity of duty, physical labour and Education.
d. **Factor comparison:** All jobs are ranked against the key job on the basis of monetary values assigned to various factors

e. **Indirect workers:** Those workers which are not directly associated with the conversion of raw material to indirect workers lead to satisfaction among indirect laborers and increase their efficiency.

It is essential to provide incentive to indirect labors because of following factors:

- They maintain facilities for production which enhances better performance of direct workers.
- Unfair to deprive incentive from indirect workers.
- Of incentives are not provided to indirect workers it will lead to dissatisfaction among them.

Indirect labour can be classified into two groups for the purpose of incentives-

(1) Those which are working witch direct workers such as, supervisors, inspectors, checking staff, etc.

(2) Those which are providing general service such as, maintenance workers, clerks, peon, keeper, canteen dispensary staff etc.

Incentives: *For the first (1) group incentives is paid as a Percentage of bonus payable to direct workers or on considering output of departments, etc.*

Write Short Notes on the following: 2006-June |8|

(e) Accounting of idle time

Answer:

Idle Time: Idle time is time lost during hours of the organization for any reason e.g. machine break down, fatigue, tea break, lunch etc. Idle time is classified into two types for the purpose of accounting treatment.

(1) **Normal idle time:** normal idle time represents inevitable loss of labour hours arising out of given blow reasons-

- Time lost between tea or lunch break, factory gate and concerned department etc.,
- Time lost in machine or job setting up time etc.

(2) **Abnormal idle time:** Time lost due to external causes, which are uncontrollable in the hand of management e.g.-

- Excessive break down.
- Power failure
- Shortage of material
- Strikes and lock out etc.

Treatment of idle time: Normal Idle Time is charged to factory overheads and absorbed into cost of production adopting absorption an absorption rate. The normal idle time taken for machine setting, change over or tool setting, can be added to the production cost as direct wages by inflating the hourly wage rate.

Abnormal Idle Time is charged to Costing Profit and Loss account, Payment of abnormal idle time cannot be charged to production cost under any circumstances.

Write short notes: 2007-Dec |8|

(d)Learning Curve **Answer:**

The theory of learning curve was introduced by T.P. Wright of U.S.A, when he was manufacturing airframes. As we know that the definition of learning is to acquire knowledge or ability. Whenever a new product is started, workers may not be at their full efficiency. But as their experience increases, time taken to produce the product decreases. This tendency of better performance is known as Learning Curve.

If similar operation talks place, the cost associated with it shows constant decrease. The Learning Curve is a Geometrical Progression. Cost will increase at a fixed rate and the increase in cost will be at successively smaller rate.

Average labour cost of first 2 units
Learning curve ration= ------------------------------
Average labour cost of first N units

If the Learning curve ratio is 80%, it means that the average cost will be 80% of previous cost whenever production doubles.

Learning Curve Equation:

Y x = KXs

Where,

X is the cumulative number of units.

Y is the cumulative average unit cost of those units X

K is the average cost of the first unit and

S is improvement exponent or the learning coefficient or index of learning.

It can be calculated as given under-

Logarithm of learning ratio
S = -------------------------
Logarithm of 2

Distinguish between the following: 2001-Dec |7|

(d) Idle time and Idle capacity

(e) Work measurement and Motion study

Answer:

(a) Idle Time: Idle is time list during working hours of the organization for any for reason e.g. machine break down, fatigue, tea break lunch etc. Idle time is classified into two types:

(1) Normal idle time: Normal idle time represents inevitable loss of labour hours arising out of given blow reason
- Time lost between tea or lunch break, factory gate and concerned department etc.,
- Time lost in machine or job setting up time etc.

(2) Abnormal idle time : Time lost due to external causes, which are uncontrollable in the hand of management e.g.,
- Excessive break down.
- Power failure
- Shortage of material
- Strikes and lock out etc.

Idle Capacity: Idle capacity' is difference between installed capacity and the actual capacity utilization when actual capacity utilization when actual capacity utilization is less than installed capacity.

'Installed Capacity' is the maximum productive capacity according to the manufacturers 'specification of machine/ equipment.

'Actual Capacity' is the volume of production achieved in relation to installed capacity.

Idle capacity represents unused potential by any reason

(b) Work Measurement and Motion study.

Work Measurement Study	Motion Study
1. It is a technique which is used to	1. It is a technique which involves close

measure the time maybe taken by a workman of reasonable skills and ability to perform various elements of the tasks in a job. 2. Its purpose is to determine time normally required to perform certain job and a fair day's work for the workman. 3. It is conducted with the help of stopwatch.	observation of the movements of the body and limbs required to perform a job. 2. Its purpose is to detect and eliminate wasteful motions and determine the best way of doing a job. 3. It is conducted with the help of a movie camera connected with micro chronometer. (i.e., a kind of clock).

Distinguish between 2008-June |3|

'Incentive to indirect workers' and 'Indirect incentives to direct workers'.

Answer:

Incentive schemes for workers are made to motivate workers for increasing output land quality production, saving time, reducing labour turnover and building sense of belonging. Obviously, these schemes focus on performance of the workers.

While performance of direct workers is easy to measure, that of auxiliary or indirect staff is not. Accordingly, incentive schemes differ between direct workers, and indirect workers.

Incentive schemes for indirect workers include:

1) Bonus to foremen and supervisors based on output, saving in time, quality improvement, reduction in scrap, etc.
2) Bonus to repairs and maintenance staff for routine and repetitive jobs, based on reduction in number of complaints or breakdown.
3) Bonus to stores staff, based on the value of materials handled or the number of requisition per period.

Indirect incentives to direct workers include:

1) Monetary schemes like profit sharing, co-partnership or co ownership.
2) Non, monetary schemes like education and training facilities, health and safety devices, facilities for sports and housing, subsidized canteen and purchase coupon, pension, creation of sick and benevolent funds, arrangement of four programs, etc.

What do you understand by computerized payroll? Can it improve labour productivity? 2001-Dec |3|

Answer:

Computerized pay roll: It is not possible to maintain all records of employees of manual way like computation of payroll deduction, disbursement of payments, payroll record of each employee etc. In large organization payroll accounting has become very difficult to maintain all records of each employee. Now a day they are using computer to keep up to date details of each employee. In large as well as small organizations have computerized payroll, a database is crested with all permanent details of worker, and thereafter, information is continuously fed in computer starting form timekeeping and time- booking till preparation and accounting of payroll.

Computerized payroll has no relation with labour productivity because it is a data base recording system so it can not improve labour productivity.

Enumerate the principles of a good incentive scheme which should be given due consideration prior to its implementation. 2002-June |2|

Answer:

The objective of wage incentives is to improve productivity and increase production so as to bring down the unit cost of production. The general principles of a good incentives scheme to be given to be given due consideration prior to its implementation are enumerated below:

The reward for a job should be linked with the effort involved in the job and the scheme should be just and fair to both employees and employers.

The standard required of the workers should be carefully set.

The scheme should be carefully define and capable of being understood by the employees easily. The standards set should be such that they can be achieved even by average employees. While standards are being set, the workers concerned should be consulted.

The scheme should be reasonable and stable and not is change or modified too often without consulting the employees.

The scheme should take care that the employees are not penalized for reason beyond their control.

The scheme should provide for inspection of output so that only good pieces quality for incentives.

The management should ensure that workers are not sitting idle for want of tools or materials that is the management has to see that there is, as far as practicable, no interruption of production.

It should be capable of improving the morale of the employees.

There should be guaranteed wage on time bases which generally works as a good psychological boost to incentive scheme.

The operation of the scheme should not entail heavy clerical costs.

What do you mean by "labour turnover"? What are the costs associated with it? How would you treat these costs in cost accounting? 2002-June, 2006-June |2|

Answer:

(a) **Labour Turnover:** In every organization change of labour takes pace. There are many reason of change of labour force e.g. to leave for better opportunity, new appointments, sorting of (excess) labour by organization due to change of technology or recession, etc., this trend of change of labour force from one organization to another organization is called labour turnover may be calculated with the following methods.

Replace me nt method	No. of employees replaced --*100 Average no of employees on roll
Separation method	No. of employees on roll during the year --*100 Average on. Of employees on roll during the period
Flux method	No. of employees separated + No. of employees replaced --*100 Average no. of employees on roll during the period

Cost of labour turnover- Cost of labour turnover is of two types:

(1) P**reventive Costs: -** Those expenses which are incurred to keep the labour force contended so that excessive labour turnover may be prevented. These costs include the following heads:

a. Personnel administration.
b. Cost of medical devices (Medical facilities).
c. Employee Development programmed.
d. Pension Schemes
e. Attractive Remuneration.
f. Cost of welfare facilities.

(2) **Replacement Costs:** - Those expenses which are incurred due to high labour turnover. Main cause of these expenses is recruitment of inexperience labour force replacing the existing trained and experience labour force as well as cost includes the following –
a. Cost of recruitment, training, and induction new workers.
b. Cost of excessive defective and scrap.
c. Cost of addition supervision required for new labors.
d. Cost of abnormal break ages of tools and machines.
e. Loss of production due to the time leg between separation and in obtaining new labour.

Treatment of labour turnover: - It is generally treated as an overhead expense.

What is idle time? Explain the causes for idle time. 2008-Dec |2|

Answer:

Idle Time: Idle Time is that time for which payment made but no direct production /benefit is obtained. The question of Idle Time arises only when the payment is made on time basis. It is calculated as follows:
Idle Time: Time Recorded as per Time card- Time Booked on Job as per job card.
Idle time may arise due to any one or more of the following causes.

1. **Production causes:**
   a. Machine Break Down
   b. Power failures
   c. Waiting for work
   d. Waiting for Tools
   e. Waiting for Materials
   f. Waiting for Instructions
2. **Administration causes** (which arise due to administrative decisions)
   a. Decision not to retrench regular trained workers in the period of depression
   b. Decision not to work up to full capacity of plant.
3. **Economic causes** (which arise due to economic conditions & decisions) Closure of seasonal industry during offseason.

Discuss of seasonal industry during offseason. 2009-June |2|

Answer:

Essential Characteristics of a Good Incentive System

A good incentive system should have the following characteristics:

1. It should be simple be to understand and easy to operate.
2. It should be economical to introduce and operate.
3. It should be fair to both employees and employer and employer in the sense that
   a) Standards of performance should be scientifically set and should be within the reasonable reach of an average worker.

b) In case work is of repetitive nature, benefit of time saved should be shared by the worker.
c) In case work is of non-repetitive nature, the Workers, Supervisor and employer should share the benefit of time saved.

4. It should guarantee hourly wages to every worker irrespective of level of his efficiency.
5. It should provide adequate incentive to efficient workers.
6. It should place no penalize the workers for reason beyond their control such as machine break down, power failure etc.
7. It should place no limit on the earnings of workers.
8. It should provide for prompt payment of incentives at short intervals of time.
9. It should provide a satisfactory system of supervision and production control.
10. It should have approval of workers and trade union.
11. It should be capable of improving the morale of workers.
12. It should be capable of reduction absenteeism and labour turnover.
13. It should facilitate the introduction of budgetary control and standard costing.
14. It should have managerial support in so far as production material, quality control, maintenance, and non-monetary incentives are concerned.
15. It should be relatively permanent and should not be allowed to change very frequently.
16. It should discourage the worker to increase spoiled work.
17. It should be flexible enough so as to introduce the necessary changes.

Briefly state the various causes of Labour Turnover. 2009-Dec |3|

Answer:

Broadly, the causes of Labour turnover can be dividing into two categories: avoidable and unavoidable.

Avoidable Causes: These causes include the following:

- Dissatisfaction with the job.
- Dissatisfaction with the working hours.
- Dissatisfaction with the working environment
- Relationship with colleagues.
- Dissatisfaction with monetary non monetary incentives.
- Relationship with superiors.
- Other reasons like lack of facilities like absence of group insurance, good canteens, poor housing amenities, bad management etc.

Unavoidable Causes: These causes include the following:

- Personnel betterment
- Retirement
- Death
- IIlness or accident
- Termination
- Marriage
- Pregnancy
- Other reasons like family commitments, attitude, organizational culture, etc.,

What are the avoidable and unavoidable causes of Labour Turn-over? 2010-Dec |4|

Overhead

Write short notes on the following: **2002-Dec |8|**

(a) **Administration overheads**

Answer:

Administrative Overhead- It is cost of directing, formulation of policy, controlling the operations of an enterprise and management of affairs. It is not related directly to production, selling & distribution function. For example salary, legal fee, cost of printing & stationery, rent rants & taxes of building, telephone expense, etc.

(1) Accounting of administration overheads:

- Apportioning Administration overheads between production and sales Departments.
- Administration overheads are charged to Profit and Loss A/c.
- Administration overheads are treated as a special addition to cost of production or sales.

(2) Control of Administration overheads: there are three methods for control of administration overhead as follows-

Write short notes on the following: **2006-Dec |8|**

(b) **Method for disposal of under/over-absorbed overheads**

Answer:

Method of disposing under/over absorbed overheads: The following method are often used for disposition of under/ over absorbed overhead-

Write off to profit and loss account- Under this method, amount of under or over absorbed overhead is transferred to the costing profit and loss account. This method is application when the amount is not significant in relation to the total overheads.

Carry forward to the next Accounting Period- Under this method , amount of under/over absorbed overhead is carried over to the next occurred due to the seasonal fluctuation and business cycle which extend over more than one years.

Use of Supplementary Rates- When the amount of under or over absorbed is significant this method is used. Under this method, accounts are brought to an actual cost basis so far as overhead is concerned. The supplementary is calculated to adjust the amount of under or over absorbed in the cost of work in progress, finished stock and cost sales.

Difference Between **2001-Dec |7|**

(a) **Depreciation and Obsolescence**

(e)Cost allocation and Cost appropriation

Answer:

(a) Distinguish between Depreciation and Obsolescence:-

- Depreciation is the decrease in the value a fixed asset due to use or wear and tear and / or laps of time. Whereas Obsolescence is the loss in value of an asset due to technology, change in the product or method of manufacturing.
- It is recovered by adopting suitable is considered as loss of asset value.

- It absorbed into cost of product on some equitable basis. Whereas Obsolescence cannot be absorbed into cost of product.
- Depreciation is provided for the purpose of replacement of the asset at the end at the end of its useful life on periodic basis. Whereas Obsolescence is not provided of the asset because it may occur once in the life.
- Depreciation charging rate are given and charged as per provision. Where as a company may make separate provision for obsolescence loss or written off as loss in full or on deferred basis.

(e)**Cost allocation and Cost appropriation:-**

- Allocation deals with whole items of cost, apportionment deals with proportion items of cost.
- Allocation is direct process but apportionment may be made only indirectly and for which suitable bases are to be selected.
- In allocation overheads are allocated but in apportionment allocation overheads are not allocated.

What is predetermined overhead absorption rate? Enumerate its advantages. 2001-June |4|

Answer:

Predetermined overheads absorption rate: Predetermined overheads rate refers to the rate determined before the commencement of the period during which the same would be used. The rate is calculated with reference to the amount of overhead provided in the budget and predetermined volume of production in terms of vase which will be used as the denominator in calculating the overheads the absorption rate.

$$\text{Predetermined overhead rate} = \frac{\text{Predetermined overheads costs}}{\text{Predetermined labour hours}}$$

Advantages of predetermined overheads are:

- Production cost can be worked out promptly.
- Product costs can be estimated correctly even before production activity commences and this help the management in deciding the prices to be quoted to prospective customers.
- Product costs are not unnecessarily affected by seasonal fluctuations in costs and activity level.
- Use of predetermined rate will provide data available for cost control as well as decision making.
- By using normal capacity as base while determining overheads rate, losses due to idle capacity is highlighted and real cost of production is reflected.

(a) What are over and under0-and absorption is less than amount for how are such under or over absorbed overhead treated in cost accounts? 2005-June |2|

Answer:

Under absorption- Amount of overhead absorbed is less than amount of overheads actually incurred?

Overhead absorption- Amount of overhead absorbed is more than amount of overheads actually incurred.

Under and over absorbed overheads treatment in cost accounting:

(a) Write off to profit and loss account -under or over absorbed is transferred to the costing profit under or over absorbed is transferred to the costing profit and loss account. This method is application when the amount is not significant in relation to the total overheads.

(b) Carry forward to the next Accounting Period- under this method, amount of under/ over absorbed overhead is carried over to the next accounting period as deferred charged on the assumption that it has occurred due to the seasonal fluctuating and business cycle which extend over more than one years.

(c) Use of supplementary rates- when the amount of under or over absorbed is significant this method is used. Under this method, accounts are brought to an actual cost basic so far as overhead is concerned. The supplementary is calculated to adjust the amount of under or over absorbed overheads in the cost of work in progress, finished stock and cost sales.

COST ACCOUONTING STANDARD 2004-June |3|

(b) Name the cost accounting standard which is to be used while calculating cost of production for valuation for captive consumption under Central Excise. Is the standard mandatory? As per that standard, which of the following costs are includible /not includible in 'cost of production'?-

(i) Research and Development cost,

(ii) Interest on capital borrowed,

(iii) Lay-off wages to workmen,

(iv) Packing cost.

Answer:

Cost accounting standard 4 is used for calculating cost of production for valuation for captive consumption under central Excise.

Cost Accounting standard 4 is Mandatory.

(i) Research and development is included in 'cost of production ".

(ii) Interest on capital borrowed is not included in 'cost of production".

(iii) Lay-off wages to workers is not included in 'cost of production.

(iv) Packing cost is included in' cost of prediction'.

JOB BATCH AND CONTRACT

Write short notes on the following: 2003-Jue |8|

(d)Profit on incomplete contracts

Answer:

Profit for incomplete contracts: those contracts which cannot be completed within the same financial year or which take more than one year are called incomplete contract. In these contracts a problem arises profit on such contracts should be considered on the completion of the contract or at each financial year on the partly completed work. Contract or at the end of each financial year on the partly completed work. If we compute profit at the end of completion of work, profit will be high in the year of completion of the contract, where in other years working on contract, profit will be nil. Therefore when contact takes more than one year, it become necessary to take in to account the profit earned or loss incurred on the work performed during the year. There are no hard and fast rules for computing the figures of profit to be taken to the profit and loss account in case of in completed contract. However the following rules may be followed in this account-

(a) If work certified is less than 1/4th of the contract, on profit is calculated.
(b) If work certified more then 1/43rd of the profit is transferred into profit and loss account. The balance is treated is treated as reserve.
(c) If work certified more than half but less than 9/10 (still not in final stages) of the contract price, then 2/3rd of the profit is transferred into profit and loss account is computed as follows:
Profit transferred to P&L Account= 2/3 * notional profit* cash received/work certified
The balance is treated as reserve.
(d) When contract is almost complete, an estimated profit should be calculated on the whole contract. The portion of this estimate profit to be profit & account.

Write short notes on the following: 2004-Dec|8|

(d)Batch costing;

(e) Cost-plus-contract

Answer:

It is an extension of job costing. Under this method of costing products are standardized and process are repetitive. The most important criterion of batch is to determine the" economic or optimum batch size or quantity". All costs are collected by batch order number and total costs are divided by total number of products produced in a batch to arrive at average unit cost of production.

It is used in toy making industry, radio and T.V. parts producing industry, watch making industry, etc.

Advantages:

It helps in the reduction of cost as units/goods are purchased in batches.

Economic batch quantity =

Where,

A=Annual demand

S=Set up cost per batch

C=Cost of storing one unit p.a.

(e) Cost price is ascertained after adding up a percentage of profit to total cost of work. CIMA defines Cost plus contracts as "one where the contractor is reimbursed allowable or otherwise defined cost plus a percentage of these costs or fixe fee towards profit." In other words contractee undertakes to reimburse the actual cost plus a stipulated profit. The cost to be assed to cost may be either a fixed amount or a specified percentage of cost. Cost plus contract generally are usually entered into during emergency such as war when there is no time to go through proper channel of contract. This method is also used when to is not possible to compute the cost of work in advance with reasonable degree to compute when there is unstable condition of market prices (during fluctuation of market prices)labour rate etc.

Advantages:

(i) The contractor is sure of a fixed profit .
(ii) There is no risk of loss on such contract.
(iii) As the customer, contractor con not exploit him.
(iv) Useful when work to be performed is not fixed.

Disadvantages:

(i) In such contracts, contractee has no clear idea of his liability until after completion of contract.

(ii) The contractor is deprived of the advantages which would have accrued due to favorable market condition.

(iii) Contractor is tempted to increase the cost because greater the cost, greater will be his share of profit.

Contact works may be at different stages of completion at the end of an accounting period. Explain clearly how you will compute profits in respect of such incomplete contract works.2002-Dec |4|

Answers:

In these contracts a problem arises profit on such contracts should be considered on the completion of the contract or at the end of each financial year on the partly completed work. If we compute profit at the end of completion of work, profit will be high in the year of completion of the contract, where in other years working on contract, profit will be nil. Therefore when contact takes more than one year, it becomes necessary to take in to account the profit earned or loss incurred on the work performed during the year. There are on hard and fast rules for computing the figures of profit to be taken to the profit to the profit and loss account in case of incomplete of profit to be followed to compute profit in respect of such incomplete contract works

(i) If work certified is less than $1/4^{th}$ of the contract, no profit is should be taken to Profit & loss account.

(ii) Of work certified more than $1/4^{th}$ but less than half of the contract price, then generally $1/3^{rd}$ of the profit is transferred into profit and loss account. Profit is transferred into profit and loss account. Profit is calculated applying the following formula-Profit transferred to Profit & Loss A/c

$$= 1/3 * \text{national profit} * \frac{\text{cash received}}{\text{Work certified}}$$

The balance will be treated as reserve.

(iii) Of work certified more than half but less than 90% (still not in final stages) of the contract price, then $2/3^{rd}$ of the profit is transferred into profit and loss account is computed as follows:

Profit transferred to Profit & Loss A/c =

$$2/3 * \text{national profit} * \frac{\text{Cash received}}{\text{Work certified}}$$

The balance will be treated as reserve.

(iv) When contract is almost complete, an estimated profit should be calculated on the whole contracted. The portion of this estimated profit to be transferred to profit & Loss of this estimated profit to be transferred to profit & loss account. Profit is calculated applying the following formula-

Profit transferred to Profit & Loss A/c =

$$\text{Estimate profit} \times \frac{\text{Work certified}}{\text{Contract price}} \times \frac{\text{cash received}}{\text{work certified}}$$

The balance will be treated as reserve.

When a contract is large enough to extend over a number of years, what proportion of should be taken to the profit and Loss Account at the end of the year under each of the following cases? 2004-Dec|4|

- ***(i)*** ***When the work has just a\started and the cost of the work done is only account 10% of the contract price.***
- ***(ii)*** ***When has been completed.***
- ***(iii)*** ***When the work is nearing completion and about 95% has been completed.***

Answer:

(i) When the work has just started and the cost of work done is about 10% of the contract to the contract price.- No profit should be taken to Profit & Loss A/c

(ii) When the work has reasonably advanced and about 60% of the work has been completed. The following rule will be applicable-

- if work certified more than half but less than 90% (still not in final stages) of the contract price, then 2/3rd of the profit is transferred into and loss account is computed as follows:

profit transferred will be treated as reserve.

(iii) When the work is nearing completion and acout95% has been completed. The following rule will be applicable:

- When contract is almost, an estimated profit should be calculated on the whole contract. The portion of this estimated profit to be transferred to profit & loss account. Profit is calculated applying any of following formulae-
- Profit transferred to Profit & Loss A/c=

$$\text{Estimated profit} * \frac{\text{Work certified}}{\text{Contract price}} * \frac{\text{cash received}}{\text{work certified}}$$

$$\text{Estimated profit} * \frac{\text{work certified}}{\text{Contract price}}$$

$$\text{Estimated profit} * \frac{\text{cost of work to date}}{\text{Estimated total cost}}$$

$$\text{Estimated profit} * \frac{\text{cost of work to dated}}{\text{Estimated total cost}} * \frac{\text{cash received}}{\text{work certified}}$$

The balance will be treated as reserve.

Briefly elucidate the objective of 'Escalation Clause' in Contract Costing. 2008-June |2|

Answer:

A cost escalation cause is usually provided in large contracts of long duration to compensate the contactor for likely changes in price or utilization of material and labor. Under inflationary condition, this clause is assumes greater importance. Extra payment under escalation clauses is made only after scrutiny of actual expenses that in case prices will have gone the escalation clause may also stipulate that in case prices will have gone beyond an agreed laved, the employer will be entitled to a rebated. It is a sub- clause styles as 'de- escalating'.

What do you understand by Batch Costing? This type of costing is used in producing is used u producing what type of goods. 2010-Dec |7|

PROCESS COSTING, JOINT PRODUCTS AND BY- PRODUCTS

Write short notes on the following: 2002-June |8|

(c) Equivalent production

Answer:

Equivalent production is a technique of presenting production of process in terms of completed units. This concepts is used for assigning cost to process to both finished units and unfinished units. This technique is used in process industries where production takes place on a continuous basis; there is a problem of valuation of work in process at the end of accounting year. These units cannot be treated as completed units and cost incurred is only apportioned on completed units. Thus, these units are converted into equivalent units. Equivalent unit as defined by CIMA is "notional whole units representing completed work used to apportion costs between work I process and completed output"
Equivalent completed units= (No. of units in work in process * Degree of completion in %)
For Eg: if closing stock is 5,000 units 100% completed in respect of material and 50% in respect of labour & overheads.

Equivalent units of production

Output	**Units**	**Material**		**Labour**		**Overheads**	
		%	Units	**%**	units	%	units
Closing stock	5,000	100	5,000	50	2,500	0	2,500

Write short notes on the following: 2009-June |8|, 2010-Dec |8|

(e)Concept of split-off point and joint cost.

Answer:

Split off point: This is a point up to which input factors are commonly used for production of multiple production, which can be either joint products or by products. After this point joint products and by products gains individual identity.
Joint Costs: Join are those costs which are common to the processing of joint products up to the point of separation. Joint costs represent pre-separation cost of joint products or by products. After the point of serration, the products can be separately identified and post separation costs can be readily attributed to individual products.

Briefly distinguish between the following: 2006-Dec|2|

(d) **joint products and By-products**

Answer: **Joint products and By –products**

Basis	Joint products	By-products
1. Meaning	When two or more products of equal or products of equal or unequal importance are produced either simultaneously or in the course of operation are joint products.	Those products which are recovered from material discarded in a main process or form the production of some major products.
2. production	Produced from same input and process.	Produced from wastage scrape or discarded material.
3. Incidental on total cost	They are not produced incidentally	They are produced incidentally.
4. Impact on total cost	Significant impact on total cost.	Little impact on total cost.
5. Economic importance	Equal economic importance	Lesser economic importance.

Explain what is meant by' Reverse Cost Method' in by-product cost accounting. 2002-June |7|

Answer:

Reserves Cost Method in By Product cost accounting: whereby products are of considerable sale value. The profit gained from the by-product should not be credited to Process Account. Under this method, selling price or by –product up to the split-off point will be debited to a byproduct account and credited to the main product account.
Under this method, the sale value of by () is first reduced by-

- Estimated profit margin.
- Selling and distribution expenses.
- Pos split of cost

  And the cost of main product is reduced is reduced by this net amount.

What are equivalent units of production? Mention two principle methods of calculating equivalent units. 2006-june |4|

Answer:

Equivalent production is a technique of presenting production of process in terms of completed units. This concept is used for assigning cost to process to both finished units and unfinished units. This technique is used in process to both finished units and unfinished units. This technique is used in process industries where production takes place on a continuous basis; there is a problem of valuation of work in process at the end of accounting year. These units cannot be treated as completed units and cost incurred is only apportioned on completed units. Thus, these units are converted into equivalent units. As defined by CIMA is" notional whole units representing completed work used to apportion costs between work in process and completed output". Percentage basis is applied for this purpose.
Equivalent completed units = (No. of units work in process * Degree of completion in %)
Method of calculating equivalent units-

(i) First in first out (LIFO) method: Under this method it is presumed that unit's are completed in order to the process. It means units already in the process are finished first before the new materials puts into the process are taken up.

(ii) Weighted Average method: In this method, cost of opening work in process is not kept separate but is merged with the units introduced in the current period and cannot be identified separately.

Mention the different methods of by-product cost accounting. 2006-Dec|4|

Answer:

Market value method	**Replacement method**	**Net Realizable value method**	**Income statement method**
Reduces the manufacturing cost of main product by an estimated market value of the by product at the time it is sold.	Used by firms whereby products are used within plant necessity of purchasing certain in raw material from outside.	Net Realizable value is shown as a deduction from cost of production after considering: (a) Gross value of inventory (b) Net value of inventory	Sales from products is shown under income statement as: (a) Other income (b) Additional sales Revenue (c) Deduction from sold of main product. (d) A deduction from total production cost of main product.

Explain the impotence of Equivalent production in process costing. 2007-Dec|2|

Answer:

Importance of equivalent production in process costing:

Work done in process is represented by competed units as well as partly finished units. The difficult arises in allocating the cost, when work done is expressed both in terms of finished units. The concept of Equivalent units is introduced to overcome with this problem. Equivalent production is a technique by which work done on unfinished units is expressed u terms of completed units only. This technique is to find out units, which would have been completed, if the work done on unfinished units had been done for finished units only.

State the fundamental principal of process costing. 2009-June |3|

Answer:

Fundamental Principles of Process Costing:

- Individual units losses their identity
- Cost of each process should be ascertained and should be transferred to next process.
- Production should be uniform and should be in continuous flow.
- Incompletely units are taken as equivalent complete units for computing unit cost.
- Cost of normal loss is apportioned on fair units and cost of abnormal loss is ascertained separately and credited to process a/c.
- Cost of normal loss is changed to costing P/L a/c

What are the equivalent units of production? State two principal method of calculating equivalent units. 2010-Dec |5|

COST ACCOUNTING IN SERVICE SECTOR

Define 'Operating Costing 'and mention at l east five activities where it is applicable.

2009-June |6|

Answer:

Meaning of Operating Costing

Operating Costing is a method of ascertaining the cost of providing or operating a service within or outside the undertaking. It is also known as "Service Costing"

CIMA London defines Operating Costing as "that form of operating costing which applies where standardized services cost centre within an undertaking".

Industries Operating Costing is applied

Operating Costing is applied in those undertaking which are engaged in providing services rather than manufacturing of tangible products. It is generally applied in –

- Road Transport, Railways, Airlines
- Hotels
- Hospitals
- Electricity supply Companies
- Water Supply Companies
- Gas supply Companies
- Cinema
- Canteen.

INTEGRATED ACCOUNTING SYSTEM

Write short notes on the following: 2002-June |8|

(a) **Integrated Accounting System**

Answer:

Integrated accounts:- under integrated accounting system only one set of account book are maintained under both financial & cost accounts. These accounts are called integrated accounts. This method requires completed details of all receipts, payment, assets and liabilities.

Advantages:

1. Centralization of accounts
2. Less time consuming a cost accounts are posted directly from the books of original entry.
3. It is simple method of accounting.
4. This method saves money

   There is no need for cost ledger control account as all the transactions are recorded into respective accounts.

   - Various subsidiary ledgers are as follows:
   - Stores ledger
   - WIP ledger
   - Finished goods ledger
   - Sales ledger
   - Purchases ledger
   - Overhead ledger

RECONCILIATION OF COST AND FINANCIAL ACCOUNTS

Explain the need for reconciliation of cost and financial accounts. Also state the reasons for difference in profit between the two accounts. 2009-June |7|

Answer:

In Non-Integral System where separate sets of books are maintained for costing and financial transactions, the profit shown by one set of books may not agree with of the other books because these two sets of books may follow different accounting principle and policies.

Hence, the need for reconciliation of cost and financial accounts arises:

1. To identify the reasons for the difference between the results shown by the Cost Accounts and Financial Accounts.
2. To check the arithmetical accuracy and reliability of both the sets of books

It may also be noted that financial accounts and cost accounts when maintained on a Computer system, may show accurate and precise result but even then the profit shown by one set of books may not agree with that of the other set. Thus, under the situation of difference between the results shown by both the sets of books, the reconciliation is essential and not redundant event in the modern of age of computer.

MARGINAL COSTING AND DECISION MAKING

Write short notes on the following: 2002-June |8|

(e)Margin of safety

Answer:

Margin of safety (MOS)

Margin of safety represents the difference between actual sales and sales at breakeven point

It also indicates the extent to which a fall in demand could be absorbed.

- Level o fixed cost
- Rate of contribution
- Level of sales

Margin of safety can also measure the soundness of a business and is very useful in decision making policy making of the business.

Margin of safety can be calculated with the help of following formulae.

MOS (in value) = actual sale (in value)-break even sales (in units)

MOS (in units) =

MOS (in units) = actual sales (in units)-break even sales (in units)

MOS (in units) =

Write short notes on the following: 2003-June |8|

(a) Profit-volume Chart

Answer:

P/V Chart: P/V Chart shows the relationship between profit and sales volume. It is a simplified form of break even chart. The horizontal axis on P/V Chart represents the sales volume and vertical axis represents the profit and fixed cost. The point at which sales line intersects the profit line is known as breakeven point.

Break even analysis **2003-Dec |8|**

Answer:

Break even analysis: A technique for studying CVP relationship and determining a point known as breakeven point at which total cost is equal to total revenue. It is an extension of marginal costing principals.

Assumptions of break-even analysis

- All costs are divided into two components i.e. variable and fixed costs.
- Variable cost per unit remains constant
- Total fixe cost remains constant
- There is only one product or if there are multiple products the product mix does not change
- Selling price per unit remains constant
- Productivity per worker remains constant
- General price level remains fixed

Write short notes on the following: **2004-June |8|**

(a) Differential cost analysis

(b) Angle of incidence

Answer:

Differential cost analysis: CIMA has defined Differential Costing as " a technique used in the preparation of ad-hoc information in which only costs and income difference between alternatives calculations includes both variables and fixed costs which are affected by the alternative courses of action.

Uses of DCA

- Introduction of new product.
- Opening up of new product distribution channel.
- Acceptance of export order requiring additional outlay.
- Acceptance of addition order at lower price to special customers.
- Processing of by product or joint product price to special customers.
- Processing of by product or joint product beyond split off point.

(b)**Angle of incidence:** when sales line and total cost line intersects at breakeven point, angle of incidence is formed. It gives pictorial relationship between profit and sales. The wider the angle, greater is the rate of earnings of profit. Therefore, a management always aims at a large angle of incidence.

Write short notes on the following: **2005-June |8|**

(a) Relevant cost

Answer:

Relevant cost: Every business decision involves planning for future and considers several courses of action. During this process of decision making any cost which affected by decision are future costs which are known as relevant costs.

Write short on the following: 2006-Dec |8|

(a) Application of marginal costing to price fixing

Answer:

Application of marginal costing to price fixing: Normally, prices are regulated by demand and fixation of the selling price should be fixed in such a manner that it covers the total cost and some of profit is also earned form it. But under certain conditions such as depression, a firm has to sell its product below total cost. Under such conditions a firm should price its product above its marginal cost so that contribution is made towards fixed costs which will reduce losses that will be incurred if production is stopped.

Marginal costing helps management in decision making i.e. making best choice amount various littermates. Following are some of the decisions which are taken with the help of marginal costing:

- Fixation of selling Price
- Make or buy decisions
- Exploring new markets
- Alternative method of production
- Selection of appropriate product mix
- Suspending activities

Write short notes: 2007-Dec |8|

(a) Sensitivity Analysis

(b) Relevant Cost

(c) Cost plus Pricing

Answer:

Sensitivity Analysis: Sensitivity Analysis is a technique to determine how different values of independent variable affect the value of dependent variable under a given set of assumption. Sensitivity Analysis is a way to predict the outcome of a decision if a situation turnout to be different compared to the prediction.

For example, an analyst might create a financial model that will have a company's equity (the dependent variable) given the amount of earnings per share (an independent variable) the company report at the end of the year. The analyst can create a table of predicted price-to-earnings multiples and a corresponding value of the company's equity bases on different values for each of the independent variables.

Sensitivity Analysis is used

- To simplify models.
- To investigate the robustness of the model predictions.
- As an element of quality assurance.

However there are some problems associated with Sensitivity analysis in the business e.g.
Analysis in the business e.g.

- Variables are often interdependent, which makes examining them each individually unrealistic.
- Generally the assumption upon which the analysis is based are made by using past data which may not hold true in the future.

(b) Relevant cost: Every business decision involves planning for future and considers several courses of action. During this process of decision making any cost which affected by decision are future costs which are known as relevant costs.

(c) **Cost plus pricing:** cost-plus pricing is a strategy that is used to determine the retail and/or wholesale price of goods and services. Businesses of all sizes tend to use this simplistic pricing model as a guideline for arriving at sale prices that will allow the company to cover all costs associated with the production and sale of the products, and still make a reasonable profit. Cost-plus pricing works for calculating pricing goods such as the cost of a meal in a café and pricing services such as utilities or courier services.

The ultimate goal of cost-plus pricing is to allow, to price goods and services and covered in a manner that helps to ensure all costs associated are covered. At the same time, cost-plus pricing helps to profit and remains competitive with companies that offer similar goods and services.

Components to calculate cost plus pricing:

- The first key component to calculating cost-plus pricing is to establish key with is costs to actually produce the end product or service.
- Next, there is the matter of determining the additional price to attach to each unit offered for sale.
- Another factor that will influence the percentage markup is local competition.

However, a simple twofold approach is often workable for small businesses, provided all expenses associated with the production and delivery of the finished goods or services is accounted for in the unit cost.

Write short notes on the following: **2008-June|8|**

(e) Marginal costing for decision making.

Answer:

Marginal costing for decision making:

Making costing is a technique frequently used for short-term decision-making. During a short period variable costs may vary in proportion. To output, whilst fixed cost remain static. Marginal contribution is the difference between sales and variable costs. It increases at a fixed rate (per unit basis) as the output increases, increases, up to the optimum production level. So, the primary objective of an enterprise during a relevant short period will be to produce up to the attainable capacity. For, period to the BEP level of production fixed costs eat into the marginal contribution, but there after any marginal contribution will be the net profit. Marginal Costing technique helps short-term decision making in the following areas:

- Profit planning and selection of product-mix
- Problems of limiting factor
- Performance evaluation
- Fixation of selling price and quoting for tender
- Additional order at home or for going global
- To make or buy
- Alternative methods of manufacture
- Outsourcing or sub-contracting
- Suspending activities or fixing time to close down.

Write short notes on the following: **2009-June|8|**

(a) Cost volume profit analysis;

Answer:

Cost Volume Profit Analysis: Cost-volume-profit analysis (CPV analysis) is an extension of the principles of marginal costing It studies the inter-relationship of three basic factors operations:

(a) Cost of Production of sales and
(b) Profit
(c) Volume of production of sales and

These three factors are inter-connected in such a way that they act and react on one another because of cause and effect relationship between them. The cost of a product determines its selling price and the selling price determines the level of profit. The selling price also affects the volume of sales which directly of production and volume of production in turn influences cost. In brief, variations in volume of production results in changes in cost and profit. CIMA London has defended CVP analysis as "*the study of the effects on future profits of changes in fixed cost. Variable cost, sales price, quantity and mix."*

An understanding of CPV analysis is extremely useful to the management in budgeting and profit panning. It explains the impact of the following on the net profit:

- Changes in selling prices,
- Changes in volume of sales,
- Changes in variable cost and
- Changes in fixed cost.

Infect, CVP analysis helps in determining the probable effect of change in any one of these factors on the remaining factors."

Write short notes on the following: 2010-june |8|

(a) Managerial decision making;

Answer:

Managerial Decision making is a very crucial function in any organization. Decision making should be on the basis of the relevant information. For example, marginal costing helps in generation relevant information in certain critical areas like:-

- Make or buy decisions.
- Accepting or rejection an expert order.
- Variation in product mix.
- Variation in sales mix.
- Variation in sales mix.
- Key factor analysis
- Evaluation of different alternatives regarding profit improvement.
- Closing down/Continuation of a division.
- Capital Expenditure decision

The concept of Break Even Point is extremely important for decision making in various areas.

Briefly distinguish between the following: 2006-Dec |2|

(b) Marginal cost and Differential cost

Answer:

Basis of Difference	Marginal cost	Differential cost
1. meaning	Amount at any given volume of output by which aggregate costs are changed if the volume of output are increases or decreased by one unit.	Net increase or decrease in the total cost which results from variation in level of operation.
2. Nature of change	Marginal cost would only consider prime cost and variable cost	Differential cost would consider total costs
3. components	Marginal cost includes prime cost and total variable overheads	Differential cost includes both fixed and variable costs
4. increase/ decrease	Marginal cost changes with	Differential cost changes due to

	change in output.	following factors: Addition/deletion of Product change in method of production, etc.

Distinguish between Marginal Costing and Absorption Costing. **2008-Dec |7|**

Answer:

Distinction between Marginal Costing & Absorption Costing

Marginal Costing	Absorption Costing
1. Under marginal cost system all fixe cost (e.g. Production/Administration/Selling/Distribution Over-heads) are treated as period costs and hence are written off against profit in the period in which they arise. 2. Only variable manufacturing costs are treated as product costs and hence, are charged to products, processes or operations. 3. Value of closing stock comprises only variable costs. 4. The question of over/under recovery of fixed overheads does not arise. 5. Managerial decisions are based on contribution.	1. Under Absorption Costing only. Administration, selling and distribution overheads are treated as period costs and hence, are written off against the profits to the period in which they arise. 2. Only variable manufacturing costs and fixed production overheads are treated as period costs and hence, are written off against the profit in the period in which they arise. 3. Value of closing stock includes fixed production overheads. 4. Over/under recovery of fixed overheads generally arises. 5. Managerial decisions are based on total profit.

2002-June |7|

(a) Mention a few cases where products may be sold below variable cost.

(b) What are the assumptions of 'Break-even Analysis''?

Answer:

The Cases where products may be sold below variable cost are given blow-

1. **W**hen goods cannot be stored for a long time.
2. To increase the sale in the market.
3. For publicity sale of limited quantity for limited period.
4. When a weaker competitor is to be driven out of market.
5. When a weaker competitor is to driven out of market.
6. When plant should be kept ready for full production ahead.
7. When future market is uncertain.
8. When the sale of one product will push up the sales of other conjoined profitable products

(b) Assumption of Break even Analyses are given below-

(i) Fixed cost will remain constant at various levels of activity.

(ii) Variable cost per unit and sales units is equal and no inventory.

(iii) Production units and sales units are equal and no inventory exists in beginning or at the end of the period for which analyses made.
(iv) Productivity, operating efficiency, product specification will not change.
(v) Total cost and total revenue can be represented in straight lines.
(vi) There will not be any change in pricing policy due to change in volume, competition, etc.
(vii) Creak-even analyses competently ignore the capital employed in business, which is one of the important facts in determination of profitability of the company and its products.
(viii) Cost should be segregated into fixed and variable components.

All these assumption are not always true. For example-

a. Fixed cost cannot be fixed in long run.
b. There is difficultly in segregation of semi variable expenses into variable and fixed elements of costs accurately.
c. It is most likely that increase/ decrease /decrease in sale price may have some impact on unit sale price

Mention four important assumption made for 'Break-even Analysis'. 2003-June|2|

Answer:

Assumption of Break even Analyses are given below-

(i) Fixed cost will remain constant at various levels of activity.
(ii) Variable cost per unit and sales units is equal and no inventory.
(i) Production units and sales units are equal and no inventory exists in beginning or at the end of the period for which analyses made.
(ii) Productivity, operating efficiency, product specification will not change.
(iii) Total cost and total revenue can be represented in straight lines.
(iv) There will not be any change in pricing policy due to change in volume, competition, etc.
(v) Creak-even analyses competently ignore the capital employed in business, which is one of the important facts in determination of profitability of the company and its products.
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All these assumption are not always true. For example-

a. Fixed cost cannot be fixed in long run.
b. There is difficultly in segregation of semi variable expenses into variable and fixed elements of costs accurately.
c. It is most likely that increase/ decrease /decrease in sale price may have some impact on unit sale price

What is profit –Volume Ratio? Mention some possible course s of action to improve this ratio. 2003-June |5|

Answer:

Profit volume ration is actually the ratio of contribution earned to sales made. This is also known as contribution margin ratio. Better P/V ratio is an index of sound "financial health of a company's product P/V ratio establishes the relationship between contribution and sales. It is also known as contribution/ sales ratio.

P/v ratio =

Improvement of profit Volume Ratio: P/V ratio can be improved by the following possible course of action.

- By increasing selling price
- By reducing the share of low margin product in the total sales
- By changing sales mix

What are the important applications of marginal costing as a tool for decision making? 2003-Dec |5|

Answer:

The important application of marginal costing- Marginally cost is essentially a technique of decision-making. In the following situation marginal costing is useful in managerial decision making.

- Profit planning
- Key factor analysis
- Contribution analysis
- Optimizing product mix
- Make or buy decision
- Price fixation
- Alternative use of production facility
- Evaluation of performance
- Break even analysis Cost volume analysis
- Presentation of cost data for control purpose etc.

  From above we can say in every field marginal costing is a tool for decisions making

Product pricing is an important area for management decision making. State very briefly the broad objectives of the pricing policy. Mention specifically situations prices are fixed are fixed below the variable cost. 2004-Dec |5|

Answer:

Pricing is a profit planning exercise in which management searches out the alternatives in an effort to choose one alternative which is the most advantageous alternative Pricing decision plays a very important role by assisting the management in the evaluation of profit arising out of various alternatives.

Objectives of the Pricing Policy:

Objective of pricing policy should be in conformity with overall organizational objective. Maximization of profit is the main objective of any organization but it should not only the objective of any organization but it should not only the objective of any organization.

The other objectives of pricing policy are as follows:

- Pricing the goods bases on reasonable basis.
- Immediate survival of the firm.
- To safeguard against the emergence of new producers in the same line.
- Increase in the market share or its growth rate at the expense of profit.

- Avoid adverse public reaction consequent on charging high price.

Situation where prices are fixed below the variable cost:

- When goods cannot be stored for a long time.
- To increase the sale in the market.
- For publicity sale of limited quantity for limited period.
- When a new product is introduced in the market or to popularize it.
- When a weaker competitor is introduced in the market or to popularize it.
- When a weaker competitor is to be driven out of market.
- When plant should be kept ready for full production ahead.
- When future market is uncertain.
- When the sale of one product will push up the sales of other conjoined profitable products.

What is profit volume graph? Explain how it is drawn. What are its important limitations? 2007-June |5|

Answer:

P/v Chart shows the relationship between profit and sales volume. It is a simplified form of break even chart. The horizontal axis on P/v Chart represents the sale volume and vertical axis represents the profit/loss and fixed cost. The point at which sales line intersects the profit line is known as breakeven point.

Steps for preparation of P/V graph/ Chart A scale of sales on horizontal axis is selected.
A scale of profit and fixed cost on vertical axis is selected
Horizontal axis is divided into 2 parts
Lower-fixed cost Upper-Profit Profit, fixed cost and sales volume are plotted
Lower-loss area Upper- Profit are a Vertical axis is also divided into2 parts
Points are joined to form a line called profit line
Point at which profit line intersects sales line is known as break even points.
Angle which profit line makes with sales line is called as angle of incidence.
Sales volume beyond breakeven point is called is margin of safety

Limitations:

a. Assumes constant selling price and the same pattern of sales amount different products
b. Change in inventory levels at the beginning and end will be insignificant.
c. It assumes the same level of technology and efficiency.

What are the factors those are taken into account by the management while considering a Make or Buy decision? 2009-June |4|

Answer:

Whether a component is to be manufactured or purchased from outside supplier is decided is decided by comparing the marginal cost of manufacturing with the market price of the component. Specific and additional fixed cost may be treated as relevant cost. If the factory is operating at full capacity, then decision is taken after adding opportunity cost of production. In addition to above, following factors are also taken into consideration.

a. Plant capacity
b. Profit maximization
c. Specialization
d. Nature of product
e. Secrecy

ACTIVITY BASED COSTING

Write short notes on the following: 2002-Dec |8|

(a) Activity-Based Budgeting

Answer:

Activity Based Budgeting:

Definition: Activity Based Budgeting is panning and controlling activities and cross functional business processes of an organization. Activity Based Budgeting stands in contrast to traditional, cost-based budgeting practices in which a prior period's budget is simply adjusted to account for inflation or revenue growth. As such, ABB provides opportunities to align activities with objectives streamline costs and improve business practices. ABB is a method of budgeting in which activities that incur costs in each function of an organization are established and relationships are defined between activities. This information is then used to decide how much resource should be allocated to each activity. Basically, ABB is budgeting by activities by activities rather than by cost elements.

Features of ABB:

- Supports Perpetual Planning.
- Engage everyone in thinking about how they can better create value for organization.
- Line planning and activity based budgeting.
- Budget activities and cross –functional business processes to strategy and corporate goals.
- Identify waste and non-value in budget and create action plans to eliminate it.
- Forecast workloads to create activity based budget.
- Charge out service departments (MIS, H/R, and accounting) to operating departments.
- Incorporated financial and non-financial alternatives into the budgeting process.
- Develop a fixable budget based on activity work load.

Write short notes on the following: 2004-Dec |8|

(a) Activity based budgeting

Answer:

Definition: Activity Based Budgeting is panning and controlling activities and cross functional business processes of an organization. Activity Based Budgeting stands in contrast to traditional, cost-based budgeting practices in which a prior period's budget is simply adjusted to account for inflation or revenue growth. As such, ABB provides opportunities to align activities with objectives streamline costs and improve business practices. ABB is a method of budgeting in which activities that incur costs in each function of an organization are established and relationships are defined between activities. This information is then used to decide how much resource should be allocated to each activity. Basically, ABB is budgeting by activities by activities rather than by cost elements.

Write short notes on the following: 2007-june |8|

I. Activity base management

Answer:

Activity Based Management (ABC): is a discipline that focuses on the management of activities as ways improve customer value and profit. ABM included cost driver analysis, activity analysis, and performance measurement. Increasing competition, both globally and locally, make it clear that businesses know accurately and understand the source of process, product and service costs within their organization. Activity Bases Costing (ABC), with its focus on deconstructing overhead pools and assigning costs to products and services in a more meaningful manner, has been a giant leap forward from traditional costing models where a high percentage of cost is arbitrarily allocated to products.

However, ABC Model often look at cost from a financial point of view, making sure only that all costs are assigned to some product accounting ” box “ without a thorough understanding of the business process that underlies and defines the resource utilization that creates the cost. The methodology that combines business process analysis with ABC to create a tool that translates Activity Bases Costing into Activity Based Management (ABM).

Write short notes on the following: 2008-Dec |8|

(b) Activity Based Costing

Answer:

Meaning of Activity Based Costing

Activity Based Costing (ABC) is a technique of charging overheads to cost objects (i.e., products, services, jobs, customers etc.)Under which overheads are first calculated separately for each activity and them are charged to various cost objects on the basis of activities consumed by these cost objects.

According to Cooper and Kaplan,” ABC system calculates the costs of individual activities and assigns costs to cost objects such as products and services on the basis of activities undertaken to produce each product or service.”

CIMA, London, defines activity based costing as “Cost attribution to cost units on the basis of benefits received from indirect activities, i.e., ordering, setting up assuring quality etc.”

Write short notes on the following: 2009-dec |8|

(c) Cost Driver;

Answer:

Cost Drivers: Direct labour and materials are relatively easy to trace directly to products, but it is more difficult to directly allocate indirect costs to products. Where products use common resources differently, some basis is needed in the cost allocation process. The measure of the use of a shred activity by each of the products is known as the cost driver. For example, the cost of the activity of bank tellers can be ascribed to each product by measuring how long each product by measuring how long each product by measuring how long each product’s transaction takes at the counter and then by measuring the number of each type of transaction.

Explain the concepts of Activity –based costing and cost drivers. 2003-Dec |7|

Answer:

Activity-Based Costing (ABC) is a costing model that identifies activities in an organization and assigns the cost of each activity resource to products and services. In order to correctly associate costs with products and services, ABC assigns costs to activities based on their use of resources.

In a business organization, the ABC methodology assigns an organization’s resource costs through activities to the products and services provided to its customers.

It is generally used as a tool for understanding product and customer cost and profitability.

Ever in activity- based costing, some overhead costs are difficult to assign to products and customer, for example the chief executive's salary. These costs are termed 'business sustaining' and are not assigned to products and customers because there is no meaningful method.

Although it is argued that cost untraceable to activities should be "arbitrarily allocated "to products, but it is important that the only purpose of ABC is to provide information to management. Therefore, there is no reason to assign any cost in an arbitrary manner.

Stages in Activity Based Costing:

Stage-1: identification of the activities that may take place in an organization.
Stage-2: Assigning costs to cost pool for primary activity and support activity.
Stage-3: Use of Support activity based on cost drivers for primary activity.
Stage-4: determination of cost drivers for each activity.
Stage-5: Assigning the cost of activities to various products.

Cost Drivers: Direct labour and materials are relatively easy to trace directly to products, but it is more difficult to directly allocate indirect costs to products. Where products use common resources differently, some basis is needed in the cost allocation process. The measure of the use of a shred activity by each of the products is known as the cost driver. For example, the cost of the activity of bank tellers can be ascribed to each product by measuring how long each product by measuring how long each product by measuring how long each product's transaction takes at the counter and then by measuring the number of each type of transaction.

Categories of Cost Drovers:

- **Resource Cost Drivers**
- **Activity Cost Drivers**

State clearly Limitations of Activity Based Costing. 2010-june |7|

Answer:

Though Activity based costing system is very effective, it suffers from some limitation as given below.
Activity Based costing is a complex system and requires lot of records and tedious calculations.

- For small organization, traditional cost accounting system may be more beneficial than Activity Based costing due to the simplicity of operation of the former.
- Sometimes it is difficult to attribute costs to single activities as some costs support several activities.
- There is a need of trained professional who are limited in number.
- This system will be successful if there is a total support from the top management.
- Substantial investment of time and money is required for the implementation of this system.

BUDGETARY CONTROL

Write short note on the following: 2002-June |8|

(a) Principal budget Factor

Answer:

Principal budget factors: Principal budget factor is also known as key factor or limiting factor or governing factor.

A principal budget factor is a factor which at a particular time, or over a period, will limit the activities of an undertaking.

Principal budget factor is defined as "the factor, the e extent of whose influence must first be assessed in order in order to exercise that the functional budget are reasonably capable of fulfillment"

Examples of key factors:

(a) **Sales:**
- ❖ Depression in demand,
- ❖ High price of product,
- ❖ Shortage of efficient salesman,
- ❖ Tough competition,
- ❖ Strict credit terms,
- ❖ Poor customer service-failing in delivery promise, inadequate stock due to warehousing problems, failing in quick service etc.
- ❖ Poor advertising,
- ❖ Poor quality product etc.

(b) **Production:**
- ❖ Shortage of capacity or unbalanced capacity between processing departments
- ❖ Lack of proper production planning,
- ❖ Power or gas or steam shortage,
- ❖ Lack of proper maintenance resulting in frequent break-down of machines,
- ❖ Lack of proper supervision and/or technical staff
- ❖ Bottleneck in key process etc.

(c) **Raw materials**
- ❖ Shortage due to non availability,
- ❖ Shortage due to' import restriction, rationing through quotas,

(d) **Labour**
- ❖ Shortage of particular skill,
- ❖ High absenteeism,
- ❖ Absence of incentive scheme.,

(e) **Working capital**
- ❖ Inadequacy of funds,
- ❖ Liberal credit policy,
- ❖ Inefficient management of funds.

The limiting factor is normal temporary in nature and is constant at a particular point of time. In long run they can be overcome by proper planning and management actions.

Write short notes on the following: 2004-June |8|

(f) Flexible budget

Answer:

According to CIMA"A flexible budget is a budget which by, recognizing different cost behavior, is designed to change as volume of output change. In relation to the level of activity actually attained. It is considered as realistic budget sine this provides room for change in output. The prerequisite for flexible budget is separation of fixed and variable costs. It helps both in profit planning and operating cost control. A flexible budget constitute a series of fixed budget i.e. one fixed budget for each level of activity. In depth cost analysis and cost identification is required for preparation of flexible budget. This cost analysis and cost identification will involve categorizing the expenses as fixed, variable and semi-variable and semi-variable. Fixed expenditure will remain same for al level of actively**.**

Write short on the objectives: 2006-Dec |8|

(b) Budgetary control and its objectives

Answer:

Budgetary control: it is a system and a technique which uses budget as a means of controlling all aspects of the business. CIMA states that "Budgetary control is the establishment of budget relating to the responsibilities of executives of a policy and the continuous comparison of the actual with the budgeted result either to secure by individual action the objective of the policy or to provide a basis for its revision".

Purpose

The purpose of budgetary control is to aid in systematic planning and control of business operation from period to period.

Objectives

- It helps in determination of targets of performance.
- It provides detailed plan of action.
- It brings coordination among managers.
- Setting up of responsibilities of managers.
- It provides a basis of comparison.
- Best use of resource to maximize profits.
- It helps in analysis of variances.
- Basis for revision of policies

Write short notes on the following: 2007-June |8|

A Flexible Budget

B Principal Budget Factor

Answer:

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(d)Principal budget factors: Principal budget factor is also known as key factor or limiting factor or governing factor.

A principal budget factor is a factor which at a particular time, or over a period, will limit the activities of an undertaking.

Principal budget factor is defined as "the factor, the e extent of whose influence must first be assessed in order in order to exercise that the functional budget are reasonably capable of fulfillment"

Write short notes: 2007-Dec|8|

(c) Zero base Budgeting

Answer:

Zero Base Budgets (ZBB)

ZBB was introduction by Peter Pnyrs in 1969 who defined it as "a planning ZBB budgeting process which requires each manager to justify his entire and budgeting process which requires in detail from scratch (hence zero base). This approach requires that all activities be identified as decision packages which will be evaluated buy systemic analysis raked in order of importance". According to CIMA London, ZBB is defined as" a method of budgeting whereby all activities are revalued each time a budget is set. Discrete levels activity are valued and combination chosen to match funds available.

Features of ZBB

- All budget items old or new are considered afresh.
- Amount spend on each budget is totally justified.
- Departmental objectives are linked to corporate goals.
- Cost benefit analysis of each budget is undertaken.
- Manages at all level participate in ZBB.

Process of ZBB

Determination of set of objectives
Deciding upon the extent on which the technique is used.
Determine the areas which require decision making
Developing decision and ranking them in order of performance
Preparation of budget and allocation of resources.

Write short notes on the following: 2008-Dec |8|,2010-June |8|

Budget Manual;

Answer:

A budget Manual is a document which sets out the responsibilities of the persons engaged in the process of budgetary control. The Budget Manual thus is a schedule documents or booklet, which contains different forms to be used, procedures to be followed, budgeting organization details, and set of instructions to be followed in the budgeting system. It also list, out details of the responsibilities of different persons and the managers involved in the process. A typical Budget Manual contains the following:

(i) Objectives and Managerial policies of the business concern.
(ii) Internal lines of authorities and responsibilities.
(iii) Functions of the Budget Committee, including the role of Budget officer.

Distinguish between Fixed Budget and Flexible Budget 2001-Dec |5|

Answer:

Fixed Budget differs from Flexible Budget in the following respects:

Basis of Distinction	Fixed Budget	Flexible Budget
Change with activity	It does not change with actual volume of activity achieved. Thus, it is known as rigid or inflexible budget.	It can be recanted on the basis of activity level to be achieved. Thus, it is not rigid.
One level or different level of activity	It operates on one level of activity and less than one set of conditions. It assumes that there will be no change in the prevailing conditions, which is unrealistic.	It consists of various budgets for different levels of activity.
Utility of variance analysis	Since all costs like-fixed, variable and semi-variable are related to only one level of activity, variance analysis does not give useful information.	Here analysis of variance provider provides useful information as each cost is analyzed according to it's to its behavior.
Decision making	If the budgeted and actual levels differ significantly, then the aspects like cost ascertainment and price fixation do not give a correct picture.	Flexible budgeting at different levels of activity facilitates the ascertainment of cost, fixation of selling price and tendering of quotations.
Basis of Comparison	Comparison actual performance with budgeted targets will be meaningless specially when there is a difference between the two activity levels.	It provides a meaningful basis of comparison of the actual performance with the budgeted targets.

Briefly distinguish between the two cost controls techniques 'Budgetary Control' and Standard Costing'. 2005-Dec |7|

Answer:

Basic	Standard costing	Budgetary control
Meaning	It is a system accounting where predermined cost are used for analysis of variance and control of the entire organization	It is planning exercise made by the management in setting budget for the forthcoming period and analysis of actual with budgeted figure.
Expressed	It may be expressed both in terms of quantitative and monitory measure.	it is expressed in monetary terms only
Objective	It is ascertainment and control of cost.	It is concerned with the overall profitability and financial position of the concern.
Emphasis	It emphasis on what should be the cost.	It emphasis on the level of cost not to be exceeded.
Projection	It is projection of cost accounts.	It is projection of financial accounts.
Used by	Standards are usually limited to manufacturing activities only.	Budgets are used by all departments.

How is the sales budget of a company prepared? 2002-June |7|

Answer:

It is an estimate of probable sales. Its forecast is difficult as compared to any of other budget. But an organization has to have to rely on its sales budget as any of its success depends on sales budget only. All the other budgets are prepared taking sales budget as a base. It is the responsibility of sales manager to prepare sales budget. A sales project covers products, regions, salesman& type of customer.

Sales budget

Area/ Period	**Quarter I**			**Quarter II**			**Quarter Iv**		
Northern	Unit	Rate	Amt	unit	Rate	AMT	unit	Rate	Amt
Product X	XX	XX	XX	XX	XX	XX	XX	XX	XX
Product Y	XX	XX	XX	XX	XX	XX	XX	XX	XX
Southern									
Eastern									
Western									
Grand total									
Product X	XX	XX	XX	XX	XX	XX	XX	XX	XX
Product Y	XX	XX	XX	XX	XX	XX	XX	XX	XX

What is meant by 'Flexible Budgeting'? How is it prepared? Give any two applications. 2002-Dec |7|

Answer:

According to CIMA" a flexible budget is a budget which, by recognizing different cost behavior patterns, is designed to changed to change as volume of output changes." It is designed to change in relation to the level of activity actually attained. It is considered as realistic budget since this provides room for change in output. The prerequisite for flexible budget is separation of fixed and variable costs. It helps both in profit planning and operating cost control. A flexible budget constitute a series of fixed budget i.e. one fixed budget for each level of activity. In depth cost analysis and cost identification is required for preparation of flexible budget. This cost analysis and cost identification will involve categorizing the expenses as fixed, variable and semi-variable. Fixed expenditure will remain same for all level of activity.

Preparation of flexible budget.

a. Specify time period
b. Segregation of cost in fixed, semi fixed and variable
c. Analysis of cost on the basis of standards
d. Preparation of flexible budget

Method of preparation of Flexible Budge

There are two method of preparation of Flexible Budget.

(i) Formula Method
(ii) Multi-activity Method.

(i) Formula method

Procedure:

- A budget is prepared for normal level of activity in units or %.
- Cost is segregated into fixed & Variable costs.
- Variable & fixed cost per unit is computed.
- Variable & Fixed costs are added to ascertain the total costs.

- Budgeted cost allowance is ascertained.
- Actual & budgeted costs are compared.
- Allowed costs= Fixed cost +(actual units of output * variable cost per unit)

(ii) Multi-activity method:

- It is applied when actual output is known at the end of budgeted period.
- Allowed costs are computed by either adopting the budget of the given.

Uses of flexible budget

I. It is used to predict the performance of organization.
II. It is used to analyses the change in sales on income level.
III. It helps in more accurate assessment of managerial and organization performance

STANDARD COSTING

Distinguish between the following: 2001-Dec |7|

(a) Standard cost and Budgeted cost

Answer:

Basis	Standard cost	Budgeted cost
Meaning	It is defined as “a predetermined cost which is computed advance of produced on the basis of specification of all the factors affecting cost and used in standard costing”.	The cost of materials incurred for manufacturing the budgeted output. It if the value of budgeted quantity of materials taken at a standard price. BC=BQ*SP
Technique used	It used standard costing.	It is used in budgetary control.
Expressed	It may be expressed both in terms of quantitative and monitory.	It is expressed in monetary terms only
Objective	It is ascertainment and control of cost	It is concerned with the overall profitability and financial position of the concern.
Emphasis	It emphasis on what should be the cost.	It emphasis on the level of cost not to be exceeded.
projection	It is projection of cost accounts.	It is projection of financial accounts.
Used by	Standards are usually limited to manufacturing activities only.	Budgets are used by all departments.

Distinguish between Standard Costing and Budgetary Control. 2009-June |5|

Answer:

DISTINCTION BETWEEN STANDARD COSTING AND BUDGETARY CONTROL

Standard cost	Budgetary Control
Control is affected by comparing actual figure with standard figured of actual output.	Control is effected by comparing actual figures with budgeted figures of sales, production, capital assets etc.
Control is affected by comparing actual figure with	Control is effected by comparing actual figures with

standard figured of actual output.	budgeted figures of sales, production, capital assets etc.
The scope of standard costing is comparatively narrow production costs.	The scope of budgetary control is comparatively wide since it related to all business operation, sales capital and financial expenses.
It is mainly concerned with the ascertainment and control of each element	It is mainly concerned with the overall profitability and financial position of a business.
If includes projection of cost accounts only.	It includes productions of financial accounts as well cost accounts.
Variances (i.e., differences between actual figures and standard figures) are normally revealed in different cost accounts.	Variance (i.e., differences between actual figures and budgeted figures) are normally nor revealed in different cost accounts.

What are the difference between Labour Rate variance and Labour Efficiency Variance? 2010-Dec |6|

What do you understand by the following in the context of operation a standard cost system? 2003-June |7|

(i) **Ideal standard ;**

(ii) **Average standard;**

(iii) **Attainable standard.**

Answer:

(i) Ideal standard

Standard that can be achieved under the most favorable conditions. No provision is made for unfavorable such as spoilage or machine breakdown. This standard is not practically used as they affect employee's motivation.

(ii) Average standers

These standards are based on past averages adjusted for expected future changes. In formation of these standards proper allowance is given for machine breakdown, normal waste, normal scrap, , maintenance, etc. average standards is not good in efficiency appraisals.

(iii) Attainable standard

Standard that can be achieved if standard unit of work is carried out efficiently on a machine properly utilized. Provisions are made for unfavorable conditions such as: spoilage and machine breakdown. It represents future performance and objective that can be reasonably achieved.

What is 'Fixed Production Overhead Variance''? Explain how this is calculated and further analyzed. 2003-Dec |7|

Answer:

ICMA has defined fixed production overhead variance as "the difference between standard cost of fixed overhead absorbed in the production achieved, whether completed or nor, and the actual fixed overhead attributed and charged to that period".

Fixed overhead expenditure variance- it arises due to difference between budgeted fixed overhead & actual fixed overhead.

Fixed overhead expenditure variance=Budgeted fixed overhead- fixed overhead incurred.

Fixed overhead volume variance – it is defined as" that portion of overhead variance which arises due to the difference between standard cost of overhead absorbed by actual production & the standard allowance for that output.
Fixed overhead volume variance= (standard Rate * SH for actual output –Budgeted Fixed overhead)

Defined "variance analysis. "What is the ways of disposing of cost variances? 2005-June |6|

Answer:

Variance is the difference between actual performance and standard performance. Variance analysis is the process of analyzing variances by sub-dividing total variance in such a way that management can assign responsibility for any off-standard performance.
…………………………………………….
…………………………………………..
…………………………………………

Describe the scope and technique of standard costing and budgetary control. 2007-Dec |3|

Answer:

Scope of Standard Costing and Budgetary Control: Standard costing is used for ascertaining effectiveness of cost performance. Budgetary control is used to present a plan of action for a particular period. Standard Costing and Budgetary Control both have common object of improving managerial control. For both the techniques the presumption is same that the costs are controllable.

Techniques of Standard Costing and Budgetary Control: Standard Costing and Budgetary Control are the two different techniques. Standard cost gives a cost plan for unit cost. Budget gives a total idea. Standard costing is used for efficient utilization of material, labour and overheads. Budgetary control is used to lay down a monetary limit of expenses. Budgetary control techniques keep the business out of financial cruises. Standard costing emphasizes utilization of input resources.

State the distinguishing features of standard cost. 2008-Dec |5|

Answer:

- It is a pre-determined cost which is computed before the cost is incurred (i.e., in advance of production).
- If is based on engineering specification of all the factors affecting cost.
- It is computed foe a specific period of time.
- It is to be attained under a given set of efficient operation conditions.

State the principle reasons which give rise to variances between actual and standard in standard costing. 2009-Dec |6|

Answer:

The variances between actual and standards arise mainly due to the following reasons:

- Inefficient operations due to inefficient operations, inadequate machine usage/faulty machinery
- Departure from laid down procedure
- Human error
- Inappropriate setting of standards

- Frequent changes in market prices of various inputs in and instable condition
- Errors in recording actual results

PERFORMANCE MEASUREMENT

Write short notes on the following: **2003-June |8|**

(a) Principals of Management

Answer:

Management principles are statements of fundamental truth. These principles serve as guidelines for decisions and actions of managers. They are derived through observation and analysis of events which managers have to face in actual practice.

The Principles of Management are the essential, underlying factors that form the foundations of successful management. According to Henri Fayola, there are fourteen' principles of management'

- Division of work
- Authority and Responsibility
- Discipline
- Unit of Command
- Unity of Direction
- Subordination of Individual Interest
- Remuneration
- The Degree of Centralization
- Scalar Chain
- Order
- Equity
- Stability of Tenure of Personnel
- Initiative
- Esprit de Corps

  Fayola also divided the management function into five key roles:

  - To organize
  - To plan and forecast
  - To command
  - To control
  - To coordinate

Write short notes on the following: **2004-June |8|**

(b) Modeling in Operation Research

(c) Balanced Scorecard

Answer:

Various Models in Operations Research.

1. **Allocation Models:** allocation models are concerned solely with the problem of optimal allocation of precious and scarce resources for optimizing the given objection the given objective function-subject to the limiting factors prevailing at that point of time or the constraints writhen which a firm has to most effectively operate.

2. **Simulation Model:** Simulation models are normally used for those kinds of problems or situation which cannot be studied or understood by any other technique.
   For example, to study the environment at the planet Jupiter or Venus, simulation- models are the only option available to a researcher.
3. **Inventory Models:** Inventory models are useful in dealing with quantity discounts and multiple. These models can be of two types-
   1. Deterministic and
   2. probabilistic

   And are used in calculating various important decision variables such as:-
   - Re-order quantity,
   - Lead-time,
   - Economic order quantity and
   - The pessimistic, optimistic &the most likely level of stock keeping.
4. **Network Models:** Networking molders are extensively used in planning, scheduling and Controlling complex projects which can b e represented in the form of a net-work of various activities.
   Two of the most important and commonly used networking models are-
   - Critical Path Method(CPM) and
   - Programmed Evaluation &Review Technique (PERT)
5. **Sequencing Models: s**equencing is primarily concerned with those problems in which the Efficiency of operations depends solely upon sequencing models deal with the selection of the Most appropriate or the optimal sequence in which a series of jobs can be performed of the System.
6. **Competitive problems Models:** the competitive problems deal with making decisions under conflict caused by opposing interests or under competition.
7. **Queuing or Waiting Line Models:** Any problem that involves waiting before the required service could be provided is termed as a queuing or waiting problem.
8. **Replacement Model:** These models are concerned with determining the optimal time required to replace equipment or machinery that deteriorates or fails.
9. **Routing and Trans- Shipment Models:** These category of problems involve finding the optimal route from the starting or invitation point (i.e., the origin) to the' final or termination point (i.e., the destination), where a finite number of possible routes are available.
   For example:
   - Traveling salesman problems,
   - Finding the shortest path and
   - Transport dispatching problems, could be solved by routing and trans-shipment models.
10. **Search Models:** The main objective of search models is:
    To search, ascertain and retrieve the relevant information, required by a decision marker.
    For example:
    - Auditing text-books for errors,
    - Storage & retrieval of data in computer and
    - Exploration for the natural resources,

(d)Balance Score Card is a measure of performance. It emphasizes the need of providing the relevant information to the users which addresses all relevant areas of performance. It includes financial and non-financial element, and covers areas such as customer satisfaction, internal efficiency and profitability.

- Customer perspective –Measures of price/delivery/quality/support.
- Internal perspective-Measures of efficiency/sales penetration and new product introduction.

- Innovation and learning perspective-? Sales/Return on capital employed etc.

An ideal Balanced score card combines financial measures of past performance with measures of the firm's drivers of future performance. It emphasizes the need of providing the relevant information to the users which addresses all relevant areas of performance. It includes both financial and non-financial element, and covers areas such as customer satisfaction, internal efficiency and profitability.

The main types of information which will be required by a manager to implement balance score card approach to performance measurement are as follows:

- Financial information
- It focuses on the objectives and measures for achieving these objectives to succeed financially
- Internal business processes
- Internal business processes leads to financial success and satisfied customers. Key business processes are identified are monitored
- Customer information
  Ability of organization to quality goods and services, effectiveness of their delivery and overall customer service and satisfaction
- Employee information
  Ability of employee, quality of information system and their effects on organization goads

Write short note on the following: 2004-Dec|8|

(a) The new management revolution

Answer:

The new management revolution:
Business and the Society are today in the midst of a revolution comparable to the industrial Revo-lution both in both scale and consequence. It is the new management revolution. The new management revolution has 4 components viz.

- The globalization of markets
- The spread of information technology & Computer Networks.
- The dismantling of traditional managerial hierarchies and
- The creation of a new information economy,

These 4 components are all occurring fast and at the same time and are affected by and affect one another.

Due to the 'globalization ', the managerial decisions must consider the world as a whole, rather than a nation or a region. Due to the vast improvements in communications & transportation, tastes are con verging internationally & the domestic producers are facing an ever-growing competition from abroad.

Due to the information Technology, we have mechanization/computerization-be it in Banks, Post Offices or a departmental store.

The computer has also dismantled traditional managerial hierarchies and has decimated the ranks of middle management.

The rapid spread of the information economy is helping in creation of 'value'-based on knowledge & communication- rather than natural resources & physical labour.

Eg., Many Auto – repairs will soon be made not by the mechanic with a wrench but by a technician, who shall be fixing be fixing an engine knock by re-programming a computer chips.

Due to the above four pronged revolutions, today's business leaders must learn how to tap the employees' ideas and energy, manage large-scale rapid change, anticipate business conditions 5/10 years down the road and muster the courage to steer the firm in radical new directions, when necessary. Above all, the firms must think and act strategically in a world of increasing global competition.

Wrote short notes on the following: 2005-June |8|

(a) Management Control System in Non-Profit Organization

Answer:

Non-profit sectors have been less subject to business cycles and the "ups and downs" of the market. The management of non-profit organization is often ill understood because we do not understand these organization well`, and it is frequently ill conceived because we operate from the wrong assumption about how non-profit organization function. In recent years, however, we have been witnessing almost the opposite trend.

Non- profits have become a major economic force and non-government organizations have turned into important political actors. In this process, many non-profit organizations have come to embrace the language, the management practices, even the culture of the business world. They are known important enough to matter economically and politically, both as organization and as a sector. And we could conclude that non-profit management is ill understood because it is still fairly new. Non-profit sectors have been less subject to business cycles and the "ups and downs" of the market. Organisation in distress look for outside models they perceive as successful and promising. Non-profit organization, therefore, look more to for profit organization and commercial enterprises for management tools and models in the hope of finding solution to financial challenges.

This focus on business management is different from what happened in the past, when the public financial management is first and foremost formal management, not management of purpose and mission.

Write short notes on the following: 2005-Dec |8|

(a) Important features of a Performance Measurement System

Answer:

Performance measurement is the process of assessing progress toward achieving predetermined goals. Performance management is building on that process, adding the relevant communication and action on the progress achieved these predetermined goals**.**

a. **Application performance Management** (APM) refers to the discipline within system management that focuses on monitoring and managing the performance and availability of software applications.

b. **Business performance management** (BPM) is a set of processes that help businesses discover efficient use of their business units, financial, human and material resources**.**

c. **Operational performance management** (OPM) focus is on creating methodical and predictable ways to improve business results, or performance, across organizations

Managing employee's performance facilitates the effective delivery of sales incentive plans. Direct financial gains

- Grows sales
- Eliminates over-payments
- Saves time and automates processes
- Accommodates plan changes
- Motivate sales force
- Optimizes incentive plans

- On-time reporting and payments
- Controlled data distribution data
- Visible calculations
- High confidence in payment accuracy
- Sells program, improves engagement
- Improved management control
- Flexible, responsive to management needs
- Displays data relationships
- Easy trace data relationships
- Easy to trace data calculations
- Helps audit/comply with legislative requirements
- Simple scenario planning
- Provides process documentation

Write short notes on the following: 2006- June |8|

(v)Performance Management

Answer:

Armstrong and Baron define **Performance management** as **'a** process which contributes to the effective management of individuals and teams in order to achieve high levels of organizational performance. As such, it establishes shared understanding about what is to achieved and an approach to leading and developing people which will ensure that it is achieved'

In other words performance management should be:

- Strategic-it is about broader issues and longer-term goals
- Integrated- it should link various aspects of the business, people it should incorporate:
- Performance improvement- throughout the organization, for individual, team and organizational effectiveness
- Development – unless there is continuous development of individuals and teams, performance will not improve
- Managing behavior- ensuring that individuals are encouraged to behave in a way that allows and fortes better working relationships. Armstrong and Baron emphasize is a tool to ensure that managers manage effectively; that they ensure the people or teams they manage:
- Know and understand what is expected of them
- Have the skills and ability to deliver on these expectations
- Are supported by the organization to develop the capacity to meet these expectations are given feedback on their performance
- Have the opportunity to discuss and contribute to individual and team aims and objectives.

Write short notes on the following: 2007-Dec |8|

(b) Objective of Balanced Score Card

Answer''

The objective of the balanced score card id to provide a comprehensive framework for translating the company's strategic objective into a coherent set of performance measures. It emphasizes the use of financial and non-financial measures as part of the programmed to achieved future financial performance. It helps in panning, setting targets and aligning strategic initiatives.

To evaluate the success of the implementation of the strategy, the company can assess the change in the operating income by comparing the targeted operating income with the actual operating income. The change in the operating income may arise due to growth factor, change in the price of inputs and productivity factor. The company is said to be successful in implementation of strategy only if change in the operating income closely aligns with that strategy.

The balance scorecard approach seeks to measure performance under a variety of headings of financial success, customer satisfaction, process efficiency and organizational learning and growth.

- It measures performance in a variety of ways, rather than relying on one figure.
- Managers are unlikely to be able to distort the per performance measure, bad performance is difficult to hide if multiple performance measures are used.
- It takes a long-term perspective of business performance.
- Success in the four key areas leads to the long-term success of the organization.
- It is flexible, what is measured can be changed over time to reflect changing priorities.
- 'What gets measured gets done', that is if managers know they are being appraised on various aspects of performance they will pay attention to these areas, rather than simply paying lip service to them.

Write short noted on the following: 2008-Dec |8|

(c) Bench marking

Answer:

BENCH MARKING

David T. Kearns, the former chief executive of X erox, has defined bench marking as follows:

"Bench marking is the continuous process of measuring products, services and business practices through the comparison, which are recognized as industry leaders." Bench marking ideas can be obtained from other departments or divisions of a company. Bench marking ideas can also be obtained from outside the organization.

Bench marking implies the following:

(i) A non- traditional perspective in performance management.

(ii) A focus on business process.

(iii) Performances must be linked to practices.

Performance Budgeting; 2009-Dec |8|

Answer:

Performance Budgeting

Meaning: It is the processes of analyzing, identifying, simplifying, and crystallizing specific performance objectives, of a job as to be achieved over a period, within the framework of firm's overall objectives, the purposes and objectives of the job**.**

Features and Advantages

- Performance budgeting lays immediate stress on the achievement of specific goals over a period of time.
- It aims at a continuous growth clientele and customers.
- It enables the firm to be sensitive and adaptive, preventing it from developing rigidities which may retard the process of growth.
- It requires the preparation of periodic performance reports, which compare budget and actual performance to find out existing variances**.**

Define' Residual Income and state its disadvantages in Divisional Performance Appraisal. 2002-Dec |7|

Answer:

Residual Income is a performance measure that sets a minimum level of acceptable performance for their units. The minimal level of performance is the amount that it costs the parent costs the parent company to make an investment in an investment center. This is called the imputed rate of interest.

Repeated regular income, earned by a sales person, generated from the payment of a product or service that must be renewed on a regular basis, in order to continue receiving its benefits- also called residual income.

Residual income (also called passive or recurring income) is income that continues to be generated after the initial effort has been expended. Compare this to what people focus on earning: linear income, which is" one-shot" compensation or payment in the form of a fee, wage, commission or salary.

Disadvantages

- In common with most other divisional performance measures, problems exist in defining controllable and traceable income and investment.
- Residual income gives the symptoms not the causes of problems. If residual income falls the figures give little clue as to why.
- Problems exist in comparing the performance of different sized divisions sized divisions (large divisions will earn larger residual incomes simply due to their size).
- Residual incomes when applied on a short term basis a short term measure of performance and may payoffs are long term. This could well be the case for the hotel chain.

Explain how the performance of the Public Undertaking will be judge. 2003-June |4|

Answer:

Performance of Public Undertakings: The goal of public undertakings is not only to earn the profit, but also social welfare of society. Therefore, we always measure the efficiency of public undertaking on the basis of their achievement in both economic as well as social field.

Economic performance can be judge in terms of

a. Profitability
b. Capacity utilized, and
c. Quality of product & services

Profitability: it can be measured in terms of rate of return on capital employed which can be calculated as under-

Rate of return on capital= Net profit/Long term capital investment. However, profitability is not valid test of efficiency of public under taking due to the following reason:

a. To gain profits high many public undertaking enjoy monopoly power and they can charge high prices.
b. In many cases, public undertakings adopt subsidized prices. For example, electricity and fertilizes are supplied to farmers at subsidized rates. In such cases, profitability cannot measure efficiency
c. In many public undertaking. Government is both the producer as well as consumer. There is no market mechanism and therefore profitability cannot be the indicator of efficiency.
d. Profit of the public undertaking depends upon several factors which are beyond control of the management. For example, locations of the plant, price, price policy, Staffing etc. are decided by the government on various extraneous considerations.

e. Public undertakings have to bear huge social cost way of longer gestation period, obligation as model employer, investment in townships, research and development etc.

Capacity Utilization: Te economic use of resources and per unit cost of production depends to great extent on the degree of utilization of installed capacity. However, capacity utilization often depends on various factors which are beyond the control of an individual public undertaking. Available of power, political interference, export policy, etc are some such factors.

Quality of Product and Services: Quality of product and services and productivity are interrelated. Therefore, maintenance of quality may be used as a criterion to measure the performance of PU. However, there can be a conflict between the quality and profit criteria after certain point. Improvement in quality might impinge upon the profit objective.

Rationalization of Social Objective: Public undertakings are not established only for profit, but also for social welfare. Therefore, the performance of the public undertaking can be judge on the basis of financial objective alone. Financial objectives must necessarily be subordinated to social objectives like development of backwards area, generations employment opportunities, welfare of weaker section of the society, import substation, self reliance etc. Therefore, profitability cannot be the sole criteria are the sole criteria for measuring the performance of the public undertaking.

How does the Management help the organization in achieving the Objective? Discuss. 2003-Dec |2|

Answer:

Management help the organization through various functions, often classified as planning, organizing, leading/motivating and controlling,

Planning: deciding what needs to happen in the future (today, next week, next month, next year, over the next 5 years, etc.) and generating plans for action.(What to do?)

Organizing: (Implementation) making option use of the resources required to enable the successful carrying out of plans.

Staffing: Staffing helps in Job analyzing, recruitment, and hiring individual for appropriate job.

Leading/ motivating: exhibiting skills in these areas for getting others to play an effective part in achieving plans (To make individual work willingly in the organization)

Controlling: Monitoring and checking progress against plans, which may need modification based on feedback.

What is the change of management and what may factors responsible for change? 2004-June |2|

Answer:

Change management entails thoughtful panning and sensitive implementation, and above all, consultation with, and involvement of, the people affected by the changes. Of you force change on people normally problems arise. Change must be realistic, achievable and measurable. Theses aspects are especially relevant to managing personal change.

Change must involve the people –change must be imposed upon the people

Responsibility for managing change

Responsibility for managing change is with management and executives of the organization –they must manage has a responsibility to facilitate and enable change, and all that is implied within that statement, especially to understand the situation from an objective standpoint (to ‘step back’, and be non-

judgmental), and then to help people understand reasons, aims, and ways of responding positively according to employees' own situations and capabilities.
John P Kotter's 'eight steps to successful change'

- **Increase urgency:** inspire people to move, make objectives real and relevant.
- **Build the guiding team:** get the right people in place with the right emotional commitment, and the right mix of skills and levels.
- **Get the vision right:** get the team to establish a simple vision and strategy focus on emotional and creative aspects necessary to drive service and efficiency.
- **Communicate for buy –in:** Involves as many people as possible, communicate the essentials, simply, and to appeal and respond to people's De-clutter communication- make technology work for you rather than against.
- **Empower action**: Remove obstacles, enable constructive feedback and lots of support from leaders-reward and recognize progress and achievements.
- **Create short-term wins:** Set aims that are easy to achieve-in bite-size chunks. Manageable number of initiatives. Finish current stages before starting new ones.
- **Don't let up:** Foster and encourage determination and persistence –ongoing change –encourage ongoing process reporting- highlight achieved and future milestones.
- **Make change stick:** Reinforce the value of successful change via recruitment, promotion, and new change leaders. Weave change into culture.

"Change has become inevitable in the dynamic business world of today. Employees in the organization often tend to vehemently resist the change for various reasons" 2004-Dec |2|

(i) List some of the most important reasons for resistance to change.

(ii) Suggest measures, which could be used to overcome such a resistance

(a) Briefly state the salient features of ' management'

Answer:

(a) (i) the reasons for resistance to change:

- Self interest
- Process ownership
- Fear of the unknown
- Differing perception and visions
- Lack of respect for the leadership and position of authority (the office)
- Lack of a purpose driven focus
- Suspicion based on past negative experiences (personal or shared)
- Conservatism
- Customer needs were not the focus of anyone's efforts once the rebellion was in full force.

(ii)Change is a journey. For success in managing change we assist our stakeholders with a road map for making this journey. The road map at a minimum will include:

- Description of the change
- Explanation of why the change is needed
- How this change will positively impact customers
- The organization strategic plans
- People objectives

- Key roles and responsibilities
- Vision and purpose to obtain excellence
- Details of the change process
- Timing and resources available
- Measurements
- Etc.

The road map to assist us in managing the challenge of change process is comprehensive and engaging. Training for the organization Change agents includes building committed management unification that respects and is compassionate to the fears and anxiety of those being asked to make the changes and include:

- Establishing a clear vision for change
- Communications requirements with the affected stakeholders
- Monitoring a customer focus
- Monitoring of progress
- Elimination of obstacles
- Performing stakeholder analysis to gain understanding of peoples levels of influence and commitment to the change
- Rewarding wing

(b) Salient features of management

The following are some of the salient features of Management:

Management ‘ in layman’s language ‘is what it does’. It is an executive function. it is basically concerned with’ getting things dome’. It deals with the action, direction and control of activities of people to attain pre-determined objectives.

Management is the ‘unifying force, which coordinates the individual efforts into a team . It integrates human and other resources like Material, Machine, Money, Information etc.

Management is purposeful. Tough-minded Management is result oriented. It is concerned with both efficiency and effectiveness of efforts.

Management is universal. It exists everywhere-be it a family, a club, government, school, hospital etc., etc.,

Management is a dynamic and an on-going process, it is an organized action for achieve for achievement of group goals.

Management is more situational or contingency-oriented as there is no best way of doing things’ management is multi-disciplinary.

Management is an unseen and invisible force, whose presences can be felt everywhere in the form of results

Management is an ‘art’ as well as ‘science’

“profitability alone cannot be the sole criteria for measuring the performance of any public undertaking “-Comment on the statement. 2004-Dec|3|

Answer:

The statement that-“profitability alien cannot be the sole criteria for measuring the performance of any public undertaking” is absolutely true. Objectives. Therefore, the efficiency of such undertakings should be measured on the basis of their achievements, not only in the economic and financial fields but also in the social fields.

Economic/financial performance of public undertakings can be best judged in terms of factors like

- Profitability
- Capacity utilization
- Quality of products and services etc.

As a business entity, Public undertakings must run on commercial lines. There cannot be any compromise on this score. Apart from this factor this factor, pubic undertakings are established to fulfill certain other objectives, which are less financial but more’ social’. Therefore we conclude to state that the performance of the Public undertakings should not be judged sole 1y and merely on the basis of fulfillment of financial objectives alone. Financial Objectives must necessarily be dovetailed with the social objectives, in the national interests.

Some of the social objectives/goals for Public undertakings are

- Generation of employment opportunities.
- Welfare of the weaker section of the society.
- Development of backward areas,
- Self-reliance etc.

Therefore we conclude that-“Profitability alone cannot be the sole criteria for measuring the performance of any public undertaking”.

RECENT TREND IN COST ACCOUNTING

Write short notes on the following: **2002-Dec|8|**

(a) Materials Requirement Planning

(b) Value Analysis

Answer:

(a) MRP is software based production planning and inventory control system used to manage manufacturing processes. It is a scheduling procedure for production processes. MRP determines a schedule for the operations and raw material purchases.
MRP is a tool to deal with following problems. It provides answer for questions like
For questions like

- What items are required?
- How many are required?
- When they are required?

MRP Can applied both to item that are purchased from outside suppliers and to sub-assemblies that are component of more complex items**.**

Outputs of MRP system:

- Recommended Production Schedule.
- Recommended Purchasing Schedule.

Objectives of MRP are:

- To ensure that the materials are available for production.
- To ensure that the finished product are available for delivery to customers.
- To ensure that minimum possible inventory is maintained.
- To ensure that the manufacturing activities are planned.
- To ensure that the delivery scheduled are planned.
- To ensure that the purchasing activities are planned.

Limitations of MRP system:

- Data integrity is the major problem of MRP system.
- MRP system does not consider the capacity.
- If factories are situated at different places then MRP system cannot organize inventory schedules for all places.

(b) Value analysis is an orderly and creative method to increase the value of item. The item can be a process, a procedure, a product, a system, machine equipment, a tool, a service, a plan or a method of working. Value Analysis is also called Functional Analysis.

Any item which does its function better than another has more value. When two items are there and perform their function equally well then less costly item ha more value.

The value of item is the performance of a function of item divided by cost of the item.

Value of an item=

Steps to be followed for value analysis:

i. Select the item to be studied.
ii. Prepare a group of persons to study the function.
iii. Find the main function and secondary function of the item.
iv. Collect the information about the item.
v. Go for the creative session of ideas.
vi. Evaluation i.e. selection of ideas.
vii. Development of selected ideas. Less only is selected.

viii. Implementation and follow up.

Write short notes on the following: **2003-Dec |8|**

(c) Enterprise Resource Planning (ERP)

Answer:

Enterprise resource planning (ERP) is the panning of how business resources i.e. materials, employees, employees, customers etc. are acquired and moved from one state to another. An ERP system is base on a common database and a modular software design. The common database can allow every department of a business to store and retrieve information in real- time. In practice the ERP system may comprise a set of discrete applications, each maintaining a discrete data store within one physical database:

Write short notes on the following: **2004-June |8|**

(a) Manufacturing Resources Planning –II (MRO-II)

Answer:

Manufacturing Resource Planning (MRP II) is defined a method for effective planning of all resources of a manufacturing company. It is not only a software function but a hybrid of people skills, dedication to data base accuracy and computer resources. It is a total company management concept for using human resources more productivity.

Features of MRP II:

- MRP II systems address operational planning and financial planning.
- MRP II system has simulation capabilities.
- MRP II system integrates many areas of the manufacturing enterprise in to a single entity for planning and control.
- It builds on closed loop material requirement planning by adopting the feedback principle and extending it to manufacturing related areas of the enterprise.

Write short notes on the following: **2005-Dec |8|**

a. **Value Engineering**
b. **Target costing**

Answer:

VE is a structured problem solving process on function analysis. It is a method to improve the value of goods and services by using function analysis. Value is the ratio of function to cost. Value can be increased by improving the function or reducing the cost.

Value Engineering uses a unique" How "and" Why" questioning technique and analysis of function to identify relationship that increases the value.

Value Engineering is done by following a multi-stage jog plan. The basic steps of a Job-Plan are as follows:

I. **Gathering information:** The requirements for the object are gathered at this stage. Function Analysis is done at this initial stage.

II. **Creation of alternative ways:** various alternative ways of meeting requirement are analyzed at this stage.

III. **Evaluating:** At this stage all the best alternative are assessed by evaluating how well they meet the required functions and how much savings I cost will be.

IV. **Presentation:** In the final stage the best alternative will be chosen and presented to the client for final decision.

(c)Target Costing is a process that can have significant impact on the profitability of many businesses. It's mostly logical, disciplined common sense that can be imbedded into a company's existing procedures and processes.

Target Costing helps to:

- Assure that products are batter matched to their customer's needs.
- Align the costs of features with customers' willingness to pay for them.
- Reduce the development cycle of a product.
- Increases the teamwork among all internal organizing associated with conceiving, marketing, planning, developing, manufacturing, selling, distributing and installing a product.
- Engage customers and suppliers to design the right product and to more effectively integrate the entire supply chain.

  Target Costing has been shown to consistently reduce product costs by up to 20-40% depending o the product and market circumstances.

Write short notes on the following: 2007-Dec |8|

Total Quality Management (TQM)

Answer:

Total quality management CIMA has defined TOM as "continuous improvement in quality, productivity and effectiveness obtained by establishing management responsibility for process as well as output. In TQM every process has an identified process. Owner and every person in entity operation within a process and contributes to its improvements."

Six C's in TQM

- Commitment- A commitment from top management must be provided so that everyone attempts to improve quality in their work.
- Culture- A change in culture and attitudes and attitudes encourages individual to emphasis on quality as a part of their job.
- Continuous improvement- TQM is a never ending process and there will always be room for improvement.
- Cooperation- Job experience of all the employees must be fully utilized. Therefore there should be proper cooperation between employees for development and improvement of strategies.
- Customer focus- TQM should be based on the need of the customer not only external customer but also in place so that improvement can be measured and monitored and deficiencies there could be corrected.

Operationalising TQM

a. Identification of customer

   Customer is identified by adopting a team approach and structured group decision making process for assignment or ranking priorities for developments.

b. Expectations of customers

   Next step is to generate a comprehensive list of expectations of customers from the product.

c. Customer's decision making requirements
   By combining manager perception and customer's expectations we can achieve at a decision making requirement of a customer. A decision support system can be incorporating financial and non financial information.
d. Problem areas in decision making process.
e. Comparison with other organization
   Every organization's system allows it to know it strength and weakness. Benchmarking is a system which compares one organization with other similar organization and to identify various problems and opportunities.
f. Attitude of customer
   The attitude of customer toward following aspects:-
   - Nature of decision.
   - Formal reports.
   - Format of formal reports.
   - Information sources employed.
   - Non- financial indicators of performance
     Helps management in proper decision making and improving its existing system.
g. Identification of improvement opportunities
   Attitude of customers enables an organization to identify improvement opportunity and implementation of formal improvement process.
h. Implementation of quality improvement process.

Write short notes on the following: 2009-Dec|8|

(a) Supply Chain Analysis;

Answer:

Supply Chain Analysis: involves working across multiple enterprises or companies (in reprises) to shorten the supply chain time in the delivery of goods and services to the consumer or customer. Most supply chains are moving in the direction to support a more rapid changing of demand be the consumer or customer.

Benefits:

- Shorting of the pipeline or supply chain
- Reducing inventories
- Improves forecasting
- Improved scheduling and planning
- Increased turns

Capabilities:

We have developed a number of tools for supply chain analysis involving the following areas:

- Secure sharing of data over the internet
- Inventory analysis
- Scheduling
- Advanced planning
- Supply chain analysis
- Sourcing decisions using simulations
- Inter-Enterprise Architecture

Explain the concept of JUST-TIME (JIT) manufacturing system, highlighting its features and conditions necessary for it success. 2002-Dec |4|

Answer:

Just –in- time (JIT) is defined in the APICS dictionary as " a philosophy of manufacturing based on planned elimination of all waste and on continuous improvement of productivity ".

Just in Time manufacturing is a system approach to developing and operating a manufacturing system. It is based on the total elimination of waste. It is based on production only the necessary units in the necessary quantities at the necessary time by bringing production rates exactly in line with market demand. JIT had been found to be so effective that it increases productivity, work performance and product quality, while saving cost. JIT is also known as lean production or stockless production.

Features of JIT system:

- JIT applies primarily to repetitive manufacturing processes in which the same products and components and components are produced over and over again.
- JIT system creates a uniform load on all work centers through constant daily producing and by producing roughly the same mix of products each day.
- Reduces set up time through better planning, process redesign and product redesign.
- Reduced set up time allows ecumenical production of smaller lost.
- JIT system uses machine and worker idle time to maintain equipment and prevent breakdowns.

Conditions necessary for its success:

In order to have a complete JIT manufacturing system it is important to meet the demands of the market whenever needed. These include a companywide commitment: proper material, quality, people involvement as well as equipment must always be available there. Moreover, to establish the identification of duplication of the efforts, it is also important to extend the developed policies and procedure of an internal JIT structure into the company's supplier and customers. Furthermore, in order to reduce wastage and customers. Furthermore, in order to reduce wastage and improve the quality of work, it is important to get in hand a continuous feedback of the performance.

Discuss the process of managing Organizational Change effectively. 2003-June |2|

Answer:

An organization is a group of individuals who come together to achieve a mutually decides goal. This is done by means of division of people comprising the organization as who will do, what and when and under whose supervision and guidance. Further organization's growth and viability within the existing social and economic conditions as well as developing agreements among the people within the organization is achieved by mutual discussions and setting the setting the goals for the organizations. To make any change in these arrangements came and why these exist now. Altering an accepted, comfortable and useful way of doing things is very difficult.

The following steps can be taken sequentially I order to effect effective change.

- The first step is to create acute awareness of how things are now and how this state falls short of ac accomplishing stated goals. This can be done by conducting frequent meetings within each department.
- The second step is to nature understanding that something must be done to change the current situation. Those who contribute their ideas on how their organization should change have a strong investment in making that change happen.

- People may proved suggestions as to how to change, unless there is a urgency to do so change should not be implemented. Change should be understood as what it will look like a term of transition process and the finished product.
- There needs to be a well-thought-out program to ensure the actual adoption of the changes I the way things are done. Rewarding those who perform in the new ways and telling them how their results better meet the current needs and accomplish the goals of the organization will give to all members a positive attitude towards behaving in the “new and better” way.
- Once adopted as” the way things are done around here” change can be seen as having been institutionalized and established as the new standard for performance and measurement of success, recognition and reward.

What is ERP and what are benefits occurring to organization on account of implementation of ERP system? 2007-Dec |2|

Answer:

Enterprise resource planning (ERP) is the panning of how business resources i.e. Material, employees, customers etc. are acquired and moved from one state to another. An ERP system is based on a common database and a modular software design. The common database can allow every department of a business t store and retrieve information in real-time. In practice the ERP system may comprise a set of discrete, applications, each maintaining a discrete data store within one physical database.

Benefits of implementing ERP system:

- ERP software combines the data of formerly separate applications. This simplified data keeping maintains synchronization across the enterprise.
- It simplified the computer infrastructure within a large organization, and it standardized and reduced the number of software specialties required within larger organizations.
- Some security features are included within an ERP system to protect against both outsider crime and insider crime such as embezzlement.
- ERP systems typically provide functionally for implementing internal controls to prevent actions like data tempering.
- ERP vendors are also moving toward better integration with other kinds of information security tools.

TRANSFER PRINCING

Explain the methods of Transfer Pricing. 2008-Dec |6|

Answer:

Method of Transfer Pricing:

Method of Transfer Pricing usually employed in industry when goods or services are transferred form on e unit to the other unit.

1. At cost or variants of cost e.g. actual manufacturing cost; standard cost; full cost and full cost plus mark up.
2. At market price.
3. At bargained or negotiated prices.

Pricing at Cost

1. **Actual cost of production:** In this method goods or services are transferred at their actual cost of production. It is useful for those units where the responsibility or profit performance is centralized.
2. **Standard cost:** Under this method all transfers are valued at their standard cost. Any difference between actual and standard cost viz., variances are usually absorbed by the supplying unit.
3. **Cost of sales/full cost**: Under this method, in addition to actual cost of production, expenses like selling and distribution, administration, research and development cost etc are also allowed is not allowed to make any profit on transfers to other units. But it is free to earn profit outside sale.
4. **Full cost plus mark up:** Under this method the supplying unit transfers goods and services and services at full cost plus some mark-up or allowance for profit. This allowance is cither expressed as a percentage of capital employed or cost of sales. Selling expenses especially when the goods/services are transferred internally.

Pricing at market price: Under this method, the transfer prices of goods/services transferred to other units/divisions are bases on market prices. In a completive market goods/ services cannot be transferred to its users at a higher price. Such a competitive market provides an incentive to efficient production. Since market price will, by and large be determined by demand and supply in the long provide a good indicator of the overall efficiency of the various units.

Competitive market prices provide reliable measures of divisional income because these prices are established independently rather than by individuals who have an inters in the results.

Negotiated Price: Here each decentralized unit is considered as an independent unit and competitive price is arrived at by negotiation or bargaining. The divisional managers have full freedom to go for outside purchase if the prices quoted by other divisions are not acceptable to them.

Write short notes on: 2009-June |8|

(b) Limitation of Market Based Transfer pricing.

Answer:

The main limitations of this method are:

(i) Difficulty in obtaining market prices. Sometime it is difficult to obtain at all any market price for those vary products which are manufactured only for internal consumption.

(ii) Difficulty in determining the elements of selling and distribution

Expenses such as commission, discounts, advertisement and sales promotion etc., so that necessary adjustment may be made in the market price to provide benefit of these expenses, to the profit centre, receiving the goods.

NIFORM COSTING & INTER FIRM COMPARISON

Write short notes on: **2009-June|8|**

(c) Essentials of Inter firm comparison.

Answer:

Requisites of inter-firm comparison system: the following requisites should be considered while installing a system of inter-firm comparison:-

1. **Centre for Inter-Comparison-** For collection and analyzing data received from member units, for doing a comparative study a Central body is necessary. The functions of such a body may be:
   - Collection of data and information from its members;
   - Dissemination of results to its members;
   - Undertaking research and development for common and individual benefit of its members;
   - Organizing training programmers and publishing magazines.
2. **Membership-** another requirement for the success of inter-firm comparison is that the firms of different sizes should become members of the Centre entrusted with the task of carrying out inter-firm comparison.
3. **Nature of information to be collected-** Although is no limit to information, yet the following information useful to the management is in general collected by the Centre for inter-firm comparison.
   - Information regarding costs and cost structures.
   - Raw material consumption.
   - Stock of raw material, wastage of materials, etc.
   - Labour employed and machine efficiency
   - Capital employed and return on capital.
   - Liquidity of the organization.
   - Reserve and appropriation of profit
   - Creditors' and debtors.
   - Methods of production and technical aspects.
4. **Method of collection and presentation of information-** the Centre collects information at fixed intervals in a prescribed form from its member, sometimes questionnaire is sent to each member; the replies of the questionnaire received by the Centre constitute the information/data. The information is generally collected at the end of the year as it is mostly related with final accounts and Balance Sheet. The information collected as above is stored and presented to its members in the form of a report. Such reports are not made available to non-members.

Write short notes on the following: **2010-June|8|**

(c) Inter-Firm Comparison;

(d) Uniform Costing;

Answer:

Inter-Firm comparison is a management technique by the use of which it is made possible for an organization to compare its performance with that of the other units engaged in the same activity. Thus it is a technique of evaluation and is based upon a comparison of productivity, efficiency, cost & profit as yard stick among the different business units I am same industry. There are a way a available for such comparison.

(i) Where such comparison is made from freely available published information and
(ii) Where there is voluntary and authentic exchange of information among the different units systematically and scientifically.

(d)Uniform costing is the use by several undertaking of the same costing principles and or practices. The goal is set with uniformity of principles and similarity of methods with the understanding that in a particular undertaking there may exist conditions which require Features of uniform costing are as follows:

- Common bases for the apportionment and allocation of overhead to be followed by all units in the same industry.
- The departments sections or production centre's to be used for analysis and comparison of costs to be determined.
- What items shall be regarded as factory or distinct from administration expenses to be clearly indicated.
- Common basis form recovery of overheads.
- Common rates of depreciation should be applied to plant and machinery.
- To set up an organization to prepare comparative statistics for the use of those adopting the uniform system. Privacy of individual data and confidence in the co-coordinating office are essential factors.

What is inter-Firm Comparison? Enumerate some of its advantages. 2010-June |4|

Answer:

Inter firm comparison, as the name indicates, is a technique by which a company evaluates its performance with those of other firms in the same industry. Uniform cost accounting is a must for such meaningful comparison. To facilitate such comparison and evaluation, generally a central organization is formed to collect the necessary data periodically in a standard format from all member industries. To safeguard the confidentiality of the individual firm's performance details, the data are collected as a ratio or percentage by the central organization in the industry. Information collected may relate to costs, capacity utilization, raw material usage, labour productivity, ROI etc.
This comparison has many advantages which are as follows;

- It promotes a sense of cost consciousness among member units and helps to improve their efficiency.
- It throws light on weak –areas and enables members units to take remedial action.
- It prevents unhealthy price cuffing.
- It enables the member to present a united stand before Government and other regulatory bodies.
- An overall improvement in the industry will result in higher profit for member, more benefit to labour, prices to consumers and high revenue to the Government by way of taxes/ duties.

Other Misc. Theory Question

1. Essentials of Inter firm Comparisons
2. Uniform Costing
3. Advantages of Inter firm Comparison
4. Material Requirement Planning
5. Value Analysis
6. Enterprise Resource Planning (ERP)
7. Manufacturing Resources Planning – II
8. Value Engineering
9. Target Costing
10. Total Quality Management
11. JIT
12. Supply Chain Analysis
13. Balanced Scorecard and its perspectives
14. Bench Marking
15. Objectives of Performance Management
16. Principles of Management
17. Modeling in Operation Research
18. New management revolution
19. Management control system in NPO
20. Important features of Performance Management system
21. Process of Managing Change.