Ranker's first Choice

CA Purushottam Aggarwal

Purushottam Sir Costing Classes

AIR 1

AIR 18

AIR 2

AIR 30

AIR 16

AIR 26

AIR 18

AIR 28

AIR 30

AIR 43

AIR 37

AIR 41

AIR 45

AIR 50

97 Marks in CA Inter Cost & Mgt A/c

Purushottam Sir Costing Classes

Logou

Intermediate (New) Examination Results, Nov 2018

Roll Number	814964
Name	**AYUSH RATHI**
Group I	
Accounting	069
Corporate and Other Laws	057
Cost and Management Accounting	097
Taxation	065
Total	**288**
Result	**PASS**
Group II	
Advanced Accounting	072
Auditing and Assurance	057
Enterprise Information Systems & Strategic Management	046
Financial Management & Economics for Finance	080
Total	**255**
Result	**PASS**
Grand Total	**543**

AIR 36

Purushottam Aggarwal Classes

93 Marks in Costing

Intermediate (New) Examination Results Merit List, Nov 2018

(Top candidates upto 50 Ranks securing minimum of 55 percent and above marks)

Roll Number	**802926**
Name	ASHISH GARG
Reg No	NRO0457407
Total marks	591
Rank No	**36**

Intermediate (New) Examination Results, Nov 2018

Pass With Distinction

Roll Number	802926
Name	**ASHISH GARG**
Group I	
Accounting	092
Corporate and Other Laws	064
Cost and Management Accounting	093
Taxation	082
Total	**331**
Result	**PASS**
Group II	
Advanced Accounting	074
Auditing and Assurance	041
Enterprise Information Systems & Strategic Management	056
Financial Management & Economics for Finance	089
Total	**260**
Result	**PASS**
Grand Total	**591**

Whatsapp Your Result at 9582808296

Top 20 Theory Questions – 20 Marks

Cost & Management Accounting

Question 1 Distinguish between Bill of material and material requisition note?

Answer:-

Bills of Material (BOM)	Material Requisition Note (MRN)
Prepared by **planning** dept.	Prepared by the production dept.
It shows description of all material required for a job along with required quantities.	It is prepared when a single or few items (NOT ALL ITEMS) of materials are required.
it can replace **MRN**.	It cannot replace **BOM**.
It can be used for the purpose of inviting **quotation.**	It can be used in calculating **historical cost** only.
It shows quantity of material to be drawn from stores.(Quantitative Control)	It shows material actually drawn from stores.

Question 2 Distinguish between bin card and stores ledger?

Answer:- Difference between Bin Card & Stores Ledger

Bin Card	Stores Ledger
Maintained by store keeper in store.	Maintained by costing dept.
Contains only quantity of material received, issued & returned.	Contains both quantity and cost of material.
Bin cards are updated instantly with each receipt & issue.	Posting in stores ledger is done at periodic intervals
Each transaction is posted quickly.	Transactions are summarized & posted at intervals.
Inter- dept. transfer not recorded.	Inter- dept. transfer recorded.

Question 3 Explain the concept of "ABC" analysis as a technique of inventory control?

Answer:- All items of material are grouped into three categories A, B and C according to their **use value** during a period. High use value items are controlled more closely than low use value items.

1. 'A' Category of items consisting of **about 10 % of the total physical items of material handled** and about **70% of inventory use value**.
2. 'B' Category of items consisting of about **20% of the total physical items of material handled** and about **20% of inventory use value.**
3. 'C category of items consisting of about 70% of total physical items of material handled and about **10% of total inventory use value.**

'A' category of items controlled effectively by using a **regular system**, which ensures neither over- stocking nor shortage of materials for production.

'B' category of items, same degree of control as applied in 'A' category of items is not required. This category of items are controlled by routine control measures.

'C' category of items, there is **no need of exercising constant control**. Orders for items in this group is placed either after six months or once in a year considering consumption requirements.

Illustration:-

Category	No. of Items	% of Total number of items	Item Value (₹)	% of Total Value
A	100	10%	70,000	70%
B	200	20%	20,000	20%
C	700	70%	10,000	10%
Total	**1000**	**100%**	**1,00,000**	**100%**

Advantages of ABC Analysis

1. More control over high value items (A category items –Large Invt.).
2. Low control over low value items.
3. Minimum total ordering and carrying cost.
4. Maintain high inventory turnover rate.

Question 4 Define overtime premium. Describe causes and treatment of overtime premium in cost accounting?

Answer:- Working hours above normal working hours is known as 'overtime work'. Wage rate for overtime is higher than normal time wage rate (Normally double). The extra amount so paid over the normal rate is called overtime premium.

<u>Occasional overtime</u> is a healthy sign since it indicates full utilisation of capacity. But **<u>persistent overtime</u>** is a bad sign because it indicates more capacity (labour strength) need to be added or workers wilfully postpone working in normal working hours.

Causes of Overtime	Treatment of overtime Premium
1. Overtime required regularly as a policy due to	Charge Overtime premium payment to jobs.

shortage of labour.	
2. Overtime desired at customer request to complete the work instantly.	Charge Overtime Premium to that job.
3. Overtime required to increase the output as **general production programme**.	Charge Overtime Premium to production OH.
4. Overtime required to increase output to meet additional market **demand**	Charge Overtime Premium to production OH.
5. Overtime required to meet seasonal **demand**	Charge Overtime Premium to production OH.
6. Overtime worked irregularly to meet requirements of production	Charge Overtime Premium to production OH.
7. Overtime required to make up any shortfall in production due to abnormal situations e.g. earthquake, flood, breakdown of machine.	Charge Overtime Premium to costing profit and loss account.

Question 5 Explain profit-sharing and Co-partnership schemes. Also describe advantages & disadvantages?

Answer:- Profit sharing schemes = Workers paid share in profit of org. at pre-determined ratio along with wages. (Recognise efforts of workers towards profit making)

Co-partnership scheme **=** workers share profit of org. in the form of shares (Recognise efforts of workers towards profit making)

Advantages	Disadvantages
EE feel their importance in earning profit by org so improve production, efficiency.	Worker get demotivated if profit reduces
Reduction in Labour turnover rate if minimum period of service is put as condition for participating in such schemes.	Profit depends on good work of workers & other factors also. Profit may be less if other factors work negatively thereby dissatisfaction among workers in spite of good work
Better team work & better co-operation	Less share in profit my hamper zeal to work
	EE may doubt the profit declared
	No individual recognition of EE

Question 6 Distinguish between Job Evaluation and Merit Rating?

Answer:- Job Evaluation:- Evaluation (rating) of various jobs as per responsibility & skills required for them. (To determine basic wage & salary for a job).

Merit Rating:- Rating (relative worth) of each worker as per performance of each employee.

Job Evaluation	Merit Rating
Evaluation (rating) of various jobs as per responsibility & skills required for them	Rating (relative worth) of each worker as per performance of each employee
It rate job.	It rate job-holder.
To determine basic wage & salary for a job	To determine fair wages for each worker

Question 7 Explain treatment of some specific items in Cost Accounting?
Answer:-

1. **Treatment of Interest on capital:** Controversy whether interest on capital be treated as costs or not. (**Note Intt on Capital means Intt on own fund)**

Arguments in favour of Inclusion:

1) Include intt. as wages is reward for labour & interest is reward for capital.
2) Include intt. In calculating actual Carrying cost of maintaining.
3) Include intt. While comparing cost of different jobs needing different capital.
4) Include intt. while comparing cost under old method (Labour based) & new method (Machine based).
5) Include intt. To calculate true profits.
6) Include intt. while submitting tenders of cost plus contracts etc.

Arguments against inclusion:

1. Not Include Intt. Since it is economics concept (Not costing concept).
2. Not Include Intt. Since it is pure finance (not connected to cost of manufacture)
3. Not Include Intt. since difficult to determine fair rate of interest.
4. Not Include Intt. Otherwise value of closing stock will increase which means recognition of unrealized profit.

Conclusion:- Include intt. While comparing cost for managerial decision making & Not Include Intt. While calculating cost undet cost A/c.

2. **TREATMENT OF DEPRECIATION**:- Dep.(reduction in value of a fixed asset due to use/passage of time)

Dep. on fixed assets of factory e.g. factory building	Part of Production OH.
Dep.on fixed assets of administration office e.g. office building	Part of Administration OH.
Dep.on fixed assets of selling office e.g. show room building	Part of Selling OH.
Dep.on fixed assets of distribution office e.g. warehouse, delivery van)	Part of Distribution OH.

3. **Packing expenses:**
   - Charged to Prime Cost if Cost of Primary Packing is incurred for protecting the product.
   - Charged to Distribution Overheads if Cost of Secondary Packing is incurred to facilitate transportation of product from storage to place of customers
   - Charged to Selling overheads if Cost of Secondary Fancy Packing is incurred to attract customers
   - Charged to specific job if Cost of Special Packing is incurred at the request of customer
4. **Fringe benefits:** (Indirect benefits e.g. medical facilities, housing facilities) in addition to basic salary & allowances like DA & HRA. (To improve morale, loyalty & stability of employees)
   1) FB charged directly to product by supplementary labour rate if the amount is substantial.

2) FB treated as production OH if the amount is not substantial

5. **Expenses on removal and re-erection of machines:** Exp.incurred in factory due to change in method of production & an addition or alteration in factory building (Treat Part of production OH)
   Such expenses charged to Costing P&L A/c if due to abnormal reasons as faulty planning.
6. **Bad debts:**
   1) Treated as Selling OH if **normal amt** of Bad Debts is arising in normal course of business.
   2) Exclude from Cost A/c if **Abnormal Amount** of Bad Debts arises.

   One view is that bad debts are financial losses and hence should be excluded from Cost Accounts.
7. **Training Expenses =** Salaries/Wages to Trainees + Costs incurred in training dept + Loss arising from initial lower production.
   1) Treat as Production OH if Training expenses belongs to Factory trainees.
   2) Treat as Administration OH if Training expenses belongs to Office & Adm. Trainees.
   3) Treat as Selling overheads if Training expenses belongs to Sales Trainees.
   4) Treat as Distribution overheads if Training expenses belongs to Distribution Trainees.
   5) Treat as loss in Costing P&L if Training expenses are due to high labour turnover.
8. **Canteen Expenses / Expenses on Welfare Activities :**
   1) Treat as Production OH if Expenses belongs to welfare of factory staff.
   2) Treat as Adminisration OH if Expenses belongs to welfare of Administration Staff.
   3) Treat as Selling OH if Expenses belongs to welfare of Sales Staff.
   4) Treat as Distribution OH if Expenses belongs to welfare of Distribution Staff.
9. **Carriage and cartage expenses:** (Exp incurred on inward/outward of materials & goods from one place to another.
   1) Treat as part of direct material cost if it relates to Direct Materials.
   2) Treat as part of Production overheads if it relates to Indirect Materials.
   3) Treat as part of Distribution overheads if it relates to Distribution of Finished Goods.
   4) Charge to Costing P&L if it relates to Shifting of Direct/Indirect Materials/Finished goods under abnormal conditions such as fire, flood etc.
10. **Night shift allowance:** (extra amount paid to employees who work during night hours)
    1) Charge Production OH if it is paid to meet demand in general beyond normal capacity.
    2) charge directly to job concerned if it is paid to meet some specific customer order.
    3) charge to Costing P&L if it is paid to produce during night hours due to abnormal circumstances (say No Power during the day hours).
11. **Research and Development Expenses:-** Research Cost means cost of searching new or improved products or methods.
    1) Treat as Production OH if the **Research cost** relates to Manufacturing Activities.
    2) Treat as Administration OH if **Research cost** relates to General Management Administration.
    3) Treat as Selling & Distribution OH if the **Research cost** relates to Marketing Activities.
    4) Directly charge to a particular product if the **Research cost** relates to Particular Product.
    5) Treat as deferred revenue loss & charge to Costing P&L over a period generally not exceeding 3 years the **cost** of Unsuccessful **Research**.

    Developments Cost :- Cost of process which begins with the implementation of the decision to produce a new or improved product or to employ a new or improved method and ends with the commencement of actual production of that product or by that method.
    1) Directly charge to a product if **Development** Costs relates to a particular product.

2) Treat as deferred revenue expenditure & charge to Costing P&L over a period generally not exceeding 3 years if the amount of **development** cost is Substantial.

12. **Cost of Idle capacity/Facilities:-** Part of practical capacity which cannot be utilized due to abnormal reasons like shortage of raw-materials, shortage of labour, shortage of power etc.

    Idle Capacity = Practical Capacity – Actual capacity

    Idle capacity cost refers to costs associated with idle capacity which could not be recovered.

    ICC = Total Costs related to plant / Normal capacity × Idle capacity

    Exp:- Practical capacity of plant is 2,120 hours & Actual capacity of plant is 1,800 hours. Fixed Overheads of plant for the year is Rs. 5,30,000.

    ICC = 5,30,000 X $\frac{2120\ hours - 1800\ hours}{2120\ hours}$ = Rs. 80,000

    - ICC charged to capacity utilized by using a Supplementary OH Rate If idle capacity is due to unavoidable reasons like repairs, maintenance etc.
    - ICC charged to Costing P&L if Idle capacity is due to abnormal reasons like power failure
    - ICC charged to production cost by inflating OH rates If idle capacity is due to seasonal factors.

13. **Cost of Small Tools:-** Small tools include drill bits, screw cutter etc. (short effective life)
    1) Capitalize purchase cost & depreciate over life if their life is ascertainable. Charge dep. to Factory OH.
    2) Charge purchase cost fully to depts to which they have been issued, if life is not ascertainable.

14. **TREATMENT OF COST OF OBSOLESCENCE OF FIXED ASSETS**:- Obsolescence means diminution in the intrinsic value of a fixed asset. It arises when before the expiry of expected normal useful life, the asset needs replacement by a new or improved asset due to external factors like technological improvements.
    Provision for obsolescence should be made while determining the rate of depreciation and should be treated as part of production overheads. The loss arising on account of obsolescence is generally charged to Costing Profit & Loss Account.

15. **Leave Wages:-** wages for an accrued leave
    1) Charge to production by adjusting wage rate if Leave wages belongs to Factory direct workers.
    2) Treat as a part of Production overheads if Leave wages belongs to Factory indirect workers.
    3) Treat as a part of Administration overheads if Leave wages belongs to Administration workers
    4) Treat as part of Selling overheads if Leave wages belongs to Sales workers.
    5) Treat as part of Distribution overheads if Leave wages belongs to Distribution workers

16. **Treatment of Bonus (Profit sharing):-** Profit sharing bonus is paid out of profit and hence it is an appropriation of profit.

Bonus	Accounting Treatment
Minimum Bonus under Pymt of bonus Act	
to Factory direct workers	Treat as part of Direct Labour Cost.
to Factory indirect workers	Treat as part of Production overheads.
to Administration workers	Treat as part of Adm. overheads

to Sales workers	Treat as part of Selling overheads.
to Distribution workers	Treat as part of Distribution overheads.
Bonus over & above the minimum Bonus	Charge to Costing P&L A/c.

17. **Treatment of Fines realised from workers**:- Credit fine to a Separate Fine Fund & utilise it for welfare of workers. Incomes and expenses relating to Fine Fund are not included from Cost Accounts.
18. **Treatment of Leave Travel Concession (LTC):-**
    1) Treat as part of direct labour cost if LTC is given to Factory Direct Workers.
    2) Treat as part of Production overheads if LTC is given to Factory Indirect Workers.
    3) Treat as part of Administration overheads if LTC is given to Administration employees.
    4) Treat as part of Selling overheads if LTC is given to Sales employees.
    5) Treat as part of Distribution overheads if LTC is given to Distribution employees.

Question 8 DISTINCTION BETWEEN NON-INTEGRAL SYSTEM AND INTEGRAL SYSTEM?

Basis of Distinction	Non-integral System	Integral System
No. of Sets of Books are maintained	2 separate sets of books - one to record cost trans. & other to record financial trans.	1 set of book - to record both the cost & financial transactions.
Cost Ledger maintained	Yes Maintained	No Maintained
Figure of Profit/ Loss	2 figures of profit/ loss – one as per cost books & other as per financial books.	1 figure of profit/loss because only one set of books is maintained.
Need for Reconciliation	There is need for reconciliation of cost accounts and financial accounts because there are two different figures of profit/loss as there are two sets of books.	There is no need for reconciliation because there is only one figure of profit/loss as there is only one set of books.
Economical	Expensive (Duplication of recording transactions in 2 sets of books)	Economical (Avoids duplication of recording the transactions)

Question 9 What is Contract Costing and list down the features of contract costing?

Answer:- Specific order costing under which each contract is treated as a separate cost unit and costs are accumulated and ascertained separately for each contract. Features:-

- All costs are accumulated and ascertained for each contract separately.
- A separate contract account is prepared for each contract.
- Each contract is usually a large contract normally takes more than 1 year.
- Number of contracts undertaken by a contractor at a time is not usually very large.
- 2 parties are involved first is contractor, the person who undertakes the contract and second is contractee, the person who gives the contract.

Question 10 Distinguish between job costing and contract costing?

Job Costing	Contract Costing
Each job is treated as a separate cost unit.	Each contract is treated as a separate cost unit.
Job work is executed in factory premises.	Contract work is executed at site of contract.
Indirect cost is higher than those in contract costing.	Indirect cost are lower than those in job costing.
Size of a job is smaller than that of a contract.	Size of a contract is larger than that of a job.
The number of jobs undertaken are usually large.	The number of contracts undertaken are usually small.

Question -11 Distinguish between Operating Costing and Operation Costing ?

Answer: Operating Costing: Method of ascertaining cost of providing a service to customer rather than on the cost of manufacturing a product (Used in service industries) e.g. transport companies, cinema halls, hospitals. Within an org. itself certain depts provide services known as service dept e.g. hospital, internal transport etc.

Operation Costing: Method under which cost are ascertained for each **operation** involved in manufacturing of goods. It is refinement of process costing. At the end of each operation, the unit operation cost is computed by dividing total operation cost by total output.

Question 12 Distinguish between job costing and process costing?

Job Costing	Process Costing
Production is special order based	Production is continuous.
Each job is different	Each product is homogenous & standardised.
Cost centre is job.	Cost centre is process.
Cost are ascertained for each job separately.	Cost are ascertained for each process separately.
Job costs are calculated when job is complete.	Process costs are calculated at end of each process.
May or may not be WIP.	Always be WIP.
Usually no transfers from one job to another.	Output of one process is transferred to next process as input.

Question 13 Distinction between Standard costing and Budgetary Control?

Standard Cost	Budgetary Control
Controlled by comparing actual cost with standard cost of actual output.	Controlled by comparing actual figures with budgeted figures of sales, production, capital assets etc.
Narrow scope since it covers only production costs.	Wide scope since it covers all business operations, sales, capital & expenses.
Mainly concerned with calculation & control of each element of cost.	Mainly concerned with overall profitability & financial position of business.
Projection of cost accounts only.	Projections of financial accounts & cost accounts.
It involves detailed variance analysis item by item in respect of each element of cost.	It involves budgeting and control of total expenses and revenues based on estimates.

Question 14 Short Notes on following terms ?

1. **Marginal Costing**:- total cost is divided into variable and fixed cost. Profit = Contribution – Fixed cost whereby Contribution = Sales – Variable Cost. Variable cost treated as production cost while fixed cost treated as period cost.
2. **Marginal Cost**:- Increamental change in variable cost if the volume of output is increased by one unit.
   Marginal Cost = Direct Labour + Direct Material +Direct Expenses + Variable Overheads whereby
3. **Direct Costing:** Practice of charging all direct cost to products & all indirect costs is written off against profits in the period in which they arise.
4. **Differential cost**:- Difference between total cost of 2 alternatives. It is determined to choose the best cost effective alternative.
5. **Contribution** = Sales Value – Variable Cost
   Under contribution concept, fixed cost is considered as period cost which cannot be suitably apportioned between products. It helps management in following ways:-
    a. While deciding acceptance or rejection of a new order, contribution from new order is compared with contribution on earlier production on the basis of per unit and finally highest contribution giving option is adopted.
    b. While deciding between different methods of production, the method which generates higher contribution is considered.
6. **Key Factor / Limiting Factor:** it is a factor which limits the activities of an undertaking. Examples, Shortage of raw material, Shortage of labour etc.
7. **Cost Volume Profit Analysis**:- CVP analysis is the analysis of three variables cost, volume and profit. Such an analysis explores the relationship between costs, revenue & resulting profit. **Assumptions:**
    1. Changes in the levels of revenues and costs arise only because of changes in the number of product or services units produced and sold.

2. Total costs can be separated into two components; fixed cost which does not vary with level of output and variable cost which varies with level of output.
3. When represented graphically, the behaviours of total revenues and total costs are linear in relation to output level within a relevant range and time period.
4. Selling price per unit, variable cost per unit, and total fixed costs are constant.
5. All revenues and costs can be added, subtracted, and compared without taking into account the time value of money.

Importance :- It provides the information about the following matters:

1. The behave of cost in relation to level of activity.
2. Volume of production or sales, where the business will break-even.
3. Relation of profits to variation in level of output.
4. Amount of profit for a projected sales volume.
5. Quantity of production and sales for a target profit level.

Impact of various changes on profit:

An understanding of CVP analysis is extremely useful to management in budgeting and profit planning. It depicts the impact of the following on the net profit:

(i) Changes in selling prices,
(ii) Changes in volume of sales,
(iii) Changes in variable cost
(iv) Changes in fixed cost.

8. **Contribution to Sales Ratio or Profit Volume Ratio or P/V ratio):-** expressed in %.

P/V Ratio = $\frac{Contribution}{Sales}$ X 100

Or P/V Ratio = $\frac{Change\ in\ Contribution/Profit}{Change\ in\ Sales}$ X 100

A higher P/V ratio explains that the rate of growth of contribution is faster than that of sales.

9. **Break Even Point (B.E.P):-** sales level at which no profit or no loss. Hence total cost equal to total revenue. BEP (in units) = $\frac{Fixed\ Cost}{Contribution\ per\ unit}$

BEP (in Vales) = $\frac{Fixed\ Cost}{Profit\ volume\ ratio}$

10. **Margin of Safety**:- difference between Actual sales & breakeven sales. MOS = Actual Sales – Breakeven Sales. MOS shall be NIL when actual sales is equal to breakeven sales level.

Margin of Safety = $\frac{Profit}{Profit\ volume\ ratio}$

11. **Cash Break-even point:** When BEP is calculated only with those fixed costs which are payable in cash, such a BEP is known as cash BEP i.e. ignore dep & other non-cash item

$$\text{Cash breakeven point} = \frac{Cash\ Fixed\ Cost}{Contribution\ per\ unit}$$

Question 15 Difference between marginal and absorption costing ?

SI No.	Marginal Costing	Absorption Costing
1.Fixed Cost	FC treated as period cost. Profitability of different products is judged by their P/V ratio.	FC treated as product cost. Profitability of different products is derived after reducing share in FC.
2. Variable cost	Only VC is considered for costing product & for inventory valuation.	Both FC & CS considered for costing product & inventory valuation.
3.cost data	Cost data is presented to highlight the contribution of each product.	Cost data is presented to highlight the profit of each product.
4.cost per unit	Cost per unit of production remains same irrespective of production level since it is values at variable cost.	Cost per unit of production reduces as the level of production increases since FC per unit reduces with level of production increases.

Question 16 State difference between Cost Control and Cost Reduction?

Cost Control	**Cost Reduction**
Actual cost should not exceed standard cost If it exceeds, investigation is needed.	Reducing cost further from standard cost level without impairing product quality.
Main objective - Control cost so as not to exceed the standard limits.	Main objective - Achieve real and permanent reduction in cost p.u. of goods mfd.
Standards are treated as milestone	Standards are assumed to have much extra cost.
Preventive function	Corrective function.
Emphasis on past and present.	Emphasis on present and future.

Question 17 State difference between Financial Accounting and Cost Accounting

Sl No.	Basis	Financial Accounting	Cost Accounting
1.	Objective	To provide information about financial performance.	To provide information of ascertainment of cost for the purpose of cost control and decision making.
2.	Nature	Records all expenses as direct or indirect	Records all expenses as material, labour and OH cost.
3.	Recording of Data	Records Historical data.	Use of both historical costs & pre-determined costs.
4.	Users of information	Users are shareholders, creditors, financial analysts and government and its agencies etc.	User is only internal mgt
5.	Analysis of costs and profits	Shows total profit or loss of company	Shows profit or loss of each product
6.	Time Period	Financial statements are prepared usually for a year.	Its reports and statements are prepared as and when required.

Question 18 Explain Profit centres and investment centres? OR Define Responsibility centre?

Responsibility Centre :- it is a unit of function of the organisation under the control of a manager who has direct responsibility for its performance.

Responsibility centre are classified into following 5 categories:-

1. Cost centre:- it is a responsibility centre for which costs are accumulated. The main objective of cost centre is to minimise the costs of centre.
2. Revenue Centre:- it is a responsibility centre for which revenues are accumulated. The main objective of revenue centre is to maximise revenue of the centre.
3. Profit centre:- it is a responsibility centre for which both revenues and costs are accumulated. The main objective of this centre is to maximise profit of the centre.
4. Contribution Centre:- it is a responsibility centre for which both revenues and variable costs are accumulated. The main objective of this centre is to maximise contribution of the centre.

Investment centre:- it is a responsibility centre for which costs, revenues and investment in assets are accumulated. The main objective of this centre is to maximise return on capital employed or return on investment of the centre.

Question 19 What is the need for reconciliation of Cost and Financial Accounts? State the possible reasons for difference between profits shown by cost accounts and financial accounts?

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 that of the other set of books. Hence, the need for reconciliation of profit arises:

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

The various reasons for the difference are given below:-

1. Under or Over absorbed of Overheads:- The overheads absorbed at a pre-determined rate in cost accounts may be different from the actual overheads recorded in financial accounts. The effect of over / under absorption of overheads on profits is shown below**:**

Particulars	Effect on Profits on Cost Accounts	Effect on Profits on Financial Accounts
1. Over absorption of OH in Cost Accounts	Less Profits	More Profits
2. Under absorption of OH in Cost Accounts	More Profits	Less Profits

2. Different Bases for Valuation of Stocks:- In financial accounts, Stock of Finished Goods is valued at cost *or* market price whichever is lower but in cost accounts, it is valued at cost. The effect of over/under valuation of stock on profits is shown below:

Particulars	Effect on Profits on Cost Accounts	Effect on Profits on Financial Accounts
1. Over valuation of Opening Stock in Cost A/c	Less Profits	More Profits
2. Under valuation of Closing Stock in Cost A/c	Less Profits	More Profits
3. Under valuation of Opening Stock in Cost A/c	More Profits	Less Profits
4. Over valuation of Closing Stock in Cost A/c	More Profits	Less Profits

3. Different Methods of Depreciation:- In financial accounts, (SLM) or (WDV) method may be used but in cost accounts Machine Hour Rate Method is used.

4. Items Included Only in Financial Accounts (Not in cost Accounts)
    1) Incomes e.g. Profit on sale of Fixed Assets.
    2) Expenditures e.g. Loss on sale of Investments, Preliminary expenses W/off
    3) Appropriations e.g. Dividend Distribution Tax, Income Tax

Items Included Only in Cost Accounts (Notional Expenses):- (Not in financial accounts) e.g. notional Interest on Capital, Notional Rent on premises owned

Question 20:- What is Difference between Activity based costing and Absorption based costing ?

Solution

Traditional Absorption Costing	Activity Based Costing
Overheads are first apportioned to departments cost centres and then to product.	Overheads are apportioned to various activities and then to product.
It is not realistic and correct way of distributing overheads cost.	It is modern and best way to distribute overhead costs to various products and services.
Overhead is apportioned on the following basis • Direct labour hour rate • Machine hour rate • Prime cost • Direct Material cost • Direct Labour cost	Overhead is apportioned on the basis of activities involved in a production process.
Formula of overhead recovery rate = $\frac{Total\ overheads}{Total\ of\ any\ of\ the\ above\ basis}$	Formula of overhead recovery rate = $\frac{Total\ overheads}{Total\ of\ related\ activities}$