

## COST ACCOUNTING

### CALICUT UNIVERSITY

### 4<sup>th</sup> SEMESTER B.COM

### “SHORT QUESTIONS/ 2 MARKS QUESTIONS”

1. What is cost centre?

*A cost centre is a department within an organization that does not directly add to profit but still costs the organization money to operate. Cost centres only contribute to a company's profitability indirectly.*

2. What is bin card?

*A bin card is a record of the receipt and issue of material and is prepared by the store keeper for each item of stores. A bin card is also known as bin tag or stock card and is usually kept in the rack where the material is kept. In a bin card not only the receipt and issue of material is recorded, minimum quantity, maximum quantity and ordering quantity are stated on the card.*

3. What is notional profit?

*If there is any profit upon the incomplete contract, it cannot be taken as actual profit. The profit upon the incomplete contract is called notional profit*

4. What is budget manual?

*CIMA London defines a budget manual as “a document schedule or booklet which set out the responsibilities of the persons engaged in the routine of and the forms and records required for budgetary control”.*

5. What is Rowan plan?

*Under Rowan plan, the workers is again guaranteed wages at the ordinary rate for the time taken by him to complete the job.*

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

*Where T= time taken (actual time)*

*S= standard time (time allowed)*

*R= Rate per hour*

6. What is prime cost?

*Prime cost refers to a manufactured product's costs, which are calculated to ensure the best profit margin for a company. The prime cost calculates the use of raw materials and direct labour, but does not factor in indirect manufacturing expense*

7. What is a flexible budget?

*It is a dynamic budget. It gives different budgeted cost for different levels of activity. It is prepared after making an intelligent classification of all expenses between fixed, semi variable and variable because the usefulness of such a budget depends up on the accuracy with which the expenses can be classified.*

8. What is standard costing?

*Standard costing is a technique which is complimentary to the actual costing or historical costing system. It uses standard for costs and revenues for the purpose of control through variance analysis.*

9. What is meant by absorption of overhead?

*Absorption means the distribution of the overhead expenses allotted to a particular department over the units produced in that department. Overhead absorption is accomplished by overhead rates.*

10. What do you mean by cost plus contract?

*Under cost plus contract no fixed price could be settled for a contract.*

11. What do you mean by imputed cost?

*Imputed cost is the cost incurred during the period when an asset is employed for a particular use, rather than redirecting the asset to a different use. This amount is the incremental difference between the two options. For example, a teacher decides to go back to school to earn a master's degree. During the period when she is at school, the imputed cost of this decision is the wages she would otherwise have earned if she had continued to work as a teacher*

12. What do you mean by maximum level?

*It is the maximum of stock which should be held in stock at any time during the year. The quantity is fixed so as to avoid overstocking as it leads to the following disadvantages.*

*(i)Overstocking leads to increase in working capital requirement which could be profitable used somewhere else.*

*(ii)Overstocking will need more godown space, so more rent will have to be paid.*

*(iii) It may also lead to obsolescence on account of overstocking.*

13. What is VED analysis?

*This is an analysis whose classification is dependent on the user's experience and perception. This analysis classifies inventory according to the relative importance of certain items to other items, like in spare parts. In VED Analysis, the items are classified into three categories which are: Vital – inventory that consistently needs to be kept in stock. •*

*Essential – keeping a minimum stock of this inventory is enough. • Desirable – operations can run with or without this, optional.*

14. What is labour turn over?

*Labour turnover is defined as the ratio of number of employees who leave the organization which can be due to any reason like resignation, termination of service etc. to the total number of employees on payroll that year. It is also called staffing turnover*

15. What is MHR?

*Machine hour rate is a rational method for absorption of factory overhead. The factory overhead costs are allocated to a machine or a group of machines doing the same type of job and the cost per hour of the machine is ascertained dividing the total allocated overhead costs to the machine by number of hours the machine worked during the same period of time for which the costs have been considered.*

16. What is cost sheet?

*Cost sheet is a device used to determine and present the cost under unit costing. It is a statement of costs incurred at each level of manufacturing a product or service. In a Cost sheet all the elements of cost is taken into consideration. It includes Prime cost, Factory/manufacturing cost, cost of production, cost of sale Profit/loss etc*

17. What is process loss?

*The loss that occurs in the course of converting an input raw material into finished products is known as process loss. Such a loss may occur because of the nature of the raw materials. This type of loss occurs in terms of the difference between the input quantity and the output quantity. The difference between the input quantity and the output quantity arising on account of production operation is called process loss.*

*Process Loss = Normal process loss + Abnormal process loss*

18. What is Dormant stock?

*It is also called Dormant Stock or Sleeping Inventory, and refers to the items which are now stored in a warehouse or another place, but have not be used for a long time. This is why the opportunity of their production or shipping was missed, and the*

items influenced by seasonal variation or cycle movement are the cases. They can, however, be used properly as production parts or service parts. In contrast, the items whose production is stopped and which will never be used again and have lost their own function due to some damage are called Dead Stock.

19. Define direct costing?

Direct costing is a specialized form of cost analysis that only uses variable costs to make decisions. It does not consider fixed costs, which are assumed to be associated with the time periods in which they were incurred. The direct costing concept is extremely useful for short-term decisions, but can lead to harmful results if used for long-term decision making, since it does not include all costs that may apply to a longer-term decision

20. What is sub contract?

Sometimes the contractor enters into contracts with another contractor to give a portion of work undertaken by him. In such cases the work performed by the subcontractor forms a direct charge to the contract concerned. Sub contract cost will be shown on the debit side of the contract account.

21. What do you mean by labour productivity?

Labour productivity is concerned with the amount (volume) of output that is obtained from each employee.

22. What is a by-product?

By-products, or by-products, are products with relatively little value that emerge from a common process along with the main products. The main products have significant value and are referred to as joint products. The point at which the by-products and joint products emerge from the common process is known as the split-off point. The costs prior to the split-off point are known as the common costs.

24. What do you mean by under absorption of overhead?

If the overhead absorbed is lower than the actual overheads incurred during the accounting period, it is called under absorption.

25. What do you mean by standing charges?

Standing charges are estimated for a period for every machine and the amount so estimated is divided by the total number of normal working hours of the machine during that period in order to calculate an hourly rate for fixed charges. For machine expenses, an hourly rate is calculated for each item of expenses separately by dividing the expenses by the normal working hours.

26. What is de-escalation clause in contract accounts?

A provision of a contract which calls for a decrease in price in the event of a decrease in certain costs. For example a de-escalation clause may specify that shipping costs will decrease along with the price of gasoline. Opposite of escalation clause

27. What do you mean by zero base budgeting?

According to the official CIMA terminology, zero base budgeting is, "a method of budgeting which requires each cost element to be specifically justified, as though the activities to which the budget relates were being undertaken for the first time. Without approval, the budget allowance is zero".

28. What is unit costing?

It is also known as output costing or single costing. It is used to ascertain the cost of producing a unit of output... This method is called 'unit' costing since every unit of production is identical in all respects and the cost unit is a standard product.

29. What is meant by indirect labour?

Indirect Labour is that labour which is not directly engaged in the production of goods and services but which indirectly helps the direct labour engaged in production. The examples of indirect labour are supervisors, sweepers, cleaners, time-keepers, watchmen etc.

30. What is danger level?

This level means that level of stock at which normal issues of the material are stopped and issues are made only under specific instructions. The purchase officer will make special arrangements to get the materials which reach at their danger levels so that the production may not stop due to shortage of materials.

*Danger Level = Average consumption X Max.re-order period for emergency purchases*

31. What is meant by functional budget?  
*Functional budgets are those which are prepared by heads of functional departments for their respective departments and are subsidiary to the master budget. Functional budget may be Operating budgets or financial budget.*

32. What do you mean by direct expense?  
*Direct Expenses are expenses directly identified to a particular cost centre. Hence expenses incurred for a particular product, job, department etc are direct expenses. Example royalty, excise duty, hire charges of a specific plant and equipment, cost of any experimental work carried out especially for a particular job, travelling expenses incurred in connection with a particular contract or job etc*

33. What is retention money?  
*Regardless of the amount of work certified, the contractor is paid a specified percentage of the same and the balance is held or retained by the contractee. This is because of the fact that the contractee has to safe guard himself against any contingency arising from the non-fulfilment of the terms of the contract by the contractor. The unpaid balance of work certified or the amount held back or retained by the contractee is known as 'retention money'.*

34. State any three advantages of piece rate system?  
*(i)Wages are linked to output so workers are paid according to their merits.  
 (ii)Workers are motivated to increase production to earn more wages.  
 (iii) Increased production leads to decreased cost per unit of production and hence profit per unit increases.*

35. Distinguish between joint product and by-product?

<b>Joint products</b>	<b>By-products</b>
<i>Joint products are two or more products separated in the course of processing, each having a</i>	<i>By-products are outputs of some value produced incidentally in manufacturing</i>

<i>sufficiently high saleable value to merit recognition as a main product</i>	<i>something else (main products).</i>
<i>Joint products include products produced as a result of the oil-refining process, for example, petrol and paraffin</i>	<i>By-products, such as sawdust and bark, are secondary products from the timber industry (where timber is the main or principal product from the process).</i>

36. What is batch costing?  
*Batch costing is the identification and assignment of those costs incurred in completing the manufacture of a specified batch of components. Having arrived at the batch cost, the unit cost is simply derived by dividing it by the number of components in the batch*

37. What is a stores ledger?  
*This ledger is kept in the costing department and is identical with the bin card except that receipts, issues and balances are shown along with their money values. This provides the information for the pricing of materials issued and the money value at any time of each item of stores.*

38. What is idle time?  
*There is always a difference between the time booked to different jobs or work orders and the time recorded at the factory gate. This difference is known as idle time. Idle time is of two types.  
 (a) Normal Idle Time  
 (b) Abnormal Idle Time*

