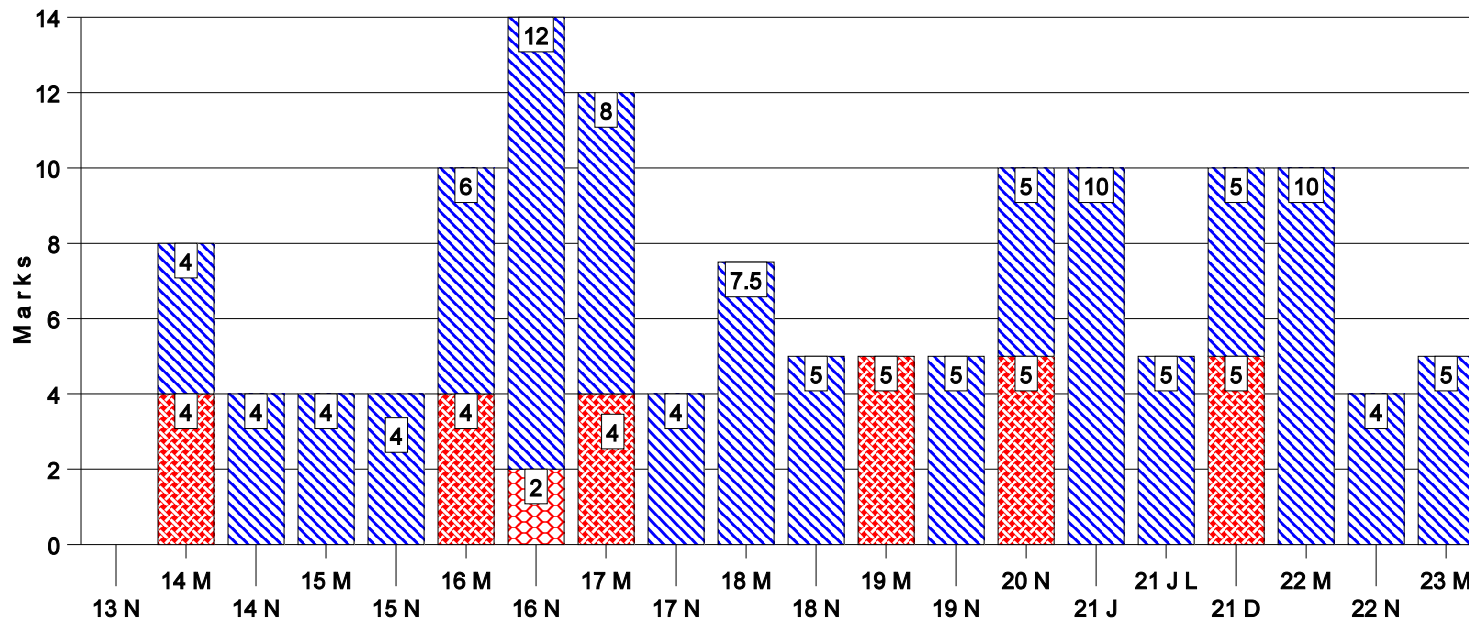
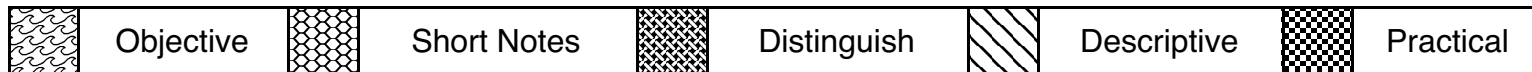


THE GRAPH

Trend Analysis

Marks of Objective, Short Notes, Distinguish Between, Descriptive & Practical Questions

Legend



Examination
4.23

CHAPTER	1	Introduction to Cost and Management Accounting
This Chapter Covers : Study's Chapter: 1		

Chapter Comprises

- Objectives of Cost Accounting
- Scope of Cost Accounting
- Relationship of Cost and Management Accounting with other related disciplines
- Role and Functions of Cost and Management Accounting
- Users of Cost and Management Accounting
- Essentials of a Good Cost Accounting System
- Installation of Costing System
- Cost Accounting with the use of Information Technology (IT)
- Cost Objects
- Responsibility Centres
- Limitations of Cost Accounting
- Classification of Costs
- Methods of Costing
- Techniques of Costing

TIME MANAGER		<i>Plan and Manage your Time</i>						
Time	First In-depth learning	Instant Revision (in hours)		Periodic Revision (in hours)				
	i.e.....	Next day i.e....	After 7 days i.e. on	After 30 days i.e. on	After 60 days i.e. on	After 90 days i.e. on	Fix as per your need.	
 Day 1 Day 2 Day 8 Day 30 Day 60 Day 90		
1. Budgeted	5	1.15	1.00	0.45	0.10	0.10		
2. Actual								
3. Variance (1-2)								

QUICK LOOK	<i>Weightage Analysis</i>	
Repeatedly Asked Questions	Common Answered Questions	Must Try Question
2.1, 3.1, 10.1	10.1, 11.4	1.2, 2.1, 4.1, 10.1, 10.3

MULTIPLE CHOICE QUESTIONS

- _____ is the amount of expenditure (actual or notional) incurred on or attributable to a specified article, product or activity.
 - Cost
 - Price
 - Rate
 - None of the above
- _____ is the technique and process of ascertaining costs
 - Costing
 - Financing
 - Pricing
 - Accounting
- _____ records the quantitative aspect only while _____ records both qualitative and quantitative aspect.
 - Management Accounting, Cost Accounting
 - Cost Accounting, Cost Accountancy
 - Cost Accounting, Management Accounting
 - Management Accounting, Financial Accounting
- _____ aims at maintaining the costs as per the established standards while _____ is concerned with reducing costs by challenging the standards and endeavours to improve them continuously.
 - Cost Reduction, Cost Control
 - Cost Accounting, Management Accounting
 - Cost Control, Cost Reduction
 - Financial Accounting, Cost Accounting
- The Operational level staffs like supervisors, foreman, team leaders are requiring cost and Management Accounting information to:
 - know the objectives and performance goals for them,

- (b) know product and service specifications like volume, quality and process, etc
 - (c) the know divisional (responsibility center) profitability etc
 - (d) All of the above
6. _____ is the responsibility centre which has both responsibility of generation of revenue and incurrence of expenditures.
- (a) Profit Center
 - (b) Investment Centre
 - (c) Revenue Centre
 - (d) Cost Centres
7. Following are the features of a good cost accounting system except:
- (a) Informative and simple
 - (b) Uniformity and Consistency
 - (c) Flexible and adaptive
 - (d) Requirement of reconciliation
8. _____ is anything for which a separate measurement is required.
- (a) Cost unit
 - (b) Cost driver
 - (c) Cost Center
 - (d) Cost object
9. Historical costs incurred in the past are known as _____
- (a) Sunk Costs
 - (b) Explicit Costs
 - (c) Implicit Costs
 - (d) Product Costs
10. Which of the following is true about Cost Control.
- (a) It ends when targets achieved
 - (b) It is a corrective function
 - (c) It challenges the set standards
 - (d) It is concerned with future
11. Match the following with their method of costing and choose the correct sequence

Industry	Costing Method
1. Oil Refinery	A Job Costing
2. Interior decoration	B Operating Costing
3. Airlines	C Process Costing
4. Bicycle manufacturing	D Multiple Costing
(a) 1-C, 2-A, 3-D, 4-B	
(b) 1-C, 2-A, 3-B, 4-D	
(c) 1-C, 2-B, 3-D, 4-A	

- (d) 1-A, 2-B, 3-D, 4-B
12. In_____, all costs are directly charged to a group of products.
- (a) Job Costing
 - (b) Multiple Costing
 - (c) Batch Costing
 - (d) Unit Costing
13. Cost unit used in power sector is :
- (a) Kilometer (km)
 - (b) Kilowatt -hour (kwh)
 - (c) Number of hours
 - (d) Number of electric points
14. _____is that portion of total cost, which involves cash outflow and used in decisions relating to fixation of selling price in recession.
- (a) Shut down Costs
 - (b) Engineered Costs
 - (c) Discretionary Costs
 - (d) Out-of-Pocket Cost
15. Process Costing method is suitable for:
- (a) Dam Construction
 - (b) Furniture making
 - (c) Transparent sector
 - (d) Chemical industries
16. _____ Costs are notional costs which do not involve any cash outlay.
- (a) Capitalised Cost
 - (b) Imputed Cost
 - (c) Explicit Cost
 - (d) Implicit Cost
17. Distinction between direct cost and indirect cost is an example of _____ classification.
- (a) By Element
 - (b) By Controllability
 - (c) By Function
 - (d) By Variability

18. From the Following given cases, choose the correct option for which imputed cost is suitable:
- (a) Interest paid on own capital not involving any cash outflow
 - (b) Withdrawing money from bank deposit for the purpose of purchasing new machine for expansion purpose
 - (c) Cost associated with the acquisition and conversion of material into finished product
 - (d) Rent paid for the factory building which is temporarily closed
19. The advantage of using IT in Cost Accounting does not include:
- (a) Customised reports can be prepared
 - (b) Reduction in multi city of documents
 - (c) Stock needs to be reconciled with Goods Received Note.
 - (d) Integration of various functions
20. _____ is the practice of charging all costs, both variable and fixed to Operations, processes or products.
- (a) Uniform Costing
 - (b) Marginal Costing
 - (c) Standard Costing
 - (d) Absorption Costing
21. A taxi provider charges minimum ₹ 80, thereafter ₹ 12 per kilometer of distance. Traveled the behaviour of conveyance cost is:
- (a) Fixed Cost
 - (b) Variable Cost
 - (c) Administrative Cost
 - (d) Semi- Variable Cost
22. Cost of a product or service is required to be expressed in suitable cost unit.
- Match the following industries with their Cost units:
- | | | | |
|---|------------|---|---------------------------|
| 1 | Steel | A | kilowatt-hour (Kwh) |
| 2 | Automobile | B | Per room day /or per meal |
| 3 | Transport | C | Numbers |
| 4 | Power | D | Passenger Km /Tonne Km |
| 5 | Hotel | E | Tonne |

- (a) 1-E, 2-D, 3-A, 4-B, 5-C
 - (b) 1-E, 2-C, 3-A, 4-B, 5-D
 - (c) 1-E, 2-B, 3-D, 4-A, 5-C
 - (d) 1-A, 2-C, 3-B, 4-D, 5-E
23. A Ltd. has three production department, and each department has two machines, which of the following cannot be treated as cost centre for cost allocation:
- (a) A. Ltd.
 - (b) Production departments
 - (c) Machines under the production department
 - (d) Both (b) and (c)
24. _____ are the responsibility centres which are not only responsible for profitability but also has the authority to make capital investment decisions.
- (a) Revenue Centres
 - (b) Cost Centres
 - (c) Investment Centres
 - (d) Profit Centres
25. Which of the following is an example of functional classification of cost:
- (a) Indirect Overheads
 - (b) Fixed, Cost
 - (c) Administrative Overheads
 - (d) Direct Material Cost
26. Which of the following are the essential factors for installing a cost accounting system?
- (a) Nature of Business or Industry
 - (b) Organisational Hierarchy
 - (c) Information Attributes
 - (d) All of the above
27. Ticket Counter in a Railway Station is an example of:
- (a) Profit Centre
 - (b) Investment Centre
 - (c) Revenue Centre
 - (d) Cost Centre

28. The responsibility centres which are accountable for generation of revenue for the entity:
- (a) Revenue Centres
 - (b) Cost Centres
 - (c) Profit Centres
 - (d) Investment Centres
29. The main objectives of the cost accounting are:
- (a) Ascertainment of Cost
 - (b) Determination of, Selling Price and Profitability
 - (c) Cost Control
 - (d) All of the above
30. _____ is the cost centre where output is measurable and input required for the output can be specified.
- (a) Discretionary Cost Centre
 - (b) Standard Cost Centre
 - (c) Profit Centre
 - (d) Revenue Centre

ANSWERS

1.	(a)	2.	(a)	3.	(c)	4.	(c)	5.	(d)
6.	(a)	7.	(d)	8.	(d)	9.	(a)	10.	(a)
11.	(b)	12.	(c)	13.	(b)	14.	(d)	15.	(d)
16.	(b)	17.	(a)	18.	(a)	19.	(c)	20.	(d)
21.	(d)	22.	(b)	23.	(a)	24.	(c)	25.	(c)
26.	(d)	27.	(c)	28.	(a)	29.	(d)	30.	(b)

1***Meaning and Definition***

Q. 1.1	Practice	Descriptive
What is Costing, Cost Accounting and Cost Accountancy?		

Answer:

Costing: Costing is the technique and process of ascertaining costs. According to CIMA "an organization's costing system is the foundation of the internal financial information system for managers. It provides the information that management needs to plan and control the organization's activities and to make decisions about the future."

Cost Accounting: Cost Accounting is the process of accounting for cost which begins with the recording of income and expenditure or the bases on which they are calculated and ends with the preparation of periodical statements and reports for ascertaining and controlling costs.

Cost Accountancy: Cost Accountancy is the application of costing and cost accounting principles, methods and techniques to the science, art and practice of cost control and the ascertainment of profitability. It includes the presentation of information derived there from for the purpose of managerial decision making.

In a nutshell we can summarise these definitions as follows:

Costing = Techniques & Process of ascertaining Cost

Cost Accounting = Techniques & Process of ascertaining Cost

+

Application of cost control methods & ascertainment of profitability

Cost Accountancy = Techniques & Process of ascertaining Cost

+

Application of cost control methods & ascertainment of profitability

+

Presentation of relevant information for managerial decision making

Q. 1.2	Practice	Descriptive
What is Management Accounting? How is it different from Cost Accounting?		

Answer:

Management Accounting is an integral part of management function. As per CIMA Official Terminology "Management Accounting is the application of the principles of accounting and financial management to create, protect, preserve and increase value for the stakeholders of for-profit and not-for-profit enterprises in the public and private sectors."

Difference

While Cost Accounting is concerned with accumulation and allocation of costs to different cost objects, Management Accounting concerned with provision of information to internal users for decision making.

2	<i>Objectives of Cost Accounting</i>
----------	---

Q. 2.1	2014 - May [5] (a), 2016 - May [5] (a), 2019 - May [6] (a), 2021 - Dec [6] (e), RTP	Distinguish Between
Distinguish Between Cost Control and Cost Reduction. (4,4,5,5 marks)		

Answer:

Difference Between Cost Control and Cost Reduction			
S. No.	Basis of Difference	Cost Control	Cost Reduction
1	Meaning	Cost control is the guidance and regulation by executive action of the cost of operating an undertaking.	Cost reduction is the achievement of real and permanent reduction in the unit cost of goods and services without impairing their suitability.

2	Emphasis	It emphasises on past performance and variance analysis.	It emphasises on present and future performance without considering the past performance.
3	Approach	It is a conservative approach which stresses on the conformity to the set norms.	It is a dynamic approach where in every function is analysed in view of its contribution.
4	Focus	It is a short term review with focus on reducing cost in a particular period.	It seeks to reduce unit cost on a permanent basis based on a systematic approach.
5	Nature of Function	It is a preventive function.	It is a corrective function.

Q. 2.2	2016 - May [7] (b), RTP	Descriptive
What is cost accounting? Enumerate its important objectives. (4 marks)		

Answer:

Cost Accounting is defined as “the process of accounting for cost which begins with the recording of income and expenditure or the bases on which they are calculated and ends with the preparation of periodical statements and reports for ascertaining and controlling costs.”

- Cost accounting primarily deals with collection and analysis of relevant cost data for interpretation and presentation for various problems of management.
- Cost accounting is the application of accounting and costing principles, methods and techniques in the ascertainment of costs and analysis of saving and /or excess as compared with previous experience or with standards.

The Objectives of Cost Accounting are as follows:

1.	To ascertain and analyse costs	The primary objective of cost accounting is to ascertain and analyse costs incurred on the production of various products, jobs and services etc.
2.	To control costs	There are a number of techniques in cost accounting like standard costing and budgetary control for controlling cost.
3.	To reduce costs	By now, the objective of cost accounting has been extended to reduce costs. For cost reduction plan, products, processes, procedures, organisation, and methods are continuously reviewed or scrutinized in order to improve efficiency and to reduce cost.
4.	To fix the selling price	Under cost accounting, reliable data is provided to act as a base for fixing selling prices.
5.	To prepare periodic statements	In cost accounting system, periodic cost statements (viz. monthly, quarterly) for review of operating results are prepared.
6.	To provide information	Cost accounting provides useful information for planning and control and for taking various decisions regarding increase in production, installation or replacement of a machine, making or buying of a component, continuing or closing down of a business etc.
7.	To ascertain the profit of each activity	The profit of any activity can be ascertained by matching cost with the revenue of that activity. The purpose under this step is to determine costing profit or loss of any activity on an objective basis.
8.	To assist the management in decision making	Decision making is defined as a process of selecting a course of action out of two or more alternative courses. For making a choice between different courses of action, it is necessary to make a comparison of the outcomes, which may be arrived under different alternatives.

3

***Relationship of Cost and Management
Accounting with other Related Disciplines***

Q. 3.1	2017 - May [7] (b), 2020 - Nov [6] (a) RTP	Distinguish Between
State the difference between Cost Accounting and Management Accounting. (4, 5 marks)		

Answer:

Difference Between Cost Accounting and Management Accounting			
S. No.	Basis	Cost Accounting	Management Accounting
1.	Nature	It records the quantitative aspect only.	It records both qualitative and quantitative aspect.
2.	Objective	It records the cost of producing a product and providing a service.	It provides information to management for planning and co-ordination.
3.	Area	It only deals with cost Ascertainment.	It is wider in scope as it includes F.A., budgeting, Tax, planning.
4.	Recording of Data	It uses both past and present figures.	It is focused with the projection of figures for future.
5.	Development	It's development is related to industrial revolution.	It develops in accordance to the need of modern business world.
6.	Rules and Regulation	It follows certain principles and procedures for recording costs of different products.	It does not follow any specific rules and regulations.

4***Role and Functions of Cost and Management Accounting***

Q. 4.1	Practice	Descriptive
What is the role of a cost and management accounting system?		

Answer:**The role of a cost and management accounting system is as follows:**

1. To provide relevant information to management for decision making.
2. To assist management for planning, measurement, evaluation and controlling of business activities.
3. To help in allocation of cost to products and inventories for both external and internal users.

Q. 4.2	Practice	Descriptive
What are the functions of role of Cost and Management Accounting?		

Answer:**Main Function:**

The main function of Cost and Management Accounting is provision of relevant information to the management for decision making. An Information system environment is set up which is popularly known as Management Information System (MIS). The MIS provides relevant and timely information related to both internal and external to the organisation to enable management at all levels to take decisions like cost optimisation, price fixation, implementation of any plan related with product, process, marketing etc.

Subsidiary Functions :

1. Collection and accumulation of cost for each element of cost.
2. Assigning costs to cost objects to ascertain cost.
3. Setting budget and standards for a particular period or activity.
4. Comparing the standard with the assigned and ascertained cost.

5. Analysing and reporting any deviation with the set standards.

5
Users of Cost and Management Accounting

Q. 5.1	2018 - May [6] (a)	Descriptive
Answer the following: Why are cost and management accounting information are required by the staff at operational level? Describe. (5 marks)		

Answer:

The operational level staff like supervisors, foreman, team leaders are require cost and management accounting information:

1. To know the objectives and performance goals for them.
2. To know product and service specification like volume, quality and process etc.
3. To know the performance parameters against which their performance is measured and evaluated.
4. To know divisional (responsibility centre) profitability etc.

6
Essentials of a Good Cost Accounting System

Q. 6.1	2022 - May [6] (a)	Descriptive
Answer the following: Briefly explain the essential features of a good Cost Accounting System. (5 marks)		

Answer :

To be successful, a good cost accounting system should possess the following essential features:

1.	Simple and easy to operate	The system to be simple practical, flexible and capable of meeting the requirements of a concern.
2.	Accuracy	The data to be used by the cost accounting system should be exact & accurate otherwise the output of the system will not be correct.
3.	Cost-Effective	The cost of installing and operating the system should justify the results. The benefit from the system should exceed the amount to be spent on it.
4.	Management's Role	The top management should have full faith in the costing system and should provide help towards its development and success.
5.	Relevance of Data	The system should handle and report relevant data for use of managers for decision making. It should not sacrifice its utility by introducing meticulous and unnecessary details.
6.	Participation by executives	Necessary co-operation and participation of executives from various deptts. of the concern is essential for developing a good system of cost accounting.

7***Installation of Costing System***

Q. 7.1	2017 - May [5] (b)	Descriptive
What are the essential factors for installing a cost accounting system? Explain. (4 marks)		

Answer:**Essential Factors for installing a Cost Accounting System:**

1.	Objective	The objective of cost system should be considered before installation. Whether to fix selling prices or control costs or both.
2.	Nature of Business	The costing system, which is suitable to the business organisation, should be introduced.
3.	Organisational Hierarchy	Costing system should fulfill the requirement of different level of management. Organisation structure should be studied to determine the manner in which costing system should be introduced.
4.	Knowing the Product	Nature of Product determines the type of costing system to be implemented. The product which has by-products requires costing system which account for by-products as well.
5.	Knowing the Production Process	A good costing system can never be established without the complete knowledge of production process.
6.	Method of Maintenance of Cost Records	The manner in which Cost and Financial accounts could be inter-locked into a single integral accounting system and in which results of separate sets of accounts, cost and financial, could be reconciled by means of control accounts.

8***Cost Accounting with use of Information Technology***

Q. 8.1	2021 - Jan [6] (e)	Descriptive
Answer the following : Give any five examples of the impact of use of Information Technology in Cost Accounting. (5 marks)		

Answer:

Example of Impact of Information Technology in cost accounting may include the following:

1. After the introduction of ERPs, different functional activities get integrated and as a consequence a single entry into the accounting system provides custom made reports for every purpose and saves an organisation from preparing different sets of documents. Reconciliation process of results of both cost and financial accounting systems become simpler and less sophisticated.
2. A move towards paperless environment can be seen where documents like Bill of Material, Material Requisition Note, Goods Received Note, labour utilisation report etc. are no longer required to be prepared in multiple copies, the related department can get e-copy from the system.
3. Information Technology with the help of internet (including intranet and extranet) helping in resource procurement and mobilisation. For example, production department can get materials from the stores without issuing material requisition note physically. Similarly, purchase orders can be initiated to the suppliers with the help of extranet. This enables an entity to shift towards Just-in-Time (JIT) approach of inventory management and production.
4. Cost information for a cost centre or cost object is ascertained with accuracy in timely manner. Each cost centre and cost object is codified and all related costs are assigned to the cost objects or cost centres using assigned codes. This automates the cost accumulation and

ascertainment process. The cost information can be customised as per the requirement. For example, when an entity manufacture or provide services, are able to know information job-wise, batch-wise, process-wise, cost centre wise etc.

5. Uniformity in preparation of report, budgets and standards can be achieved with the help of IT. ERP software plays an important role in bringing uniformity irrespective of location, currency, language and regulations.
6. Cost and revenue variance reports are generated in real time basis which enables the management to take control measures immediately.
7. IT enables an entity to monitor and analyse each process of manufacturing or service activity closely to eliminate non value added activities.

9***Cost Objects***

Q. 9.1	2014 - May [7] (e) (ii)	Descriptive
State the unit of cost for the followings : 1. Transport 2. Power 3. Hotel 4. Hospital		
		(2 marks)

Answer:

Unit of Cost:

1.	Transport	Passenger km., Tonne km.
2.	Power	Per kilowatt - hours
3.	Hotel	Per room, per day
4.	Hospital	Patient per day, room per day or per bed, per operation, etc.

Q. 9.2	2019 - Nov [6] (d)	Descriptive
<p>Answer the following :</p> <p>Mention the Cost Unit of the following Industries:</p> <ol style="list-style-type: none"> 1. Electricity 2. Automobile 3. Cement 4. Steel 5. Gas 6. Brick Making 7. Coal Mining 8. Engineering 9. Professional Services 10. Hospital. <p style="text-align: right;">(5 marks)</p>		

Answer:

	Industry	Cost Unit Basis
1.	Electricity	Kilowatt-hour (kWh)
2.	Automobile.	Number
3.	Cement	Ton/per bag etc.
4.	Steel	Ton
5.	Gas	Cubic feet
6.	Brick Making	1000 bricks
7.	Coal Mining	Tonne/Ton
8.	Engineering	Contract, job
9.	Professional Services	Chargeable hour, job contract
10.	Hospital	Patient day

Q. 9.3	2022 - Nov [6] (e)	Descriptive
<p>Answer the following:</p> <p>Mention the cost units (physical measurements) for the following Industry/product:</p> <ol style="list-style-type: none"> 1. Automobile 		

2. Gas	
3. Brick works	
4. Power	
5. Steel	
6. Transport (by road)	
7. Chemical	
8. Oil	
9. Brewing	
10. Cement	(4 marks)

Answer:

Industry or Product	Cost Unit Basis
Automobile.	Number
Gas	Cubic feet
Brick-work	Number of bricks
Power	Kilo-watt hour (kwh)
Steel	Tonne
Transport (by road)	Passenger-kilometer or Tonne-kilometer
Chemicals	Litre, gallon, kilogram, tonne etc.
Oil	Barrel, tonne, litre
Brewing	Barrel
Cement	Ton/per bag etc.

Q. 9.4	2023 - May [6] (a)	Descriptive
Answer the following question: Define cost objects and give examples of any four cost objects. (5 marks)		

10***Responsibility Centre***

Q. 10.1	2015 - May [5] (a), 2016 - Nov [5] (a) (i) (ii)	Descriptive
Define 'Cost Centre' and state its types.		(4, 4 marks)
OR	2016 - Nov [5] (b)	Descriptive
What is meant by 'Cost Centre'? What are the different types of cost centres.		(4 marks)

Answer:

Cost Centre		
Meaning		<p>It is defined as a location, person, or an item of equipment (or group of these) for which cost may be ascertained and used for the purpose of cost control. It is a part of an organization that does not produce direct profits and adds to the cost of running a company.</p> <p>Eg. R&D, marketing departments, help desk and customer services.</p> <p>Cost Centre are of two types:</p> <ol style="list-style-type: none">1. Personal2. Impersonal
A personal cost centre consists of a person and an impersonal Cost Centre of a location or item of equipment.		
1.	Production Cost Centre	It is cost centre where raw material is handled for conversion into finished product. Here both direct and indirect expenses are incurred. Machine shops, welding shops and assembly shops are examples of production Cost Centre.
2.	Service Cost Centre	It is Cost Centre which serves as an ancillary unit to a production cost centre. Power house, gas

		production shop, material service centres, and plant maintenance centres are examples of service Cost Centre.
3.	Profit Centre	Centres, which have the responsibility of generating and maximizing profits are called profit centres. The profit centre's revenues and expenses are kept separate from the main company's profit in order to maintain the profit centre's profitability.
4.	Investment Centres	Investment centres are similar to profit centres but they have additional decision rights in terms of capital expenditure and investment. The manager is assumed to have better knowledge of input and output markets but also investment opportunities.

Q. 10.2	2016 - May [7] (e) (ii)	Descriptive
What is meant by 'Profit Centre'?		(2 marks)

Answer:

A profit centre is the centre whose performance is measured in terms of income earned and cost incurred. Its main responsibility is to generate and maximise profit.

Profit Centres is a branch or division of a company that is accounted for on a standalone basis for the purpose of profit calculation. A profit center is responsible for generating its own result and earnings, and as such, its managers generally have decision making authority related to product pricing and operating expenses. Profit centres are crucial in determining which units are the most and least profitable within an organisation.

Q. 10.3	2017 - May [5] (a), RTP	Descriptive
Explain 'Cost Unit' and 'Cost Centre'.		(4 marks)

Answer:**Cost Unit:**

It is a unit of product, service or time (or combination of these) in relation to which costs is ascertained or expressed. It is unit of measurement. For example the cost of carrying a passenger in terms of km, cost of hotel room expressed as cost per day etc.

Cost Centre:

It is a location, person or an item of equipment (or group of these) for which cost is ascertained and used for the purpose of cost control. The main purpose of ascertaining cost centre is to control the cost and to fix responsibility of the person in charge of a cost centre.

Cost Centres are of two types:

1. Personal Cost Centre.
2. Impersonal Cost Centre.

Cost Centres in a manufacturing concern:

1. Production Cost Centre
2. Service Cost Centre.

Q. 10.4	2018 - Nov [6] (a)	Descriptive
Answer the following: Mention and explain types of responsibility centres. (5 marks)		

Answer:**Four types of responsibility centres are**

1. Cost Centres
2. Revenue Centres
3. Profit Centres
4. Investment Centres

1. Cost Centres:

The responsibility centre which is held accountable for insurance of costs which are under its control. The Performance of this responsibility centre is measured against pre-determined standards or budgets. The cost centres are of two types:

(a) Standard Cost Centre:

Cost centre where output is measurable and input required for the output can be specified. Based on a well-established study, an estimate of standard units of inputs to produce a unit of output is set. The actual cost for inputs is compared with the standard cost. Any deviation (Variance) in cost is measured and analysed into controllable and uncontrollable cost. The manager of the cost centre is supposed to comply with the standard and held responsible for adverse cost variances. The input- output ratio for a standard cost centre is clearly identifiable.

(b) Discretionary Cost Centre:

The cost centre whose output cannot be measured in financial terms, thus input output ratio cannot be defined. The cost of input is compared with allocated budget for the activity. Example of discretionary cost centres are Research & Development department, Advertisement department where output of these department cannot be measured with certainty and co-related with cost incurred on inputs.

2. Revenue Centres:

The responsibility centres which are accountable for generation of revenue for the entity. Sales Department for example, is responsible for achievement of sales target and revenue generation. Though, revenue does not have control on expenditures it incurs but some time expenditures related with selling activity like commission to sales person etc. are incurred by revenue centres.

3. Profit Centres:

These are the responsibility centres which have both responsibility of generation of revenue and incurrence of expenditures. Since, managers of profit centres are accountable for both costs as well as revenue, profitability is the basis for measurement of performance of these responsibility centres are decentralised branches of an organisation.

4. Investment Centres:

These are the responsibility centres which are not only responsible for profitability but also has the authority to make capital investment decisions. The performance of these responsibility centres are measured on the basis of Return on Investment (ROI) besides profit. Examples of

investment centres are Maharatna, Navratna and Miniratna companies of public sector undertakings of central government.

Q. 10.5	2021 - July [6] (a)	Descriptive
<p>Answer the following: Specify the types of Responsibility centres under the following situations:</p> <ol style="list-style-type: none"> 1. Purchase of bonds, stocks, or real estate property. 2. Ticket counter in a Railway station. 3. Decentralized branches of an organization. 4. Maharatna, Navratna and Miniratna public sector undertaking (PSU) of Central Government. 5. Sales Department of an organization. <p style="text-align: right;">(5 marks)</p>		

Answer:

Situation		Type of Responsibility Centre
1.	Purchase of bonds, stocks or real estate property.	Investment Centre
2.	Ticket counter in a Railway Station	Revenue Centre
3.	Decentralized branches of an organization	Profit Centre
4.	Maharatna, Navratna and Miniratna public sector undertaking (PSU) of Central Government)	Investment Centre
5.	Sales Department of an organization	Revenue Centre

11

Classification of Costs

Q. 11.1	2004 - Nov [2] (a)	Descriptive
Discuss cost classification based on variability.		(2 marks)

Answer:

Classification on the basis of Variability:

On the basis of variability, cost are classified into three types:

1. Fixed cost
2. Variability cost
3. Semi-variable cost.

1. Fixed Cost

Meaning	CIMA defines fixed cost as “A cost which accrues in relation to the passage of time and which when certain output or turnover limits, tends to be unaffected by fluctuation in volume of output or turnover.
Characteristics	<ol style="list-style-type: none"> 1. Amount of fixed cost remain constant for every level of output. 2. Average fixed cost (i.e. fixed cost per unit) will decrease with increased output. 3. Fixed cost is generally managed and controlled by the higher management.
Example	Insurance, salary, rent etc.

2. Variable Cost

Meaning	CIMA defines variable cost as “A cost which in aggregate tends to vary in direct proportion to change in the volume of output or turnover.”
Characteristics	<ol style="list-style-type: none"> 1. Variable cost varies directly with output/Sales. 2. Variable cost is easily chargeable to output or department. 3. Variable cost is generally managed and controlled by the department heads.
Example	Direct materials cost Direct Labour Cost.

3. Semi Variable Cost

Meaning	CIMA defines semi variable cost as “A cost containing both fixed and variable elements, which is, therefore,
---------	--

	partly affected by fluctuations in the output or turnover.
Characteristics	<ol style="list-style-type: none"> 1. Amount of semi-variable is neither fixed nor varies directly along with the output. 2. Semi-variable expenses are generally managed by various levels of management jointly.
Example	Telephone bill, electricity bill etc.

Q. 11.2	2008 - May (i) (iii)	Descriptive
Discuss cost classification on the basis of Controllability		(2 marks)

Answer:

Classification on the basis of Controllability:

On the basis of controllability cost is classified into two types:

1. **Controllable Cost:** CIMA defines controllable cost as "Cost chargeable to a cost centre, which can be influenced by the action of the person in whom control of the centre is vested."
In practice all variable costs are controllable costs.
Example: Direct cost i.e. direct material cost, direct labour cost.
2. **Non-Controllable Cost:** CIMA defines non-controllable cost as a "Cost chargeable to a cost centre which cannot be influenced by the action of the person in whom control of the centre is vested."
In practice all fixed costs are non-controllable costs. Therefore such costs cannot be controlled by the responsibility manager.
Example: Expenditure on any service department is controlled by the manager of that service department but if such expenditure is apportioned to production department then manager of that production department cannot control the expenditure of the service department.

Q. 11.3	2014 - May [5] (b) (i)	Descriptive
Explain the following: Explicit costs		(2 marks)

Answer:

Explicit Cost: Explicit costs refers the cost, involving immediate payment of cash, such as - Salary, wages, commissions etc. Such costs are easily measurable it is also known as out of pocket cost.

Implicit Costs: It do not involved any immediate cash payment. It is also known an economic costs.

The main difference between Explicit cost and Implicit costs are:

1. Explicit costs involves immediate outflow of cash where as implicit costs do not involve immediate cash payment.
2. Explicit costs are entered in the books of accounts. Where as implicit costs are not recorded in the book of account.

Q. 11.4	2016 - Nov [7] (d) (ii)	Short Notes
Write short notes on		
1. Conversion Cost		
2. Sunk Cost		
3. Opportunity Cost		(2 marks)
OR	2018 - May [6] (e) (i)	Descriptive
Explain:		
1. Opportunity Cost.		(2.5 marks)

Answer:

1. **Conversion Cost:** It is the cost incurred to convert raw materials into finished goods. It is the sum of direct wages, direct expenses and manufacturing overheads.

Formula:

Conversion Cost = Direct Labour Cost + Direct Expenses + Manufacturing Overhead

Or

Conversion Cost = Factory Cost - Direct Materials Cost.

2. **Sunk Costs:** Sunk costs are the historical costs which are incurred in the past. They play no role in decision making in the current period.

- 3. Opportunity Costs:** Opportunity costs refers to the value of sacrifice made or benefit of opportunity foregone in accepting alternative course of action. For e.g. a company accepts an expansion plan and for financing, withdraws money from its bank deposits. Then, the loss of interest on the bank deposits is the opportunity cost for carrying out the expansion plan. This cost plays an important role in managerial decision making process although these costs are not recorded in books of accounts.

12***Methods of Costing***

Q. 12.1	2014 - Nov [5] (a)	Descriptive
Identify the methods of costing for the following: 1. Where all costs are directly charged to a specific job. 2. Where all costs are directly charged to a group of products. 3. Where cost is ascertained for a single product. 4. Where the nature of the product is complex and method can not be ascertained. (4 marks)		

Answer:

Methods of costing are as follows:

1. Job costing
2. Batch costing
3. Single / Output costing
4. Multiple costing.

Q. 12.2	2015 - Nov [5] (a)	Descriptive
State the method of costing and also the unit of cost for the following industries: 1. Hotel 2. Toy-making 3. Steel 4. Ship Building (4 marks)		

Answer :

		Method	Unit
1.	Hotel	Method of costing used in hotel is Operating Costing.	The rate for unit of cost used is per room, per day or per half day or per bed for costing.
2.	Toy-Making	Method of costing used in toy making industry is Unit Costing/Batch Costing.	The unit of cost used in toy making industry is per unit of output of toy or per batch.
3.	Steel	The method of costing used in steel company is Process Costing.	The unit of cost used in costing is the percentage of output on the basis of the some factory or administrative overhead etc.
4.	Ship Building	The method of costing used in ship buildings is Contract Costing.	The unit cost or per unit used for ship building is Project or Unit.

Q. 12.3	2016 - Nov [7] (b)	Descriptive
Give the method of costing and the unit of cost against the under noted industries: 1. Road transport 2. Steel 3. Bicycles 4. Bridge construction		
(4 marks)		

Answer:

	Industry	Method of Costing	Suggestive Unit of Cost
1.	Road transport	Operating Costing	Passenger km. or tonne km.

4.54

Scanner CA Inter Group - II Paper - 4 (2023 Syllabus)

2.	Steel	Process Costing/Single or Unit Costing	Tonne/ Metric Tonne (MT)/ per kg/ per bar
3.	Bicycles	Multiple Costing	Number/per piece
4.	Bridge construction	Contract Costing	Project /Unit

Q. 12.4	2017 - Nov [5] (a)	Descriptive
Identify the methods of costing where: 1. all costs are directly charged to a specific job. 2. all costs are directly charged to a group of products. 3. the nature of the product is complex and method cannot be ascertained. 4. cost is ascertained for a single product. (4 marks)		

Answer:

1. Job Costing
2. Batch Costing
3. Multiple Costing
4. Unit Costing/Single Costing/Output Costing.

Q. 12.5	2020 - Nov [6] (d)	Descriptive
Answer the following : State the Method of Costing to be used in the following industries: 1. Real Estate 2. Motor repairing workshop 3. Chemical Industry 4. Transport service 5. Assembly of bicycles 6. Biscuits manufacturing Industry 7. Power supply Companies 8. Car manufacturing Industry		

9. Cement Industry	
10. Printing Press	(5 marks)

Answer:

	Industry	Method of Costing
1.	Real Estate	Contract Costing
2.	Motor repairing workshop	Job Costing
3.	Chemical Industry	Process Costing
4.	Transport Service	Service/Operating Costing
5.	Assembly of bicycles	Multiple Output Costing
6.	Biscuits manufacturing Industry	Batch Costing
7.	Power supply Companies	Service Costing
8.	Car manufacturing Industry . . .	Multiple Costing
9.	Cement Industry	Process Output Costing
10.	Printing Press	Job Costing

Q. 12.6	2021 - Jan [6] (d)	Descriptive
<p>Answer the following :</p> <p>State the method of costing that would be most suitable for:</p> <ol style="list-style-type: none"> Oil Refinery Interior Decoration Airlines Company Advertising Car Assembly <p>(5 marks)</p>		

Answer:**Method of Costing:**

	Industry	Method of Costing
1.	Oil Refinery	Process Costing
2.	Interior Decoration	Job Costing
3.	Airlines Company	Operation/ Service Costing

4.56

Scanner CA Inter Group - II Paper - 4 (2023 Syllabus)

4. Advertising Job Costing
5. Car Assembly Multiple Costing

Q. 12.7	2022 - May [6] (e)	Descriptive
Identify the methods of costing from the following statements: 1. Costs are directly charged to a group of products. 2. Nature of the product is complex and method cannot be ascertained. 3. Cost is ascertained for a single product. 4. All costs are directly charged to a specific job. 5. Costs are charged to operations and averaged over units produced. <div style="text-align: right;">(5 marks)</div>		

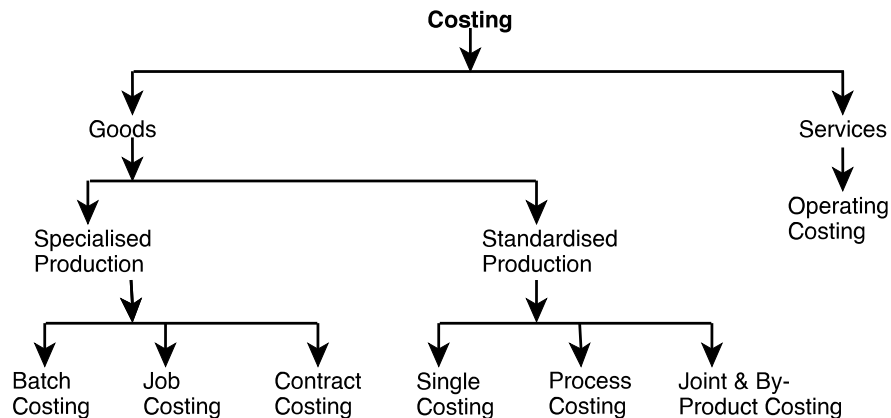
Answer:

	Statements	Method of Costing
1.	Costs are directly charged to a group of products.	Batch costing
2.	Nature of the product is complex and method cannot be ascertained	Multiple costing
3.	Cost is ascertained for a single product	Single or output costing
4.	All costs are directly charged to a specific job	Job costing
5.	Costs are charged to operations and averaged over units produced	Process or operation costing

Q. 12.8	RTP	Descriptive
Discuss the four different methods of costing alongwith their applicability to concerned industry. <div style="text-align: right;">(4 marks)</div>		

Answer:

The various method of costing can be summarised as under:



1. **Batch Costing:** This costing is based on the concept of contract costing. This method is used to determine the cost of a group of identical or similar products. The batch costing of similar products is the unit and not single item within the batch. This method can be applied for the production of nuts and bolts, medicines and other items which are manufactured in distinct batches.
2. **Job Costing:** This method is used in those concerns where production is carried out as per specific orders and specifications. Each job is separate and distinct from other jobs and products. This method is popular in enterprises engaged in house building, ship-building, machinery production and repairs etc.
3. **Contract Costing:** This method of counting, based on the principle of job counting, is used by house builders and civil contractors. The contract becomes the cost unit for which relevant cost are accumulated.
4. **Single or Unit Costing:** This method is used where a single item is produced and the final production is composed of homogenous units. The per unit cost is obtained by dividing the total cost by the total number of unit of units manufactured.

5. **Process Costing:** Under this method of costing, the cost of completing each stage of work is ascertained, like cost of making pulp and cost of making paper from pulp. This method is used in those industries where manufacturing is done continuously like chemicals, oil, gas paper etc.
6. **Multiple Costing:** This method is used in those industries where the nature of product is complex such as motor cars, aeroplanes etc. In such cases costs are accumulated for different component making the final product and then totalled to ascertain total cost of product.
7. **Operating Costing:** Ascertainment of cost of rendering or operating a service is called "service or operating costing". It is used in case of concerns rendering services like transport, cinema, hotels etc. where there is no identifiable tangible cost limit.

13	<i>Techniques of Costing</i>
-----------	-------------------------------------

Q. 13.1	2021 - Dec [6] (a)	Descriptive
Answer the following: Briefly explain the 'techniques of costing'. (5 marks)		

Answer:

Techniques	Description
Uniform Costing	<p>When a number of firms in an industry agree among themselves to follow the same system of costing in detail, adopting common terminology for various items and processes they are said to follow a system of uniform costing.</p> <p>Advantages of such a system are:</p> <ol style="list-style-type: none"> 1. A comparison of the performance of each of the firms can be made with that of another, or with the average performance in the industry. 2. Under such a system, it is also possible to determine the cost of production of goods which is true for the industry as a whole. It is found useful when tax-relief or

	protection is sought from the Government.
Marginal Costing	It is defined as the ascertainment of marginal cost by differentiating between fixed and variable costs. It is used to ascertain effect of changes in volume or type of output on profit.
Standard Costing and Variance Analysis	It is the name given to the technique whereby standard costs are pre-determined and subsequently compared with the recorded actual costs. It is thus a technique of cost ascertainment and cost control. This technique may be used in conjunction with any method of costing. However, it is especially suitable where the manufacturing method involves production of standardised goods of repetitive nature.
Historical Costing	It is the ascertainment of costs after they have been incurred. This type of costing has limited utility. <ul style="list-style-type: none"> • Post Costing: It means ascertainment of cost after production is completed. • Continuous costing: Cost is ascertained as soon as the job is completed or even when the job is in progress.
Absorption Costing	It is the practice of charging all costs, both variable and fixed to operations, processes or products. This differs from marginal costing where fixed costs are excluded.
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 are incurred.