VIVITSU

STRIVING TOWARDS KNOWLEDGE

Paper 4

Cost & Management Accounting

Chapter-wise compilation of RTP, MTP and PYP

NEW Modified as per new scheme

Applicable for Sept'24 & Jan'25

SAMPLE MATERIAL

Disclaimer:

While we have made every attempt to ensure that the information contained in this compilation has been obtained from reliable sources (from the answers given by the Institute of Chartered Accountants of India), Vivitsu is not responsible for any errors or omissions, or for the results obtained from the use of this information. All information on this site is provided "as is," with no guarantee of completeness, accuracy, timeliness, or of the results obtained from the use of this information, and without warranty of any kind, express or implied, including, but not limited to warranties of performance, merchantability, and fitness for a particular purpose.

In no event will Vivitsu, its related partnerships or corporations, or the partners, agents, or employees thereof be liable to you or anyone else for any decision made or action taken in reliance on the information on this site or for any consequential, special, or similar damages, even if advised of the possibility of such damages.

This compilation is presented for informational and educational purposes and should not be considered a formal book or publication.

It is essential to use critical thinking and judgment when applying the knowledge and information provided in this compilation. The compiler does not endorse or promote any specific products, services, or organizations mentioned in this compilation.

By using this compilation, readers agree to accept full responsibility for their actions and decisions based on the information and content provided, and they acknowledge the limitations and potential risks associated with any compilation of educational materials.

HOW TO GET THE BEST OUT OF OUR MATERIAL?

1 INITIAL READING

After your initial reading of a particular chapter in your study material, go through the questions in our 3, 5, and 11 attempt's compilations, focusing on the chapter you've just covered. Make note of challenging questions for later reference.

2 FIRST REVISION

During your first revision, revisit the marked questions. If you still can't answer them, highlight them in red and review the related concepts to improve your understanding. This process helps you to grasp the key concepts and address your weak points

3 KEEP GOING WITH THE REVISIONS

Repeat the reading and revision process as often as possible before your exams. Each iteration will enhance your confidence and knowledge.

4 EXAMINERS COMMENTS

Pay attention to the examiner's comments in our compilations, as they highlight common mistakes. Learning from these errors will help you avoid them in your exams

VIVITSU
STRIVING TOWARDS KNOWLEDGE

Frequently Asked Questions

1. **Why RTP's, MTP's and PYP's?**
   RTP's, MTP's, and PYP's are extremely important to ensure that you reproduce ICAI language. These questions train you to understand what is important and what is expected of you.
   At least 41% of questions* are asked from previous RTP's, MTP's and PYP's.

2. **What is included?**
   In this compiler, all questions from the last 3, 5 or 11 attempts depending on the one you have selected will be available. There will be references to the marks and the attempt from which they were asked. Identical or similar questions have been removed and references for both attempts are mentioned.

3. **What is the benefit of Chapter-wise?**
   We have categorized each and every question from all Old RTPs, MTP's, and PYP's into chapters. This means that you don't have to wait until you've completed your entire syllabus to tackle an RTP, MTP, or past paper. You can start solving these questions to check your conceptual clarity right after finishing a particular chapter.

4. **What does amended for the latest attempt mean?**
   When we reviewed all the questions from the past 11 attempts of RTP, MTP, and PYP'S, we didn't just segregate them Chapterwise; we also updated them to reflect the latest provisions. All the answers provided in the compilation are applicable for the May 2024 examination. So, there's no need to stress about outdated or incorrect information.

5. **How are Old RTP's, MTP's & PYP's beneficial for me?**
   All old RTPs, MTPs, and PYPs have been organized according to the new syllabus issued by ICAI. This means that if a specific chapter from the old scheme is not included in the new scheme, it has been omitted. If a particular chapter in the new scheme is based on concepts from two or more chapters in the old scheme, it has been adapted to align with how the chapter should be in the new scheme. If a chapter is only partially included in the new scheme, the questions related to those specific concepts are only included in the corresponding chapter of the new scheme. A comprehensive reconciliation of the chapters between the new scheme and the old scheme is provided on the following page.

6. **What if a new attempt is added post my purchase?**
   If you have purchased materials for the May 2024 attempt, you will receive a file with the questions segregated Chapterwise specifically for that attempt.

7. **What does N/A mean?**
   It could mean any of the following:
   1. No questions from that chapter have been included in the selected attempts.
   2. The chapter is newly introduced, and as a result, no questions have been previously asked in RTP's, MTP's, or PYP's.

*This is on an average based on the last 11 attempts

Cost and Management Accounting

Reconciliation of chapters of the new scheme (May'24) with old course

New Chapter No.	Chapter Name as per NEW Syllabus	Paper No. as per Old Course
1	Introduction to Cost and Management Accounting	Same
2	Material Cost	Same
3	Employee Cost and Direct Expenses	Same
4	Overheads – Absorption Costing Method	Same
5	Activity Based Costing	Same
6	Cost Sheet	Same
7	Cost Accounting Systems	Same
8	Unit & Batch Costing	Same
9	Job Costing	Same
10	Process & Operation Costing	Same
11	Joint Products and By Products	Same
12	Service Costing	Same
13	Standard Costing	Same
14	Marginal Costing	Same
15	Budgets and Budgetary Control	Same

Note:

Contract Costing as per the Old Syllabus has been removed in the New Syllabus.

VIVITSU
STRIVING TOWARDS KNOWLEDGE

Table of Contents

MTPs: March’19, April’19, Oct’19, May’20, Oct’20, March’21, April’21, Oct ’21, Nov ’21, March ’22, April ’22, Sep ’22, Oct ’22, March ’23, April '23, Sep ’23 Oct ’23, March’24 & April ‘24

PYPs: May’19, Nov’19, Nov’20, Jan’21, July ’21, Dec ’21, May’22, Nov ’22, May’23, Nov’23

RTPs: May’19, Nov’19, May’20, Nov’20, May’21, Nov ’21, May ’22, Nov ’22, May ’23, Nov ’23, May’24

Chapter 1
Introduction to Cost and Management Accounting

Question 1

"Technology has played a significant role in cost accounting enabling business to automate their process."

EXPLAIN the impact of Information Technology in Cost Accounting in the light of above statement. (MTP 5 Marks Mar'24)

Or

Discuss the impact of Information Technology in Cost Accounting.

(RTP May '24, May'22 & May '20,MTP 5 Marks March '19 & April '23 & Sep '23, PYP 5 Marks Jan '21)

Answer 1

The impact of IT in cost accounting may include the followings:

(i) 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.

(ii) 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.

(iii) Information Technology with the help of internet (including intranet and extranet) helps 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.

(iv) 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 object or cost centre. This process automates the cost accumulation and ascertainment process. The cost information can be customised as per the requirement. For example, when an entity manufactures or provide services, it can know information job-wise, batch-wise, process-wise, cost centre wise etc.

(v) 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.

(vi) Cost and revenue variance reports are generated in real time basis which enables the management to take control measures immediately.

(vii) IT enables an entity to monitor and analyse each process of manufacturing or service activity closely to eliminate non-value- added activities.

The above are examples of few areas where Cost Accounting is done with the help of IT.

Question 2

State the limitations of cost and management accounting. (MTP Oct '18 5 Marks, RTP Nov'21)

Answer 2

Like other branches of accounting, cost and management accounting is also having certain limitations. The limitations of cost and management accounting are as follows:

1. **Expensive:** It is expensive because analysis, allocation and absorption of overheads require considerable amount of additional work, and hence additional money.
2. **Requirement of Reconciliation:** The results shown by cost accounts differ from those shown by financial accounts. Thus Preparation of reconciliation statements is necessary to verify their accuracy.
3. **Duplication of Work:** It involves duplication of work as organization has to maintain two sets of accounts i.e. Financial Account and Cost Account.
4. **Inefficiency:** Costing system itself does not control costs but its usage does.

Question 3

DISCUSS the steps to be followed to exercise control over cost. (MTP 5 Marks Oct'20)

Answer 3

To exercise control over cost, following steps are followed:

(i) **Determination of pre-determined standard or results:** Standard cost or performance targets for a cost object or a cost centre is set before initiation of production or service activity. These are desired cost or result that need to be achieved.

(ii) **Measurement of actual performance:** Actual cost or result of the cost object or cost centre is measured. Performance should be measured in the same manner in which the targets are set i.e. if the targets are set up operation-wise, and then the actual costs should also be collected and measured operation-wise to have a common basis for comparison.

(iii) **Comparison of actual performance with set standard or target:** The actual performance so measured is compared against the set standard and desired target. Any deviation (variance) between the two is noted and reported to the appropriate person or authority.

(iv) **Analysis of variance and action:** The variance in results so noted are further analysed to know the reasons for variance and appropriate action is taken to ensure compliance in future. If necessary, the standards are further amended to take developments into account.

Question 4

DISCUSS the Standard and Discretionary Cost Centres (MTP 5 Marks March'21 & Oct '23, Old & New SM)

Answer 4

(i) **Standards 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 input 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.

(ii) **Discretionary Cost Centre:** The cost center 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 centers are Research & Development department, Advertisement department where output of these department cannot be measured with certainty and co-related with cost incurred on inputs.

Question 5

DISTINGUISH between cost control and cost reduction (MTP 5 Marks, Apr'21, Apr 19, Aug 18 & Oct '23) (RTP Nov '21, May 19, Nov '18 & Nov '22 & May '23) (PYP May '19 5 Marks, PYP 5 Marks Dec '21)

Answer 5

Difference between Cost Control and Cost Reduction

Cost Control	Cost Reduction
1. Cost control aims at maintaining the costs in accordance with the established standards.	1. Cost reduction is concerned with reducing costs. It challenges all standards and endeavours to improvise them continuously
2. Cost control seeks to attain lowest possible cost under existing conditions.	2. Cost reduction recognises no condition as permanent, since a change will result in lower cost.
3. In case of cost control, emphasis is on past and present	3. In case of cost reduction, it is on present and future.
4. Cost control is a preventive function	4. Cost reduction is a corrective function. It operates even when an efficient cost control system exists.
5. Cost control ends when targets are achieved.	5. Cost reduction has no visible end and is a continuous process.

EXAMINERS' COMMENTS ON THE PERFORMANCE OF EXAMINEES:

The theory question required knowledge of the concepts of two terms Cost Control and Cost Reduction to identify differences between them. Most of the examinees answered partly correct. Performance of the examinees was below average.

In this theoretical question on 'Cost control and Cost reduction', below average performance of the examinees was observed.

Question 6

EXPLAIN the difference between Cost Accounting and Management Accounting

(MTP 5 Marks, Oct '21 & March '23) (RTP Nov'19, May '20 & Nov '22) (PYP 5 Marks Nov 20)

Answer 6

Difference between Cost Accounting and Management Accounting

	Basis	Cost Accounting	Management Accounting
(i)	Nature	It records the quantitative aspect only.	It records both qualitative and quantitative aspect.
(ii)	Objective	It records the cost of producing a product and providing a service.	It Provides information to management for planning and co-ordination.
(iii)	Area	It only deals with cost Ascertainment.	It is wider in scope as it includes financial accounting, budgeting, taxation, planning etc.
(iv)	Recording of data	It uses both past and present figures.	It is focused with the projection of figures for future.
(v)	Development	Its development is related to industrial revolution.	It develops in accordance to the need of modern business world.
(vi)	Rules and Regulation	It follows certain principles and procedures for recording costs of different products.	It does not follow any specific rules and regulations.

Question 7

How do you deal with the following in cost accounts?

(i) Fringe benefits

(ii) Bad debts. (MTP 5 Marks, Oct'21)

Answer 7

(i) **Fringe benefits:** These are the additional payments or facilities provided to the workers apart from their salary and direct cost-allowances like house rent, dearness and city compensatory allowances. These benefits are given in the form of overtime, extra shift duty allowance, holiday pay, pension facilities etc. These indirect benefits stand to improve the morale, loyalty and stability of employees towards the organization. If the amount of fringe benefit is considerably large, it may be recovered as direct charge by means of a supplementary wage or labour rate; otherwise, these may be collected as part of production overheads.

(ii) **Bad debts:** There is no unanimity among different authors of Cost Accounting about the treatment of bad debts. One view is that 'bad debts' should be excluded from cost. According to this view bad debts are financial losses and therefore, they should not be included in the cost of a particular job or product. According to another view it should form part of selling and distribution overheads, especially when they arise in the normal course of trading. Therefore, bad debts should be treated in cost accounting in the same way as any other selling and distribution cost. However extra ordinarily large bad debts should not be included in cost accounts.

Question 8

DISCUSS cost classification based on variability and controllability. (MTP 5 Marks Nov '21 & March '18) (RTP May '21 & May '19, Old & New SM)

Answer 8

Cost classification based on variability

(i) **Fixed Costs** – These are the costs which are incurred for a period, and which, within certain output and turnover limits, tend to be unaffected by fluctuations in the levels of activity (output or turnover). They do not tend to increase or decrease with the changes in output. For example, rent, insurance of factory building etc., remain the same for different levels of production.

(ii) **Variable Costs** – These costs tend to vary with the volume of activity. Any increase in the activity results in an increase in the variable cost and vice-versa. For example, cost of direct labour, etc.

(iii) **Semi-variable Costs** – These costs contain both fixed and variable components and are thus partly affected by fluctuations in the level of activity. Examples of semi variable costs are telephone bills, gas and electricity etc.

Cost classification based on controllability

(i) **Controllable Costs** - Cost that can be controlled, typically by a cost, profit or investment centre manager is called controllable cost. Controllable costs incurred in a particular responsibility centre can be influenced by the action of the executive heading that responsibility centre. For example, direct costs comprising direct labour, direct material, direct expenses and some of the overheads are generally controllable by the shop level management.

(ii) **Uncontrollable Costs** - Costs which cannot be influenced by the action of a specified member of an undertaking are known as uncontrollable costs. For example, expenditure incurred by, say, the tool room is controllable by the foreman in-charge of that section but the share of the tool-room expenditure which is apportioned to a machine shop is not to be controlled by the machine shop foreman.

Question 9

STATE Direct Expenses with examples. (MTP 5 Marks April '19)

Answer 9

Expenses other than direct material cost and direct employee cost, which are incurred to manufacture a product or for provision of service and can be directly traced in an economically feasible manner to a cost object. The following costs are examples for direct expenses:

(a) Royalty paid/ payable for production or provision of service;
(b) Hire charges paid for hiring specific equipment;
(c) Cost for product/ service specific design or drawing;
(d) Cost of product/ service specific software;
(e) Other expenses which are directly related with the production of goods or provision of service.

Question 10

EXPLAIN the difference between product cost and period cost. (5 Marks April '19, Oct'22)

Answer 10

Product costs are those costs that are identified with the goods purchased or produced for resale. In a manufacturing organisation they are attached to the product and that are included in the inventory valuation for finished goods, or for incomplete goods. Product cost is also known as inventoriable cost. Under absorption costing method it includes direct material, direct labour, direct expenses, directly attributable costs (variable and non-variable) and other production (manufacturing) overheads. Under marginal costing method Product Costs includes all variable production costs and the all fixed costs are deducted from the contribution.

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

Question 11

Some of the items of PR Company, a manufacturer of corporate office furniture, are provided below. As the company is in the process of developing a formal cost accounting system, you are required to CLASSIFY the items into three categories namely: (i) Cost tracing (ii) Cost allocation (iii) Non-manufacturing item. Carpenter wages, Depreciation - office building, Glue for assembly, Lathe department supervisor, Metal brackets for drawers, Factory washroom supplies, Lumber, Samples for trade shows, Lathe depreciation, Lathe operator wages. (MTP 4 Marks March '22)

Answer 11

Item	Cost Tracing	Cost Allocation	Non-manufacturing
Carpenter wages	√		
Depreciation - office building			√

Glue for assembly		√	
Lathe department supervisor		√	
Metal brackets for drawers	√		
Factory washroom supplies		√	
Lumber	√		
Samples for trade shows			√
Lathe depreciation		√	
Lathe operator wages		√	

Question 12

STATE the method of costing for the following industries:

(i) Sugar manufacturing

(ii) Bridge Construction

(iii) Advertising

(iv) Car Assembly (MTP 4 Marks April '22)

Answer 12

S. No.	Industry	Method of costing
(i)	Sugar manufacturing	Process costing
(ii)	Bridge Construction	Contract Costing
(iii)	Advertising	Job costing

Question 13

DEFINE cost units? WRITE the cost unit basis against each of the following Industry/Product- Automobile, Steel, Cement, Chemicals, Power and Transport. (5 Marks March '23)(RTP Nov '22)

Answer 13

Cost units are usually the units of physical measurement like number, weight, area, volume, length, time and value.

Industry or Product	Cost Unit Basis
Automobile	Number
Steel	Ton
Cement	Ton/ per bag etc.
Chemicals	Litre, gallon, kilogram, ton etc.
Power	Kilo-watt hour (kWh)
Transport	Passenger- kilometer

Question 14

DISCUSS short notes on (i) Discretionary Cost Centre and (ii) Investment Centre (RTP Nov 20 & May '18)

Answer 14

(i) 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.

(ii) 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.

Question 15

DESCRIBE Operation costing with two examples of industries where operation costing is applied. (RTP Nov '20)

Answer 15

This product costing system is used when an entity produces more than one variant of final product using different materials but with similar conversion activities. This means conversion activity is similar for all the product variants but materials differ significantly. Operation Costing method is also known as Hybrid product costing system as materials costs are accumulated by job order or batch wise but conversion costs i.e. labour and overheads costs are accumulated by department, and process costing methods are used to assign these costs to products. Moreover, under operation costing, conversion costs are applied to products using a predetermined application rate. This predetermined rate is based on budgeted conversion costs. The two examples of industries are Ready made garments and Jeweler making.

Question 16

As per the controllability, cost can be classified as controllable & uncontrollable costs. How will you DIFFERENTIATE them? (MTP 4 Marks Mar'24)

EXPLAIN the difference between controllable & uncontrollable costs? (RTP May '24 & May'22)

Or

DEFINE Controllable Cost and Uncontrollable Cost. (RTP Nov '18) (MTP 5 Marks March '19, April '23 & Sep '23)

Answer 16

Controllable costs and Uncontrollable costs*:* Cost that can be controlled, typically by a cost, profit or investment center manageris called controllable cost. Controllable costs incurred in a particular responsibility center can be influenced by the action ofthe executive heading that responsibility centre. Costs which cannot be influenced by the action of a specified member of an undertaking are known as uncontrollable costs.

Or

(i) Controllable Costs: - Cost that can be controlled, typically by a cost, profit or investment centre manager is called controllable cost. Controllable costs incurred in a particular responsibility centre can be influenced by the action of the executive heading that responsibility centre. For example, direct costs comprising direct labour, direct material, direct expenses and some of the overheads are generally controllable by the shop level management.

(ii) Uncontrollable Costs - Costs which cannot be influenced by the action of a specified member of an undertaking are known as uncontrollable costs. For example, expenditure incurred by, say, the tool roomis controllable by the foreman in-charge of that section but the share of the tool-room expenditure which is apportioned to a machine shop is not to be controlled by the machine shop foreman.

Question 17

SUGGEST the unit of cost for following industries: (RTP May 23)

(a) **Transport**
(b) **Power**
(c) **Hotel**
(d) **Hospital**
(e) **Steel**
(f) **Coal mining**
(g) **Professional Services**
(h) **Gas**
(i) **Engineering**
(j) **Oil**

Answer 17

Cost units are as follows:

Industry or Product	Cost Unit Basis
Transport	Passenger- kilometer
Power	Kilo-watt hour (kWh)
Hotel	Room
Hospitals	Patient day
Steel	Ton
Coal mining	Tonne/ton
Professional services	Chargeable hour, job, contract

Gas	Cubic feet
Engineering	Contract, job
Oil	Barrel, tonne, litre

Question 18

Narrate the objectives of cost accounting. (RTP Nov '23)

Answer 18

The main objectives of introduction of a Cost Accounting System in a manufacturing organization are as follows:

(i) Ascertainment of cost: The main objective of a Cost Accounting system is to ascertain cost for cost objects. Costing may be post completion or continuous but the aim is to arrive at a complete and accurate cost figure to assist the users to compare, control and make various decisions.

(ii) Determination of selling price: Cost Accounting System in a manufacturing organisation enables to determine desired selling price after adding expected profit margin with the cost of the goods manufactured.

(iii) Cost control and Cost reduction: Cost Accounting System equips the cost controller to adhere and control the cost estimate or cost budget and assist them to identify the areas of cost reduction.

(iv) Ascertainment of profit of each activity: Cost Accounting System helps to classify cost on the basis of activity to ascertain activity wise profitability.

(v) Assisting in managerial decision making: Cost Accounting System provides relevant cost information and assists managers to make various decisions.

Question 19

Mention the Cost Unit of the following Industries:

(i) Electricity
(ii) Automobile
(iii) Cement
(iv) Steel
(v) Gas
(vi) Brick Making
(vii) Coal Mining
(viii) Engineering
(ix) Professional Services (PYP Nov'19,5 Marks)

Answer 19

Cost Unit of Industries:

S. No.	Industry	Cost Unit Basis
(i)	Electricity	Kilowatt-hour (kWh)
(ii)	Automobile	Number
(iii)	Cement	Ton/ per bag etc.
(iv)	Steel	Ton
(v)	Gas	Cubic feet
(vi)	Brick-making	1,000 bricks
(vii)	Coal mining	Tonne/ton
(viii)	Engineering	Contract, job
(ix)	Professional services	Chargeable hour, job, contract
(x)	Hospitals	Patient day

EXAMINERS' COMMENTS ON THE PERFORMANCE OF EXAMINEES:

This was a theoretical question based on cost unit in industries. Performance of the examinees was Average.

Question 20

State the Method of Costing to be used in the following industries: ". (PYP 5 Marks Nov '20)

(i) Real Estate
(ii) Motor repairing workshop
(iii) Chemical Industry
(iv) Transport service
(v) Assembly of bicycles
(vi) Biscuits manufacturing Industry
(vii) Power supply Companies
(viii) Car manufacturing Industry
(ix) Cement Industry
(x) Printing Press

Answer 20

Method of costing used in different industries:

S. No.	Industries	Method of Costing
(i)	Real Estate	Contract Costing
(ii)	Motor Repairing Workshop	Job Costing
(iii)	Chemical Industry	Process Costing
(iv)	Transport Service	Service/Operating Costing
(v)	Assembly of Bicycles	Unit/ Single/Output/Multiple Costing
(vi)	Biscuits Manufacturing Industry	Batch Costing
(vii)	Power Supply Companies	Service/Operating Costing
(viii)	Car Manufacturing Industry	Multiple Costing
(ix)	Cement Industry	Unit/Single/Output Costing
(x)	Printing Press	Job Costing

Question 21

State the method of costing that would be most suitable for:

(i) Oil Refinery
(ii) Interior Decoration
(iii) Airlines Company
(iv) Advertising
(v) Car Assembly. (PYP 5 Marks Jan '21)

Answer 21

Method of Costing

S.No.	Industry	Method of Costing
(i)	Oil Refinery	Process Costing
(ii)	Interior Decoration	Job Costing
(iii)	Airlines Company	Operation/ Service Costing
(iv)	Advertising	Job Costing
(v)	Car Assembly	Multiple Costing

Question 22

Specify the types of Responsibility centres under the following situations:

(i) Purchase of bonds, stocks, or real estate property.
(ii) Ticket counter in a Railway station.
(iii) Decentralized branches of an organization.
(iv) Maharana, Navratna and Miniratna public sector undertaking (PSU) of Central Government.
(v) Sales Department of an organization. (PYP 5 Marks July 21)

Answer 22

Particulars	Types of Responsibility Centre
(i) Purchase of bonds, stocks, or real estate property.	Investment Centre
(ii) Ticket counter in a Railway station.	Revenue Centre
(iii) Decentralized branches of an organization.	Profit Centre

(iv) Maharatna, Navratna and Miniratna public sector undertaking (PSU) of Central Government.	Investment Centre
(v) Sales Department of an organization.	Revenue Centre

EXAMINERS' COMMENTS ON THE PERFORMANCE OF EXAMINEES:

It was a theoretical question requiring examinees to specify the type of responsibility centre for the given five statements. Majority of the examinees failed to give clear responses to the statements. Performance of the examinees was below average.

Question 23

Explain Direct Expenses and how these are measured and their treatment in cost accounting. (PYP May '19 5 Marks)

Answer 23

Direct Expense: Expenses other than direct material cost and direct employee cost, which are incurred to manufacture a product or for provision of service and can be directly traced in an economically feasible manner to a cost object. The following costs are examples for direct expenses:

(i) Royalty paid/ payable for production or provision of service;
(ii) Hire charges paid for hiring specific equipment;
(iii) Cost for product/ service specific design or drawing;
(iv) Cost of product/ service specific software;
(v) Other expenses which are directly related with the production of goods or provision of service. The above list of expenses is not exhaustive; any other expenses which are directly attributable to the production or service are also included as direct expenses.

Measurement of Direct Expenses

The direct expenses are measured at invoice or agreed price net of rebate or discount but includes duties and taxes (for which input credit not available), commission and other directly attributable costs. In case of sub-contracting, where goods are get manufactured by job workers independent of the principal entity, are measured at agreed price. Where the principal supplies some materials to the job workers, the value of such materials and other incidental expenses are added with the job charges paid to the job workers.

Treatment of Direct Expenses

Direct Expenses forms part the prime cost for the product or service to which it can be directly traceable and attributable. In case of lump-sum payment or one-time payment, the cost is amortized over the estimated production volume or benefit derived. If the expenses incurred are of insignificant amount. i.e. not material, it can be treated as part of overheads.

EXAMINERS' COMMENTS ON THE PERFORMANCE OF EXAMINEES:

This theoretical question was related to 'Direct Expenses'. Poor performance of the examinees was observed.

Question 24

Briefly explain the 'techniques of costing'. (PYP 5 Marks Dec '21)

Answer 24

Techniques	Description
Uniform Costing	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. Advantages of such a system are: i. 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. ii. 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 standardized goods of repetitive nature.
Historical Costing	It is the ascertainment of costs after they have been incurred. This type of costing has limited utility. • 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.

EXAMINERS' COMMENTS ON THE PERFORMANCE OF EXAMINEES:

This theory question on technique of costing was not answered well. Examinees answered different methods of costing instead of techniques. Performance of the examinees was poor.

Question 25

Identify the methods of costing from the following statements:

(i) Costs are directly charged to a group of products.

(ii) Nature of the product is complex and method cannot be ascertained.

(iii) Costs ascertained for a single product.

(iv) All costs are directly charged to a specific job.

(v) Costs are charged to operations and averaged over units produced. (PYP 5 Marks May'22)

Answer 25

Method of costing followed:

Situation	Method of costing
(i) Costs are directly charged to a group of products.	Batch costing
(ii)Nature of the product is complex and method cannot be ascertained.	Multiple costing
(iii) Cost is ascertained for a single product.	Unit/ Single/Output costing
(iv) All costs are directly charged to a specific job.	Job costing
(v)Costs are charged to operations and averaged over units produced.	Process costing

Question 26

Mention the cost units (physical measurements) for the following Industry/product:

(i) Automobile

(ii) Gas

(iii) Brick works

(iv) Power

(v) Steel

(vi) Transport (by road)

(vii) Chemical

(viii) Oil

(ix) Brewing

(x) Cement (PYP 5 Marks Nov 22)

Answer 26

Industry or Product	Cost Units
Automobile	Number
Gas	Cubic feet
Brick works	1,000 bricks
Power	Kilo-watt hour (kWh)
Steel	Tonne
Transport (by road)	Passenger- kilometer or Tonne-kilometer
Chemical	Litre, gallon, kilogram, tonne etc.
Oil	Barrel, tonne, litre
Brewing	Barrel
Cement	Ton/ per bag etc.

Question 27

Define cost objects and give examples of any four cost objects. (PYP 5 Marks, May '23)

Answer 27

Definition of cost objects

Cost object is anything for which a separate measurement of cost is required. Cost object may be a product, a service, a project, a customer, a brand category, an activity, a department or a programme etc.

Examples of cost objects

Product	Smart phone, Tablet computer, SUV Car, Book etc.
Service	An airline flight from Delhi to Mumbai, Concurrent audit assignment, Utility bill payment facility etc.
Project	Metro Rail project, Road projects etc.
Activity	Quality inspection of materials, Placing of orders etc.
Process	Refinement of crudes in oil refineries, melting of billets or ingots in rolling mills etc.
Department	Production department, Finance & Accounts, Safety etc.

Question 28

Answer any four of the following:

Explain very briefly the following terms used in Cost and Management Accounting:

(i) **Pre-determined Cost**
(ii) **Estimated Cost**
(iii) **Imputed Cost**
(iv) **Discretionary Cost (PYP 5 Marks Nov'23)**

Answer 28

(i) Pre- Determined Cost

A cost which is computed in advance before production or operations start, on the basis of specification of all the factors affecting cost, is known as a pre-determined cost.

(ii) Estimated Cost

Estimated cost is "the expected cost of manufacture, or acquisition, often in terms of a unit of product computed on the basis of information available in advance of actual production or purchase". Estimated costs are prospective costs since they refer to prediction of costs.

(iii) Imputed Cost

Imputed costs do not involve any immediate cash payment. Implicit costs are not recorded in the books of account but yet, they are important for certain types of managerial decisions such as equipment replacement and relative profitability of two alternative courses of action. They are also known as economic costs. These costs are similar to opportunity cost.

(iv) Discretionary Cost

Discretionary costs are not tied to a clear cause and effect relationship between inputs and outputs. They arise from periodic decisions regarding the maximum outlay to be incurred. Examples are - advertising, public relations, training etc.