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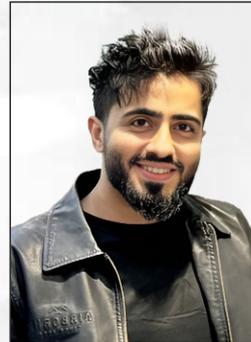
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On behalf of TEAM YES

CS VIKAS VOHRA
(Founder)

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FUNDAMENTALS OF COST ACCOUNTING

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PAST YEAR ANALYSIS – 2026 SYLLABUS

S. No.	Name of Chapter	2023		2024		2025		Average
		J	D	J	D	J	D	
1.	Meaning Definition, Significance of Cost Accounting	2	6	4	10	6	4	5.33
2.	Application of Cost Accounting for Business Decisions	-	-	-	-	-	2	0.33
3.	Definition of Cost, Cost Centre, Cost Unit and Cost Drivers	4	4	6	8	4	12	6.33
4.	Classification of Cost	6	8	8	6	10	6	7.33
5.	Ascertainment of Cost and Preparation of Statement of Cost and Profit	16	12	12	6	10	6	10.33

EVOLUTION OF COST ACCOUNTING

1. Old Times (Pre-Industrial Period)

- Small size businesses
- No keen competition
- Owner had direct control and personal supervision
- Financial accounting was sufficient
- No need for cost accounting

2. 1494 – Introduction of Double Entry System

- Origin of modern accounting system
- Development of Financial Accounting
- Focus on profit/loss and financial position
- External reporting objective
- Cost accounting existed as a minor branch

3. Industrial Revolution

- Large-scale factory production started
- Use of machines increased
- Increase in competition and complexity
- Need for internal cost information
- Beginning of systematic cost accounting

4. Textile Mills & Railways

- First industries to develop internal cost records
- Coordination of various activities required
- Focus on development of internal administrative procedures
Conversion of raw material into finished goods (Textiles)
Transportation of passengers & freight (Railways)
- Emphasis on Direct Material and Direct Labour
- Development of Prime Cost concept

5. 1880s – Mass Production Era

- Growth of mass production and distribution enterprises
- Adoption of railway accounting systems
- Improvement in internal accounting reports
- Cost accounting still limited to prime costs

6. 1880–1925 – Scientific Management Period

- Emergence of large diversified corporations
- Scientific management movement introduced - emphasized efficiency, standardization, and productivity.
- Cost accounting began measuring efficiency and performance
- Physical standards converted into cost standards
- Introduction of standard costing and variance analysis
- Cost accounting used for control and efficiency measurement

7. World War I & II

- Heavy defence expenditure by governments
- Absence of competitive markets
- Introduction of cost-plus contracts
- Increased reliance on cost estimation
- Cost accounting gained social and national importance

8. Post-World War II Period - Modern Business Era

- Continuation and expansion of cost techniques in defence contracts.
- Application across all industries
- Development of Management Accounting
- Clear distinction between Financial, Cost & Management Accounting
- Focus on planning, control and decision making

DEVELOPMENT OF COST ACCOUNTING PROFESSION IN INDIA

1. Pre-Independence

- Few cost accountants
- Qualified mainly from ICMA London, now CIMA

2. World War II:

- Need felt to develop profession in India
- Initiative taken by defence service personnel in Kolkata

3. 1959:

- Enactment of Cost and Works Accountants of India Act
- Establishment of Institute of Cost Accountants of India (Kolkata)
- Increased importance and demand for Cost Accountants.
- Aimed at ensuring efficiency, cost control and consumer protection.

4. 1968 – Introduction of Cost Audit in India

Cost Audit introduced under Section 233(B) of Companies Act, 1956

Present Position: Cost Audit governed by Section 148 of Companies Act, 2013

- Applicable to specified industries.
- Cost Accountants play a vital role in audit, pricing and policy decisions.
- Establishment of ICMAI and Cost Audit strengthened the role of Cost Accountants in India.

BASIC DEFINITIONS

1. Cost

- Cost is the amount of expenditure, actual or notional, incurred on or attributable to a given product or service.
- Cost is the amount of resources used for something which must be able to be measured in terms of money.
- Its the resources that have been sacrificed (₹) to attain a particular objective.

2. Costing

- Costing is the techniques and processes of ascertaining costs.
- These techniques consist of principles and rules, which govern the procedure of ascertaining cost of products or services.
- Costing involves classification, recording, allocation, appropriation of expenses incurred to facilitate the determination of cost of product or service.

3. Cost accounting

- It is regarded as a specialized branch of accounting, which involves establishment of budgets, standard costs and actual costs of operations, processes, activities or products, and analysis of variances, profitability.
- It is concerned with actual costs incurred and the estimation of future costs.
- Objective of ascertaining cost, controlling expenditure, and assisting management in decision-making.

4. Cost Accountancy

Cost Accountancy is defined as ‘the application of costing and cost accounting principles, methods and techniques to the science and art and practice of cost control and the ascertainment of profitability as well as presentation of information for the purpose of managerial decision making.’

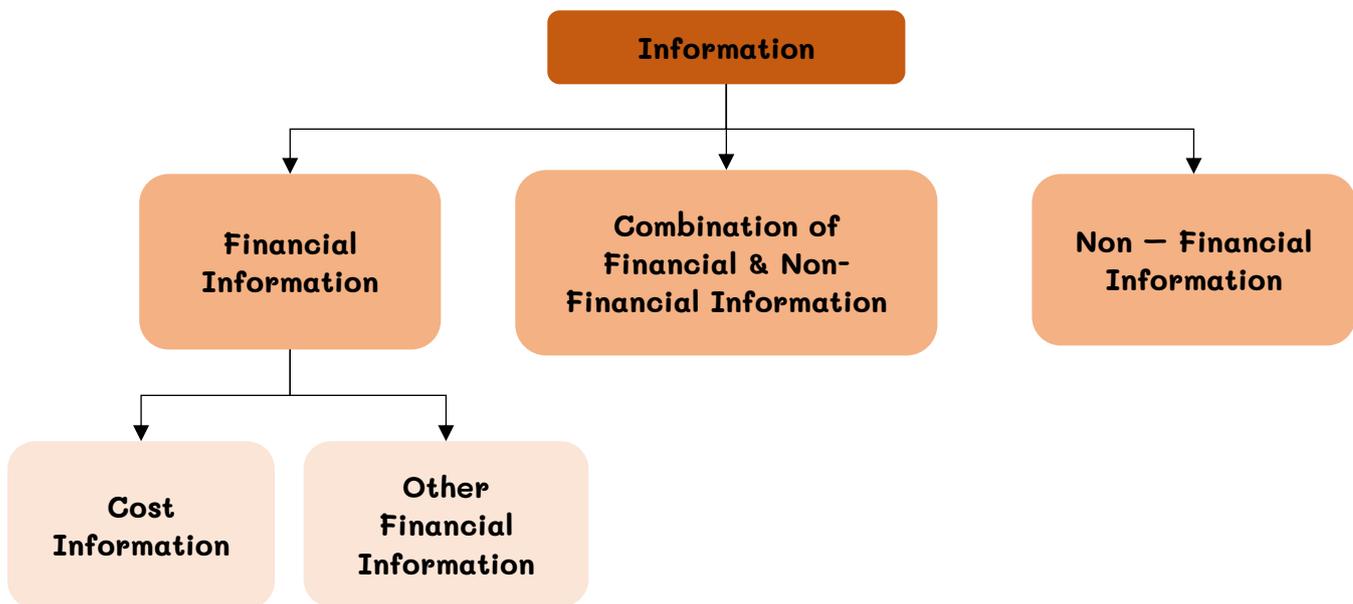
Four particular points summarizes the above-mentioned definition.

- a. The application of the costing and cost accounting principles is encompassed in cost accountancy.
- b. This application is with specific purpose and that is for the purpose of cost control, ascertainment of profitability.
- c. Cost accountancy is a science as it has well defined rules and regulations, it is an art as application of any science requires art and it is a practice as it has to be applied on continuous basis and is not a onetime exercise.
- d. Cost accountancy merely caters to the need of management which facilitate decision making.

OBJECTIVES OF COST ACCOUNTING

1. To ascertain the cost per unit of production.
2. To help in determining the selling price.
3. To help in cost control and cost reduction.
4. To ascertain the cost and profitability of each division, unit, activity, centre etc.
5. To assist the management in decision making.
6. To provide a basis for operating policies.
7. To inform about inefficiency and carelessness.
8. To inform the real situation of production activity.
9. To provide basis for comparative analysis through data collection.
10. To facilitate cost estimation.

TYPES OF INFORMATION & USERS OF COST AND MANAGEMENT ACCOUNTING

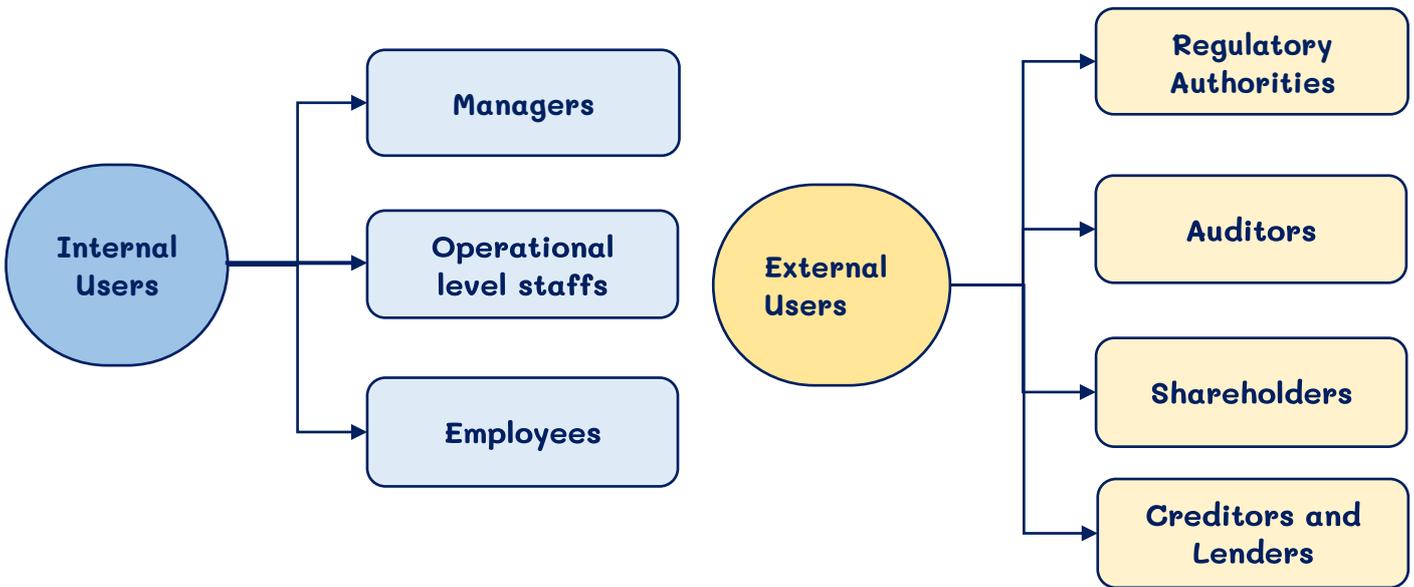


Information provided by the cost accounting system is referred as cost information which particularly includes the following:

- a. The unit cost of a product, work or service
- b. Various elements of cost of a department or a factory or any other cost object.
- c. The volume of waste and the technological losses
- d. The costs related to the number of activities
- e. cost analysis (for decision making)

Users Of Information

Cost and Management Accounting information which are collected & used by various stakeholders. The users of the information are:



SCOPE OF COST ACCOUNTING

1. **Cost ascertainment** – Products cost, processes, jobs, services & becomes basis of managerial decision making such as pricing, planning and control.
2. **Cost book-keeping** - Departments wise, products and services wise.
3. **Cost Analysis** - Actual costs & standard costs.
4. **Cost Comparisons** - Comparisons between cost from use of technology for production, cost of making different products and activities, and cost of same product/ service over a period of time.
5. **Cost Control** – Utilize cost information for exercising control.
Detailed examination of each cost & the benefit derived from it.
6. **Cost Reports** - Presentation of cost. Cost Reports forms the basis for managerial planning and control, performance appraisal and managerial decision making.
7. **Cost Audit** - Is the verification of correctness of Cost Accounts
Adherence to the Cost Accounting plan.
Principles and rules have been applied correctly.

SIGNIFICANCE OF COST ACCOUNTING

a) Identification of Profitable and Unprofitable Activities

- Steps can be taken to eliminate or reduce those activities from which no benefit is obtained.
- Helps to change the method of production to make such activities more profitable.

b) Measurement of Efficiency

- Enables a concern to measure the efficiency.
- Helps to maintain and improve efficiency.

c) Basis for Estimates and Tenders

- Provides information upon which estimates and tenders are based.

d) Guidance for Future Production Policies

- Guides future production policies.
- Explains the cost incurred and profit made in various lines of business and processes.
- Provides data on the basis of which production can be appropriately planned.

e) Increase in Profits

- Helps in increasing profits by disclosing the sources of loss or waste.
- Suggests controls so that wastages, leakages and inefficiencies of all departments may be detected and prevented.

f) Periodical Determination of Profit or Loss

- Enables periodical determination of profits or losses.
- No need to resort to stock taking.

g) Comparison of Costs

- Furnishes reliable data for comparing costs:
 - In different periods
 - For different volumes of output
 - In different departments and processes
 - In different establishments
- Helps in maintaining costs at the lowest point consistent with the most efficient operating conditions.

h) Identification of Cause of Profit or Loss

- Helps in identifying the exact cause of decrease or increase in profit or loss.

i) Disclosure of Relative Efficiencies

- Discloses the relative efficiencies of different workers.
- Facilitates introduction of suitable plans of wage payment.
- Rewards efficiency and provides incentive to the less efficient worker.

j) Assistance to Government and Policy Formulation

- Facilitates assessment of excise duty and income tax.
- Helps in formulation of policies regarding industry, export, import, taxation, etc.
- Facilitates preparation of national plans for economic development.
- Provides ready figures for Government for:
 - Price fixation and price control
 - Tariff protection
 - Wage level fixation

- Payment of dividends
- Settlement of disputes

METHODS OF COSTING

1. Job Costing

- Used in firms which work on the basis of job work.
- Manufacturing units undertaking job work are called job order units.
- Production is according to the requirements and specifications of consumers.
- Each job may be different from the other one.
- Production is done only on specific order.
- There is no predetermined production.
- It is necessary to compute the cost of each job.
- Each job is treated separately.
- A job cost sheet is prepared to find out the cost of the job.
- The job cost sheet helps to compute cost in a phased manner and finally arrives at the total cost of production.

Example: A furniture manufacturer receives an order to make 100 customised office tables as per customer specification.

- Raw Material = ₹2,00,000
- Direct Labour = ₹80,000
- Production Overheads = ₹70,000

Total Cost of Job = ₹3,50,000

Cost per table = ₹3,50,000 ÷ 100 = ₹3,500

A separate job cost sheet is prepared for this order.

2. Batch Costing

- It is a method of accounting in which costs are accumulated by batches.
- Costs are collected as per Batch order number.
- Total costs are divided by the total number in a batch to find out cost per unit of each batch is worked out.
- Applicable to toy making industries, biscuit factories, medicine industries, etc.

Example: A biscuit factory produces biscuits in Batch No. 25 consisting of 10,000 packets.

- Total Material Cost = ₹1,50,000
- Labour Cost = ₹40,000
- Overheads = ₹60,000

Total Batch Cost = ₹2,50,000

Cost per packet = ₹2,50,000 ÷ 10,000 = ₹25 per packet

3. Process Costing

- Used where products involve continuous production process.
- Input introduced in Process I travels through continuous process before finished product is produced.

- Output of Process I becomes input of Process II.
- Output of Process II becomes input of Process III.
- If there is no additional process, output of last process becomes finished product.
- In process costing, cost per process is worked out & Per unit cost = Total cost ÷ Number of units.
- Industries like sugar, edible oil, chemical use process costing.

Example: A sugar factory has 3 processes:

- Process I Cost = ₹5,00,000 (10,000 units)
Cost per unit = ₹50
 - Process II Cost = ₹3,00,000
 - Process III Cost = ₹2,00,000
- Total Cost = ₹10,00,000
Total Output = 10,000 units
Cost per unit = ₹10,00,000 ÷ 10,000 = ₹100 per unit

4. Operating Costing

- Used in service sector.
- Used to work out the cost of services offered to consumers.
- Used in hospitals, power generating units, transportation sector, etc.
- A cost sheet is prepared to compute total cost.
- Total cost is divided by cost units to work out per unit cost.

Example: A bus company incurs the following monthly cost:

- Fuel = ₹2,00,000
 - Driver Salary = ₹1,00,000
 - Maintenance = ₹50,000
- Total Cost = ₹3,50,000
Total Kilometres run = 25,000 km
Cost per km = ₹3,50,000 ÷ 25,000 = ₹14 per km

5. Contract Costing

- Used in construction industry.
- Used to work out the cost of contract undertaken.
- Examples: bridge, commercial complex, residential complex, highways.
- Similar to job costing.
- Difference:
 - In contract costing, one construction job may take several months or years.
 - In job costing, each job may be of short duration.
- As each contract may take long period of completion, the question of computing profit is solved with the help of a well-defined and accepted method.

Example: A contractor undertakes construction of a commercial complex for ₹2 crore.

- Material = ₹80,00,000
- Labour = ₹50,00,000
- Overheads = ₹20,00,000

Total Cost till date = ₹1,50,00,000

Since contract continues for 2 years, profit is calculated on the basis of percentage of completion method.

APPROPRIATE METHOD OF COSTING IN DIFFERENT INDUSTRIES

Memory Trick

- ⦿ Continuous process → Process costing
- ⦿ Batches → Batch costing
- ⦿ Identical units → Output costing/ Single unit costing
- ⦿ Specific order → Job costing
- ⦿ Construction → Contract costing
- ⦿ Services → Operating costing/ Service costing
- ⦿ Many components → Multiple costing

Industry	Basis / Nature of Industry	Method of Costing
Sugar industry		
Steel or cement		
Pharmaceuticals		
Soft drinks		
Oil refining		
Soap industry		
Toy making		
Readymade garments		
Coal		
Brick kiln		
Breweries		
Printing		
Interior decoration		
Advertising		
Foundries		
House building		
Hospital		
Road transport		
College		
Canteen		
Electricity supply		
Bicycle manufacturing		

Industry	Basis / Nature of Industry	Method of Costing
Aircraft manufacturing		
Video / Audio manufacturing		
Sub-assembling		

COST ACCOUNTING SYSTEMS

- Systems and procedures are devised for proper accounting for costs is referred as cost accounting system.
- It depends on the type of product/service.
- Types of cost accounting system are as under:

1. Historical Costing

Historical costing ascertains actual costs incurred in the past after production is completed. It helps in knowing the actual cost and profit but is not useful for cost control, as costs are known only after they are incurred. Comparison is possible only when standards exist.

2. Absorption Costing

Absorption Costing is a method of costing in which all costs (fixed and variable) related to production are absorbed by cost units.

It includes - Direct Material, Direct Labour, Variable & Fixed Manufacturing Ohs, Treatment of Overheads

Manufacturing fixed overheads are: Allocated to products & Included in inventory valuation. Carried forward to next period through stock.

Administrative, S&D OHs: Treated as period costs & Charged to P&L as when incurred.

3. Direct Costing (Marginal Costing)

Under direct costing, only variable costs are charged to products, while fixed costs are written off to the Profit and Loss Account of the period. Inventory is valued at variable cost. It emphasizes contribution, which helps in managerial decision-making.

4. Standard Costing

Standard costing uses pre-determined (standard) costs and compares them with actual costs to find variances. Its main objective is cost control and performance evaluation through variance analysis and it also helps in valuation of stock, WIP & fixing selling prices.

5. Uniform Costing

Its not a separate method but a system where different firms in the same industry follow common costing principles and procedures. It facilitates comparison, efficiency improvement, and elimination of inefficiencies.

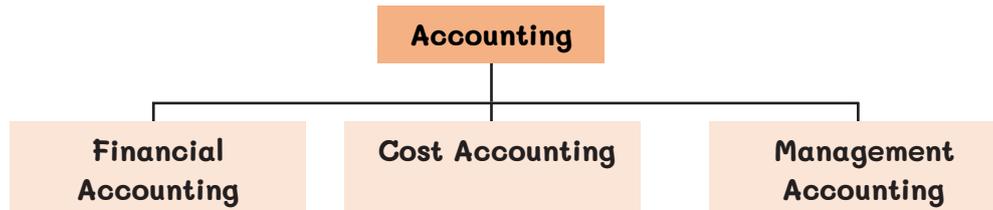
ACCOUNTING, FINANCIAL, COST & MANAGEMENT ACCOUNTING

Accounting – is the systematic record of the financial transactions of business.

The process includes systematic record keeping, tracking transactions, and aggregating the resulting information into a set of financial reports.

The result is an income statement, balance sheet, statement of cash flows, and supporting disclosures that describe the results of a reporting period and the financial position of the reporting entity at the end of that period.

Accounting is classified as financial accounting, cost accounting and managements accounting.



DIFFERENCE FINANCIAL ACCOUNTING & COST ACCOUNTING

Sr		Financial Accounting	Cost Accounting
1.	Meaning	Financial Accounting classifies, analyses, records, and summarizes the financial transactions of a particular period of the company.	The recording, classifying and summarising of cost data of an organisation is known as cost accounting.
2.	Scope	The scope is pervasive, but not as much as the management accounting.	Concerned with costs ascertainment, costs allocation, distribution and costs accounting.
3.	Information Type	Quantitative.	Quantitative.
4.	Interdependency	Since financial transactions includes cost information & other informations. Therefore, It is Dependent on cost accounting not dependent on management accounting.	Dependent on financial accounting. & not dependent on management accounting
5.	Mandatory	Mandatory under Companies Act	Not mandatory (except for cost audit in certain industries)
6.	Users	Mainly for potential investors as well as all stakeholders.	Internal users – cost department, management
7.	Nature	Historical (past data)	Both historical and partly future oriented

8.	Period of Reporting	Usually yearly or half-yearly	As required – daily, weekly, monthly
9.	Focus	Overall performance of the business	Cost of products, jobs, processes
10.	Rules & Standards	Strictly follows accounting standards	Uses costing principles and techniques
11.	Reports Prepared	Trading A/c, P&L A/c, Balance Sheet	Cost sheets, cost statements

Cost Accounting as an Information Processing System

- Techniques of cost accounting and costing help management in every sphere of business decisions.
- Cost accounting provides the foundation for further processing of data.
- Helps management accountants to assist managers in effective decision making.

MAJOR APPLICATIONS OF COST ACCOUNTING IN BUSINESS DECISIONS

a) Classification and Sub-division of Costs

- Costs are collected and classified in various ways.
- Provides information for control purposes.
- Helps to ascertain the profitability of each area of activity.
- Enables the concern to measure efficiency and improve it.

b) Control of Material, Labour and Overhead Costs

- Inventory control techniques are used to control material cost.
- Fixation of maximum level reduces over-stocking.
- EOQ helps purchase department to order right quantity.
- Detailed information about machine and labour capacity ensures efficient use.
- Work is planned so that no section is over-worked or idle.
- Overheads classified into controllable/uncontrollable or fixed/variable.
- Thus, cost accounting provides detailed control of material, labour and overhead costs.

c) Business Policy

- Facilitates consideration of alternative methods and procedures.
- Cost information helps in vital decisions such as:
 - Introduction of new product
 - Selection of optimum product mix
 - Utilization of spare capacity
 - Replacement of existing assets

d) Budgeting

- Important tools: Budgets and Performance Reports.
- Budgets are financial and/or quantitative statements prepared prior to a defined period.
- They are formal quantifications of management plans.
- Performance reports compare actual results with budgets.
- Facilitates action against persons whose performance is below standard.
- Known as management by exception – focusing on areas not up to the mark.

e) Standards for Measuring Efficiency

- Provides use of standards for estimates and future plans.
- Actuals are compared with standards.
- Helps in determining operating efficiency.

f) Best Use of Limited Resources

- Provides reliable data of costs regarding materials, wages and other expenses.
- Helps to get maximum output at minimum cost.
- Indicates where economies may be affected and waste eliminated.
- Helps to avoid loss due to reduced turnover and falling prices.

g) Price Determination

- Helps to fix remunerative selling prices.
- During recession, helps track inefficiencies and wastage.
- During depression, price may be reduced to recover variable costs.
- Distinction between fixed and variable costs helps in pricing decisions.
- Without cost information, prices may be too high or too low.

Individual Business Decisions Facilitated by Cost Accounting

In line with the above broad principles, cost accounting actively helps the management in making individual business decisions in various areas. Decisions may relate to various problems like -

Cost accounting helps in decisions such as:

1. Whether price should be reduced for increased sales.
2. Whether a change in production should be followed.
3. Whether factory should operate at full capacity.
4. Determination of most profitable level of production.
5. Whether to make or buy a spare part.
6. Whether a new product should be introduced.
7. Whether the product should be exported.
8. Whether a particular market should be tapped.
9. Whether a product should be discontinued.
10. Whether investment in a particular asset is worthwhile.

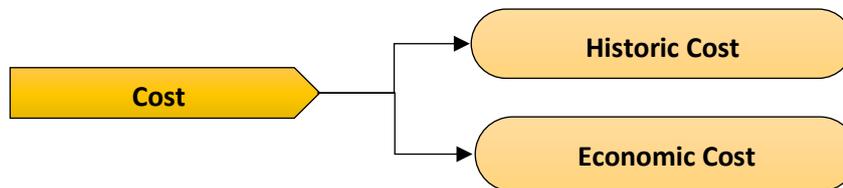
COST

- Is defined as the expenditure (actual or notional) incurred on or attributable to a given product or service.
- It can also be described as the resources that have been sacrificed or must be sacrificed to attain a particular objective.
- In other words, cost is the amount of resources used for something which must be measured in terms of money.

Institute recognized the need for structured approach to the measurement of cost and considered their responsibility to provide guidance to stakeholders to achieve uniformity and consistency in classification, measurement and assignment of cost to product and services. They constituted Cost Accounting Standards Board (CASB), with objective of formulating Cost Accounting Standards (CAS).

CAS 1 states that cost is a measurement, in monetary terms, of the amount of resources used for the purpose of production of goods or rendering services.

Thus 'cost' can be classified either as historical cost or as economic cost



Historical cost: -

- Cost actually incurred in the past to produce goods or services.
- Includes direct material, direct labour, and manufacturing overheads.
- Past-oriented in nature.

Example: A firm bought raw material for ₹10,000 last month.

This ₹10,000 is the **historical cost**, even if the current price has changed.

Out-of-Pocket Cost –

- Actual cash payment made by a business or individual.
- Involves real cash outflow.

Example: Paying ₹5,000 as wages to workers, Paying ₹2,000 for electricity bills.

Economic cost (Opportunity Cost) -

- Value of the **next best alternative forgone**.
- May not involve actual cash payment.

Example: A person can earn ₹1000 per hour by working. Instead, he chooses to sleep.

- Economic cost of sleeping = ₹ 1000 (income forgone).

Thus, ₹ 25 is a cost of the decision of taking the nap as it is the benefit foregone in taking the nap.

Sunk Cost: —

- Cost already incurred and cannot be recovered.
- Irrelevant for future decision-making.

Example: ₹1,00,000 spent on machinery that cannot be sold.

This cost is a **sunk cost** and should not affect future decisions.

Imputed Costs: —

- Hypothetical or notional cost.
- No actual cash outflow.
- Considered for decision-making.

Example: Interest on owner's own capital invested in the business.

No actual payment is made, but interest is imputed.

Relevant Costs: -

- Costs that affect a particular decision.
- Only future costs are relevant.

Example: Choosing between two machines:

Machine A maintenance cost = ₹5,000/year

Machine B maintenance cost = ₹8,000/year

These future maintenance costs are **relevant costs**.

Avoidable Costs —

- Costs that can be avoided under certain conditions.

Example:

Wages of temporary or casual workers → Can be avoided if production is stopped.

Cost of raw materials → Avoided if a product line is discontinued.

Power and fuel expenses → Avoided when machines are not operated.

Advertising expenses for a specific product → Avoided if that product is withdrawn.

Maintenance cost of a machine → Avoided if the machine is not used.

Unavoidable Costs—

- Costs that must be incurred and cannot be avoided.
- Usually fixed in nature.

Example: Factory rent that must be paid even when the production stops.

Controllable

- Costs that can be controlled by management at a certain level.

Example: Overtime wages controlled by a production manager.

Non-Controllable Costs: –

- Costs that cannot be controlled by a manager.

Example: Government taxes.

Factory rent fixed by long-term agreement.

COMPARISON - COST CENTRE VS COST OBJECT VS COST UNIT

Basis	Cost Centre	Cost Object	Cost Unit
Meaning	Collecting place for costs	Anything for which cost is ascertained	Unit of measurement of cost
Purpose	Accumulation of costs	Determination of cost	Measurement of cost per unit
Definition (CIMA)	Production or service location, function, activity or item of equipment for which costs are accumulated	Product, service, centre, activity, customer or distribution channel in relation to which costs are ascertained	Unit of product or service in relation to which costs are ascertained
Logical Role	Where cost is collected	For what cost is calculated	In what unit cost is expressed
Nature	Responsibility centre	Target of costing	Measuring device
Examples	Machine shop, Assembly shop, Power house	Product, Project, Customer, Contract	Per unit, MT, KWH, Room-day
Flow Relationship	First stage	Second stage	Final stage

STEPS:

Cost Incurred

↓

Cost Centre (Accumulation)

↓

Cost Object (Cost ascertained for)

↓

Cost Unit (Cost per unit calculated)

COMPOSITE COST UNIT

- A Composite Cost Unit is a cost unit made up of two units of measurement, mainly used in service industries. It is adopted where cost depends on more than one factor.
E.g: If a transport company measures cost per tonne delivered, it is not accurate because:
 - Delivering 1 tonne for **1 km**
 - Delivering 1 tonne for **10 km**
 - Both are different in cost.
- So, we combine both **weight + distance**.
- Therefore, we use **Composite Cost Units**.
- This helps in **better cost control and comparison** in service organisations.

Examples of composite cost units are as follows:

Business	Composite Cost Unit
Hospital	Patient – Day
Transport (Freight)	Tonne – kilometre
Transport (Passenger)	Passenger –KM
Hotel	Room–day
Power supply	Kilowatt–hour

COST CENTRE

A **Cost Centre** is a place or department where costs are collected before they are divided among cost units.

In simple words: **Cost Centre** = Where costs are collected

Cost Unit = For which cost is calculated

For example: Department = Cost Centre

Product = Cost Unit

- **CIMA:** A cost centre is a production or service location, function, activity, or equipment for which costs are accumulated.
- **CAS 1:** A cost centre may be a division, department, section, group of machines, group of employees, or combination of these, selected for collecting costs.

Types of Cost Centres

A. Personal and Impersonal Cost Centres

- **Personal Cost Centre:** Consists of a person or a group of persons.
Example: Accounting department staff.
- **Impersonal Cost Centre:** Not linked to persons; may include equipment or sections.
Example: Machine shop, power house.

B. Broad Classification

- **Production Cost Centres:** Directly involved in production.
Examples: Machine shop, Welding shop, Assembly shop.
- **Service Cost Centres:** Provide support or service to production centres.
Examples: Power house, Maintenance, Stores Department, Purchase office.

Key Features

- A cost centre is also called a Responsibility Centre because the manager of that centre is responsible only for the costs under his/her control.
- It is also known as an Expense Centre.

COST DRIVER & RELATED TERMS

1. Cost Driver (Cost Driver → Cause of Cost)

- A cost driver triggers a change in the cost of an activity.
- Most commonly used to assign overhead costs to the number of produced units.
- Used in **activity-based costing** analysis to determine the causes of overhead.
- Helps to minimize overhead costs.

Activity Based Costing (ABC)

- An approach to the costing and monitoring of activities.
- Involves tracing resource consumption and costing final outputs.
- Resources are assigned to activities.
- Activities are assigned to cost objects based on consumption estimates.
- Cost drivers are used to attach activity costs to outputs.

Examples of Cost Drivers

Activity	Cost Driver
Machine Set-up	No. of Set-ups / Set-up Hours
Inspection	Inspection Hours
Ordering Costs	No. of Orders
Delivery Costs	No. of Deliveries

Number of Cost Drivers

- A large number of cost drivers may be used in an activity-based costing system.
- If business follows only minimum accounting requirements → Only single cost driver should be used to allocate overhead to produced goods.

2. Cost Allocation (Allocation → Direct Charge)

- When items of cost are identifiable directly with products or departments.
- Such costs are charged to cost centres.
- Known as cost allocation.

Examples: Wages paid to workers of service department can be allocated to the particular department. Indirect materials used by a particular department can also be allocated to the department.

Cost allocation calls for two basic factors:

1. Department/product should have caused the cost.
2. Exact amount of cost should be computable.

3. Cost Apportionment (Apportionment → Indirect Distribution)

- When cost cannot be directly charged to cost centres.
- Costs are prorated/distributed on predetermined basis.
- Residual indirect costs are covered by apportionment.

Principles of Apportionment:

- Service or use
- Survey method
- Ability to bear
- Basis adopted should ensure equitable share.
- Should be reviewed periodically.

CIMA Definition of Allocate: Assign a whole item of cost or revenue to a single cost unit, centre, account or time period.

COST ACCOUNTING STANDARDS

Purpose of CASB

- Constituted by The Institute of Cost Accountants of India (ICMAI).
- Aim: Provide a structured approach to cost measurement in manufacturing and service sectors. CASB ensures standardization and transparency in cost measurement, enabling reliable cost information for decision-making, reporting, and regulation.
- Ensure uniformity and consistency in:
 - Classification of costs
 - Measurement of costs
 - Assignment of costs to products and services

Users of CAS

- Organizations (manufacturing/service)
- Government bodies
- Regulators
- Research agencies
- Academic institutions

Role of CASB:

- Formulates Cost Accounting Standards (CAS).
- Provides guidance on costing practices.

Achievements (as on date)

- 24 Cost Accounting Standards issued
- Generally Accepted Cost Accounting Principles (GACAP)
- 11 Guidance Notes issued

LIST OF COST ACCOUNTING STANDARDS (CAS)

The following are the Cost Accounting Standards (CAS) issued by the Institute of Cost Accountants of India:

CAS No.	Title
CAS 1	Classification of Cost
CAS 2	Capacity Determination
CAS 3	Production and Operation Overheads
CAS 4	Cost of Production
CAS 5	Average (Equalized) Cost of Transportation
CAS 6	Material Cost
CAS 7	Employee Cost
CAS 8	Cost of Utilities
CAS 9	Packing Material Cost
CAS 10	Direct Expenses
CAS 11	Administrative Overheads
CAS 12	Repairs & Maintenance Cost
CAS 13	Cost of Service Cost Centre
CAS 14	Pollution Control Cost
CAS 15	Selling and Distribution Overheads
CAS 16	Depreciation and Amortisation
CAS 17	Interest and Financing Charges
CAS 18	Research and Development Costs
CAS 19	Joint Costs
CAS 20	Royalty and Technical Know-How Fee
CAS 21	Quality Control
CAS 22	Manufacturing Cost
CAS 23	Overburden Removal Cost
CAS 24	Treatment of Revenue in Cost Statement

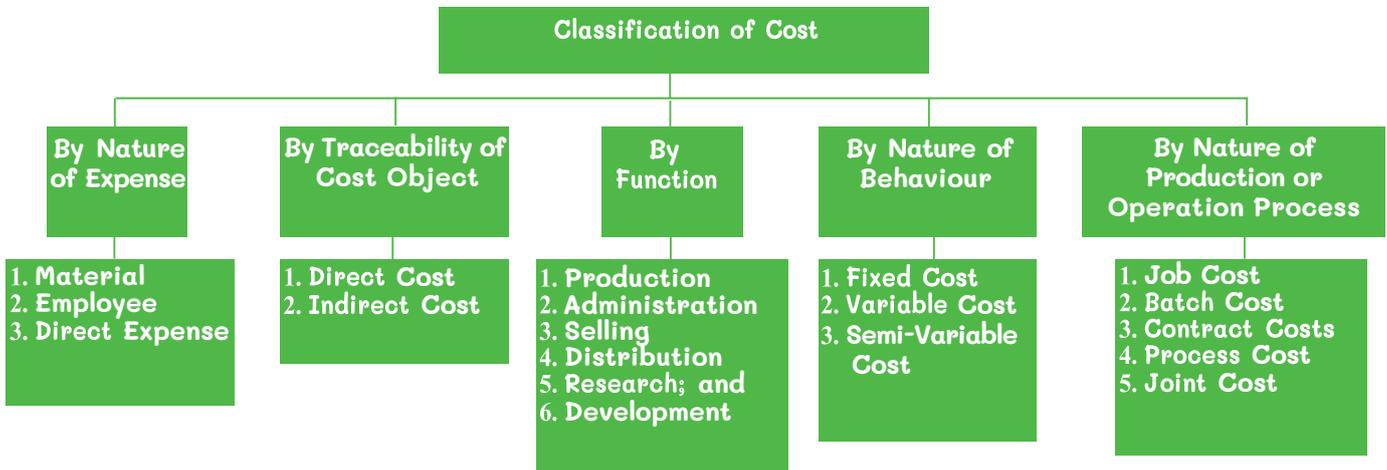
Chapter 4

Classification of Costs (with Reference to CAS 1)

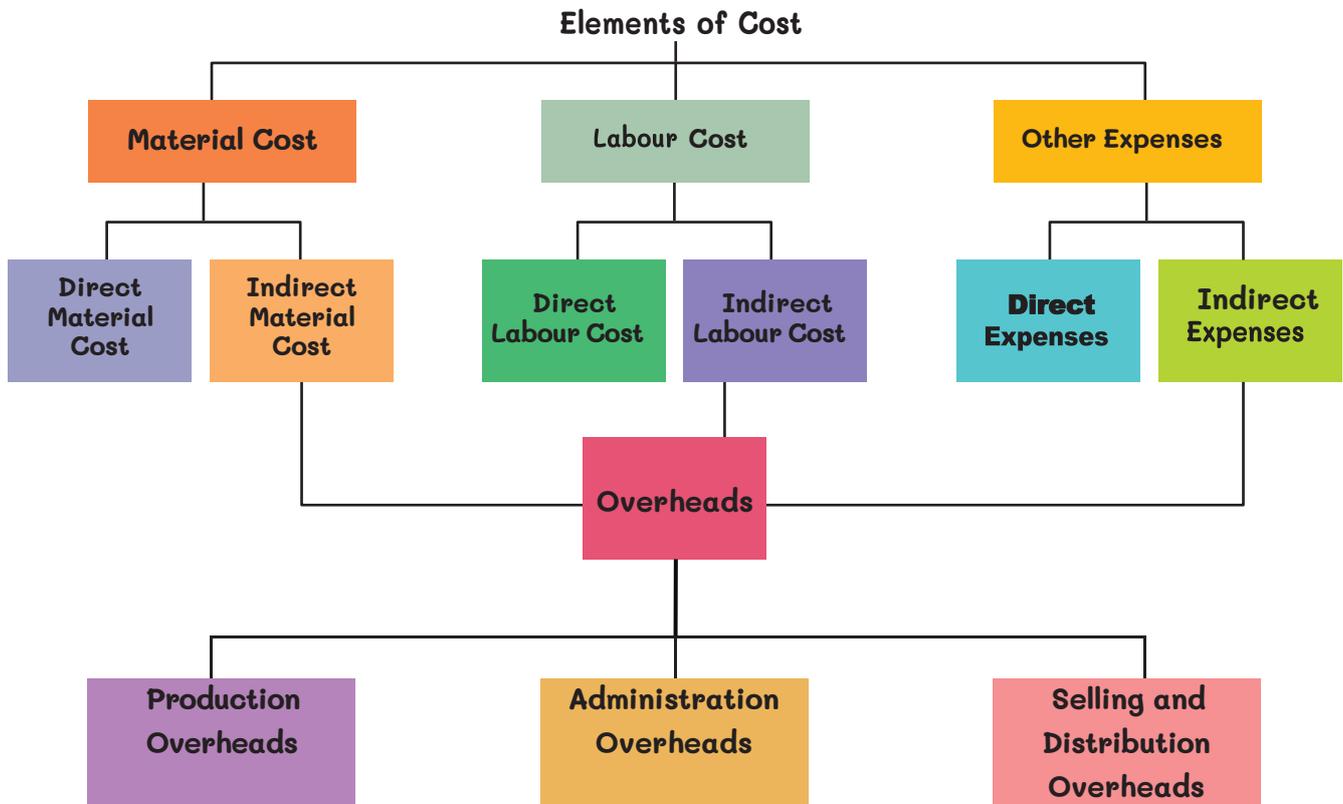
CAS 1 state that type of classification (logical groups) is recommended

- Subjective classification (classification on the basis of nature) and
- Objective classification (on the basis of purpose)

CAS 1 suggest 5 classifications with some sub classifications, which is represented below:



i) **By Nature or Element:** Elements that constitute cost of manufacturing are known as elements of cost. It includes the following:



1. Classification by nature of expense

On basis of nature of expense -elements of cost can be classified in three categories:

- a. **Material** – Material Costs are cost of materials used for the purpose of production of a product or rendering of a service, **net of** trade discounts, rebates, taxes and duties refundable that can be quantified with reasonable accuracy.
- b. **Employee** - Employee Costs are consideration, including benefits paid or payable to employees, permanent or temporary, for the purpose of production of a product or rendering of a service.
- c. **Expenses** - Expenses are costs other than material cost and employee cost. (example - cost of utilities, payment for bought out services, job processing charge)

2. Classification by traceability of the cost to a cost object -

Classification of Elements of Cost into Direct and Indirect Costs

All the traceable costs (direct material, direct labour and direct expenses) are grouped together and is referred as prime cost.

CAS 1 defines Prime Cost = Direct Material Cost + Direct Labour/Employee + Direct Expenses

a) **DIRECT COST** - Traceable to the cost object. These are of three types

i. **Direct material cost** – Cost of materials that can be directly traced to a product, service, or cost object. Traceable in an **economically feasible way**.

Examples:

- Steel used in manufacturing a car
- Wood used in making furniture
- Fabric used in producing garments

ii. **Direct employee cost** – Employee costs (wages, salaries, benefits) that can be directly attributed to a product, service, or cost object. Costs must be traceable **economically feasible way**.

Examples:

- Wages of a machine operator producing a batch of products
- Payment to a carpenter for making a specific furniture order

iii. **Direct expenses** – Expenses other than direct material and direct employee costs that can be assigned to a cost object. Must be directly attributable in **economically feasible way**.

Examples:

- Royalty paid for using a patented design for a product
- License fees for software used for a specific project

b. **INDIRECT COST** – referred as overheads (not traceable to the product) and thus has to be absorbed to the product on the basis of some pre-determined basis. If a cost is not identifiable as a direct cost then it is referred as indirect cost. It comprises of the following.

i. **Indirect material** - Materials used collectively to all the products. Cost of materials **not directly assignable** to a product, service, or cost object in an economically feasible way.

Examples:

- Lubricants and oils for machines

- Cleaning materials used in a factory
- Small tools and stationery used in production

ii. Indirect employee cost – Employee costs **not directly traceable / assignable** to a specific product or cost object in an economically feasible way.

Examples:

- Salary of a factory supervisor overseeing multiple products
- Wages of maintenance staff
- Security personnel salary for the factory

iii. Indirect expenses – Other common/overhead costs. Expenses **not directly assignable** to a product or cost object in an economically feasible way.

Examples:

- Factory electricity and water charges
- Rent of the production building
- Depreciation of plant and machinery

3. Classification By Function costs can be classified according the functions which are

(i) Manufacturing / Production Cost

- Cost of operating the manufacturing division of a company.
- Includes costs beginning with supplying materials, labour and services.
- Ends with the primary packing of the product.
- Includes:
 - Direct Material
 - Direct Labour
 - Direct Expenses
 - Factory Overheads

(ii) Administration Cost

- Cost of formulating the policy.
- Cost of directing the organisation.
- Cost of controlling the operations.
- Not related directly to:
 - Production
 - Selling
 - Distribution
 - Research
 - Development activities

(iii) Selling Cost

- Cost of seeking to create and stimulate demand.
- Sometimes termed as marketing cost.
- Cost of securing orders.

(iv) Distribution Cost

- Expenditure incurred from making the packed product available for dispatch.
- Includes making reconditioned returned empty packages available for reuse.
- Includes expenditure incurred in moving articles to and from prospective customers.

- Includes goods on sale or return basis.

(v) Research Cost

- Cost of searching for:
 - New products
 - Improved products
 - New application of materials
 - New or improved methods

(vi) Development Cost

- Cost of implementation of decision to produce:
 - New product
 - Improved product
 - New method
 - Improved method
- Up to the commencement of formal production.

Direct Materials	}		
Direct Employees (Labours)		Prime Cost	
Direct Expenses			
Indirect Material	}	Factory Overheads	Factory Cost or Works Cost
Indirect Labour		Administration Overheads	Cost of Goods Sold
Indirect Expenses		Selling and Distribution Overheads	Cost of Sales

2. Classification By Nature of Behaviour of The Cost Costs shall be classified based on behaviour in response to the changes in the activity levels such as, fixed cost, variable cost and semi-variable cost. Accordingly, costs are

By Variability or Behaviour



- 1. Fixed cost** — Fixed cost is referred as period costs.
It remains fixed over a relevant range.
Its unaffected by fluctuations in the levels of activity (output or turnover).
Total fixed cost remains constant
Per unit fixed cost reduces as no. of units increases

2. Variable cost – Variable cost is referred as product cost.

It directly vary with the volume of activity.

P.u. variable cost remains fixed

Total Variable costs changes with the production.

3. Semi-variable cost – this are dual natured.

It contains both fixed and variable components and

3. Classification By Nature Of Production Or Operation Process

Operation Cost shall be the cost a specific operation involved in production of goods or rendering of services. Accordingly, costs are

- a. Job cost
- b. Batch cost
- c. Contract cost
- d. Process cost
- e. Joint costs are the costs of common resources used for producing two or more products or rendering two or more services simultaneously.

Chapter 5

Ascertainment of Cost and Preparation of Statement of Cost and Profit (Cost Sheet)
Cost Sheet / Statement of Cost

- A cost sheet, also referred as statement of cost, is a statement that shows the various components of total cost for a product and shows previous data for comparison.
- Depiction of the cost accumulation process of a single output based on a single cost unit.
- Estimated cost sheet is prepared based on estimated cost just before production begins.
- Cost sheet shows the operating results.

Importance and Objectives of Cost Sheet

1. **Determining cost:** Helps in obtaining accurate total cost and cost per unit of a product.
2. **Fixing selling price:** Furnishes the production cost for fixation of selling price.
3. **Cost comparison:** Enables comparison of current cost with previous per unit cost to take corrective measures.
4. **Cost control:** Helps in controlling production costs; estimated cost sheet aids monitoring of material, labour and overheads.
5. **Decision-making:** Used for make or buy decisions, price quotations and tendering.
6. **Inter-firm and intra-firm** comparison.

Advantages of Cost Sheet

1. It discloses the total cost and the cost per unit of the units produced during the given period.
2. It enables a manufacturer to keep a close watch and control over the cost of production.
3. By providing a comparative study of the various elements of current cost with the past results and standard costs, it is possible to find out the causes of variations in cost and to eliminate the adverse factors and conditions which go to increase the total cost.
4. It acts as a guide to the manufacturer and help him in formulating a definite useful production policy.
5. It helps in fixing up the selling price more accurately.
6. It helps the business to submit quotations with reasonable degree of accuracy against tenders for the supply of goods.

Grouping of Costs

1. **Prime Cost** = Direct Materials + Direct Labour + Direct Expenses
2. **Works (Factory) Cost** = Prime Cost + Factory Overheads
3. **Cost of Production** = Works (Factory) Cost + Office and Administrative Overheads
4. **Cost of Sales** = Cost of Production + Selling and Distribution Overheads

In a manufacturing concern, inventory (stock) comprises of:

1. **Raw material stock** – adjusted at the raw material consumed stage.
2. **Work-in-progress stock** – generally adjusted at the works (factory) cost stage, unless otherwise stated.
3. **Finished goods stock** – adjusted at the cost of production stage.

FORMAT OF COST SHEET

Cost Sheet or Statement of Cost and Profit

Particulars	Total Cost	Cost per Unit
A. Direct Material		
Opening stock		
+ Purchases		
+ Carriage inwards		
- Closing stock		
B. Direct wages		
C. Direct Expenses		
I. Prime cost (A+B+C)		
D. Factory Overheads-		
Indirect materials		
Loose tools		
Indirect wages		
Rent and rates (Factory)		
Lighting and heating (F)		
Power and fuel		
Repairs and Maintenance		
Drawing office expenses		
Research and experiment		
Depreciation – plant (F)		
Insurance – (F)		
Work manger's salary		
Add: Opening Work-in-progress		
Less: Closing Work-in-progress		
II. Factory cost/works cost (I+D)		
E. Office and Administrative Overheads		
Rent and rates – office		
Salaries – Office		
Insurance of office building and equipment		
Telephone and postage		
Printing and stationery		
Depreciation of furniture and office equipment		
Legal expenses		

Audit fees		
Bank charges		
III. Cost of production (II + E)		
Add: Opening Stock of Finished Goods		
Less: Closing Stock of Finished Goods		
IV. Cost of Goods Sold		
F. Selling and Distribution Overheads		
Showroom rent and rates		
Sales men's salaries and commission		
Traveling expenses		
Printing and stationery – sales department		
Advertising		
Postage		
Collection expenses		
Carriage outward		
Depreciation of delivery van		
Samples and free gifts		
V. Cost of sales (IV+F)		
VI. Profits / loss		
VII. Sales (V + VI)		

Note: The following items are, however, not included in Cost Sheet.

- a) Income Tax
- b) Dividends to shareholders
- c) Premium on redemption of shares and debentures
- d) Capital losses i.e., loss out of sales
- e) Interest on loan or debentures or bank interest
- f) Donations
- g) Capital expenditure
- h) Discounts on shares and debentures
- i) Commission to managing directors
- j) Underwriting commission
- k) Writing off goodwill and preliminary expenses
- l) Reserve for bad debts
- m) Transfer to all reserves or appropriation of profits
- n) Share premium
- o) Interest on capital
- p) Drawing of proprietors
- q) All personal expenses of owner

STUDY MAT QUESTIONS**NUMERICAL QUESTIONS****1. Illustration**

From the following information, find out purchases.

Raw material consumed = ₹26,500.

Closing Stock = ₹4,500

Opening Stock = ₹3,000

2. Illustration

Prime Cost = ₹33,500,

Depreciation = ₹1,500.

Factory rent is 200% of Depreciation.

Find out the Factory Cost.

3. Illustration

Cost of Sales = ₹37,416.

Advertisement Expenses = ₹600.

Discount on sales = 50% of advertisement Expenses.

Find Cost of Goods Sold.

4. Illustration

Factory Cost is ₹3,95,000.

Find Office and Administration overheads cost which is 7.315% of factory cost.

5. Illustration

Gross Factory Cost = ₹58,000.

Net Factory Cost = ₹54,000.

Opening stock of work-in-progress is ₹8,000.

Find closing stock of work-in-progress.

6. Illustration

Prime Cost is ₹41,000.

Direct labour cost consists of skilled labour ₹6,000 and unskilled labour ₹2,000.

Variable works overhead is 100% of direct wages and

fixed works overhead is 60% of direct wages.

Sale of scrap is ₹1,800.

Find works cost.

7. Illustration

From the information, prepare a statement showing expenses which you would disregard in estimating costs.

Rent, rates and insurance of office ₹2500,

Bad Debt ₹200,
 Discount Allowed ₹300,
 Bank charges ₹100 and
 Donations ₹150.

8. Illustration

Calculate the amount of direct material if:

Prime cost = ₹50,000.

Direct labour = 70% of prime cost.

9. Illustration

Direct materials cost is ₹80,000.

Direct labour cost is ₹ 60,000.

Factory overhead is ₹ 90,000.

Beginning goods in process were ₹ 15,000.

The cost of goods manufactured is ₹ 2,45,000.

What is the cost assigned to the ending goods in process?

10. Illustration

Given data that:

Finished goods Opening Inventory ₹ 30,000

Finished goods Closing Inventory ₹ 50,000

Cost of goods sold ₹ 1,90,000

What will be the value of Cost of Production?

11. Illustration

Prepare a statement of cost from the following data to show material consumed, Prime cost, factory cost, Cost of goods sold and profit.

	1-1-2021 (₹)	31-12-2021 (₹)
Raw material	60,000	50,000
Work-in-progress	24,000	30,000
Finished goods	1,20,000	1,10,000
Purchase of materials during the year		9,00,000
Wages paid		5,00,000
Factory overheads		2,00,000
Administration overheads		50,000
Selling and distribution overheads		30,000
Sales		20,00,000

12. Illustration

From the following particulars, prepare cost statement showing the component of total cost and the profit for the year ended 31st December, 2023.

Particulars	1-1-2023 (₹)	Particulars	31-12-2023 (₹)
Stock of finished goods	6,000	Stock of finished goods	15,000
Stock of raw materials	40,000	Stock of raw material	50,000
Work-in-progress	15,000	Work-in-progress	10,000
Purchase of raw materials	4,75,000	General expenses	32,500
Carriage inward	12,500	sales for the year	8,60,000
Wages	1,75,000	Income tax	500
Works manager's salary	30,000	Dividend	1,000
Factory employees salaries	60,000	Debenture interest	5,000
Factory rent, taxes and Insurance	7,250	transfer to sinking fund for	
replacement of machinery	10,000		
Power expenses	9,500	goodwill written off	10,000
Other production expenses	43,000	payment of sales tax	
		Selling expenses	9,250

13. Illustration

Mr. Gopal furnishes the following data relating to the manufacture of a standard product during the month of April, 2023:

Raw materials consumed	₹ 15,000
Direct labour charges	₹ 9,000
Machine hours worked	900
Machine hour rate	5
Administrative overheads	20% on works cost
Selling overheads	₹ 0.50 per unit
Units produced	17,100
Units sold	16,000 at ₹ 4 per unit.

You are required to prepare a cost sheet from the above, showing:

- the cost per unit
- profit per unit sold and profit for the period.

MULTIPLE CHOICE QUESTIONS (MCQ)

1. The total cost incurred in the operation of a business undertaking other than the cost of manufacturing and production is known as:
 - (a) Direct cost
 - (b) Variable cost
 - (c) commercial cost
 - (d) conversion cost
2. Which of the following is not a relevant cost?
 - (a) Replacement cost
 - (b) Sunk cost
 - (c) Marginal cost
 - (d) standard cost
3. Process cost is very much applicable in:
 - (a) construction industry
 - (b) pharmaceutical industry
 - (c) Air line company
 - (d) none of these
4. The main purpose of cost accounting is to:
 - (a) maximize profits,
 - (b) help in inventory valuation
 - (c) provide information to management for decision making
 - (d) Aid in the fixation of selling price
5. Opportunity cost is the best example of:
 - (a) sunk cost
 - (b) Standard cost
 - (c) relevant cost
 - (d) irrelevant cost
6. Costs are classified into fixed costs, variable costs and semi-variable costs, it is known as
 - (a) functional classification
 - (b) behavioral classification
 - (c) element wise classification
 - (d) classification according to controllability
7. Which method of costing is used for determination of costs for printing industry?
 - (a) process costing
 - (b) operating costing
 - (c) batch costing
 - (d) job costing
8. Over which of the following costs, management is likely to have least control
 - (a) wages cost
 - (b) building insurance cost
 - (c) machinery breakdown cost
 - (d) advertisement cost

9. Variable costs are fixed
 - (a) for a period
 - (b) per unit
 - (c) depends upon the entity
 - (d) for a particular process of production
10. In behavioural analysis, costs are divided into
 - (a) production and non-production costs
 - (b) controllable and non-controllable costs
 - (c) direct and indirect costs
 - (d) fixed and variable costs
11. Prime cost plus factory overheads is known as
 - (a) factory on cost
 - (b) conversion cost
 - (c) factory cost
 - (d) marginal cost
12. Which of the following items is excluded from cost Accounts?
 - (a) Income tax
 - (b) interest on debentures
 - (c) cash discount
 - (d) All of these
13. The following is included in financial accounts, but not in cost accounts.
 - (a) carriage and freight
 - (b) Excise duty
 - (c) Royalty
 - (d) Dividend paid
14. Advertisements are treated as
 - (a) direct expenses
 - (b) cost of production
 - (c) selling overheads
 - (d) distribution overheads
15. Which cost system description applies to the manufacture of 20 engraved doors for the new club house at a golf course?
 - (a) contract
 - (b) process
 - (c) Batch
 - (d) service
16. Prime cost may be correctly termed as
 - (a) the sum of direct material and labour cost with all other costs excluded.
 - (b) the total of all cost items which can be directly charged to product units.
 - (c) The total costs incurred in producing a finished unit.
 - (d) the sum of the large cost there in a product cost.

17. The guidance and regulation by executive action of the cost of operating an undertaking is said to be
- (a) Budgetary control
 - (b) cost control
 - (c) cost analysis
 - (d) None
18. Direct expenses are also known as
- (a) Overhead expenses
 - (b) process expenses
 - (c) chargeable expenses
 - (d) None
19. Indirect material cost is a part of
- (a) Prime cost
 - (b) Factory overhead
 - (c) chargeable expenses
 - (d) None of these
20. Which of the following is a part of both Prime cost and conversion cost
- (a) Direct Material
 - (b) Indirect Labour
 - (c) Indirect Material
 - (d) Direct Labour
21. Statement showing break-up of costs is known as
- (a) cost-sheet
 - (b) statement of profit
 - (c) production account
 - (d) Tender
22. The works cost plus administration expenses
- (a) Total Cost
 - (b) Cost of production
 - (c) cost of sales
 - (d) Factory cost
23. Directors remuneration and expenses form a part of
- (a) Production overhead
 - (b) Administration overhead
 - (c) Selling overhead
 - (d) Distribution overhead
24. Cost reduction is
- (a) Long term phenomena
 - (b) It challenges the standards
 - (c) It is carried out without compromising the quality
 - (d) All of the above

25. Interest on own capital is
- Cash cost
 - Notional cost
 - Sunk cost
 - Part of Prime Cost

STATE TRUE OR FALSE

- Process costing method is suitable for coal industry
- Fixed cost per unit remains fixed but variable cost per unit vary with variation in output
- Financial accounts provide information for determination of profit or loss
- Cost accounts provide information for ascertainment of the financial position as on a particular date
- Cost accounting is an instrument of management control
- Service costing is used in industries producing goods
- In construction industry, contract costing is used
- The process of finding cost is costing
- Depreciation is an out of pocket cost
- Variable cost per unit varies with increase or decrease in volume of output
- All costs are controllable
- Cash discount is excluded from cost sheet
- Finance expenses are included in cost sheet
- Discount to customer comes under “distribution cost”
- Variable overhead cost is a period cost
- In the cement industries the unit of cost is per tonne
- Scrap is a residue which comes out of a manufacturing process but has no recoverable value
- Contract costing as a basic method is specific order costing
- All the indirect cost related to indirect material, Indirect labour and indirect expenses are termed as overheads
- Direct wages is a variable cost
- Historical costs are relevant costs for decision making
- Contract costing is based on job costing principles
- Cost accounting is an instrument of management control.
- Abnormal cost is controllable
- Fixed cost per unit decreases with rise in output and increases with fall in output

FILL IN THE BLANKS

1. Costing is a technique of _____
2. Cost accountancy is the science, art and _____ if a cost accountant.
3. Cost accounting serves the information needs of _____.
4. Cost accounting provides data for _____ decision making.
5. Cost accounting has been developed because of _____ of financial accounting.
6. The method of costing used in a refinery is _____.
7. For the goods Transport Company _____ is the suitable cost unit.
8. The cost which does not change due to change in volume of production is called _____.
9. The semi- finished goods is also known as _____ in cost accounting.
10. An item of cost that is direct for the business may be _____ for another business.
11. The total of all direct expenses is known as _____.
12. All costs are _____ controllable.
13. The aggregate of indirect material indirect labour and indirect expenses together is called _____.
14. Factory overheads are also known as _____ overheads.
15. Chargeable expenses are an example _____ cost.
16. _____ cost are cost which are ascertained after they have been incurred.
17. Any expenditure over and above prime cost is known as _____.
18. In _____ the cost of a group of products is ascertained.
19. Cost accounting is a separate _____ of accounting.
20. In automobile industry cost unit is _____.
21. _____ costs are partly fixed and partly variable in relation to output.
22. Fixed cost per unit _____ with increasing output.
23. Wages of delivery van driver is a _____.
24. Cost accounting deal partly with facts and figures and partly with _____.
25. Cost accountant provides the detailed information about _____ of various products, processes services and operations.

COMPREHENSIVE NUMERICAL PROBLEMS

26. The following data relate to the manufacture of a standard product during the month of March, 2023.

Raw materials	80,000
Direct wages	48,000
Machine hours worked	8,000
Office overhead	10% on works cost
Machine hour rate	₹ 4
Selling overhead	₹ 1.50 p unit
Units produced	4,000
and sold @ ₹ 50 each	3,600

Prepare cost sheet

You are required to find out from the above showing a) Cost of Production per unit
b) Profit per unit sold and profit for the period.

Ans: (a) ₹44 per unit (b) ₹4.5 per unit, Profit ₹16,200

27. From the following particulars prepare a cost sheet showing the total cost per tonne for the period ended 31st Dec. 2023.

Particulars	₹	Particulars	₹
Raw Materials	33,000	Rent and taxes (office)	500
Productive wages	38,000	Water supply (works)	1,200
Unproductive wages	10,500	Factory insurance	1,100
Factory rent and taxes	7,500	Office insurance	500
Factory lighting	2,200	Legal expenses	400
Factory heating	1,500	Rent of warehouse	300
Motive power	4,400	Depreciation of	
Haulage (works)	3,000	-Plant and machinery	2,000
Directors fees (works)	1,000	-Office building	1,000
Directors fees (office)	2,000	- Delivery vans	200
Factory cleaning	500	Bad debts	100
Sundry office expenses	200	Advertising	300
Estimating expenses(works)	800	Sales department's salaries	1,500
Factory stationery	750	Upkeep of delivery vans	700
Office stationery	900	Bank charges	50
Loose tools written off	600	Commission on sales	1,500

The total output for the period has been 14,775 tonnes

**Ans: Prime Cost ₹71,000, Factory Cost ₹1,08,050, Cost of Production ₹1,13,600,
Total Cost ₹1,18,100, Cost per ton ₹8/-**

Answers:**Multiple Choice Questions (MCQ)**

1.	2	3	4	5	6	7	8	9	10	11	12	13	14	15
c	B	b	c	C	b	d	b	b	d	c	d	d	c	c
16	17	18	19	20	21	22	23	24	25					
a	B	c	b	D	a	b	b	d	b					

State True or False

1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
F	F	T	F	T	F	T	T	F	F	F	T	F	F	F
16	17	18	19	20	21	22	23	24	25					
T	F	T	T	T	F	T	T	F	T					

Fill in the Blanks

1	Ascertaining cost	2	Practice
3	Management	4	Managerial
5	Limitations	6	Process
7	Per ton km	8	Fixed cost
9	Work-in-progress	10	Indirect
11	Prime cost	12	Not
13	Overheads	14	Works
15	Direct	16	Historical
17	Overheads	18	Batch Costing
19	Branch	20	Number
21	Semi variable	22	Decreases
23	Distribution Overhead	24	Estimates
25	Costs		

PAST YEAR EXAM QUESTIONS

CHAPTER 4.1

1. The technique & process of ascertaining cost is:

- a) Cost accounting
- b) Management accounting
- c) Costing
- d) Management accountancy

[March 2015, Dec. 2018]

2. Which of the following method of costing is suitable for printing press?

- a) Job costing
- b) Process costing
- c) Contract costing
- d) Batch costing

[March 2015, Dec. 2017, June 2018]

3. One of most important tools in cost planning is:

- a) Direct tax
- b) Cost Sheet
- c) Budget
- d) Marginal Costing

[Sept. 2015]

4. Which one of the following is the traditional approach for costing?

- a) Contribution approach
- b) Absorption costing approach
- c) Decision making approach
- d) Marginal costing approach

[Sept. 2015]

5. Which or the following is a cost behaviour oriented approach production costing?

- a) Absorption Costing
- b) Marginal Costing
- c) Process Costing
- d) Job order Costing

[Sept. 2015]

6. Under which of the following, all cost of the production is considered as product cost regardless of whether they are variable or fixed in nature?

- a) Absorption Costing
- b) Direct Costing
- c) Marginal Costing
- d) Variable Costing

[Dec. 2015]

7. A Cost is:
- A sacrifice
 - Release of something
 - Measure of consumption of re-sources
 - All of the above
- [June 2016]**
8. Costing is a technique of:
- Recording of Cost transactions
 - Ascertaining Cost
 - Preparation of final accounts
 - Decision making
- [Dec. 2017]**
9. Which of the following is a Cost Control Technique?
- Marginal Costing
 - Uniform Costing
 - Standard Costing
 - Absorption Costing
- [Dec. 2017]**
10. The main purpose of cost accounting is to:
- Minimise cost
 - Help in valuation of inventory
 - Provide information to management for decision making
 - Aid in the fixation of selling price
- [June 2018, Dec. 2019, Dec. 2022, Dec. 2023]**
11. The branch of the accounting dealing with the classification, re-cording, allocation, summarizing and reporting of current and prospective costs, is known as:
- Financial Accounting
 - Management Accounting
 - Cost Accounting
 - Cost Accountancy
- [June 2018]**
12. Which of the following is not a function of Cost Accountancy?
- Cost Control
 - Cost Ascertainment
 - Cost Analysis
 - Cost Accounting
- [June 2018]**
13. Which of the following costing method is suitable for Toy Making Industry?
- Contract Costing
 - Process Costing
 - Job Costing
 - Batch Costing
- [Dec. 2018]**

14. Which of the following is not a technique of costing?

- a) Marginal Costing
- b) Process Costing
- c) Standard Costing
- d) Budgetary Costing

[Dec. 2018]

15. Which of the following is not a method of costing?

- a) Process Costing
- b) Batch Costing
- c) Direct Costing
- d) Operating Costing

[June 2019]

16. Which of the following is a suitable cost unit for the BPO Services/Call Centers?

- a) Cost per item
- b) Cost per hour
- c) Cost per account handled
- d) Cost per minute

[June 2019]

17. The costs are differentiated between fixed and variable costs under:

- a) Marginal Costing
- b) Direct Costing
- c) Standard Costing
- d) Absorption Costing

[June 2019]

18. Which one of the following is not a cost unit?

- a) Kilo watt hour
- b) Credit division
- c) Patient day
- d) Tonne-mile

[Dec. 2019]

19. Process cost is very much applicable in:

- a) Construction industry
- b) Pharmaceutical industry
- c) Airline company
- d) Printing industry

[Dec. 2019]

20. Which costing method is used by Spare-parts manufacturing industry?

- a) Process Costing
- b) Job Costing
- c) Batch Costing
- d) Absorption Costing

[June 2023, Dec. 2023]

21. A cost unit is:

- a) Measure of work output in a standard hour.
- b) A unit of production or service in relation to which costs are ascertained.
- c) Cost per labour hour.
- d) Cost per machine hour

[Dec. 2023]

22. Which of the following is not a cost unit applicable for the services sector?

- a) Passenger-Km
- b) Tonne-Km
- c) Room-Day
- d) Cubic-feet

[June 2024]

23. Which method of costing is for appropriate readymade garments industry?

- a) Process Costing
- b) Batch Costing
- c) Multiple Costing
- d) Contract Costing

[June 2024]

CHAPTER 4.3

1. The benefit foregone as a result of taking a particular action is:

- a) Sunk cost
- b) Conversion cost
- c) Opportunity cost
- d) Programmed cost

[Sept. 2014]

2. The total cost incurred in the operation of a business undertaking other than the cost of manufacturing and production is known as:

- a) Direct cost
- b) Variable cost
- c) Commercial cost
- d) Conversion cost

[Dec. 2014, Sept. 2015]

3. Combination of more than one cost unit is:

- a) Combined cost unit
- b) Comprehensive cost unit
- c) Composite cost unit
- d) None of the above

[March 2015]

4. Conversion cost consist of:

- a) Material cost
- b) Factory overheads
- c) Administration overheads
- d) All of the above

[March 2015]

5. _____ is a period cost.

- a) Rent of building
- b) Power
- c) Diesel
- d) Direct material

[March 2015]

6. _____ is irrelevant in decision making.

- a) Differential cost
- b) Marginal cost
- c) Sunk cost
- d) Opportunity cost

[March 2015]

7. Cost centre is:

- a) A unit of product or service in relation to which costs are ascertained.
- b) A production or service location, function, activity or item of equipment for which costs are accumulated for purpose of control.
- c) Amount of expenditure attributable to an activity.
- d) None of the above

[March 2015]

8. Costs that change in response to alternative courses of action are called:

- a) Relevant costs
- b) Differential costs
- c) Target costs
- d) Sunk costs

[June 2015]

9. Interest on own capital is a:

- a) Cash cost
- b) Notional cost
- c) Sunk cost
- d) Part of Prime cost

[June 2015, June 2019]

10. Which of the following costs would not be a period costs?

- a) Indirect Materials
- b) Administrative Salaries
- c) Advertising Costs
- d) Selling Costs

[Sept. 2015, Dec. 2015, March 2016]

11. A Segment of the business that generates both revenue and cost is' called:

- a) Profit Center
- b) Cost Center
- c) Cost driver
- d) All of these

[Sept. 2015, Dec. 2015]

12. Opportunity cost is the best example of:

- a) Sunk cost
- b) Standard cost
- c) Relevant cost
- d) Irrelevant cost

[Sept. 2015, March 2016, June 2017, June 2018]

13. Which of the following is not relevant cost?

- a) Replacement cost
- b) Sunk cost
- c) Marginal cost
- d) Standard cost

[Sept. 2015, Dec. 2015, June 2017, June 2023]

14. Period Cost are:

- a) Expensed when the product is sold
- b) Included in the cost of goods is sold
- c) Related to specific period
- d) Not expensed

[Dec. 2015]

15. are future costs that effect the current management decision.

- a) Sunk Cost
- b) Standard Cost
- c) Relevant Cost
- d) Irrelevant Cost

[Dec. 2015]

16. A firm uses its own capital or uses its owners time and/or financial resources both are example of:

- a) Implicit Cost
- b) Explicit Cost
- c) Sunk Cost
- d) Relevant Cost

[Dec. 2015]

17. The cost that is subject to actual payment or will be paid for in future is called:

- a) Fixed cost
- b) Step cost
- c) Explicit cost
- d) Imputed cost

[March 2016]

18. The measurable value of an alternative use of resources is referred to as:

- a) An opportunity cost
- b) An Imputed cost
- c) A sunk cost
- d) None of these

[June 2016]

19. In process costing, each producing department is a:

- a) Cost unit
- b) Cost center
- c) Investment center
- d) Sales center

[June 2016]

20. Interest on own capital is:

- a) Cash Cost
- b) Notional Cost
- c) Sunk Cost
- d) Part of Prime Cost

[June 2017, June 2018, Dec. 2018, Dec. 2023]

21. Which of following is appropriate Cost Unit for timber industry?

- a) Per tonne
- b) Per article
- c) Per Kg
- d) Per foot

[Dec. 2017]

22. Which of the following 'CAS' is related to 'Pollution Cost'?

- a) CAS-11
- b) CAS-13
- c) CAS-14
- d) CAS-17

[Dec. 2018]

23. Over which the following costs, management is likely to have least control?

- a) Wages cost
- b) Building Insurance cost
- c) Machinery Breakdown cost
- d) Advertisement cost

[Dec. 2018]

24. CAS-21 is related to:

- a) Cost Accounting Standard on Overburden Removal Cost.
- b) Cost Accounting Standard on Interest and Financing Charges.
- c) Cost Accounting Standard on Joint Cost.
- d) Cost Accounting Standard on Quality Control.

[June 2019]

25. The written down value of the abandoned plant less its salvage value is:

- a) Imputed Cost
- b) Sunk Cost
- c) Avoidable Cost
- d) Opportunity Cost

[June 2019, Dec. 2022]

26. Notional cost is also known as:

- a) Variable cost
- b) Imputed cost
- c) Opportunity cost
- d) Out of Pocket cost

[Dec. 2019]

27. Cost reduction:

- a) Long-term phenomena
- b) It challenges the standards.
- c) It is carried out without compromising the quality.
- d) All of the above

[Dec. 2019]

28. CAS-16 is related to:

- a) Cost Accounting Standard on Depreciation and Amortisation.
- b) Cost Accounting Standard on Joint Costs.
- c) Cost Accounting Standard on Quality Control.
- d) Cost Accounting Standard on Overburden Removal Cost

[June 2023]

29. Cost Accounting Standard (CAS)-9 is related to:

- a) Captive Consumption
- b) Packing Material Cost
- c) Repairs and Maintenance Cost
- d) Direct Expenses

[Dec. 2023]

30. The appropriate cost unit for is 'Chargeable Hours'.

- a) Power House
- b) Hotel
- c) Hospital
- d) Audit Firm

[June 2024]

31. The method of costing applicable for Hospitals is Costing.

- a) Operating
- b) Single/Output
- c) Contract
- d) Batch

[June 2024]

32. GACAP stands for:

- a) Generally Accepted Cost Auditing Principles
- b) Generally Accepted Cost Accounting Principles
- c) Generally Accepted Accountancy Practices Cost
- d) Generally Accepted Cost Accountancy Procedures

[June 2024]

CHAPTER 4.4

1. Cost that decreases per unit with an increase in level of activity is:

- a) Fixed cost
- b) Variable cost
- c) Direct cost
- d) None of the above

[March 2015]

2. Cost can be classified according to:

- a) Elements
- b) Functions
- c) Behaviour
- d) All of the above

[June 2015, June 2016]

3. As production increases within the relevant range:

- a) Variable cost will vary on a per unit basis.
- b) Variable costs will vary in total.
- c) Fixed costs will vary in total.
- d) Fixed and variable cost stay the same in total.

[June 2015]

4. Wage, Rent and Material are example of:

- a) Implicit Cost
- b) Explicit Cost
- c) Direct Cost
- d) Manufacturing Cost

[Dec. 2015]

5. All indirect cost is charged/record in the head of:

- a) Prime Cost
- b) FOH Cost
- c) Direct Labour Cost
- d) None of the given option

[Dec. 2015]

6. Which of the following is to be called product cost?

- a) Material cost
- b) Labour cost
- c) FOH cost
- d) All of the given options

[March 2016]

7. Which of the following is indirect cost?

- a) The depreciation of machinery.
- b) The overtime premium incurred at the specific request of a customer.
- c) The hire of tools for a specific job.
- d) All of the given options.

[June 2016]

8. A cost that remains unchanged across the relevant range of units produced is what kind of cost?
- a) Fixed cost
 - b) Product cost
 - c) Mixed cost
 - d) Period cost
- [June 2016]**
9. Sales commissions are classified as:
- a) Prime costs
 - b) Period costs
 - c) Product costs
 - d) Indirect labour
- [June 2016]**
10. In behavioural analysis, costs are divided into:
- a) Production and Non-production costs
 - b) Direct and Indirect costs
 - c) Fixed and Variable costs
 - d) Controllable and Non-controllable costs
- [Dec. 2016, Dec. 2017]**
11. Payment of Royalties is:
- a) Direct Expenses
 - b) Administrative Cost
 - c) Charged to Profit & Loss A/c
 - d) Factory Overheads
- [Dec. 2016, Dec. 2017]**
12. Bad debts are included as
- a) Direct expenses
 - b) Distribution overhead
 - c) Cost of production
 - d) Selling overhead
- [Dec. 2016, June 2018]**
13. Costs are classified into Fixed Costs, Variable Costs and Semi- Vari-able Costs, it is known as:
- a) Functional classification
 - b) Classification according to changing activity
 - c) Element wise classification
 - d) Classification according to controllability
- [June 2017]**
14. Variable Costs are fixed:
- a) For a period
 - b) Per unit
 - c) Depends upon the entity
 - d) For a particular process of production
- [June 2017, June 2018, June 2019, Dec. 2019]**

15. Advertisement cost is treated as:

- a) Direct Expenses
- b) Cost of Production
- c) Selling Overheads
- d) Distribution Overheads

[June 2017, June 2018, June 2019]

16. Direct Expenses are also known as:

- a) Overhead Expenses
- b) Process Expenses
- c) Chargeable Expenses
- d) None of the above

[June 2017, Dec. 2023]

17. Which one of the following statement is true?

- a) Abnormal cost is not controllable.
- b) Financial Expenses are included in Cost Sheet.
- c) All overheads changes with the change in volume and in the same proportion.
- d) Primary packing is an item of prime cost.

[Dec. 2017]

18. Which of the following is differentiated between Fixed and Variable Costs?

- a) Uniform Costing
- b) Marginal Costing
- c) Standard Costing
- d) Direct Costing

[Dec. 2017]

19. Costs are classified between direct and indirect costs according to method of classification by:

- a) Nature or Element
- b) Functions
- c) Degree of traceability to product
- d) Change in Activity or Volume

[Dec. 2018]

20. Depreciation on building is an example of:

- a) Committed Costs
- b) Policy and Managed Costs
- c) Discretionary Costs
- d) Step Costs

[Dec. 2018]

21. When the volume of output is increased then the per unit fixed cost will be:

- a) Increase in the proportion of output.
- b) Decrease in the reverse proportion of output.
- c) Changed but not in proportion of output.
- d) Unchanged.

[Dec. 2018]

22. Excise duty is an example of:

- a) Chargeable expense
- b) Factory Overhead
- c) Administrative Overhead
- d) Non-cost item

[Dec. 2018]

23. All indirect costs are termed as:

- a) Prime Cost
- b) Factory Cost
- c) Conversion Cost
- d) Overheads

[June 2019]

24. On the basis of "Relationship with accounting period" costs are classified as:

- a) Historical Costs and Pre-determined Costs.
- b) Capital Costs and Commercial Costs.
- c) Capital Costs and Revenue Costs.
- d) Product Costs and Period Costs.

[June 2019]

25. Cost of staff services is an example of:

- a) Committed Costs
- b) Policy and Managed Costs
- c) Discretionary Costs
- d) Step Costs

[June 2019, Dec. 2022]

26. Carriage outward is a part of:

- a) Office and Administrative overhead
- b) Factory overhead
- c) Selling and Distribution overhead
- d) Prime cost

[Dec. 2019]

27. Costs are classified into fixed costs, variable costs and semi-variable costs, it is known as:

- (a) Behavioural classification
- (b) Classification according to controllability
- (c) Functional classification
- (d) Element-wise classification

[Dec. 2019]

28. Cost Accounting Standard-12 (CAS-12) is related to:

- a) Padding Material Cost
- b) Repairs and Maintenance Cost
- c) Direct Expenses
- d) Pollution Control Cost

[Dec. 2022]

29. Costs are classified into material-costs, employee costs and expenses, it is known as:

- a) Functional classification.
- b) Behavioural classification.
- c) Element wise classification.
- d) Classification according to controllability.

[June 2023, June 2024]

30. Which one is False?

- a) Fixed costs per unit increase with increase in output.
- b) Out of pocket costs involve payment to outsiders.
- c) Rent on own building is imputed cost.
- d) Tender is an estimation of selling price.

[June 2023, Dec. 2023, June 2024]

31. Which statement is not True?

- a) Replacement cost is the current market cost of replacing an asset or a material.
- b) Cost accounts provide information for determination of profit or loss.
- c) Bad debts, legal charges for recovery of debts are considered as selling & distribution expenses.
- d) Imputed costs are hypothetical cost.

[June 2023]

32. Indirect material cost is a part of:

- a) Material Consumed
- b) Prime Cost
- c) Chargeable Expenses
- d) Factory Overhead

[Dec. 2023]

33. In classification by function, costs are divided into:

- a) Material, Employee and Expenses.
- b) Manufacturing, Administrative, Selling and Distribution costs.
- c) Fixed, Variable and Semi-variable costs.
- d) Controllable and Uncontrollable costs.

[Dec. 2023]

34. CAS 6 deals with:

- a) Material Cost.
- b) Employee Cost
- c) Overheads
- d) Pollution Control Cost

[June 2024]

35. Costing is the adoption of identical costing principles and procedures.

- a) Marginal
- b) Uniform
- c) Standard
- d) Direct

[June 2024]

CHAPTER 4.5

1. The cost of goods sold is equal to:

- Total Purchases - Total Sales
- Opening Stock + Total Purchase
- Opening Stock - Total Purchases + Closing Stock + Direct Costs
- Opening Stock + Total Purchases Closing Stock + Direct Costs

[Dec. 2014, Dec. 2022]

2. Prime cost is calculated as under:

- Manufacturing Cost/Cost of goods sold
- Direct Method plus factory over-heads
- Direct labour + Direct Material
- None of these

[Dec. 2014]

3. Prime cost includes:

- Factory overhead
- Direct labour charges
- Selling costs
- None of the above

[March 2015]

4. Net sales - Sales less:

- Sales returns
- Sales discounts
- Sales returns & allowances
- Sales returns & allowances and sales discounts.

[June 2015]

5. Prime cost + Factory overhead cost is:

- Conversion Cost
- Production Cost
- Total Cost
- None of the above

[Sept. 2015, March 2016, June 2023]

6. The Combination of direct material and direct labour is:

- Total production cost
- Prime cost
- Conversion cost
- Total manufacturing cost

[Sept. 2015]

7. Prime cost is:

- The cost per machine hour
- Cost per labour hour
- The total of direct costs
- Prime costs plus marketing over-heads

[Sept. 2015]

8. Direct labour is an element of:

- a) Prime cost
- b) Conversion cost
- c) Total production cost
- d) All of the given options

[March 2016, Dec. 2022]

9. Cost of sales is:

- a) Total costs incurred in production, administration and marketing functions.
- b) Works cost put administration overheads.
- c) Aggregate of works, administration and marketing overheads.
- d) Prime cost plus marketing over-heads.

[March 2016]

10. Which of the following cost is used in the calculation of cost per unit?

- a) Total production cost
- b) Cost of goods available for sales
- c) Cost of goods manufactured
- d) Cost of goods sold

[March 2016]

11. Prime Cost plus Factory Over-heads is known as:

- a) Factory on Cost
- b) Conversion Cost
- c) Factory Cost
- d) Marginal Cost

[June 2017, June 2018]

12. Which of the following items is excluded from Cost Accounts?

- a) Income Tax
- b) Interest on Debentures
- c) Cash Discount
- d) All of the above

[June 2017, June 2018, Dec. 2019, Dec. 2022, Dec. 2023]

13. Prime Cost may be correctly termed as:

- a) The sum of direct material and labour cost with all other costs excluded.
- b) The total of all cost items which can be directly charged to product units.
- c) The total costs incurred in producing a finished unit.
- d) The sum of the large cost there in a product cost.

[June 2017, June 2018, Dec. 2019, Dec. 2022, June 2023]

14. Indirect material cost is a part of:

- a) Prime Cost
- b) Factory Overhead
- c) Chargeable Expenses
- d) None of the above

[June 2017, Dec. 2022]

15. The Works Cost plus Administration Expenses is known as:

- a) Total Cost
- b) Cost of Production
- c) Cost of Sales
- d) Factory Cost

[June 2017, June 2018]

16. Cost of free samples and gifts are included in:

- a) Prime Cost
- b) Factory Overhead
- c) Office and Administrative Over-heads
- d) Selling & Distribution Overheads

[Dec. 2017, June 2023]

17. Which of the following is a part of both Prime cost and Conversion cost?

- a) Direct Material
- b) Indirect Labour
- c) Direct Labour
- d) All of the above

[Dec. 2017, Dec. 2022, Dec. 2023]

18. Statement showing break up of costs is known as:

- a) Cost sheet
- b) Tender
- c) Production account
- d) Statement of profit

Dec. 2019, Dec. 2023]

19. Which one is included in financial accounts but not in cost accounts?

- a) Royalty
- b) Dividend paid
- c) Excise duty
- d) Carriage and freight

[Dec. 2019, Dec. 2022]

20. Wages for abnormal idle time are charged to:

- a) Production Cost.
- b) Job Cost.
- c) Abnormal Overhead.
- d) Costing Profit and Loss Account.

[June 2023, June 2024]

21. Which of the following items are not included in Cost Sheet?

- a) Bank Interest
- b) Cash Discount
- c) Donations
- d) All of the above

[June 2023, June 2024]

22. Which of the following would be classified as indirect labour?

- a) Assembly workers in a company manufacturing unit.
- b) Stores assistant in a factory store.
- c) An audit clerk in a auditors' firm.
- d) Masons in a construction company.

[June 2023]

23. Cost of rectification of defective articles are treated as:

- a) Production Overhead.
- b) Distribution Overhead.
- c) Selling Overhead.
- d) Administrative Overhead.

[June 2023]

24. Director's remuneration and expenses form a part of:

- a) Production Overhead
- b) Administration Overhead
- c) Selling Overhead
- d) Distribution Overhead

[Dec. 2023]

25. Which of the following item(s) is/are not included in Cost Sheet?

- a) Donations
- b) Collection expenses
- c) Audit fees
- d) All of the above

[June 2024]

26. _____ is an example of Direct Expenses in book publication.

- a) Cost of paper
- b) Wages of printing staff
- c) Royalty to authors
- d) None of the above

[June 2024]

PAST YEAR EXAM QUESTIONS - NUMERICAL QUESTION

1. Peso Ltd. has furnished the following data relating to a product for the year 2012-13:

Units produced 2,000

Direct materials ₹80,000

Direct labour ₹90,000

Manufacturing 60,000 (25% fixed) overheads

Selling and administrative ₹50,000 (40% fixed) overheads

If the company manufactures 2,400 units in the next year, the cost per unit would be:

- a) 122.50
- b) 122.00
- c) 137.80
- d) 142.50

[Sept. 2014]

2. The following data pertains to product X of Asian Ltd.:

Particulars	₹
Direct Materials	80
Direct labour	60
Variable overheads	45
Fixed overheads	25
Total cost	210

If selling price equals variable costs plus 25% markup, selling price of the product X is:

- a) 162.25
- b) 206.25
- c) 175.00
- d) 231.25

[Sept. 2014]

3. The following information was taken from Smart Company's ac-counting records for the year ended on March 31, 2013:

	(₹)
Increase in raw materials inventory	15,000
Decrease in finished goods inventory	35,000
Raw materials purchased	4,30,000
Direct Labour	2,00,000
Factory overhead	3,00,000
Freight	45,000

There was no work in process inventory at the beginning or end of the year.

Smart's cost of goods sold is:

- a) ₹ 9,50,000
- b) ₹ 9,65,000
- c) ₹ 9,75,000
- d) ₹ 9,95,000

[Dec. 2014]

4. If the direct labour is 42,000 and FOH is 40% of conversion cost. What will be the amount of FOH?
- ₹ 63,000
 - ₹ 30,000
 - ₹ 28,000
 - ₹ 16,800

[June 2015]

5. If the Direct Material = 12,000 Direct labour = 8,000 and other Direct Cost 2,000 then what will be the prime cost?
- 12,000
 - 14,000
 - 20,000
 - 22,000

[Sept. 2015, March 2016]

Answer Q. 6 to Q. 7 on the basis of information given below:

Direct Material Cost is ₹80,000. Direct Labour Cost is ₹ 60,000. Factory Overhead is ₹90,000. Opening goods in process were ₹ 15,000. Sale of scrap is 2,200. Cost assigned to the closing goods in process was ₹22,000.

[June 2017] [Modified]

6. Factory Cost is:

- ₹1,40,000
- ₹2,30,000
- ₹2,23,000
- ₹2,20,800

7. Cost of Goods Manufactured is:

- ₹ 2,23,000
- ₹ 2,20,800
- ₹ 2,27,800
- None of the above

Answer Q. 8 to Q. 12 on the basis of information given below:

Prepare a Statement of Cost from the following data to show Material consumed, Prime Cost, Factory Cost, Cost of Goods Sold and Profit.

Particulars	01.04.2017 (₹)	30.04.2017 (₹)
Raw Material	60,000	50,000
Work-in-progress	24,000	30,000
Finished Goods	1,20,000	1,10,000
Purchase of material during the month		10,00,000
Wages paid		6,00,000
Factory Overhead		3,00,000
Administration Overhead		50,000
Selling and Distribution Overheads		30,000

Sales		25,00,000
-------	--	-----------

[June 2017] [Modified]

8. Material Consumed is:

- a) ₹10,10,000
- b) ₹9,90,000
- c) ₹9,94,000
- d) None of these

9. Prime Cost is:

- a) ₹6,00,000
- b) ₹15,90,000
- c) ₹ 16,10,000
- d) ₹15,94,000

10. Factory Cost is:

- a) 19,10,000
- b) 18,90,000
- c) 19,04,000
- d) 19,16,000

11. Value of Cost of goods Sold is:

- a) ₹ 19,44,000
- b) ₹ 19,94,000
- c) ₹ 19,74,000
- d) ₹ 19,64,000

12. Profit/(Loss) is:

- a) ₹5,06,000
- b) ₹4,96,000
- c) ₹5,36,000
- d) ₹4,76,000

Answer Q. 13 to Q. 18 on the basis of information given below:

Rukmani Limited furnishes the following data relating to the year ending 31st March, 2017:

Opening Stock of Raw Material	₹ 2,13,500
Closing Stock of Raw Material	₹ 2,81,600
Purchases of Raw Material	₹ 15,50,000
Direct Wages	₹ 8,85,750
Carriage Inwards on Raw Material	₹ 11,200
Machine Hours Worked	4200 Hours
Machine Hour Rate	₹ 141
Office and Administrative Overhead	25% of factory Overhead

Selling and Distribution Overhead	@ 8 per unit
Unit Produced	24,000 Units
Units Sold	21,500 Units @ 190 per unit

[Dec. 2017] [Modified]

13. Material Consumed is:

- a) ₹ 14,82,800
- b) ₹ 16,19,000
- c) ₹ 14,94,000
- d) ₹ 16,30,200

14. Prime Cost is:

- a) 23,68,550
- b) 23,79,750
- c) 23,90,950
- d) 25,15,950

15. Factory Cost is:

- a) 29,60,750
- b) 29,83,150
- c) 31,08,150
- d) 29,71,950

16. Value of Cost of Production is:

- a) ₹ 31,20,000
- b) ₹ 37,14,938
- c) ₹ 32,56,200
- d) None of these

17. Cost of Sales is:

- a) ₹ 32,92,000
- b) ₹ 29,67,000
- c) ₹ 33,12,000
- d) ₹ 29,87,000

18. Profit/(Loss) is:

- a) ₹ 7,93,000
- b) ₹ 7,73,000
- c) ₹ 10,98,000
- d) ₹ 11,18,000

Answer Q. 19 to Q. 24 on the basis of information given below:

Mr. Anand, the Factory Manager of A. B. Enterprises furnishes the following data relating to the manufacture of a product during the month of December, 2017:

Particulars	Amount
Opening Stock	4,000
Raw Material Purchased	42,000
Closing Stock	1,000
Direct labour charges	26,500
Machine hours worked	900
Machine Hour Rate	1500
Administrative over-heads	20@ on works cost
Selling overheads	0.60 unit
Units produced	34,000
Units Sold	32,000 at @ 5 per unit

[June 2018] [Modified]

19. Material Consumed is:

- a) ₹ 45,000
- b) ₹ 39,000
- c) ₹ 46,000
- d) None of the above

20. Prime Cost is:

- a) ₹ 65,500
- b) ₹ 72,500
- c) ₹ 71,500
- d) None of these

21. Factory Cost is:

- a) ₹ 86,000
- b) ₹ 85,000
- c) ₹ 80,000
- d) ₹ 45,000

22. Value of Cost of Production is:

- a) ₹ 87,700
- b) ₹ 96,000
- c) ₹ 1,03,200
- d) ₹ 1,02,000

23. Cost of Sales is:

- a) ₹ 1,15,200
- b) ₹ 1,21,200
- c) ₹ 1,22,400

d) ₹ 1,16,400

24. Profit/(Loss) is:

- a) ₹ 38,800
- b) ₹ 44,800
- c) ₹ 43,600
- d) ₹ 37,600

Answer Q. 25 to Q. 28 on the basis of information given below:

Classify the following expenses items in their respective groups, such as Production; Administrative; Selling and Distribution and costs excluded from Cost Accounts:

- (i) Fuel and Power
- (ii) Office Salaries
- (iii) Foreman's Wages
- (iv) Drawings
- (v) Depreciation of Plant
- (vi) Donations
- (vii) Hospital and Dispensary Expenses of Workers
- (viii) Bank Charges
- (ix) Holiday and Leave pay of Workers
- (x) Market Research Expenses
- (xi) Dividend Paid
- (xii) Technical Director's Fees
- (xiii) Wages of Idle Time
- (xiv) Cash Discount Allowed
- (xv) Stores Expenses
- (xvi) Carriage Outwards
- (xvii) Office Expenses

[June 2018] [Modified]

25. Items to be included in Production Overheads are:

- a) (i), (iii), (v), (vii), (ix) & (x)
- b) (i), (iii), (v), (vii), (ix), (xiii) & (xv)
- c) (i), (iii), (v), (vii), (ix) & (xiii)
- d) (i), (iii), (v), (vii), (ix), (x), (xiii) & (xv)

26. Items to be included in Administrative Overheads are:

- a) (ii), (viii), (xii) & (xvii)
- b) (ii), (viii), (x), (xii) & (xvii)
- c) (ii), (viii) & (xii)
- d) (ii), (viii), (x) & (xvii)

27. Items to be included in Selling & Distribution Overheads are:

- a) (x), (xii), (xiv) & (xvi)
- b) (x), (xii) & (xvi)
- c) (x), (xiv) & (xvi)
- d) (x) & (xvi)

28. Items to be excluded from Cost Accounts are:

- a) (iv), (vi), (xi) & (xiv)
- b) (iv), (vi) & (xi)
- c) (iv), (vi), (viii) & (xi)
- d) (iv) & (vi)

29. From the following information, find out purchases when raw material consumed is 26,500, closing stock 4,500 and opening stock ₹ 3,000:

- a) ₹ 26,500
- b) ₹ 25,000
- c) ₹ 28,000
- d) ₹ 34,000

[June 2018, June 2023]

Answer Q. 30 to Q. 32 on the basis of information given below:

Classify the following expenses items according to functions such as Factory Overhead, Office & Administrative Overhead and Selling & Distribution Overhead:

- (i) Printing and Stationery
- (ii) Legal Expenses
- (iii) Showroom Expenses
- (iv) Demonstration Expenses
- (v) Carriage Outwards
- (vi) Motive Power
- (vii) Audit Fees
- (viii) Market Research Expenses
- (ix) Technical Director's Fees
- (x) Materials Handling Charges
- (xi) Samples and Gifts
- (xii) Storekeeper's Salary
- (xiii) Cost of Tenders
- (xiv) Postage and Telegram
- (xv) Loose and Tools Written-off
- (xvi) Cost of Catalogues

[Dec. 2018] [Modified]

30. Items to be included in Factory Overheads are:

- a) (vi), (viii), (x), (xi) & (xii)
- b) (vi), (viii), (x) & (xii)
- c) (vi), (viii), (x), (xii) & (xv)

d) (vi), (x), (xii) & (xv)

31. Items to be included in Office & Administrative Overheads are:

- a) (i), (ii), (vii), (ix), (xiii) & (xiv)
- b) (i), (ii), (vii), (xiii) & (xiv)
- c) (i), (vii), (ix), (xiii) & (xiv)
- d) (i), (ii), (vii), (ix) & (xiii)

32. Items to be included in Selling & Distribution Overheads are:

- a) (iii), (iv), (v), (ix), (xi) & (xvi)
- b) (iii), (iv), (v), (viii), (ix) & (xvi)
- c) (iii), (iv), (v), (viii), (xi) & (xvi)
- d) (iii), (iv), (v), (viii), (ix), (xi) & (xvi)

Answer Q. 33 to Q. 38 on the basis of information given below:

Following information gathered from the cost accounting records of ABC Associates for the year 2017-18:

Particulars	Amount
(a) Opening Stock -	
Raw material	90,000
Work in progress	36,000
Finished goods	1,80,000
(b) Purchase of material during the year	13,50,000
(c) Wages paid	7,50,000
(d) Carriage Inwards	28,000
(e) Factory overhead	3,00,000
(f) Administrative over-head	75,000
(g) Selling and distribution overhead	45,000
(h) Sales	30,00,000
(i) Closing Stock-	
Raw material	75,000
Work in progress	45,000
Finished goods	1,65,000

[Dec. 2018] [Modified]

33. Material Consumed is:

- a) ₹ 13,63,000
- b) ₹ 13,65,000
- c) ₹ 13,93,000
- d) ₹ 13,35,000

34. Prime Cost is:

- a) ₹ 21,13,000
- b) ₹ 21,15,000
- c) ₹ 21,43,000
- d) ₹ 20,85,000

35. Factory Cost is:

- a) ₹ 24,43,000
- b) ₹ 24,13,000
- c) ₹ 24,52,000
- d) ₹ 24,34,000

36. Value of Cost of Production is:

- a) ₹ 25,07,000
- b) ₹ 25,09,000
- c) ₹ 25,22,000
- d) ₹ 25,24,000

37. Cost of Sales is:

- a) ₹ 25,24,000
- b) ₹ 25,54,000
- c) ₹ 25,39,000
- d) ₹ 25,69,000.

38. Profit/(Loss) is:

- a) ₹ 4,31,000
- b) ₹ 4,76,000
- c) ₹ 4,61,000
- d) ₹ 4,46,000

Answer Q. 39 to Q. 44 on the basis of information given below:

Given: Factory Cost ₹ 61,50,000; Factory Overhead 10,50,000 (which are 40% of Direct Wages);

Administrative overheads are recovered at 10% of Factory Cost and Selling and Distribution Overheads would be 5% of sales. If the profit margin is 25% on cost.

[June 2019] [Modified]

39. Direct Wages amounts to:

- a) ₹ 26,25,000
- b) ₹ 14,70,000
- c) ₹ 4,20,000
- d) None of these

40. Direct Material Consumed is:

- a) ₹ 36,30,000
- b) ₹ 46,80,000
- c) ₹ 24,75,000
- d) ₹ 35,25,000

41. Value of Cost of Production is:

- a) ₹ 79,20,000
- b) ₹ 62,55,000
- c) ₹ 66,60,000
- d) ₹ 67,65,000

42. Selling & Distribution Over-heads is:

- a) ₹ 4,51,000
- b) ₹ 3,38,250
- c) ₹ 4,83,215
- d) None of these

43. Cost of Sales is:

- a) ₹ 71,03,250
- b) ₹ 72,16,000
- c) ₹ 72,48,215
- d) None of these

44. Value of Sales is:

- a) ₹ 90,20,000
- b) ₹ 84,56,250
- c) ₹ 94,71,000
- d) ₹ 88,79,063

Answer Q. 45 to Q. 50 on the basis of information given below:

Prepare a Statement of cost from the following data for the year 2018-19:

Particulars	₹
1. Purchase of raw material during the year	13,50,000
2. Wages paid	7,50,000
3. Power and Fuel	2,00,000
4. Rent of factory	1,00,000
5. Salary of office employee	50,000
6. Rent of office	25,000
7. Show room rent	15,000
8. Salary and commission of salesman	30,000
9. Sales	30,00,000

Other information:

Stock	Opening (₹)	Closing (₹)
Raw material	90,000	75,000
Work in progress	36,000	45,000
Finished goods	1,80,000	1,65,000

[June 2019] [Modified]

45. Material Consumed is:

- a) ₹ 13,65,000
- b) ₹ 13,35,000
- c) ₹ 14,40,000
- d) None of these

46. Prime Cost is:

- a) ₹ 20,85,000
- b) ₹ 21,15,000
- c) ₹ 21,90,000
- d) None of these

47. Factory Cost is:

- a) ₹ 24,15,000
- b) ₹ 23,85,000
- c) ₹ 24,24,000
- d) ₹ 24,06,000

48. Value of Cost of Production is:

- a) ₹ 24,79,000
- b) ₹ 24,81,000
- c) ₹ 24,92,000
- d) ₹ 24,96,000

49. Cost of Sales is:

- a) ₹ 24,96,000
- b) ₹ 25,26,000
- c) ₹ 25,11,000
- d) ₹ 25,41,000

50. Profit/(Loss) is:

- a) ₹ 4,59,000
- b) ₹ 5,04,000
- c) ₹ 4,89,000
- d) ₹ 4,74,000

51. Direct Wages ₹2,05,000 and Factory Cost ₹5,60,000. If the ratio of direct wages and factory overhead is 5:3 then Direct Material will be:

- a) ₹ 2,32,000
- b) ₹ 3,50,000
- c) ₹ 3,41,667
- d) ₹ 2,24,000

[June 2019]

Answer Q. 52 to Q. 56 on the basis of information given below:

Classify the following items of expenses into prime cost, factory overhead, office & administrative overhead, selling and distribution overhead and non-cost items.

- (i) Custom duty on material
- (ii) Cost of Tenders
- (iii) Drawing office salaries
- (iv) Director's Fee
- (v) Cost of catalogues
- (vi) Cash discount
- (vii) Fuel and Power
- (viii) Transfer Fee
- (ix) Goodwill written off
- (x) Donation
- (xi) Salaries of watchmen and cleaners (General)
- (xii) Packing material e.g. boxes, tin, drums, rope etc.
- (xiii) Repairs of delivery van
- (xiv) Carriages inward
- (xv) Works Telephone Expenses
- (xvi) Legal charges

[Dec. 2019] [Modified]

52. Items to be included in Prime Cost:

- a) (i) & (xiv)
- b) (i), (xii), (xiv)
- c) (xii) & (xiv)
- d) (i)

53. Items to be included in Factory Overheads:

- a) (ii) & (vii)
- b) (ii) & (xi)
- c) (ii), (vii) & (xv)
- d) (vii), (ix)

54. Items to be included in Office and Administrative Overheads:

- a) (iii), (iv), (vi) & (xi)
- b) (iii), (iv), (xi) & (xvi)
- c) (iv), (xi) & (xvi)

d) (iii), (iv) & (xvi)

55. Items to be included in Selling & Distribution Overheads:

- a) (v), (xii) & (xiii)
- b) (v), (vi), (xii) & (xiii)
- c) (v), (vi) & (xiii)
- d) (vi), (xii) & (xiii)

56. Items to be excluded from Cost Accounts:

- a) (viii), (ix), (x) & (xvi)
- b) (ix), (x) & (xvi)
- c) (vi), (ix), (x) & (xvi)
- d) (vi), (viii), (ix) & (x)

Answer Q. 57 to Q. 62 on the basis of information given below:

A factory produces a standard product.

The following information is given to you from which you are required to prepare cost sheet for the period ended 31st March, 2019:

Consumable materials:	
Opening stock	24,000
Purchases	2,04,000
Closing stock	9,600
Finished product:	
Opening stock 1000 units	38,400
Production during the period 10000 units	
Closing stock 2000 units	
Productive wages	48,000
Other direct expenses	24,000
Factory overheads	100%productive wages
Office overheads	10% of works cost
Selling and distribution overhead	₹ 4 per unit sold

There was no Work-in-progress either at the beginning or at the end of the period. Find out the selling price per unit to earn a profit of 20% of the selling price. **[Dec. 2019] [Modified]**

57. Material Consumed is:

- a) ₹ 2,18,400
- b) ₹ 1,89,600
- c) ₹ 2,42,400
- d) None of these

58. Prime Cost is:

- a) ₹ 2,66,400
- b) ₹ 2,90,400
- c) ₹ 2,37,600
- d) ₹ 2,61,600

59. Factory Cost is:

- a) ₹ 3,14,490
- b) ₹ 2,85,600
- c) ₹ 3,09,600
- d) ₹ 3,38,400

60. Value of Cost of Production is:

- a) ₹ 3,43,200
- b) ₹ 3,72,240
- c) ₹ 3,40,560
- d) ₹ 3,45,840

61. Cost of Goods Sold is:

- a) ₹ 3,34,240
- b) ₹ 4,10,640
- c) ₹ 3,35,978
- d) ₹ 3,36,192

62. Value of Sales is:

- a) ₹ 4,65,240
- b) ₹ 4,46,630
- c) ₹ 4,20,240
- d) ₹ 4,03,430

63. Prime cost and factory cost are ₹6,10,000 and ₹ 6,70,000 respectively. If the factory overhead is absorbed @ 60 per cent of the direct wages then amount of direct wages would be:

- a) ₹ 1,86,000
- b) ₹ 31,000
- c) ₹ 4,84,000
- d) ₹ 1,00,000

[Dec. 2022]

64. Direct Material and Direct Wages are 2,32,000 and ₹2,05,000 respectively. If the ratio of direct wages and factory overhead is 5:3 then Factory Cost will be:

- a) 4,37,000
- b) 5,60,000
- c) 7,78, 667

d) 5,46,667

[June 2023]

65. From the following information, find out purchases of raw material when raw material consumed 9,000 and is 53,000, closing stock opening stock ₹ 6,000:

- a) ₹ 53,000
- b) ₹ 56,000
- c) ₹ 50,000
- d) ₹ 68,000

[Dec. 2023]

66. Direct Wages ₹ 2,46,000 and Factory Cost 5,60,000. If the ratio of Direct Wages and Factory Overhead is 3:1 then Direct Material Cost will be:

- a) ₹ 3,14,000
- b) ₹ 3,96,000
- c) ₹ 3,73,333
- d) ₹ 2,32,000

[Dec. 2023]

67. Calculate the amount of Factory Rent given that: Prime Cost is ₹6,50,000, Works Cost is 200% of Prime Cost, Depreciation on Plant is 2,50,000 and Power & Fuel is ₹1,70,000.

- a) ₹ 5,20,000
- b) ₹ 2,80,000
- c) ₹ 2,30,000
- d) ₹ 3,20,000

[June 2024]

68. Given that: Value of Raw Materials consumed is 2,00,000, Raw Materials purchased is 1,50,000 and Closing Stock of Raw Materials is 80,000, calculate the value of Opening Stock of Raw Materials.

- a) ₹ 4,30,000
- b) ₹ 30,000
- c) ₹ 2,70,000
- d) ₹ 1,30,000

[June 2024]

PAST YEAR EXAM QUESTIONS - PRACTICAL QUESTION

1. If the prime cost is ₹5,00,000, Factory cost is ₹8,00,000 and office overheads are 75 per cent of the factory overheads, then cost of production will be:
 - a) ₹19,00,000
 - b) ₹14,00,000
 - c) ₹10,25,000
 - d) ₹11,00,000

2. If the Opening Stock of finished goods is 3,000 units, the production during the period is 30,000 units, Closing Stock of finished goods is 5,000 units and if ₹5 per unit is spent on every unit sold, then find out the total selling expenses.
 - a) ₹1,40,000
 - b) ₹1,50,000
 - c) ₹1,60,000
 - d) None of these

3. A company wants to sell 1,00,000 units at 12 each. Fixed costs are ₹3,80,000. In order to earn a profit of ₹1,20,000, the variable cost per unit should be:
 - a) ₹7.00
 - b) ₹10.80
 - c) ₹8.20
 - d) ₹8.00

4. Prime cost ₹33,500, Depreciation ₹1,500. Factory Rent is 200% of Depreciation, Find out Factory cost:
 - a) ₹35,000
 - b) ₹36,000
 - c) ₹38,000
 - d) ₹38,500

5. Cost of Sales: ₹37,416, Advertisement expenses ₹600, Discount on sales 50% of Advertisement expenses, find out cost of goods sold:
 - a) ₹37,456
 - b) ₹36,516
 - c) ₹32,536
 - d) ₹33,616

6. Gross Factory cost = ₹58,000, Net Factory cost = ₹54,000. Opening stock of WIP 8,000, Find out Closing stock of WIP.
 - a) ₹12,000
 - b) ₹13,000
 - c) ₹10,500

d) ₹ 11,000

Answer Q.7 to Q.11 on the basis of information given below:

Prepare a statement of cost from the following data to show material consumed, prime cost, factory cost, cost of goods sold and profit.

	1-1-2024 (₹)	31-12-2024 (₹)
Raw Material	80,000	70,000
Work-in-progress	34,000	50,000
Finished goods	1,40,000	1,30,000

Purchase of materials during the year ₹9,20,000.

Wages paid ₹5,40,000.

Factory overheads ₹2,20,000.

Administration overheads ₹ 50,000

Selling and distribution overheads ₹30,000.

Sales 3,00,000.

7. Material Consumed is:

- a) ₹ 9,30,000
- b) ₹ 10,00,000
- c) ₹ 9,10,000
- d) None of these

8. Prime Cost is:

- a) ₹ 9,30,000
- b) ₹ 15,40,000
- c) ₹ 14,70,000
- d) ₹ 14,50,000

9. Factory Cost is:

- a) ₹ 16,90,000
- b) ₹ 17,06,000
- c) ₹ 16,74,000
- d) ₹ 16,54,000

10. Value of Cost of goods Sold is:

- a) ₹ 17,14,000
- b) ₹ 17,24,000
- c) ₹ 17,74,000
- d) ₹ 17,34,000

11. Profit/(Loss) is:

- a) ₹ 12,36,000
- b) ₹ 12,66,000
- c) ₹ 12,26,000
- d) ₹ 12,56,000

Answer Q. 12 to Q. 16 on the basis of information given below:

Mr. Gopal furnishes the following data relating to the manufacture of a standard product during the month of April, 2024:

Raw materials consumed ₹ 15,000

Direct labour, charges ₹ 9,000

Machine hours worked ₹ 1,800

Machine hour rate ₹ 5

Administrative overheads 30% on works cost

Selling overheads ₹0.40 per unit

Units produced 24,000

Units sold 22,500 at ₹ 2 per unit.

12. Prime Cost is:

- a) ₹ 15,000
- b) ₹ 24,000
- c) ₹ 33,000
- d) None of these

13. Factory Cost is:

- a) ₹ 24,000
- b) ₹ 25,800
- c) ₹ 42,900
- d) ₹ 33,000

14. Value of Cost of Production is:

- a) ₹ 42,900
- b) ₹ 35,700
- c) ₹ 30,300
- d) None of these

15. Cost of Sales is:

- a) ₹ 40,219
- b) ₹ 49,219
- c) ₹ 51,900
- d) ₹ 52,500

16. Profit/(Loss) is:

- a) ₹ 4,781
- b) ₹ (6,900)
- c) ₹ (7,500)
- d) ₹ (4,219)

Answer Q. 17 to Q. 21 on the basis of information given below:

A factory produces and sells 1000 units of a product in July, 2024 for which the following particulars are available:

Stock of direct materials on 1st July, 2024	₹ 6,000
Purchases and receipts of direct materials in July	₹ 1,44,000
Direct wages paid in cash in July (which includes 3,000 on ac-count of June, 2024 and an advance of ₹ 2,000 for August, 2024)	₹ 55,000
Works overhead charges for the month	₹ 60,000
Stock of direct materials on 31st July, 2024	₹ 10,000
Administration and selling overhead	₹ 25 per unit
Sales price	₹ 300 per unit

17. Material Consumed is:

- a) ₹ 1,40,000
- b) ₹ 1,44,000
- c) ₹ 1,48,000
- d) None of these

18. Prime Cost is:

- a) ₹ 1,95,000
- b) ₹ 1,96,000
- c) ₹ 1,90,000
- d) ₹ 1,94,000

19. Factory Cost is:

- a) ₹ 2,55,000
- b) ₹ 2,56,000
- c) ₹ 2,50,000
- d) ₹ 2,54,000

20. Value of Cost of Sales is:

- a) ₹ 2,80,000
- b) ₹ 2,81,000
- c) ₹ 2,79,000
- d) ₹ 2,75,000

21. Profit/(Loss) is:

- a) ₹ 25,000
- b) ₹ 20,000
- c) ₹ 21,000
- d) ₹ 19,000

22. From the following information, compute the raw material purchased.

Opening stock of raw material	20,000
Closing stock of the raw material	30,000
Direct wages	2,10,000
Factory overhead	60% of direct wages
Office overhead	10% of works cost
Cost of production	6,88,600

- a) ₹ 2,90,000
- b) ₹ 3,00,000
- c) ₹ 5,20,000
- d) None of these

RECENT EXAM QUESTIONS - DECEMBER 2024

1. The amount of yearly depreciation under written down value method
- Remains same over the years.
 - Increases year by year.
 - Fluctuates every year.
 - Decreases year by year.
- [Dec. 2024, 2 Marks]
2. Which of the following is/are the basic objective(s) of accounting?
- Systematic recording of transactions
 - Determination of the operating results
 - Ascertainment of financial position of business
 - All the above
- [Dec. 2024, 2 Marks]
3. If the incomes are 27,500 and deficit debited to capital fund is 2,600, then the expenditures are
- ₹ 2,600
 - ₹ 27,500
 - ₹ 24,900
 - ₹ 30,100
- [Dec. 2024, 2 Marks]
4. What is the value of sundry creditors at the end of the year, when opening sundry creditors is 19,000, Cash paid to sundry creditors is 54,800, Discount received is 1,000 and Credit purchases is 61,200?
- ₹ 25,400
 - ₹ 13,600
 - ₹ 26,400
 - ₹ 24,400
- [Dec. 2024, 2 Marks]
5. In an overdraft balance as per Cash Book, a cheque of 3,655 deposited into bank but not recorded in Cash Book is
- Deducted by 3,655
 - Added by 3,655
 - Added by 7,310
 - Deducted by 7,310
- [Dec. 2024, 2 Marks]
6. Life membership fees received by a club is
- Capital expenditure
 - Capital receipt
 - Revenue receipt
 - None of the above
- [Dec. 2024, 2 Marks]

7. Sales Return Book is a
- Part of Journal
 - Part of Ledger
 - Part of Financial Statements
 - None of the above

[Dec. 2024, 2 Marks]

8. CAS 7 deals with
- Material Cost
 - Employee Cost
 - Production and Operation
 - Pollution Control Cost

[Dec. 2024, 2 Marks]

9. Which method of costing is appropriate for pharmaceutical Industry?
- Process Costing
 - Contract Costing
 - Job Costing
 - Operating Costing

[Dec. 2024, 2 Marks]

10. In case of costing, the main objective is to ascertain costs that have been incurred in the past.
- Absorption
 - Direct
 - Historical
 - Standard

[Dec. 2024, 2 Marks]

11. Which is the appropriate cost unit for cement industry?
- Tonne-Km
 - Metric tonne
 - Megawatt
 - None of the above

[Dec. 2024, 2 Marks]

12. _____ is a device for the purpose of breaking up costs into smaller sub-divisions attributable to products or services.
- Cost centre
 - Cost object
 - Cost unit
 - Cost driver

[Dec. 2024, 2 Marks]

13. Which of the following is the classification of costs by 'function'?
- Fixed cost, Variable cost, Semi-variable cost
 - Material cost, Employee cost, Expenses
 - Production cost, Administration cost, Selling & Distribution cost, Research & Development cost

d) Direct cost, Indirect cost

[Dec. 2024, 2 Marks]

14. Cost Accounting Standards are issued by

- a) Cost. Accounting Standards Board
- b) The Institute of Cost Accountants of India
- c) Cost Accounting Standards Committee
- d) Cost Accounting Standards Forum

[Dec. 2024, 2 Marks]

15. Calculate the value of closing inventory of finished goods from the given data: Cost of Goods sold is 3,60,000, Cost of Production is 3,40,000 and value of opening inventory of finished goods is 1,80,000.

- a) ₹ 3,20,000
- b) ₹ 1,60,000
- c) ₹ 3,80,000
- d) ₹ 2,00,000

[Dec. 2024, 2 Marks]

16. _____overheads are the costs incurred in handling a product/service from the time it is ready for dispatch or delivery until it reaches the ultimate consumer.

- a) Production
- b) Administration
- c) Selling
- d) Distribution

[Dec. 2024, 2 Marks]

17. _____costs are by nature hypothetical or notional costs.

- a) Imputed
- b) Sunk
- c) Opportunity
- d) Relevant

[Dec. 2024, 2 Marks]

18. Chargeable Expenses are also known as

- a) Indirect Expenses
- b) Production Overheads
- c) Overheads
- d) Direct Expenses

[Dec. 2024, 2 Marks]

19. _____is the value of the best alternative course of action that was not chosen.

- a) Sunk Cost
- b) Imputed Cost
- c) Out-of-Pocket Cost
- d) Opportunity Cost

[Dec. 2024, 2 Marks]

20. Batch costing followed in

- a) Toy manufacturing
- b) Interior decoration
- c) Chemical industry
- d) Road transport industry

[Dec. 2024, 2 Marks]

21. Variable Costs are fixed

- a) For a period.
- b) Per unit.
- c) Depending upon the entity.
- d) For a particular process of production.

[Dec. 2024, 2 Marks]

22. Direct material and Direct wages are 2,32,000 and 2,05,000 respectively. If the factory overheads are 60 per cent of direct wages then factory cost will be

- a) ₹ 5,60,000
- b) ₹ 7,78,667
- c) ₹ 5,46,667
- d) ₹ 4,37,000

[Dec. 2024, 2 Marks]

RECENT EXAM QUESTIONS - JUNE 2025

1. _____ involves maintenance of records of all costs from their incurrence to their charge to cost centres and ultimately to products and services.

- a) Cost ascertainment
- b) Cost control
- c) Cost book-keeping
- d) Cost reporting

[June 2025, 2 Marks]

2. CAS 19 deals with _____

- a) Material Cost
- b) Cost of Utilities
- c) Direct Expenses
- d) Joint Costs

[June 2025, 2 Marks]

3. Which method of costing is appropriate for advertising industry?

- a) Process Costing
- b) Job Costing
- c) Multiple Costing
- d) Contract Costing

[June 2025, 2 Marks]

4. Direct material and direct labour are ₹ 2,05,000 and ₹2,32,000 respectively. If the factory overhead is 50% of direct labour, then factory cost will be:

- a) ₹ 5,60,000
- b) ₹ 5,46,600
- c) ₹ 5,53,000
- d) ₹ 4,37,000

[June 2025, 2 Marks]

5. In the context of decision making. costs are considered to be pertinent.

- a) Relevant
- b) Sunk
- c) Imputed
- d) None of the above

[June 2025, 2 Marks]

6. Which of the following is not a part of 'Prime Cost'?

- a) Direct Materials
- b) Direct Expenses
- c) Direct Labour
- d) Power ,

[June 2025, 2 Marks]

7. Appropriate composite cost unit for the transport sector is:

- a) Per tonne
- b) Per passenger
- c) Per passenger-km

d) Number of vehicles

[June 2025, 2 Marks]

8. Calculate the profit per unit.

Given that: Number of units produced and sold is 16000; Cost of Production As4/unit; Selling & Distribution overheads is 1/unit; Selling price is 10/unit.

a) ₹ 3

b) ₹ 5

c) ₹ 8

d) ₹ 10

[June 2025, 2 Marks]

9. The costs which vary disproportionately with change in activity level are called:

a) Behavioural costs

b) Variable costs

c) Indirect costs

d) Semi-variable costs

[June 2025, 2 Marks]

10. The costs of common resources used for producing two or more projects or rendering two or more services simultaneously are called:

a) Joint costs

b) Batch costs

c) Process costs

d) Research costs

[June 2025, 2 Marks]

11. Which of the following is the classification of cost 'by traceability to cost object'?

a) Fixed costs, Variable costs & Semi-variable costs

b) Normal costs & Abnormal costs

c) Controllable costs & Non-controllable costs

d) Direct costs & Indirect costs

[June 2025, 2 Marks]

12. Variable costs are fixed:

a) For a period

b) Depending upon the unit

c) For a process of production

d) Per unit

[June 2025, 2 Marks]

13. Given that, Gross Factory Cost is ₹2,03,000; Net Factory Cost is 1,89,000; Opening Stock of work-in-progress is ₹ 28,000, determine the value of Closing Stock of work-in-progress.

a) ₹ 3,000

b) ₹ 14,000

c) ₹ 42,000

d) ₹ 54,000

[June 2025, 2 Marks]

14. Which of the following is included in financial accounts, but not in cost accounts?

- a) Dividend Paid
- b) Interest on Loan
- c) Provision for Bad Debts
- d) All of the above

[June 2025, 2 Marks]

15. Interest on capital to owners is a:

- a) Cash cost
- b) Sunk cost
- c) Prime cost
- d) Notional cost

[June 2025, 2 Marks]

RECENT EXAM QUESTIONS DECEMBER 2025

1. Costs are often measured in terms of a product, a service to a hotel guest or a sales territory. These are known as
- Cost driver
 - Cost centre
 - Cost unit
 - Cost object
- [Dec. 2025, 2 Marks]
2. In India, which of the following formulates the Cost Accounting Standards(CAS)?
- The Institute of Cost Accountants of India
 - Cost Accounting Standards Board
 - The Institute of Chartered Accountants of India
 - Council of Cost Accounting Standards
- [Dec. 2025, 2 Marks]
3. Which method of costing is appropriate for colleges?
- Operating Costing
 - Job Costing
 - Multiple Costing
 - Contract Costing
- [Dec. 2025, 2 Marks]
4. The process of assigning a whole item of cost, or of revenue, to a single cost unit, centre, account or time period is referred to as
- Apportionment
 - Adjustment
 - Allocation
 - Assignment
- [Dec. 2025, 2 Marks]
5. _____ are also called irrecoverable costs.
- Opportunity costs
 - Sunk costs
 - Imputed costs
 - Relevant costs
- [Dec. 2025, 2 Marks]
6. Indirect materials cost is a part of
- Prime cost
 - Chargeable expenses
 - Raw material consumed
 - Works overheads
- [Dec. 2025, 2 Marks]
7. In which year was cost audit introduced under the Indian Companies Act?
- 1958
 - 1968
 - 1978

d) 1988

[Dec. 2025, 2 Marks]

8. From the following data of a facto-fy, ascertain the amount of Prime Cost: Direct materials: ₹ 1,20,000; Direct labour: 20,000; Factory overheads: 35,000; Chargeable expenses: 50% of Direct labour.

a) ₹ 1,80,000

b) ₹ 1,85,000

c) ₹ 1,55,000

d) ₹ 1,50,000

[Dec. 2025, 2 Marks]

9. Which of the following is an ex-ample of cost driver?

a) Tonne-Km

b) Passenger-miles

c) Set-up hours

d) Per bed per day

[Dec. 2025, 2 Marks]

10. Which of the following is the classification of costs 'by nature of production or operation process'?

a) Job cost, Batch cost, Contract cost, Process cost and Joint cost

b) Normal cost and Abnormal cost

c) Fixed cost, Variable cost and Semi-variable cost

d) Direct cost and Indirect cost

[Dec. 2025, 2 Marks]

11. Identify the correct sequence of costs appearing in a Cost Sheet drafted under Absorption costing technique:

i) Cost of Goods Sold,

ii) Works cost,

iii) Cost of Production,

iv) Prime cost

a) (iv), (iii), (ii), (i)

b) (iv), (ii), (i), (iii)

c) (iv), (i), (ii), (iii)

d) (iv), (ii), (iii), (i)

[Dec. 2025, 2 Marks]

12. Determine the amount of purchase of raw materials from the given particulars:

Raw materials consumed: ₹1,27,200; Opening stock of raw materials: 14,400; Closing stock of raw materials: ₹21,600.

a) ₹ 91,200

b) ₹ 1,63,200

c) ₹ 1,20,000

d) ₹ 1,34,400

[Dec. 2025, 2 Marks]

13. CAS 14 deals with

- a) Cost of Utilities
- b) Quality Control
- c) Pollution Control Cost
- d) Overburden Removal Cost

[Dec. 2025, 2 Marks]

14. Consider the following statements:

Statement I: Budgets are financial and/or quantitative statements prepared and approved prior to a defined period of time.

Statement II: Budgets are formal quantifications of the plans of management.

- a) Only Statement I is true
- b) Only Statement II is true
- c) Both statements are true
- d) Both statements are false

[Dec. 2025, 2 Marks]

15. _____ costing differentiates Between fixed cost and variable cost.

- a) Marginal
- b) Uniform
- c) Absorption
- d) Standard

[Dec. 2025, 2 Marks]

FUNDAMENTAL OF COST ACCOUNTING (PAPER - 2)
INSTITUTE -MCQ BANK

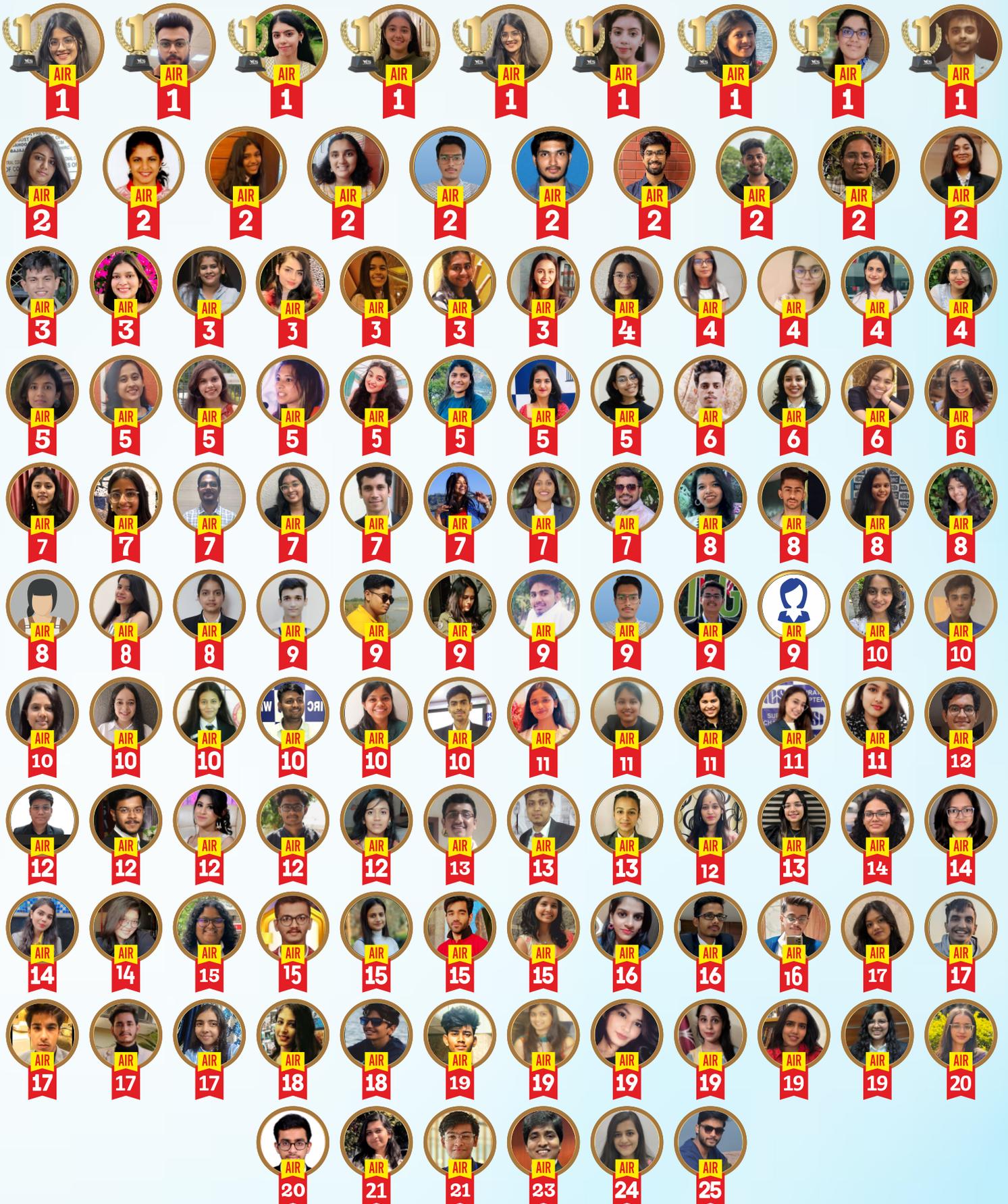
SL NO	QUESTIONS	OPTION 1	OPTION 2	OPTION 3	OPTION 4
223	Cost Accounting is primarily concerned with:	Recording financial transactions	Determining cost and controlling it	Tax computation	Investment analysis
224	Which of the following best defines cost accounting?	It records only cash expenses	It deals with the ascertainment and control of cost	It shows financial position of the business	It is used only for taxation purposes
225	The main purpose of cost accounting is to:	Satisfy government requirements	Provide cost information for internal management	Prepare financial statements	Determine tax liability
226	One of the primary advantages of cost accounting is:	Helps in tax assessment	Aids in cost control and reduction	Increases government regulation	Eliminates accounting errors
227	Who are the main users of cost accounting information?	Shareholders	Public	Tax authorities	Management
228	Which of these functions is not a function of cost accounting?	Ascertainment of cost	Control of cost	Distribution of profit	Decision-making
229	Financial accounting is mainly for:	Internal management	External reporting	Cost determination	Budget preparation
230	Financial accounting shows:	Overall business performance	Profit per product	Cost per department	Cost variance
231	Cost data assists management in:	Dividend distribution	Make-or-buy decisions	Tax payment	Financial audits
232	Cost accounting helps in budgeting by:	Providing historical cost trends	Hiding overheads	Avoiding control systems	Recording cash receipts
233	A cost centre is:	A person or location where costs are incurred	A product sold to customers	A cost driver	A fixed cost item
234	A cost unit is:	A unit of measurement for	A cost element	A ledger account	An overhead

		cost ascertainment			
235	Which of the following can be a cost unit?	Per kilometre in transport company	Per meal in restaurant	Per student in school	All of these
236	A cost driver is:	Any factor causing a change in the cost of an activity	A person controlling costs	A measure of profit	A fixed cost
237	Which is an example of a cost centre?	Maintenance department	Factory as a whole	Packing section	All of these
238	According to Cost Accounting Standard 1 (CAS-1), cost classification is primarily based on which of the following factors?	Nature, function, and behavior	Purpose, production and profit	Income, expenses, and assets	Cash flow and accrual
239	A semi-variable cost includes—	Only a fixed component	Only a variable component	Both fixed and variable components	Neither fixed nor variable components
240	A cost sheet is prepared to show—	Income statement of a company	Cost and profit of a product or job	Only material cost	Financial position
241	Prime cost includes—	Direct material + Direct labor + Direct expenses	Factory overhead + Direct material	Administrative expenses + Selling expenses	Indirect material + Indirect labor + Indirect expenses
242	Factory cost is also known as—	Prime cost	Works cost	Operating cost	Administrative cost
243	Cost of goods sold =	Works cost + Administrative overhead	Cost of production + Opening stock of finished goods – Closing stock of finished goods	Prime cost + Factory overhead	Cost of sales – Selling overhead
244	Cost of sales =	Cost of production + Selling and distribution overheads	Prime cost + Factory overheads	Cost of goods sold – Administrative overheads	Works cost + Selling overheads

245	Profit as per cost sheet is determined as—	Selling price – Cost of sales	Selling price – Cost of goods sold	Cost of production – Selling price	Administrative overhead – Selling overhead
246	When opening stock of work-in-progress exceeds closing stock, the difference is—	Added to works cost	Deducted from works cost	Ignored	Added to selling cost
247	Which of the following is not a component of total cost?	Prime cost	Factory cost	Financial cost	Selling and distribution overhead
248	Cost sheet helps management primarily in—	Auditing	Planning, control, and decision making	Statutory reporting	Tax computation
249	If closing stock of finished goods increases, the cost of goods sold will—	Increase	Decrease	Remain same	Fluctuate randomly
250	The starting point of a cost sheet is—	Prime cost	Direct materials consumed	Sales	Factory overheads
251	Opportunity cost is—	The cost that is unavoidable	The benefit foregone by choosing one alternative over another	The same as sunk cost	Always included in financial accounts
252	The closing stock of raw materials is valued at—	Cost price or market price, whichever is higher	Cost price or market price, whichever is lower	Replacement cost	Standard cost

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CA CS Preeti Bhandari

As a dedicated educator and mentor, she strongly believes that learning becomes truly powerful when concepts are understood deeply and practiced consistently. At YES Academy, her focus has always been on making subjects like Costing and Management simple, logical, and approachable for every student.

With 6+ years of teaching experience, she has taught CMA, CA, and CS levels at reputed institutes in Pune. She has played a key role in helping students build strong conceptual foundations and exam confidence across diverse academic backgrounds.

She firmly believes that effective teaching goes beyond syllabus completion. It involves continuous guidance, consistent motivation, and building a lifelong mentor-student relationship based on trust and growth.



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