

MODEL QUESTION-ANSWER

1. What is meant by imputed cost ?

Ans. : If fixed assets are used in the production process, the cost of the fixed assets are not included in the cost of production. But the amount of depreciation of fixed assets is included in the cost of production. If the amount of depreciation is included in the cost of production of a product, it is termed as imputed or attributable cost.

2. Write any one of the important features of cost accounting.

Ans. : An important feature of cost accounting is that it acts as one of the controlling tool for the cost. Not only determination of cost of a product or service, one of the salient features of cost accounting is to control cost.

3. Is there any advantage received from cost accounting ?

Ans. : A number of advantages can be received from cost accounting. For instance determination of production cost, analysis of production cost, fixation of selling price and determination of profit, control over cost etc.

4. How cost of production is ascertained with the help of cost accounting ?

Ans. : Initially the cost of different factors of production are ascertained individually and then different factor costs are added to get the total costs of the product. For example, raw material cost, labour cost, overhead cost are added to get the total cost.

5. What is cost centre ?

Ans. : A cost centre means a location, a person, an equipment or a group of persons or a group of equipments associated with an organisation, in respect of which cost is ascertained and considered for the purpose of cost control.

6. Are the two concepts cost centre and cost unit similar ?

Ans. : The two concepts cost centre and cost unit are not same. For example, store house of goods is a cost centre, whereas the measurement unit which is used for the determination of store item is a cost unit. For example, kilogram or litre are cost units.

7. What is the formula for ascertaining profit ?

Ans. : The formula or equation for the determination of profit is, Profit = Sales value - Purchase or production cost.

8. State any one of the objectives of cost accounting.

Ans. : An objective of cost accounting is to control cost.

9. Give few examples of production cost centre.

Ans. : Examples of production cost centre are - welding department, assembling department, packing department etc.

10. Give an example of service cost centre.

Ans. : An example of service cost centre is canteen.

11. What is cost ? [XI '14, '17]

Ans. : The amount of expenses incurred for different factors of production required to produce an article or provision of a service is collectively termed as cost. In the words of J.L. Hanson, "Cost is the summation of expenses paid or payable for the inputs employed with an objective of producing products or providing services."

12. What are the advantages of cost accounting ? [XI '14]

Ans. : The advantages of cost accounting are - determination of production cost, analysis of production cost, fixation of sale price of product, computation of manufacturing profit, helping the management through control over cost and making plan for the future.

13. What is cost accounting ? [XI '15, '18]

Ans. : Cost accounting is the method of controlling of cost through recording, summarising, presenting and analysing production cost related data. In short, **cost accounting** is an integral system through which ascertainment of cost, recording of cost-related data and control over cost is performed.

14. What is service cost centre ? [XI '15]

Ans. : Service cost centre is that cost centre which is engaged in providing necessary services to the production cost centres. Examples include store house, canteen etc.

15. Define the term 'costing'.

Or, What do you mean by costing?

[XI '16, '19]

Ans. : Method and process of ascertaining cost is known as **costing**. In other words,

costing is the determination of cost of different elements and activities in the form of money, resources and services used in the production of a product or the provision of a service.

16. What is cost unit ? [XI '16, '18]

Ans. : Cost unit refers to production unit or service unit, the ascertainment of the cost of which is the main objective of cost accounting. In other words, **cost unit** is the numerical unit of any product, service or time, which is considered as base for the computation of cost.

17. Mention two limitations of cost accounting. [XI '17, '19]

Ans. : Some of the notable limitations of cost accounting are — cost of implementation, inapplicability, lack of necessity, large number of conventions, etc.



MODEL QUESTION-ANSWER

1. How cost can be classified ?

Ans. : Cost can be classified on the basis of purpose for which it is required to be incurred. If the elements of cost of production is considered as the basis of classification, then it can be classified into three types. These are material cost, labour cost and other costs.

2. Which costs are considered as direct costs ?

Ans. : The expenses which play direct role in the process of production are known as **direct costs**. For example, cost of material or wages of the workers are directly associated with the production process.

3. What is production and factory cost ?

Ans. : The factory related expenses, which are required to be incurred for the purpose of production, are known as **production and factory cost**. For example, Factory rent, electricity bill of the factory, fire insurance premium etc.

4. What is office and administration cost ?

Ans. : Any costs which are required to be incurred for the official and administration purpose of the production are termed as **office and administration cost**. For example, salary of the accountant, postal charges, depreciation of office assets are office and administration cost.

5. What is meant by selling and distribution cost ?

Ans. : The expenses incurred for the purpose of selling and distribution of goods and services are termed as **selling and distribution cost**. For example, advertisement expenses, commission to selling agents etc. are selling and distribution cost.

6. What is fixed cost ?

Ans. : The cost, which is not affected by the fluctuation in volume of production, i.e., the cost which is required to be incurred if there is production or no production, is known as **fixed cost**.

7. What is meant by historical cost ?

Ans. : After the cost being incurred, it is considered for the purpose of determination of cost. Therefore, the cost already incurred or the past period cost is known as **historical cost**.

8. What is meant by pre-determined cost ?

Ans. : Attempts are made to determine the cost to be incurred in advance on the basis of some estimation or forecasting techniques. Therefore, the costs, which are determined before they are actually incurred, are known as **pre-determined** or **projected cost**.

9. What is controllable cost ?

Ans. : The cost, which can be controlled by adopting necessary arrangements and activities, is termed as **controllable cost**

10. What is uncontrollable cost ?

Ans. : The cost, which cannot be controlled even after adopting necessary actions or arrangements, is termed as **uncontrollable cost**.

11. What is capital cost ?

Ans. : The cost, the effect of which is not limited within an accounting period or a specified production cycle, rather goes beyond several accounting years or production cycles, is termed as **capital cost**.

12. What is revenue cost ?

Ans. : The cost, the effect of which is limited within one accounting period or a specified production cycle, is termed as **revenue cost**

13. What is meant by differential cost ?

Ans. : The difference in total cost due to difference in the volume of production is termed as **differential cost**. Not only marginal cost is considered, but also a portion of the fixed cost is also included in differential cost.

14. What are the main elements of cost ?

Ans. : The main elements of cost include material cost, labour cost and other cost.

15. What is meant by direct wages ?

Ans. : The workers directly involved in the process of production is known as direct labour and the wages paid or payable to the direct workers are known as **direct wages**. Direct wage is one of the main components of prime cost.

16. What is cost ? [XI '14]

Ans. : The summation of the expenses which are required to be incurred for the elements used in the production of goods or services, is known as **cost**. In the words of *J.L. Hanson*, "Cost is the total expenses incurred for the elements used for the production of goods or services."

17. What is semi-variable cost ? [XI '14, '16, '18]

Ans. : The cost, which also increases or decreases with the increase or decrease in the volume of production, but not in proportion of the volume, is known as **semi-variable cost**

18. Give one example of selling cost. [XI '14]

Ans. : Example of selling cost is salary and commission to the selling agents.

19. What is overhead ? [XI '15, '17, '19]

Ans. : **Overhead** may be defined as the aggregate of the cost of indirect material, indirect labour and such other indirect expenses which cannot conveniently be charged direct to specific production process.

20. What is variable cost ? [XI '15, '19]

Ans. : The cost, which varies proportionately with the increase or decrease in the volume of production, is known as **variable cost**

21. What is research and development cost ?

[XI '15]

Ans. : The cost required to be incurred for the increase in the quality and standard of the existing product or service or for the innovation of new product or service is known as **research and development cost**

22. Give two examples of distribution cost.

[XI '15, '19]

Ans. : Two examples of distribution cost are packing expenses of goods for transportation and godown rent of the finished goods.

23. What is marginal cost ? [XI '16, '17]

Ans. : The additional cost required to be incurred for the production of additional one unit is known as **marginal cost**. In short, marginal cost is the cost of production of one additional unit.

24. What is sunk cost ? [XI '16, '18]

Ans. : The cost, which is not required to be considered for the purpose of decision making, is known as **sunk cost**. This cost is called sunk cost as the cost has already been incurred before taking any type of decision.

