



Short Questions and Answers

1. **What do you mean by classification of cost ?**

Ans. Cost classification is the process of grouping costs according to their common characteristics.

2. **What are the importance of cost classification ?**

Ans. Cost classification is of vital importance in order to identify the cost with cost centres or cost units.

3. **What are the element based classification of cost ?**

Ans. The element based Classification of Cost are

(a) Material (b) Labour and (c) Other expenses

4. **What do you mean by material ?**

Ans. The substance from which the product is made is known as material.

5. **Name the type of materials.**

Ans. The type of materials are —

(i) Direct material and

(ii) Indirect material.

6. **What is direct material ?**

Ans. Direct material refers to those materials which become a major part of the finished product and can be easily traceable to the units.

7. Give two examples of direct material.

Ans. Two examples of direct material are cotton in the production of cloth and leather in the production of leather goods.

8. What is indirect material ?

Ans. Material used for ancillary purpose in production is called indirect material.

9. Give two examples of indirect material.

Ans. (i) Consumable stores and
(ii) Printing and Stationary material.

10. What is labour cost ?

Ans. Remuneration paid to the labourers engaged in the production of goods or rendering services is known as labour cost.

11. Write the classification of labour cost.

Ans. Labour cost can be classified into direct labour cost and indirect labour cost.

12. Define Direct labour.

Ans. Direct Labour is defined as the wages paid to workers who are engaged in the production process.

13. Give two examples of Direct Labour Cost ?

Ans. Wages of carpenters for furniture making and wages of weavers in weaving.

14. What is Indirect Labour ?

Ans. Labour employed for the purpose of carrying out tasks incidental to goods or services provided is indirect labour.

15. Give two examples of indirect labour.

Ans. Two examples of indirect labour are wages of storekeepers and supervisors.

16. What are other expenses ?

Ans. Any expenses incurred in the production of goods or rendering services except for materials and labour are called other expenses.

17. Name different types of other expenses.

Ans. Direct expenses or chargeable expenses and indirect expenses.

18. Define chargeable expenses.

Ans. These expenses are incurred on a specific cost unit and identifiable with the cost unit.

19. What are the examples of direct expenses ?

Ans. The examples of direct expenses are as following :

- (i) Hire charges of special tool and
- (ii) Travelling expenses in securing a particular contract.

20. What are indirect expenses ?

Ans. Expenses which cannot be directly, conveniently and wholly allocated to cost centres or cost units are termed as indirect expenses.

21. Write two examples of indirect expenses.

Ans. (i) Factory rent and rates ; and
(ii) Depreciation and insurance of plant and machinery.

22. Define prime cost.

Ans. Prime cost may be defined as the sum total of all direct costs incurred for producing any commodity or rendering any service. So Prime Cost = Direct Material + Direct labour + Direct Expenses.

23. Define Overhead.

Ans. The sum total of all indirect costs incurred in the production or service process, termed as overhead. So $\text{Overhead} = \text{Indirect Material} + \text{Indirect Labour} + \text{Indirect Expenses}$.

24. On what basis function - based classification of costs are done ?

Ans. Function - based classification are done according to the purpose for which costs are incurred.

25. Name the function - based classification of Costs.

Ans. (i) Manufacturing or Production or Factory or works cost ;
(ii) Administration cost ;
(iii) Selling cost ;
(iv) Distribution cost ;
(v) Research and Development cost.

26. Discuss works cost.

Ans. Cost that includes the cost of direct materials, direct labour, direct expenses and overhead expenses relating to factory or production is called works cost.

27. What is administration cost ?

Ans. Costs that are indirect and covers all expenditure incurred in formulating the policy, directing the organisation and controlling the operation of a concern are called administration cost.

28. What are selling cost ?

Ans. Selling costs are the expenses incurred in promoting sales, securing orders and retaining customers.

29. Give two examples of factory cost.

Ans. Factory rent and depreciation of plant and machinery.

30. Give two examples of administration cost.

Ans. Rent and lighting of office premises.

31. Give two examples of selling cost.

Ans. Two examples of selling cost are

- (i) Salaries and commission of sales personnel ; and
- (ii) Training cost of salesmen.

32. What are distribution cost ?

Ans. Distribution cost are expenses incurred in connection with the delivery and despatch of finished goods to customers.

33. Write two examples of distribution cost.

Ans. Two examples of distribution cost are

- (i) Cost of secondary packing ; and
- (ii) Warehouse rent.

34. What are research and development cost ?

Ans. Research and Development cost include the cost of discovering new ideas, processes, products by experiment and implementing such results on a commercial basis.

35. Write two examples of research and development cost.

Ans. (i) Expenses for setting up of research laboratory plant ; and
(ii) Cost of materials used for the purpose of research.

- 36. What is the objective of behaviour based classification ?**
Ans. The objective of behaviour based classification is to classify the cost on the basis of variability of cost in relation to changes in the volume of output.
- 37. Define fixed cost.**
Ans. The cost which is incurred for a period and within certain output and turnover limits, tends to be unaffected by fluctuations in the levels of activity (output or turnover).
- 38. Give two examples of fixed cost.**
Ans. Two examples of fixed cost are rent, property taxes.
- 39. Classify fixed cost.**
Ans. (i) Committed cost ;
(ii) Policy and managed cost ;
(iii) Discretionary cost ; and
(iv) Step Cost.
- 40. What is committed cost ?**
Ans. Costs that are incurred to maintain certain facilities and cannot be quickly eliminated termed as committed cost.
- 41. Give two examples of committed cost.**
Ans. Two examples of committed cost are rent and insurance.
- 42. Discuss policy cost.**
Ans. Policy costs are incurred for implementing particular management policies such as executive development, housing etc.
- 43. Discuss managed cost ?**
Ans. Managed costs are incurred to ensure the operating existence of the company. e.g. staff services.
- 44. What are discretionary cost ?**
Ans. Discretionary costs are those cost which result from special policy decisions, new researches etc and can be eliminated or reduced to a desirable level at the discretion of the management.
- 45. What are step cost ?**
Ans. Step cost are those cost which are constant for a given level of output and then increase by a fixed amount at a higher level of output.
- 46. Write in brief about variable cost.**
Ans. Variable costs are those costs that vary directly and proportionately with the output e.g. direct materials, direct labour.
- 47. What is semi-variable or semi-fixed cost ?**
Ans. Cost that contain fixed and variable elements are called semi-variable or semi-fixed cost.
- 48. Why semi-variable cost fluctuate with volume ?**
Ans. Semi-variable cost fluctuate with volume because of the variable element present in it.
- 49. What are the advantages of classification of costs into fixed and variable ?**
Ans. The advantages of classification of costs into fixed and variable are
(i) Controlling Expenses ; and
(ii) Preparation of budget estimates.
(iii) Decision making.