

COST ACCOUNTING
II B.Com & II B.Com(CA)
UNIT I (INTRODUCTION)

SECTION – A (2 MARKS)

1. Meaning of Cost:

It means cost of production, which means total sum of all expenditures incurred in the production of goods or services rendered.

2. Definitions of Cost:

According to Anthony, " Cost is a measurement in monetary terms, of the amount of resources used for some purpose".

3. Meaning of Costing:

It is a systematic procedure for ascertaining the cost per unit of output produced or service rendered.

4. Definition of Costing:

Wheldon defines, " It is the classifying, recording and appropriate allocation of expenditure for the determination of costs of products or services. The relation of these costs to sales values and the ascertainment of profitability".

5. Meaning of Cost Accounting:

It is the process of accounting for cost which begins with the recording of income and expenditure and ends with the preparation of periodical statements and reports.

6. Definition of Cost Accounting:

Fremgen explains " It is the process of recording, classifying, allocating and reporting the various costs incurred in the operation of an enterprise".

7. Explain Cost Accountancy:

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

8. Define Cost Unit:

It refers to a unit of product, service or time in relation to which costs may be ascertained or expressed. It is the unit of output for which cost is ascertained. For ex, the cost of air conditioner is ascertained per unit.

9. Explain Cost Centre:

It is a location, person or item of equipment for which cost may be ascertained and used for the purposes of cost control. In other words, it is a sub-division of the organization to which costs can be charged.

10. Discuss Cost Estimation:

It is the process of pre-determining the cost of products or services. These costs are prepared in advance of production and before the operation process.

11. What is meant by Cost Ascertainment?

It refers to the methods used in the process of finding cost. It is the process of determining costs on the basis of actual costs after the cost has been incurred.

12. What is Profit Centre?

It is a responsibility centre which accumulates both costs and revenues. It is a department or segment of the organization which has been assigned to have a control over both revenues and cost.

13. Explain Cost Sheet:

It is a memorandum statement designed to show the cost of a product, job or process, depending upon the requirement of management for the purpose of control.

14. Definition Cost Sheet:

According to CIMA, London, cost sheet is “a document which provides for the assembly of the estimated detailed cost in respect of a cost centre or cost unit”.

SECTION - B (5 MARKS)

1. What are the Objectives of Cost Accounting?

- (a) To provide necessary data for fixing the selling price,
- (b) To find out total cost and cost per unit of manufacturing products,
- (c) To disclose the proportion of different elements,
- (d) To present and interpret data for managerial decision making and
- (e) To ascertain the profitability of each product.

2. Discuss the characteristic of a Good Costing System.

- (a) Suitability, (b) Simplicity, (c) Economy, (d) Flexibility, (e) Comparability, (f) Minimum

Changes, (g) Minimum clerical work, (h) Material control, (i) Sound system of wage payment, (j) Allocation of overheads, (k) Reconciliation and (l) Role of the cost accountant

3. Explain the terms:

(a) Cost Unit, (b) Cost Centre, (c) Profit Centre

4. Explain the steps to be taken for the installation of a Costing System:

1. Determination of Objectives, 2. Study the nature of Business, 3. Study the nature of Organization,
4. Deciding the structure of cost accounts, 5. Determination of cost rates, 6. Organization of the cost office and 7. Introducing the system

5. What are the Limitations of Cost Accounting?

1. It is unnecessary, 2. Expensive, 3. Failure, 4. Too much of paper work and 5. Restricted applicability

6. Bring out the distinction between Management Accounting and Cost Accounting:

1. Objective, 2. Scope, 3. Data used, 4. Nature and 5. Information used

SECTION – C (10 MARKS)

1. Discuss the advantages of Cost Accounting:

1. Helps in decision making
2. Helps in fixing prices
3. Formulation of future plans
4. Avoidance of wastage
5. Highlights causes
6. Reward to efficiency
7. Prevention of fraud
8. Improvement in profitability
9. Preparation of final accounts
10. Facilitates control

2. Distinguish between Financial Accounting and Cost Accounting:

1. Objective, 2. Legal compulsion, 3. Recording of costs, 4. Data used, 5. Periodicity of reporting, 6. Scope, 7. Stock valuation, 8. Analysis of costs & profit, 9. Classification of expenses and 10. Control

3. Describe briefly the different methods of costing:

1. Job costing, 2. Batch costing, 3. Contract costing, 4. Process costing, 5. Unit/Output costing,

6. Service/Operating costing and 7. Multiple/Composite costing

4. What are the elements of Cost?

1. Materials - Direct & Indirect
2. Labour - Direct & Indirect
3. Expenses - Direct & Indirect

UNIT II (MATERIALS)

SECTION - A (2 MARKS)

1. **Meaning Materials:**

It refers to all commodities consumed in the process of manufacture. They are indispensable in every production process. It includes raw materials, spare parts and components, factory supplies, packing materials etc.

2. **Define Raw materials:**

It includes materials which are in their natural or raw form. For example, sugar cane for sugar industry.

3. **Explain Direct Materials:**

It can be easily identified with a particular cost unit and it becomes a part of the finished product. For example, Cotton used in Textile Industry.

4. **Discuss Indirect Materials:**

It cannot be easily identified with a particular cost unit but used in small quantities which are included in the finished goods. For example, thread used in the manufacturing of shoes.

5. **Meaning of Inventory Control:**

It means control over purchases, receipt, inspection, storage and consumption.

6. **Definition of Inventory Control:**

"A systematic control over purchasing, storage and consumption of materials, so as to maintain a regular and timely supply of materials and avoiding at the same time over stocking".

7. **Explain Perpetual Inventory System:**

It consists of maintaining records for each type of material, showing the quantities and value of material received, issued and in stock. It also covers continuous stock-taking.

8. **Definition Perpetual Inventory System:**

ICMA defines "a system of records maintained by the controlling department, which reflects the physical movements of stocks and their current balance".

9. Explain Bin Card:

Bin is a place, rack or cupboard where materials are kept. A card is attached to each bin to show the position of stock in the bin. It is known as bin card or stores card.

10. Discuss Maximum Level :

This is the level above which the stock should not be allowed to exceed at any time. It leads to unnecessary lock of funds, increase the storage and insurance costs and risk of obsolescence etc.

11. What is meant by Minimum Level?

This is the level below which the stock should not be allowed to fall at any time. If the stock goes below this level, there is a danger of stoppage of production for want of materials.

12. What is Re-Order Level?

This is the level at which a new order for material is to be placed by the store keeper. The level at which a purchase requisition is made out. It is fixed in between maximum level and minimum level to ensure that the stock on hand does not fall below the minimum level before the receipt of ordered material.

13. Explain Average Stock Level:

This level indicates minimum level and maximum level held by the firm.

14. Define Danger Level:

This is fixed below minimum level. Stock should not be allowed to fall, to this level except under emergency conditions. When the stock reaches this level, urgent action for purchase of material is taken.

15. Enumerate and Explain EOQ:

It is not a stock level. The quantity of material to be ordered at one time is known as Economic Order Quantity. The most economical size of order is that the costs of purchasing as well as the costs of holding will be at the minimum. If the purchases are made in large quantities, the cost of holding the stock will be higher but the cost of purchasing would be less.

SECTION - B (5 MARKS)

1. What are the essentials of a Good System of Material Control?

- (a) All items in the stores should be classified with codes.
- (b) Receiving and inspection procedure should be chalked out.
- (c) It should be proper co-operation and co-ordination among the departments dealing with materials.
- (d) It should be an efficient system.

2. Explain the term Waste, Scrap, Spoilage and Defectives.

Waste: Materials lost during handling, storage and production process are known as wastages. It may occur due to evaporation, loading and unloading, leakage, fire, theft, etc. It is a complete loss. It may be normal or abnormal. Normal waste is uncontrollable or unavoidable. Abnormal waste is controllable and avoidable.

Scrap: To discarded material having some value. It is sold without further treatment or used as raw material for another process. For ex: Saw dust, small pieces of cloth and short pieces from wood working operations.

Spoilage: When goods are damaged during the course of manufacturing process is known as spoilage. It cannot be rectifiable with some additional cost. Total loss consists not only of material but also of labour and overheads already incurred.

Defectives: These are that portion of production which may be rectified at an extra – expenditure.

3. Distinguish between Bin card and Stores Ledger:

Bin card	Stores Ledger
1.It is maintained by store keeper.	1.It is maintained by the cost accounting department.
2.It is a record of quantities only.	2.It is a record of quantities as well as values.
3.It is attached to the bin.	3.It is kept in the cost office.
4.Each transaction is individually posted.	4.Transactions may be summarized and posted periodically.
5.Entries are made at the time when the transaction takes place.	5.Entries are made only after the transaction has taken place.

4. Write short notes on :

a. Bin card, b. Stores-ledger, c. Bill of Materials

a. Bin Card: It is attached to each bin to show the position of stock in the bin.

b.Stores-ledger: It is kept in the costing department. It contains accounts for each class of material. It is usually maintained in the loose leaf form.

c.Bill of Materials: It gives a complete list of materials required for a particular job or work order.

SECTION – C (10 MARKS)

1. What do you understand by ABC analysis? What are its Advantages?

This analysis envisages varied degree of care and control for different categories of materials, according to their value. It is known as selective value approach. It is also referred to as Always Better Control system. It has three categories.,

Category A – High value materials

Category B – Medium value materials

Category C – Low value materials

Advantages:

- a. It ensures closer and strict.
- b. It is Scientific and selective control
- c. Investment in inventory can be regulated and funds can be utilized the best possible manner.
- d. Management time is saved.

(b) Describe the different levels of Stock:

- A. Maximum Level
- B. Minimum Level
- C. Re-order Level
- D. Average Stock Level
- E. Danger Level

2. Describe the different methods of Pricing of Materials Issues.

a. First In First Out Method(FIFO): Materials are issued in the order in which they are received in the store. It means that the material received first will be issued first.

b. Last In First Out(LIFO): It is opposite to FIFO. Here materials received last are issued first. Issues are made from the latest purchases.

c. Base Stock Method: Each business concern usually maintains a minimum quantity of material in stock. This minimum quantity is known as Base stock. It will be used only when an emergency arises. It is not an independent method. It operates in conjunction with either FIFO or LIFO.

d. Simple Average Method: It is determined by adding different prices of materials in stock and dividing the total by number of prices. Quantity purchased in each lot is ignored.

e. Weighted Average Method: This is an improvement over the simple average method. This method takes into account both quantity and price for arriving at the average price. It is obtained

by the dividing the total cost of material in the stock by total quantity of material in the stock.

f. Market Price Method: This method is also called replacement price method. Under this method, material issues are priced at the market price prevailing on the date of issue of material.

g. Standard Price Method: A standard or fixed price is used for pricing the issues. It is fixed after considering all factors affecting the price such as market conditions, quantity to be purchased and future trend of the prices.

h. Inflated Price Method: It is not an independent method of pricing the issues. It is used in conjunction with any one of the other methods. It includes carriage on material, cost of carrying inventory and normal wastages such as evaporation, shrinkage, loss in weight, etc.

i. Specific Cost Method: When materials are purchased for a particular job, its cost should be charged only to that particular job. It is suitable for industries which carry out individual jobs or contracts against specific orders.

3. Briefly explain the documents used in the process of Material Control:

1. Purchase Requisition
2. Purchase Order
3. Goods Received Note
4. Material Requisition Note
5. Bin Card
6. Stores Ledger
7. Material Return Note
8. Material Transfer Note

UNIT III (LABOUR)

SECTION - A (2 MARKS)

1. Meaning of Labour Cost:

It is the second major element of cost of production which represents human contribution to production. Proper accounting and control of labour is needed for reducing the labour cost and cost of production. It is divided into direct labour and indirect labour.

2. Explain Time Keeping:

It is the recording of each worker's time of coming in and going out of the factory for the purpose of attendance and wage calculations.

3. Discuss Time Booking:

A worker is not paid for his mere attendance in the factory. He is paid for the work he does or the time he works. The process of recording the time spent by a worker on different jobs is known as time booking.

4. What is meant by Job Card?

The card contains columns to be record the time spent by a worker on each job. It helps to ascertain the labour cost of each job. It also contains instructions for doing job.

5. What is Idle Time?

Idle time is during which no production is carried out because the workers remain idle even though they are paid. It is the difference between the time for which the workers are paid and the time they actually spend on activities of the concern.

6. Enumerate Overtime.

A worker is entitled to overtime wages when he works for more than 9 hours on any day or for more than 48 hours in a week and is given wages at double the basic hourly rate for the overtime. The additional amount paid on overtime is known as overtime premium.

7. Discuss Labour Turnover:

It is the rate of change in the labour force of a concern during a specified period of time. In every organization some workers leave and new ones are recruiting causing labour turnover. Workers may come and go. This is a normal feature of every business organization. The movement of shifting into and out of the organization by the employees is known as Labour turnover.

8. What do you understand by Time Wage System?

The worker is paid on hourly, daily, weekly or monthly basis. The payment is made according to the time worked irrespective of the quantity of the work done. $\text{Time Wages} = \text{Hours worked} \times \text{Rate per hour}$

9. Explain Piece rate system.

Payment is made for the quantity of work done rather than the time spent on the job.. It is also called payment by results method. $\text{Piece Wages} = \text{No.of units produced} \times \text{Rate per hour}$

10. Explain the term Fringe Benefit:

These are additional benefits enjoyed by the workers, which are not related to the quantity of work done by them. These benefits can be monetary as well as non-monetary. They are – Monetary – Dearness Allowance, Sick pay, Holiday pay, Pension, gratuity, Maternity Leave pay, etc. Non-Monetary – Free medical facilities, Free housing, Canteen facilities, Free education to the workers' children etc.

11. Discuss Separation Method:

This method, the actual workers left or discharged are taken into account as separation. Labour turnover is measured by dividing the total number of separations during a period by the average number of workers on the payroll during the same period.

12. Explain Replacement Method:

This method takes into consideration only the actual replacement of new workers. It is to be noted that new workers employed on expansion should not be included in the replacement. While calculating the number of replacements, new workers employed on account of expansion of business should not be taken.

13. Enumerate Flux Method:

This method is the combination of the above two methods, that is both separation and replacement are taken into account.

14. What is meant by Halsey Plan?

This plan was introduced by F.A.Taylor, an American Engineer. This plan, an hourly rate is guaranteed. A standard time is set for each job. The worker is paid for the hours worked at the agreed rate plus bonus depending upon the time saved. The bonus is 50% of the value of time saved.

15. Discuss Rowan Plan:

This plan was introduced in the year 1901, by David Rowan. Under this plan time rate is guaranteed. A standard time is fixed for each job. The worker is paid for the hours worked at the agreed hourly rate plus a bonus depending upon the time saved. This plan bonus is that proportion of time saved which the time taken bears to the standard time.

16. Explain Taylor's Differential Piece Rate System:

F.W.Taylor, the father of scientific management introduced this system. This system minimum time rate is not guaranteed. It provides two piece rates – a low piece rate for output below standard and a high piece rate for output above standard. Usual rates are 83% and 175% of the piece rate for inefficient and efficient workers respectively.

17. What is meant by Merrick Differential Piece Rate System?

This system differs from the Taylor's system only in one aspect. While the Taylor's system offers two piece rates, this plan offers three piece rates.

18. Enumerate Gantt's Task Bonus Plan:

This plan is also known as Progressive rate system. It combines time, piece rate and bonus. Time wages are guaranteed to workers, who fail to reach the standard. If a worker completes the work within the standard time, he gets his daily wages plus a stipulated bonus.

19. Discuss Emerson's Efficiency Plan:

This scheme guarantees time wages. A standard output is fixed representing 100% efficiency.

20. What do you mean by Motion Study?

It is also known as methods study. Motion study is to determine the best way of performing an operation, for the purpose of eliminating useless and inefficient movements of men and materials and to improve productivity. The science of eliminating wastefulness resulting from using unnecessary, ill directed and inefficient motions.

SECTION - B (5 MARKS)

1. Describe briefly Direct and Indirect Labour:

Direct labour is that labour which is directly engaged in the production of goods or services and conveniently allocated to the job or commodity. It can be identified with and allocated to a particular product, process or job. It is a part of the prime cost. Eg. Wages of spinners and weavers in a textile factory.

Indirect Labour is that labour which is not directly engaged in production of goods or services. It indirectly helps the direct labour engaged in production. The wages paid for indirect labour is known as indirect wages. These wages are those which cannot be identified with and allocated but can be apportioned to a particular product, process or job. Eg. Wages of foreman, Supervisors, sweepers etc.

2. Discuss the different methods of Time Keeping:

1. Manual Methods –

a. Attendance Register or Muster Roll

b. Token or Discs Method

2. Mechanical Methods –

a. Card Time Recorder

b. Dial Time Recorder

3. What are the essential features of a Good Wage System?

(a) It should encourage productivity and flexibility.

(b) Minimize Absenteeism.

(c) Reduce labour turnover.

(d) It ensures equal pay for equal work.

(e) It should enable efficient workers to earn more.

4. Explain briefly the different methods of measurement of Labour Turnover.

a. Separation Method

- b. Replacement Method and
- c. Flux Method

5. Distinguish between Time Keeping and Time Booking:

Time Keeping	Time Booking
1.It is done by a time keeper. 2.Used for wage/overtime payments. 3.Include time booked and lost or idle time.	1.It is maintained by the Supervisor. 2.Calculating Direct Labour Cost. 3.Does not include time booked or idle time.

SECTION - C (10 MARKS)

1. Discuss the different methods of Time Booking:

- 1. Daily Time Sheet
- 2. Weekly Time Sheet
- 3. Job Card
 - a. Job card for each worker
 - b. Job card for each job
 - c. Combined time and job card
 - d. Piece work card

2. What do you mean by Incentive Scheme of Wage Payment?

It may be defines as a benefit either monetary or otherwise offered to stimulate effort. It may be either monetary or non-monetary. The object is to induce the worker to produce more and to earn more.

Incentive Schemes:

- a. Halsey Plan
- b. Rowan Plan
- c. Taylor’s Differential Piece Rate System
- d. Merrick Differential Piece Rate System
- e. Gantt’s Task Bonus Plan
- f. Emerson’s Efficiency Plan

3. Briefly Distinguish between Time and Piece Rate System:

Time Rate System	Piece Rate System

1.Minimum wages are guaranteed 2.It pertains hours of work 3.Cost reduction is not possible 4.Individual efficiency is not measured 5.Idle time is paid for 6.Inefficiency is not penalized 7.Suitable to learners and beginners 8.Quality of work is more important than the quantity of work	1.Minimum wages are not guaranteed 2.It pertains output 3.Cost reduction is possible 4.Individual efficiency is measured 5.Idle time is not paid for Does not include 6.6. Inefficiency is penalised 7. Not Suitable to learners and beginners 8. Quantity of work is more important than the quality of work
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4. What is Labour turnover? What are its causes?

Causes: 1. Avoidable Causes – a. Low wages, b. Job dissatisfaction, c. Poor working conditions, d. Unsuitable working hours, e. Lack of job security, f. Lack of proper training facilities, g. Lack of promotion, h. Unfair method of promotion.

2. Unavoidable Causes – a. Death, retirement, disablement, b. Domestic troubles, c. Marriage and child birth in women employees, d. Transport and housing difficulties, e. Workers finding better jobs at some other places, f. Revolving nature of some workers.

UNIT IV (OVERHEADS)

SECTION - A (2 MARKS)

1. Meaning of Overheads:

It refers to those expenses which cannot be identified with particular products, process or jobs.

2. Definition of Overheads:

“ The aggregate of Indirect material cost, indirect wages and indirect expenses.”. The term indirect means that which cannot be allocated, but which can be apportioned to or absorbed by cost units or cost centres.

3. What is meant by Cost Classification?

It is the process of grouping of costs according to their common characteristics. Classification of overhead is important in order to identify costs with cost units or cost centres.

4. Explain Cost Allocation:

As the allotment of whole amount of cost to cost centres or cost units. It is the process of charging the full amount of overhead without division, to a particular department or cost centre.

5. What do you understand by Cost Apportionment?

As the allotment of the proportions of cost to cost centres or cost units. It is the process of distribution of overheads to various departments or cost centres.

6. Discuss Cost Absorption:

It means allotment of overheads to jobs. Distribution of overhead expenses of a particular department. Over the units produced in the department is called cost absorption.

7. Meaning of Machine Hour Rate:

It is the cost of running a machine per hour. It is one of the methods of absorbing factory overhead to production. It is used in Industries or department where machinery is pre-dominant and there is little or no manual labour.

8. What is meant by Unit Costing? In which industries this method is applied?

It is also known as single or output costing. It means the ascertainment of cost per unit of output and the cost of each item of such output. By preparing a cost sheet, the cost per unit is arrived at by dividing the total cost by the number of units produced. Industries are collieries, breweries, brick works, paper mills, cement factories etc.

9. Enumerate Cost Sheet:

It is a Statement. It provides information regarding the various elements of cost incurred in production. It discloses the total cost and the cost per unit of products manufactured during the given period.

10. Explain Under Absorption:

If overheads absorbed in cost accounts is less than the actual amount, (recorded in financial accounts) it is known as under – absorption.

11. Discuss Over Absorption:

If overheads absorbed in cost accounts is higher than the actual amount, (recorded in financial accounts) it is known as over – absorption.

12. Enumerate Notional Rent:

When the premises are owned, no rent is payable. However, the rental value called notional rent may be included in cost accounts for cost ascertainment.

13. What do you understand by Memorandum Reconciliation Account?

Reconciliation of cost and financial accounts can be done by preparing a Memorandum Reconciliation Account. The amount of profit as per cost records is credited to the memorandum account. The items to be added are credited to this account and the items to be deducted are debited. The balancing figure represents profit / loss as per financial accounts.

SECTION - B (5 MARKS)

1. Explain the following terms:

- a. Cost Classification, b. Cost allocation, c. Cost apportionment, d. Cost absorption

2. Distinguish between Allocation and Apportionment:

1. Allocation is much wider term than apportionment.

2. Allocation means the allotment of whole amount of cost to cost centres or cost units.

Apportionment means the allotment of proportions of cost to cost centre or cost units.

3. Expenses which can be directly identified with a particular department or cost centre is called allocation. An expense which cannot be directly identified with a particular department or cost centres is called apportionment.

3. State the possible reasons for differences between profit shown by both the accounts:

I. Items to be included in financial accounts only –

a. Purely financial incomes

b. Purely financial charges

c. Appropriation of charges

II. Items to be included in Cost accounts only –

a. Notional Rent

b. Notional Interest

III. Under or Over –Absorption of Overheads –

IV. Different methods of depreciation –

V. Different bases of stock valuation –

SECTION - C (10 MARKS)

1. Briefly explain the classification of Overheads:

I. Classification according to Nature –

a. Indirect Materials

b. Indirect Labour

c. Indirect Expenses

II. Classification according to Function –

- a. Factory Overheads
- b. Administrative Overheads
- c. Selling Overheads
- d. Distribution Overheads

III. Classification according to Variability –

- a. Fixed Overheads
- b. Variable Overheads
- c. Semi-Variable Overheads

IV. Classification according to Normality –

- a. Normal Overheads
- b. Abnormal Overheads

V. Classification according to Controllability –

- a. Controllable Overheads
- b. Uncontrollable Overheads

2. Discuss different methods of overheads Absorption. Briefly explain their merits and demerits.

- a. Direct Material Cost Percentage
- b. Percentage of Direct Labour Cost
- c. Percentage on Prime Cost Method
- d. Direct Labour Hour Method
- e. Machine Hour Rate Method
- f. Stores Ledger
- g. Material Return Note
- h. Material Transfer Note

UNIT V (METHODS OF COSTING)

SECTION – A (2 MARKS)

1. Meaning of Job Costing:

It is a method of ascertaining costs of an individual job or work under separately. Each job is treated as a cost unit for which costs are accumulated. It shows the costs and profit of each job separately. This method adopted in printing presses, engineering firms, repair shops, automobile garages etc.

2. What is meant by Batch Costing?

It is a form of specific order costing. It is used in industries where similar goods are manufactured in definite batches. Ex. Ready made garment factory. It will be difficult to maintain cost records for each shirt manufactured. Hence costing is done for each batch of shirts.

3. Distinction between Job and Batch Costing:

1. Job costing each job is a cost unit. Each Batch is the cost unit(Consist a number of article).

2. Job cost is used where production is undertaken against specific orders. Batch costing is used where goods are manufactured and held in stock for sale or for the assembly of a finished product.

4. What is meant by E.B.Q?

Economic Batch Quantity(EBQ) refers to the optimum quantity that should be manufactured in a batch. It is the ideal quantity of production that will minimize cost of production.

5. Explain Contract Costing:

It is a form of specific order costing. If the applicable where the work is undertaken according to the specifications of the customer and each work is of a long duration. This method is adopted in construction of plants, buildings, dams, roads, theatres, ships etc.

6. Discuss Notional Profit:

It shows the contract account. Which is the excess of the value of work-in-progress over the cost of work done.

7. Enumerate Uncertified Work:

Work completed but not yet approved by the contractee's engineer or architect is known as uncertified work. It is valued at cost.

8. What is meant by Work Certified?

Large contracts take a long time for completion and require huge investments. To enable the contractor continue the work with periodic payments are made by the contractee. Such payments are made only after inspection of their work by the architect / engineer. The value of work approved by the contractee's engineer / architect is known as work certified.

9. Discuss Cost Plus Contract:

This contract in which contractee agrees to pay for the cost of work done plus a percentage of it towards profit. It is usually entered for construction of dams, power house, ship etc.

10. Explain Retention Money:

The entire value of work certified at the end of a period is not paid to thr contractor. The contractee retains a specified percentage, say 10 percent and pay's the balance. The amount retained by the contractee is known as rention money.

11. Enumerate Escalation Clause:

It is a clause in the contract agreement. The contractee agrees to pay the contractor any increase in cost of the contract due to rise in price of material and labour.

12. What do you understand by Process Costing?

It is a method of costing used to find out the cost of a product at each stage or process of production. It is desirable to find out the cost of the product at the end of the each stage or process. This purpose is served by process costing. It is employed in chemical works, soap making, oil refining, textiles, paper, food products, iron and steel, cement etc.

13. Discuss Inter – process Profit:

The output of one process is transferred to the next process at cost. Output is transferred at a price which includes cost and a certain percentage of profit. As a result, each process makes a profit which is known as inter process profit.

14. What is meant by Operating Costing?

It is also called service costing. It is a method of costing applied to ascertain the cost of providing a service. It is mainly used in transport services, distribution services like water, gas and power supply, utility services like hotels, hospitals, etc.

SECTION – B (5 MARKS)

1. Write notes on:

- (a) Cost Plus Contract
- (b) Escalation Clause
- (c) Retention Money

2. Explain the different methods of calculating profit on an Incomplete Contract:

- I. For contracts which have just started.
- II. For contracts which have sufficiently advanced and covered by architect's certificate.
- III. Contracts which have almost complete.

3. What are the difference between Job costing and Process Costing?

- 1. Production, 2. Costs, 3. Completion of job, 4. Work-in-progress, 5. Transfer the cost, 6. Control and

7. Paper work.

4. Explain the terms:

- a. Normal Loss, b. Abnormal Loss, c. Abnormal gain

5. What are the types of Cost Unit?

- 1. Simple Cost Unit, 2. Composite Cost Unit

SECTION – C (10 MARKS)

1. Distinguish between Job Costing and Contract Costing:

a. Cost Unit , b. Duration, c. Suitability, d. Size, e. Number, f. Execution of Work, g. Payment of price and h. Calculation of profit.

2. Briefly explain the procedure for recording costs under Contract Costing:

1. Materials

2. Direct Wages

3. Direct Expenses

4. Indirect Expenses

5. Plant and Machinery

6. Work – in – progress – Work Certified, Uncertified work and Notional Profit.

3. Briefly explain the terms:

1. Standing charges

2. Operating charges

3. Maintenance charges

Dr.M.YASMIN