

Idhaya College for Women Kumbakonam



PG & Research Department of Commerce

II BCom

Cost Accounting - 16CCCCM7

Unit – I – V

(2 Marks Q & A)

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UNIT – I

1. Meaning of cost accounting :

Cost Accounting is a business practice in which we record, examine, summarize, and study the company's cost spent on any process, service, product or anything else in the organization. This helps the organization in cost controlling and making strategic planning and decision on improving cost efficiency. Such financial statements and ledgers give the management visibility on their cost information. Management gets the idea where they have to control the cost and where they have to increase more, which helps in creating a vision and future plan.

2. Definitions of cost accounting :

I.C.M.A has defined cost accounting as follows:

The process of accounting for cost from the point at which expenditure is incurred or committed to the establishment of its ultimate relationship with cost centre and cost units.

3. Meaning of cost sheet :

Cost sheet is simple ascertainment of total cost cost cannot satisfy the various requirement of decision making.

4. Elements of cost:

Material cost

Labour cost

Direct material and indirect material

Direct labour and indirect labour

Prime cost

Overheads

Production overhead

Administration over heads

Selling distribution overheads.

5. Difference between direct cost and indirect cost :

BASIS FOR COMPARISON	DIRECT COST	INDIRECT COST
Meaning	A cost that is easily attributable to a cost object is known as Direct Cost.	Indirect Cost is defined as the cost that cannot be allocated to a particular cost object.
Benefits	Specific projects	Multiple projects
Aggregate	When all the direct costs are taken together they are known as prime costs.	Total of all the indirect costs is called as overheads or on cost.
Traceable	Yes	No
Classification	Direct material, direct labor, direct expenses	Indirect material, indirect labor, indirect overheads

6. Importance , advantages , objectives or purpose of cost sheet :

It provide details of total price of the output.

It provides details cost per unit in different stages.

It provides comparison and control of cost .

Cost sheet is helpful in estimate of cost for preparation of tenders and quotation.

It acts as basis for fixation of selling price.

7. Meaning of tender and quotations:

The manufacturers of consumer durables and capital goods are asked to quote the price at which they can supply their output. The price at which the items of output are offered for sale is known as **tender or quotation**.

- **In order to prepare the tender the following items are to be analyzed.**
- Raw material
- Direct labour
- Chargeable expenses
- Works overhead
- Office overhead
- Selling overhead.

8. From the following particulars manufacturing concern prepare cost sheet:

	Rs.
Opening stock of raw materials	20,000
Closing stock of raw materials	30,000
Purchase of raw materials	1,05,000
Import duty paid on raw material purchased	15,000
Carriage Inward	5,000
Primary packing materials	3,000
Productive wages	95,000
Opening stock of work-in-progress at prime cost	17,000
Closing stock of work-in-progress at prime cost	10,000
Hire charge paid on plant	14,000
Other chargeable expenses	6,000

Solution

Statement showing the Prime Cost

	Rs.	Rs.
Opening Stock of raw materials		20,000
<i>Add :</i> Purchase of raw materials	1,05,000	
<i>Add :</i> Import duty	15,000	
Carriage Inward	5,000	
Primary packing materials	3,000	1,28,000
<i>Less :</i> Closing Stock of raw materials		1,48,000
Raw materials consumed		30,000
<i>Add :</i> Direct wages		1,18,000
<i>Add :</i> Direct Expenses		95,000
Hire charges on plant	14,000	
Other chargeable expenses	6,000	20,000
<i>Add :</i> Opening Stock of W.O.P. at prime cost		2,33,000
<i>Less :</i> Closing Stock of W.I.P. at prime cost		17,000
PRIME COST		2,50,000
		10,000
		2,40,000

9. Estimations of profit for a tender or quotations:

Profit = cost of sales × percentage of profit /100.

10. Percentage of selling price :

For example if profit is 20% on sale.

Sale is = 100 profit = 20 = cost = 100 -20 = 80.

Profit to cost $20/80 = \frac{1}{4}$ or 25%.

UNIT - II

1. Meaning of material :

The material control is a system which ensure requires quantity of material of the required quality at the right time and place with minimum investment of capital.

2. Definition of material :

“The regulations of the functions of an organization relating to the procurement, storage and usage of material in such a way as to maintain an even flow of production without excessive investment in material stock”

3. Objective of material control :

- Ensuring supply of adequate quantity of material.
- Optimum investment in material control.
- Favorable terms of purchase.
- Control of wastage.
- Proper reporting to the management.
- Proper of material control.

4. Advantages of material control:

- Ensures available of material for production.
- Reduces wastages of raw material.
- Achieves economy of buying and storage cost.
- Avoid excessive investment in stock.

- Helps in maintaining perpetual inventory system to furnish information to management regarding material.

5. Introduction of purchase control ;

The purchase of raw material is vital for every organization. It is of extreme importance to a manufacturing company since it has effect on all the factors concerning the manufacture ie, quantity, quality, cost, efficiency, economy etc.,

6. Advantages of centralized purchasing :

Favorable purchase terms.

Specialization.

Avoidance of duplication and reduction of administration cost as different department.

Maintenance of record.

Better service to various department.

7. Qualifications of purchase managers ;

- ✓ Knowledge of organization industry and product of the organization.
- ✓ Knowledge of the process of production.
- ✓ Knowledge of various types of material used and required by the organization.
- ✓ Knowledge of sources of supply.
- ✓ Knowledge of financial position and policies.
- ✓ Knowledge of economic conditions laws of demand and supply.

8. Types of coding:

- ✓ Alphabetical method.
- ✓ Mnemonic method.
- ✓ Numerical method.
- ✓ Alphabetical and numerical method.
- ✓ Standardization and simplification method.

9. Meaning of bin card :

Each bin card in which material are kept is attached with bin card. It consist or receipt issue an balance of quantity in the bin.

10. Meaning of stores ledger cards:

The store ledger card is maintain in the costing department. It has similar details as contained in the bin card regarding receipts, issues and balance of material quantity.

UNIT –III

1. Meaning of labour turnover :

Labor turnover, also known as staffing turnover, refers to the ratio of a number of employees who leave a company through attrition, dismissal or resignation to the total number of employees on the payroll in that period.

2. Definition of labour turnover :

Labor turnover, also known as staffing turnover, refers to the ratio of a number of employees who leave a company through attrition, dismissal or resignation to the total number of employees on the payroll in that period. It's used for measuring employee retention.

3. Types of turnover :

1. Voluntary: when an employee leaves the organization on his/her own.
2. Involuntary: when the employees get terminated from his/her services.
 3. Functional: when low performing employees are dent from the company in order to enhance the overall performance.
 4. Dysfunctional: when skillful, good performing employees leave the company leaving the company in a bad shape.

4. Taylors differential piece rate system (Formula and calculation).

Differential Piece Rate System was introduced by Taylor, the father of scientific management. The underlying principle of this system is to penalize a slow worker by paying him a low piece rate for low production and to reward an efficient worker by giving him a higher piece rate for a higher production. Taylor was of the view that an inefficient worker should have no place in the organization and he should be compelled to leave the organization by paying him a low piece rate for low production.

- Taylor proceeded on the assumption that through time and motion study it is possible to fix a standard time for doing a particular task.
- To encourage the workers to complete the work within the standard time, Taylor advocated two piece rates, so that if a worker performs the work within or less than the standard time, he is paid a higher piece rate, and if he does not complete the work within the standard time, he is given a lower piece rate.

Calculate the earnings of workers A and B under Straight Piece-rate System and Taylor's Differential Piece-rate System from the following particulars:

Normal rate per hour = Rs 1.80

Standard time per unit = 20 seconds

Differentials to be applied:

80% of piece rate below standard

120% of piece rate at or above standard.

Worker A produces 1,300 units per day and worker B produces 1,500 units per day.

SOLUTION

Standard production per 20 seconds = 1 unit
Standard production per minute = $\frac{60}{20} = 3$ units
Standard production per hour = $3 \times 60 = 180$ units.
Standard production per day of 8 hours (assumed) = $180 \times 8 = 1,440$ units
Normal rate per hour = ₹ 1.80
 \therefore Normal piece rate = $\frac{\text{₹ } 1.80}{180 \text{ units}} = 1$ paise
Low piece rate below standard production = $\frac{1 \text{ P.} \times 80}{100} = 0.8$ paise
High piece rate at or above standard = $\frac{1 \text{ P.} \times 120}{100} = 1.2$ paise

Earnings of Worker A :

Under Straight Piece-rate System

$$1,300 \text{ units @ } 1 \text{ P.} = \frac{1,300 \times 1}{100} = \text{₹ } 13$$

Under Taylor's Differential Piece-rate System

$$1,300 \text{ units @ } 0.8 \text{ P.} = \frac{1,300 \times 8}{10} \times \frac{1}{100} = \text{₹ } 10.40$$

Low piece-rate has been applied because worker A's daily production of 1,300 units is less than the standard daily production of 1,440 units.

Earnings of Worker B :

Under Straight Piece-rate System

$$1,500 \text{ units @ } 1 \text{ P.} = \frac{1,500 \times 1}{100} = \text{₹ } 15$$

Under Taylor's Differential Piece-rate System

$$1,500 \text{ units @ } 1.2 \text{ P.} = \frac{1,500 \times 12}{10} \times \frac{1}{100} = \text{₹ } 18$$

High piece-rate has been applied because worker B's daily production of 1,500 units is more than the standard daily production of 1,440 units.

5. Meaning of time keeping :

The department is concerned with maintenance of attendance time and job time of workers. Attendance time is recorded for wage calculation and job time or time booking is considered for computing time spent for each department.

6. Objectives of time keeping :

Ensures regularity of employees.

Satisfy safety requirements.

Useful for preparation of payroll.

Keeps track of normal time late attendance and early leaving of worker.

UNIT - IV

1. Meaning of over head :

Overhead refers to the ongoing **business expenses** not directly attributed to creating a product or service. It is important for budgeting purposes but also for determining how much a company must

charge for its products or services to make a profit. In short, overhead is any expense incurred to support the business while not being directly related to a specific product or service.

2. Types of overhead :

Overhead costs can be broken down into three types:

Fixed overhead.

Variable overhead.

Semi-variable overhead.

3. Meaning of semi and variable overhead:

It is important to monitor overhead costs. Because they aren't directly related to revenues, they can drain a business unnecessarily when not properly controlled. The classic small business example of unnecessary overhead is the start-up entrepreneur who rents office space in a trendy location for an operation that could be home-based until growth requires more room for staff and equipment. The money spent on rent might be better invested in advertising or promotion for the new, unknown business.

4. The following of figure cost centre :

	Rs.
Total Overhead for the period	24,000
Total Direct Labour hours	3,200
Total Direct Wages	6,400
Total Direct Materials used	12,000
Total Machine hours	4,800
Total Units produced	180

$$\begin{aligned} \text{Direct Labour hour OAR} &= \text{Rs. } \frac{24,000}{3,200} = \text{Rs. } 7.5 \\ \text{Direct Wages OAR} &= \text{Rs. } \frac{24,000}{6,400} \times 100 = 375\% \text{ of wages} \\ \text{Direct Materials Overhead} & \\ \text{Absorption rate} &= \text{Rs. } \frac{24,000}{12,000} \times 100 = 200\% \text{ of materials} \\ \text{Prime Cost OAR} &= \text{Rs. } \frac{24,000}{18,400} \times 100 = 130\% \text{ of Prime Cost} \\ \text{Machine Hour OAR} &= \text{Rs. } \frac{24,000}{4,800} = \text{Rs. } 5.00 \text{ per machine hour} \\ \text{Cost Unit OAR} &= \text{Rs. } \frac{24,000}{180 \text{ units}} = \text{Rs. } 133.33 \text{ overhead per unit produced.} \end{aligned}$$

5. Meaning of normal idle time:

This is inherent in all kinds of employment and cannot be avoided. The cost of this time is borne by the respective jobs or products of departments.

6. Meaning of abnormal time :

The abnormal idle time is avoidable idle time which occurs due to condition which can be prevented.

7. Calculate the normal and overtime wages payable to a workman from the following data:

Days	Hours worked		Rate
Monday	8 hours	Normal working hours	8 hours per day
Tuesday	10 "		
Wednesday	11 "	Normal Rate	Rs. 5.00 per hour
Thursday	12 "	Overtime Rate	Up to 9 hours in a day
Friday	8 "		at single rate and
Saturday	4 "		beyond 9 hours in a
	53 hours		day at double rate.

Solution

Day	Normal working hours	Total	Overtime		
			At Normal rate	Single rate	Double rate
Monday	8	8	8	-	-
Tuesday	8	10	8	1	1
Wednesday	8	11	8	1	2
Thursday	8	12	8	1	3
Friday	8	8	8	-	-
Saturday	8	4	4	-	-
	48	53	44	3	6

UNIT – V

1. Meaning of job costing :

Job costing, generally, means a specific accounting methodology used to track the expense of creating a unique product. Due to the fact that certain projects, such as construction, require different operations, accountants use this methodology to trace the expenses of each job in order to use this information for analysis and tax needs. Job costing forms have spaces to include direct labor, direct materials, and overhead.

2. Definition of job costing :

Job costing is defined as a method of recording the costs of a manufacturing job, rather than process. With job costing systems, a project manager or accountant can keep track of the cost of each job, maintaining data which is often more relevant to the operations of the business.

3. Meaning of reconciliation :

Cost account and financial account are usually prepared for the same period and for basically same transaction. One may expect them to reveal the same profit.

4. Importance of reconciliation statement.

- ✓ Numerical accuracy.
- ✓ Comparability
- ✓ Coordination and cooperation
- ✓ Standardization.
- ✓ Integration.

5. Statement showing cost and profit formula:

Production = sales +closing stock- opening stock.

6. Procedure for reconciliation:

- ✓ Listing of difference;
- ✓ The difference figures are not under comparable headings, they must be rearranged as far as practicable.
- ✓ Selecting base profit.
- ✓ The difference listed should be added to or subtracted from the base loss. The difference listed should be added to or subtracted from the base profit and losses.

7. What are the presentation of reconciliation:

- ✓ Reconciliation statement
- ✓ Memorandum reconciliation statement.

8. Meaning of closing cost :

The closing stock means percentage of sales, the stock should be valued on the basis.

9. Meaning of internal dividend :

They can be either incomes or expenses. If differences alone are given in a problem and debit or credit nature of these items is not specified.

10. Meaning of prime cost :

Unless otherwise mentioned direct material, direct wages and direct expenses may be taken as common for both cost and financial accounts.
