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COST ACCOUNTING

B.C.O.C.-138

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(Publishers of Educational Books)

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BLOCK-4: METHODS OF COSTING

Sample Preview of the Solved Sample Question Papers

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QUESTION PAPER

June – 2023

(Solved)

COST ACCOUNTING

B.C.O.C.-138

Time: 3 Hours] *[Maximum Marks : 100*

Note: *Attempt Section A and Section B. Section A carries* ***40*** *marks and Section B carries* ***60*** *marks.*

Section-A

Q. 1. What are the points that a Cost Accountant should keep in mind before installing a costing system in a manufacturing concern? Explain.

Ans. Ref.: See Chapter-1, Page No. 5, Q. No. 9.

Q. 2. Discuss any five methods of costing and state the industries to which they can be applied.

Ans. Ref.: See Chapter-2, Page No. 11, 'Methods of Costing'.

Q. 3. Write short notes on any four of the following:

(a) **Decentralised purchasing**

Ans. Ref.: See Chapter-3, Page No. 22, 'Decentralised Purchasing'.

(b) **Halsey Premium Plan**

Ans. Ref.: See Chapter-7, Page No. 67, 'Halsey Premium Plan'

(c) **Apportionment of overheads**

Ans. Ref.: See Chapter-8, Page No. 78, 'Apportionment'.

(d) **By products**

Ans. Ref.: See Chapter-15, Page No. 136, Q No. 4 *(b)*.

(e) **Service costing**

Ans. Ref.: See Chapter-18, Page No. 157, Q. No. 1.

(f) **Purchase requisition**

Ans. Ref.: See Chapter-3, Page No. 23, 'Purchase Requisition'.

Section-B

Q. 4. From the following transactions, prepare a Stores Ledger Account using FIFO method of material issued.

Year 2022:

1 Feb.	Opening stock	500 units @ Rs. 20 each
4 Feb.	Purchased	400 units @ Rs. 21 each
6 Feb.	Issued	600 units
8 Feb.	Issued	800 units @ Rs. 24 each
9 Feb.	Issued	500 units
13 Feb.	Issued	300 units
24 Feb.	Purchased	500 units @ Rs. 25 each
26 Feb.	Received back from production department	50 units
28 Feb.	Issued	400 units

Ans. **Stores Ledger Account**

Date	Particulars	Receipts	Issues	Balance
1.2.2022	Opening stock	10,000		10,000
4.2.2022	Issued		8,000	2,000
8.2.2022	Purchased			21,600
9.2.2022	Issued		12,000	9,600
13.2.2022	Issued		7,200	2,400
24.2.2022	Purchased	12,500		15,000
26.2.2022	Received back		1,250	16,250
28.2.2022	Issued		10,000	6,250

Explanation:

Opening Stock (1Feb'22): 500 units at Rs. 20 each.

Balance: 500 units at Rs. 20 each.

Issue (4Feb'22): 400 units issued at Rs. 21 each

Balance: 100 units at Rs. 20 each.

Purchase (8Feb'22): 800 units purchased at Rs. 24 each.

Balance: 900 units (100 units from opening stock + 800 units purchased) at Rs. 24 each.

Issue (9Feb'22): 500 units issued at Rs. 24 each

Balance: 400 units at Rs. 24 each.

Issue (13Feb'22): 300 units issued at Rs. 24 each

Balance: 100 units at Rs. 24 each.

Purchase (24Feb'22): 500 units purchased at Rs. 25 each.

Balance: 600 units (100 units from the opening stock + 500 units purchased) at Rs. 25 each.

Received Back (26Feb'22): 50 units received back from the production department.

Balance: 650 units at Rs. 25 each.

Issue (28 Feb'22): 400 units issued at Rs. 25 each

Balance: 250 units at Rs. 25 each.

Q. 5. The following are the particulars relating to a contract which has begun on 1/1/2021:

Particulars	Amount
Contract Price	5,00,000
Machinery	30,000
Materials	1,70,600
Wages	1,48,750
Direct expenses	6,330

Particulars	Amount
Outstanding wages	5,380
Uncertified work	9,000
Overheads	8,240
Material returned	1,600
Material on hand (31/12/2021)	3,700
Machinery on hand (31/12/2021)	22,000
Value of work certified	3,90,000
Cash received	3,51,000

Prepare the Contract Account for the year ending 2021 showing the amount of profit to be Credited to Profit and Loss Account. Also show the amount of work-in-progress as it would appear in the Balance sheet.

Ans. **Contract Account for the year ending 2021**

Particulars	Amount	Particulars	Amount
To Machinery	30,000	By cash received	3,51,000
To Materials	1,70,600	By work certified	3,90,000
To Wages	1,48,750		
To direct expenses	6,330		
To O/S wages	5,380		
To uncertified work	9,000		
To overheads	8,240		
To material returned	1,600		
To net profit	3,61,100		
	7,41,000		**7,41,000**

Calculation of work-in-progress as on	31//12/2021
Uncertified work	\$9000
Material on hand	\$3700
Machinery on hand	\$22000
Total WIP	\$34700

Q. 6. Calculate the Machine Hour Rate from the details given below:

	Rs.
Purchase price of machine	4,00,000
Installation expenses	1,00,000
Rent per quarter	15,000
Foreman salary p.a.	30,000
General lighting for the total area p.m.	1,000
Insurance for the machine p.a.	3,000
Repairs for the machine p.a.	5,000
Estimated consumables p.a.	4,000

Power: 2 units per hour at Rs. 50 per 100 units. Estimated life of the machine is 10 years and the estimated value at the end of the 10 years is Rs. 1,00,000. It is expected to run 20,000 hours in its life time. The machine occupies ¼ of the total area. The foreman devotes 1/6 of his time on this machine.

Ans. Calculation of total annual cost

Total annual cost = Rs. 4,00,000 + Rs. 1,00,000 + Rs. 60,000 + Rs. 30,000 + Rs. 12,000 + Rs. 3,000 + Rs. 5,000 + Rs. 4,000 + Rs. 20,000

Total annual cost = Rs. 6,34,000

Calculation of Machine Hour Rate

$$\text{Machine Hour Rate} = \text{Rs. } \frac{6,34,000}{20,000}$$

MHR = Rs. 31.70 per hour

Q. 7. A product is obtained after it passes through two distinct processes. From the following information, prepare Process I and Process II Accounts and Abnormal Loss Account:

Process I: Input

Material A	60,00 Kgs	@ 50 paisa per kg
Material B	4,000 Kgs	@ Rs. 1 per Kg
Mixing labour	430 hours	@ Rs. 2 per hour

Normal loss 5% of weight input, disposed off at 16 paise per kg.

Output 9200 Kg

Process II: Input

Material C	6,600 Kg	@ Rs. 1.25 per kg
Material D	4,200 Kg	@ 0.75 per Kg
Mixing labour	370 hours	@ Rs. 2 per hour
Flavouring		
Essence	Rs. 300	

Normal waste 5% of weight input with no disposal value.

Output 19,000 kg

Overheads of Rs. 3,200 incurred by the two processes to be absorbed on the basis of mixing labour hours

Sample Preview
of
The Chapter

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COST ACCOUNTING

Nature and Scope of Cost Accounting

1

INTRODUCTION

Cost Accounting is a specialized branch of accounting that classifies, records, and allocates expenditure for determining product and service costs, profitability, and managing costs. It includes preparing periodical statements and reports for controlling costs and managerial decision-making. Cost accounting provides essential information for effective management decision-making, cost control, and overall business performance. It supports strategic planning, helps businesses stay competitive, and contributes to the achievement of financial goals.

CHAPTER AT A GLANCE

NEED FOR COSTING

Economic activities involve expenditure in materials, labour, and other expenses, with the main goal of earning profit. To accurately manage these costs, it is crucial to identify cost, profit, and price. For example, a shoe factory incurs Rs. 20 for material, Rs. 30 for labour, and Rs. 25 for overheads on every pair of shoes. The selling price is Rs. 100 per pair, and the profit per pair is Rs. 25. This information is crucial for planning, cost control, and decision-making.

Limitations of Financial Accounting

The financial account system lacks detailed operating information for each department, process, or product within the organization, classifying expenses into direct, indirect, fixed, or variable. It also lacks a proper control system over cost elements like materials and labour, leading to wastage and uncontrolled labour usage. It also lacks standards for comparing cost items, and contains historical cost information, making it difficult to compile cost data at frequent intervals. Additionally, product-wise cost and profit information is not available, making it ineffective for analyzing profit or loss.

Costing and the Economy

Costing is crucial in the modern economy due to global competition, limited resources, complex management, fast decisions, special responsibility, and optimal profit. It helps in pricing, checking wastage, controlling resources, managing processes, data flow, and fulfilling social obligations. With increasing confidence in costing, many industrial establishments apply it to manage their economic assignments, ensuring efficient performance in financial, personnel, production, and marketing activities. This system provides an opportunity for profit growth and helps businesses meet the challenges of global competition, limited resources, and complex management.

DEFINITIONS OF COSTING AND COST ACCOUNTING

Cost accounting is the process of accounting for costs, starting with recording incomes and expenditures and ending with the preparation of periodical statements and reports. It is a more comprehensive term than costing, which involves classifying, recording, and allocating expenditure for determining costs and presenting data for management control. The Institute of Cost and Management Accounts of the UK initially distinguished between cost accounting and cost accountancy, and now most authors use 'Cost Accounting' instead. Cost accounting includes incomes and expenditures related to production, provide statistical data for future estimates, serves as a basis for cost control, and involves functions such as analysis, recording, budgeting, comparison, and reporting. Cost accounting provides essential information for effective management decision-making, cost control, and overall business performance. It supports strategic planning, helps businesses stay competitive, and contributes to the achievement of financial goals.

OBJECTS OF COST ACCOUNTING

Cost accounting aims to determine product and service costs, fix selling prices, analyze cost elements, identify wastage causes, control costs, communicate cost information to management, assess efficiency of departments, and produce cost statements for interim reviews or future activities. It is an essential branch of accounting for cost efficiency and promoting economic production costs.

DIFFERENCE BETWEEN COST ACCOUNTING AND FINANCIAL ACCOUNTING

Cost and Financial Accounting are two distinct branches of accounting that serve different purposes and provide different types of information for an organization. Cost Accounting focuses on determining the cost of producing goods or services within an organization, helping management make internal decisions like setting prices and optimizing resource allocation. It provides real-time or periodic cost data for management, while Financial Accounting reports historical financial data on an annual basis, typically in accordance with GAAP or IFRS. Cost Accounting deals with detailed cost analysis, tracking costs associated with specific products, departments, or projects, while Financial Accounting provides a broader perspective, summarizing the overall financial health and performance of the organization.

Cost accounting maximises future efficiency whereas financial accounting compute major trends that already took place in the previous accounting period. Cost accounting also accounts for physical units whereas financial accounting only follows monetary units for transactions recording.

ADVANTAGES OF COST ACCOUNTING

Cost accounting is a crucial tool for management, providing continuous flow of information about production, costs, materials, labour, stores, and plant capacity. It helps identify unproductive activities, losses, and inefficiencies, compiles reliable cost data, prepares budgets and business forecasts, measures efficiency, and fixes selling prices. Cost accounting also aids in cost comparisons, estimates, inventory control, and identifying idle capacity. It aids in making informed decisions and formulating policies for various matters.

Cost accounting is now used by various institutions, including hospitals, transport companies, local authorities, offices, banks, and educational institutions. It benefits consumers by providing reasonable prices, employees by granting incentives, investors, bankers, lenders, and shareholders by evaluating past profitability and future prospects, and ultimately contributes to the economic development of a country.

INSTALLATION OF A COSING SYSTEM

A single costing system cannot suit every business due to its growing size and variety. Each organization must apply its own principles and procedures, ensuring successful operation. Before introducing a costing system, conduct a preliminary investigation to assess product, organization, manufacturing process, and selling methods. Ensure minimal disruption, gradual implementation, compact, simple, economical operation, and ability to generate periodic reports.

Possible Difficulties

Introducing costing systems can be challenging due to factors such as insufficient top management support, resistance from staff, resentment at other levels, shortage of trained staff, and heavy installation costs. Overcoming these challenges is crucial.

Factors to be Considered

Before installing a costing system, consider the system's objective, business nature, management quality, organization size and type, technical aspects, staff attitudes, impact of operations on variable expenses, reconciliation between cost and financial accounts, information needs, and product nature and costing system type. Develop an integrated system through control accounts.

Success of the Costing System

An effective costing system should suit the business's nature, be simple and easy to operate, receive staff cooperation, ensure prompt information flow, be closely linked to financial accounting, contribute to cost control, and allow comparison of estimates with actual results. It should be flexible, adjust easily to changing business conditions, and justify the cost of installation and operation based on its benefits. Proper planning and careful introduction are crucial for delivering desired results.

CHECK YOUR PROGRESS

Q. 1. What is Costing?

Ans. Costing is the process of determining and allocating costs to various business elements, such as products, services, projects, or departments. It helps businesses accurately calculate and record direct and indirect costs; control expenses, set pricing decisions, evaluate performance, make informed decisions, and develop budgets and financial forecasts. Costing methods include job costing, process costing, activity-based costing (ABC), and standard costing, suitable for different industries. By analyzing and tracking expenses, businesses can make financially sound decisions, control expenses, and optimize operations for greater efficiency and profitability.

Q. 2. Define Cost Accounting?

Ans. Cost accounting is a crucial accounting branch that involves capturing, analyzing, and reporting costs related to production, services, or operations within an organization. It involves cost ascertainment, cost allocation, cost analysis, cost control, cost reporting, and cost estimation. Cost accountants identify and record direct and indirect costs, allocate them to specific cost centres or departments, analyze costs to understand cost behaviour, implement cost-saving strategies, and provide detailed reports for decision-making and budgeting. Cost accounting is particularly valuable for internal purposes, helping businesses set prices, evaluate profitability, optimize resource allocation, and make informed decisions about production methods and cost control measures.

Q. 3. Give four examples of expenses which constitute cost in a ready-made garments factory.

Ans. In a ready-made garments factory, various expenses constitute costs that are directly associated with the production of garments. Here are four examples of expenses that typically constitute costs in such a factory:

(a) **Raw Materials Cost:** This includes expenses related to the purchase of fabric, buttons, zippers, thread, labels, and other materials needed to make garments. The cost of these materials is a significant component of the total production cost in a garments factory.

(b) **Labour Cost:** Labour cost encompasses the wages and salaries paid to the factory workers involved in cutting, sewing, stitching, quality control, and other production-related tasks. It also includes any overtime pay and benefits provided to the employees.

(c) **Factory Overhead:** Factory overhead costs consist of various indirect expenses incurred in the production process. These may include rent for the factory building, utilities, depreciation of machinery and equipment, maintenance and repairs, and other costs associated with running the factory.

(d) **Transportation and Shipping Costs:** Getting the finished garments from the factory to distribution centres or customers often involves transportation and shipping expenses. This includes the cost of shipping containers, freight charges, customs duties, and any other expenses related to transporting the garments to their destination.

Q. 4. State whether each of the following statements is true or false and justify your answer:

(i) **Cost Accounting gets its basic data for estimates from the financial accounting system.**

Ans. False: Cost accounting does not solely rely on the financial accounting system for its basic data. While it may use financial accounting data as a reference, cost accounting primarily gathers data from various sources within the organization, such as direct material and labour costs, overhead expenses, and production records. Cost accountants often analyze and allocate these costs to specific cost centres, products, or projects to provide detailed cost information for internal decision-making.

(ii) **Cost Control means a lower amount of profit to the company.**

Ans. False: Cost control refers to the practice of managing and reducing costs while maintaining or improving the quality and efficiency of operations. It does not necessarily mean lower profits. In fact, effective cost control can lead to higher profits by ensuring that a company operates more efficiently and competitively in the market.

(iii) **Customers get more satisfaction when they buy goods at reasonable prices.**

Ans. True: This statement is true. Customers generally seek value for their money, and buying goods at reasonable prices is often associated with higher customer satisfaction. Offering products at reasonable prices can lead to increased customer loyalty and positive brand perception.

(iv) **If resources are scarce, cost of production will be low.**

Ans. False: Scarcity of resources typically leads to higher production costs, not lower costs. When resources are limited, their prices tend to rise due to increased demand. This can result in higher production costs, which may be passed on to consumers in the form of higher prices for goods and services.

(v) **Cost Accounting is a comprehensive term which includes costing.**

Ans. True: This statement is true. Cost accounting is a broader term that encompasses various aspects of cost management, including costing methods, cost analysis, cost control, and cost reporting. Costing, as mentioned earlier, is a subset of cost accounting and focuses specifically on calculating and allocating costs to products, services, or projects.

(vi) **Cost Accounting provides data for managerial decision-making.**

Ans. True: Cost accounting is primarily designed to provide data and information that support managerial decision-making within an organization. It offers insights into cost behaviour, cost structures, and the financial implications of various choices. Managers use this data to make informed decisions related to pricing, production, resource allocation, and cost reduction strategies.

Q. 5. Give four main objects of costing.

Ans. Costing serves several key objectives within an organization. Here are four main objectives of costing:

(a) **Cost Ascertainment:** One of the primary objectives of costing is to accurately determine the cost of producing goods, providing services, or carrying out specific activities within the organization. This involves identifying and quantifying both direct and indirect costs associated with various cost centres, products, projects, or processes. Cost ascertainment helps management understand the true cost of their operations.

(b) **Cost Control:** Costing is essential for controlling and managing expenses effectively. By tracking costs and analyzing cost variances, organizations can identify areas where costs are exceeding budgeted or standard levels. This information allows for the implementation of cost reduction measures and strategies to maintain profitability.

(c) **Profit Determination:** Costing plays a crucial role in determining the profitability of products, services, or projects. By subtracting the total costs from the total revenues generated, organizations can calculate their profit margins for each offering. This information helps in pricing decisions and evaluating the financial viability of various business activities.

(d) **Decision-Making Support:** Costing provides valuable data and insights that assist management in making informed decisions. Whether it's pricing decisions, investment choices, production methods, or resource allocation, cost data allows for evaluating the financial implications of different options. This supports effective decision-making and helps organizations achieve their strategic goals.

Q. 6. State four major differences between Cost Accounting and Financial Accounting.

Ans. Cost Accounting and Financial Accounting are two distinct branches of accounting that serve different purposes and provide different types of information. Here are four major differences between them:

(a) **Purpose:**

Cost Accounting: The primary purpose of cost accounting is to provide detailed information about the cost of producing goods or services within an organization. It is used for internal management purposes, such as cost control, pricing decisions, and performance evaluation. Financial Accounting: Financial accounting is primarily concerned with providing financial information to external stakeholders, including investors, creditors, government agencies, and the general public. Its primary purpose is to prepare financial statements that reflect the financial performance and position of the company as a whole.

(b) **Users:**

Cost Accounting: The main users of cost accounting information are internal management and employees who need cost-related data for decision-making within the organization. Financial Accounting: The primary users of financial accounting information are external stakeholders, such as investors, creditors, regulatory authorities, and the public at large.

(c) **Reporting Format:**

Cost Accounting: Cost accounting provides internal reports and cost data in formats tailored to the needs of management. These reports are not subject to specific external accounting standards.

Financial Accounting: Financial accounting produces standardized financial statements (income statement, balance sheet, cash flow statement) that follow specific formats and are prepared in accordance with generally accepted accounting principles.

(d) **Timeframe:**

Cost Accounting: Cost accounting provides real-time or periodic cost data that can be used for immediate decision-making within the organization.

Financial Accounting: Financial accounting reports historical financial data on an annual basis. It provides a snapshot of the company's financial performance and position over a specific period, typically a fiscal year.

Q. 7. Select and tick the most appropriate alternative to fill in the blanks.

(i) **Cost Accounting can ....the future cost of production.**

(a) Ascertain *(b)* Forecast
(c) Analyse *(d)* Estimate

Ans. *(b)* Forecast.

(ii) **Cost Accounting gives information to the management for the purpose of ....**

(a) Employees' welfare *(b)* Decisions
(c) Efficiency *(d)* Profitability

Ans. *(b)* Decisions.

(iii) **Cost statements form part of the .... accounts of a company.**

(a) Published *(b)* Statutory
(c) Internal *(d)* Taxation

Ans. *(c)* Internal.

(iv) **Costing is based on ……………..figures.**

(a) Estimated *(b)* Actual
(c) Accurate *(d)* Projected

Ans. *(b)* Actual.

(v) **Costing records must also be ....by management.**

(a) Audited *(b)* Prepared
(c) Verified *(d)* Analysed

Ans. *(c)* Verified.

Q. 8. List the major advantages of Cost accounting.

Ans. The following are the major advantages of cost accounting such as:

(a) Cost accounting helps in controlling and minimizing costs by identifying areas of inefficiency and waste. It allows businesses to set standards and benchmarks for various processes, enabling them to monitor actual costs and take corrective actions if necessary.

(b) Cost accounting provides valuable information for decision-making at various levels of management. Managers can use cost data to evaluate different alternatives, assess the impact of decisions on costs, and choose the most cost-effective options.