THE QUAIDE MILLETH COLLEGE FOR MEN (SHIFT II)

ADVANCE COST ACCOUNTING – [B.COM (G)& B.COM A/F]

SUB CODE : (BPZ6A & BPG6B)

Section B & C

1. Describe briefly the different types of costing?
   Types of costing :There are two types of costing (a)Job costing (b) Process costing.
   - **Job costing** : under this method the cost are collected and accumulated for each and every job separately. Each job has different identity.

   (a) **Contract costing**: This method is used to ascertain the cost of each contract separately.
   (b) **Batch costing** : the products are arranged in a convenient batch and each batch is termed as one job and cost is arrived accordingly.
   - **Process costing** : under this method the cost are collected and accumulated according to the process wise and cost of each unit is processis arrived by dividing the quality of production of process concerned .

   (a) Operating cost : it is applicable to the service industry like transport , hotel etc.
   (b) Unit costing: where products is uniform of single product or more or similar.
   (c) Operation costing :To arrive cost of each operation instead of process.
   (d) Multiple costing: It consists of more than one method of costing involves for arriving cost of same product.
2. Explain the objectives of cost accounting ?
   Cost accounting: Is the process of accounting for cost which begins with the recording of income and expenditure and ends with the preparation of periodical statement and reports for ascertaining and controlling cost.
   Objectives:
   To ascertain the cost of products and service
   To determine the selling price
   To control cost
   To provide guidelines for managementrpolicy for introduction of new product utilization of spare capacity.
3. Distinguish between Job costing and Contract costing.

Nature	Job costing	Contract costing
Size	Small in size	Large in size
Place of work	Work performed in factory of company	It is mostly executed at site
Time of completion	Take s less time to complete the work	It takes more time
Investment	Investment on machined before commencing job.	Investment is made offer commencement work
Nature of expenses	The e expenses are direct And indirect expenses	Most expenses are direct expenses.
Profit	Profit is transferred to P&L a/c	Transferred to P&L depending upon stage of completion.

Unit II

Section A

1. What is contract costing ?

   Contract costing is the form of specific orders costing which applies where the work is undertaken to customers special requirement and each order is of long duration.'
2. What is work certified?

   Under contract work work has to be certified by the architect on the basic of physical progress of work is called certified.
3. What is sub contract?

   Some specialized work like electrical work , lift installation has been given to any other contractor by the main contractor . This is called as sub contract.
4. What do you mean by estimation profit?

   The total estimated profit in contract costing is the difference between contract price and estimated total price

   Total estimated price = contract price – estimated total cost.
5. What is retention money?

   The term of contract provide that the whole of the amount shown by the certificate of architect shall not be paid immediately but a percentage therefore shall be retained by the contractee until sometime after the contract is completed. The sum retained is called retention money.
6. Who are contractor and contractee?

   Contractor : the person who undertakes the contract.

   Contractee : the person for whom the contract job is undertaken.

7. Write a short note on cost plus contract:
   Under this contract the value of contract price is arrived by adding a certain percentage of profit over the actual cost contract value. This kind of "cost plus contract" is applied for production of special items.

UNIT III

Section A

1. State the meaning of Process Costing?
   Process Costing: Process Costing is that method of operation costing which is used to ascertain the cost of output at each stage of production.
2. Give two examples of Process Costing Industries :
   Two Examples for Process Costing Industries:
   (i) Sugar industries (ii) Chemical industries.
3. State the meaning of wastage.
   Meaning of Wastage : Wastage is treated as that portion of basic raw materials lost in processing, having no recovery value.
4. What is normal loss?
   Normal Loss: Normal loss is unavoidable during the course of production process. The cost of Normal Loss should be absorbed by other units produced. The process a/c is credited with the realizable value of Normal loss.
5. What is Abnormal Loss?
   Abnormal Loss: Abnormal Loss is avoidable loss during the course of production process. It may arise due to negligence of worker, fire3 etc. The cost of the abnormal loss is not absorbed by other units produced. Therefore the process a/c is credited and abnormal loss is debited with full amount of loss.
6. What is Abnormal Gain?
   Abnormal Gain: If the actual loss is less than the estimated normal loss, the difference may be treated as Abnormal Gain. The process account is debited with the quantity and value of abnormal gain and abnormal gain account is credited.

SECTION – B & C:

1. Explain the main features of process costing.
   Features of Process Costing:
   (i) There is continuous series of production.

(ii) The finished product of one processes becomes the raw material input to the subsequent processes, till the final product is completed.
(iii) The cost of one Processes inclusive of raw material and expenses are transferred to the next processes along with the output.
(iv) The loss in processes may be normal (or) abnormal or both.
(v) Works in progress in processes are expressed in terms of completed output.

2. What is Abnormal Effectives?

Abnormal Loss: Abnormal Loss is avoidable loss during the course of production process. It may arise due to negligence of worker, fire3 etc. The cost of the abnormal loss is not absorbed by other units produced. Therefore the process a/c is credited and abnormal loss is debited with full amount of loss.

Abnormal Gain: If the actual loss is less than the estimated normal loss, the difference may be treated as Abnormal Gain. The process account is debited with the quantity and value of abnormal gain and abnormal gain account is credited.

3. How job costing is differentiated from process costing?

The difference between Job Costing and Process Costing :

Job Costing	Process Costing
1. Production is undertaken as per the specific orders of the customer.	Process Costing is in continuous flow. It is carried out uniformly.
2. Jobs are independent of each other.	It is in continuous flow and therefore the products lose their individuality.
3. Cost is ascertained for each job.	Costs are compiled for each process.
4. There is usually no transfer from one job to another job except of surplus material.	Costs of one process are transferred to subsequent process.

4. What are the advantages and disadvantages of Process Costing?

Advantages of Process Costing:

(i) Process costs can be determined at short intervals.
(ii) Expenses allocation can be easily made and result may be more accurate.
(iii) Cost ascertainment is simple and less expense.
(iv) Due to standardization of processes, the submission of Quotation can be done promptly.
(v) It is easy to establish the standards in case of continuous process.

Disadvantages of Process Costing:

(i) Process costing is usually based on historical cost. Hence managerial control may not be effective.

(ii) Process costing indicates the average cost only, hence it may not be accurate for analysis.

(iii) The value of work – in – progress not be accurate in terms of equivalent production.

(iv) Apportionment of joint costs on the basis of physical units.

(v) It is difficult to measure the normal loss during process.

UNIT IV
Section A

1. What is operating costing ?

   Operating cost is defined as the cost of providing a service . it is applicable to service organization the service organization are:

   (I) Transport service: bus transport, lorry transport, railways etc{to find passengers km (or) km for goods}

   (II) Supply service : gas supply, electricity , water supply{cubic metre of gas , khw of power etc}

   (III) Welfare supplies: Hospital, canteens, hotels ,etc..

2. Write short note on costing for power house?

   The cost of electricity generated can be obtained from steam production costs as costs regarding electricity generation .

3. What is transporting costing?

   Transport cost is the cost of providing a service to passenger.it is applicape to transport organization to measure passenger – kilometer etc..

4. what are the objectives of transport costing?

   (I) To provide information regarding efficiency of vehicles rented.

   (II) To provide an correct basis for quotation and fixing of rates.

   (III) To ensure the fuel compensation and tyres maintenance with proper time of journey.

   (IV) To provide cost comparison with own vehicle and hire vehicle.

   (V) To decide at what price the use of vehicle can be charged.

<u>UNIT V</u>
<u>Section A</u>

1. Define marginal cost.
   According the I.M.C.A London, "marginal costing is a technique where only the variable costs are charged to costs units, the fixed cost attribute being written off in full against the contribution for that period"
2. What is absorption costing?
   Absorption costing is "a principle where by fixed as well as variable costs are allotted to costs units"
3. What is meant by contribution?
   Contribution is the difference between sales and variables cost. It is the contribution towards fixed cost and profit. In marginal costing techniques contribution is a very important concept as it used to find the profitability of products processes. Departments and divisions . Practically all decision are based on and oriented towards contribution.
   Contribution = Selling price - Variable cost
   Contribution = Fixed cost + Profit .
4. Define Break Even Point.
   The BEP is the sales volume at which sales revenues equals total cost (i.e variable cost + fixed cost). In other words neither a profit nor a loss is made at this point.
   Sales - (variables cost +fixed cost) = zero profit .
   BEP (units) = fixed cost /contribution per unit
   BEP (units) = fixed cost / p/v ratio
5. What do you mean by P/V ratio?
   The ratio of contribution to sales is called P/v ratio. i.e profit volume ratio. The contribution means sales less variable cost.
   P/v ratio = sales – variables cost / sales x100.
6. What is key factor ?
   Key factor is the factor is the factor in the activities of an undertaking which at a particular point of time or over a period , will limit the volume of output.
   Eg : shortage of raw materials
   Shortage of labour.
7. What is margin of safety?

Total sales minus the break even sales is known as the margin of safety . if the margin of safety is high it is a sign of soundness of the business. If the margin is low , reduction in sales even to a low may affect the profit position.

Formula :

Margin of safety = Total sales – BEP Sales (or) Net profit /P/v ratio

8. What do you mean by "Angle of Incidence"?

Angle of Incidence :

In the break even chart , the total cost line and sales line cross each other. The crossing point is BEP . the angle at which the sales line crosses the cost line is called the " Angle of Incidence".

9. What is Fixed cost?

Fixed cost is that cost which trends to be unaffected by variations in volume of production.

10. What is variable cost ?

The variable cost which in aggregated , trends to vary directly according to volume of production. Such overhead increases as the production goes up , it correspondingly decreases when production reduced.

SECTION B & C

11. Define marginal costing . state its managerial uses?

Definition : according to CIMA London ,"marginal costing is a technique where only the variable cost are charged to cost units , the fixed cost attributes being written off in full against the contribution for that period.

Marginal costing for managerial application:

the application of the technique of marginal costing in managerial decision is as follows:

(a) Fixation of selling price:

Marginal cost of a product represents the minimum price for that product so as to avoid the loss. The fixation of a price for a product is easy if its marginal cost and overall profitability of the concern is known.

(b) Maintaining a desired level of profit:

The desired level of profit can be maintained by attaining the required sales . the volume of required sales can be found out by the technique of marginal costing . this is useful to meet competition government regulation etc..

(c) Accepting price less than the total cost:

sometimes during trade depression the prices have to fix below the total cost of the product. It will be enough in such period if the marginal cost is recovered .when a special order has been received , a price less than the total cost but above marginal cost be acceptable without affecting existing home market.

(d) Decision involving alternative choices: the decision involving alternative choice discontinuance of a product line , change of sales , make or buy giving up of product etc.. is made applying technique of marginal cost.

12. What are the assumptions of BEP?

(1) Cost are classified into fixed and variables.
(2) Fixed cost remains constant it will not increase or decrease.
(3) Variable cost varies in proportion to the volume of output or sale increases.
(4) Selling price remains constant even when the vlume of production (or) sales changes.
(5) Cost value and sales value depends only on volume and not on any other factors.
(6) Inventory at the beginning and at the end of the accounting period are not significant.
(7) It is assumed that only one product is manufactured (or) sales mix is constant.

13. What do you by Break even analysis? Enumerate the merits and demerits.

<u>Break even analysis:</u>

The term "Break even analysis " refers to a system of determination that level of activity where the total cost equal to total selling price. That is the point of "no profit" and "no loss".

<u>Merits of Break even analysis:</u>

(a) It determines the probable profit at any level of activities.
(b) Determination of selling price hich will give the desired profit.
(c) The relationship among the cost of production , volume of production, the profit and sale value is established by break even analysis.
(d) Inter firm comparission of profitability.
(e) Suggestion for shift in sales mix.
(f) Impact bof increases or decreases in fixwd and variables cost on prifit.
(g) It is useful to determine marginal of safety.

<u>Demerits of Break even analysis:</u>

(a) Fixed cost remains constant at any level of activity and they do not increases or decreases with changes in output.
(b) Variables cost varies in proportion the volume of output or sales increases.
(c) Selling price remains constant even when the volume of production .
(d) Cost value and sales value depends only on volume and not on any other factors .
(e) Inventory at the beginning and at the end of the accounting period are not significant .
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14. Explain the different factors to be considered while taking amake or buy desicison ?

(1) In make or but decision the price quoted by the outsid suppliers should be compared with the marginal cost of producing the component parts.
(2) If the outside price of the components is lower than the marginal cost of producing it.
(3) If the outside price is higher than the marginal cost making the component in the factory may be preferred.

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