

Theoretical Questions

1. Explain the meaning of cost accountancy

Cost accounting is a form of managerial accounting that aims to capture a company's total cost of production by assessing the variable costs of each step of production as well as fixed costs, such as a lease expense.

2. Define

a. Direct materials

Direct materials are those materials and supplies that are consumed during the manufacture of a product, and which are directly identified with that product. Items designated as direct materials are usually listed in the bill of materials file for a product.

b. Direct wages

Direct Wages means monetary amounts paid by the Contractor or its subcontractor(s) to its employees for straight time (non-overtime) hours worked, including shift differentials, if any. Employee incentive plan payments are not included as Direct Wages.

c. Direct expenses

Direct expense is an expense incurred that varies directly with changes in the volume of a cost object. A cost object is any item for which you are measuring expenses, such as products, product lines, services, sales regions, employees, and customers.

3. What is cost accounting? Discuss briefly its important functions in a business firm

Cost accounting is a form of managerial accounting that aims to capture a company's total cost of production by assessing the variable costs of each step of production as well as fixed costs, such as a lease expense.

- Ascertain the cost per unit of every product that the company manufactures
- To identify any wastages whether in material, expense, time, tools and spares etc. Also, suggest ways to minimize this wastage
- Also, provide data that helps in the process of price fixing
- Calculate with accuracy the profitability of each of the company's products. And figure out ways to maximize these profits
- Cost accounting is also responsible for the control of raw material and raw material ordering. So it must ensure that we are not overordering which leads to capital being locked-up unnecessarily. And underordering will lead to inefficiency in the manufacturing process,
- Also, perform the functions of cost control for materials, labor, and other miscellaneous expenses
- Present data to the management that allows them to interpret the data and make business decisions
- Help management with incentive plans that are based on efficiency
- Also, help the management with the preparation of budgets and setting up budgetary controls

4. Explain the important objectives of cost accounting?

Objectives of cost accounting are ascertainment of cost, fixation of selling price, proper recording and presentation of cost data to management for measuring efficiency and for cost control and cost reduction, ascertaining the profit of each activity, assisting management in decision making and determination of break-even point.

The aim is to know the methods by which expenditure on materials, wages and overheads is recorded, classified and allocated so that the cost of products and services may be accurately ascertained; these costs may be related to sales and profitability may be determined. Yet with the development of business and industry, its objectives are changing day by day.

- I. To ascertain the cost per unit of the different products manufactured by a business concern;
- II. To provide a correct analysis of cost both by process or operations and by different elements of cost;
- III. To disclose sources of wastage whether of material, time or expense or in the use of machinery, equipment and tools and to prepare such reports which may be necessary to control such wastage;
- IV. To provide requisite data and serve as a guide for fixing prices of products manufactured or services rendered;
- V. To ascertain the profitability of each of the products and advise management as to how these profits can be maximised;
- VI. To exercise effective control if stocks of raw materials, work-in-progress, consumable stores and finished goods in order to minimise the capital locked up in these stocks;
- VII. To reveal sources of economy by installing and implementing a system of cost control for materials, labour and overheads;
- VIII. To advise management on future expansion policies and proposed capital projects;
- IX. To present and interpret data for management planning, evaluation of performance and control;
- X. To help in the preparation of budgets and implementation of budgetary control;
- XI. To organise an effective information system so that different levels of management may get the required information at the right time in right form for carrying out their individual responsibilities in an efficient manner;
- XII. To guide management in the formulation and implementation of incentive bonus plans based on productivity and cost savings;
- XIII. To supply useful data to management for taking various financial decisions such as introduction of new products, replacement of labour by machine etc.;
- XIV. To help in supervising the working of punched card accounting or data processing through computers;
- XV. To organise the internal audit system to ensure effective working of different departments;
- XVI. To organise cost reduction programmes with the help of different departmental managers;
- XVII. To provide specialised services of cost audit in order to prevent the errors and frauds and to facilitate prompt and reliable information to management; and
- XVIII. To find out costing profit or loss by identifying with revenues the costs of those products or services by selling which the revenues have resulted.

5. Distinguish between: -

- a. Direct expenses and indirect expenses?

Direct Expenses	Indirect Expenses
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Direct expenses are the expenses apart from direct material or direct wages which can be traced with a particular territory, customer, product, job or process.	Indirect expenses are the expenses which cannot be directly identified or allocated to a particular cost object, job or cost unit, but they can be apportioned to and absorbed by the cost object.
Direct Expenses are the expenses which are incurred in the manufacture of a product or provision of services.	Indirect Expenses are incurred in connection to the day to day business operations.
Direct Expenses are outrightly allocable to the particular cost object or cost unit.	Indirect Expenses are apportioned on a suitable basis as they are shared among different product, service or department.
Direct Expenses are considered when the cost of goods sold is ascertained.	Indirect Expenses do not form part of the cost of goods sold.
Direct Expenses usually appear on the debit side of the trading account.	Indirect expenses are shown on the debit side of the profit and loss account.
Direct Expenses forms part of the prime cost.	Indirect expenses are usually treated as overheads.

b. Direct labour and indirect labour?

Direct Labour	Indirect Labour
Direct labour can be conveniently identified with a particular cost centre or cost unit.	Indirect labour cannot be identified.
Direct labour can be allocated or charged entirely to a particular cost centre.	Indirect labour cannot be allocated or charged fully to any particular cost centre.
Direct labour is directly concerned with production.	Indirect labour is not directly concerned with production.
Direct labour results in a productive operation itself.	Indirect labour does not result in productive operation.
Direct labour cost forms an essential part of total cost of production.	Indirect labour cost does not form an essential part of total cost.
Direct labour cost can be ascertained easily.	Indirect labour cost cannot be ascertained easily.
Direct labour cost varies directly in proportion to output.	Indirect labour cost does not vary directly in proportion to output.
Direct labour cost can be controlled easily.	Indirect labour cost cannot be controlled easily.
Direct labour cost forms part of direct cost or prime cost.	Indirect labour cost forms part of overheads, either Factory overheads or administrative overhead or selling and distribution overhead.
Direct labour cost is controlled through the technique of standard costing.	Indirect labour cost is controlled through budgetary control.

c. Direct materials and indirect materials?

Direct materials are those that are used directly in the production process and are reflected in the final product. For example, timber would be a direct material in the production of furniture. In this case, timber is the primary material and must be part of the final product. Further, the cost of direct materials can be accurately identified and allocated to the cost of production.

Indirect materials are those that are used in the production of the final product indirectly. They cannot be directly measured and conveniently charged to the cost of production. For example, in furniture production, wood, glue, and nails may be classified as indirect materials.

Practical problems (Short Answers)

1.

Opening stock of raw material	15000
Material purchased	120000
Less: Closing stock of raw material	20000
Raw material consumed	150000

2.

Raw material for consumption	110000
Less: Raw material purchased	100000
Opening stock of raw material	10000

Raw material for consumption	110000
Less: Raw material consumed	102000
Closing stock of raw material	8000

3.

Works cost	215000
Less: Prime cost	185000
Factory overheads	30000

Total goods processed during the period	239500
Less: Current manufacturing cost	222000
Opening stock of work in progress	17500

Total goods processed during the period	239500
Less: Work cost	215000
Closing sock of work in progress	24500

4.

Goods available for sales	12206
Less: Cost of production	11206
Opening stock of finished goods	1000

Goods available for sales	12206
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Less: Cost of goods sold	10831
<i>Closing stock of finished goods</i>	<i>1375</i>

Cost of Sales	11391
Less: Cost of goods sold	10831
<i>Selling Expenses</i>	<i>560</i>

Sales	12000
Less: Cost of Sales	11391
<i>Profit or Loss</i>	<i>609 Profit</i>

5.

Direct material consumed	60000
Direct labour	30000
Direct expenses	3300
<i>Prime Cost</i>	<i>86700</i>

Prime Cost	86700
Factory Overheads	12000
<i>Factory Cost</i>	<i>98700</i>

Factory Cost	98700
Office Overhead	19800
<i>Office Cost</i>	<i>118500</i>

PRACTICAL PROBLEMS (long answers)