## **Objective and Subjective Questions on Cost Classification**

**Objective Questions**

1. **True or False:** Direct labor costs are considered a prime cost.
2. **Multiple Choice:** Which of the following is not a fixed cost?
   * Rent
   * Depreciation
   * Direct materials
   * Property taxes
3. **Fill in the Blank:** A(n) \_\_\_\_\_\_\_\_\_\_ cost is one that changes in direct proportion to changes in activity level.
4. **Matching:** Match the following terms with their definitions:
   * Variable cost
   * Fixed cost
   * Mixed cost
   * Step-wise cost
5. **Short Answer:** Define the term "opportunity cost."

**Subjective Questions**

These questions require more in-depth analysis and explanation. There may be multiple correct answers or interpretations.

1. **Essay:** Discuss the advantages and disadvantages of the high-low method for estimating variable and fixed costs.
2. **Case Study:** A company is considering purchasing a new piece of equipment. The initial cost is $100,000, and it is expected to save $20,000 per year in operating costs. The equipment has a useful life of 10 years. Calculate the payback period and net present value of the investment, assuming a discount rate of 10%.
3. **Problem Solving:** A company has the following data for a recent period:
   * Total units produced: 10,000
   * Total variable costs: $50,000
   * Total fixed costs: $30,000
   * Calculate the total cost per unit.
4. Explain how cost-volume-profit analysis can be used to make decisions about pricing, production levels, and sales mix.
5. Evaluate the argument that all costs are ultimately variable in the long run.p

## **Cost Sheet Components:**

**Direct Materials:**

1. What are direct materials?
2. How are they valued and accounted for?
3. What are some common methods for calculating direct materials cost?

**Direct Labor:**

1. What is direct labor?
2. How is it measured and recorded?
3. How are direct labor costs calculated?

**Manufacturing Overhead:**

1. What are manufacturing overhead costs?
2. How are they classified and allocated?
3. What are some common methods for calculating manufacturing overhead?

**Prime Cost:**

1. What is prime cost?
2. How is it calculated?
3. Why is it important in cost analysis?

**Conversion Cost:**

1. What is conversion cost?
2. How is it calculated?
3. Why is it important in cost analysis?

**Cost Sheet Analysis and Interpretation:**

**Cost Variance Analysis:**

1. What is cost variance analysis?
2. How are variances calculated and interpreted?
3. What are some common types of variances?

**Cost-Volume-Profit (CVP) Analysis:**

1. What is CVP analysis?
2. How is it used to analyze profitability?
3. What are the key components of CVP analysis?

**Marginal Costing:**

1. What is marginal costing?
2. How is it different from absorption costing?
3. When is marginal costing used?

**Subjective Questions on Cost Sheet**

**Direct Materials:**

1. What are the primary raw materials used in the product?
2. How is the cost of direct materials calculated (e.g., standard cost, actual cost)?
3. Are there any significant variations in the cost of direct materials?

**Direct Labor:**

1. What are the specific labor hours required for production?
2. What is the hourly wage rate for direct labor?
3. Are there any overtime premiums or incentive bonuses included?

**Indirect Costs**

**Manufacturing Overhead:**

1. What are the major categories of manufacturing overhead costs?
2. How are these costs allocated to the product (e.g., direct labor hours, machine hours)?
3. Are there any significant fluctuations in manufacturing overhead costs?

**Selling and Administrative Expenses:**

1. What are the primary selling and administrative expenses?
2. How are these costs allocated to the product?
3. Are there any seasonal variations in selling and administrative expenses?

**Total Cost:**

1. How is the total cost per unit calculated?
2. What is the target cost per unit?
3. Are there any cost-reduction initiatives in place?

**Profit Margin:**

1. What is the desired profit margin for the product?
2. How is the selling price determined based on the cost and desired profit margin?
3. Are there any factors that could affect the profitability of the product?

**Analysis and Interpretation**

**Cost Variance Analysis:**

1. Are there any significant variances between the actual costs and the budgeted costs?
2. What are the root causes of these variances?
3. Are there any corrective actions being taken?

**Numerical questions to calculate**

**1.Calculate the total cost of production** given the following information:

* + Direct materials: ₹10,000
  + Direct labor: ₹8,000
  + Factory overhead: ₹6,000

**2.Prepare a cost sheet** for a product with the following data:

* + Direct materials: ₹20,000
  + Direct labor: ₹15,000
  + Factory overhead: ₹12,000
  + Opening work in process: ₹5,000
  + Closing work in process: ₹3,000
  + Units produced: 10,000

**3. Determine the cost per unit** if the total cost of production for 5,000 units is ₹50,000.

### **Advanced Cost Sheet Questions**

**4.Calculate the cost of goods sold** given the following:

* + Opening finished goods: ₹10,000
  + Closing finished goods: ₹8,000
  + Units produced: 12,000
  + Units sold: 10,000
  + Cost per unit: ₹5

**5. Prepare a cost sheet** with the following information:

* + Direct materials: ₹25,000
  + Direct labor: ₹20,000
  + Factory overhead: ₹18,000
  + Sales: ₹60,000
  + Opening stock of finished goods: ₹5,000
  + Closing stock of finished goods: ₹3,000

**5. Calculate the profit** earned by a company if the cost of goods sold is ₹1,00,000 and the gross profit ratio is 25%.