

AN OVERVIEW OF COST AND MANAGEMENT ACCOUNTING

1. A manufacturing firm that produces a wide range of complex products, such as aircraft, finds that different components require distinct costing methods like job costing for some parts and process costing for others. To determine the total cost of a finished aircraft, which overarching costing method would be the most appropriate and comprehensive to apply?

- A) Departmental Costing
- B) Service Costing
- C) Multiple or Composite Costing
- D) Batch Costing

Ans

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2. A factory manager observes that as production of cars doubles, the expenditure on administration increases, but less than doubles. Simultaneously, the cost of rent and insurance for the factory building remains unchanged. How would you classify the administrative staff costs and the factory rent, respectively, based on their behavior?

- Semi Variable
- fixed
- A) Variable Cost and Fixed Cost
 - B) Semi-Variable Cost and Fixed Cost
 - C) Fixed Cost and Variable Cost
 - D) Semi-Variable Cost and Variable Cost

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3. A company is evaluating its operational efficiency by comparing the actual costs incurred in production against a pre-established database of costs for various operations and components. This process has highlighted areas of inefficiency through variance analysis. Which specific costing technique is the company employing for cost control purposes?

$$CM = SP - VC$$

A) Historical Costing

B) Standard Costing

C) Marginal Costing

D) Activity Based Costing (ABC)

Ans.

Variable cost is charged

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4. In a large furniture factory, the management wants to segregate its cost structure for better control. The facility includes a department that polishes finished chairs, a maintenance department that services all machinery, and a security department. How would you classify the polishing department and the security department as cost centres?

A) Both are Productive Cost Centres

Ans ✓ B) Productive Cost Centre and Unproductive Cost Centre, respectively

C) Unproductive Cost Centre and Productive Cost Centre, respectively

D) Both are Mixed Cost Centres

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5. While Financial Accounting primarily focuses on creating standardized reports like income statements and balance sheets for external stakeholders, Cost Accounting serves a different primary purpose. Based on the document, what is the core distinction in the objectives and concerns of Cost Accounting compared to Financial Accounting?

A) Cost Accounting is mandatory for all companies, whereas Financial Accounting is voluntary.

B) Cost Accounting is mainly concerned with historical data, while Financial Accounting is futuristic.

C) Cost Accounting focuses on the profitability of the organisation as a whole, similar to Financial Accounting.

✓ D) Cost Accounting is concerned with unit costs and profitability of different products with an emphasis on planning and control.

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6. A manager is tasked with making a long-term strategic decision about whether to continue manufacturing a specific car component in-house or to outsource it. To make an informed choice, the management accountant needs to provide relevant financial analysis. Which of the following tools or techniques of management accounting would be most directly applicable to this decision-making process?

- A) Formulating a strategy for disclosure to shareholders and employees.
- B) Using statistical and graphical techniques to chart past sales performance.
- C) Financial planning to determine the mix of equity and debt for the entire company.

D) Applying marginal costing and break-even analysis to evaluate the financial impact of outsourcing.

Ans ✓

Fixed costs → 40,000

S.p/unit → 100

V.C/unit → 60

Contribution = S.p - V.C
= 100 - 60 = ₹40

BEP = $\frac{40,000}{40}$ Units

× 100 = 100,000

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7. A chemical manufacturing company produces a single, uniform product that goes through three distinct stages of production, with the completed output of one stage becoming the raw material for the next. The management wants to ascertain the cost and control wastages at each individual stage. Which method of costing is specifically designed for this type of production environment?

~~A) Job Costing~~

~~B) Unit or Single-Output Costing~~

✓ C) Process Costing

~~D) Operation Costing~~



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8. The Institute of Cost Accountants of India (ICoAI) constituted the Cost Accounting Standards Board (CASB) to formulate standards. According to the provided text, what is a primary objective behind the issuance of these Cost Accounting Standards (CAS)?

- A) To make cost accounting mandatory for all service-based organizations in India.
- B) To replace the principles of financial accounting with a more modern approach.
- C) To provide guidelines for a standard approach towards maintaining cost accounting records under various statutes and assist management in compliance.
- D) To ensure that all companies within an industry report the exact same unit cost for similar products.

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9. A manufacturing company wants to refine its overhead allocation. Instead of using a single plant-wide overhead rate, it identifies specific activities like 'issuing purchase orders' and 'performing quality control checks' and allocates their respective costs to products based on how much of each activity a product consumes. This advanced technique helps the management make more accurate decisions about product pricing and outsourcing.

A) Marginal Costing

B) Direct Costing

C) Absorption Costing


D) Activity Based Costing (ABC)

Answer

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10. Imagine a company that builds custom-designed furniture where each piece is unique, and a second company that manufactures thousands of identical bottles of a popular soft drink. What are the most appropriate cost elements to be classified as 'Direct Material Cost' for the furniture maker and 'Indirect Labour Cost' for the soft drink company, respectively?

A) Lubricants for machinery; Wages for workers on the bottling line.

 ✓ B) Wood and paint; Salaries for factory security guards.

C) Nails and screws; Salary of the factory supervisor.

✗ D) Wood and paint; Cost of sugar and water for the drink.

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11. Management accounting is described as having a wider scope than cost accounting, providing a broader range of information for decision-making. Which statement best encapsulates the enhanced scope and futuristic orientation of management accounting compared to cost accounting, as detailed in the document?

A) Management accounting relies solely on historical costs provided by the cost accounting system, using tools like ratio analysis to interpret the past.

B) Management accounting is primarily concerned with short-term planning and uses tools like standard costing, while cost accounting focuses on long-range strategy.

C) Management accounting extends beyond cost data, incorporating tools like cash flow analysis and trend analysis, and is concerned with both short-range and long-range planning.

D) Management accounting and cost accounting are identical in scope, with the only difference being that management accounting is mandatory for public companies.

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12. A pharmaceutical company produces a specific antibiotic in batches. Each batch undergoes the same production process and results in 10,000 identical capsules. To determine the cost per capsule, the company first calculates the total cost of producing the entire batch. Which costing method is being described here?

- A) Process Costing
- B) Job Costing
- C) Unit or Single-Output Costing
- D) Batch Costing

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13. A consulting firm is hired to design a unique software solution for a client. The costs incurred for the project include salaries of the ^{D.L.C} programmers working exclusively on this project and a specific software license purchased only for this development. From a cost accounting perspective, how should the programmers' salaries and the special license fee be classified?

- A) Direct Labour Cost and Indirect Expense
- B) Direct Labour Cost and Direct Expense**
- C) Indirect Labour Cost and Direct Expense
- D) Indirect Labour Cost and Indirect Material Cost

Ans

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14. The document contrasts two costing techniques: one where only direct costs are allocated to products, with all indirect costs being charged to profit in the period they arise, and another where all costs, both direct and indirect, are allocated to the products. What are these two techniques, respectively?

VC

- A) Marginal Costing and Standard Costing
- B) Historical Costing and Absorption Costing
- C) Direct Costing and Absorption Costing
- D) Activity Based Costing and Uniform Costing

Absorption

Ans

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15. A public utility company that supplies water to a city wants to determine its pricing structure. To do this, it needs to calculate the cost per unit of service provided. Which costing method is most suitable for this purpose, and what would be the logical cost unit?

A) Job Costing; Cost per household connection

B) Service Costing; Cost per litre or gallon

C) Process Costing; Cost per filtration stage

D) Departmental Costing; Cost per administrative department

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16. A company calculates its product costs only after the production cycle is complete, using actual expenditure data. While this information is valuable for financial reporting, the management finds it ineffective for proactive cost management during the production process. What is the primary limitation of this costing technique as described in the document?

- A) It can only be used for service industries, not manufacturing.
- B) It deals with estimates and is therefore too inaccurate for financial reporting.
- C) The system is not useful for exercising any control over costs as they are being incurred.
- D) It requires the complex identification of cost-driving activities, which is too cumbersome.

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17. Management accounting serves a broad range of purposes by providing tailored information to managers. Which of the following best represents the comprehensive scope of management accounting as outlined in the document, encompassing its role in planning, control, and performance evaluation?

- A) Its scope is narrow, focusing only on the allocation and accounting aspects of costs.
- B) It exclusively uses tools like standard costing and break-even analysis to provide a base for financial accounting.
- C) It involves compiling and analyzing data, communicating plans, establishing feedback systems, and evaluating the performance of the management itself.
- D) Its main function is to ensure statutory compliance with the Companies Act and Income-tax Act through quarterly reporting.

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18. The document makes a clear distinction between the terms Costing, Cost Accounting, and Cost Accountancy. If a professional is engaged in the 'science, art, and practice' of cost ascertainment and control, utilizing a body of established principles and methods, which of these three terms most accurately describes their overall field of practice?

- A) Costing
- B) Cost Accounting
- C) Cost Accountancy
- D) Management Accounting

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19. A key objective of cost accounting is to aid management in maintaining efficiency and preventing loss. Which specific objective directly addresses the use of benchmarks to evaluate performance and minimize the inefficient use of capital and labor?

- A) To record, analyse and classify all expenditures related to the cost of products services.
- B) To determine the cost of each unit, operation, process, or department.
- C) To compare the actual costs with the prevailing cost standards or estimates for avoiding unnecessary wastages or losses.
- D) To provide the necessary information to enable management to make long term economic decisions.

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20. A company facing intense competition during a recession needs to make several critical decisions, including setting survival-level pricing and identifying which of its five product lines should be scaled back. To support these decisions, the management accountant must provide analysis that separates costs by behavior and evaluates contribution margins. Which combination of techniques would be most essential here?

- A) Historical Costing and Departmental Costing
- B) Uniform Costing and Financial Statement Analysis
- C) Marginal Costing and Break-Even Analysis
- D) Standard Costing and Activity Based Costing