

Standard Costing

1. A manufacturing company, operating in a rapidly evolving industry with frequent technological updates and fluctuating raw material prices, decides to implement a standard costing system. Considering its operational environment, which type of standard would be the most impractical and least useful for performance evaluation and control?

A) Currently Attainable Standards, because they require constant adjustment for current conditions.

B) Ideal Standards, because they set a perfect performance goal that can motivate the workforce.

Ans C) Basic Standards, because they are established for long-term use and do not reflect ongoing changes in production methods or price levels.

D) A hybrid of Ideal and Basic standards, as this would provide both a long-term benchmark and a motivational target.

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2. The management of a company observes a consistent, adverse Labour Rate Variance. Upon investigation, they find it is not due to a new union agreement or market wage hikes, but rather an internal planning decision made at the start of the period. According to the document, what is the most likely internal planning failure that led to this variance?

A) The use of inferior quality materials which required more skilled labour to process, thereby increasing the average rate.

B) A wrong estimate of the mix of skilled and unskilled labour hours required for manufacturing, where actual usage involved more expensive, skilled labour.

C) Failure to follow standard production procedures, leading to overtime work that was paid at a premium rate.

D) The standards published by the International Labour Organisation (ILO) were outdated and did not reflect the company's specific needs.

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3. When implementing a standard costing system, the document outlines a sequence of activities. What is the immediate subsequent step the management must take right after they have made decisions on the standard costs of materials, labour, and overheads for the production line?

A) Ascertaining and recording the actual costs and profits incurred during the production period.

B) Analyzing the variances between standard and actual costs to ascertain their causes.

Ans C) Making decisions on the pricing of products and preparing the sales and profit budget.

D) Initiating corrective actions in areas that are showing deviations from the set standards.

- 1) Decision of std cost
- 2) Pricing of products & prep. budget (sales profit)
- 3) Record actual costs
- 4) Variance
- 5) Analyse to find the causes
- 6) Corrective Action
- 7) Readjust the cost standards

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Transfer
P/L
Allocate
TR
Reserve
A/c

4. A company's management is debating the best accounting treatment for year-end variances. They believe that the variances are temporary and will likely be offset by countervailing variances in subsequent periods. Which method of dealing with variances aligns with this management philosophy?

- A) Transferring all variances to the costing profit and loss account, as it reflects the period's actual performance.
- B) Allocating the variances proportionally to finished stock, work-in-progress, and cost of sales.
- C) Transferring positive variances to a reserve account to be adjusted against future negative variances.
- D) Writing off all variances to a special contingency fund created for this purpose.

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5. The purchasing department of a company managed to secure a significant discount on a bulk purchase of raw materials, resulting in a favorable Material Price Variance. However, the production department reported an adverse Material Usage Variance and an adverse Labour Efficiency Variance for the same period. According to the document, what is the most probable underlying cause for this specific combination of variances?

- A)** There was an unexpected increase in the general market rates for the material after the standards were set.
- B)** The production department engaged in careless handling of materials during the manufacturing process.
- C)** The material purchased was of an inferior quality compared to the specifications set in the standard.
- D)** The purchasing department's inefficiency led to delays, which in turn rushed the production process.

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6. A manager receives a variance report that bundles a significant variance from the Machining department with a smaller one from the Assembly department, presenting them as a single "Production Variance." This makes it difficult to hold the Machining department's supervisor accountable. This practice violates which key principle of effective variance reporting mentioned in the document?

A) The principle that reporting should be prompt to avoid delays in corrective action.

B) The principle that variances of each cost centre should be correctly separated.

C) The principle that uncontrollable variances should be analyzed with the same care as controllable ones.

D) The principle that report forms should be selected based on management's preferences and needs.

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7. The document suggests that when fixing selling prices, using standard costs is more realistic and market-acceptable than using actual costs. What is the underlying reason provided for this assertion?


- A) Standard costs already include a predetermined profit margin, making pricing calculations simpler and more direct. α
- B) The market is not concerned with the unique inefficiencies or wastages of any single producer, which are often embedded in actual costs.
- C) Standard costs are based on long-term averages (Basic Standards), which smooth out temporary price fluctuations. α
- D) Competitors also use standard costing, so using it ensures price parity and competitive positioning in the market.

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8. In setting the standard cost for labour, a company's management team conducts detailed time and motion studies for its unique production processes and adjusts the findings for normal idle time and machine breakdowns. This approach aligns most closely with the establishment of which type of standard?

A) Basic Standards, as it aims to create a long-term, unchanging benchmark for labour time.

B) Ideal Standards, as time and motion studies are designed to identify the single most perfect performance achievable.

 C) Currently Attainable Standards, as they are based on scientific studies but adjusted for realistic operational factors like normal wastages and breakdowns.

D) A combination of ILO standards and past performance, as it provides the most comprehensive basis.

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9. A Fixed Overhead Expenditure Variance has occurred. According to the document, which of the following causes would uniquely contribute to this specific variance without directly impacting the Variable Overhead Variances?

A) The price of electricity, which powers the machinery, increased unexpectedly during the period.

B) The introduction of new, more efficient machinery reduced the total hours needed for production.

✓ C) The company hired an additional factory supervisor at a fixed monthly salary during the period.

D) The workforce took more time than the standard hours to produce the actual output.

Variable overhead efficiency

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10. A company sets its standards in such a way that a normal worker must give "a little extra effort" to achieve them, explicitly avoiding targets that represent perfect performance. What is the primary rationale for this approach, as explained in the document?

- A) To ensure that the standards are simple and easy to calculate without complex scientific studies.
- B) To avoid having an adverse impact on the motivation and morale of the workers that unrealistic standards might cause.
- C) To align the company's internal standards with those published by the International Labour Organisation (ILO).
- D) To build a buffer into the costings to absorb any unexpected increases in market prices for materials or labour.

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11. The ultimate purpose of a standard costing system, which involves a cycle of setting standards, recording actuals, finding variances, and analyzing them, is to empower management to do what?

- d A) To delegate authority and responsibility more simply to various departments and individuals.
- d B) To determine the most realistic selling prices for goods and services to ensure market acceptance.
- C) To locate and eliminate the sources of inefficiencies and wastages within the organization.
- D) To create a basis for transferring variances to a reserve account for future adjustments.

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12. When establishing the Material Usage Standard for a new product, what is a critical specification that must be determined beyond just the standard quantity of material to be used per unit?

- ☒ **A)** The anticipated changes in the market price of the materials required for production.
- ☒ **B)** The level of discount on purchases that can be achieved through bulk purchasing.
- ☐ **C)** The quality, size, and grade of the material to be used in the production process.
- ☒ **D)** The past trend of prices for similar materials used in other product lines.

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13. A production manager notes a significant adverse Labour Efficiency Variance. The manager rules out issues with material quality, machinery maintenance, or working conditions. According to the document, which of the following is a plausible cause related to the human element of production?

- α A) A new wage agreement was signed with the workers' union, increasing the hourly pay.
- B) The actual skill level of the workers deployed for the job was different from what was envisaged when setting the standard.
- α C) The accounting department made an error in recording the total hours worked by the production team.
- α D) The sales department accepted a rush order that required paying overtime rates to the workers.

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14. A firm experiences an adverse Material Usage Variance. The investigation reveals that the production team did not adhere to the prescribed manufacturing steps and mixing ratios. This situation is a direct example of which specific cause for variance mentioned in the document?

- ☐ A) Changes in the quality of the finished goods compared to that envisaged in standard costing.
- ☐ B) Increased wastage due to careless handling during the manufacturing process.
- ☒ C) Not following the standard production procedures.
- ☐ D) Inferior quality of material purchased by the procurement team.

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15. According to the document, the process of comparing actual costs with standard costs to calculate the difference is fundamental to standard costing. What is the primary management objective this comparison and subsequent analysis enables?

- A) It simplifies the process of delegating authority and responsibility for cost incurrence.
- B) It provides a realistic basis for determining the prices of goods and services.
- C) It enables management to pinpoint and rectify the sources of inefficiency and waste.
- D) It ensures that the operating staff becomes more competitive and efficient to meet targets.

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16. When accounting for variances at the end of a period, management chooses to allocate them across finished stock, work-in-progress, and the cost of sales. What is the most likely reason for choosing this specific method over simply writing them off to the profit and loss account?

- d A) To defer the recognition of variances to future accounting periods, hoping they will reverse.
- B) To adjust the valuation of inventory and cost of sales to more closely reflect their actual costs, upholding the matching principle.
- d C) To isolate the variances in a separate reserve account for management's internal analysis only.
- d D) To simplify the accounting process, as this method is the least complex to implement.

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17. A company experiences a variance because the actual time taken to produce a unit was different from the standard hours. However, the variable overhead expenditure per hour was exactly as budgeted. This scenario would lead to which specific type of overhead variance?

- A) Fixed Overhead Expenditure Variance, because the total fixed costs changed.
- B) Variable Overhead Expenditure Variance, because the total amount spent on variable overheads changed.
- C) Variable Overhead Volume or Efficiency Variance, because the quantity of hours consumed differed from the standard.
- D) A combination of both Variable Overhead Expenditure and Efficiency variances.

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18. Management is reviewing the effectiveness of its variance reporting system. They find that by the time reports on material wastage are compiled and delivered, the production run is long over, and the raw material batch is fully consumed. This situation primarily undermines which critical point for effective reporting?

- A) The correct separation of variances for each cost centre to ensure proper accountability.
- B) The need to exercise the same care for uncontrollable variances as for controllable ones.
- C) The requirement for reports to be in a form that suits the preferences and needs of management.
- D) The necessity for reporting to be prompt, as delays impede timely corrective action by management.

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19. A company sets an ideal standard for labour, aiming for perfect performance with no allowance for downtime or fatigue. After a few months, management notices a decline in overall productivity and an increase in employee complaints. According to the document, what is the most likely consequence of setting such a standard?

- A) It makes the delegation of authority simpler, as the performance target is absolute and clear.
- B) It has an adverse impact on the motivation and morale of the workers, who may feel the standard is unachievable.
- C) It makes the labour cost variance analysis simpler, as any deviation is immediately flagged as a negative variance.
- D) It helps in determining a more realistic price for services, as it is based on maximum possible efficiency.

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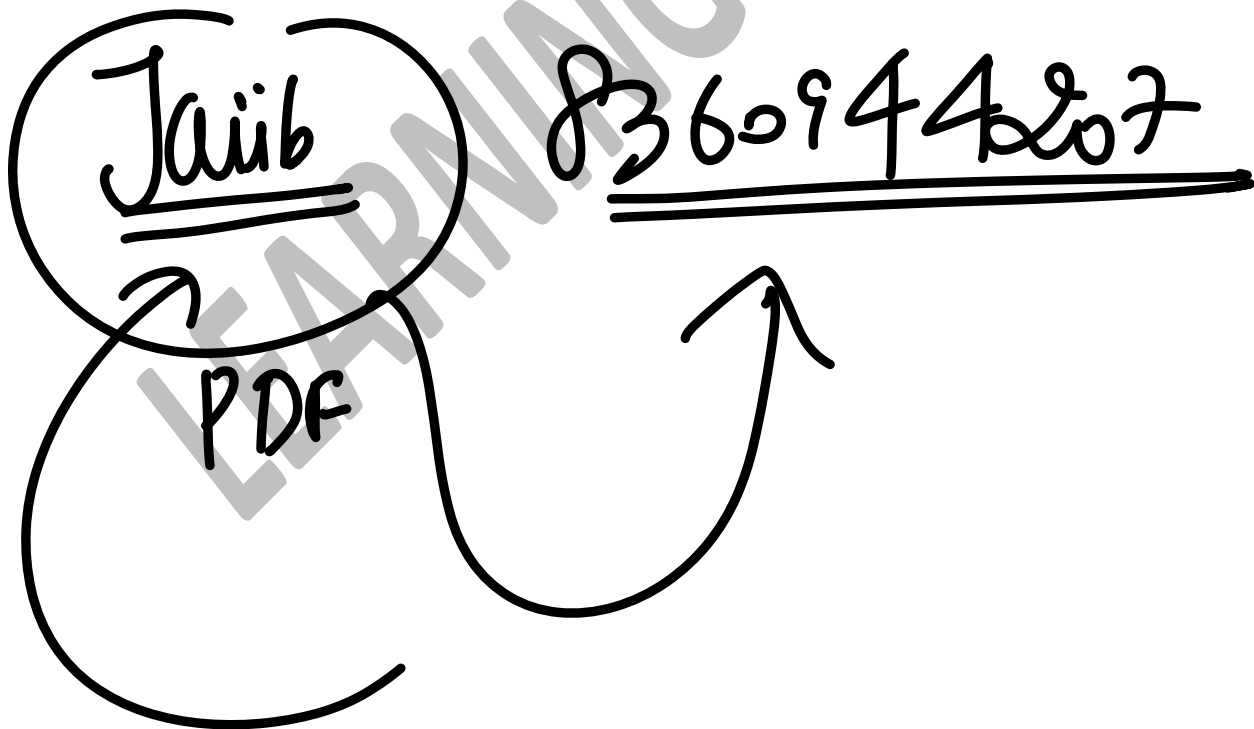
20. In setting the standard wage rate for its labour force, a company must look beyond its own past performance and internal policies. According to the document, which external factors must be considered to set a realistic Labour Rate Standard?

A) Time and motion studies conducted by the organization and standards published by the ILO.

B) The quality of supervision within the factory and the condition of the machinery.

Ans
C) Past and future trends of the labour market and any statutory minimum wage requirements.

D) The standard production procedures and the quality of materials being used.



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