

## **MGT402 Solved MCQs With Explanation & Reference**

The following data related to production of ABC Company:

Units produced	8,000 units
Direct materials	Rs.6
Direct labor	Rs.12
Fixed overhead	Rs.24000
Variable overhead	Rs.6
Fixed selling and administrative	Rs.2000
Variable selling and administrative	Rs.2

Using the data given above, what will be the unit product cost under marginal costing?

► Rs. 22

► **Rs. 24**

► Rs. 28

► Rs. 30

**Explanation:**

**=16+12+6=24**

**Selling and admin exp are not added in marginal costing**

Brutus Company manufactures glass bottles. The company expects to sell 500,000 bottles next year. The budgeted ending inventory this year is 15,000 bottles and the desired ending inventory for next year is 12,000 bottles. It takes 5 pounds of sand to produce one bottle. The ending inventory of sand this year is expected to be 200,000 pounds, and the desired ending inventory next year is 100,000 pounds. The amount of direct material purchases is expected to be:

► **2,385,000pounds**

► 2,465,000 pounds

► 2,585,000 pounds

► 2,600,000 pounds

Explanation:

Proposal Budget=E.Sales+Desire units-actual units\*per unit cost

=500000+12000-15000=497000\*5=2485000

=2485000+100000-200000=**2385000**

BDH produced 30,500 units of Kisty (a product). Each unit of Kisty takes two units of component L. Component L is budgeted to cost Rs. 12 per unit. Current inventory of L is 4,000 units. BDH wants 6,000 units of L on hand at the end of the next year. How much will the direct materials budget show as the cost of materials to be purchased?

► Rs. 756,000

► **Rs. 390,000**

► Rs. 684,000

► Rs. 330,000

Proposal Budget=E.Sales+Desire units-actual units\*per unit cost

=30500+6000-4000=32500\*12=**390000**

Railway Product Ltd makes one product that sells for Rs. 72 per unit. Fixed costs are Rs. 81,000 per month & the product has a contribution to sales ratio of 37.5%. In a period when actual sales were Rs. 684,000 the company's unit margin of safety was:

- ▶ 4,000 units
- ▶ 4,800 units
- ▶ 5,500 units
- ▶ **6,500 units**

**Explanation:**

**Safety Margin in units = Sales in units - Break even in units**

**Sales in units =  $684000 / 72 = 9500$**

**Fixed exp in units =  $81000 / 72 = 1125$**

**Break even in units = Fixed Exp. In units / Contribution ratio**  
**=  $1125 / 0.375 = 3000$**

**Safety Margin =  $9500 - 3000 = 6500$**

**Contribution Margin Ratio is:**

**Total contribution Margin / Sales.**

Sales / Contribution Margin per unit.

Fixed cost / Contribution margin per unit.

Sales / Variable costs.

**Contribution Margin and Contribution Margin Ratio**

**Formulas to calculate contribution margin and contribution margin ratio:**

**Contribution Margin = sales - variable costs.**

**Contribution Margin Ratio = (sales - variable costs) / sales.**

**Contribution margin and contribution margin ratio definition and explanation:**

**Contribution margin** is the amount generated by sales to cover fixed costs. The **contribution margin ratio** indicates the percent of sales available to cover fixed costs and profits.

**Contribution margin contributes to meet which one of the following options?  
Select correct option:**

Variable cost

**Fixedcost**

Operating cost

Net Profit

**Explanation:**

Contribution margin contributes to meet the fixed cost. Once the fixed cost has been met the incremental contribution margin is the profit.

Income Statement as per the marginal costing system is used as a Standard format of Income Statement to analyze the Cost-Volume-Profit relationship.

**The impact on net operating income of any given dollar change in total sales can be computed by applying which ratio to the dollar change?**

Profit margin

Variable cost ratio

**contributionmargin**

Ratio of variable to fixed expenses.

for explanation visit the following link

[http://www.accountingformanagement.com/contribution\\_margin\\_ratio.htm](http://www.accountingformanagement.com/contribution_margin_ratio.htm)

What will be the impact of normal loss on the overall per unit cost?

Select correct option:

**Per unit cost will increase**

Per unit cost will decrease

Per unit cost remain unchanged

Normal loss has no relation to unit cost

Reference:  
(lesson 10)

**A completed CVP graph will show that profit or loss at any level of sales is measured by:**

- a. A vertical line between the fixed cost line and the x-axis.
- b. A horizontal line between the revenue line and the y-axis.
- c. A vertical line between the total revenue line and the total expenses line.
- d. A horizontal line between the total revenue line and the total expenses line.**

for explanation see the following link

<http://74.125.153.132/search?q=cache:ZHsW2lpf1zIJ:www.csb.uncw.edu/people/applet/onb/classes/ACG203/Lecture%2520Notes/chap006.doc+completed+CVP+graph+will+show+that+profit+or+loss+at+any+level+of+sales+is+measured+by&cd=4&hl=en&ct=clnk&gl=pk>

The total cost of the beginning inventory was Rs. 60,000. During the month, 50,000 units were transferred out. The equivalent unit cost was computed to be Rs. 4.00 for materials and Rs. 7.40 for conversion costs under the weighted-average method.

With the help of given information, what was the total cost of the units completed and transferred out during the month.

► Rs. 480,000

**► Rs. 570,000**

► Rs. 540,000

► Rs. 510,000

### Solution

$50k \text{ units} * (4 \text{ material cost} + 7.40 \text{ conversion cost per unit}) = 570000$

**The main purpose of cost accounting is to  
Select correct option:**

Maximize profits  
Help in inventory valuation

**Provide information to management for decision making**

Aid in the fixation of selling price

### Explanation:

The purpose of cost accounting is to provide information to the management. Management needs to know cost per unit as a basis for valuing inventory and for decision making.

**Which of the following is sales force payroll incentive?  
Select correct option:**

**Commission**

Shift allowance  
Over time payment  
Bonus

### Reference:

(page # 88)

Examples of industries that would use process costing include all of the following EXCEPT:  
Select correct option:

Beverages

Food

**Hospitality**

Petroleum

Reference:

(page # 131)

The Inventory Turn over ration is 5 times and numbers of days in a year is 365. Inventory holding period in days would be  
Select correct option:

100 days

**73days**

50 days

10 days

Explanation:

*Inventory holding period = no. of days in a year / inventory turnover ratio*

Which of the following is an example of Statutory deductions:  
Select correct option:

**Deduction as Income Tax**

Deduction as social security

Subscriptions to a trade union

None of the given

Reference:

(page # 75)

**Contribution margin contributes to meet which one of the following options?  
Select correct option:**

- Variable cost
- Fixed cost**
- Operating cost
- Net Profit

Contribution margin contributes to meet the fixed cost. Once the fixed cost has been met the incremental contribution margin is the profit. Income Statement as per the marginal costing system is used as a Standard format of Income Statement to analyze the Cost-Volume-Profit relationship.

**The main purpose of cost accounting is to  
Select correct option:**

- Maximize profits
- Help in inventory valuation
- Provide information to management for decision making**
- Aid in the fixation of selling price

The purpose of cost accounting is to provide information to the management. Management need to know cost per unit as a basis for valuing inventory and for decision making.

**Which of the following is considered as basic systems of remunerating labor?**

**Select correct option:**

- Time rate system
- Piece rate system
- Halsey Premium plan

**Both time rate and piece rate system**



**Reference:**

**(Page # 82)**

**The main purpose of cost accounting is to**

**Select correct option:**

Maximize profits

Help in inventory valuation

**Provide information to management for decision making**

Aid in the fixation of selling price

**Reference:**

**( Page # 9)**

**If, Gross profit = Rs. 40,000 GP Margin = 25% of sales What will be the value of cost of goods sold?**

**Select correct option:**

Rs. 160,000

**Rs. 120,000**

Rs. 40,000

Can not be determined

**Solution:**

**Sales-CGS=GP**

**GP=40000**

GP Margin 25%.....=40000/25%

Total sale.....=160000

Now putting value in formula

GP=Sales-CGS

40000 = 160000-CGS

CGS = 160000-40000

CGS = 120000

**Which of the following cannot be used as a base for the determination of overhead absorption rate?**

**Select correct option:**

Number of units produced

Prime cost

Conversion cost

**Discount Allowed**

<http://vustudents.ning.com>

**Reference:**

**(Page # 101)**

**All of the following are essential requirements of a good wage system EXCEPT:**

**Select correct option:**

Reduced overhead costs

Reduced per unit variable cost

Increased production

**Increased operating costs**

Reference: (Page # 82) <http://vustudents.ning.com>

Wright Company had, at the beginning of 2001, a work in process of 10,000 units. During 2001, 57,500 additional units were started into production. Ending work in process on December 31, 2001, was 7,500 units. The beginning work in process was 100% complete as to direct materials and 75% complete as to conversion costs. The ending work in process was 100% complete as to direct materials and 50% complete as to conversion costs. Total direct material put into process cost Rs. 57,500. Total conversion cost put into process cost Rs. 84,375. Beginning work in process cost Rs. 21,250.; Rs. 13,250 for materials and Rs. 8000 for conversion. All materials are added at the start of the production process, and conversion costs are incurred uniformly throughout manufacturing. Wright Company uses a weighted-average process cost system. The cost per equivalent unit for conversion cost for 2001 was:

Rs. 1.00

Rs. 1.23

Rs. 1.33

**Rs.1.45**

**Solution:**  
**Quantity Schedule**

Beginning work in process	10,000
Units started	57,500
Units into production	67,500

## Equivalent Units

Conversion	Materials		
Completed	60,000	60,000	60,000
Ending work in process	7,500	7,500	3,750
Total units	67,500	67,500	63,750

Costs	Total	Materials	Conversion
Beginning work in process	Rs 21,250	Rs. 13,250	Rs 8,000
Current period 84,375	141,875	57,500	
Total cost to account for	Rs163,125	Rs70,750	Rs92,375
Equivalent units		÷ 67,500	÷ 63,750
Cost per equivalent unit Rs1.449		Rs1.048	

A cost that has been incurred but cannot be changed by present or future decisions is called:

► Sunk cost

► Differential cost

- ▶ Opportunity cost
- ▶ Marginal cost

#### Explanation:

**Sunk cost** : Sunk cost refers to the cost that has been spent in the past and that cannot be retrieved on product or service in the current period. This cost should not be taken into account while making the decisions by management.

#### Example

Stationary bought in bulk last month. In this case the cost has been incurred and will not be important to management decisions being made for the future..

**Which of the following document evidences the transaction of purchase of material?**

- ▶ Material requisition
- ▶ Store requisition
- ▶ Purchase order
- ▶ **Purchase invoice**

#### Explanation:

##### Purchase Invoice

It is the document that evidences the transaction of purchase of material. It is issued by the seller stating quantity, rate, discount, and amount of the purchased material. Settlement terms are also stated at bottom of the invoice. Receiving an invoice means that money is payable to the supplier.

##### Material Requisition

It is a document through which work station incharge requires/receives material from the store. It is sent to the store incharge duly approved by the production manager, stating the number of units required for consumption based on which the store incharge issues the required material to the work shop.

The cost that is subject to actual payment or will be paid for in future is called:

- ▶ Fixed cost
- ▶ Step cost
- ▶ **Explicit cost**
- ▶ Imputed cost

Reference & Explanation:

(page # 8)

**3-Explicit cost** : This is subject to actual payment or will be paid in the future.

**Example :**

- 1) Actual payment made to buy land for expansion of the company instead of using the owner's land.
- 2) Payment made for wage, rent or material etc.

**FIFO is the abbreviation of:**

- ▶ Final Interest-Free Option
- ▶ **Firstin FirstoutMethod**
- ▶ None of the given options
- ▶ Fixed income Financial Operations

Reference:

(page # 41)

Which of the following industries would most likely use a Process cost Accounting system?

- ▶ **Construction**

- ▶ Beer
- ▶ Hospitality
- ▶ Consulting

Reference:

(page # 124)

**Payroll includes:**

- ▶ Salaries & Wages of direct labor
- ▶ Salaries & Wages of Indirect labor
- ▶ Salaries & Wages of Administrative
- ▶ **Salaries & Wages of direct labor, Indirect labor, and Administrative**

Reference:

(Page # 69)

**While calculating the EOQ, carrying cost is taken as the:**

- ▶ **%age of unit cost**
- ▶ %age of ordering cost
- ▶ %age of annual required units
- ▶ Total unit cost

Reference:

(Page # 56)

**The average cost method of process costing has an advantage when compared to the FIFO method relative to simplicity because under the average method:**

- ▶ It provides that units started within the current period are valued at the current period cost

► The costs in the beginning inventory in a processing department maintain their separate identity

► The identity of the beginning units in process is typically maintained when they are transferred to the next department

► All units completed during the period will be assigned the same unit cost

Reference:

(Page # 146)

Which of the following sentences is the best description of zero-base budgeting?

► Zero-base budgeting is a technique applied in government budgeting in order to have a neutral effect on policy issues

► Zero-base budgeting requires a completely clean sheet of paper every year, on which each part of the organization must justify the budget it requires

► Zero-base budgeting starts with the figures of the previous period and assumes a zero rate of change

► Zero based budgeting is an alternative name of flexible budget

Explanation:

Zero-base budgeting:

A method of budgeting in which all expenses must be justified for each new period. Zero-based budgeting starts from a "zero base" and every function within an organization is analyzed for its needs and costs. Budgets are then built around what is needed for the upcoming period, regardless of whether the budget is higher or lower than the previous one.

A budget that requires management to justify all expenditures, rather than just changes from the previous year is referred to as:

<http://vustudents.ning.com>

► Self-imposed budget



- ▶ Participative budget
- ▶ Perpetual budget
- ▶ **Zero-based budget**

Reference:

<http://www.investopedia.com/terms/z/zbb.asp>

**All Indirect cost is charged/record in the head of**

- a) Prime cost
- b) FOH cost**
- c) Direct labor cost
- d) None of the given options

Referen

ce:

(Page #

2)

**Amount of Depreciation on fixed assets will be fixed in nature if calculated under which of the following method?**

- ▶ **Straightline method**
- ▶ Reducing balance method
- ▶ Some of year's digits method
- ▶ Double declining method

Referen

ce:

(page #

3)

The point at which the cost line intersects the sales line will be called:

- ▶ Budgeted sales
- ▶ **Break Even sales**
- ▶ Margin of safety
- ▶ Contribution margin

Reference

: (Page #  
184)

While transporting petrol, a little quantity will be evaporated; such kind of loss is termed as:

- ▶ **Normal Loss.**
- ▶ Abnormal Loss.
- ▶ Incremental Loss.
- ▶ Incremental abnormal loss.

Referenc

e: (Page  
# 60)

Profit under absorption costing will be higher than under marginal costing if:

- ▶ **Produced units > Units sold**
- ▶ Produced units < Units sold
- ▶ Produced units = Units sold
- ▶ Profit cannot be determined with given statement

Reference

: (Page #  
171)

The break-even point in units is calculated using which of the following factors?

- ▶ Fixed expenses and the contribution margin ratio
- ▶ Variable expenses and the contribution margin ratio

► **Fixed expenses and the unit contribution margin**

- Variable expenses and the unit contribution margin

Reference

: (Page #

183) OR

Reference

[http://en.wikipedia.org/wiki/Break\\_even\\_analysis](http://en.wikipedia.org/wiki/Break_even_analysis)

is

Which of the following factor/s should be considered while constructing an administrative selling expense budget?

- Fixed expenses
- Past experience
- Variable expenses

► **All of the given options**

Reference

[http://www.accountingformanagement.com/selling\\_and\\_admn\\_expenses\\_budget.htm](http://www.accountingformanagement.com/selling_and_admn_expenses_budget.htm)

A store ledger card is similar to the \_\_\_\_\_.

Select correct option:

- ☐ Stock ledger
- ☒ **Bincard**
- ☐ Material card

- Purchase requisition card

**Reference Or Explanation:**

It is similar to the bin card as far as receipt and issue of the quantity of material is concerned, but the main purpose of maintaining the store ledger card is to know the cost of material consumed and material in store along with the cost per unit of the material. Store ledger card is maintained using the FIFO, LIFO and W Avg methods. (Page n. 65)

<http://vustudents.ning.com>

\_\_\_\_\_ is the cost that is incurred at the time of making transaction.

- ▶ Product Cost
- ▶ Period Cost
- ▶ Sunk Cost

**▶ Historical Cost**

**Explanation:**

It is the cost which is incurred at the time of entering into the transaction. This cost is verifiable through invoices/agreements. Historical cost is an actual cost that is borne at the time of purchase.

**Referenc**

e: (page

# 7)

**Costs that change in response to alternative courses of action are called:**

- ▶ Relevant costs
- ▶ **Differential costs**
- ▶ Target costs
- ▶ Sunk costs

**Reference:**

**Page # 229**

**Which of the following is a period cost?**

- ▶ Direct materials

- ▶ Indirect materials
- ▶ Factory utilities

▶ **Administrative expenses**

Reference:

page # 7

Which of the following items of expense are to be add in FOH cost  
Select correct option:

- Rent of factory + Head office rent + salaries to factory watchman
- Rent of factory + factory lighting bill + Directors salaries
- ✓ **Rent of factory + factory lighting bill + Factory employees salaries**
- Head office rent + Factory property tax + Factory small tools

Reference Or Explanation:

Factory overhead costs are those costs incurred which cannot be identified directly to cost unit.

These are incurred in many different parts of organization.

These include:

1. Indirect materials
2. Indirect labor and

3. Indirect costs attributable to production and the service activities associated with manufacturing.

Marketing, general administration, research and development costs that are not associated with manufacturing are not usually treated as overheads for this purpose. (Page no. 100)

**The FIFO inventory costing method (when using a perpetual inventory system) assumes that the cost of the earliest units purchased is allocated in which of the following ways?**

**Select correct option:**

- ☐ First to be allocated to the ending inventory
- ☐ Last to be allocated to the cost of goods sold
- ☐ Last to be allocated to the ending inventory
- ☒ **First to be allocated to the cost of goods sold**

**Explanation:**

**FIFO**

21. The **FIFO method** that the costs of the **earliest goods purchased** are the first to be sold.

a. This **method often parallels the actual physical flow of the merchandise.**

b. Under this **method**, the ending **inventory** is based on the latest **units purchased.**

**Reference:**

[http://74.125.153.132/search?q=cache:sWEsb5A\\_egoJ:ocw.kfupm.edu.sa/user062%255CACCT20101%255GSummary/ch06.doc+The+FIFO+inventory+costing+method+\(when+using+a+perpetual+inventory+system\)+assumes+that+the+cost+of+the+earliest+units+purchased+is+allocated+in+which+of+the+following+ways%3F&cd=2&hl=en&ct=clnk&gl=pk](http://74.125.153.132/search?q=cache:sWEsb5A_egoJ:ocw.kfupm.edu.sa/user062%255CACCT20101%255GSummary/ch06.doc+The+FIFO+inventory+costing+method+(when+using+a+perpetual+inventory+system)+assumes+that+the+cost+of+the+earliest+units+purchased+is+allocated+in+which+of+the+following+ways%3F&cd=2&hl=en&ct=clnk&gl=pk)

**\_\_\_\_\_ is the time worked over and above the employee's basic working week.**

**Select correct option:**

- ☐ Flex time
- ☒ **Overtime**

- Shift allowance
- Commission

**Reference and Explanation:**

Overtime is the time worked over and above the employee's basic working week. (Page no. 85)

**What will be the impact of normal loss on the overall per unit cost?**

**Select correct option:**

✓ **Per unit cost will increase**

- Per unit cost will decrease
- Per unit cost remain unchanged
- Normal loss has no relation to unit cost

**Reference and Explanation:**

Such a loss is inherent in manufacturing operations and cannot be avoided, for this reason; cost of normal loss is absorbed by the good units produced. It has the effect of increasing unit cost of good output. Total cost of the department is not divided by all units processed, instead. It is divided only by the good units produced. (Page no. 139)

**The danger Level can be calculated ?**

**Select correct option:**

✓ **Average consumption x Lead time to get urgent supplies**

- Normal consumption x Lead time to get urgent supplies
- Maximum consumption x Lead time to get urgent supplies
- Minimum consumption x Lead time to get urgent supplies

**Reference and Explanation:**

**Formula**

**Average consumption x Emergency time (Page no. 52)**

If, Sales = Rs. 800,000 applied Markup = 25% of cost What would be the value of Gross profit?

Select correct option:

- ☐ Rs. 200,000
- ☒ **Rs.160,000**
- ☐ Rs. 480,000
- ☐ Rs. 640,000

**Reference and Explanation:**

Gross profit = Sales x  $\frac{25\%}{125\%}$

$$= 800,000 \times \frac{25\%}{125\%} = 1,60,000$$

(Page no. 33) Q 1

The supervisor salary is treated as:

Select correct option:

- ☐ Direct labor cost
- ☒ **Indirect labor cost**
- ☐ Conversion cost
- ☐ None of the given options

The Inventory Turn over ration is 5 times and numbers of days in a year is 365. Inventory holding period in days would be

Select correct option:

- ☐ 100 days
- ☒ **73days**
- ☐ 50 days
- ☐ 10 days

**Reference and Explanation:**

(Page no. 32)

Inventory turnover ratio =  $\frac{\text{Cost of goods sold}}{\text{Average inventory}}$

Inventory holding period in days =  $\frac{\text{Number of days in a year}}{\text{Inventory turnover ratio}}$



Sales are Rs. 450,000. Beginning finished goods were Rs. 23,000. Ending finished goods are Rs. 30,000. The cost of goods sold is Rs. 300,000. What is the cost of goods manufactured?

Select correct option:

- ☐ Rs. 323,000
- ☐ Rs. 330,000
- ☐ Rs. 293,000
- ☒ **None of the given options**

**Explanation:**

**Cost of good manufactured = opening finished goods + closing finished goods = CGS**

Here we will do reverse

**$3,00,000 + 30,000 - 23,000 = 3,07,000$**

**OR**

**Solution:**

Cost of goods manufactured = 3,07,000

Add: beginning Finished goods=23000

Cost of goods available for sale=330000

Less: Ending Finished goods = 30000

Cost of goods sold = 300,000

**Increase in material Inventory means:**

Select correct option:

- ☒ **The ending inventory is greater than opening inventory**
- ☐ The ending inventory is less than opening inventory
- ☐ Both ending and opening inventories are equal
- ☐ Can not be determined

**Reference and Explanation:**

**Hint:** Increase in inventory means closing inventory is greater than the opening inventory. Decrease in inventory means closing inventory is lesser than the opening inventory. (page no. 34)

Which of the following is considered as basic systems of remunerating labor?  
Select correct option:

- ☐ Time rate system
- ☐ Piece rate system
- ☐ Halsey Premium plan
- ☒ Both timerate and piece rate system

**Reference and Explanation:**

There are two basic systems of remunerating labor. One is related to the time and the other relates to the quantum of work. (Page no. 82)

While calculating the EOQ, number of orders is calculated by:  
Select correct option:

- ☐ Multiplying the required units with cost per order
- ☒ Dividing required unit by ordered quantity
- ☐ Multiplying the required units with ordered quantity
- ☐ Multiplying the ordered quantity with cost per order

**Reference and Explanation:**

$\text{Required Units} = \frac{\text{Number of orders}}{\text{Order Quantity}}$  (Page no. 57)

<http://vustudents.ning.com>

An organisation sold units 4000 and have closing finished goods 3500 units and opening finished goods units were 1000. The quantity of unit produced would be:  
Select correct option:

- ☐ 7500 units
- ☒ 6500 units
- ☐ 4500 units
- ☐ 8500 units

**Reference and Explanation:**

$\text{Units produced} = \text{Units sold} + \text{Closing finished goods units} - \text{Opening finished goods units}$  (Page no. 38)

Under/Over applied FOH cost can be adjusted in which of the following:  
Select correct option:

- ☐ Entire Production
- ☐ Cost of Good sold
- ☐ Net Profit
- ☒ All of given options

**Reference and Explanation:**

Such variance should be eliminated from the financial statements through adjustment. Under/Over applied FOH cost can be adjusted in following costs/profit figures:

1. Entire Production
  - a) Work in process inventory
  - b) finished goods inventory
  - c) Cost of goods sold
2. Cost of Goods Sold
3. Net profit (Page no. 25)

In furniture manufacturing use of nail, pins, glue, and polish which use to increase its esteem value that cost is treated as:  
Select correct option:

- ☐ Direct material cost
- ☒ **Indirect material cost**
- ☐ FOH cost
- ☐ Prime cost

**Reference or explanation:**

**Indirect Material/Factory Supplies** is the cost that is incurred in producing product but which can not traced in full in the cost unit. For example: polishing material in production of furniture. (Page no. 40)

If, Gross profit = Rs. 40,000 GP Margin = 25% of sales what will be the value of cost of goods sold?

Select correct option:

- ☐ Rs. 160,000
- ☒ **Rs.120,000**
- ☐ Rs. 40,000
- ☐ Can not be determined

**Reference and Explanation:**

**Cost of goods sold** = Gross profit (absolute amount) x 75%/25%

**Reference:**

(Page no. 33)

(Q no. 3)

**Period costs are**

**Select correct option:**

- ☐ Expensed when the product is sold
- ☐ Included in the cost of goods sold
- ☒ **Related to specific Period**
- ☐ Not expensed

**Reference and Explanation:**  
**Period Cost**

The cost is not related to production and is matched against on a time period basis. This cost is considered to be expired during the accounting period and is charged to the profit & loss account. (Page no. 7)

**Overtime that is necessary in order to fulfill customer orders is called:**

**Select correct option:**

- ☐ Avoidable overtime
- ☒ **Unavoidable overtime**
- ☐ Premium Overtime
- ☐ Flex time

**Reference and Explanation:**

Overtime that is necessary in order to fulfill customer orders is **unavoidable overtime**. (Page no. 86)

**A cost unit is**

**Select correct option:**

- ☐ The cost per hour of operating a machine
- ☐ The cost per unit of electricity consumed
- ☒ **A unit of product or services in relation to which costs are ascertained**
- ☐ A measure of work output in a standard

**Reference and Explanation:**

It is a unit of a product or service in relation to which the cost is ascertained, i.e. it is the unit of the output or product of the business. In simple words the unit for which cost of producing the units is identified /allocated. (Page no. 6)

FOH applied rate of Rs. 5.60 per machine hour. During the year the FOH to Rs.275,000 and 48,000 machine hours were used. Which one of following statement is correct?

Select correct option:

Overhead was under-applied by Rs.6,200

**Overhead was over-applied by Rs.6,200**

Overhead was under-applied by Rs.7,200

Overhead was over-applied by Rs.7,200

<http://vustudents.ning.com>

#### Explanation

: FOH =

275000

$48000 \times 5.60 = 268800$

6200

As the predetermined FOH is greater than actual so it will be Over-applied

FOH absorption rate is calculated by the way of

Select correct option:

Estimated FOH Cost/Direct labor hours

Estimated FOH Cost/No of units

produced Estimated FOH Cost/Prime

Cost

**All of the given options**

#### Explanation:

**ABSORPTION COSTING:** Before diving into the specifics of variable costing, let's revisit the basic tenants of the traditional approach known as absorption costing (also known as "full costing"). Generally accepted accounting principles require absorption costing for external reporting, and it formed the basis for the discussion of inventory costing found in preceding chapters. Under absorption costing, normal manufacturing costs are considered product costs and included in inventory. As sales occur, the cost of inventory is transferred to cost of goods sold; meaning that the gross profit is reduced by all costs of manufacturing, whether those costs relate to direct materials, direct labor, variable manufacturing overhead, or fixed manufacturing overhead. Selling, general, and administrative costs (SG&A) are classified as period expenses.

The cost of electricity bill of the factory is treated as: Select correct option:

- Fixed cost
- Variable cost
- Step cost
- Semivariable cost**

Reference and explanation:

#### Semi-variable cost

This cost is partly fixed and partly variable in relation to the output. For e.g. telephone bill, electricity bill

Reference: from <http://www.docstoc.com/docs/13594184/Cost-Accounting>

Opportunity cost is the best example of:

✓ **RelevantCost**

- ▶ Irrelevant Cost
- ▶ Standard Cost
- ▶ Sunk Cost

Reference and explanation:

#### Relevant Cost

Relevant cost is which changes with a change in decision. These are future costs that effect the current management decision. (Page no. 11)

A typical factory overhead cost is:

- ▶ Distribution
- ▶ Internal audit
- ✓ **Compensationofplantmanager**
- ▶ Design

Reference and explanation

Most of the factory overhead cost items are recorded (identified) straight away as factory overhead cost; these include some sort of indirect material items, indirect labor, electricity, insurance, rent, repair etc. etc. (Page no. 117)

**Period costs are:**

- ▶ Expensed when the product is sold
- ▶ Included in the cost of goods sold
- ✓ **Related to specific period**
- ▶ Not expensed

**Reference and explanation:**

The cost is not related to production and is matched against on a time period basis. This cost is considered to be expired during the accounting period and is charged to the profit & loss account. (Page no. 7)

**All of the following indicate the problems in traditional budget EXCEPT:**

**▶ Programmes and activities involving wasteful expenditure are identified, resulting in unavoidable financial and other costs**

- ▶ Inefficiencies of a prior year are carried forward in determining subsequent years' levels of performance
- ▶ Managers are not encouraged to identify and evaluate alternate means of accomplishing the same objective
- ▶ Decision-making is irrational in the absence of rigorous analysis of all proposed costs and benefits

**Reference and explanation:**

Programmes and activities involving wasteful expenditure are not identified, resulting in avoidable financial and other costs. (Page no 119)

**A forecast set of final accounts is also known as:**

- ▶ Cash budget
- ▶ Capital budget
- ✓ **Masterbudget**
- ▶ Sales budget

**Reference and explanation:**

Different types of budgets are prepared for different purposes e.g. Sales Budget, Production Budget, Administrative Expense Budget, Raw material Budget, etc. All these sectional budgets are afterwards integrated into a master budget- which represents an overall plan of the organization. A budget helps us in the following ways: **(Page no. 199)**

**Which of the following would be the effect, if inventory is not properly measured?**

- ▶ **Expenses and revenues cannot be properly matched**
- ▶ Unfair position in Financial Statements
- ▶ Inventory items show under or over stocking
- ▶ All of the given options

**Reference and explanation:**

#### INVENTORIES AND FINANCIAL STATEMENTS

Inventories are usually the largest current asset of a business, and proper measurement of them is necessary to assure accurate financial statements. If inventory is not properly measured, expenses and revenues cannot be properly matched. When ending inventory is incorrect, the following balances of the balance sheet will also be incorrect as a result: merchandise inventory, total assets, and owner's equity. When ending inventory is incorrect, the cost of merchandise sold and net income will also be incorrect on the income

Ref link

<http://www.peoi.org/Courses/ac/ac10.html>

**Increased cost of production due to high labor turnover is a result of which of the following factor?**

- ▶ Interruption of production
- ▶ Coordination between new and old employee to produce more

**Increased production due to newly motivated employees**



- ▶ Decrease losses as new employees will be more concerned towards output

## Reference and

### explanation: Labor

#### Turnover:

Labor turnover may be defined as the rate of change in the composition of the labor force of an organization high rate of labor turnover denotes that labor is not stable and there is frequent change in the labor force in the organization. The high labor turnover rate is an important indication of high labor cost. It is therefore not desirable.

(Page no. 97)

**Increased cost of production due to high labor turnover is a result of which of the following factor?**

#### ▶ Interruption of production

- ▶ Coordination between new and old employee to produce more
- ▶ Increased production due to newly motivated employees
- ▶ Decrease losses as new employees will be more concerned towards output

#### Reference & Explanation:

The higher rate of labor turnover results in increased cost of production. This is due to—  
(i) Increased cost of new recruitment, training, (ii) Interruption of production, (iii) Decrease in production due to inefficiency and inexperience of newly recruited workers,

(iv) The new workers are more accident prone and are liable to cause more damage to machinery, tools than old employees,

**The total cost of the beginning inventory was Rs. 60,000. During the month, 50,000 units were transferred out. The equivalent unit cost was computed to be Rs. 4.00 for materials and Rs. 7.40 for conversion costs under the weighted- average method.**

**With the help of given information, what was the total cost of the units completed and transferred out during the month.**

► Rs. 480,000

► **Rs. 570,000**

► Rs. 540,000

► Rs. 510,000

Unit transfer out	50000
Per unit cost with respect to material	Rs 4
Total cost with respect to material	$4 \times 50000$
	=
	200000
Per unit cost with respect to conversion	Rs 7.40
Total cost with respect to conversion	$7.40 \times 50000$
	=
	370000
Total cost = Material cost + conversion cost	
	= 200000 + 370000
	= 570000

Net Income before Interest and tax is also called:  
Select correct option:

**Operating Income/Profit**

Gross Profit  
Marginal Income  
Other Income

Explanation:  
Sales

**Less Cost of goods sold**

Gross profit

**Less Operating expenses**

Selling and marketing

Administrative

Operating profit

**Less Financial Expenses**

Interest on loan

Profit before tax

**Less Income Tax**

Net profit

From the following data, calculate the Economic Order Quantity.

Annual usage = 8,000 units

Cost per unit = Rs.30

Ordering cost = Rs.7 per order

Storage and carrying cost as percentage of average inventory holding 15%.

► **157.76**

► 61.10

► 864.09

► 60.95

**Explanation:**

EOQ = Economic Order Quantity. ?

RU = Annually Required Units. 8000

OC = Ordering Costs for one order. Rs. 7

UC = Inventory Unit Cost. Rs.30

CC = Carrying Cost as %age of Unit Cost. 15% or 0.15

EOQ =  $(2 \times RU \times OC / UC \times CC\%)^{1/2}$

=  $(2 \times 8000 \times 7 / 30 \times 0.15)^{1/2}$

= 157.76

\_\_\_\_\_ are future costs that effect the current management decision.

Select correct option:

Sunk Cost

Standard Cost

**Relevant Cost**

Irrelevant Cost

**Reference:**

<http://vustudents.ning.com>  
Relevant cost is which changes with a change in decision. These are future costs that

effect the current management decision. (P#6)

“Taking steps for the fresh purchase of those stocks which have been exhausted and for which requisitions are to be honored in future” is an easy explanation of: Select correct option:

Overstocking

Under stocking

**Replenishment of stock**

Acquisition of stock

Reference and Explanation:

Replenishment of stock therefore implies as ‘taking steps for the fresh purchase of those stocks which have been exhausted and for which requisitions are to be honored in future’. (Page # 50)

Which of the following would be considered to be an investment centre?  
Select correct option:

Managers have control over marketing

Management have a sales team

Management have a sales team and are given a credit control function

**Managers can purchase capital assets and are given a credit control function**

Reference and Explanation:

An investment centre is a segment or a profit centre where the manager has significant degree of control over his/her division's investment policies (P#11)

In cost Accounting, abnormal loss is charged to:

Select correct option:

Factory overhead control account

**Work in process account**

Income Statement

Entire production

Reference and Explanation:

### Treatment in Cost Accounting

#### Normal loss

#### Abnormal loss

1. Charged to FOH account.

1. Charged to specific WIP account. (P#60)

Which of the following is a mechanical device to record the exact time of the workers?

**Select correct option:**

**ClockCard**

Store Card  
Token System  
Attendance Register

**Explanation:**

Different mechanical devices have been designed for recording the exact time of the workers. These include:

a. Clock Card

b. Dial Time Records.

**The Term Maximum Level Represents:**

**Select correct option:**

The maximum stock level indicates the maximum quantity of an item of material which can be held in stock at any time.

The maximum stock level indicates the maximum quantity of an item of material which cannot be held in stock at any time.

The Average stock level indicates the maximum quantity of an item of material which can be held in stock at any time.

The Available stock level indicates the maximum quantity of an item of material which can be held in stock at any time.

**Reference and explanation:**

The maximum stock level indicates the maximum quantity of an item of material which can be held in stock at any time (Page #51)

**Which of the following is / are element / s of production payroll?**

**Select correct option:**

Direct labor force wages  
Administrative wages  
Selling wages

**All of the given options**

**Explanation:**

Labor costs constitute an important part of production cost. Labor cost is an element of total payroll expense of an entity. Payroll expense consists of

- Labor cost
- Administrative staff expenses
- Selling and distribution staff expenses

Direct material opening inventory add net purchases is called  
Select correct option:

Material consumed

**Material available for use**

Total material purchased

Material ending inventory

**Explanation:**

**Opening inventory + Net Purchases = Material available for use**

**Question No: 1**

**Opportunity cost is an example of which of the following?**

- ▶ Sunk Cost
- ▶ Irrelevant Cost
- ▶ **Relevant Cost**
- ▶ Period Cost

**Reference:**

**PAGE # 6**

<http://vustudents.ning.com>

**Question No: 2**

**Wage rate per hour = Rs.1.50**

**Time allowed for the job = 16 hours**

**Time taken = 12hours**

**Calculate the effective rate of earnings.**

- ▶ 1.8
- ▶ **1.75**
- ▶ 1.6
- ▶ 1.55

**Reference:**

**page # 83**

**Question No: 4**

**\_\_\_\_\_ System applies when standardized goods are produced under a series of inter-connected operations.**

▶ **Process costing**

- ▶ Job order costing
- ▶ Standard costing
- ▶ None of the given options

**Reference:**

**page # 131**

**Question No: 5**

**Find the value of Closing stock if:**

**Purchases Rs.33, 000**

**Purchases return Rs.2, 000**

**Opening stock Rs.14, 000**

**Material consumed Rs.40, 000**

- ▶ Rs.4, 000
- ▶ **Rs.5, 000**
- ▶ Rs.7, 000
- ▶ None of the given options

**Explanation:**

Opening stock		Rs.14, 000
add: Purchases	Rs.33, 000	
Purchases return	<u>Rs.2, 000</u>	<u>Rs.31, 000</u>
		Rs.45, 000
Less: Material consumed		<u>Rs.40, 000</u>
closing stock		<u>Rs.5, 000</u>

If Applied FOH is more than actual FOH, the difference will be \_\_\_\_\_ in the Net Income.

- ▶ Added
- ▶ **Subtracted**
- ▶ Both added and subtracted
- ▶ None of the given options

Reference:

page # 29

**Question No: 8**

The labor cost that is lost because of power and machinery break-down is called:

- ▶ Direct Labor Cost
- ▶ Indirect Labor Cost
- ▶ **Abnormal Labor Cost**
- ▶ Labor related cost

<http://vustudents.ning.com>

Reference:

page # 69

**Question No: 9**

Which of the following is not the way by which Employees may be paid their wages?

- ▶ In cash
- ▶ By bank transfer
- ▶ Through the Banks Automated Clearing System (BACS)
- ▶ **None of the given Options**



**Reference:**

page # 78

**Question No: 10**

\_\_\_\_\_ is an amount paid to an employee based on that employee's performance.

- ▶ Bonus
- ▶ **Commission**
- ▶ Both bonus & Commission
- ▶ None of the given options

**Reference:**

page # 87

**Opportunity cost is the best example of:**

▶ **Relevant Cost**

- ▶ Irrelevant Cost
- ▶ Standard Cost
- ▶ Sunk Cost

**Relevant Cost**

Relevant cost is which changes with a change in decision. These are future costs that effect the current management decision. (Page no. 11)

**Capacity Variance / Volume Variance arises due to**

- ▶ Difference between Absorbed factory overhead and budgeted factory for capacity attained
- ▶ Difference between Absorbed factory overhead and absorption rate
- ▶ **Difference between Budgeted factory overhead for capacity attained and FOH actually incurred**
- ▶ None of the given options

**Explanation:**

Budget variance is the difference between budgeted factory overhead for capacity attained and actual factory overhead incurred.

**Which of the following is TRUE regarding Departmental Rates?**

- ▶ A departmental absorption rate is a rate of absorption based upon the particular department's overhead cost and activity level
- ▶ A departmental absorption rate is a rate of absorption not based upon the particular department's overhead cost and activity level
- ▶ A single rate of absorption used throughout an organization's production facility and based upon its total production costs and activity
- ▶ None of the given options

**Explanation:**

A departmental absorption rate is a rate of absorption based upon the particular department's overhead cost and activity level. This method allows the activity of each department to be measured using a basis which is appropriate. It also ensures that the cost attributed to the cost unit reflects the cost of the departmental resources used in its cost units.

**The flux method of labor turnover denotes:**

- ▶ Workers employed under the expansion schemes of the company
- ▶ **The total change in the composition of labor force**
- ▶ Workers appointed against the vacancy caused due to discharge or quitting of the organization
- ▶ Workers appointed in replacement of existing employees

**Explanation:**

The flux method of labor turnover denotes the total change in the composition of labor force. While replacement method takes into account only workers appointed against the vacancy caused due to discharge or quitting of the organisation.

**In a repeated distribution method:**

- ▶ Each service department in turn and allocates its costs to all departments
- ▶ Only one service department in turn and re-allocates its costs to all departments
- ▶ Each service department in turn and not re-allocates its costs to all departments
- ▶ **Each service department in turn and re-allocates its costs to all departments**

**Repeated distribution method**

**This method takes each service department in turn and re-allocates its costs to all departments which benefit. The re-allocation continues until the numbers being dealt with become very small.**

<http://vustudents.ning.com>

**Which of the following statement is true regarding Repeated distribution method?**

- ▶ **The re-allocation continues until the numbers being dealt with become very small**
- ▶ The re-allocation continues until the numbers being dealt with become very Large
- ▶ The re-allocation continues until the numbers being dealt with become small
- ▶ None of the given options

**Repeated distribution method**

**This method takes each service department in turn and re-allocates its costs to all departments which benefit. The re-allocation continues until the numbers being dealt with become very small.**

**Railway Product Ltd makes one product that sells for Rs. 72 per unit. Fixed costs are Rs. 81,000 per month & the product has a contribution to sales ratio of 37.5%. In a period when actual sales were Rs. 684,000 the company's unit margin of safety was:**

- ▶ 4,000 units
- ▶ 4,800 units
- ▶ 5,500 units
- ▶ **6,500 units**

**Solution**

Sales Rs = Fixed Cost / Sales Ratio = RS81,000 / 0.375 = Rs216,000

Margin of Safety (MOS): = Actual Sales - Sales = Rs684000 - Rs216000 = Rs468000

For per unit 468000/1000=468

In units M O S = Rs468/Rs72 = 6,500 units

\_\_\_\_\_ entities purchase and then sell tangible products without changing basic form of product.

► **Trading entities**

- Manufacturing entities
- Servicing entities
- None of the given options

Reference:  
(page #16)

Which of the following is an example of job order costing?

- Beverage manufactures
- Printing industry
- Ball point manufactures

► **Software house**

Reference:  
(page125)

<http://vustudents.ning.com>

**Which of the following System applies when standardized goods are produced under a series of inter-connected operations?**

- A. Job Order Costing
- B. Process Costing**
- C. Standard Costing
- D. All of the given options

**Reference:**

(page # 132)

**Which of the following is not function of cash budget?**

- ▶ Determining the future cash needs of the firm
- ▶ Planning for financing
- ▶ Exercising control over cash and liquidity of the firm
- ▶ None of the given options**

**--Reverence:**

(page 212)

<http://vustudents.ning.com>