

## Unit 1: Overheads

### Multiple Choice Questions

1. An example of a production overhead would be:
  - a) Material.
  - b) Rent
  - c) Labour cost.
  - d) Supervisory cost
  
2. All such expenses which are incurred for creating and enhancing the demands for the products are
  - a) Selling expenses
  - b) Administrative expenses
  - c) Distribution expenses
  - d) All of the above
  
3. To control costs it is essential to keep control on
  - a) Prime cost
  - b) Overheads
  - c) Indirect materials and tools cost.
  - d) All of the above
  
4. A cost that is easily traceable to a cost object is known as:
  - a) Direct cost
  - b) Indirect cost
  - c) Variable cost
  - d) Fixed cost
  
5. Which of the following best describes a fixed cost? A cost which:
  - a) Represents a fixed proportion of total costs
  - b) Remains at the same level up to a particular level of output
  - c) Has a direct relationship with output.
  - d) Remains at the same level when output increases.
  
6. Which of the following is a valid classification of the salary paid to the foreman in charge of the packing department?
  - a) Indirect departmental cost

- b) Direct product cost
- c) Direct departmental cost
- d) Service department cost.

7. A cost that changes in total dollar amount with the change in the level of activity is known as:

- a) Direct cost
- b) Indirect cost
- c) Variable cost
- d) Fixed cost

8. Which of the following costs is treated as indirect labour?

- a) Idle time
- b) Overtime premium
- c) Fringe benefits
- d) All of the above

9. Which definition best describes indirect costs?

- a) Indirect costs are those costs which are not controlled directly by a manager.
- b) Indirect costs are those costs which cannot be directly associated with a product or service.
- c) Indirect costs are always fixed.
- d) Indirect costs are always manufacturing overhead costs.

10. What would be the most appropriate way of apportioning depreciation costs across different manufacturing departments in a business?

- a) Floor space
- b) Numbers of personnel
- c) Value of buildings and equipment
- d) Administration costs

11. Which of the following cost is also known as overhead cost or on cost:

- a) Cost of direct labour
- b) Cost of direct material
- c) Direct expenses
- d) Indirect expenses

12. Which of the following calculate the actual cost of product:

- a) Cost estimation
- b) Costing
- c) Both a and b
- d) None of these

13. Costing is specialized branch of accounting which deals with:

- a) Classification, recording, allocation, and control of asset
- b) Classification, processing, allocation and directing
- c) Classification, recording, planning and control of asset
- d) Classification, recording, allocation and directing

14. In cinema halls, composite cost unit is \_\_\_\_\_:

- a) A seat per show
- b) Cost of screening
- c) Salary of staff
- d) Rent of cinema hall

15. The stage of production at which separate products are identified is known as \_\_\_\_\_:

- a) Process costing
- b) Reverse cost method
- c) Subsequent cost
- d) Equivalent production

16. What item is not included in cost accounting?

- a) Product costing
- b) Profit-sharing
- c) Planning
- d) Controlling

17. A total of all the direct costs is known as

- a) Cost of production
- b) Cost of sales
- c) Prime cost
- d) Works cost

18. Which of the following is not included in functional classification of overheads?

- a) Repairs and maintenance

- b) Lubricating oil
- c) Consumable stores
- d) Chargeable expenses

19. The process of distribution of overheads allotted to a particular department or cost center over the units produced is called:

- a) Allocation
- b) Apportionment
- c) Absorption
- d) Departmentalization

20. A product with a high gross profit could be an unprofitable product.

- a) True
- b) False

21. To control costs it is essential to keep control on

- a) Prime cost
- b) Overheads
- c) Indirect materials and tools cost
- d) All of the above

22. The overhead cost for a particular job =

- a)  $\text{man hour rate} \times \text{man hours spent on that job}$
- b)  $\text{man hour rate} / \text{man hours spent on that job}$
- c)  $\text{man hour rate} + \text{man hours spent on that job}$
- d)  $\text{man hour rate} - \text{man hours spent on that job}$

23. The following method is an improvement over the percentage on direct labour cost method.

- a) Machine hour rate
- b) Percentage on prime cost
- c) Percentage on direct material cost
- d) Man hour rate

24. Which of the following is/are the basic object/s of job analysis?

- a) Determination of wage rates
- b) Ascertain the relative worth of each job
- c) Breaking up job into its basic elements
- d) All of the given options

25. An overhead absorption rate is used to:
- Share out common costs over benefiting cost centers
  - Find the total overheads for a cost center
  - Charge overheads to products
  - Control overheads
26. Economic Batch Quantity depends on .....and .....costs.
- Material, labour
  - set-up costs, carrying
  - transportation, carrying
  - warehousing, labour
27. The wages paid to maintenance department workers who do repair work principally for production departments but also on the vehicles in the distribution department should be charged as
- Service cost
  - Distribution cost
  - General cost
  - Production cost
28. Which of the following costs of management is likely to have least control?
- Machine breakdown cost
  - Wages cost
  - Advertising cost.
  - Buildings insurance cost
29. Which of the following best describes a fixed cost? A cost which:
- Represents a fixed proportion of total costs.
  - Remains at the same level up to a particular level of output.
  - Remains at the same level when output increases
  - Has a direct relationship with output
30. Which of the following would not be considered as a component of 'cost' of stock?
- Transportation inward cost
  - Import duties
  - Purchase price
  - Salaries of selling staff



**ANSWER KEY**

1d	2d	3b	4a	5a	6d	7c	8d	9b	10c
11d	12d	13d	14a	15a	16b	17c	18d	19c	20b
21d	22a	23d	24a	25c	26b	27a	28a	29b	30d

## Unit 2: Accounting of overheads (Part1)

### Multiple Choice Questions

- 1). Cost apportionment involves:
  - A. The sharing out of overheads to service departments
  - B. The sharing out of common costs to departments
  - C. The allocation of direct costs to departments
  - D. The sharing out of costs to products
- 2). What would be the most appropriate way of apportioning depreciation costs across different manufacturing departments in a business?
  - A. Floor space
  - B. Numbers of personnel
  - C. Value of buildings and equipment
  - D. Value of land.
- 3). Which of the following is a conventional method of ascertaining cost?
  - A. Absorption costing
  - B. Full Costing
  - C. Both a & b
  - D. None of the above
- 4). The total cost of a product will include:
  - A. Prime costs plus direct production overhead plus indirect-production overhead plus tax
  - B. Prime cost plus absorbed direct production overhead
  - C. Prime costs plus direct production overhead plus indirect production overhead
  - D. Prime cost only
- 5) . Which of the following is not considered to be a benefit of activity-based costing?
  - A. More accurate product costs
  - B. Reduced complexity of calculating costs
  - C. Inclusion of non-manufacturing costs
  - D. More detailed understanding of what drives cost.
- 6) Wages paid to a labour who was engaged in production activities can be termed as.
  - A. direct cost.
  - B. indirect cost
  - C. sunk cost
  - D. imputed cost.

- 7). The cost which is to be incurred even when a business unit is closed is a.
- A. imputed cost.
  - B. historical cost.
  - C. sunk cost.
  - D. shutdown cost
- 8). Which of the following best describes a fixed cost? A cost which:
- A. Actual direct labour time per unit being greater than budget.
  - B. Actual cost of direct labour being greater than budget.
  - C. Actual overheads incurred being less than budget.
  - D. The number of units produced being greater than budget.
- 9). Which of the following is most likely to be an allocated production overhead cost to the finishing cost centre?
- A. Factory rates.
  - B. Salary of the finishing cost centre supervisor.
  - C. Power used on finishing cost centre machines.
  - D. Salary of the production manager.
- 10) Wages paid to a office cleaning staff who was engaged in Administration activities a can be termed as.
- A. direct cost.
  - B. indirect cost
  - C. sunk cost
  - D. imputed cost.
- 11) Overhead is the cost incurred in the course of making a product, providing a service or running a department, but which cannot be traced directly and in full to the product, service or department.
- A. Correct
  - B. Incorrect
- 12) Indirect expenses are also known as overheads.
- A. True
  - B. False
- 13) Overhead is actually the total of:
- A. Indirect materials
  - B. Indirect expenses
  - C. Indirect labour
  - D. All of the above



14) Overhead costs may be classified according to the function of the organization as:

- A. Production/Manufacturing overheads
- B. Non-production/Non-manufacturing overheads
- C. Both A&B
- D. None

15). Production Overheads are costs related to the production process other than direct labour and materials. They are also known as factory overheads since they are incurred inside the factory, other overheads such as selling and administrative overheads are always charged to in the period in which they are incurred

- A. The above statement is true
- B. The above statement is false

16) Production overheads represent indirect materials, indirect wages and indirect expenses attributable to:

- A. Production activities
- B. Service activities
- C. Both A&B
- D. None

17. Indirect production costs are incurred in three main ways:

- Production activities: costs arising in production departments such as fuel, depreciation, supervision
- Service activities: the cost of operating non-producing departments such as materials handling, canteen
- Establishment costs: general production overheads such as factory rent/rates, heating and lighting

- A. True
- B. False

18. Which of the following procedure is incorrect for attributing overhead costs to cost units?

- I. Collecting production overhead costs by item
- II. Establishing cost centres
- III. Allocating and apportioning overhead costs to cost centres
- IV. Apportioning service cost centre costs to production cost centres
- V. Absorbing production cost centre costs into cost units

- A. All of the above are correct
- B. All of the above are incorrect
- C. (II) and (IV) are incorrect
- D. (II) is incorrect



19). The total amount of factory overhead represents:

- A. Allocated costs
- B. Apportioned costs
- C. Share of service department costs
- D. All of the above

20) Allocation is where overheads are allocated to cost centres. If a cost centre is responsible for the entire cost of an item of expenditure, the entire cost is charged directly to the cost centre.

- A. Correct
- B. Incorrect

**ANSWER KEY**

1C	2D	3A	4C	5D	6A	7D	8D	9C	10B
11A	12A	13D	14C	15A	16C	17A	18A	19D	20A

### Unit 3: Accounting of overheads (Part II)

#### Multiple Choice Questions

1. Apportionment means sharing on a reasonable basis. Many overhead costs are costs that cannot be allocated directly to one cost centre, because they are shared by two or more cost centres. These costs are apportioned between the cost centres.
  - A. Incorrect
  - B. Correct
2. Absorption is also called:
  - A. Allocation
  - B. Sharing
  - C. Overhead recovery
  - D. None
3. When overheads have been allocated and apportioned to production cost centres, they are charged to the cost of products manufactured in the cost centre.
  - A. The above statement is correct
  - B. The above statement is incorrect
4. Production overheads are the overhead costs of both the production departments and the service departments.
  - A. False
  - B. True
5. The apportionment of production overhead costs might be in two stages:
  - sharing (or dividing) general costs between production centres and service centres; and
  - then sharing the costs of the service centres between the production centres.
  - A. Correct
  - B. Incorrect
6. Sharing the costs of the service centres between the production centres is called:
  - A. Reapportionment
  - B. Reallocation
  - C. Secondary apportionment
  - D. None
7. The total overhead costs of each production centre should be:
  - A. Costs allocated directly to the production centre

- B. Shared costs apportioned to the production centre  
C. A share of the costs of each service department, apportioned to the production centre  
D. All of the above
8. The absorption rate may be calculated by the fraction:
- Total overhead costs;
  - Total of absorption basis.
- A. Correct  
B. Incorrect
9. Overheads can be absorbed into cost units by means of:
- Physical unit produced
  - Percentage of prime cost
  - Percentage of direct wages
  - Direct labour hour rate
  - Machine hour rate
- A. All of the above  
B. (I) (IV) and (V) only  
C. (IV) and (V) only  
D. None
10. The purpose of allocation and apportionment of overheads is to calculate an absorption rate for each production department.
- A. False  
B. True
11. Absorption rates are used to add overhead costs to:
- A. The Admin costs  
B. Other expenses  
C. The costs of production  
D. None
12. A situation may arise where both service departments do work for the other service department, as well as the production departments. The secondary apportionment is more complex. The process is called reciprocal apportionment
- A. The above statement is correct  
B. The above statement is incorrect
13. The reciprocal apportionment and can be done using:
- A. Repeated distribution method  
B. Simultaneous equations method  
C. Both A&B  
D. None

14. A single overhead absorption rate might be used for all the production departments in the factory.
- A. True
  - B. False
15. Single overhead absorption rate is also known as:
- A. Blanket rate
  - B. Factory-wide absorption rate
  - C. Both A&B
  - D. None
16. A blanket overhead absorption rate is an absorption rate used throughout a factory and for all jobs and units of output irrespective of the department in which they were produced.
- A. True
  - B. False
17. Blanket overhead rates are not appropriate in the following circumstances.
- A. There is more than one department
  - B. Jobs do not spend an equal amount of time in each department
  - C. Both A&B
  - D. None
18. Administration overheads and sales and distribution overheads are not absorbed into product costs. Instead, they are treated in full as an expense in the financial period to which they relate.
- A. The above statement is correct
  - B. The above statement is incorrect
19. Non-production overhead costs are never added to the value of inventory.
- A. False
  - B. True
20. It is possible to add non-production overheads to the full production cost of units produced and sold (i.e. No cost will be carried forward to the next period in the form of closing stock), to obtain a full cost of sale.
- A. True
  - B. False
21. Overhead absorption is the process whereby overhead costs allocated and apportioned to production cost centres are added to unit, job or batch costs.
- A. True
  - B. False
22. Overhead absorption is sometimes called overhead recovery.

- A. False  
B. True
23. Overheads are usually added to cost units using a predetermined overhead absorption rate, which is calculated using figures from the budget.
- A. False  
B. True
24. Predetermined absorption rates is where, the absorption rate calculated in advance using estimates for cost and production volume in the annual financial plan or budget.
- A. Correct  
B. Incorrect
25. A predetermined overhead absorption rate is also known as:
- A. Fixed overhead absorption rate  
B. The fixed overhead recovery rate  
C. The fixed overhead applied  
D. All of the above
26. If the amount of production overheads absorbed into product costs is more than the actual production overhead expenditure, there is:
- A. Over-absorbed overhead  
B. Under-absorbed overhead  
C. Neither A or B  
D. None
27. The over-absorbed overhead is accounted for as an adjustment to the profit in the period, and is added to profit in the cost accounting income statement.
- A. Correct  
B. Incorrect
28. Under or over absorption is caused by the actual fixed overhead and production volume being different from those figures used to calculate the predetermined rate.
- A. False  
B. True
29. Identify the circumstances where under- or over-recovery of overhead will occur:
- A. Actual overhead costs are different from budgeted overheads  
B. The actual activity level is different from the budgeted activity level  
C. Actual overhead costs and actual activity level differ from the budgeted costs and level  
D. All of the above
30. Variable overhead is overhead that increases as more production work is done. Total variable overhead expenditure therefore depends on the volume of

production. Variable overhead is usually calculated as an amount for each direct labour hour worked.

- A. The above statement is correct
- B. The above statement is incorrect

**ANSWER KEY**

1B	2C	3A	4B	5A	6B	7C	8A	9A	10A
11B	12A	13B	14A	15B	16A	17B	18A	19A	20A
21A	22B	23B	24A	25C	26A	27A	28B	29C	30A

## UNIT 4: Activity Based Costing Technique

### Multiple Choice Questions

1. Which of the following would not be included in a product's cost for inventory valuation for the financial statements?
  - a) Factory Supplies
  - b) Quality Control
  - c) Interest Expense
  
2. Which would be the least favourable basis for allocating manufacturing overhead for a factory with automated equipment and a significant variation of services by its indirect labour?
  - a. ABC
  - b. Direct Labour Hours
  - c. Machine Hours
  
3. Which would be the most favorable basis for allocating manufacturing overhead for a factory with automated equipment and a significant variation of services by its indirect labor?
  - a. ABC
  - b. Direct Labour Hours
  - c. Machine Hours
  
4. Assume that a company produces two products in a manufacturing plant. One is a low volume specialty product that is produced on a demand pull basis, while the other is a high volume product that is produced on a push basis for inventory. A production volume based cost allocation system would tend to
  - a. Accurately reflect the product cost of the two products.
  - b. Overstate the product cost of the low volume product.
  - c. Understate the product cost of the low volume product.
  - d. Overstate the product cost of both products.
  
5. In the situation stated in the question above, the company's net income based on a production volume based system will tend to be \_\_\_\_\_ relative to net income based on an activity based costing system.
  - a. the same.
  - b. overstated.
  - c. understated.
  - d. overstated for the low volume product and understated for the high-volume



product.  
e. b and d.

6. Which of the following types of characteristics tend to cause too little overhead costs to be charged to the product using traditional cost allocations?

- a. a relatively small product.
- b. a relatively low volume product.
- c. a relatively simple product.
- d. a and b.

7. Which audience was activity-based costing originally designed to serve?

- a. Users of external financial statements.
- b. Front line managers who plan & control activities or processes on a daily basis.
- c. Managers who make short term strategic decisions such as outsourcing.
- d. Managers who make long term strategic decisions concerning investments.

8. Activity based cost systems would probably provide the greatest benefits for organizations that use

- a. job order costing.
- b. process costing.
- c. historical costing
- d. standard costing.

9. When traditional production volume based overhead allocations are made, rather than activity-based allocations,

- a. the unit costs of high volume and large size products tend to be overstated, while the unit cost of low volume and small products tend to be understated.
- b. the unit costs of high volume and large size products tend to be understated, while the unit cost of low volume and small products tend to be overstated.
- c. the unit costs of high volume and small products tend to be overstated, while the unit costs of low volume and large products is understated.
- d. the unit costs of high volume and small products tend to be understated, while the unit costs of low volume and large products is overstated.
- e. None of these.



10. Cooper and Kaplan recommend using which of the following as the basis, or denominator, when developing activity cost pool rates for activity based costing.

- a. the maximum capacity for each activity.
- b. the practical capacity for each activity.
- c. the planned or budgeted for each activity.
- d. the normal capacity for each activity.
- e. none of the alternatives given.

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## Unit 5: Methods of Costing

### Multiple Choice Questions

1. All of the following would most likely use a job order costing system except:
  - a. a dental practice.
  - b. an auto repair shop.
  - c. a small appliance maker.
  - d. an architectural firm.
  
2. Which of the following costs is not charged to Work in Process in a normal cost system?
  - a. Actual overhead.
  - b. Actual direct materials.
  - c. Actual direct labour.
  - d. Estimated indirect labour.
  
3. Which of the following product costs would be charged to Work in Process assuming a standard costing system?
  - a. Actual direct material costs.
  - b. Actual overhead costs.
  - c. Actual direct labor costs.
  - d. Applied overhead costs.
  
4. Select the incorrect job order costing system characteristic.
  - a. Costs are accumulated by job.
  - b. A job may consist of multiple units provided all units are similar.
  - c. Costs of different jobs cannot logically be averaged so a unique cost must be determined for each job.
  - d. Jobs are usually produced to distinct customer for each job specifications.
  
5. Which of the following serves at a subsidiary ledger for the Work in Process account?
  - a. Standard cost card.
  - b. Material requisition form.
  - c. Job requisition form.
  - d. Job order cost sheet.
  
6. Which of the following manufacturers is most likely to use a job order accounting system?
  - a. A brewery.
  - b. A ship builder of oil tankers.
  - c. An oil refinery.
  - d. A sugar refinery.

7. In a job order cost accounting system, which account would be debited in recording a purchase invoice for raw materials?
- Factory Overhead.
  - Finished Goods Inventory.
  - Raw Materials Inventory.
  - Goods in Process Inventory.
8. In a job order cost accounting system, which account would be debited in recording a materials requisition for direct materials?
- Factory Overhead.
  - Raw material purchase.
  - Raw Materials Inventory.
  - Goods in Process Inventory.
9. Which of the following is not a source document used in job order costing systems?
- Cost of production report.
  - Employee time sheet.
  - Job cost sheet.
  - Material requisition form.
10. Which of the following serves at a subsidiary ledger for the Work in Process account?
- Standard cost card.
  - Material requisition form.
  - Job requisition form.
  - Job order cost sheet.

## Unit 6: Contract Costing

### Multiple Choice Questions

1. The loss incurred on an incomplete contract is transferred to .....account.
  - (A) Costing profit and loss account
  - (B) profit and loss account
  - (C) trading account
  - (D) deferred to next year.
2. When the completion stage of the contract is more than half, the profit to be credited to Profit and Loss account will be equal to.....
  - (A)  $\frac{1}{3}$ rd of Notional Profit x cash received Work certified
  - (B)  $\frac{1}{2}$  of Notional Profit x cash received Work certified
  - (C)  $\frac{2}{3}$ rd of Notional profit x cash received Work certified
  - (D) full Notional Profit.
3. If the amount of work certified is less than.....of the contract price,then no profit should be taken to Profit & Loss Account.
  - (A) 20%
  - (B) 25%
  - (C) 33  $\frac{1}{3}$ %
  - (D) 40%
4. Contract costing is not used in one of the following industries.
  - (A) Ship building
  - (B) Civil Construction
  - (C) Automobiles
  - (D) Construction of Bridges
5. The sum of value of work certified and uncertified appearing in the Contract Account is called .....
  - (A) Work done.
  - (B) Work in Process
  - (C) Work Completed
  - (D) Work in Progress

6. Total costs incur in a production process, is divided by total number of output units to calculate the

- a) unit costs
- b) cost of direct material
- c) cost of direct labour
- d) cost of indirect labour

7. If beginning work in process equivalent units are 2500 units, work done in current period equivalent units are 3800 units and ending work in process equivalent units are 5000, then complete equivalent units in current period are

- a) 1500 units
- b) 1300 units
- c) 1500 units
- d) 1800 units

8. WIP in contract means:

- a) Work certified
- b) Work certified and work uncertified
- c) Cash received
- d) None of these

9. Profit remaining as reserve is :

- a. Transfer to p/L
- b. Deducted from WIP
- c. Not taken into account.
- d. Deducted from cost of the contract.

10. Profit in incomplete contract is known as notional profit because:

- a. It is not real profits
- b. Real profit is ascertain when the contract is complete
- c. There is no such incomplete contract.
- d. The profit is only an approximation.

11. The contract undertaken are completed away from the .....premises.

- a. Contractors
- b. Contractee
- c. Party
- d. Builder

12. A contract is generally of .....duration.

- a. Long
  - b. Small
  - c. Average
  - d. Very Small
13. Escalation clause is generally included in case of .....contract agreement .
- a. Variable Cost
  - b. Fixed Cost
  - c. Fixed Price
  - d. Variable Price
14. Cost -plus- contract are undertaken for production of .....products.
- a. SSI
  - b. Small
  - c. Low value
  - d. Highly specialized
15. Retention money serves as a .....with the contractee.
- a. Security
  - b. Balance
  - c. Profit
  - d. Loss
16. When cash ratio is ..... retention money is 13%.
- a. 50%
  - b. 87%
  - c. 78%
  - d. 99%
17. Work certified in a subsequent year is always ..... than that the in preceding year.
- a. Greater
  - b. Less
  - c. Equal
  - d. Greater than Equal to
18. Cost of defective materials should be.....to costing P/L account and.....to contract account.
- a. Debited, Credited
  - b. Credited, Debited
  - c. Charged, record

d. Record, Apply

19. Escalation Clause aims at safeguarding the interest of the .....against unforeseen rise in cost.

- a. Contractor.
- b Contractee
- c. Builder
- d. Party

20.Sub contract cost is always to be treated as .....to the contract.

- a. Indirect charge
- b. Direct charge
- c. Income
- d. Revenue

<b>Answer key</b>									
<b>1a</b>	<b>2c</b>	<b>3b</b>	<b>4c</b>	<b>5b</b>	<b>6a</b>	<b>7b</b>	<b>8b</b>	<b>9c</b>	<b>10d</b>
<b>11a</b>	<b>12a</b>	<b>13c</b>	<b>14d</b>	<b>15a</b>	<b>16b</b>	<b>17a</b>	<b>18a</b>	<b>19a</b>	<b>20a</b>



## Unit 7: Process Costing

### Multiple Choice Questions

- The monetary value attributed to normal losses in a process should be
  - A share of the process cost according to the stage of completion of the losses.
  - A nil value with no other monetary adjustment under any circumstances.
  - A full share of process cost on the same as good output.
  - A nil share of process costs which have been reduced by the scrap value of the normal loss.
- Details for the past month of a continuous process are:
  - Opening W.I.P. (400 units) (60% complete)
  - Closing W.I.P. (600 units) (20% complete)
  - Unit started 1,000
  - Unit finished 800
- An abnormal gain in a process occurs in which of the following situations?
  - When actual losses are greater than the normal loss level.
  - When costs are reduced through increased machine speed
  - When actual losses are less than the normal level.
  - When the process output is greater than planned.
- Where process scrap is recycled for use in conjunction with new material as well as being sold externally, which of the following is most likely to be the value at which is debited to the process?
  - At the same price as it sold externally.
  - At the cost of normal losses.
  - At the cost attached to abnormal losses.
  - Nil value.
- The physical flow of units into and out of departments is shown on the:
  - Quantities schedule.
  - Emulgent production schedule.
  - Cost of account for schedule.
  - Cost of Accounted for schedule.
- An equivalent unit of material or conversion cost is equal to
  - The amount of material conversion cost necessary to complete one unit of production.

- b) A unit of work-in-process inventory.
- c) The amount of material or conversion cost necessary to start a unit of production into work in process inventory.
- d) Fifty percent of material or conversion cost of a unit to finished goods inventory

7. Which of the following manufacturers would most likely not use a process-cost accounting system?

- a) A producer of computer monitors.
- b) A paint manufacturer.
- c) A producer of frozen orange juice
- d) A builder of customized yachts
- e) A lumber mill.

8. If beginning work in process equivalent units are 2500 units, work done in current period equivalent units are 3800 units and ending work in process equivalent units are 5000, then complete equivalent units in current period are

- a) 1500 units
- b) 1300 units
- c) 1500 units
- d) 1800 units

9. First step in process costing system is to

- a) compute cost for each equivalent unit
- b) summarize total costs
- c) compute output in units
- d) summarize flow of output

10. If total incurred cost in a production process are ₹30000 and number of output units are 5000 units, then units cost will be

- a) ₹26
- b) ₹6
- c) ₹60
- d) ₹16

11. If cost incurred for work in process inventory is ₹350000 and total equivalent units completed till date are 3500, then weighted average cost will be

- a) ₹1,200
- b) ₹1,000
- c) ₹100
- d) ₹10

12. In Process industries there is a flow of ..... from one operation to the next operation.

- a) Material
- b) Labour
- c) Overhead
- d) Expenses

13. Make or Buy Decisions are involved before and after different.....

- a. Service.
- b. Contract.
- c. Processes.
- d. Indirect Cost.

14. In process costing each process is treated as a separate.....

- a) Cost Centre
- b) Cost Unit
- c) Cost Structure
- d) Cost Industry

15..... are produced from the same basic raw materials.

- a) Joint Product.
- b) By Product
- c) Main Product
- d) Final Product

16. Husk produced in the process of Rice milling, is an example of .....

- a) Joint Product.
- b) By Product
- c) Main Product
- d) Final Product

17. Joint Cost are .....to individual joint products.

- a) Non-Traceable
- b) Separate
- c) Traceable
- d) Combined

18. Subsequent cost are.....to individual product.

- a) Non-Traceable
- b) Separate
- c) Traceable
- d) Combined

19. Skimmed milk and Butter are the example of.....

- a) Joint Product.
- b) By Product
- c) Main Product
- d) Final Product

20. Post separation costs are attributable to each ..... products.

- a) Joint Product.
- b) By Product
- c) Main Product
- d) Final Product.

21. Process costing provides a system of costing where the following characteristics occur. Identify which of the following are correct:

- A. Output is continually produced from the manufacturing process. Materials might be added in full at the start of a process or might be added gradually throughout the process.
- B. There might be losses in the process. Process costing provides a method of measuring and costing incomplete WIP.
- C. When more than one product is output, they might be called joint products or a by-product, depending upon the relative value of the products. Process costing offers methods of costing each of the different products.
- D. All of the above are correct

22. Process costing is used when output is produced in a continuous process system, and it is difficult to separate individual units of output.

- A. True
- B. False

23. Examples of manufacturing where process costing is used include:

- A. Chemicals manufacture, Petroleum refining, the manufacture of liquids
- B. The continuous processing of high volumes of low-cost food items such as tins of peas or beans, or bottles of tomato ketchup.
- C. Both A&B
- D. None

24 The task that sits at the heart of process costing is always to allocate the costs collected on the debit side of the account to the possible outputs (good output, closing WIP and lost units) on the credit side.

- A. The above statement is correct

B. The above statement is incorrect

25 In process costing questions, you will need to:

- A. Identify the losses and output
- B. Calculate the cost of good output, losses and WIP
- C. Use the costs you have calculated to assign values to the good output, losses and WIP
- D. All of the above

26 It is possible to have abnormal loss and abnormal gain on the same process account in the same period.

- A. False
- B. True

27. In a process costing system loss might be:

- A. Normal
- B. Abnormal
- C. Both A&B
- D. None

28. Normal loss is usually expressed as a percentage of the input units of materials.

- A. Correct
- B. Incorrect

29. Normal loss is \_\_\_\_\_ in the normal course of events. It is inherent in the physical and chemical reactions that take place in a process.

- A. Avoidable
- B. Unavoidable

30. The normal loss is something that is unavoidable in order to get the good output. The cost of the lost units is part of the cost of obtaining the good output.

- A. True
- B. False

31. Normal loss comes with:

- A. No recovery/scrape value
- B. Recovery/scrape value
- C. Either A or B
- D. None

32.If the normal loss has no scrap value it is given a nil value.

- A. False
- B. True

33.If normal loss has a scrap value the company is able to recover some of the input costs to the process. The scrap value reduces the cost of the process.

- A. The above statement is correct
- B. The above statement is incorrect

34.In some cases, a company might have to pay to dispose of losses in a process. The cost of disposal represents an additional cost to the process. To reflect this in the process account the normal loss is measured at zero but the expected costs of disposal are debited to the process account.

- A. The above statement is incorrect
- B. The above statement is correct

35.The disposal cost of abnormal loss is included in the abnormal loss account and therefore in the transfer of the cost of abnormal loss to the statement of profit or loss.

- A. True
- B. False

36.When actual loss exceeds normal loss, there is:

- A. Abnormal loss
- B. Abnormal gain
- C. Extra loss
- D. None

37The difference between total actual loss and normal loss is abnormal loss.

- A. Incorrect
- B. Correct

38.If it is assumed that all losses in process occur at the end of the process, units of abnormal loss are costed in exactly the same way in the as units of finished output.

- A. True
- B. False

39The cost of abnormal loss is built into inventory.

- A. False
- B. True

40.The cost of units of abnormal loss is treated as an \_\_\_\_\_ for the period, and charged as an \_\_\_\_\_for the period

- A. Product cost, inventory cost
- B. Expense, expense in the income statement
- C. Extra cost, suspense cost

- D. None
41. Abnormal loss comes with:
- A. No recovery/scrap value
  - B. Recovery/scrap value
  - C. Either A or B
  - D. None
42. When the abnormal has a scrap value the net cost of abnormal loss (cost of abnormal loss minus its scrap value) is then transferred as a cost to the cost accounting income statement at the end of the accounting period.
- A. The above statement is correct
  - B. The above statement is incorrect
43. When actual loss is less than the expected (normal) loss there is:
- A. Extra ordinary loss
  - B. Abnormal loss
  - C. Abnormal gain
  - D. None
44. Identify which of the following statement is correct.
- A. Abnormal gain is a benefit rather than a cost. Whereas abnormal loss is written off as a cost at the end of the financial period.
  - B. Abnormal gain is an adjustment that increases the profit for the period.
  - C. Abnormal gain is recorded as a debit entry in the process account, because it is a benefit.
  - D. All of the above are correct
45. When there is closing work in progress (WIP) the concept of \_\_\_\_\_ is used.
- A. Equivalent units
  - B. Expected units
  - C. Fair allocated units
  - D. None
46. An equivalent unit means 'equal to one finished unit of output'.
- A. False
  - B. True
47. When there is closing work in progress, costs are shared between finished units and inventory by calculating a cost per equivalent unit.
- A. True
  - B. False
48. When there is opening work in progress there are two types of cost on the debit side of the account. These are the costs that were incurred last period and brought forward as work in progress and the costs that were incurred in the current period.

- A. The above statement is correct  
B. The above statement is incorrect
49. Are the costs of opening WIP, incurred in last period and brought forward as work in progress and the costs that were incurred in the current period, treated the same way?
- A. Yes, treated together  
B. Treated Separately  
C. This question is addressed in the accounting policy adopted for opening work in progress.  
D. None
50. Joint products are two or more products generated simultaneously, by a single manufacturing process using common input, and being substantially equal in value.
- A. The above statement is correct  
B. The above statement is incorrect
51. In order to calculate a cost for each joint product, the common costs must be \_\_\_\_\_ between the joint products.
- A. Identified  
B. Allocated  
C. Apportioned  
D. None
52. Which of the methods of apportionment is normally used for apportioning common costs between joint products?
- A. Units basis  
B. Sales value at the split-off point basis  
C. Net realizable value  
D. Either of the above
53. In Units basis, Common costs are apportioned between joint products on the basis of the total number of units produced. The cost per unit is the same for all the joint products. (This is also described as the physical quantities basis).
- A. Correct  
B. Incorrect
54. The units basis has the following limitations.
- A. Where the products separate during the processes into different states, for example where one product is a gas and another is a liquid, this method is unsuitable.  
B. This method does not take into account the relative income-earning potentials of the individual products, with the result that one product might appear very profitable and another appears to be incurring losses.  
C. Both A&B  
D. None



55. The relative sales value method is the most widely used method of apportioning joint costs because (ignoring the effect of further processing costs) it assumes that all products achieve the same profit margin.

- A. True
- B. False

56. By-products are outputs from a joint process that are relatively minor in quantity and/or value.

- A. False
- B. True

57. How are the sales proceeds from by-products treated?

- A. As revenue (adding it to the revenue from sales of other products)
- B. As other income
- C. As a deduction from joint process costs (this is the most commonly used method)
- D. Either of the above

58. Since a by-product does not have any substantial value, there is no sense in charging it with a share of the common processing costs.

- A. False
- B. True

59. Which of the following statements is correct?

- A. A joint product is regarded as an important sale-able item, and so it should be separately costed. The profitability of each joint product should be assessed in the cost accounts.
- B. A by-product is not important as a sale-able item, and whatever revenue it earns is a 'bonus' for the organisation. Because of their relative insignificance, by-products are not separately costed.
- C. Both A & B are correct
- D. None

60. The point at which joint products and by-products become separately identifiable is known as:

- A. The split off point
- B. Separation point
- C. Either A or B
- D. None



**ANSWER KEY**

1D	2A	3D	4B	5A	6A	7D	8B	9D	10B
11C	12A	13C	14A	15A	16A	17A	18C	19A	20A
21D	22A	23C	24A	25D	26A	27C	28A	29B	30A
31C	32B	33A	34B	35A	36A	37B	38A	39A	40B
41C	42A	43C	44D	45A	46B	47A	48A	49C	50A
51C	52D	53A	54C	55A	56B	57D	58B	59C	60C

## Unit 8: Service Costing

### Multiple Choice Questions

1. Service costing is also called as:
  - A. Operating Costing
  - B. Non-Operating Costing
  - C. Overhead Costing
  - D. Product Costing
2. In service cost sheet costs are classified into :
  - A. Indirect charges.
  - B. Overheads.
  - C. Standing charges.
  - D. Fixed expenses.
3. In service costing division is an / a :
  - A. Operation
  - B. Process
  - C. Contract
  - D. Department
4. In transport service, cost sheet depreciation cost are grouped under:
  - A. Fixed Cost.
  - B. Stand by cost.
  - C. Semi-variable cost.
  - D. Variable cost.
5. An example of composite unit in transport costing is:
  - A. Per passenger per km
  - B. Per passenger per seat
  - C. Per km per seat
  - D. Per passenger per travel
6. Operating cost is the cost incurred for providing:
  - A. Job.
  - B. Operation.
  - C. Service.
  - D. Product.
7. Number of passenger kilometer= Number of passengers X.....
  - A. Number of kms.
  - B. Number of seats.
  - C. Number of buses.

- D. Number of distances.
8. IF the profit are 50% of operating cost, it is ..... of invoice price.
- A. 20%
  - B. 25%
  - C. 16.66667%
  - D. 33.33334%
9. Operating costing system is more suitable to :
- A. Product industries.
  - B. Contraction industries.
  - C. Service industries.
  - D. Manufacturing industries.
10. Per kilometer is an example of.....cost unit used in transport undertakings.
- A. Simple
  - B. Composite
  - C. Dual
  - D. Joint
- 11 The production operations of most businesses can be categorized as either being:
- A. Specific orders
  - B. Continuous operations
  - C. Both A or B
  - D. None
- 12 Specific order costing methods are appropriate for organizations which produce cost units which are separately identifiable from one another.
- A. The above statement is correct
  - B. The above statement is incorrect
- 13 Identify the types of specific order costing.
- A. Job costing
  - B. Batch costing
  - C. Process costing
  - D. Both A&B only
- 14 Job costing is used when a business entity carries out tasks or jobs to meet specific customer orders.
- A. The above statement is false
  - B. The above statement is true
- 15 A job is a cost unit which consists of a single order or contract.
- A. True
  - B. False

16 Job costing is used when a business entity carries out tasks or jobs to meet specific customer orders.

- A. True
- B. False

17 In Job costing a cost is calculated for each individual job, and this cost can be used to establish the profit or loss from doing the job.

- A. The above statement is incorrect
- B. The above statement is correct

18 Which of the following statement is correct with regard to job costing?

- A. Job costing differs from most other types of costing system because each cost unit is a job, and no two jobs are exactly the same. Each job is costed separately.
- B. The expected cost of a job has to be estimated so that a price for the job can be quoted to a customer.
- C. A costing system should also calculate the actual cost of each job that has been carried out to work out the relative profitability of relevant jobs.
- D. All of the above are correct

19 A job costing system is usually based on absorption costing principles, and in addition a cost is included for non-production overheads.

- A. False
- B. True

20 Non-production overheads might be added to the cost of the job:

- A. As a percentage of the prime cost of the job
- B. As a percentage of the production cost of the job
- C. Either A or B
- D. None

21 In job costing each job is given a unique:

- A. Identity number, or job number
- B. Account name
- C. Costing system
- D. None

22 In a costing system, a job account is similar to a work in progress account, except that it is for one job only. In a company that specialises in jobbing work, the work in progress account is the total of all the individual job accounts.

- A. The above statement is correct
- B. The above statement is incorrect

23 Job costing is a costing method applied where work is undertaken to customers' special requirements and each order is of comparatively short duration.

- A. True
- B. False

24. Costs for each job are collected on a:

- A. Job cost sheet
- B. Job card
- C. Either A or B
- D. None

25. A separate record must therefore be maintained to show the details of individual jobs. Such records are often known as job cost sheets or job cost cards.

- A. Correct
- B. Incorrect

26. The items recorded on job cost sheet would include:

- A. Job number, description of job, specifications, etc.
- B. Customer details, estimated costs, selling price, estimated profit
- C. Delivery date promised, actual delivery date, delivery note number
- D. All of the above

27. The usual method of fixing prices in a jobbing concern is cost plus pricing.

- A. True
- B. False

28. Cost plus pricing means that a desired profit margin is added to total costs to arrive at the selling price.

- A. False
- B. True

29. A computerised job accounting system contains which of the following features:

- A. Every job will be given a job code number, which will determine how the data relating to the job is stored.
- B. A separate set of codes will be given for the type of costs that any job is likely to incur. Thus 'direct wages', say, will have the same code whichever job they are allocated to.
- C. In a sophisticated system, costs can be analysed both by job (for example all costs related to Job 456), but also by type (for example direct wages incurred on all jobs). It is therefore easy to perform control analysis and to make comparisons between jobs.
- D. A job costing system might have facilities built into it which incorporate other factors relating to the performance of the job. In complex jobs, sophisticated planning techniques might be employed to ensure that the job is performed in the minimum time possible: time management features may be incorporated into job costing software.
- E. All of the above

30. It is possible to use a job costing system to control the costs of an internal service department, such as the maintenance department and the printing department.

- A. The above statement is correct

B. The above statement is incorrect

31. What would be the effect of inaccurate estimation of overhead absorption rates on a Job?

- A. If the jobs are over-priced, customers will go elsewhere
- B. If the jobs are under-priced, sales revenue will fail to cover costs and/or provide an adequate return
- C. Both A&B
- D. None

32. Batch costing is similar to job costing in that each batch of similar articles is separately identifiable.

- A. False
- B. True

33. The cost per unit manufactured in a batch is the total batch cost divided by the number of units in the batch.

- A. Correct
- B. Incorrect

34. The job costing method can therefore be applied in costing batches. The only difference is that a number of items are being costed together as a single unit, instead of a single item or service.

- A. The above statement is correct
- B. The above statement is incorrect

35. Identify the characteristics of services:

- I. Intangibility: They do not have a physical substance unlike goods. They cannot be held or seen.
  - II. Inseparability: Consumption and creation of a service cannot be separated. Services are consumed as they are created.
  - III. Variability: Services face the problem of maintaining consistency in the standard of output.
  - IV. Perishability: Services cannot be stored.
  - V. Lack of ownership: Services do not result in the transfer of property in anything.
- A. All of the above
  - B. (I) (II) and (V) only
  - C. (I) and (V) only
  - D. None

### ANSWER KEY

1A	2C	3A	4B	5A	6B	7A	8D	9D	10A
11C	12A	13D	14B	15A	16A	17B	18D	19B	20C
21C	22A	23A	24C	25A	26D	27A	28B	29E	30A
31C	32B	33A	34A	35A					

