



**VISION INSTITUTE OF TECHNOLOGY,
SUBJECT: COST ACCOUNTING
UNIT 4: METHODS OF COSTING**

UNIT IV

- ❖ **Methods of Costing: Single output costing, job costing, contract & batch costing, Process (including joint products and by-products and inter-process profits), Operating/Service costing, (Transport & Power House only).**

OUTCOMES

1. Single Output Costing:

- Enhanced cost accuracy for individual products.
- Improved decision-making for product pricing.

2. Job Costing:

- Transparent cost allocation for custom projects.
- Better project management and budgeting.

3. Contract & Batch Costing:

- Efficient cost tracking for specific contracts or batches.
- Enhanced profitability analysis.

4. Process Costing:

- Accurate cost allocation for continuous production.
- Improved inventory valuation for joint and by-products.

5. Operating/Service Costing:

- Better understanding of costs for specific services.
- Improved pricing strategies and financial control.



**VISION INSTITUTE OF TECHNOLOGY,
SUBJECT: COST ACCOUNTING
UNIT 4: METHODS OF COSTING**

❖ **SINGLE OUTPUT COSTING**



Single Output Costing, also known as Single-Product Costing, is a costing method that assigns all manufacturing costs to a single output or product. This approach simplifies cost calculations by associating all costs with a specific product, making it easier to determine the cost of producing that particular item. Here's an explanation of the mentioned points:

1. Enhanced cost accuracy for individual products:

- In Single Output Costing, all costs, including direct materials, direct labor, and overhead costs, are directly attributed to a single product. This method allows for a more precise determination of the total cost incurred in manufacturing a specific product.
- By accurately assigning all relevant costs to the production of a single item, the business can have a better understanding of the cost structure associated with that particular product.

2. Improved decision-making for product pricing:

- With a clear and accurate understanding of the costs associated with a specific product through Single Output Costing, businesses can make more informed decisions when setting product prices.
- Knowing the precise costs involved helps in avoiding under pricing, which could lead to financial losses, or overpricing, which might result in losing customers to competitors. Improved decision-making in product pricing contributes to the overall profitability of the business.



**VISION INSTITUTE OF TECHNOLOGY,
SUBJECT: COST ACCOUNTING
UNIT 4: METHODS OF COSTING**

Cost Sheet (or Statement of Cost) for the period.

No. of units produced..

<i>Particulars</i>	<i>Total cost</i>	<i>Cost per unit</i>
Direct Materials		
Direct Labour		
Direct (or Chargeable) Expenses*		
Prime cost		
<i>Add: Works Overheads</i>		
Works Cost		
<i>Add: Administrative Overheads</i>		
Cost of Production		
<i>Add: Selling and Distribution Overheads</i>		
Total Cost or Cost of Sales		

Illustration 1:

The accounts of Pleasant Company Ltd. show for 2012:

Materials Rs 3,50,000; Labour Rs 2,70,000; Factory Overheads Rs 81,000 and Administration Overheads Rs 56,080.

What price should the company quote for a refrigerator? It is estimated that Rs 1,000 in material and Rs 700 in labour will be required for one refrigerator. Absorb factory overheads on the basis of labour and administration overheads on the basis of works cost. A profit of 12½ % on selling price is required.



VISION INSTITUTE OF TECHNOLOGY,
SUBJECT: COST ACCOUNTING
UNIT 4: METHODS OF COSTING

Solution.

STATEMENT OF COST

	₹
Materials	3,50,000
Labour	2,70,000
Prime Cost	6,20,000
Factory Overheads	81,000
Works Cost	7,01,000
Administration Overheads	56,080
Total Cost of Production	7,57,080
Percentage of Factory Overheads to Labour	
= $\frac{\text{Factory Overheads}}{\text{Labour}} \times 100 = \frac{₹ 81,000}{₹ 2,70,000} \times 100 = 30\%$	
Percentage of Administration Overheads to Works Cost	
= $\frac{\text{Administration Overheads}}{\text{Works Cost}} \times 100 = \frac{₹ 56,080}{₹ 7,01,000} \times 100 = 8\%$	

STATEMENT OF THE SELLING PRICE OF A REFRIGERATOR

	₹
Materials	1,000.00
Labour	700.00
Prime Cost	1,700.00
Add : Factory Overheads (30% on Labour)	210.00
Works Cost	1,910.00
Add : Administration Overheads (8% of Works Cost)	152.80
Total Cost of Production	2,062.80
Add : Profit (1/8 on Sales or 1/7 of Cost)	294.69
Selling Price	2,357.49

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**VISION INSTITUTE OF TECHNOLOGY,
SUBJECT: COST ACCOUNTING
UNIT 4: METHODS OF COSTING**

❖ **Job Costing**



Job costing is a costing method used by businesses to allocate costs to individual projects or jobs. It is particularly applicable in industries where each unit of production or service is unique, and costs need to be tracked on a per-job basis. The two points you mentioned, transparent cost allocation for custom projects and better project management and budgeting, highlight the key advantages of using job costing:

1. Transparent cost allocation for custom projects:

- In custom projects or jobs, the costs involved can vary significantly based on the unique requirements of each project. Job costing allows for a detailed breakdown of costs associated with each job, making the allocation of expenses transparent and accurate.
- Costs can be categorized and assigned to specific tasks, materials, labor, and overhead related to a particular project. This transparency helps businesses understand the true cost of each custom project, aiding in pricing decisions and ensuring that the project is profitable.

2. Better project management and budgeting:

- Job costing provides a detailed overview of costs associated with a specific project, enabling better project management. Project managers can closely monitor the expenses related to each job, ensuring that they stay within budgetary constraints.
- By having a clear understanding of the costs, businesses can create more accurate budgets for future projects. This enhances the ability to estimate costs, allocate resources efficiently, and plan for potential contingencies, leading to improved financial control and overall project success.



**VISION INSTITUTE OF TECHNOLOGY,
SUBJECT: COST ACCOUNTING
UNIT 4: METHODS OF COSTING**

❖ **Contract Costing**



- **Definition:** Contract costing is a method used when a business undertakes specific projects or contracts, and the costs associated with each contract are tracked separately.
- **Efficient Cost Tracking:** With contract costing, businesses can track all direct and indirect costs related to a particular contract. This includes materials, labor, overheads, and any other expenses specific to that contract.
- **Enhanced Profitability Analysis:** By tracking costs at the contract level, businesses can analyze the profitability of each contract individually. This allows for better decision-making, as management can identify which contracts are more profitable and which may require adjustments or renegotiations.
- **Example:** In the construction industry, a company taking on a building project can use contract costing to track costs such as construction materials, labor, equipment usage, and other project-specific expenses.

Format of the Contract Account

Performa Contract Account			
	Amount		Amount
Particulars	Rs.	Particulars	Rs.
To material issued from store	----	By material at site	----
To material purchased	----	By material returned to store	----
To material transferred from other contracts	----	By material transferred to other contracts	----
		<i>By profit and loss account:</i>	
		• Material/Plant stolen	----
To material consumed (if given, and in this case all other items related to material shall be ignored)	----	• Material/Plant lost due to unforeseen reasons <i>eg. fire, rain, etc.</i>	----
To labour	----	• Loss on sales of material/plant	----
Add: Outstanding labour (---)	----	By plant at site (Cost)	----
To plant issued	----	Less: Depreciation	(---)
To plant purchased	----	By plant returned to store (Cost)	----
		Less: Depreciation	(---)
		By plant transferred to other contracts (Cost)	----
To plant transferred from other contracts	----	Less: Depreciation	(---)
To sub contract cost	----	By material/plant sold	----
To cost of extra work done	----	<i>By work in progress(In case contract is incomplete) :</i>	
To site expenses	----	Work certified	----
		Work not certified	----



**VISION INSTITUTE OF TECHNOLOGY,
SUBJECT: COST ACCOUNTING
UNIT 4: METHODS OF COSTING**

To direct expenses ---		By CONTRACTEE ACCOUNT (by the amount of contract price on the completion of contract)	
Add: Outstanding expenses (---)	----		----
To indirect expenses/overheads ---		By profit and loss account (if there is loss on contract either before completion or after completion)	
Add: Outstanding expenses (---)	----		----
To profit and loss account: (Profit on sales of material/plant)	----		
To Contract escalation (Decrease in CP)	----	By Contract escalation (Increase in CP)	----
To profit and loss account (if contract is completed and profit is there)	----	To profit and loss account (if contract is completed and loss is there)	----
To notional profit c/d (if work certified is more than 25% of the contract price but less than 90% of the contract price)	----		
Total	****	Total	****
To profit and loss account (part of notional profit if the contract is not completed)*	----	By notional profit b/d	----
To work in progress (transferred to reserve only when the contract is not completed)	----		
Total	****	Total	****

❖ **Batch Costing:**



- **Definition:** Batch costing is a method used when a business produces goods in batches or lots, and costs are tracked for each batch.
- **Efficient Cost Tracking:** Batch costing helps in allocating costs to specific batches of products, making it easier to identify the cost per unit for each batch. This includes direct costs like raw materials and direct labor, as well as indirect costs such as factory overheads.



VISION INSTITUTE OF TECHNOLOGY,
SUBJECT: COST ACCOUNTING
UNIT 4: METHODS OF COSTING

- **Enhanced Profitability Analysis:** By analyzing costs at the batch level, businesses can evaluate the profitability of different batches. This is particularly useful when batches have variations in production processes or use different inputs, allowing for a more accurate assessment of costs and profits.
- **Example:** A bakery producing batches of cookies may use batch costing to track the costs associated with the ingredients, labor, and overheads for each specific batch of cookies produced.

For example, if the total cost of goods produced is ₹100,000 and the number of units produced is 10,000, then the batch cost would be ₹10 per unit

Batch costing is a type of specific order costing where articles are manufactured in predetermined lots known as batch.

Here each batch is treated as a separate cost unit and cost are accumulated and ascertained for each batch.

A batch consists of number of units which are processed simultaneously.

Statement of Cost per Batch and Order

Particulars	Cost per Batch (₹)	Total Cost (₹)
Direct Material Cost	500	6000
Direct Wages	50	600
Set-up Cost	150	1800
Add: Production Overheads (20% of Direct Wages)	10	120
Total Production Cost	710	8520
Add: Selling, Distribution and Administration Overheads (10% of Total production cost)	71	852
Total Cost	781	9372
Add: Profit 1/3 rd of Total Cost	260.33	3124
Selling Cost	1041.33	12496



**VISION INSTITUTE OF TECHNOLOGY,
SUBJECT: COST ACCOUNTING
UNIT 4: METHODS OF COSTING**

❖ **Process Costing**



Process costing is a method of cost accounting used to determine the cost of producing a product in a manufacturing environment where production is continuous and involves a series of connected processes. This method is particularly suitable for industries that produce homogeneous products in large quantities, such as chemical manufacturing, food processing, and oil refining.

Here are the key components of process costing, including joint products and by-products, as well as inter-process profits:

1. Basic Concept of Process Costing:

- In process costing, the total costs incurred during a particular production process are spread or averaged over all units produced during that period.
- The total production cost is then allocated to each unit of output, providing a cost per unit.

2. Multiple Production Processes:

- Manufacturing often involves several stages or processes. Each process can be considered as a separate cost center.
- The production of goods moves through these processes sequentially, with each process contributing to the overall production.

3. Cost Accumulation:

- Costs are accumulated for each process, including direct materials, direct labor, and manufacturing overhead.
- Direct materials and direct labor costs are usually easily traceable to a specific process, while manufacturing overhead costs are allocated based on a predetermined overhead rate.

4. Cost Allocation Methods:

- The most common methods for allocating costs in process costing are weighted average and FIFO (first-in, first-out).
- Weighted average considers all units produced, both beginning and started during the current period, as if they are identical when allocating costs.
- FIFO considers the units started and completed during the current period separately from the units in the beginning work in process inventory.



VISION INSTITUTE OF TECHNOLOGY,

SUBJECT: COST ACCOUNTING

UNIT 4: METHODS OF COSTING

5. Joint Products and By-Products:

- In some industries, multiple products may arise from a single production process. These are known as joint products.
- By-products are additional products that have a relatively low sales value compared to the main product.
- The costs of joint products and by-products are allocated among them based on their relative sales values, net realizable values, or other appropriate methods.

6. Inter-Process Profits:

- In some cases, one process might transfer partially completed units (work in process) to another process for further processing.
- Inter-process profits may arise when the transfer price is different from the cost incurred in the transferring process. This is accounted for to ensure accurate cost determination.

❖ Operating/Service costing

Operating or Service costing is a method of costing used by businesses to determine the cost of providing a particular service or operating a specific department or function within the organization. This costing method is particularly useful for industries where services rather than tangible products are the primary output. Two common areas where operating or service costing is applied are in the Transport and Power House sectors.

A. Transport Costing:

- **Definition:** Transport costing is the process of determining the cost associated with providing transportation services.
- **Objectives:** The main objective is to calculate the cost per unit of service, such as cost per ton-kilometre or cost per passenger-kilometre.
- **Cost Components:**
 - **Variable Costs:** These are costs that vary with the level of activity, such as fuel, maintenance, and driver wages.
 - **Fixed Costs:** These are costs that remain constant regardless of the level of activity, including vehicle depreciation, insurance, and salaries of administrative staff.
 - **Operating Costs:** The total of variable and fixed costs incurred in providing transportation services.
- **Allocation of Costs:** Costs need to be allocated to specific routes, vehicles, or services to accurately determine the cost per unit.

B. Power House Costing:

- **Definition:** Power House costing involves the determination of the cost associated with generating and supplying power or electricity.
- **Objectives:** The primary objective is to calculate the cost per unit of electricity produced.
- **Cost Components:**



**VISION INSTITUTE OF TECHNOLOGY,
SUBJECT: COST ACCOUNTING
UNIT 4: METHODS OF COSTING**

- **Variable Costs:** These include costs directly tied to the generation of electricity, such as fuel costs for power plants.
- **Fixed Costs:** These are costs that do not change with the quantity of electricity produced, like maintenance, depreciation, and administrative salaries.
- **Operating Costs:** The total of variable and fixed costs incurred in operating the power house and producing electricity.
- **Allocation of Costs:** Costs must be allocated to different units of electricity produced, taking into account the specific requirements and resources utilized by each unit.

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**VISION INSTITUTE OF TECHNOLOGY,
SUBJECT: COST ACCOUNTING
UNIT 4: METHODS OF COSTING**

❖ Multiple Choice Questions

Q1. What does Single Output Costing primarily focus on?

- A) Diversifying product lines
- B) Assigning all manufacturing costs to a single output or product
- C) Reducing labor costs only
- D) Managing overhead costs independently

Answer: B) Assigning all manufacturing costs to a single output or product

Q2. Which of the following costs are directly attributed to the product in Single Output Costing?

- A) Direct materials only
- B) Direct labor only
- C) Overhead costs only
- D) Direct materials, direct labor, and overhead costs

Answer: D) Direct materials, direct labor, and overhead costs

Q3. How does Single Output Costing enhance the accuracy of cost calculation for products?

- A) By ignoring overhead costs
- B) By distributing all costs evenly across multiple products
- C) By attributing all relevant costs to the production of a single item
- D) By focusing solely on direct labor costs

Answer: C) By attributing all relevant costs to the production of a single item

Q4. Why is Single Output Costing beneficial for pricing decisions?

- A) It allows for arbitrary pricing.
- B) It makes it easier to reduce product quality.
- C) It helps in understanding the precise costs, aiding in setting accurate prices.
- D) It encourages overpricing to increase profit margins.

Answer: C) It helps in understanding the precise costs, aiding in setting accurate prices.

Q5. How can Single Output Costing prevent financial losses?

- A) By facilitating underpricing of products
- B) By ensuring prices cover the costs and desired profit margins
- C) By ignoring indirect costs
- D) By focusing on mass production only

Answer: B) By ensuring prices cover the costs and desired profit margins

Q6. What is a potential outcome of not using Single Output Costing for pricing decisions?

- A) Precise cost control
- B) Financial losses due to underpricing
- C) Lower production costs
- D) Increased product diversity

Answer: B) Financial losses due to underpricing



**VISION INSTITUTE OF TECHNOLOGY,
SUBJECT: COST ACCOUNTING
UNIT 4: METHODS OF COSTING**

Q7. In Single Output Costing, what role do overhead costs play?

- A) They are ignored.
- B) They are allocated based on direct labor hours only.
- C) They are directly attributed to the product.
- D) They are allocated at a flat rate across all products.

Answer: C) They are directly attributed to the product.

Q8. How does Single Output Costing contribute to a business's profitability?

- A) By allowing for flexible pricing
- B) By aiding in precise product costing and informed pricing decisions
- C) By encouraging the production of multiple products
- D) By reducing the importance of cost accounting

Answer: B) By aiding in precise product costing and informed pricing decisions

Q9. What aspect of product pricing is improved with Single Output Costing?

- A) The ability to increase prices without justification
- B) The precision in setting prices that reflect production costs
- C) The focus on competitive pricing only
- D) The emphasis on discount pricing strategies

Answer: B) The precision in setting prices that reflect production costs

Q10. Why might a business choose Single Output Costing over other costing methods?

- A) It simplifies cost calculations by associating all costs with a specific product.
- B) It requires less financial analysis.
- C) It is the only method that accounts for direct labor.
- D) It primarily focuses on reducing overhead costs.

Answer: A) It simplifies cost calculations by associating all costs with a specific product.

Q11. What is the total manufacturing cost for a product if it incurs \$5,000 in direct materials, \$3,000 in direct labor, and \$2,500 in overhead costs?

- A) \$8,500
- B) \$10,000
- C) \$5,500
- D) \$3,000

Answer: A) \$8,500

Q12. If a business produces 500 units of a product and the total manufacturing cost is \$20,000, what is the per-unit cost using Single Output Costing?

- A) \$40
- B) \$25
- C) \$10
- D) \$5

Answer: B) \$25



**VISION INSTITUTE OF TECHNOLOGY,
SUBJECT: COST ACCOUNTING
UNIT 4: METHODS OF COSTING**

Q13. A product has direct materials cost of \$2,000, direct labor cost of \$1,500, and overhead cost of \$1,000. If the business produces 100 units of this product, what is the per-unit cost?

- A) \$30
- B) \$35
- C) \$25
- D) \$20

Answer: C) \$25

Q14. A company manufactures a single product with a total cost of \$15,000. If 1,000 units are produced, what is the per-unit cost according to Single Output Costing?

- A) \$12
- B) \$15
- C) \$10
- D) \$18

Answer: A) \$12

Q15. If the direct materials cost for a product is \$4,000, direct labor cost is \$2,500, and the overhead cost is 30% of the total manufacturing cost, what is the total manufacturing cost for 200 units of this product?

- A) \$7,000
- B) \$10,000
- C) \$8,500
- D) \$6,000

Answer: C) \$8,500

Q16. What is the primary purpose of job costing in businesses?

- A. Profit analysis
- B. Cost allocation for custom projects
- C. Budgetary control
- D. Resource optimization

Answer: B. Cost allocation for custom projects

Q17. What does job costing enable in custom projects?

- A. Generalized cost estimation
- B. Detailed breakdown of costs
- C. Fixed budget allocation
- D. Overall profitability assessment

Answer: B. Detailed breakdown of costs

Q18. In job costing, how are costs categorized for custom projects?

- A. Broad categories only
- B. Project-specific categories
- C. Industry averages



**VISION INSTITUTE OF TECHNOLOGY,
SUBJECT: COST ACCOUNTING
UNIT 4: METHODS OF COSTING**

D. Random allocation

Answer: B. Project-specific categories

Q19. Why is transparency in cost allocation important for custom projects?

- A. To reduce overall costs
- B. To enhance project aesthetics
- C. To ensure accurate expense allocation
- D. To speed up project completion

Answer: C. To ensure accurate expense allocation

Q20. What aspect of project management does job costing contribute to improving?

- A. Time management
- B. Resource allocation
- C. Budgetary control
- D. Project aesthetics

Answer: C. Budgetary control

Q21. How does job costing benefit project managers?

- A. Reducing project duration
- B. Enhancing team collaboration
- C. Providing a detailed cost overview
- D. Focusing on aesthetics only

Answer: C. Providing a detailed cost overview

Q22. What does a clear understanding of costs in job costing help businesses with?

- A. Reducing project scope
- B. Improving financial control
- C. Speeding up project completion
- D. Ignoring budget constraints

Answer: B. Improving financial control

Q23. What does job costing aid in creating for future projects?

- A. Aesthetic plans
- B. Broad budget estimates
- C. Accurate budgets
- D. Fixed cost structures

Answer: C. Accurate budgets

Q24. How does job costing contribute to resource allocation in businesses?

- A. Ignoring resource constraints
- B. Efficient resource allocation
- C. Random resource allocation
- D. Aesthetic resource planning

Answer: B. Efficient resource allocation



**VISION INSTITUTE OF TECHNOLOGY,
SUBJECT: COST ACCOUNTING
UNIT 4: METHODS OF COSTING**

Q25. What does job costing assist businesses in planning for?

- A. Project aesthetics
- B. Potential contingencies
- C. Fixed project scope
- D. Ignoring financial aspects

Answer: B. Potential contingencies

Q26. If a custom project has total costs of \$15,000, and the detailed breakdown shows \$5,000 for materials, \$7,000 for labor, and \$3,000 for overhead, what percentage of the total cost is attributed to labor?

- A. 33.33%
- B. 46.67%
- C. 20%
- D. 70%

Answer: B. 46.67% (Labor cost / Total cost * 100 = \$7,000 / \$15,000 * 100)

Q27. A business undertakes a custom project with a budget of \$25,000. If the project's actual costs are \$22,000, what is the percentage variance between the budgeted and actual costs?

- A. 8%
- B. 10%
- C. 12%
- D. 15%

Answer: A. 8% ((Budgeted costs - Actual costs) / Budgeted costs * 100 = (\$25,000 - \$22,000) / \$25,000 * 100)

Q28. If a project incurs \$4,500 in direct labor costs, \$2,000 in direct material costs, and \$1,500 in overhead costs, what is the total cost of the project?

- A. \$7,000
- B. \$8,500
- C. \$6,000
- D. \$9,000

Answer: B. \$8,500 (Direct labor + Direct material + Overhead = \$4,500 + \$2,000 + \$1,500)

Q29. A project budget allocates \$10,000 for labor, and the actual labor costs incurred are \$8,500. Calculate the labor cost variance.

- A. \$1,500 unfavorable
- B. \$1,500 favorable
- C. \$10,000 unfavorable
- D. \$10,000 favorable

Answer: B. \$1,500 favorable (Budgeted labor costs - Actual labor costs = \$10,000 - \$8,500)



**VISION INSTITUTE OF TECHNOLOGY,
SUBJECT: COST ACCOUNTING
UNIT 4: METHODS OF COSTING**

Q30. A custom project's total costs are \$30,000, and the business wants to achieve a 15% profit margin. What should be the target revenue for the project?

- A. \$34,500
- B. \$27,000
- C. \$25,500
- D. \$34,500

Answer: A. \$34,500 (Total costs / (1 - Profit margin percentage) = \$30,000 / (1 - 0.15))

Q31. What is contract costing?

- A) A method for tracking overall business expenses
- B) A method used for specific projects or contracts
- C) A technique for managing employee salaries
- D) A method for tracking only direct costs

Answer: b) A method used for specific projects or contracts

Q32. What types of costs are tracked in contract costing?

- A) Only direct costs
- B) Direct and indirect costs
- C) Only overhead costs
- D) Variable costs only

Answer: b) Direct and indirect costs

Q33. Why is efficient cost tracking essential in contract costing?

- A) To increase overall business expenses
- B) To track employee productivity
- C) To analyze profitability at the contract level
- D) To simplify financial reporting

Answer: c) To analyze profitability at the contract level

Q34. What does contract costing allow businesses to track separately for each contract?

- A) Employee salaries
- B) Overall business expenses
- C) Costs related to materials, labor, and overheads
- D) Variable costs only

Answer: c) Costs related to materials, labor, and overheads

Q35. How does contract costing contribute to enhanced profitability analysis?

- A) By focusing on reducing indirect costs
- B) By tracking overall business expenses
- C) By analyzing profitability at the contract level
- D) By increasing variable costs

Answer: c) By analyzing profitability at the contract level



**VISION INSTITUTE OF TECHNOLOGY,
SUBJECT: COST ACCOUNTING
UNIT 4: METHODS OF COSTING**

Q36. In contract costing, what benefit does tracking costs at the contract level provide?

- A) Better decision-making by identifying profitable contracts
- B) Simplifying financial reporting
- C) Ignoring indirect costs
- D) Eliminating variable costs

Answer: a) Better decision-making by identifying profitable contracts

Q37. What specific expenses does contract costing include?

- A) Only employee salaries
- B) Only material costs
- C) Materials, labor, overheads, and other contract-specific expenses
- D) Only variable costs

Answer: c) Materials, labor, overheads, and other contract-specific expenses

Q38. How does contract costing help businesses make informed decisions?

- A) By increasing overall business expenses
- B) By ignoring contract-specific costs
- C) By providing a detailed analysis of employee productivity
- D) By identifying profitable and unprofitable contracts

Answer: d) By identifying profitable and unprofitable contracts

Q39. What is the primary focus of contract costing?

- A) Managing overall business expenses
- B) Reducing variable costs
- C) Tracking costs at the project or contract level
- D) Analyzing employee salaries

Answer: c) Tracking costs at the project or contract level

Q40. What does contract costing allow management to identify for each contract?

- A) Variable costs
- B) Overall business expenses
- C) Profitability and adjustments needed
- D) Employee productivity

Answer: c) Profitability and adjustments needed

Q41. What is the formula to calculate the total cost for a contract in contract costing?

- A) Total Cost = Direct Costs - Indirect Costs
- b) Total Cost = Direct Costs + Indirect Costs
- c) Total Cost = Materials Cost × Labor Cost
- d) Total Cost = Variable Costs / Fixed Costs

Answer: b) Total Cost = Direct Costs + Indirect Costs



**VISION INSTITUTE OF TECHNOLOGY,
SUBJECT: COST ACCOUNTING
UNIT 4: METHODS OF COSTING**

Q42. A contract has direct costs of \$25,000 and indirect costs of \$10,000. What is the total cost for the contract?

- A) \$35,000
- b) \$15,000
- c) \$25,000
- d) \$10,000

Answer: a) \$35,000

Q43. If a contract generates revenue of \$50,000 and has total costs of \$35,000, what is the profit margin percentage for the contract?

- A) 25%
- B) 30%
- C) 40%
- D) 15%

Answer: a) 25%

Q44. A contract incurs material costs of \$15,000, labor costs of \$20,000, and overhead costs of \$5,000. What is the total cost for the contract?

- A) \$40,000
- b) \$25,000
- c) \$20,000
- d) \$15,000

Answer: a) \$40,000

Q45. If a contract's total costs are \$60,000, and the business has completed 60% of the work, what is the cost incurred for the work completed?

- A) \$30,000
- b) \$36,000
- c) \$24,000
- d) \$40,000

Answer: b) \$36,000

Q46. What is batch costing primarily used for in business?

- a) Tracking daily expenses
- b) Allocating costs to specific batches of products
- c) Estimating future production costs
- d) Analyzing annual profits

Answer: b) Allocating costs to specific batches of products

Q47. What types of costs are considered in batch costing?

- a) Only direct costs
- b) Only indirect costs
- c) Both direct and indirect costs
- d) Variable costs only

Answer: c) Both direct and indirect costs



**VISION INSTITUTE OF TECHNOLOGY,
SUBJECT: COST ACCOUNTING
UNIT 4: METHODS OF COSTING**

- Q48. How does batch costing contribute to efficient cost tracking?** a) By tracking costs annually
b) By tracking costs per unit for each batch
c) By ignoring indirect costs
d) By focusing only on direct labor costs

Answer: b) By tracking costs per unit for each batch

- Q49. Why is profitability analysis enhanced through batch costing?** a) It focuses on overall production costs
b) It considers variable costs only
c) It evaluates the profitability of different batches
d) It excludes indirect costs

Answer: c) It evaluates the profitability of different batches

- Q50. In the context of batch costing, what can be assessed more accurately due to variations in production processes?** a) Overall factory expenses
b) Batch-level profitability
c) Direct labor costs
d) Raw material costs

Answer: b) Batch-level profitability

- Q51. What is an example of a business that may use batch costing?** a) Retail store selling various products
b) Restaurant serving daily specials
c) Bakery producing batches of cookies
d) Software company developing programs

Answer: c) Bakery producing batches of cookies

- Q52. Which of the following is NOT considered when tracking costs with batch costing?** a) Raw materials
b) Direct labor
c) Variable costs
d) Annual profits

Answer: d) Annual profits

- Q53. How does batch costing contribute to cost per unit calculation?** a) By excluding direct costs
b) By tracking costs only for specific batches
c) By allocating costs to each batch
d) By focusing solely on indirect costs

Answer: c) By allocating costs to each batch



**VISION INSTITUTE OF TECHNOLOGY,
SUBJECT: COST ACCOUNTING
UNIT 4: METHODS OF COSTING**

Q54. What is the primary advantage of batch costing in production-oriented businesses? a)

- a) Simplifies cost tracking for annual expenses
- b) Facilitates quick production without cost analysis
- c) Helps identify cost per unit for each batch
- d) Ignores variations in production processes

Answer: c) Helps identify cost per unit for each batch

Q55. When using batch costing, what is crucial for evaluating the profitability of different batches?

- a) Consistency in production processes
- b) Ignoring variations in input costs
- c) Tracking overall factory expenses
- d) Variations in production processes

Answer: d) Variations in production processes

Q56. A bakery produces 500 batches of cookies, and the total direct costs for these batches amount to \$25,000. What is the average direct cost per batch?

- a) \$5
- b) \$50
- c) \$250
- d) \$500

Answer: c) \$250

Q57. A manufacturing company incurs \$15,000 in factory overhead costs for a specific production run of 200 units. Calculate the factory overhead cost per unit for this batch.

- a) \$75
- b) \$50
- c) \$150
- d) \$25

Answer: a) \$75

Q58. A furniture workshop produces 10 batches of custom-made tables. If the total indirect costs for these batches are \$8,000, what is the average indirect cost per batch?

- a) \$80
- b) \$800
- c) \$400
- d) \$200

Answer: c) \$400

Q59. A company manufactures 300 units of a product in a batch, incurring total direct labor costs of \$18,000. Calculate the direct labor cost per unit for this batch.

- a) \$60
- b) \$6



**VISION INSTITUTE OF TECHNOLOGY,
SUBJECT: COST ACCOUNTING
UNIT 4: METHODS OF COSTING**

- c) \$180
- d) \$30

Answer: a) \$60

Q60. A production facility uses batch costing and incurs total variable costs of \$30,000 for 15 batches. Calculate the average variable cost per batch.

- a) \$2,000
- b) \$1,500
- c) \$500
- d) \$200

Answer: b) \$1,500

Q61. What is the primary objective of process costing?

- a. Determine the market value of products
- b. Calculate the profit margin of a product
- c. Spread or average total costs over all units produced during a specific period
- d. Minimize direct labor costs

Answer: c. Spread or average total costs over all units produced during a specific period

Q62. How are total production costs allocated in process costing?

- a. Equally distributed to all units
- b. Allocated based on the number of direct labor hours
- c. Allocated based on a predetermined overhead rate
- d. Only allocated to completed units

Answer: c. Allocated based on a predetermined overhead rate

Q63. In process costing, why are manufacturing processes considered as separate cost centers?

- a. To minimize production costs
- b. To identify the most profitable process
- c. To simplify cost allocation
- d. To facilitate better control and analysis of costs

Answer: d. To facilitate better control and analysis of costs

Q64. What are the two most common methods for allocating costs in process costing?

- a. LIFO and Specific Identification
- b. Weighted Average and FIFO
- c. Absorption Costing and Variable Costing
- d. Standard Costing and Actual Costing

Answer: b. Weighted Average and FIFO

Q65. How does the weighted average method allocate costs in process costing?

- a. Considers only units started during the current period
- b. Considers only units completed during the current period



**VISION INSTITUTE OF TECHNOLOGY,
SUBJECT: COST ACCOUNTING
UNIT 4: METHODS OF COSTING**

- c. Considers all units produced as if they are identical
- d. Considers only the beginning work in process inventory

Answer: c. Considers all units produced as if they are identical

Q66. What are joint products in process costing?

- a. By-products with high sales value
- b. Multiple products arising from a single production process
- c. Completed units transferred between processes
- d. Products with the highest production cost

Answer: b. Multiple products arising from a single production process

Q67. How are the costs of joint products and by-products allocated in process costing?

- a. Based on the quantity produced
- b. Equally distributed among all products
- c. Based on their relative sales values or net realizable values
- d. Only allocated to the main product

Answer: c. Based on their relative sales values or net realizable values

Q68. When might inter-process profits arise in process costing?

- a. When the production process is inefficient
- b. When transferring costs are lower than actual costs
- c. When transferring units are incomplete
- d. When there is excess inventory

Answer: b. When transferring costs are lower than actual costs

Q69. What is the purpose of considering direct materials and direct labor costs easily traceable in process costing?

- a. To simplify the cost allocation process
- b. To minimize production delays
- c. To improve product quality
- d. To enhance transparency and accuracy in cost determination

Answer: d. To enhance transparency and accuracy in cost determination

Q70. In process costing, how does the FIFO method treat units in the beginning work in process inventory?

- a. Allocates costs equally to all units
- b. Ignores their costs
- c. Considers them separately from units started and completed during the current period
- d. Treats them as if they are identical to current period units

Answer: c. Considers them separately from units started and completed during the current period

Q71. During a production process, Company X incurs total costs of \$50,000 and produces 10,000 units. What is the cost per unit using the weighted average method?



**VISION INSTITUTE OF TECHNOLOGY,
SUBJECT: COST ACCOUNTING
UNIT 4: METHODS OF COSTING**

- a. \$5.00
- b. \$4.50
- c. \$5.50
- d. \$4.00

Answer: a. \$5.00

Q72. A manufacturing process results in 8,000 units completed and transferred out during the current period. If the total cost incurred is \$120,000, what is the cost per unit using the FIFO method? a. \$15.00 b. \$14.50 c. \$15.50 d. \$14.00

Answer: a. \$15.00

Q73. Company Y has two joint products, A and B. The total cost incurred is \$80,000, and the net realizable values for products A and B are \$30,000 and \$20,000, respectively. What is the cost allocation for product A using the relative sales values method?

- a. \$48,000
- b. \$30,000
- c. \$36,000
- d. \$24,000

Answer: a. \$48,000

Q74. In a production process, 2,000 units are transferred from Process 1 to Process 2. If the transfer price is \$10,000 and the actual cost incurred in Process 1 is \$8,000, what is the inter-process profit or loss?

- a. \$2,000 profit
- b. \$2,000 loss
- c. \$8,000 profit
- d. \$10,000 loss

Answer: a. \$2,000 profit

Q75. Company Z uses the FIFO method and has 3,000 units in the beginning work in process inventory with a cost of \$12,000. If 15,000 units are started and completed during the current period, what is the cost of the units in the beginning work in process inventory under FIFO?

- a. \$12,000
- b. \$6,000
- c. \$4,800
- d. \$8,000

Answer: a. \$12,000

Q76. What is operating or service costing primarily used for?

- A. Determining the cost of tangible products
- B. Evaluating marketing strategies
- C. Calculating the cost of providing a particular service or operating a specific department
- D. Analyzing financial statements



**VISION INSTITUTE OF TECHNOLOGY,
SUBJECT: COST ACCOUNTING
UNIT 4: METHODS OF COSTING**

Answer: C. Calculating the cost of providing a particular service or operating a specific department

Q77. In transport costing, what is the main objective?

- A. Calculating marketing expenses
- B. Determining variable costs
- C. Calculating the cost per unit of service, such as cost per ton-kilometre or cost per passenger-kilometre
- D. Analyzing fixed costs

Answer: C. Calculating the cost per unit of service, such as cost per ton-kilometre or cost per passenger-kilometre

Q78. What are variable costs in transport costing?

- A. Costs that remain constant regardless of the level of activity
- B. Costs directly tied to the generation of electricity
- C. Costs that vary with the level of activity, such as fuel, maintenance, and driver wages
- D. Costs associated with administrative salaries

Answer: C. Costs that vary with the level of activity, such as fuel, maintenance, and driver wages

Q79. In power house costing, what is the primary objective?

- A. Calculating the cost per unit of electricity produced
- B. Determining marketing expenses
- C. Analyzing variable costs
- D. Calculating fixed costs

Answer: A. Calculating the cost per unit of electricity produced

Q80. What do fixed costs in power house costing include?

- A. Costs that do not change with the quantity of electricity produced, like maintenance, depreciation, and administrative salaries
- B. Costs that vary with the level of activity
- C. Costs directly tied to the generation of electricity
- D. Costs associated with marketing strategies

Answer: A. Costs that do not change with the quantity of electricity produced, like maintenance, depreciation, and administrative salaries

Q81. What is the total of variable and fixed costs incurred in providing transportation services?

- A. Variable Costs
- B. Fixed Costs
- C. Operating Costs
- D. Allocation of Costs

Answer: C. Operating Costs



**VISION INSTITUTE OF TECHNOLOGY,
SUBJECT: COST ACCOUNTING
UNIT 4: METHODS OF COSTING**

Q82. How are costs allocated in transport costing?

- A. Randomly
- B. To specific routes, vehicles, or services
- C. Equally among all units
- D. Based on employee seniority

Answer: B. To specific routes, vehicles, or services

Q83. What is the total of variable and fixed costs incurred in operating the power house and producing electricity?

- A. Variable Costs
- B. Fixed Costs
- C. Operating Costs
- D. Allocation of Costs

Answer: C. Operating Costs

Q84. In power house costing, what must be considered when allocating costs?

- A. Employee seniority
- B. Random allocation
- C. Specific requirements and resources utilized by each unit
- D. Marketing expenses

Answer: C. Specific requirements and resources utilized by each unit

Q85. What does power house costing involve?

- A. Calculating variable costs
- B. Determining the cost of transportation services
- C. Generating and supplying power or electricity
- D. Analyzing marketing strategies

Answer: C. Generating and supplying power or electricity

Q86. If a transport company incurs variable costs of \$1,500 and fixed costs of \$800 for a specific route, and provides transportation services for 500 ton-kilometres, what is the total operating cost per ton-kilometre?

- A. \$0.70
- B. \$3.00
- C. \$4.60
- D. \$2.60

Answer: C. \$4.60

Q87. A power house incurs variable costs of \$2,000 and fixed costs of \$1,200 to generate electricity. If the total electricity produced is 1,000 units, what is the total operating cost per unit of electricity produced?

- A. \$3.20
- B. \$1.20



**VISION INSTITUTE OF TECHNOLOGY,
SUBJECT: COST ACCOUNTING
UNIT 4: METHODS OF COSTING**

- C. \$2.20
- D. \$0.80

Answer: B. \$1.20

Q88. If a transport company allocates \$400 in costs to a specific vehicle that transported goods for 200 passenger-kilometres, what is the cost per passenger-kilometre for that vehicle?

- A. \$0.50
- B. \$1.00
- C. \$2.00
- D. \$4.00

Answer: A. \$0.50

Q89. A power house allocates \$800 in fixed costs to a unit of electricity produced. If the total units of electricity produced are 500, what is the fixed cost per unit of electricity?

- A. \$0.40
- B. \$1.60
- C. \$2.00
- D. \$3.20

Answer: B. \$1.60

Q90. A transport company has variable costs of \$1,000, fixed costs of \$600, and provides transportation services for 300 ton-kilometres. If the company wants to break even, what should be the price per ton-kilometre?

- A. \$2.00
- B. \$4.00
- C. \$1.33
- D. \$3.33

Answer: C. \$1.33