M.COM PART II (SEM III)/PAPER CODE-72211/ADVANCED COST ACCOUNTING
QUESTION BANK

1. A Company uses process costing to establish the cost per unit of its output. The following information was a available for the last month: Input Units 10,000
   Output Units 9,850
   Opening stock 300 units, 100% complete for materials and 70% complete for conversion costs
   Closing stock 450 units, 100% complete fort materials and 30% complete for conversion costs
   The company uses the weighted average method for valuing stock. What were the equivalent units for conversion costs?
   a) 9,505 units b) 9,505 units c) 9,775 units d) 9,985 units
2. Normal Loss is equal to
   a) Normal Output- Actual Output b) Actual Output- Normal Output
   c) Input X % of Normal Loss d) None of the above
3. A manufacturing process had no work in progress at the beginning of the period. 20,000 units of raw material, costing Rs. 8.20 per unit, were input to the process in the period. 18,600 completed units were transferred out. Conversion costs were Rs. 7.65 per completed unit and Rs. 6012 per incomplete unit.
   What was the value of the closing work-in progress?
   a)Rs. 8.568 b) Rs. 20,048 c) Rs. 22,190 d) Rs. 30,788
4. Which of the following does not use process costing?
   a) Oil refining b) Distilleries c) Sugar d) Aircraft manufacturing
5. When FIFO method is used in process costing, the opening stock costs are:
   a) Kept separate from the cost of the new period
   b) Added to new costs
   c) Subtracted from the new costs
   d) averaged with other costs to arrive at total costs
6. A company which operates process costing system had work in progress at the start of the last month of 300 units (valued at Rs. 1,710) which were 60% complete in respect of all costs.
   Last month a total of 2,000 units were completed and transferred to the finished goods warehouse. The cost per equivalent unit for costs arising last month was Rs. 10. The company uses the FIFO method of cost allocation.
   What was the total value of the 2,000 units transferred to the finished goods warehouse last month?
   a) Rs. 19,910 b) Rs. 20,000 c) Rs. 20,510 d) Rs. 21,710
7. For which costing method is the concept of equivalent units relevant?
   a) Batch costing b) Job costing c) Process costing d) Service costing
8. Completed output from a manufacturing process in a period totaled 5,640 units. There was no work-in-progress at the beginning of the period but 780 units, 60% complete, remained in the process at the end of the period.
   What are the equivalent units of the closing work-in progress?
   a)312 b) 468 c)780 d)6,108
9. Popular methods for calculating equivalent production are
   a) FIFO b) Average cost c) Both (a) and (b) d) Neither a nor b

10. Process cost is based on the concept of
    a) Average cost b) Marginal cost c)Standard cost d) Differential cost
11. Which of the following bases would be most appropriate to apportion the cost of electric power to factory departments?
    a)Number of outlet points b) Amount metered out
    c) Cubic capacity of premises d) kilowatt capacity of machines in department
12. Overhead expenses can be classified according to
    a) Functions b) Elements c) Behavior d) All of the above
13. Charging to a cost centre those overheads that result solely from the existence of that cost centre is known as
    a)Allocation b) Apportionment c) Absorption d) Allotment
14. Number of workers employed is used as a basis for this apportionment of
    a) Time office costs b) Canteen expenses
    c)Personnel department expenses d) Any of these
15. Packing cost is a
    a) Production cost b) Selling cost
    c) Distribution cost d) It may be any of the above
16. Which of the following cannot be used as a base for the determination of overhead absorption rate?
    a) Number of units produced b) Prime cost
    c) Conversion cost d) Discount allowed
17. If an item of overhead expenditure is charged specifically to a single department this would be an example of
    a)Apportionment b) Allocation c) re-apportionment d) Absorption
18. In which of the following center factory OH cost is NOT incurred?
    a)Production center b) Service center
    c) General cost center d) Head office
19. Which of the following is referred to as primary distribution of overheads-
    a) reapportioning service dept. overheads to other service dept.
    b) reapportioning production dept. overheads to other production dept.
    c) apportioning and allocasting overheads to all departments on a suitable basis
    d) reapportioning service dept. overheads to production dept.
20. Which of the following bases is not appropriate for apportionment of Transport departments cost?
    a) Crane hours b) Crane value c) Truck mileage d) Truck value
21. Which of the following is not a facility-level activity?
    a) Plant management b) Product design
    c) Personnel administration d) Training
22. Relative to traditional product costing, activity-based costing differs in the way costs are
    a) processed b) allocated c) benchmarked d) incurred
23. An activity that has a direct cause-effect relationship with the resources consumed is a (n)
    a) cost driver b) overhead rate c) cost pool d) product activity

24. Which of the following is typically regarded as a cost driver in traditional accounting practices?
    a) Number of purchase orders processed
    b) Number of customers served
    c)Number of transactions processed
    d) Number of direct labour hours worked
25. All of the following are considered to be part of the activity levels often used to implement ABC, with the exception of
    a) Production-level activity
    b) Batch-level activity
    c) Product-level activity
    d) Unit-level activity
26. Which of the following is not a product- level activity?
    a) Product design
    b) Engineering changes
    c) Material handling
    d) Inventory management
27. Regarding activity based costing systems, which of the following statements is true?
    a) ABC systems accumulate overhead costs by departments.
    b) ABC costing systems are less complex and, therefore, less costly than traditional systems.
    c) ABC costing systems have separate indirect cost allocation rates for each activity.
    d) ABC costing systems can be used in manufacturing firms only.
28. What is the purpose of ABC?
    a)To identify what product costs are incurred by a company
    b) To allocate and design all product costs incurred to the appropriate products or services
    c) To determine a cost object for which cost information is needed
    d) To allocate and assign indirect costs
29. Which of the following is a facility level activity?
    a) Engineering changes
    b) Product design
    c) Property taxes
    d) Inspection
30. In an activity-based cost system, to what does 'pooling costs' refer?
    a)Assigning various overhead costs to products
    b) Collecting various types of costs that relate to an activity
    c) Determining how much direct materials and labour should be allocated to a specific product or service.
    d) Comparing the actual performance of managers against the budget
31. Which of the following should not be used to evaluate the performance of a plant manager in a decentralized operation?
    a)Direct labor expense in the plant
    b)Depreciation expenses on equipment the manager autorized
    c) Variable overhead expenses in the plant
    d) Interest expense on bonds used to finance expansion of the plant
32. The following data relate to the Happy Division of euphoria, Inc.:

Sales	Rs. 1,00,00,000
Variable costs	Rs,30,00,000
Direct fixed costs	Rs, 50,00,000
Invested capital	Rs. 20,00,000
Capital charge	12%

    The divisional residual income is
    a) Rs.70,00,00,000
    b) Rs. 2,40,000
    c) Rs.20,00,000
    d) Rs. 17,60,000

33. A positive residual income indicates that the company is earning
    a) enough to cover its operating expenses
    b) more than its 'opportunity cost' of its investments.
    c) higher profit in the long run than in the short run
    d) an amount equal to its cost of capital
34. Which of the following responsibility centers may be evaluated on the basis of residual income?
    a) Investment center b) Revenue center c)Profit center d) Cost center
35. Saul Division of Max & Co.'s current ROI is 18%. Sauls is considering a division with an ROI of 16.5%. The required rate of return is 15%. Should Sauls Division accept the division?
    a) No, it will lower the division's ROI.
    b) Yes, the division's ROI exceeds the company's required rate of return.
    c) No, total division profits will decline if accepted
    d) Yes, it will be separate division and not affect the Saul division's ROI.
36. For what purpose do companies calculate residual income?
    a) To determine whether decentralization is suitable for a company
    b) To eliminate goal congruence problems
    c) To evaluate management performance in investment centers
    d) To evaluate profit centers
37. A prospective project under consideration by P Division of C Co. has an estimated residual income of a negative Rs. 20,000. If the project requires an investment of Rs. 4,00,000, the ?
    a) project generates a negative return on investment
    b) Project's return on investment is zero
    c) Project's return on investment is 5% less than the company's target rate.
    d) company target rate is 15%
38. A management decision may be beneficial for a given profit center, but not for the entire company. From the overall company viewpoint, this decision would lead to
    a) goal congruence b) centralization c) suboptimization d) maximization
39. All other things being equal, an increase in sales price would increase?
    a) asset turnover b) Profit margin c) residual income d) all of the above
40. The Bullwhip Division of Leather Products Co. is considering an investment in a new project. The project has an estimated cost of Rs. 1,000,000. If Leather Products Co. has a target rate of return of 12%, how large does the return on investment on this project need to be generate Rs. 1,50,000 of residual income?
    a) 15% b) 12% c) 25% d) 27%
41. To avoid waste and maximize efficiency when transferring products among divisions in a competitive economy, a large diversified corporation should base transfer prices on
    a) Full cost b) Replacement cost c) Market price d) Variable cost
42. S corporation uses target costing and sells a product for Rs. 40 per unit. The company seeks a profit margin equal to 30% of sales. If target-costing calculations revealed a need for a Rs. 4 cost reduction, the firm's current manufacturing cost must be:
    a) Rs. 12 b) Rs. 24 c) Rs. 28 d) Rs. 32

43. The price that one division of a company charges another division for goods or services provided is called the
    a) Market price b) transfer price c) outlay price d) distress price
44. The product strategy in which companies first determine the price at which they can sell a new product and then design a product that can be produced at a low enough cost to provide adequate operating income is referred to as
    a) Cost-plus pricing b) Target costing c)Benchmark costing d) Full costing
45. Which of the following methods of setting aa transfer price most closely reflects an arm's – length, independent transaction?
    a) Negotiated price b) Variable cost c) Market price d) Full-cost plus profit
46. The four tasks that follow take place in the concept known as target costing:
    (1) Value engineering
    (2) Establish a target selling price
    (3) Establish a target cost
    (4) Establish a target profit
    Which is the correct sequence of these tasks?
    a) 1, 3, 4, 2 b) 3, 1, 4, 2 c) 2, 4, 3, 1 d) 2, 3, 1, 4
47. Which one of the following do you think is not a cost based method of fixation of transfer price?
    a) Price based on marginal cost b) Price based on Absorption cost
    c) Price based on Opportunity cost d) Skimming Price
48. The transfer pricing method that allows managers the greatest degree of authority and control over the profit of their units is
    a) Market pricing b) return on capital employed c) negotiated pricing d) cost
49. R uses target costing and sells a product for Rs. 36 per unit. The company seeks a profit margin equal to 25% of sales. If the current manufacturing cost is Rs. 29 per unit, the firm will need to implement a cost reduction of
    a) Rs. 0 b) Rs. 2 c) Rs. 9 d) Rs. 20
50. Which of the following transfer prices is usually closest to the opportunity cost of the product?
    a) Variable costs less costs avoided on a internal transfer
    b) Market price less costs avoided on an internal transfer
    c) Variable cost
    d) Full cost plus profit