

Cost Accounting

Q1) Cost Accounting Standards (Especially CAS-4, CAS-22, CAS-24)

Cost Accounting Standards (CAS) – Meaning

Cost Accounting Standards are **guidelines issued by the Institute of Cost Accountants of India (ICMAI)** to ensure **uniformity, consistency, and transparency** in cost accounting practices.

CAS-4: Cost of Production for Captive Consumption

- Deals with determination of **cost of production** when goods are used internally.
- Includes direct material, direct labour, direct expenses, and production overheads.
- Excludes marketing, selling, and distribution overheads.
- Used for valuation under excise and transfer pricing.

CAS-22: Manufacturing Cost

- Specifies principles for determining **manufacturing cost of products**.
- Includes all costs incurred up to the stage of production.
- Excludes administrative overheads not related to production.
- Helps in cost control and pricing decisions.

CAS-24: Pollution Control Cost

- Deals with **costs incurred for pollution prevention and environmental protection**.
- Includes capital and operating costs of pollution control equipment.
- Pollution control cost should be **separately identified and disclosed**.
- Ensures compliance with environmental regulations.

Q2) Difference between Cost Center and Profit Center?

	Basis	Cost Center	Profit Center
Meaning		A cost center is a unit where costs are incurred for performing specific activities. It does not generate revenue directly.	A profit center is a unit responsible for both generating revenue and incurring costs. Its performance is judged on profit earned.
Objective		The main objective of a cost center is effective cost control and efficiency. It focuses on minimizing expenses.	The objective of a profit center is profit maximization. It aims to increase revenue while controlling costs.

Basis	Cost Center	Profit Center
Revenue	A cost center does not generate revenue directly. It supports other revenue-generating departments.	A profit center directly generates revenue through its operations. It plays a key role in income generation.
Responsibility	A cost center is managed by a cost manager responsible only for controlling costs. He is not accountable for revenue.	A profit center is managed by a profit manager responsible for both costs and revenue. His performance is evaluated on profitability.
Measurement	Performance of a cost center is measured in terms of costs incurred. Lower and controlled costs indicate efficiency.	Performance of a profit center is measured in terms of profit earned. Higher profit reflects better performance.
Example	The production department is a cost center as it incurs costs but does not sell goods directly. It supports manufacturing activities.	The sales division is a profit center because it earns revenue and incurs selling expenses. It directly contributes to profits.

Q3) Difference between Time Keeping and Book Keeping?

Basis	Time Keeping	Book Keeping
Meaning	Time keeping refers to the recording of time spent by workers in the factory. It helps in knowing the actual hours worked by each employee.	Book keeping refers to the systematic recording of financial transactions of a business. It forms the basis of accounting.
Purpose	The main purpose of time keeping is to calculate wages accurately. It also helps in avoiding disputes related to working hours.	The purpose of book keeping is to prepare accurate accounts of the business. It helps in determining profit or loss.
Area	Time keeping is mainly carried out in the factory or labour department. It deals with workers' attendance and working hours.	Book keeping is carried out in the accounts department. It deals with recording business transactions.
Records	Common records used in time keeping include time cards and attendance registers. These records show the hours worked by employees.	Records used in book keeping include journal and ledger. These records show financial transactions in monetary terms.
Focus	Time keeping focuses on labour hours and time spent on work. It helps in controlling labour efficiency.	Book keeping focuses on monetary transactions of the business. It helps in financial analysis.
Use	Time keeping is used for labour cost control and wage payment. It ensures fair payment to workers.	Book keeping is used for preparing financial statements like Profit and Loss Account and Balance Sheet. It helps in decision-making.

Q4) Characteristics of a Good Wage System?

1. Simple and Easy to Understand

A good wage system should be simple so that workers can easily understand how their wages are calculated. Simplicity avoids confusion and disputes between workers and management.

2. Fair and Equitable to Workers

The wage system should ensure equal pay for equal work among employees. Fair wages improve morale and job satisfaction of workers.

3. Provides Incentive for Higher Productivity

A good wage system should motivate workers to increase their productivity. Incentives linked with performance encourage workers to work efficiently.

4. Ensures Reasonable Minimum Wages

The wage system must guarantee minimum wages sufficient to meet basic needs of workers. This ensures a decent standard of living and job security.

5. Reduces Labour Turnover

Fair and attractive wages reduce the tendency of workers to change jobs frequently. This helps in retaining skilled and experienced employees.

6. Encourages Efficiency and Quality

A proper wage system rewards efficiency and good quality of work. This results in improved output and reduced wastage.

7. Economical to Administer

The wage system should be cost-effective and easy to administer. High administrative costs reduce overall efficiency of the organization.

8. Accepted by Workers and Management

A good wage system should be acceptable to both workers and management. Mutual acceptance ensures industrial peace and smooth functioning of the organization.

Q5) Meaning of PIN Card and Store Ledger?

Term	Explanation
PIN Card	A PIN card is a specially designed time recording card used in factories and organizations to record the attendance and working hours of each worker . Each worker is assigned a unique PIN (Personal Identification Number) which ensures accurate identification and prevents misuse. It plays a vital role in time keeping systems by providing data for calculating wages, overtime, and shift allowances. The recorded data also helps management to monitor punctuality, absenteeism, and labour efficiency.
Store	A store ledger is a detailed record maintained by the storekeeper for tracking all

Term	Explanation
Ledger	receipts, issues, and balances of materials in the store. It shows both the quantity and monetary value of materials at any given time. The ledger helps in controlling inventory, preventing pilferage, and planning material requirements efficiently. It also provides accurate information for cost accounting, ensuring proper allocation of material costs to production and other cost centers.

6. Give Difference between FIFO and LIFO?

Answer:

Basis	FIFO (First In First Out)	LIFO (Last In First Out)
Meaning	FIFO means that the materials or inventory purchased first are issued or sold first . It assumes that older stock is consumed before newer stock.	LIFO means that the latest materials purchased are issued or sold first . It assumes that the newest stock is used before the older stock.
Issue of Material	Under FIFO, the oldest stock in the inventory is issued first , which helps in proper rotation of stock. This reduces the risk of obsolescence or expiry.	Under LIFO, the most recently purchased stock is issued first , keeping older stock in the inventory. This may lead to accumulation of old stock over time.
Stock Valuation	FIFO values closing stock at recent purchase prices , reflecting the current market price of materials. This method usually results in higher closing stock value during inflation.	LIFO values closing stock at older purchase prices , which may be lower than current prices. This can underestimate the stock value during periods of rising prices.
Profit Impact	During inflation, FIFO results in higher profits because older, cheaper stock is issued first, reducing cost of goods sold. This also increases taxable income.	During inflation, LIFO results in lower profits because newer, expensive stock is issued first, increasing cost of goods sold. This reduces taxable income.
Realism	FIFO matches the actual flow of goods in most businesses, where older stock is used first. It gives a realistic representation of cost and stock.	LIFO matches recent cost with current sales , which may not reflect the physical flow of goods. It is less realistic in most industries.
Acceptance	FIFO is accepted under most accounting standards and is widely used in practice. It complies with valuation rules and provides a true and fair view.	LIFO is not permitted under Indian Accounting Standards (Ind AS) . Its use is restricted because it may underestimate stock value and profits.

Q7. Difference between Job Costing and Contract Costing

	Job Costing	Contract Costing
Basis		
Nature	Job costing is applied to a specific job or order that is clearly identifiable. Each job is treated separately for cost calculation and control.	Contract costing is used for large construction contracts or long-term projects. Costs are accumulated for the entire contract rather than individual units.
Duration	Job costing is generally used for short-term jobs that are completed within a short period. It allows quick determination of cost and profitability.	Contract costing is applied to long-term projects that may take months or years to complete. Costs are monitored over the entire contract duration.
Location	Job costing is mostly carried out in factory premises or workshops. Materials, labour, and overheads are collected at the production site.	Contract costing is carried out at the contract site such as a construction site. Materials and labour are often recorded on-site.
Cost Unit	The job itself is the unit of costing in job costing. Each job is treated individually for cost control.	The contract is the cost unit in contract costing. The total cost is calculated for the entire project.
Size	Job costing is suitable for small jobs that can be completed quickly. It is easier to maintain records for smaller jobs.	Contract costing is suitable for large projects involving multiple activities. It requires detailed monitoring and accounting over a long period.
Examples	Examples of job costing include printing jobs, tailoring, and custom orders . Each order is separately costed and accounted.	Examples of contract costing include construction of roads, bridges, buildings, and other infrastructure projects . The contract is treated as a single unit for costing purposes.

Quick Revision Note Just before Exam

Topic	Key Points / Description	Example / Notes
Cost Center vs Profit Center	Cost Center: A unit where costs are incurred; no revenue generated. Focus is on cost control.	Cost Center → Production Dept; Profit Center →

Topic	Key Points / Description	Example / Notes
	Profit Center: A unit responsible for costs and revenue; focus is on profit maximization.	Sales Division
Time Keeping vs Book Keeping	<p>Time Keeping: Recording attendance and hours worked by workers; helps in wage calculation and labour efficiency.</p> <p>Book Keeping: Recording financial transactions; helps in preparing accounts and financial statements.</p>	Time Keeping → Time cards, attendance registers Book Keeping → Journal, Ledger
Characteristics of a Good Wage System	<ol style="list-style-type: none"> 1. Simple and easy to understand; avoids confusion. 2. Fair and equitable; ensures equal pay for equal work. 3. Provides incentive for higher productivity. 4. Ensures reasonable minimum wages. 5. Reduces labour turnover. 6. Encourages efficiency and quality. 7. Economical to administer. 8. Accepted by workers and management. 	Helps in industrial peace and motivates workers
PIN Card	A card used to record attendance and working hours of each worker. Each worker has a unique PIN to ensure accuracy. Helps calculate wages and monitor efficiency.	Factory attendance system, timekeeping
Store Ledger	A record maintained to show receipts, issues, and balance of materials in quantity and value. Helps control inventory and allocate costs to production.	Raw material ledger, consumable stores
FIFO (First In First Out)	Oldest stock is issued first; closing stock valued at recent purchase price. Results in higher profit during inflation. Matches actual flow of goods; widely accepted.	Issue oldest raw materials first in a factory
LIFO (Last In First Out)	Latest stock issued first; closing stock valued at older prices. Results in lower profit during inflation. Less realistic; not permitted under Ind AS.	Issue latest raw materials first (less common in India)
Job Costing	Costs accumulated for specific jobs or orders ; suitable for small, short-term jobs. Each job treated individually. Cost unit = Job.	Printing jobs, tailoring, custom orders

Topic	Key Points / Description	Example / Notes
Contract Costing	Costs accumulated for large construction projects or contracts. Duration is long-term; cost unit = Contract. Suitable for large-scale projects.	Road construction, building bridges, large infrastructure projects

Fill in the Blanks:

1. A **Cost Center** is a unit where only _____ are incurred and no revenue is generated.

Answer: costs

2. A **Profit Center** is responsible for both _____ and _____.

Answer: costs, revenue

3. **Time Keeping** is mainly used to record _____ and calculate _____.

Answer: working hours, wages

4. **Book Keeping** involves recording all _____ of a business systematically.

Answer: financial transactions

5. Under **FIFO**, the _____ stock is issued first and the closing stock is valued at _____ prices.

Answer: oldest, recent

6. Under **LIFO**, the _____ stock is issued first and the closing stock is valued at _____ prices.

Answer: latest, older

7. **PIN Card** is used in factories to record _____ and monitor _____ of workers.

Answer: attendance, efficiency

8. **Store Ledger** keeps a record of _____ and _____ of materials in the store.

Answer: receipts, issues

9. In **Job Costing**, the cost unit is a _____ while in **Contract Costing**, the cost unit is a _____.

Answer: job, contract

10. A good wage system should be _____ and _____ to ensure fairness and motivate workers.

Answer: fair, equitable