GLOBAL CMA

COST ACCOUNTING INTERVIEW QUESTIONS

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Learning Platform for Cost Accountants (CMA)

Explain cost sheet?

Cost Sheet is a periodical statement of cost designed to show in detail the various elements of cost of goods produced like Prime Cost, Factory Cost of Production & Total Cost. It is prepared at regular intervals. Eg, weekly, monthly quarterly, yearly etc. Comparative figures of the various period may also be shown in the cost sheet so that assessement can be made about the progress of the business. In Short, cost sheet is a detailed statement of cost of a product for a given period of time.

How to make a table for to calculate the prime cost,factroy cost, total cost of production and cost of sales?

Period From …………………… To ………………………………………	Cost Units …………	
Cost Items	Amount (₹)	Amount (₹)
Direct Material		
Opening Stock	xxxxx	
Add: Purchases	xxxxx	
Add: Incidental charges	xxxxx	
Less: Closing Stock	xxxxx	xxxxx
Direct Labour		xxxxx
Direct Expenses		xxxxx
PRIME COST		xxxxx
Add: Production Overheads	xxxxx	
Add: Opening work in process	xxxxx	
Less: Closing work in process	xxxxx	xxxxx
FACTORY COST OR WORKS COST		xxxxx
Add: Administrative Overheads		xxxxx
COST OF GOODS MANUFACTURED		xxxxx
Add: Opening Finished goods stock	xxxxx	
Less: Closing Finished goods stock	xxxxx	xxxxx
COST OF FINISHED GOODS SOLD		xxxxx
Add: Selling & Distribution overheads		xxxxx
COST OF GOODS SOLD		xxxxx

What does the name costing mean and what are the importance of costing?

Costing means the ascertainment of cost whether for a specified thing or activity. To ascertain cost, we need to apply accounting and costing principles, methods and techniques.

Importance:

1) It assist management to make decision for example make or buy, whether to accept a special order and others;

2) It assist management in planning and control;
3) Understanding costing assist in cost awareness, cost control / management;
4) Costing assists management to appreciate scarce resources in the increasingly complex business operations;
5) Is vital to an organization's survival re: using marginal cost in competitive tendering and others.

What is difference between cost accounting and financial accounting?

Cost Accounting mainly helps in Cost ascertainment and its control. Financial Accounting is an accounting which helps in determining the financial position of firm. It gives the profit or loss of the firm for a given period and does not help in controlling cost.

Why is interest on loan not included in cost sheet?

Interest on loan is not included in cost sheet because it is treated as an item of finance. in cost sheet items of financial nature are not included. Interest on loan is a financial charge and debited to Profit & Loss account.

What is the difference between cash flow statement and funds flow statement?

Cash flow is a statement which shows cash inflow and outflow of cash during a particular period of time. Cash flow statement is a statement of changes in cash position. Whereas funds flow is a statement which shows inflow and outflow of funds. Fund flow statement is a statement of changes in financial position.

What is the difference between Expenses & Expenditure?

Expenditure: The expenditure is the cost bearded for the purchase of asses into the business. The benefits of this expenditure can be for longer period of time. Expenditures are capital nature. example : Machinery purchased etc.

Expense: While the amount spent incurred as and when required it can be regular, comes under expense. The benefits of expense can be for limited period. Expenses are revenue nature. example: electricity Expenses; repair and maintenance of the car etc.

What is BEP in Cost Accounting?

BEP: Break Even Point

A point at which there is no profit and no loss. The level of activity at which total revenues = total costs. In Other words, Here, Contribution is just equal to Fixed Cost. (C=F.C)

In simple terms, Total Sales = Total cost If the company make sales above that point it would earn profit or below then it would be in loss.

Tell us about your experience in cost accounting.

I think its Very Fantastic to work on Cost Accounting because the ordinary people does not know, How to find cost of a particular product precisely, how to control cost, how to prepare budget and planning for low cost.

"Cost accounting has become an essential tool of management "- What is your opinion?

Earlier cost accounting's meaning was just determining the cost of a particular product and classification of the same as per it's nature or behavior. But in the modern context cost accounting means not mere determining the cost of the product but also includes project costing, budgeting, decision making, project financing. all these are very important aspects from the company's management point of view. As cost accounting facilitates all these things cost accounting today is becoming an essential tool of management.

What are the freight charges?

There are two types of freight charges one is Inward and the other one is Outward. Inward is grouped under Direct expenses incurred before production and it may be taken into landed cost. Eg.Freight given while purchasing of Raw Material. Outward is grouped under Indirect expense and it will be incurred after production. Eg.Freight given while selling of Finished Goods.

What is marginal cost and marginal costing?

Marginal Cost is the amount at any given volume of output by which aggregate costs are changed if the volume of output is increased or decreased by one unity. The aggregate costs consists of both, fixed cost and variable cost. In simple words, marginal cost indicates the per unit variable cost.

Marginal Costing is on the other hand is the ascertainment, by differentiating between fixed costs, variable costs, of the marginal costs and of the effect on profit of changes in volume and type of output.

What is sunk cost?

Sunk cost indicates the historical cost which has been incurred in the past. This type of cost is not relevant in the decision making process. For example-while deciding about the replacement of a machine, the depreciated book value of the machine may not be relevant in the form of sunk cost.

What do you understand by cost accountancy? What are the objectives of cost accountancy?

Cost accountancy is the application of Costing and Cost accounting principles, methods, and techniques to the science, art and practice of cost control and the ascertainment of profitability as well as the presentation of information for the purpose of managerial decision making.

Following are the objective of cost accountancy:

a. Ascertainment of cost and profitability with the help of various principles, methods and techniques.

b. Cost control

c. Presentation of information to enable managerial decision making.

What do you understand by cost center? What are the types of cost centers?

Cost center is defined as a location, person, or item of equipment in relation to which costs may be ascertained and used for the purpose of cost control. Identification of a cost center is a prerequisite for the successful implementation of the cost accounting process as the costs are ascertained and controlled with respect tot the cost centers. In many cases cost centers are termed as Responsibility Centers.

Types of cost centers:

1. Impersonal cost center – Consists of location or item of equipment.

Example - department, branch etc.

2. Personal cost center – Consists of a person or a group of persons.

Example – finance manager, sales manager etc.

3. Production cost center – Is the one where the production activity is carried on.

For example - paint shop, a machine shop, etc.

4. Service cost centers – Is the one which assists the production activity.

For example - store department, internal transport department, labour office, accounts department, etc.

What are the different types of cost?

Cost indicates the amount of expenditure incurred on a given thing.

Following are the different types of cost:

Direct Cost – also termed as Prime cost. It indicates that cost which can be identified with the individual cost center. It consists of direct material cost, direct labour cost and direct expenses.

Indirect Cost – also termed as Overhead. It indicates that cost which cannot be identified with the individual cost center. It consists of indirect material cost, indirect labour cost and indirect expenses.

Fixed Cost – indicates that portion of total cost which remains constant at all the levels of production. As the volume of production increases, per unit fixed cost may reduce, but not the total fixed cost.

Variable – indicated that portion of the total cost which varies directly with the level of production. The higher the volume of production, the higher the variable cost and vice versa, though per unit variable cost remains constant at all the levels of production.

Semi-variable cost – indicates that portion of the total cost which is partly fixed and partly variable in relation to the volume of production.

Controllable cost – indicates that cost which can be controlled by a specific number of persons in the organization

Uncontrollable cost – indicates that cost which cannot be controlled by a specific number of persons in the organization.

Normal cost – indicates that cost which is normally incurred at a certain level of output under normal circumstances.

Abnormal cost - indicates that cost which is normally not incurred at a certain level of output under normal circumstances.

Which factors should be considered before installing a costing system?

- Nature of the Product
- Nature of the Organization
- Manufacturing Process
- Simplicity and Cost
- Reporting Systems

What are the elements of costs?

Elements of costs

1. Material Cost – is the cost of commodities and material used by the organization. It can be direct and indirect material. Direct material indicates that material which can be identified with the individual cost center and which becomes an integral part of the finished goods. Indirect material indicates that material which cannot be identified with the individual cost center. This material assists the manufacturing process and does not become an integral part of finished goods.

2. Labour Cost – is the cost of remuneration paid to the employees of the organization. It can be direct or indirect. Direct labour cost indicates that labour cost which can be identified with the individual cost center and is incurred for those employees who are engaged in the manufacturing process. Indirect labour cost indicates that labour cost which cannot be identified with the individual cost center and is incurred for those employees who are not engaged in the manufacturing process but only assist in the same.

3. Expenses – is the cost of services provided to the organization. It can be direct or indirect. Direct expenses are those expenses which can be identified with the individual cost centers. Indirect expenses are those expenses which cannot be identified with that individual cost centers.

What items are included in Prime cost?

Prime Cost is an aggregate of direct material cost, direct labour cost and direct expenses.

What is overhead? What items are included in Overhead?

Overhead is an aggregate of indirect material cost, indirect labour cost and indirect expenses.

Overheads are further classified as:

1. Factory Overheads – Consists of all overhead costs incurred from the stage of procurement of material till the stage of production of finished goods

2. Office and Administration Overheads – Consists of all overhead costs incurred for the overall administration of the organization.

3. Selling and Distribution Overheads – Consists of all overhead costs insured from the stage of final manufacturing of finished goods till the stage of sale of goods in the market and collection of dues from the customers.

What are non operating financial incomes and non operating financial expenses?

Non operating financial income represents that income which arises not as a part of regular operations of the organization. Due to these incomes operating profit as per cost statement may be less than profit as per Profit and Loss account. For example: profit on the sale of assets, dividend received etc.

Non operating financial expense represents that expense which arises not as a part of regular operations of the organization. Due to these expenses the operating profit as per the cost statement may be more than the profit as per Profit and Loss Account. For example: a loss on the sale of assets, provision for income tax, interest paid etc.

What are the main consequences of Overstocking?

- It will block a large amount of working capital.
- More storage facilities will be required.
- Risk of deterioration of quality and obsolescence of material.
- More attention will be required in material handling and up keeping.
- Additional Insurance cost.

What is the difference between Bin Card and Stores Ledger?

- Bin Card is a quantitative record of receipts, issues and closing balance of an item of material. Whereas Stores ledger records not only quantities received or issued or in stock but also the financial expressions of the same.

- Bin Card is maintained by stores department while stores ledger is maintained by costing department.
- Maintenance of stores ledger provides a second check on maintenance of bin cards.

What are the various ways to classify Overhead?

Element wise Classification:

- Indirect Material
- Indirect Labour
- Indirect Expenses

Function wise Classification:

- Factory Overheads
- Administration Overheads
- Selling and Distribution Overheads

Variability wise Classification:

- Fixed Overheads
- Variable Overheads
- Semi-variable Overheads

Controllability wise Classification:

- Controllable Overheads
- Uncontrollable Overheads

Normality wise Classification:

- Normal Overheads
- Abnormal Overheads

What is the difference between simple average method and weighted average method?

Under Simple average method the simple average of the prices of the lots available for making the issues is considered for pricing the issues. After the receipt of new lot, a new average price is worked out. This method is suitable if the material is received in uniform quantity.

Under Weighted average method the price of each lot and the quantity of the same is considered. This method proves to be very useful in the event of varying prices and quantities. It is very simple to calculate.

What are the limitations of marginal costing?

- The classification of total cost as variable cost and fixed cost is difficult as no cost can be completely variable or completely fixed.
- Fixed costs are eliminated for the valuation of inventory of finished goods and semi-finished goods inspite of the fact that they might have been actually incurred.

- It does not provide any standard for the evaluation of performance.
- Fixation of selling price on marginal cost basis may be useful for short term only and may be dangerous in the long run.
- It does not consider the fixed overheads.
- It can be used for assessment of profitability only in the short run.

What is P/V Ratio?

P/V Ratio is Profit Volume Ratio which indicates the contribution earned with respect to one rupee of sales. The fundamental property of P/V Ratio is that it remains constant at all the levels of activities, provided per unit sales price and variable cost remains constant. A high P/V ration indicates that a slight increase in sales without corresponding increase in fixed costs will result in higher profits whereas a low P/V ratio indicates low profitability so that efforts can be made to increase the profits by increasing selling price or by reducing variable cost.

What are the basic assumptions made by Marginal Costing?

Marginal Costing is based on the following the basic assumptions

- Variable cost varies in direct proportion with the level of activity whereas per unit variable cost remains constant at all the levels of activities.
- Per unit selling price remains constant at all the levels of activities.
- There are no variations due to the stock.

What do you understand by Margin of Safety?

Margin of safety are the sales beyond Break Even Point. In simple words, this is the amount of sales which generates profits. The soundness of the business is indicated by the margin of safety. A high margin of safety indicates that the Break Even Point is much below the actual sales and even if there is reduction in sales, business will be still in profits whereas a low margin of safety accompanied by high fixed cost and high P/V ration indicates that efforts are required to be made for reducing the fixed cost or increasing sales volume.

What are the different methods of remunerating the workers?

Remuneration on time basis

- High Wage Plan
- Differential Time Rate

Remuneration on work basis

- Straight Piece Rate System
- Piece Rate with Guaranteed Time Rate
- Differential Piece Rate System

Incentive/Bonus systems

- Individual Incentive systems
- Group Incentive systems

Indirect monetary remuneration

- Profit Sharing
- Co-partnership

Explain maximum level and what are the main factors considered while fixing this level?

Maximum level is the level above which the actual stock should not exceed.

Following factors are considered while fixing this level:

- Maximum Usage.
- Lead Time
- Price of Material
- Cost of Storage
- Availability of Funds
- Economic Order Quantity.

OTHER QUESTIONS

1. What is the full form of CMA?
2. What is marginal costing?
3. What are the basic assumptions made by marginal costing?
4. What is standard costing?
5. What is uniform costing?
6. What is the difference between marginal costing, standard costing and uniform costing?
7. What is cost management?
8. What are the objectives of cost accountancy?
9. What do you understand by cost centre? What are the types of cost centers?
10. What are the different types of cost?
11. What is the difference between direct cost and indirect cost?
12. Define Fixed, Variable and Semi-variable cost.

13. Give some examples of Fixed, Variable cost.
14. Differentiate between controllable cost and uncontrollable cost.
15. What is normal cost? How is it different from abnormal cost?
16. What do you understand by opportunity cost? Explain it with an example.
17. What is differential cost?
18. Define Sunk cost.
19. What are the elements of costs?
20. What items are included in Prime cost?
21. What is overhead?
22. What items are included in Overhead?
23. What are non operating financial incomes?
24. What are non operating financial expenses?
25. What do you understand by cost sheet?
26. How will you calculate Direct Material Cost?
27. What is operating profit and how is it calculated?
28. What are the consequences of overstocking?
29. What are the consequences of under stocking?
30. What is purchase order?
31. What is purchase requisition? Why is it prepared?
32. What is the difference between Bin Card and Stores Ledger?
33. What are the methods for valuation of receipts?
34. What is FIFO?
35. What is the difference between FIFO and LIFO?
36. What is Average Price Method?
37. What is the difference between simple average method and weighted average method?
38. What is the difference between market price, specific price and standard price?
39. What is the difference between perfect competition and monopoly competition?
40. What are the difference between absolute advantage and comparative advantage?
41. What are the advantages of regional integration?
42. How do you explain GNI per capita?
43. What is the advantage of mixed economy system?
44. What is inventory control?

45. What are the techniques of Inventory Control?
46. What do you understand by Danger Level?
47. Define Re-order level.
48. How will you calculate average stock level?
49. What is EOQ?
50. What is Inventory turnover? How will you calculate it?
51. What is ABC Analysis of Inventory?
52. What are the advantages of ABC analysis?
53. What is perpetual inventory system?
54. Define Highest in First Out.
55. How will you calculate Minimum level?