VIRTUAL UNIVERSITY OF PAKISTAN

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LECTURE WISE NOTES:
Short Questions File & MCQ's File
03126968553

COURSE: MGT402

Short Questions File For Midterm

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LECTURE # 01

What is Cost Accounting?
Cost Accounting is an expanded phase of financial accounting that promptly provides management with the cost of producing/selling products or services.

What is the Objective of Cost Accounting?
The objective of cost accounting is computing the cost per unit.

Who are the Users of Cost & Management Accounting?
Decision-makers and managers of the entity/organization are the primary users.

How is Direct Material Cost Defined?
Direct material costs are the costs of materials known to have been used in production or service provision.

Define Indirect Cost/Overhead Cost.
Indirect cost/overhead cost is incurred in production or service but can't be fully traced to a specific product or service.

What Constitutes Prime Cost?
Prime cost includes direct material, direct labor, and other direct production costs.

Explain Conversion Cost.
Conversion cost comprises direct labor cost and factory overhead cost.

What is Cost Behavior?
Cost behavior refers to how total production cost is affected by fluctuations in the activity level.

Define Fixed Cost.
Fixed costs tend to remain constant irrespective of changes in the activity level.

How is Variable Cost Defined?
Variable costs fluctuate directly with changes in the activity level.

What are Step Fixed Costs?
Step fixed costs remain constant within a range of activity but rise to a new level once that range is exceeded.

Define Semi Variable Cost.
Semi variable costs are partially fixed and partially variable, combining characteristics of both.

How does Cost per Unit Behave with Increasing Production Volume?
Variable cost per unit remains constant, while fixed cost per unit decreases with an increase in production volume.

What Happens to Fixed Cost per Unit with Decreasing Production Volume?
Fixed cost per unit increases when production volume decreases.

Illustrate Cost per Unit at Different Activity Levels.
Total fixed cost of Rs. 4,000 with per unit variable cost of Rs. 3 at activity levels of 1000, 2000, 4000, and 5000 units.

LECTURE # 02

What is Cost Accounting?
Cost Accounting is the process of measuring the cost of a product or service.

Name the three broad elements of cost.
Direct Material Cost, Direct Labor Cost, Other Production Cost

Provide five examples of factory overhead costs.
Examples: Maintenance, Utilities, Depreciation, Factory Rent, Supervisory Salaries. Factory overhead costs refer to expenses incurred in the production area but not directly attributable to specific units.

Give two examples of distribution overheads.
Examples: Packaging Costs, Shipping Costs

Provide two examples of office overheads.
Examples: Administrative Salaries, Office Supplies

Define direct cost and give two examples.
Direct costs are expenses directly attributed to producing a specific product or service. Examples include raw materials and labor costs.

What is indirect cost? Give three examples.
Indirect costs are expenses not directly attributable to a specific product or service. Examples: Utilities, Maintenance, Indirect Labor

Explain step fixed cost and semi-variable cost. Provide graphical representations.
Step Fixed Cost: Remains constant within a range but jumps to a new level outside that range. Graph: Constant line then sudden increase.

Semi-Variable Cost: Combines fixed and variable characteristics. Graph: Starts with a fixed cost, then gradually increases.

Define fixed cost. Provide three items and a graph illustrating fixed cost.
Fixed costs remain constant regardless of production volume. Examples: Rent, Insurance, Managerial Salaries. Graph: Straight horizontal line.

What is a cost unit? Provide two examples.
A cost unit is the unit of output or service used to ascertain costs. Examples: Ballpoint (for a ballpoint manufacturing entity), Bottle (for a beverage producing entity)

Define cost center and differentiate it from a cost unit.
A cost center is a location where costs are incurred and may or may not be attributed to cost units. Unlike a cost unit, it's not directly tied to output but to cost incurrence.

Distinguish between direct and indirect materials. Give two examples of each.
Direct materials are directly used in production and can be traced to a specific product (e.g., raw materials). Indirect materials are used in production but aren't traceable to a specific product (e.g., lubricants, cleaning supplies).

Agree or disagree: Fixed cost per unit remains fixed.
Agree. Fixed cost per unit stays constant irrespective of production volume changes.

Explain how variable cost per unit behaves. Provide two examples.
Variable cost per unit remains constant as volume changes. Examples: Cost of raw materials, direct labor costs.

Describe semi-variable costs and draw a graph illustrating such costs.
Semi-variable costs are partially fixed and partially variable. The graph shows a mixed pattern of fixed and variable costs, demonstrating their hybrid nature.

LECTURE # 03

What is the purpose of preparing financial statements?
Financial statements exhibit financial position, performance, and cash flow to users of financial information.

List the components of financial statements according to the IASB framework.
Balance Sheet, Income Statement, Statement of changes in Equity, Cash Flows Statement, Notes to the accounts.

What does the Cost Accounting department prepare to aid in final accounts?

Cost of goods manufactured statement and Cost of goods sold statement.

What are the forms of business entities discussed?
Manufacturing entities, Trading entities, Servicing entities.

Define inventory and its importance in cost calculation.
Inventory is the cost held in material & supplies, work in process, and finished goods. Adjustment for inventories is crucial for cost of goods sold calculation.

What categories do inventories classify into for manufacturing entities?
Material and supplies inventory, Work in process inventory, Finished goods inventory.

What is the standard format for the cost of goods sold statement?
Collect six elements, three each related to costs and inventory.

Calculate the Prime Cost and Total Factory Cost for Zain & Co with the provided data.
Prime Cost: Rs. 338,000; Total Factory Cost: Rs. 417,000

What are financial statements designed to demonstrate?
Financial statements showcase financial outcomes to various stakeholders.

Explain the purpose of the Cost of Goods Sold statement.
The Cost of Goods Sold statement outlines costs related to production/sales for a specific period.

What are the components of financial statements used to convey information?
Balance Sheet, Income Statement, Cash Flows Statement, Statement of Changes in Equity, Notes.

How are different forms of business entities categorized concerning cost calculation?
Manufacturing entities follow comprehensive cost accounting, trading entities manage costs related to goods purchased, while servicing entities handle service costs.

Define inventory and its significance in financial calculations.
Inventory comprises economic benefits in material, work in process, and finished goods. Adjusting for inventory ensures cost matches revenue.

Differentiate between the forms of business entities concerning cost accounting involvement.
Manufacturing entities employ detailed cost systems, while trading entities focus on purchase costs, and servicing entities calculate service costs.

Enumerate the five components of financial statements according to the IASB framework.
Balance Sheet, Income Statement, Statement of Changes in Equity, Cash Flows Statement, Notes to the accounts.

Elaborate on the forms of inventories for manufacturing entities.
Inventories for manufacturing entities include material and supplies, work in process, and finished goods.

Explain the significance of adjustments for inventories in cost calculations.
Adjustments in inventories align cost with revenue, ensuring accuracy in the profit and loss account.

LECTURE # 04

What are the six basic elements of the Cost of Goods Sold Statement?
Material & Supplies Inventory, Labor, Work in Process, Finished Goods, Cost of Goods Manufactured, Cost of Goods Sold.

How is the Cost of Goods Manufactured calculated?
Total Factory Cost + Opening Work in Process Inventory - Closing Work in Process Inventory.

Define the Cost of Goods Sold.
Cost of Goods Manufactured + Opening Finished Goods Inventory - Closing Finished Goods Inventory.

List the components in the standard format of the Cost of Goods Manufactured Statement.
Direct Material Consumed, Direct Labor, Prime Cost, Factory Overhead Cost, Total Factory Cost, Opening & Closing Work in Process.

What does the Income Statement entail?
Sales, Gross Profit, Operating Expenses, Operating Profit, Financial Expenses, Profit before Tax, Income Tax, Net Profit.

Explain Applied Factory Overhead Cost.
It's the factory overhead cost applied based on a predetermined rate, not the actual cost.

How is the Total Factory Cost determined using Applied FOH?
Add Direct Material Consumed, Direct Labor, Prime Cost, and Applied Factory Overhead Cost.

What's the significance of "Cost of Goods Sold at Normal"?
It's the cost of goods sold that includes factory overhead cost based on a predetermined rate.

Define Variance concerning overhead costs.
The difference between actual and applied costs, favorably or unfavorably impacting the financials.

What's the method to adjust Under/Over applied FOH cost in the entire production?
Calculate and adjust the variance proportionally in work in process, finished goods, and cost of goods sold.

How is the Cost of Goods Sold at Actual calculated from the Cost of Goods Sold at Normal?
Subtract or add the variance (over-applied or under-applied FOH) from the Cost of Goods Sold at Normal.

What's the purpose of adjusting the Income Statement concerning factory overhead variances?
To rectify the net profit by adding or subtracting the over/under-applied factory overhead costs.

Define the Principle of Addition/Subtraction in the Income Statement concerning FOH variance.
If the applied cost is greater than the actual cost, add the variance to net profit. If less, subtract it.

What's the method used to calculate Cost of Goods Manufactured and Sold for Qasim & Co.?
Cost of Goods Manufactured: Rs. 417,000; Cost of Goods Sold: Rs. 300,000.

Calculate Cost of Goods Manufactured, Cost of Goods Sold, and Income for FNS Manufacturing Company.
Cost of Goods Manufactured: Rs. 209,800; Cost of Goods Sold (at Actual): Rs. 218,000; Net Profit: Rs. 177,500.

LECTURE # 05

List some ratios relevant to cost accountants for analyzing profits and manufacturing costs.
Gross Margin Rate, Gross Markup Rate, Net Profit Ratio, Cost of Goods Sold to Sales Ratio, Inventory Turnover Ratio, Inventory Holding Period, Expense Ratio.

What does the Gross Profit Margin Rate signify?
It represents the ratio of gross profit to sales, denoted as a percentage.
Define Gross Profit Markup Rate and its significance.
It's the ratio of gross profit to cost of goods sold, highlighting the percentage increase in sales.

Explain the concept of Cost Structure regarding Margin and Markup.
Margin is based on sales (100%) and cost of goods sold (75%), whereas Markup considers cost of goods sold (100%) and sales (125%).

How is Gross Profit calculated based on the Margin Rate?
Gross Profit = Cost of goods sold x 25% / 75%.

What's the formula to derive Gross Profit using the Markup Rate?
Gross Profit = Sales x 25% / 125%.

What does the Net Profit Ratio indicate?
It reveals the ratio of net profit to sales as a percentage.

Define the Inventory Turnover Ratio.
It's the ratio indicating how many times inventory turns into cost of goods sold within a given period.

How do you calculate the Inventory Holding Period in days?
It's the reciprocal of the Inventory Turnover Ratio, expressed in days or months.

What's the Expense Ratio formula?
Expense (Particular) / Sales (Net) x 100, expressed as a percentage.

Calculate Gross Profit given Sales of 800,000 and a 25% Markup.
COGS: 640,000; Gross Profit: 160,000.

Find Sales and Gross Profit if COGS is 50,000 and the Gross Profit Margin is 25%.
Sales: 66,667; Gross Profit: 16,667.

Calculate Sales and COGS if Gross Profit is 40,000 and Margin is 25% of Sales.
Sales: 160,000; COGS: 120,000.

Determine Sales and COGS if Gross Profit is 60,000, and Markup is 25% of the cost.
Sales: 240,000; COGS: 192,000.
Given various financial data, calculate COGS, Gross Profit, and required ratios.
COGS: 195,000; Gross Profit Markup Ratio: 25%; Gross Profit Margin Ratio: 33.33%; Net Profit Ratio: 30%; Finished Goods Inventory Turnover Ratio: 5.64 times; Finished Goods Inventory Holding Period: 2.13 months.

LECTURE # 06

What constitutes Conversion Cost in accounting?
Conversion Cost = Direct labor + Factory overhead cost.

Why are Direct Labor and Factory Overhead costs grouped under Conversion Cost?
They collectively transform raw materials into finished goods, hence termed conversion costs.

How is the cost of Closing Finished Goods inventory calculated?
Closing Finished Goods units x Cost per unit.

Explain the formula for calculating the Cost per Unit.
Cost per unit = Cost of goods manufactured / Number of units manufactured.

What are the categories of Material & Supplies in accounting?
Direct Material, Indirect Material/Factory Supplies, Office Supplies, Shipping Supplies.

Define Accrual Concept in accounting.
Only costs matching revenue earned in a period are charged, leaving unused supplies and unsold finished goods.

What does Inventory represent in accounting?
It signifies assets held as material, semi-finished, or finished goods.

Name the two Inventory Maintenance Systems.
Periodic Inventory System and Perpetual Inventory System.

Calculate Cost of Goods Sold using the provided information for BETA Corporation.
COGS: 585,000.

How is the Value of Closing Finish Goods Inventory determined?
Closing Finish Goods = Closing Finish Goods units x Cost per unit.

What's the purpose of Factory Overhead Cost applied at 30% of Direct Labor?
It's applied to allocate a portion of the overhead cost to the production process.

Find the Cost per Unit for Revolving Chair Company.
Cost per unit = Cost of goods manufactured / Number of units manufactured.

What's the significance of the Variable Production Cost per unit?
It signifies the portion of cost that changes with the production level.

Explain the importance of Fixed Expenses per unit sold.

It shows the fixed cost attributed to each unit sold.

Why is the Accrual Concept crucial in cost accounting?
It ensures only costs matching revenue are accounted for, maintaining accuracy in financial statements.

LECTURE # 07

What is the primary advantage of a Perpetual Inventory System?
Continuous record maintenance helps prevent theft and losses.

Name a disadvantage of the Periodic Inventory System.
It does not aid in reducing wastages or highlight slow-moving inventory.

What are the disadvantages of the Perpetual Inventory System?
Complexity, high cost, need for technical knowledge, complex calculations.

Explain the Last In First Out (LIFO) inventory method.
Assumes recent goods received are sold first, leaving older inventory at year-end.

Why does FIFO increase net income?
It values the cost of goods sold with older, cheaper inventory, boosting income.

Describe the Weighted Average (W.Avg) inventory method.
Recalculates the average cost of inventory upon each new delivery and records issues at this average price.

What's the significance of Weighted Average cost compared to FIFO and LIFO?
It falls between FIFO and LIFO, offering a middle-ground valuation.

How is the Cost of Inventory calculated using FIFO, LIFO, and W.Avg methods?
FIFO: 50 @ 12 = 600; LIFO: 50 @ 10 = 500; W.Avg: 50 @ 10.5714 = 529.

Why is the FIFO method considered logical for stock issues?
It assumes stock issues are made in the order of receipt, reflecting actual costs.

Explain the impact of LIFO on inventory valuation and net income.
LIFO's valuation might reflect extremely old inventory, resulting in lower net income.

What is the significance of frequent physical counting in inventory systems?
It helps ensure accurate inventory levels and tracks any discrepancies.

Define the Perpetual Inventory System's purpose in managing inventory levels.

It allows for the fixing and observation of inventory levels for better management.

Describe a key advantage of the Periodic Inventory System.
It's simpler, cheaper, and doesn't require complex calculations or technical knowledge.

How is the Weighted Average cost calculated in inventory management?
Weighted Average Rate = Total Cost / Total Units.

Why does LIFO result in a lower valuation compared to today's prices?
Older inventory is assumed to be consumed first, resulting in lower valuation and lower net income.

LECTURE # 08

What is FIFO in inventory costing?
FIFO stands for "First In, First Out." It assumes that the oldest inventory items are sold first.

What's the impact of FIFO on net income?
FIFO often boosts net income as older, lower-cost inventory is used to calculate the cost of goods sold.

How does LIFO differ from FIFO in inventory valuation?
LIFO, or Last In, First Out, uses recent inventory costs for the cost of goods sold, potentially undervaluing inventory on the balance sheet.

What's the rationale behind weighted average costing?
Weighted average costing finds the mean cost of all units available for sale during a period.

Why is LIFO not recommended by IAS for inventory costing?
IAS prefers FIFO or weighted average methods as LIFO might not accurately reflect inventory's actual value.

Under the perpetual system, how is inventory calculated with FIFO, LIFO, and Weighted Average?
FIFO assumes the oldest inventory is sold first, LIFO assumes the latest, and Weighted Average finds the mean cost of units sold.

How do you calculate the cost of ending inventory under FIFO?
For FIFO, it's determined by valuing the remaining inventory at the most recent purchase cost.

What's the basis for determining reorder levels in material control?

Reorder levels are calculated based on maximum consumption and lead time.

What's the formula for calculating maximum stock levels?
Maximum stock levels = Reorder level – (Minimum consumption x Lead time) + EOQ

How is danger level in material control calculated?
Danger level = Average consumption x Emergency time

In a periodic system, how is the cost of ending inventory calculated for FIFO, LIFO, and Weighted Average?
For FIFO, it's valued at the cost of the most recent purchases; LIFO uses the cost of the oldest units; Weighted Average finds the mean cost.

What's the significance of FIFO and LIFO in cost accounting?
FIFO and LIFO impact the cost of goods sold and the valuation of ending inventory differently based on the order of item sales.

How does the perpetual system differ from the periodic system in inventory management?
The perpetual system continuously updates inventory levels, while the periodic system updates periodically, affecting cost calculations.

What's the impact of fluctuating prices on inventory valuation methods?
Fluctuating prices can significantly affect valuation methods like FIFO and LIFO, influencing reported profits and taxes.

Which element of cost is often the most critical in many industries?
Material is frequently the most significant cost element in various industries.

LECTURE # 09

Why is control over materials essential in business operations?
Effective control prevents theft, minimizes waste, and ensures a steady supply for production.

What are the crucial accounting requirements for material control?
Ensuring proper authorization for purchase and issue, maintaining proper storage facilities, and maintaining accounts with running balances are key.

What is the purpose of replenishing stock in material management?
Replenishment ensures an uninterrupted flow of materials to production, avoiding both shortages and overstocking.

How are minimum and maximum stock levels determined?

They're calculated considering factors like consumption rates, lead times, economic ordering quantities, storage space, and potential price fluctuations.

What's the significance of the reorder level in inventory management?
Reorder level indicates the point at which fresh supplies need to be ordered to avoid stockouts and delays.

What constitutes the minimum level in material stock management?
It's the quantity of stock below which production might be affected due to material shortages.

Describe the danger level in material stock control.
Danger level represents a critical stage where immediate action is needed to restock to avoid complete depletion of materials and halt in production.

What factors influence the calculation of economic ordering quantity (EOQ)?
EOQ considers annual requirement units, ordering costs, inventory unit costs, and carrying costs, aiming to minimize ordering and holding expenses.

How is EOQ calculated using a formula?
EOQ = √[(2 × RU × OC) / CC]

What's the significance of carrying costs in inventory management?
Carrying costs include expenses like storage, handling, obsolescence, and interest on the capital invested in inventory.

Explain the table approach to determining EOQ.
The table approach computes total costs at different order quantities to find the point where total cost is at its minimum, indicating the EOQ.

What's the role of the danger stock level in inventory control?
Danger stock level serves as an alert for immediate action to replenish materials before depletion occurs.

How is the maximum stock level calculated?
Maximum stock level = Reorder level - (Minimum consumption x Lead time) + EOQ

What are the key components involved in calculating the reordering level?
The reordering level considers factors like maximum consumption, lead time, economic order quantity, and available funds and space.

Why is the Economic Order Quantity (EOQ) considered a vital calculation in inventory management?
EOQ helps optimize ordering quantities, minimizing costs related to ordering and carrying inventory.

LECTURE # 10

What are the two classifications of losses in manufacturing processes?
Answer: Normal loss and abnormal loss.

Define normal loss in the context of manufacturing processes
Answer: Normal loss is an unavoidable, expected loss inherent in the manufacturing process.

Differentiate between normal loss and abnormal loss.
Answer: Normal loss is inherent and charged to factory overhead; abnormal loss is unexpected and charged to specific jobs.

How are normal losses treated in cost accounting?
Answer: Normal losses are charged to the factory overhead control account.

What is the accounting treatment for abnormal losses?
Answer: Abnormal losses are charged to specific job/work in process accounts.

Define 'defective output/work' in manufacturing processes.
Answer: It refers to output or work found imperfect during or at the end of the manufacturing process.

How is spoiled output treated in accounting?
Answer: Spoiled output is separated into scrap inventory and factory overhead cost.

What document indicates the quantity and specification of the material dispatched from the seller to the purchaser?
Answer: Delivery Note.

What is the purpose of a Bin Card in inventory management?
Answer: It maintains a physical record of material received and issued, also detailing reorder levels and consumption.

Which document shows the cost per unit of materials consumed and in store?
Answer: Store Ledger Card.

How is the Inventory Turnover Ratio calculated?
Answer: Cost of goods sold divided by average inventory.

Define 'Inventory Turnover Ratio'.
Answer: It demonstrates how many times inventory is used and for how long it is held in the store.

How is the 'Inventory Turnover Ratio' formula presented?
Answer: Cost of goods sold / Average Inventory.

What are the two types of stock distortions identified in manufacturing processes?
Answer: Defective output/work and spoiled output.
In the case of abnormal loss, where is the additional cost incurred to remove the defect charged?

LECTURE # 11

Define Normal and Abnormal Labor Costs.
Normal labor costs are the standard expenses incurred due to regular work activities. Abnormal labor costs are unexpected expenses resulting from breakdowns or disruptions beyond the typical work scope.

Distinguish between Direct and Indirect Labor Costs.
Direct labor costs are traceable to a specific cost unit or product, like wages for manufacturing workers. Indirect labor costs, like supervisory salaries, aren't directly tied to a product or service.

Explain the Purpose of Job Analysis in Relation to Wage Rates.
Job analysis breaks down job elements to set suitable wage rates. It determines job content, skills required, and conditions to establish fair remuneration for workers.

Describe the Components of a Payslip and Their Significance.
A payslip includes gross pay, deductions (like taxes and pension contributions), and net pay (take-home pay). It details how pay is calculated and what deductions are made.

What Constitutes Gross Pay, and How Does It Differ from Net Pay?
Gross pay refers to the total earnings before deductions (taxes, contributions). Net pay is what's received after deductions, the actual amount an employee takes home.

Explain the Difference Between Statutory and Non-Statutory Deductions in a Payslip.
Statutory deductions, like income tax, are legally required. Non-statutory deductions, such as union subscriptions or pension contributions, are voluntary and chosen by the employee.

Why is Time-Keeping Important in Labor Management?
Accurate time-keeping helps in payroll, cost allocation, and administrative purposes. It's crucial for distinguishing between direct and indirect costs and analyzing productivity.

Enumerate Various Methods of Time-Keeping in Industries.
Methods include manual (attendance registers, token systems), mechanical (time recording clocks, dial time recorders), and electronic (smart cards) systems.

What Is Included in an Employee's Gross Pay, and Why Does It Vary?
Gross pay comprises basic pay, overtime, bonuses, commissions, and other allowances. It varies based on hours worked, productivity, or additional compensations.

Define Provident Fund Contributions and Differentiate Between Employee and Employer Contributions.
Provident Fund Contributions include employee and employer contributions. Employee contributions are deducted from their pay, while employer contributions are additional payments.

What Are the Essential Elements Required in Processing a Payroll?
Processing a payroll involves calculating gross pay, deductions (taxes, state benefits), preparing payslips, making payments to employees and external agencies, and recording costs.

Explain the Purpose of a Payroll Voucher in the Accounting Process.
A payroll voucher records accrued payroll expenses in accounts payable before payment, ensuring accuracy in financial records and proper allocation of expenses.

Discuss the Significance of Job Analysis in Setting Wage Rates.
Job analysis defines job elements and skills, aiding in fair wage rate establishment. It helps in justifying wage differences based on job complexities and responsibilities.

How Does an Employer's Payment of Provident Fund Contributions Impact Labor Costs?
Employer contributions to provident funds add to the total labor costs, increasing the employer's expense beyond the employees' gross wages.

What Information Should Be Included in a Payslip, and Why is it Important?
A payslip should include gross pay, deductions, net pay, and other details. It's essential for transparency, ensuring employees understand their earnings and deductions.

LECTURE # 12

What are the two fundamental systems of labor remuneration?
Answer: Time-based and production-based remuneration systems.

Define a commission in relation to employee remuneration.
Answer: Commission is an additional amount paid to an employee based on their performance, often linked to sales volume.

Enumerate three objectives of various bonus and premium plans for workers.
Answer: To increase production and productivity, provide additional wages for skill and effort, and reduce production costs.

What is the purpose of a shift allowance in labor remuneration?
Answer: A shift allowance compensates workers for odd-hour work conditions, such as night shifts.

Differentiate between overtime and flex-time.
Answer: Overtime refers to hours worked beyond the basic working week, while flex-time allows employees to work extra hours earlier in return for fewer hours later on.

How is overtime pay calculated for hourly-paid workers?
Answer: Overtime pay for hourly-paid workers varies, often being a premium on the basic pay per hour, like 'time and a half' or 'double time'.

Identify two principal systems of wages and explain each briefly.
Answer: Time wage pays workers based on time spent, while piece rate compensates based on production output.

What essential features should an incentive wage plan possess?
Answer: It should be acceptable, motivational, understandable, cost-effective, and consistent, among other criteria.

What's the Halsey Premium Plan, and how is the gross earning calculated under it?
Answer: The plan pays workers standard wages for completing a job within the standard time, plus a bonus based on half the time saved.

What is the primary difference between the Halsey and Rowan premium bonus plans?
Answer: Halsey pays half the time saved as a bonus, while Rowan calculates a bonus based on the proportion of time saved to the standard time.

How is overtime pay computed for salaried staff?
Answer: For salaried staff, their annual salary is divided by contracted working hours to derive an hourly rate for overtime calculations.

What is the purpose of the bonus pay for exceeding standard production?
Answer: It motivates workers by awarding them a bonus for exceeding the set production standards.

List three elements crucial for calculating total earnings under incentive wage schemes.
Answer: Unit output, standard time, time worked, and time saved are essential elements.

Explain the concept of a guaranteed minimum wage in piece rate systems.

Answer: A guaranteed minimum wage ensures that if piece rate earnings fall below a certain level, workers receive at least the minimum hourly wage.

Define a premium plan in the context of wage incentives.
Answer: A premium plan is a scheme that compensates workers beyond the standard pay for their extra efforts or skills.

What is the basic premise behind a piece rate wage system?
Answer: Workers are paid based on the number of units they produce rather than the time taken to perform the work.

Why is the commission payment often linked to customer payment or creditworthiness?
Answer: Commission payments are made once customers have paid or secured financing, ensuring the sales' financial viability.

How does a shift allowance impact a worker's total wages?
Answer: A shift allowance increases the total wages of a worker who works odd hours, compensating them for the inconvenience.

What are the primary aims of introducing various bonus and premium plans for workers?
Answer: To increase production, reduce costs, boost morale, and retain skilled workers.

What role does immediate payment of incentives play in the success of an incentive plan?
Answer: Timely payment of incentives fosters worker satisfaction and encourages sustained efforts toward meeting management objectives.

LECTURE # 13

What is a Piece Rate Wage system?
Answer: A payment method where workers are compensated based on production rather than the time taken to perform a task.

Explain the formula for calculating wages under the Piece Rate system.
Answer: Units produced x Rate per unit = Total wages.

What are the advantages of a Piece Rate system?
Answer: Direct connection between effort and reward, increased productivity, reduced production costs, individual worker responsibility, reduced idle time costs.

Highlight the disadvantages of a Piece Rate system.

Answer: Difficulties in setting fair standards, potential compromise in quality, excessive worker fatigue, irregular wage flow, uniform payment regardless of quality or quantity, lack of minimum wage security.

How does a well-regulated Piece Rate system differ from a straight piece rate?
Answer: A regulated system ensures a guaranteed minimum wage, offering more stability compared to the basic piece rate system.

What is Taylor's Differential Piece Rate Plan?
Answer: A payment scheme where workers are paid different rates based on their efficiency level, rewarding higher efficiency and penalizing lower efficiency.

Explain Merrick's Differential Piece Rate System.
Answer: Merrick's system uses three rates and allows workers below standard efficiency to be paid at the normal rate, aiming to reward performance improvement.

Under what conditions is the Piece Rate system suitable?
Answer: Suitable for measurable and standardized work, repetitive tasks closely linked to skill, with fair and maintained piece rates and proper management understanding.

What are the key features of Group Bonus Systems?
Answer: Set standard time for jobs, bonuses for time saved, and the importance of teamwork.

Discuss one major advantage and one major disadvantage of Group Bonus Systems.
Answer: Advantage - Encouragement of teamwork; Disadvantage - Potential dissatisfaction among faster workers and quality deterioration.

What does Total Wages include for a worker?
Answer: Basic pay, dearness allowance, employer contributions, and various benefits.

How is labor cost per hour calculated for job charging purposes?
Answer: Total of wages and benefits divided by effective hours worked gives labor cost per hour.

How can labor cost per man-day be calculated?
Answer: Add up basic salary, allowances, contributions, amenities, and divide by the number of working days.

Explain the significance of an improved Piece Rate system over a straight piece rate system.
Answer: Guarantees a minimum wage, providing stability and security to workers.

Provide the accounting entry for recording a night shift worker's payroll at Lemon Car Company.

Answer: Debit Payroll Expenses, Credit Cash or Accounts Payable for the total wages earned by the night shift worker.

LECTURE # 14

Define Labor Turnover and explain its significance.
Answer: Labor Turnover: Rate of change in a labor force. Significance: High turnover indicates instability, leads to increased recruitment costs, and lowers efficiency.

Discuss three methods of measuring Labor Turnover.
Answer: Separation method, Flux method, Replacement method.

Calculate labor turnover rate and equivalent rate using the given information.
Answer: Separation Method: 4%; Flux Method: 6%; Replacement Method: 2%.

What causes labor turnover, and how do they impact organizational costs?
Answer: Causes include dissatisfaction, low wages, and unavoidable reasons like retirement. Impact: Increased production costs due to recruitment and training expenses.

Explain the difference between Avoidable and Unavoidable Causes of Labor Turnover.
Answer: Avoidable causes can be controlled, like dissatisfaction, while Unavoidable causes are beyond the organization's control, like retirement or death.

Highlight the effects of a high labor turnover rate on production costs.
Answer: Increased recruitment/training costs, reduced efficiency, higher accident rates, wastage, and lower productivity.

Define Labor Efficiency and its importance in an organization.
Answer: Labor Efficiency: Comparison of actual performance against set targets. Importance: Identifying areas for improvement and achieving higher productivity.

Calculate the efficiency ratio using the given formula and data.
Answer: Efficiency Ratio: 102.44%.

Demonstrate the calculation of the efficiency ratio based on provided data.
Answer: Efficiency Ratio: 120%.

Explain Factory Overhead Costs and their components.
Answer: Factory Overhead Costs: Indirect costs incurred in production. Components: Indirect materials, labor, and costs not directly linked to production.

Differentiate between Production, Service, and General Cost Centers in factory overhead costs.
Answer: Production centers incur costs in manufacturing, Service centers support production, and General costs include overall factory expenses.

Describe the steps involved in allocating and apportioning Factory Overhead Costs.
Answer: Steps involve cost collection, identification of cost centers, allocation, and apportionment to specific departments.

Enumerate the types of costs that can be apportioned among cost centers.
Answer: Costs like factory rent, taxes, and management salaries are apportioned among cost centers.

Provide a method for apportioning costs among different cost centers.
Answer: Costs can be apportioned based on factors like space usage or the number of employees in each department.

Why is cost allocation and apportionment of Factory Overhead Costs important in cost accounting?
Answer: It provides insights into cost per unit, inventory valuation, and aids decision-making for management.

LECTURE # 15

Define Apportionment of Cost.
Answer: Apportionment of cost refers to the allocation of expenses that cannot be directly associated with a specific cost center but need to be distributed among multiple centers.

What are the two methods for the allocation and apportionment of costs?
Answer: The two methods are non-reciprocal and reciprocal methods.

Explain Reciprocal Method with its sub-classifications.
Answer: The Reciprocal Method includes repeated allocation method and Algebraic method for allocating costs among various departments.

How are bases for apportioning costs selected?
Answer: Bases for apportioning costs are selected based on the balance between accuracy and complexity. Factors like obtaining a high degree of accuracy versus practicality are considered.

Give an example of a basis for apportioning overhead items.
Answer: Heat and light expenses could be shared based on a complex formula involving power points and light bulbs, although achieving complete accuracy remains challenging.

What's the distinction between non-reciprocal and reciprocal practices?
Answer: Non-reciprocal practices involve direct allocation of costs to specific departments, while reciprocal practices involve shared services among departments.

Enumerate the methods used for dealing with reciprocal services between service centers.
Answer: The methods include the repeated distribution method and the Algebraic method.

Define the Repeated Distribution Method.
Answer: The Repeated Distribution Method reallocates costs from each service department to all other departments successively until the amounts involved become insignificant.

How does Reciprocal Apportionment distribute support-department costs?
Answer: Reciprocal Apportionment distributes support-department costs by acknowledging mutual services among all support departments.

Explain the process of cost apportionment in the Repeated Distribution Method.
Answer: In the Repeated Distribution Method, overhead costs of service departments are distributed to other departments based on given percentages until the expenses of all service departments are exhausted or become insignificant.

What is the challenge when service centers provide reciprocal services to each other?
Answer: The challenge arises in the secondary allocation of costs between service centers when they provide reciprocal services to each other.

Describe the Algebraic method used in reciprocal distribution.
Answer: The Algebraic method involves simultaneous equations to allocate costs among service and production departments considering mutual services provided among all support departments.

How are the costs of service departments apportioned among production departments?
Answer: The costs of service departments are apportioned among production departments based on given ratios or percentages.

Why is it necessary to include a fair share of all costs incurred in the production of a cost unit?
Answer: Including a fair share of all costs incurred in production ensures accurate cost calculation for a cost unit, especially when multiple products are manufactured.

What is the key requirement for calculating the cost of a cost unit involving multiple products?
Answer: The requirement is to include a fair share of all costs incurred in production, involving both allocation and apportionment across the production process.

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