



# ST. LAWRENCE HIGH SCHOOL

*A Jesuit Christian Minority Institution*



## Study Materials 2

**Sub: Costing & Taxation**

**Class: XI**

**Chapter: Unit 2: B. Preparation of Cost Sheet**

**Topic: Meaning & Concept**

**Date: 20/07/2020**

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Short Answer Type Questions:

1. Define Cost Sheet.

Ans. A statement confined to the disclosure of the cost of the units produced during a particular period is called statement of cost or cost sheet.

2. What advantage is derived from cost sheet in the field of cost reduction?

Ans. In many occasions, the producers try to reduce the cost of production due to the competition faced in the market. The cost sheet provides necessary information to the producer so that the producer can take necessary actions to reduce cost.

3. State the role of cost sheet in determining quotation price.

Ans. In some occasions, the producer has to quote the price for the sale of goods in advance to the prospective customers. Cost sheet assists them to determine the quotation price in more accurate way.

4. State the benefit that is derived from cost sheet for the determination of sale price.

Ans. A manufacturer can fix the selling price of the product correctly on the basis of cost computation of the product available in the cost sheet.

5. State the role of cost sheet in the preparation of budget.

Ans. Budget is the outline of future expenditure. On the basis of the information provided by the cost sheet, budget is prepared.

6. What is a prepaid expense?

Ans. Prepaid expenses are the expenses paid for the future period of production. As a result, prepaid expenses should be deducted from the amount of expenses concerned for the determination of cost of a particular period.

7. What is meant by the term 'sale of scrap'?

Ans. Residual part of assets can be sold at a nominal price. The sale of this unnecessary raw materials is termed as sale of scrap.

8. How rate of profit is determined?

Ans. The rate obtained by dividing the manufacturing profit with the amount of sales value is known as rate of profit. In short, rate of profit is determined by dividing manufacturing profit with the amount of sales.

9. What are packing and packaging expenses?

Ans. Packing expenses are those expenses which are incurred for producing the product and it is a part of production process. On the other hand, packaging expenses are those expenses which are incurred for the selling of the product and it is not a part of production process.

10. Which type of costs is not considered for the preparation of cost sheet?

Ans. Costs which are not related to the production are not at all considered in the preparation of cost sheet, example: financial charges (interest on loan).

11. Write two advantages of cost sheet.

Ans. Two advantages of cost sheet are:

- Ascertain total cost;
- Helps to eliminate the adverse factors.

12. How prime cost is obtained?

Ans. In Cost Sheet all direct costs i.e. cost of materials, direct or productive wages and direct or chargeable expenses are added to derive the prime cost.

13. Give two examples of parts of components purchased or produced.

Ans. Two examples of parts or components purchased or produced are batteries for transistors-radios and tires for cycles.

14. How factory cost is obtained?

Ans. Works or factory cost is derived after adding factory or works overhead with prime cost.

15. Give two examples of factory overhead.

Ans. Indirect wages and indirect materials are the two examples of factory overhead.

16. How cost of production is obtained?

Ans. In cost sheet, cost of production is shown by adding office and administration overhead with the works or factory cost.

17. Give two examples of administration overhead.

Ans. Two examples of administration overhead are office rent and office electricity charges.

18. How cost of goods sold is obtained?

Ans. Cost of goods sold is arrived at, after adding the value of opening stock of finished goods to the cost of production and deducting from that the value of closing stock of finished goods.