

Cost Element Interview Questions And Answers Guide.



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Cost Element Job Interview Preparation Guide.

Question # 1

What is Gross Profit?

Answer:-

Gross Profit is a company's revenue minus its cost of goods sold. It is also known as gross margin and gross income. It is calculated by subtracting all costs related to sales i.e manufacturing expenses, raw materials, labour, selling and advertisement expenses from sales. It is an indication of the managements' efficiency to use labour and material in the production process.

$$\text{Gross Profit} = \text{Net Sales} - \text{Cost of Goods Sold}$$

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Question # 2

What is Net Profit?

Answer:-

Net Profit/ Operating Profit Net profit, also known as operating profit is actual earnings of the company in a given period of time. It is a measure of the profitability after accounting for all costs. In simple terms, net profit is the money left over after paying all the expenses including taxes and interest. It is the calculated by subtracting total expenses from total revenues. Net income can be either distributed among shareholders of the company or held by the firm as retained earnings for the future purposes.

$$\text{Net Profit} = \text{Gross Profit} - \text{Total Operating Expenses} - \text{Taxes} - \text{Interest}$$

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Question # 3

What is Labour Cost?

Answer:-

Labour Cost: This is the cost, incurred in the form of remuneration paid to the employees or labours of the organisation. The workforce required to convert material into finished product is called labour. It can be direct or indirect.

-Direct Labour Cost is the cost incurred on those employees who directly take part in the manufacturing process and easily identified with the individual cost centre.

-Indirect Labour Cost is the cost incurred on those employees who do not directly take part in the manufacturing process and cannot identified with the individual cost centre. Example: salary of foreman, salesmen, director's salary, etc.

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Question # 4

Explain the Expenses?

Answer:-

Expenses: are the costs of services provided to the organisation. It can be direct or indirect.

-Direct Expenses are the expenses which can be directly identified with the individual cost centres. Example: hire charges of machinery, cost of defective work for a particular job or contract etc.

-Indirect Expenses are the expenses which cannot be directly identified with the individual cost centres. Example: rent, lighting, telephone expenses, etc.

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Question # 5

What are the various elements of costs?

Answer:-

There are three elements of cost:

-Material Cost: This is the cost of material or the commodity used by the organisation for its production purpose. Material is the substance, from which a product is made. Thus, it may be in a raw or a manufactured state. It can be direct or indirect.

-Direct Material Cost forms an integral part of the finished product and is identified with the individual cost centre. It is also described as process material, stores material, production material, etc. Example: Raw materials purchased or purchased primary packing material, etc.

-Indirect Material Cost is used for ancillary purposes of the business and cannot be conveniently identified with the individual cost centre. Example: Consumable stores, oil and waste, printing and stationery material etc.

-Labour Cost: This is the cost, incurred in the form of remuneration paid to the employees or labours of the organisation. The workforce required to convert material



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into finished product is called labour. It can be direct or indirect.

- Direct Labour Cost is the cost incurred on those employees who directly take part in the manufacturing process and easily identified with the individual cost centre.
- Indirect Labour Cost is the cost incurred on those employees who do not directly take part in the manufacturing process and cannot identified with the individual cost centre. Example: salary of foreman, salesmen, director's salary, etc.
- Expenses: are the costs of services provided to the organisation. It can be direct or indirect.
- Direct Expenses are the expenses which can be directly identified with the individual cost centres. Example: hire charges of machinery, cost of defective work for a particular job or contract etc.
- Indirect Expenses are the expenses which cannot be directly identified with the individual cost centres. Example: rent, lighting, telephone expenses, etc.

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Question # 6

What is Selling and Distribution Overheads?

Answer:-

Selling and Distribution Overheads : are the overheads incurred from the stage of final manufacturing of finished goods till the stage of goods sold in the market and collection of dues from the customers. They include:

- Indirect Materials such as samples, packing materials, etc.
- Indirect Labour such as salaries and commission payable to sales manager, salesmen etc.
- Indirect Expenses such as rent, carriage outwards, warehouse charges, discount offered to customers, advertising expenses, bad debts etc

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Question # 7

What are overheads? How are they classified?

Answer:-

Overheads are the aggregate of Indirect Material cost, Indirect Labour and Indirect Expenses. Thus, sum of all indirect costs are overheads. They are of three types:

- Factory Overheads
- Office and Administration Overheads
- Selling and Distribution Overheads

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Question # 8

What is Factory Overheads?

Answer:-

Factory Overheads : are the overheads which are incurred from the stage of procurement of materials till the stage of finished goods. They include:

- Indirect Materials such as lubricants, cotton waste, consumable stores etc.
- Indirect Labour such as storekeeper, time keeper, works manager's salary etc.
- Indirect Expenses such as cost of factory lighting, carriage inward cost, depreciation on factory building, rent/insurance of building/machinery etc.

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Question # 9

What is Material Cost?

Answer:-

Material Cost: This is the cost of material or the commodity used by the organisation for its production purpose. Material is the substance, from which a product is made. Thus, it may be in a raw or a manufactured state. It can be direct or indirect.

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Question # 10

What is Office and Admin overheads?

Answer:-

Office and Admin overheads : are the overheads incurred for the overall administrative work of the organisation. They include:

- Indirect Materials such as office supplies, stationery and printing items, brooms etc.
- Indirect Labour such as salaries payable to manager, clerk etc.
- Indirect Expenses such as lighting, bank charges, legal/audit charges, rent/insurance of office.

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