

## Test 1: Material Costs

Total Questions: 25

Total Marks: 50

**Q1.** Which of the following method is based on the assumption that, latest consignment of a materials or goods manufactured are exhausted first and the closing stock is valued at the cost of earliest lot in hand?

- (a) FIFO method (b) Highest-in -first-out method  
(c) Average cost method (d) LIFO method

**Q2.** \_\_\_\_\_ are costs, which can be identified & traceable to particular product or costing unit or cost centre.

- (a) Indirect material costs (b) Period costs  
(c) Direct material costs (d) Fixed costs

**Q3.** Wood used in production of tables and chairs, steel bars used in steel factory etc. are the examples of \_

- (a) Indirect material (b) Direct material (c) Fixed material (d) All

**Q4.** \_\_\_\_\_ records the quantity details, rates and values of stock movements.

- (a) Stores ledger (b) Sales ledger (c) Material Transfer Note (d) Delivery Note

**Q5.** Under \_\_\_\_\_ method , a pre-determined price is fixed for valuing each material.

- (a) Base Stock (b) Specific Method (c) Market Price (d) Standard Cost

**Q6.** \_\_\_\_\_ quantity can be defined quantity of purchase which minimizes material order cost & material carrying cost.

- (a) Basic Ordering (b) Constant Ordering (c) Economics order (d) Any of the above

**Q7.** Danger Level = \_\_\_\_\_.

- (a) Maximum consumption x Lead time for emergency purchases  
(b) Average consumption x Lead time for emergency purchases  
(c) Minimum x Lead time for emergency purchases  
(d) Ordering level – (Average Usage X Re-order period )

**Q8.** (Maximum usage - Average Usage) × Lead Time = \_\_\_\_\_.

- (a) Re-order Point (b) Danger Level (c) Safety Stock Level (d) Reorder Level

**Q9.** EOQ is that quantity at which cost of holding & carrying inventory is\_\_\_\_\_.

- (a) Maximum & equal (b) Minimum & equal  
(c) Maximum or minimum depending upon situation (d) Minimum and unequal



**Q10.** Average annual consumption of material is 20,000 kgs at Rs. 2 /kg. Storage cost is 16% on average inventory & the cost of placing one order is Rs. 50. How much is to be purchased at a time?

- (a) 2,500 kg                      (b) 2,000 kg                      (c) 2,532 kg                      (d) 2,352 kg

**Q11.** For a particular item of store, the following information is available:

- Re-order quantity = 12 units
- Maximum consumption per week = 300 units
- Normal consumption per week = 200 units
- Re-order period = 2 to 4 weeks

Calculate Re-order level.

- (a) 600 units                      (b) 400 units                      (c) 1,200 units                      (d) None

**Q12.** A manufacturer requires 9,600 units of a certain component annually. This is currently purchased from a regular supplier at Rs. 50 /unit. The cost of placing an order is Rs. 60 /order & annual carrying cost is Rs. 5 /unit. Find Annual ordering + carrying cost.

- (a) 2,400                      (b) 480                      (c) 4,800                      (d) 240

**Q13.** A publishing house purchases 2,000 units of a particular item per year at a unit cost of Rs. 20. The ordering cost per order is Rs. 50 & the inventory carrying cost is 25%. How will be the total cost if company decides to buy in EOQ?

- (a) 41,325                      (b) 41,000                      (c) 41,500                      (d) 41,525

**Q14.** In a Company the weekly minimum and maximum consumption of Material-A are 25 and 75 units respectively. The reorder quantity company is 300 units. Material-A is received within as fixed by the 4 to 6 weeks from the date of supply order. Calculate Minimum Stock Level.

- (a) 450 units                      (b) 200 units                      (c) 650 units                      (d) 800 units

**Q15.** G Ltd. produces a product, which has a monthly demand of 4,000 units. The product requires a component X, which is purchased at 20. For every Finished product, one unit of component is required. The ordering cost is 120 per order and the holding cost is 10% p.a. At EOQ level purchase, find Ordering Cost + Carrying Cost.

- (a) 2,400                      (b) 4,800                      (c) 2,800                      (d) 4,400

**Q16.** Raw material price = Rs. 60 /kg, Handling cost = Rs. 360, Freight = Rs. 390 /order, carrying cost of inventory of raw material = ₹0.50 /kg per month, Cost of working capital finance on the investment in inventory = Rs. 9/kg p. a. Annual production = 1,00,000 units. 2.5 units are obtained from 1 kg of raw material. Calculate EOQ.

- (a) 2,000 kg                      (b) 3,000 kg                      (c) 4,000 kg                      (d) 5,000 kg

**Q17.** Pooja Pipes Ltd. uses about 75,000 valves per year and the usage is fairly constant at 6,250 valves per month. The valve costs Rs. 1.50 /unit when bought in large quantities & carrying cost is estimated to be 20% of average inventory investment on an annual basis. Cost to place an order & process delivery is Rs. 18. Calculate Frequency of order.

- (a) 25                      (b) 52                      (c) 20                      (a) 50



**Q18.** Average monthly market demand = 2,000 tubes, Ordering cost = Rs. 100 /order, Inventory carrying cost 20% per annum, Cost of tubes = Rs. 500 /tube, Normal usage = 100 tubes per week. If the supplier is willing to supply quarterly 1,500 units at a discount of 5%, is it worth accepting?

- (a) EOQ purchase is best policy of purchase & hence is no need to accept any discount offer from supplier.  
 (b) Do not accept offer of quarterly supply of 1,500 tubes at 5% discount as it will increase total annual cost.  
 (c) Accept offer of quarterly supply of 1,500 tubes at 5% discount as it will save 64,851.  
 (d) Accept offer of quarterly supply of 1,500 tubes at 5% discount as it will save ₹ 68,601.

**Q19.** Re-order Level = 3,750 units, Minimum Level = 1,750 units, Average Delivery Period 2 weeks. Calculate Average Consumption.

- (a) 1,750 units (b) 1,250 units (c) 1,500 units (d) 1,000 units

**Q20.** Annual consumption = 54,000 castings, EOQ = 300 castings, Time gap between two orders = \_\_\_\_\_.

- (a) 2 days (b) 180 days (c) 0.5 days (d) 90 days

**Q21.** Total cost = Rs. 24,30,000, No. of orders = 4, Ordering cost = Rs. 750, Ordering quantity = 10,000 units, Carrying cost per unit per annum = Rs. 15 . Calculate Material price per unit.

- (a) Rs. 58.80 (b) Rs. 60.20 (c) Rs. 60.80 (d) Rs. 60.00

**Q22.** Calculate the value of closing stock from the following according to FIFO method:

1st January, 2014: Opening balance: 50 units @ ₹4

**Receipts:**

- 5<sup>th</sup> January, 2014: 100 units @ Rs. 5
- 12<sup>th</sup> January, 2014: 200 units @ Rs. 4.50

**Issues:**

- 2<sup>nd</sup> January, 2014: 30 units
- 18<sup>th</sup> January, 2014: 150 units

- (a) Rs. 765 (b) Rs. 805 (c) Rs. 786 (d) Rs. 700

**Q23.** Calculate the value of closing stock from the following according to Weighted Average method:

1st January, 2014: Opening balance: 50 units @ Rs. 4

**Receipts:**

- 5<sup>th</sup> January, 2014: 100 units @ Rs. 5
- 12<sup>th</sup> January, 2014: 200 units @ Rs. 4.50

**Issues:**

- 2<sup>nd</sup> January, 2014: 30 units
- 18<sup>th</sup> January, 2014: 150 units

- (a) Rs. 765 (b) Rs. 805 (c) Rs. 786 (d) Rs. 700



