20 True or False

Decide, then check the answer and reason below each statement.

Question 1

In marginal costing, fixed costs are treated as period costs rather than product costs.

TRUE

Marginal costing charges only variable costs to products and writes off fixed costs against the period's profit.

Question 2

Contribution is calculated as Sales Revenue minus Variable Cost.

TRUE

Contribution is what remains after deducting variable cost from sales to cover fixed cost and profit.

Question 3

Contribution is calculated as Sales Revenue minus Fixed Cost.

FALSE

Contribution is Sales Revenue minus Variable Cost, not fixed cost.

Question 4

Break-even point in units equals Fixed Cost divided by Contribution per unit.

TRUE

This is the standard formula for finding the sales volume at which there is no profit or loss.

Question 5

Break-even point in value equals Fixed Cost divided by Contribution per unit.

FALSE

BEP in value is Fixed Cost divided by the P/V Ratio, while Fixed Cost divided by Contribution per unit gives BEP in units.

Question 6

A higher P/V ratio indicates greater profitability per rupee of sales.

TRUE

The P/V ratio measures how much of every sales rupee becomes contribution, so a higher ratio means higher profitability.

Question 7

Margin of Safety is calculated as Break-Even Sales minus Actual Sales.

FALSE

Margin of Safety is Actual Sales minus Break-Even Sales, the opposite of this statement.

Question 8

Margin of Safety shows how far sales can fall before a business starts making a loss.

TRUE

A larger margin of safety indicates a more stable, lower-risk business.

Question 9

Fixed costs such as rent and depreciation stay constant in total regardless of production volume.

TRUE

Fixed costs do not change whether output is low or high; only the cost per unit changes with volume.

Question 10

Variable cost per unit rises as production volume increases.

FALSE

Variable cost per unit stays constant; it is the total variable cost that changes in proportion to output.

Question 11

Semi-variable costs, such as an electricity bill, contain both a fixed and a variable component.

TRUE

A typical electricity bill has a fixed connection charge plus a variable usage-based charge.

Question 12

In absorption costing, product cost includes both variable and fixed costs.

TRUE

Unlike marginal costing, absorption costing loads fixed manufacturing costs into the product cost.

Question 13

In marginal costing, fixed costs are included in the cost of each unit produced.

FALSE

Marginal costing excludes fixed costs from product cost, charging only variable costs to units produced.

Question 14

Absorption costing is generally used for external financial reporting.

TRUE

Absorption costing values inventory at full cost, matching the basis normally required for financial statements.

Question 15

Marginal costing values closing inventory at full cost, including fixed overheads.

FALSE

Marginal costing values inventory at variable cost only; full-cost valuation is a feature of absorption costing.

Question 16

Marginal costing is useful for short-term decisions such as make-or-buy and special-order pricing.

TRUE

Because it isolates variable cost and contribution, marginal costing suits short-term decision-making well.

Question 17

A business should accept a special order priced below its variable cost per unit if it has spare capacity.

FALSE

A special order should only be accepted if its price exceeds variable cost per unit, generating positive contribution.

Question 18

At the break-even point, total revenue exactly equals total cost, resulting in neither profit nor loss.

TRUE

This is the definition of the break-even point in marginal costing analysis.

Question 19

Marginal costing numericals are considered scoring in JAIIB AFM because they generally have one correct method-based answer.

TRUE

The chapter is highly numerical, so a correct method reliably earns full marks with little ambiguity.

Question 20

Absorption costing excludes fixed manufacturing costs from the cost of a product.

FALSE

Absorption costing includes both variable and fixed manufacturing costs in the product cost, unlike marginal costing.