

SEMESTER – I

BA18114

ACCOUNTING FOR MANAGEMENT

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Objective(s):

1. To know the fundamental accounting principles and concept for preparing financial accounting.
2. To understand the objectives of costing to prepare cost sheet and to analyze the variances.
3. To understand the financial statement analysis between the financial years.
4. To assess the preparation of budgets and its control
5. To understand the various accounting practices relevant to computerized accounting.

UNIT - I FINANCIAL ACCOUNTING**[12 Hrs]**

Introduction to Financial, Cost & Management Accounting – Generally Accepted Accounting Principle – Accounting Concept and convention– Journal, Ledger, Trial Balance - Profit & Loss Account - Balance Sheet- Bank Reconciliation Statement- Introduction to inflation Accounting

UNIT - II ANALYSIS OF FINANCIAL STATEMENTS**[12 Hrs]**

Analysis of Financial Statements - Financial ratio analysis – Cash and Fund Flow Statement Analysis.

UNIT - III COST AND MANAGEMENT ACCOUNTING**[12 Hrs]**

Meaning and Objectives – Classification of cost – Cost sheet preparation – Marginal Costing – Break Even Analysis – Job cost sheet- Job order costing- Process costing(Excluding Interdepartmental Transfers and equivalent production) – Joint and By product costing- Introduction to concepts of Activity Based Costing , Target costing - Value chain

UNIT - IV BUDGETARY CONTROL**[12 Hrs]**

Budgets and Budgetary control: meaning – Types - Cash Budget – Flexible Budget – Sales Budget – Zero Based Budgeting.

UNIT - V CONTEMPORARY ACCOUNTING PRACTICES**[12 Hrs]**

Introduction to Human Resource Accounting - Accounting in Computerized Environment - Significance of computerized accounting system – Codification and Grouping of accounts - Prepackaged Accounting Software.

Total (L: 50 T: 10) = 60 Periods**Course Outcomes: On completion of this course, the student will be able to:**

1. Understand the fundamentals of accounting.
2. Prepare cost sheet under different methods costing..
3. Analyze the financial statement towards flow of funds.
4. Prepare a report on the budget to control financial activities
5. Keep the management practices towards computerized accounting system

Reference Books :

1. Dr. S.N. Maheswari & Sharad D.K. Maheswari, Financial & Management Accounting, 9th Edition, Sultan chand & Sons, 2015.
2. Dr.N.P.Srinivasan,Dr.M.Sakthivel Murugan,-Accounting for Management, S.Chand & Company Ltd, 2016.
3. M.Y.Khan & P.K.Jain, Management Accounting, Tata McGraw Hill, 2017.
4. R.Narayanaswamy, Financial Accounting – A managerial perspective, PHI Learning, New Delhi, 2014.

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DEPARTMENT OF BUSINESS ADMINISTRATION (MBA)

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CLASS : I MBA
SUBJECT : BA18114 - ACCOUNTING FOR MANAGEMENT

Unit – I
2 MARKS

1. What is Accountancy?

Accountancy is the process of communicating financial information about a business entity to users such as shareholders and managers. The communication is generally in the form of financial statements that show in money terms the economic resources under the control of management

2. Define the term Accounting.

Accounting is defined by the American Institute of Certified Public Accountants (AICPA) as “The art of recording, classifying, and summarizing in a significant manner and in terms of money, transactions and events which are, in part at least, of financial character, and interpreting the results thereof. ”

3. Define Management accounting.

The institute of Cost and Management accountants, London has defined Management accounting as the “application of professional knowledge and skill in the preparation of accounting information in such a way as to assist management in the formation of policies and in the planning and control of the operations of the undertakings.”

4. Define Financial Accounting.

Financial Accounting aims at finding the results of an accounting year in terms of profits or losses and assets and liabilities. In order to do this, it is essential to record various transactions in a systematic manner. Financial Accounting is defined as, ‘Art and science of classifying, analyzing and recording business transactions in a systematic manner in order to prepare a summary at the end of the year to find out the results of the concerned accounting year.’

5. Define Accounting Principles.

Accounting principles may be defined as those rule of action or conduct which are adopted by the accountants universally while recording accounting transaction “They are a body of doctrines commonly associated with the theory and procedures of accounting, serving as an explanation of current practices and as a guide for selection of conventions or procedures where alternatives exist”

Accounting concepts

1. Separate Entity concept
2. Going Concern concept
3. Money measurement concept
4. Cost concept
5. Dual aspect concept
6. Accounting period concept
7. Periodic matching of cost and revenue concept
8. Realization concept

Accounting conventions

1. Convention of conservatism
2. Convention of full disclosure
3. Convention of consistency
4. Convention of Materially

6. What is mean by Book keeping?

Book keeping is the art of recording pecuniary or business transaction in a regular and systematic manner. This recording of transactions may be done according to any of the following two systems

(a) **Single entry system** – An incomplete double entry system can be termed as a single entry system. According to kohler “ It is system of book keeping in which as a rule only records of cash and personal accounts are maintained. It is always incomplete double entry, varying with circumstance”

(b) **Double entry system** – The system of double entry is only system of recording the two fold aspect of the transaction. The system recognizes that every transaction has a two- fold effect, if some one receives something then either some other person must have given it, or the first mentioned person must have lost something, or some services etc, must have been rendered by him.

7. Differentiate between cash and mercantile system of accounting.

Cash system of accounting: It is a system in which accounting entries are made only when cash is relieved or paid. No entry is made when a payment or receipt is merely due.

Mercantile system of accounting: It is a system in which accounting entries are made on the basis of amounts having become due for payment or receipt. This system recognizes the fact if a transaction or an event has occurred.

8. Difference between Cost Accounting and Financial Accounting.

Financial Accounting	Cost Accounting
It aims at finding out results of accounting year in the form of Profit and Loss Account and Balance Sheet	It aims at computing cost of production service in a scientific manner and then cost control and cost reduction.
It is more attached with reporting the results and position of business to persons and authorities other than management like government, creditors, investors, owners etc	It is an internal reporting system for and organization's own management for decision making.
Financial Accounting data is historical in nature	It not only deals with historical data but is also futuristic in approach
In financial accounting, the major emphasis is in cost classification based on type of transactions, e.g. salaries, repairs, insurance, stores etc.	In cost accounting, classification is basically on the basis of functions, activities, products, process and on internal planning and control and information needs of the organization.
In financial accounting, only those transactions are recorded which can be expressed in monetary terms.	Cost accounting uses both monetary as well as quantitative information
It aims at presenting 'true and fair' view of the profit and loss position as well as financial position.	It aims at computing 'true and fair' view of the cost of production/services offered by the firm.

9. What do you mean by Journal?

The Journal record all daily transactions of a business in the order in which they occur. A Journal may therefore be defined as a book containing a chronological record of transactions. It is the book in which the transaction are recorded first of all under the double entry system.

10. Discuss about the Personal, Real and Nominal account Or Discuss the rules of debit and credit.

The transactions in the Journal are recorded on the basis of the rules of debit and credit.

- (1) Transaction relating to persons – **Personal account (Each person with whom it deals)**
- (2) Transaction relating to properties and assets – **Real account (Each property or asset which the business owns)**
- (3) Transaction relating to incomes and expenses – **Nominal account (Each item of income or expense)**

Personal account: Personal account includes the accounts of persons with whom the business deals. These accounts can be classified into three categories.

- (a) Natural personal accounts
- (b) Artificial personal accounts

(c) Representative personal accounts

The rule is **DEBIT THE RECEIVER, CREDIT THE GIVER**

Real account: Tangible real accounts and Intangible real

The rule is **DEBIT WHAT COMES IN, CREDIT WHAT GOES OUT**

Nominal account: These accounts are opened in the books to simply explain the nature of the transactions. They do not really exist.

The rule is **DEBIT ALL EXPENSES AND LOSSES, CREDIT ALL GAINS AND INCOMES.**

11. Explain the term Ledger, Posting and trial balance.

Ledger is a book which contains various accounts. In other words, Ledger is a set of accounts. It contains all account of the business enterprises whether Real, Nominal or Personal. It may be kept in any of the following two forms.

(a) Bound Ledger (b) Loose leaf ledger

Posting Means transferring the debit and credit items from the journal to their respective accounts in the ledger. It should be noted that the exact names of accounts used in the journal should be carried to the ledger.

Trial balance is a statement containing the various ledger balances on a particular date.

There are two methods of preparing a trial balance (1) Total method- Ledger accounts are not balanced, they are totaled (2) Balance method – The closing balance of ledger accounts are tabulated in a separate statement.

12. Discuss the relationship between Journal and Ledger

1. The transactions are recorded first of all in the Journal and then they are posted on the ledger.
2. Journal records transaction in a chronological order, while the ledger records transactions in an analytical order.
3. Journal is more reliable as compared to the ledger since it is the book in which the entry is passed first of all.
4. The process of recording transactions is termed as “Journalizing” while the process of recording transactions in the ledger is called as “Positing”.

13. What is Cash column and Discount column?

Cash book has two type of column such as Cash column and discount column

Cash column : Cash column is meant for recording cash receipt and payments while discount column is meant for recording discount received and the discount allowed. The discount column on the debit side represents the discount allowed while discount column on the credit side represents the discount received.

14. What are the uses of petty cash book?

Petty cash book is maintained by the business to record petty cash expenses of the business, Such as postage, cartage, stationery, cleaning charges etc., In every business, there are many payments like the above which are of small amount.

15. What is promissory note?

Section 4 of the negotiable instruments Act defines a promissory note as “an instrument in writing (Non being a bank note and a currency note) containing an unconditional undertaking signed by the maker, to pay a certain sum of money only to, or to the order of a certain person or to the bearer of the instrument.”

16. Define Depreciation and its methods.

Depreciation refers to a decline in the value of any kind of property. But in accounting its use is restricted to the expiration of the cost of tangible fixed assets. Except land, all other physical assets have a limited period of useful life. They are used to generate income over its economic life.

Methods of Depreciation

1. Fixed installment or straight line method
2. Diminishing Balance or written down value method
3. Sums of the Digits Method
4. Annuity Method

5. Depreciation fund or Sinking Fund Method
6. Insurance policy Method 7. Revaluation Method

17. What is profit and loss account?

Profit and loss a/c is an account, which is prepared to calculate the final profit or loss of the business. All operating expenses and other non operating income and expenditures and losses are charged to P&L a/c to find out the net profit.

18. What is Balance sheet?

A balance sheet (B/S) may be defined as “ a statement drawn upon a given date, generally at the end of each accounting year, to measure the exact financial position of a business, setting forth the various assets and liabilities of the concern at this date.”

19. Distinguish between Trial Balance and Balance sheet.

Trial balance	Balance sheet
It is a list of balances of all ledger accounts,	It is a statement of assets and liabilities, only personal and real accounts appear here
Its object is to check the arithmetical accuracy of the ledger balance	Its object is to reveal at a glance the financial position of the business concern
It includes the opening stock	It includes the closing stock
It is prepared whenever desired or at the end of every month or quarterly, half yearly and annually	It is usually prepared at the end of a trading period or accounting year
It does not give information about the net profit and loss	It gives information about the profit and the capital balance includes the profit.

20. Explain the term Depletion and Amortization.

Depletion is applied to refer to the physical exhaustion of natural resources such as coalmines, ore deposits, oil wells, etc.,

The term amortization is used to refers to the write off of ling term investments or intangible assets such as leaseholds, copy rights, patents, goodwill, trademarks, etc.,

12 MARKS

1. What is the nature of accounting? In what ways accounting information is useful to creditor, investors and employees of a business enterprise?
2. What are the accounting concept and conventions? Name them and Explain any accounting concepts in detailed.
3. What is trail balance? Explain its objectives.

4. Create journalize the following transaction in the journal of Mr.T.Ramu,2003,

- Jan 1 Ramu Commenced business with a capital of Rs 50,000
- Jan 5 Amount deposited in Canara bank Rs 20,000
- Jan 10 Goods Purchased for cash Rs 10,000
- Jan 15 Purchase of goods worth Rs 5000 from murali
- Jan 20 Sold goods to Rajan Brothers for Rs 8000
- Jan 22 Amount of Rs 8000 received from Rajan Brothers as full settlement
- Jan 28 Paid salary Rs 25,000
- Jan 30 Commission Received Rs 3500
- Jan 30 Entertainment expenses Rs 1000 paid.

5. A, a small trader, has a supplier, B and a customer, C with whom the following transaction took place in the year of 2007.

- July 5 bought goods on credit from B Rs 3300
- July 7 Accepted bill from B at one month for Rs 1000

July 9 Sold goods on credit to C Rs 1200

July 11 Drew bill on C for this amount at two months and endorsed the bill to B

July 14 Goods sold to C Proved defective. Goods invoiced at Rs 150 were returned and an allowance of Rs 200 was made to him to cover claims on the remainder.

July 26 Returned goods to B, Rs 140

Aug 3 Paid B, Rs 500, withdrew his bill of July 7th and accepted another at two months for the open balance on his account plus at 40 interest.

Aug 24 C being in financial difficulties, A agreed to accept cash for 80 percent of his indebtedness in full settlement. This was duly paid on Aug 26,2007

Sep 14 Met C's bill on presentation by B.

You are required to give Journal entries to record the above.

6. Journalize the following transaction and post them into the ledger 2010

Jan 1 Surendra started business with cash	50,000
Jan 2 Goods purchased from prased on credit	20,000
Jan 3 Goods sold to Prem	5000
Jan 4 Goods purchased from soham for cash	4000
Jan 5 Paid for wages	500
Jan 15 Goods purchased from Prem	1000
Jan 17 Goods sold to Om	500
Jan 21 Goods purchased from Charanjit	3000
Jan 23 Paid for interest	1500
Jan 24 Goods purchased from prem	2000
Jan 28 Cash received from Prem	1000
Jan 31 Cash paid to charanjit	3000
Jan 31 Paid for Rent	100

7. Prepare trading account from the following balance sheet.

Opening stock	80,000
Purchases	3,00,000
Sales	4,50,000
Purchase returns	10,000
Sales return	20,000
Wages	5000
Carriage and Freight	15,000
Freight on purchase	12,000

8. From the following balances extracted at the close of trading period ended on 31.3.2003, Prepare profit and loss account as on that date.

Gross profit	90,000	Discount Dr	1,000
Carriage outward	5,000	Apprentice Premium (Cr)	3000
Salaries	11,000	Advertisement	1000
Rent & Taxes	4,000	Travelling expenses	750
Fire Insurance premium	3,000	Sundry trade expenses	500
Bad debts	2500		

9. From the following Trial balances of Mr Sang Prepare the final accounts for the year ended on 31.12.2010

Debit Balance	Rs	Credit Balance	Rs
Land and Building	50,000	Returns	2500
Purchases	1,10,000	Discounts	1200
Stock	40,000	Sales	2,05,000
Returns	1500	Capital	1,15,000
Wages	10,000	Loan	15,000
Salaries	9000	Commission	1500
Office expenses	2400	Creditors	25000
Carriage	3200	Bills payable	2350
Discounts	750		
Bad debts	1200		
Insurance	1500		
Machinery	50,000		
Furniture	10,000		
Bills receivables	20,000		
Sundry Debtors	40,000		
Cash	6000		
Office Equipment	12,000		
	3,67,550		3,67,550

Preparing trading and profit and loss account and balance sheet of the company.

10. The following trial balance is extracted from the books of Mr Pillai on 31.03.2003

Particular	Debit	Credit
rniture and Fitting	640	-
Motor vehicles		6250 -
Building	7500	12,500
Capital		-
Bad debts	125	200
Provision for doubtful dents	-	-
Sundry debtors and Creditors	3800	-
Stock as on 1.4.2002	3460	15450
Purchase and Sales	5475	2850
Bank overdraft	-	125
Sales and Purchase returns	200	-
Advertising	450	-
Interest on bank overdraft	118	375
Commission	-	-
Cash	650	-
Taxes and insurance premium	782	-
General expenses	1250	
Salaries	3300	34,000
Total	34,000	

Adjustments:

1. Stock on hand on 31.3.2002 Rs 3250
2. Depreciate building @ 5% p.a. Furniture @ 10% p.a. Motor vehicles @ 20% p.a
3. Rs 85 is due for interest on bank overdraft
4. Salaries Rs 300 and taxes Rs 200 are outstanding
5. Insurance Premium amounting to Rs 100 is Prepaid
6. One third of the commission received is in respect of work to be done next year
7. Write off a further sum of Rs 100 as bad debts from debtors and create provision for doubtful debts @ 5% on debtors.

Prepare a trading, Profit & loss account and balance sheet of the company.

Unit –II

2 MARKS

1. Define Cost Accounting.

According to the chartered Institute of Management Accountants, London, Cost accountings is” the process of accounting for costs from the point at which the expenditure is incurred or Committed to the establishment of its ultimate relationship with cost units.

Cost accounting, thus, provides information to the management for decisions of all sorts, it serves multiple purposes on account of which it is generally indistinguishable from management accounting or so called internal accounting.

2. What is cost?

Cost can be defined as the expenditure (actual or notional) incurred on or attributable to a given thing. It can also be described as the resources that have been sacrificed or must be sacrificed to attain a particular objective. In other words, cost is the amount of resources used for something which must be measured in terms of money. For example – Cost of preparing one cup of tea is the amount incurred on the elements like material, labor and other expenses; similarly cost of offering any services like banking is the amount of expenditure for offering that service.

3. Define the term Costing..

Costing may be defined as ‘the technique and process of ascertaining costs’. According to Wheldon, ‘Costing is classifying, recording, allocation and appropriation of expenses for the determination of cost of products or services and for the presentation of suitably arranged data for the purpose of control and guidance of management. It includes the ascertainment of every order, job, contract, process, service units as may be appropriate. It deals with the cost of production, selling and distribution.

4. What are the objectives of Cost accounting?

1. To ascertain the cost of production on per unit basis, for example, cost per kg, cost per meter, cost per liter, cost per ton etc.
2. Cost accounting helps in the determination of selling price. Cost accounting enables to determine the cost of production on a scientific basis and it helps to fix the selling price.
3. Cost accounting helps in cost control and cost reduction.
4. Ascertainment of division wise, activity wise and unit wise profitability becomes possible through cost accounting.
5. Cost accounting also helps in locating wastages, inefficiencies and other loopholes in the production processes/services offered.
6. Cost accounting helps in presentation of relevant data to the management which helps in decision making.
7. Cost accounting also helps in estimation of costs for the future.

5. What is Cost Center?

Cost Center is defined as, ‘a production or service, function, activity or item of equipment whose costs may be attributed to cost units. A cost center is the smallest organizational sub unit for which separate cost allocation is attempted’. To put in simple words, a cost center is nothing but a location, person or item of

equipment for which cost may be ascertained and used for the purpose of cost control. For example, a production department, stores department, sales department can be cost centers. Similarly, an item of equipment like a lathe, fork-lift, and truck or delivery vehicle can be cost center, a person like sales manager can be a cost center.

6. What is Standard Costing?

Standard costs are predetermined costs relating to material, labor and overheads. Though they are predetermined, they are worked out on scientific basis by conducting technical analysis. They are computed for all elements of costs such as material, labor and overheads. The main objective of fixation of standard cost is to have benchmark against which the actual performance can be compared. This means that the actual costs are compared with the standards. The difference is called as 'variance'.

7. Explain the term Variance.

After setting the standards and standard costs for various elements of cost, the next important step is to compute variances for each element of cost. Variance is the difference between the standard cost and the actual cost. In other words it is the difference between what the cost should have been and what is the actual cost incurred. Different variances are used in different industries. Such as Direct Material variance, Direct Labor Variance, Variable Overhead Variances, Fixed Overhead Variances and Sales Variances.

8. Explain the concept of Activity Based Costing (ABC) and its objectives.

CIMA defines Activity Based Costing as, 'cost attribution to cost units on the basis of benefit received from indirect activities e.g. ordering, setting up, and assuring quality.'

One more definition of Activity Based Costing is, 'the collection of financial and operational performance information tracing the significant activities of the firm to product costs.'

Objectives of Activity Based Costing

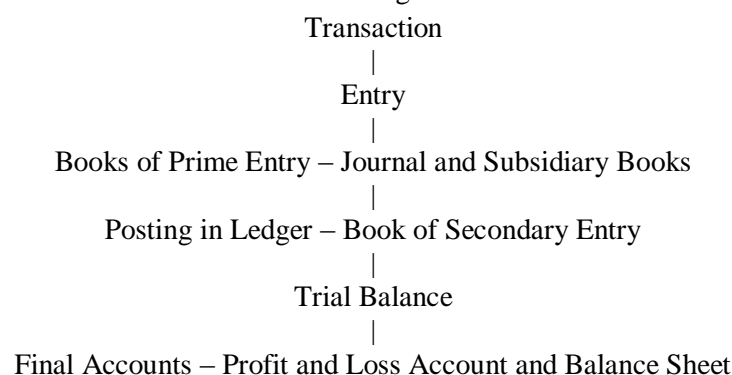
- ✓ To remove the distortions in computation of total costs as seen in the traditional costing system and bring more accuracy in the computation of costs of products and services.
- ✓ To help in decision making by accurately computing the costs of products and services.
- ✓ To identify various activities in the production process and further identify the value adding activities.
- ✓ To distribute overheads on the basis of activities.
- ✓ To focus on high cost activities.
- ✓ To identify the opportunities for improvement and reduction of costs.
- ✓ To eliminate non value adding activities.

9. Define Stocktaking.

Stocktaking refers to the physical verification of the items of inventory in order to ascertain the value for accounting purposes. Either one or combination of the following two method can make the physical verification (a) Periodic Inventory system (b) Perpetual inventory system.

10. Explain accounting cycle.

The cycle commences with the happening of a transaction and ends with the preparation of final accounts, i.e. Profit and Loss Account and Balance Sheet. The following chart will show the accounting cycle.



11. What are the various elements or classification of Cost?

Classification of costs can be made according to the following basis.

Classification according to elements :- Costs can be classified according to the elements. There are three elements of costing, viz. material, labor and expenses. Total cost of production/ services can be divided into the three elements to find out the contribution of each element in the total costs.

Classification according to nature :- As per this classification, costs can be classified into Direct and Indirect. Direct costs are the costs which are identifiable with the product unit or cost center while indirect costs are not identifiable with the product unit or cost center and hence they are to be allocated, apportioned and then absorbed in the production units. All elements of costs like material, labor and expenses can be classified into direct and indirect.

(1) Direct and Indirect Material :- Direct material is the material which is identifiable with the product. For example, in a cup of tea, quantity of milk consumed can be identified, quantity of glass in a glass bottle can be identified and so these will be direct materials for these products. Indirect material cannot be identified with the product,

(2) Direct and Indirect Labor :- Direct labor can be identified with a given unit of product, for example, when wages are paid according to the piece rate, wages per unit can be identified.

(3) Direct and Indirect Expenses :- Direct expenses refer to expenses that are specifically incurred and charged for specific or particular job, process, service, cost center or cost unit. These expenses are also called as chargeable expenses. Examples of these expenses are cost of drawing, design and layout, royalties payable on use of patents, copyrights etc,

12. Define Job Costing.

This method is also called as job costing. This costing method is used in firms which work on the basis of job work. There are some manufacturing units which undertake job work and are called as job order units. The main feature of these organizations is that they produce according to the requirements and specifications of the consumers. Each job may be different from the other one. Production is only on specific order and there is no pre demand production.

13. Define the term Marginal Costing.

Marginal Cost is defined as, 'the change in aggregate costs due to change in the volume of production by one unit'.

Marginal Costing has been defined as, 'Ascertainment of cost and measuring the impact on profits of the change in the volume of output or type of output. This is subject to one assumption and that is the fixed cost will remain unchanged irrespective of the change.' Thus the marginal costing involves firstly the ascertainment of the marginal cost and measuring the impact on profit of alterations made in the production volume and type.

14. What is meant by Break even analysis?

The Break Even Point is a level of production where the total costs are equal to the total revenue, i.e. sales. Thus at the break even level, there is neither profit nor loss. Production level below the break-even-point will result into loss while production above break-even point will result in profits.

Break even point [in units] = Fixed Cost / Contribution per Unit

Break even point [in Rs.] = Fixed Cost / Profit Volume [P/V] Ratio

15. What is target costing?

Target costing is "as a cost management tool for reducing the overall cost of a product over its entire life cycle with the help of the production, engineering, R&D".

The target cost is the estimate cost of a product that enables a company to remain and compete in the market in the long run.

12 MARKS

1. In what way is variance analysis helpful to company management? Give examples
2. Explain the advantages and limitation of standard costing. In what way does it differ from budgeting control?
3. Explain the term “variance” under standard costing, and discuss its significance.
4. Discuss the application of Marginal costing.
5. Discuss the differences between the marginal costing and absorption costing.
6. What is a break even chart? What is a profit graph? State the purpose of constructing such charts.
7. State the assumptions and limitations of break even point analysis.
8. Discuss the limitations of marginal costing.
9. What do you understand by profit/volume ratio? Discuss the importance of the profit/volume ratio and state how it can be improved?
10. Discuss the importance of break even point.
11. Anish Ltd supplies the following particulars for preparing the income statements for the year ended 31.12.2000.

Sales	2000 units at Rs 50 per units
Manufacturing Cost:	
Fixed	Rs 22,000
Variable	2,200 Units at Rs 31. Per unit
Closing Stock	200 Units
Selling and Administration expenses	
Fixed	Rs 6000
Variables	Rs 4,400

Prepare the absorption costing and Marginal costing method.

12. From the following information, calculate BEP and determine the net profit if sales are 25% above BEP.

Selling price per unit	: 50
Direct Material cost per unit	: 20
Direct wages per unit	: 10
Variables overhead per unit	: 7.5
Fixed overhead(total)	50,000

13. The directors of AB Ltd are considering the sales budget for the next budget period. The following information has been made available from the cost records:

	Product Z	Y
Direct Material (per Unit)	Rs 40	50
Selling price	Rs 120	200
Direct wages @Rs 2 Per hour	10	10
Variable Overheads : 100% of direct wages		
Fixed overheads : Rs 20,000 p.a		

You are required to present to the management a statement showing the marginal cost of each product, and to recommend which of the following sales mix should be adopted.

- (1) 450 units of Z and 300 units of Y
- (2) 900 units of Z only
- (3) 600 units of Y only
- (4) 600 units of Z and 200 units of Y

14. It is estimated that a product required 100 kgs of material at the rate of Rs 5 per kg. The actual consumption of material for manufacturing the same product came to 120 kgs, at the rate of Rs 4.75 per kg. Calculate material cost variance.

15. ABC Limited manufactures a simple product, the standard mix of which is

Material A 60% at Rs 20

Material B 40% at Rs 10

Normal loss in production is 20% of input. Due to shortage of material A, the standard mix was changed. Actual result for the month April 1985 were:

Material A 105 kg at Rs 20

Material B 95 kg at Rs 9

Input 200

Loss 35 Kg

Output 165 kg

Calculate material cost variances

16. 100 worker are employed in a factory and the average rate wage is Re.1 per hour. Standard working time per week is 48 hours. During the week in may, wages paid for 50 workers were at the rate of Rs 1.10 per hour, 20 workers at Re1.00 per hour and 30 worker at Re.0.09 per hour. The factory did not work for 8 hours due to power failure. Calculate Suitable labor variances.

17. Calculate the labour variance from the following information

Standard wages

Grade A = 90 worker at Rs 2 per hour

Grade B = 60 worker at Rs 3 per hour

Actual wage

Grade A = 80 workers at Rs 2.50 per hour

Grade B = 70 workers at Rs 2.00 per hour

18. Following sale date taken out from the book of company for the month of March 2008.

Budget for the month of 10,000 units at Rs 5 per units

Sales volume variance Rs 15,000 (F)

Actual selling price Rs 4.50 per unit

Calculate the actual quantity sold and sale value variance and price variance.

19. A Company budgets for a production of 150000 units. The variable cost per unit is Rs.14 and fixed cost per unit is Rs.2 per unit. The company fixes the selling price to fetch a profit of 15% on cost. Required,

A. What is the break- even point? B] What is the profit/volume ratio? C] If the selling price is reduced by 5%, how does the revised selling price affects the Break Even Point and the Profit/Volume Ratio? D] If profit increase of 10% is desired more than the budget, what should be the sales at the reduced price?

20. A retail dealer in garments is currently selling 24, 000 shirts annually. He supplies the following details for the year ended 31st March 2007.

Selling price per shirt: Rs.800

Variable cost per shirt: Rs.600

Fixed Cost:

Staff salaries: Rs.24, 00, 000

General Office Cost: Rs.8, 00, 000

Advertising Cost: Rs.8, 00, 000

As a Cost Accountant, you are required to answer the following each part independently:

1. Calculate Break Even Point and margin of safety in sales revenue and number of shirts sold.
2. Assume that 30, 000 shirts were sold during the year, find out the net profit of the firm.
3. Assuming that in the coming year, an additional staff salary of Rs.10, 00, 000 is anticipated, and price of shirt is likely to be increased by 15%, what should be the break even point in number of shirts and sales?

21. A company sells its products at Rs.15 per unit. In a period, if it produces and sells 8000 units, it incurs a loss of Rs.5 per unit. If the volume is raised to 20 000 units, it earns a profit of Rs.4 per unit. Calculate Break Even Point both in terms of rupees as well as units.

22. A factory engaged in manufacturing plastic buckets is working to 40% capacity and produces 10,000 buckets per annum. The present cost break up for one bucket is as under,

Material Rs.10

Labour Rs.3

Overheads Rs.5 [60% fixed]

The selling price is Rs.20 per bucket.

If it is decided to work the factory at 50% capacity, the selling price falls by 3%. At 90% capacity, the selling price falls by 5% accompanied by a similar fall in the price of material.

You are required to calculate the profit at 50% and 90% capacities and also show break even points for the same capacity production.

Unit – III

2 MARKS

1. Define financial statement analysis.

Financial statements generally refer to four basic statements – the Income statements (i.e Trading and Profit & loss a/c) , the balance sheet, the statement of retained earnings and the sources and uses of fund statements. In other words, the financial statements taken together, give the accounting picture of the firms operations and financial position.

2.What are the major tools and techniques in financial analysis?

- (a) Comparative Financial statements
- (b) Common Size Statements
- (c) Trend Ratios or Percentage
- (d) Ratio analysis
- (e) Fund flow analysis
- (f) Cash flow analysis

3. What is mean by Comparative Balance sheet?

Comparative balance sheet as on two or more different dates can be used for comparing assets and liabilities and finding out any increase or decrease in those items. Thus, while in a single balance sheet the emphasis is on present position, it is on change in the comparative balance sheet. Such a balance sheet is very useful in studying the trends in an enterprise.

4. Define the term Ratio analysis.

Quantitative analysis of information contained in a company's financial statements. Ratio analysis is based on line items in financial statements like the balance sheet, income statement and cash flow statement; the ratios of one item – or a combination of items - to another item or combination are then calculated. Ratio analysis is used to evaluate various aspects of a company's operating and financial performance such as its efficiency, liquidity, profitability and solvency. The trend of these ratios over time is studied to check whether they are improving or deteriorating. Ratios are also compared across different companies in the same sector to see how they stack up, and to get an idea of comparative valuations. Ratio analysis is a cornerstone of fundamental analysis.

5. What is analysis for solvency?

Solvency generally refers to the capacity or ability of the business to meet its short term and long term obligations. The capacity to pay off the current debts of the company is represented by the liquidity ratios. Liquidity ratio will explain the sort term solvency or financial position of the business. Hence, solvency refers to the ability to meet the long term obligations of the business are called as solvency ratio.

6. Define the term Capital Gearing Ratio.

This ratio is closely related to solvency ratio, which is mainly used to analyze the capital structure of a company. The term “Capital gearing” or leverage normally refers to the proportion between the fixed interest or dividend bearing funds and non- fixed interest or dividend bearing funds.

State the benefits of Cash flow information.

- ✓ Helps in efficient cash management
- ✓ Helps in Internal Financial Management
- ✓ Discloses the movement of cash
- ✓ Discloses success or failure of cash planning.

7. What is debt equity ratio?

The **debt-to-equity ratio (D/E)** is a financial ratio indicating the relative proportion of shareholders' equity and debt used to finance a company's assets. Closely related to leveraging, the ratio is also known as **Risk, Gearing** or **Leverage**. The two components are often taken from the firm's balance sheet or statement of financial position (so-called book value), but the ratio may also be calculated using market values for both, if the company's debt and equity are publicly traded, or using a combination of book value for debt and market value for equity financially.

8. What is flow of cash?

The term funds as cash and they concern themselves with the movements in the cash account. The statement showing the changes in cash balances is termed as cash flow statements. The term flow refers to change or transfer, and therefore, the flow of funds means transfer of economic values from one asset to another, from one liability to another, from one asset to a liability or vice versa, or combination of these.

9. Define the term Return on Investment.

Return on investment (ROI) is the concept of an investment of some resource yielding a benefit to the investor. A high ROI means the investment gains compare favorably to investment cost. As a performance measure, ROI is used to evaluate the efficiency of an investment or to compare the efficiency of a number of different investments. In purely economic terms, it is one way of considering profits in relation to capital invested.

10. Define Capital Gearing Ratio.

Capital gearing (or Leverage) refers to the proportion between fixed interest or dividend bearing funds and non fixed interest or dividend bearing funds in the total capital employed in the business. The fixed interest or dividend bearing funds include the funds provided by the debenture holders and preference shareholders.

11. Explain the term “Value added concept”.

The concept of value added or wealth creation is a performance measure and it reports the wealth generated by a business undertaking over a period of time. It represents the sales value “Less the cost of bought in goods and services used in producing the sales.” According to the institute of chartered Accountants of India, the term value added refers to “the increase in value of a product or service resulting from an alteration in the form, location or availability excluding the cost of bought out materials and services.”

12 MARKS

1. Describe the various methods of classification of ratios
2. Write note on “Return on capital Employed”
3. What is Du Pont chart and its advantages.
4. What are the techniques of financial statement analysis?
5. List out various sources and application of cash.
6. What are managerial uses of cash flow analysis?
7. List down the difference between cash flow and fund flow analysis.
8. From the following data prepare balance sheet.

Sales Rs 32,00,000

Sales to net worth 2.3 times

Current debt to net worth 42%

Total debt to net worth 75%

Current ratio 2.9 times

Net sales to inventory 4.7 times

Average collection period (assume 360 days) 64 days

Fixed assets to net worth 53.2%

9. The information relating to the business of XY company as at the end of March 2004,

Gross profit ratio	25%
--------------------	-----

Net profit/ Sales	20%
-------------------	-----

Stock turnover ratio	10
----------------------	----

Net profit/ capital	1/5
---------------------	-----

Capital/ Total liabilities	1/2
----------------------------	-----

Fixed assets/ Capital	5/4
-----------------------	-----

Fixed assets / Current assets	5/7
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Fixed asset	10,00,000
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Closing stock	1,00,000
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From the above information find out (a) Cost of sales (b) Gross profit (c) Net profit (d) Value of current assets (e) Amount of Capital (f) Amount of liabilities. Also prepare profit and loss account for the year ending.

10. The following are the summarized profit and loss account of Shree ltd for the year ended 31.12.2002. and the balance sheet as on that date.

Profit and Loss Statement			
To opening stock	99500	By sales	8,50,000
To purchase	5,45,250	By closing Stock	1,49,000
To incidental expenses	14250		
To Gross Profit	3,40,000		
	-----		-----
	9,99,000		9,99,000
To operating expenses:			
Selling and Distribution		By Gross Profit	3,40,000
Expenses	30,0000	By non operating	
Administrative expenses	1,50,000	Income : Interest	3000
Finance Charges	15,000	By Profit on sale of share	6000
To non-operating expenses:			
Loss on sale of Assets	4000		
To Net Profit	1,50,000		
	-----		-----
	3,49,000		3,49,000
Liabilities		Assets	
Issued capital	2,00,000	Land& Building	1,50,00
Reserve	90,000	Plant& Machinery	0
Current Liabilities	1,30,000	Stock	80,00
P& L A/c	60,000	Sundry Debtors	0
	-----	Cash and Bank	1,49,00
	4,80,000		0
			71,00
			0
			30,00
			0

			4,80,000

From the above statement you are required to calculate the following ratios and state the purpose they serve:

(a) Current ratio (b) Liquid ratio (c) operating ratio (d) Stock Turnover (e) Return on total resource (f) Turnover of fixed assets.

11. From the following information, Calculate fund from operations

Particular	Rs	Particular	Rs
To Expenses:		By Gross profit b/d	2,00,000
Operation	1,00,000	By Gain on sale of Building	20,000
Depreciation	40,000	By other income	20000
To Loss on sale of Machinery	10,000		
To Advertisement suspense	5,000		
To Discount of Debtors	500		
To Discount of issue of share	500		
To good will w/off	12,000		
To preliminary expenses w/off	2000		
To net profit	52,000		
	-----		-----
	2,22,0000		2,22,000

12. From the following particular prepare a funds flow statements for the year ended 31st Dec 2010

(1) Net profit before writing off good will	21,500
(2) Depreciation	3500
(3) Good will written off from profit	5000
(4) Dividend paid	7000
(5) Share issued for cash	10,000
(6) Purchase of machinery	20,000
(7) Increase in working capital	8000

13. The following details are available from a company

Liabilities	Rs	Assets	Rs
Share capital	70,000	Cash	9000
Debentures	12,000	Debtors	14,900
Reserves	700	Stock	49,200
Trade creditors	10,360	Land	20,000
P& L A/C	10,040	Goodwill	10,000
	1,03,100		1,03,100

- Dividend paid Rs 3500
- Land was purchased for Rs 10,000
- Amount provided for amortization of good will Rs 5000
- Debentures paid off Rs 6,000, Prepare Cash flow statements.

Unit – IV

2 MARKS

1. Define the term Budget.

Budget has been defined by CIMA U.K. as, ‘A financial and/or quantitative statement prepared prior to a defined period of time, of the policy to be pursued during that period for the purpose of achieving a given objective.’

A **budget** is a quantitative expression of a plan for a defined period of time. It may include planned sales volumes and revenues, resource quantities, costs and expenses, assets, liabilities and cash flows. It expresses strategic plans of business units, organizations, activities or events in measurable terms.

2. What is a budget cycle?

The budget cycle consists of four phase

- Preparation and submission

- (2) Approval
- (3) Execution
- (4) Audit and evaluation.

3. Explain the benefits of Budgeting

- ✓ Budgeting facilitates planning of various activities and ensures that the working of the organization is systematic and smooth.
- ✓ Budgeting is a coordinated exercise and hence combines the ideas of different levels of management in preparation of the same.
- ✓ Any budget cannot be prepared in isolation and therefore coordination among various departments is facilitated automatically.
- ✓ Budgeting helps planning and controlling income and expenditure so as to achieve higher profitability and also act as a guide for various management decisions.
- ✓ Budgeting is an effective means for planning and thus ensures sufficient availability of working capital and other resources.
- ✓ It is extremely necessary to evaluate the actual performance with predetermined parameters.
- ✓ Budgeting ensures that there are well-defined parameters and thus the performance is evaluated against these parameters.
- ✓ As the resources are directed to the most productive use, budgeting helps in reducing the wastages and losses.

4. List out the method and classification of Budget.

- (a) Classification according to time factors
- (b) Functional classification
- (c) Classification according to flexibility factor

5. Explain the types of Budgets.

Budgets can be classified as per the following basis.

On the basis of Area of Operation

- A. Functional Budgets
- B. Master Budget

On the basis of Capacity Utilization

- A. Fixed Budget
- B. Flexible Budgets

On the basis of Time

- A. Short Term
- B. Medium Term
- C. Long Term

On the basis of Conditions

- A. Basic Budget
- B. Current Budget

6. What is budgetary control?

Budgetary Control is actually a means of control in which the actual results are compared with the budgeted results so that appropriate action may be taken with regard to any deviations between the two. Budgetary control has the following stages, such as Developing Budgets, Recording Actual Performance, Comparison of Budgeted and Actual Performance, Corrective Action

7. What is mean by Performance Budgeting (PB)?

Performance budget may be defined as a budget based on functions, activities and projects, performance budgeting may be described as a budgeting system, where under input costs are related to the end results, i.e. performance.

According to the national Institute of Bank Management, Mumbai, “ the PB is the process of analyzing, identifying, simplifying, and crystallizing specific performance objectives of a job to be complete over a period, in the framework of the organization objectives, the purpose and objectives of the job.

8. What do you understand by master budget?

A Master Budget which is also called as ‘Comprehensive Budget’ is a consolidation of all the functional budgets. It shows the projected Profit and Loss Account and Balance Sheet of the business organization. For preparation of this budget, all functional budgets are combined together and the relevant figures are incorporated in preparation of the projected Profit and Loss Account and Balance Sheet. Thus Master Budget is prepared for the entire organization and not for individual functions.

9. Define the term Sale budget.

A Sales Budget shows forecast of expected sales in the future period [the period is well defined] and expressed in quantity of the product to be sold as well as the monetary value of the same. A Sales Budget may be prepared product wise, territories/area/country wise, customer group wise, salesmen wise as well as time wise like quarter wise, month wise, weekly etc.

10. Define the term cash budget.

Cash Budget: A cash budget is an estimate of cash receipts and cash payments prepared for each month. In this budget all expected payments, revenue as well as capital and all receipts, revenue and capital are taken into consideration. The main purpose of cash budget is to predict the receipts and payments in cash so that the firm will be able to find out the cash balance at the end of the budget period.

11. Explain the zero based budget.

Zero Base Budgeting is method of budgeting whereby all activities are revaluated each time budget is formulated and every item of expenditure in the budget is fully justified. Thus the Zero Base Budgeting involves from scratch or zero.

Zero based budgeting [also known as priority based budgeting] actually emerged in the late 1960s as an attempt to overcome the limitations of incremental budgeting. This approach requires that all activities are justified and prioritized before decisions are taken relating to the amount of resources allocated to each activity.

12 MARKS

1.”Budgetary control improves planning aids in coordination and help in having comprehensive control” Elucidate this statement by highlighting its uses and Limitations.

2. What are factors to be considered while preparing sales budget.

A company manufactures two products, A and B. Its sales department has three area divisions, North, East and South. Preliminary sales budgets for the year ending 31st March 2007, based on the assessment of the divisional managers were as follows.

Product A: North 2,00,000 units, South 5,50,000 units and East 1,00,000 units

Product B: North 3,00,000 units, South 4,00,000 units and East Nil

Sale price: A Rs.4 and B Rs.3 in all areas.

Arrangements are made for the extensive advertising of Products A and B and it is estimated that the North division sales will increase by 1,00,000 units. Arrangements are also made to advertise and distribute product in Eastern area in the second half of the year 2006-07 when sales are expected to be 5,00,000 units.

Prepare a revised sales budget for the year ended 31st March after taking into consideration the above mentioned adjustments.

3. R Ltd. manufactures three products, A, B and C. You are required to prepare for the month of January 2008, the following budgets from the information given below.

Product	Quantity	Price Per Unit
A	1000	Rs.100
B	2000	Rs.120.
C	1500	Rs.140

4. ABC Co. wished to arrange overdraft facilities with its bankers during the period April 2008 to June 2008 when it will be manufacturing mostly for the stock. Prepare a Cash Budget for the above period from the following data, indicating the extent of the bank facilities the company will require at the end of each month.

Particulars	Sales	Purchases	Wages
Feb 2010	1,80,000	1,24,000	12,000
March	1,92,000	1,44,000	14,000
April	1,08,000	2,43,000	11,000
May	1,74,000	2,46,000	10,000
June	1,26,000	2,68,000	15,000

Additional Information:

1. 50% of the credit sales are realized in the month following the sales and remaining 50% in the second month following. Creditors are paid in the month following the month of purchases. There are no cash sales or cash purchases

2. Cash at bank [overdraft] estimated on 1st April 2008 is Rs.25, 000

5. A factory engaged in manufacturing plastic toys is working at 40% capacity and produces 10, 000 toys per month. The present cost break up for one toy is as under.

Material: Rs.10

Labor: Rs.3

Overheads: Rs.5 [60% fixed]

The selling price is Rs.20 per toy. If it is decided to work the factory at 50% capacity, the selling price falls by 3%. At 90% capacity, the selling price falls by 5% accompanied by a similar fall in the price of material. You are required to prepare a statement showing the profits/losses at 40%, 50% and 90% capacity utilizations.

6. A manufacturing company is currently working at 50% capacity and produces 10, 000 units at a cost of Rs.180 per unit as per the following details.

Materials: Rs.100

Labor: Rs.30

Factory Overheads: Rs.30 [40% fixed]

Administrative Overheads: Rs.20 [50% fixed]

Total Cost Per Unit: Rs.180

The selling price per unit at present is Rs.200. At 60% working, material cost per unit increases by 2% and selling price per unit falls by 2%. At 80% working, material cost per unit increases by 5% and selling price per unit falls by 5%.

Prepare a Flexible Budget to show the profits/losses at 50%, 60% and 80% capacity utilization.

Unit – V

2 MARKS

1. What is meant by inflation accounting?

Inflation accounting is a term describing a range of accounting models designed to correct problems arising from historical cost accounting in the presence of high inflation and hyperinflation.

2. Define Human Resource Accounting.

“Human resource accounting is an attempt to identify and report investments made in human resources of an organization that are presently not accounted for in conventional accounting practice. Basically it is an information system that tells the management what changes over time are occurring to the human resources of the business”- Woodruff

3. Explain the term Responsibility accounting.

A method of accounting in which costs are identified with persons assumed to be capable of controlling them rather than with products or functions. It differs from activities accounting in that it does not in itself require an organization grouping by activities and sub-activities or provide a systematic criterion of system design”

4. What are the objectives of introduction of computers in accounting.

- Labor saving
- Time saving
- Accuracy
- Minimization of Fraud
- Effect on personnel

5. Significance of Computerized accounting system.

- Better quality work
- Lower operating costs
- Improved efficiency
- Facilitates better control
- Greater accuracy
- Relieve Monotony
- Facilitates Standardization
- Minimizing Mathematical error

6. List out general problems faced in computerized accounting system.

- User Training
- System dependency
- Hardware requirement
- System Failure
- Backups and Prints
- Voucher Management
- Security
- Theft of Data

7. List out the usage of Accounting software.

- On-screen input and print out of sales invoices
- Automatic updating of customer accounts in the sales ledger
- Recording of suppliers invoice
- Automatic updating of suppliers accounts in the purchase ledger
- Recording of bank receipts
- Making payments to suppliers .
- Automatic updating of general ledger.

8. What are the advantages and disadvantage of Computerized accounting.

Advantages: Better quality work, Lower operation costs, improved efficiency, Facilitates better control, greater accuracy, Relieve monotony, Facilitates standardization, Minimizing mathematical errors.
Disadvantage : Reduction of Manpower, High cost, Require special skills.

9. What do you mean by Data processing?

The work done by a computer is termed as data processing. The computer processes the data into meaningful information. This information forms the basis for further action to be initiated by the user or computer itself.

There are three methods of data processing (a) Batch processing (b) On-line processing (c) Real time processing

Batch Processing: The term batch processing applies to those situations where similar types of transactions are collected to a cutoff point and then grouped to form a batch for processing.

On-line processing: Under this method telecommunication equipment replaces the manual collection of records, as in batch processing and data entry takes place on-line.

Real time processing: Under this method the data relating to each individual transaction, received through the telecommunication line, is treated as batch, and the processed results are communicated back instantaneously. It enables to make decisions on the basis of latest information. This method is suitable where the processed information is required immediately and the online processing method is considered very slow. This method is also called as transaction processing.

10. What are the security problems faced by organization using computers?

- Theft of computer time
- Manipulation of programs
- Theft of Data
- Stealing software
- Controlling access
- Passwords
- Backups copies
- Security for Backups
- Network control
- Data Encryption.

12 MARKS

1. Explain the role of computers in accounting.
2. State the merits and demerits of accounting software.
3. What are the salient features of computerized accounting system? State the significance of the system.
4. Discuss the concept of Human Resource Accounting. Explain its importance in the present context.
5. Explain the need of Inflation accounting.
6. What are the difficulties involved in preparation HRA?
7. Discuss the methods of preparation of HRA.