UNIT – I

1. What is the meaning and definition of financial accounting?

The American Institute of Certified Public Accountants has defined the Financial Accounting as "the art of recording, classifying and summarising in as significant manner and in terms of money transactions and events which in part, at least of a financial character, and interpreting the results thereof".

2. What is the difference between book – keeping and accounting?

Book-keeping is a part of accounting and is concerned with the recording of transactions which is often routine and clerical in nature, whereas accounting performs other functions as well, viz., measurement and communication, besides recording. An accountant is required to have a much higher level of knowledge, conceptual understanding and analytical skill than is required of the book-keeper.

3. What are the branches of accounting?

To meet the ever increasing demands made on accounting by different interested parties such as owners, management, creditors, taxation authorities etc., the various branches have come into existence. There are as follows:

1. *Financial accounting.* The object of financial accounting is to ascertain the results (profit or loss) of business operations during the particular period and to state the financial position (balance sheet) as on a date at the end of the period.

2. *Cost accounting.* The object of cost accounting is to find out the cost of goods produced or services rendered by a business. It also helps the business in controlling the costs by indicating avoidable losses and wastes.

3. *Management accounting.* The object of management accounting is to supply relevant information at appropriate time to the management to enable it to take decisions and effect control.

4. What is money measurement concept?

In accounting, only those business transactions are recorded which can be expressed in terms of money. In other words, a fact or transaction or happening which cannot be expressed in terms of money is not recorded in the accounting books. As money is accepted not only as a medium of exchange but also as a store of value, it has a very important advantage since a number of assets and equities, which are otherwise different, can be measured and expressed in terms of a common denominator.

5. What do you mean by Dual Aspect concept?

Financial accounting records all the transactions and events involving financial element. Each of such transactions requires two aspects to be recorded. The recognition of these two aspects of every transaction is known as a dual aspect analysis. According to this concept

every business transactions has dual effect. For example, if a firm sells goods of Rs. 10,000 this transaction involves two aspects. One aspect is the delivery of goods and the other aspect is immediate receipt of cash (in the case of cash sales).

6. Write in brief about the accounting equations?

Dual concept states that 'for every debit, there is a credit'. Every transaction should have two-sided effect to the extent of same amount. This concept has resulted in accounting equation which states that at any point of time assets of any entity must be equal (in monetary terms) to the total of owner's equity and outsider's liabilities

Assets = Liabilities + Capital

7. What are the classifications of accounts?

1. Personal Accounts: Accounts which are related to individuals, firms, companies, co-operative societies, banks, financial institutions are known as personal accounts. The personal accounts may further be classified into three categories:

(i)Natural Personal Accounts: Accounts of individuals (natural persons) such as Akhils' A/c, Rajesh's A/c, Sohan's A/c are natural personal accounts.

(ii) Artificial Personal Accounts: Accounts of firms, companies, banks, financial institutions such as Reliance Industries Ltd., Lions Club, M/s Sham &ons,Punjab National Bank, National College are artificial personal accounts.

(iii) Representative Personal Accounts: The accounts recording transactions relating to limited expenses and incomes are classified as nominal accounts. Butin certain cases (due to the matching concept of accounting) the amount on a particular date, is payable to the individuals or recoverable from individuals. Suchamount (i) relates to the particular head of expenditure or income and (ii) represents persons to whom it is payable or from whom it is recoverable. Such accounts are classified as representative personal account e.g., Wages outstandingaccount, Pre-paid insurance account etc.

2. Real Accounts: Real accounts are the accounts related to assets/properties. These may be classified into tangible real account and intangible real account. The accounts relating to tangible assets (which can be touched, purchased and sold) such as building, plant, machinery, cash, furniture etc. are classified as tangible real accounts. Intangible real accounts (which do not have physical shape) are the accounts related to intangible assets such as goodwill, trademarks, copyrights, patents etc.

3. Nominal Accounts: The accounts relating to income, expenses, losses and gains are classified as nominal accounts. For example Wages Account, Rent Account, Interest Account, Salary Account, Bad Debts Accounts, Purchases; Account etc. fall in the category of nominal accounts.

8. Define the rule of debit and credit?

The Rules for Debit and Credit are given below:

Types of Accounts	Rules for Debit	Rules for Credit
(a) Personal Accounts:	Debit the receiver	Credit the giver
(b) Real Accounts:	Debit what comes in	Credit what goes out
(c) Nominal Accounts:	Debit all expenses & Losses	Credit all incomes& gains

9. What do you mean by ledger?

Journal is a historical record of business transactions or events. The wordjournal comes from the French word "Jour" meaning "day". It is a book of originalor prime entry written up from the various source documents. Journal is a primarybook for recording the day to day transactions in a chronological order i.e. in theorder in which they occur. The journal is a form of diary for business transactions.This is also called the book of first entry since every transaction is recordedfirstly in the journal. The format of a journal is shown as follows :

Journal

Date	**Particulars**	**L.F**	**Debit(Rs)**	**Credit(Rs)**

10. Define compound journal entry?

When more than two accounts are involved in a transaction and the transaction is recorded by means of a single journal entry instead of passing several journal entries, such single journal entry is termed as 'Compound Journal Entry'.

11. Define ledger?

The main function of the ledger is to classify and summarise all the items appearing in Journal and other books of original entry under appropriate head/set of accounts so that at the end of the accounting period, each account contains the complete information of all transaction relating to it. A ledger therefore is a collection of accounts and may be defined as a summary statement of all the transactions relating to a person, asset, expense or income which have taken place during a given period of time and shows their net effect.

Name of the Account ....

Dr. Cr.

Date	Particulars	JF	Amount	Date	Particulars	JF	Amount

12. What do you meant by posting?

Posting refers to the process of transferring debit and credit amounts from the Journal or subsidiary books to the respective heads of accounts in the ledger. Journal will have at a minimum of one debit and one credit for each transaction. The ledger will have either a debit or a credit for each account used in the Journal.

13. What is trial balance?

A Trial Balance is a two-column schedule listing the titles and balances of all the accounts in the order in which they appear in the ledger. The debit balances are listed in the left-hand column and the credit balances in the right-hand column.

TRIAL BALANCE OF …………… AS ON ……………..

Serial No.	**Name of the Account**	**Dr.Balance Rs.**	**Cr.Balance Rs.**

14. What do you meant by trading account?

Trading Account is one of the financial statements which shows the result of buying and selling of goods and/or services during and accounting period. The main objective of preparing the Trading Account is to ascertain gross profit or gross loss during the accounting period. Gross Profit is said to have been made when the sale proceeds exceed the cost of goods sold. Conversely, when sale proceeds are less than the cost of goods sold, gross loss is incurred. For the purpose of calculating cost of goodssold, we have to take into consideration opening stock, purchases, directexpenses on purchasing or manufacturing the goods and closing stock. Thebalance of this account i.e. gross profit or gross loss is transferred to theProfit and Loss Account.

15. What is profit & loss account?

Trading Account results in the gross profit/loss made by a businessman on purchasing and selling of goods. It does not take into consideration the other operating expenses incurred by him during the course of running the business. Besides this, a businessman may have other sources of income. In order to ascertain the true profit or loss which the business has made during a particular period, it is necessary that all such expenses and incomes should be considered. Profit and Loss Account considers all such expenses and incomes and gives the net profit made or net loss suffered by a business during a particular period. All the indirect revenue expenses and losses are shown on the debit side of the Profit and Loss Account,

where as all indirect revenue incomes are shown on the credit side of the Profit and Loss Account.

16. What is Balance sheet?

A Balance Sheet is a statement of financial position of a business concern at a given date. It is called a Balance Sheet because it is a sheet of balances of those ledger accounts which have not been closed till the preparation of Trading and Profit and Loss Account. After the preparation of Trading and Profit and Loss Account the balances left in the trial balance represent either personal or real accounts. In other words, they either represent assets or liabilities existing on a particular date. Excess of assets over liabilities represent the capital and is indicative of the financial soundness of a company

17. What do you meant by Outstanding Expenses?

Expenses which have become due and have not been paid by theend of financial year, are called outstanding expenses.

18. Define Unexpired or Prepaid Expenses

Those expenses which have been paid in advance, i.e., whose benefitwill be available in future are called unexpired or prepaid expenses

19. Write the meaning of Accrued Income

That income which has been earned but not received during the accountingyear is called accrued income

20. What do you mean byIncome Received in Advance

Income received but not earned during the accounting year is called asincome received in advance.

21. What is Depreciation

Depreciation is the reduction in the value of fixed asset due toits use, wear and tear or obsolescence. When an asset is used for earningpurposes, it is necessary that reduction due to its use, must be charged tothe Profit and Loss Account of that year in order to show correct profit orloss and to show the asset at its correct value in the Balance Sheet

22. Explain Bad Debts

Debts which cannot be recovered or become irrecoverable are called bad debts

13 Mark question

1. Explain about the users of accounting information?
2. Explain the concepts and conventions?
3. Difference between management accounting and financial accounting
4. What is the difference between cost accounting and management accounting
5. Explain the Objectives of Accounting?
6. What do you mean by financial accounting? Discuss its nature and limitations.
7. Explain the objectives and functions of financial accounting?
8. Give the difference among financial, cost and management accounting.
9. Define management accounting. Explain its tools and techniques?
10. Discuss the objectives and importance of management accounting?
11. What is balance sheet? Give the importance and limitations of balance sheet?
12. Name the main adjustment and give adjustment journal entries with example?UNIT – II

1. What is financial statement?

Financial statements are an important source of information for evaluating the performance and prospects of a firm. If properly analyzed and interpreted, financial statements can provide valuable insights into a firm's performance. Analysis of financial statements is of interest to lenders (short term as well as long term), investors, security analysts, managers, and others. Financial statement analysis may be done for a variety of purposes, which may range from a simple analysis of the short-term liquidity position of the firm to a comprehensive assessment of the strengths and weaknesses of the firm in various areas. It is helpful in assessing corporate excellence, judging creditworthiness, forecasting bond ratings, evaluating intrinsic value of equity shares, predicting bankruptcy, and assessing market risk.

2. What is Comparative financial statement?

In CFS, two or more BS and/or the IS of a firm are presented simultaneously in columnar form. The financial data for two or more years are placed and presented in adjacent columns and thereby the financial data is provided a times perspective in order to facilitate periodic comparison. In CFS, the BS and the IS for number of years are presented in condensed form for year-to- year comparison and to exhibit the magnitude and direction of changes.

3. Define Common size financial statement?

The CSS represents the relationship of different items of a financial statement with some Common item by expressing each item as a percentage of the Common item. In Common size Balance Sheet, each item of the Balance Sheet is stated as a percentage of the total of the Balance Sheet. Similarly in Common size Income Statement, each item is stated as percentage of

the Net Sales. The percentages for different items are computed by dividing the absolute amount of that item by the Common base (i.e. the Balance Sheet Total or the Net Sales as the case may be) and then multiplying by 100. The percentage so calculated can be easily compared with the corresponding percentages in some other period. Thus, the CSS is useful not only in intra-firm comparisons over a series of different year but also in making inter-firm comparisons for the same year or for several years.

4. What is Trend analysis?

The TPA is a technique of studying several financial statements over a series of years. In TPA, the trend percentages are calculated for each item by taking the figure of that item for some base year as 100. So, the trend percentage is the percentage relationship, which each item of different years bears to the same item in the base year. Any year may be taken as the base year. Any year may be taken as the base year, but generally the starting/initial year is taken s the base year. So, each item for base year is taken as 100 and then the same item for other years is expressed as a percentage of the base year.

5. Define Ratio Analysis

A ratio is a relationship expressed in mathematical terms between two individual or groups of figures connected with each other in some logical manner. The RA is based on the premise that a single accounting figure by itself may not communicate any meaningful information but when expressed as a relative to some other figure, it may definitely give some significant information. The relationship between two or more accounting figures/groups is called a financial ratio. A financial ratio helps to summarize a large mass of financial data into a concise form and to make meaningful interpretations and conclusions about the performance and positions of a firm

6. What is Fund flow statement?

According to I.C.W.A. "Funds Flow Statement is a statement either prospective or retrospective, setting out the sources and applications of the fund of an enterprise. The purpose of the statement is to indicate clearly the requirement of funds and how they are proposed to be raised and the efficient utilization and application of the same."

7. Define Cash flow statement?

Cash Flow Statement is a statement that describes the inflow (sources) and outflow (applications) of cash and cash equivalent in an enterprise during a specified period of time. Such a statement enumerates net effect of the various business transactions on cash and its equivalent and takes into account receipts and disbursement of cash. Cash flow statement summaries the causes of changes in cash position of a business enterprise between dates of two balance sheets.

8. What are the tools of financial analysis?

   - Comparative Financial Statements
   - Common-size Statements
   - Trend Analysis
   - Cash Flow Statement
   - Ratio Analysis
   - Funds Flow statements

9. What is Debt-equity ratio?

This ratio establishes the relationship between the long-term funds provided by creditors and those provided by the firm's owners.
It is commonly used to measure the degree of financial leverage of the firm. It is calculated as follows:
Debt-equity Ratio = long term debt/shareholder's fund
Some experts use the following formula to calculate this ratio:
Debt-equity Ratio = External Equities / Internal Equities
Generally, a ratio of 2:1 is considered satisfactory.

10. What is Proprietary Ratio?

This ratio is also known as Shareholders' Equity to Total Equities Ratio or Net Worth to Total Assets Ratio. It indicates the relationship of Shareholders' equity to total assets or total equities. As per formula:

Proprietary Ratio = shareholders fund/Total asset

Higher the ratio, better the financial position of the firm.

11. Define Current Ratio**.**

Current ratio is the most common ratio for measuring liquidity. Being related to working capital analysis, it is also called the working capital ratio. The current ratio is the ratio of total current assets to total current liabilities.
Current Ratio =Current Assets / Current Liabilities

12. What is Debtors Turnover Ratio?

This ratio is determined by dividing the net credit sales by average debtors outstanding during the year. Thus,
Debtors turnover ratio = Net Annual credit sale/Average Trade debtors
Net credit sales consist of gross credit sales minus sales returns, if any, from customers. Average debtors are the simple average of debtors at the beginning and at the end of year. The ratio measures how rapidly debts are collected. A high ratio is indicative of shorter time-lag between credit sales and cash collection. A low ratio shows that debts are not being collected rapidly

13. What is Inventory Turnover Ratio?

Inventory turnover ratio = cost of goods sold / Average inventory

The cost of goods sold means sales minus gross profit. The average inventory refers to the simple average of the opening and closing inventory. The ratio indicates how fast inventory is sold. A high ratio is good from the viewpoint of liquidity and vice versa. A low ratio would signify that inventory does not sell fast and stays on the shelf or in the warehouse for a loan time.

14. What is Proprietary Ratio?

This ratio is also known as Shareholders' Equity to Total Equities Ratio or Net Worth to Total Assets Ratio. It indicates the relationship of Shareholders' equity to total assets or total equities. As per formula:

Proprietary Ratio =Long-term Debts/Shareholder's Equity

Higher the ratio, better the financial position of the firm.

15. What is Common Size Income Statement?

In the case of Income Statement, the sales figure is assumed to be equal to 100 and all other figures are expressed as percentage of sales. The relationship between items of Income Statement and volume of sales is quite significant since it would be helpful in evaluating operational activities of the concern. The selling expenses will certainly go up with increase in sales. The administrative and financial expenses may go up or may remain at the same level. In case of decline in sale, selling expenses should definitely decrease.

16. Explain Common Size Balance Sheet?

For the purpose of common size Balance Sheet, the total of assets or liabilities is taken as 100 and all the figures are expressed as percentage of the total. In other words, each asset is expressed as percentage to total assets/liabilities and each liability is expressed as percentage to total assets/liabilities. This statement will throw light on the solvency position of the concern by providing an analysis of pattern of financing both long-term and working capital needs of the concern.

17. What is Liquidity Ratios?

Liquidity refers to the ability of a firm to meet its current obligations as and when they become due. The importance of adequate liquidity in the sense of the ability of a firm to meet current/short-term obligations when they become due for payment can hardly be overstressed. In fact, liquidity is a prerequisite for the very survival of a firm.

18. What is Creditors Turnover Ratio?

It is a ratio between net credit purchases and the average amount of creditors outstanding during the year. It is calculated as follows:

Creditors turnover ratio = net credit purchase/average creditors
Net credit purchases = Gross credit purchases less returns to suppliers
Average creditors = Average of creditors outstanding at the beginning and at the end of the year.

19. Explain the Solvency Ratio?

It is also known as Debt Ratio. It is a difference of 100 and proprietary ratio. It measures the proportion of total assets provided by the firm's creditors. This ratio is calculated as follows :

Solvency Ratio (or Debt Ratio) = total liabilities/total assets

20. What is Debt-Service Ratio?

Net income to debt service ratio or simply debt service ratio is used to test the debt-servicing capacity of a firm. The ratio is also known as interest coverage ratio or fixed charges cover or times interest earned. This ratio is calculated by dividing the net profit before interest and taxes by fixed interest charges.

Debt Service or Interest Coverage Ratio = net profit before interest & taxes / fixed interest charges

21. What do you meant by Interest Coverage Ratio?

This ratio measures the debt servicing capacity of a firm insofar as fixed interest on long-term loan is concerned. It is determined by dividing the operating profits or earnings before interest and taxes (EBIT) by the fixed interest charges on loans. Thus,

Interest coverage = EBIT / Interest

1. Explain the concept of Return on Investment (ROI) Ratio?

This is one of the key profitability Ratios. It examines the overall operating efficiency or earning power of the company in relation to total investment in business. It indicates the percentage of return on the capital employed in the business. It is calculated on the basis of the following formula:

Operating profit/capital employed * 100

2. What do you mean by Earning per Share (EPS)?

It measures the profit available to the equity shareholders on a per share basis, that is, the amount that they can get on every share held. It is calculated by dividing the profits available to the shareholders by the number of the outstanding shares. The profits available to be the ordinary Shareholders are represented by net profits after taxes and preference dividend.

EPS= net profit available to equity share holder/number of equity shares outstanding

13 MARK

1. Write the Difference between cash flow and fund flow statement
2. What is Ratio Analysis? What are the managerial uses of ratio analysis?
3. What is financial statement analysis? Explain its objectives and limitations?
4. Explain in detail about the tools and techniques of financial statement analysis?
5. What is ratio analysis? Explain its objectives and limitations?
6. What are the importances of ratio analysis?
7. What is profitability ratio? Also explain the different types of ratios to measure the profit and loss of the firm?
8. What is solvency ratio and also explain its types.
9. What is cash flow statement? Explain advantages and disadvantages of cash flow statement?
10. Explain the cash flow statement. How is it prepared? What is the importance of this statement? How is it different from fund flow statement?
11. What is Cash flow Statement? Explain its utility and limitations. Differentiate it from
12. Funds flow statement.
13. What is fund flow statement? Explain advantages and disadvantages of fund flow statement?

UNIT – III

1. What is cost accounting?

Cost accountancy is a wide term. It means and includes the principles, conventions, techniques and systems which are employed in a business to plan and control the utilization of its resources. It is defined as "the application of costing and cost accounting principles, methods and techniques to the science, art and practice of cost control and the ascertainment of profitability. It includes the presentation of information derived there from for the purposes of managerial decision making"–C.I.M.A. London.

Cost Accounting : Cost accounting is a system by means of which costs of products or services are ascertained and controlled. It is defined as "the application of accounting and costing principles, methods and techniques in the ascertainment of costs and the analysis of savings and/or excesses as compared with previous experience or with standards".

2. Write the meaning of Cost Control?

Cost control is the function of keeping costs within prescribed limits. In other words, cost control is compelling actual costs to conform to planned costs. Amongst the various techniques used for cost control, the two most popular are budgetary control and standard costing

3. Explain Cost Audit?

Cost audit is the specific application of auditing principles and procedures in the fields of cost accounting. It is defined as the verification of cost accounts and a check on the adherence to the cost accounting plan. It has thus two functions - (a) to verify that the cost accounts have been correctly maintained and compiled, and (b) to check that principles laid down have been properly followed. The work is usually carried out within the factory. Each job is treated as a distinct unit, and related costs are recorded separately. This type of costing is suitable to printers, machine tool manufacturers, job foundries, furniture manufactures etc.

4. What is Batch costing?

Where the cost of a group of product is ascertained, it is called 'batch costing'. In this case a batch of similar products is treated as a job. Costs are collected according to batch order number and the total cost is divided by the numbers in a batch to find the unit cost of each product. Batch Costing is generally followed in general engineering factories which produce components in convenient batches, biscuit factories, bakeries and pharmaceutical industries.

5. What do you meant by Contract costing?

A contract is a big job and, hence, takes a longer time to complete. For each individual contract, account is kept to record related expenses in a separate manner. It is usually followed by concerns involved in construction work e.g. building roads, bridge and buildings etc.

6. What is Process Costing?

Where an article has to undergo distinct processes before completion, it is often desirable to find out the cost of that article at each process. A separate account for each process is opened and all expenses are charged thereon. The cost of the product at each stage is, thus, accounted for. The output of one process becomes the input to the next process. Hence, the process cost per unit in different processes is added to find out the total cost per unit at the end. Process costing is often found in such industries as chemicals, oil, textiles, plastics, paints, rubber, food processors, flour, glass, cement, mining and meat packing.

7. Write the meaning of Output/Unit Costing?

This method is followed by concerns producing a single article or a few articles which are identical and capable of being expressed in simple, quantitative units. This is used in industries like mines, quarries, oil drilling, cement works, breweries, brick works etc. for example, a tonne of coal in collieries, one thousand bricks in brick works etc. The object here is to find out the cost per unit of output and the cost of each item of such cost. A cost sheet is prepared for a definite period. The cost per unit is calculated by dividing the total expenditure incurred during a given period by the number of units produced during the same period.

8. Define Multiple Costing?

Some products are so complex that no single system of costing is applicable. Where a concern manufactures a number of components to be assembled into a complete article, no one method would be suitable, as each component differs from the other in respect of materials and the manufacturing process. In such cases, it is necessary to find out the cost of each component and also the final product by combining the various methods discussed above. This type of costing is followed to cost such products as radios, aeroplanes, cycles, watches, machine tools, refrigerators, electric motors etc.

9. What is Marginal Costing?

It refers to the ascertainment of costs by differentiating between fixed costs and variable costs. In this technique fixed costs are not treated as product costs. They are recovered from the contribution (the difference between sales and variable cost of sales). The marginal or variable cost of sales includes direct material, direct wages, direct expenses and variable overhead. This technique helps management in taking important policy decisions such as product pricing in times of competition, whether to make or not, selection of product mix etc.

10. What do you meant by Differential Costing?

Differential cost is the difference in total cost between alternatives evaluated to assist decision making. This technique draws the curtain between variable costs and fixed costs. It takes into consideration fixed costs also (unlike marginal costing) for decision making under certain circumstances. This technique considers all the revenue and cost differences amongst the alternative courses of action to assist management in arriving at an appropriate decision.

11. Define Standard Costing?

It refers to the ascertainment and use of standard costs and the measurement and analysis of variances. Standard cost is a predetermined cost which is computed in advance of production on the basis of a specification of all factors affecting costs. The standards are fixed for each element of cost. To find out variances, the standard costs are compared with actual costs. The variances are investigated later on and wherever necessary, rectification steps are initiated promptly. The technique helps in measuring the efficiency of operations from time to time.

12. What is Cost Centre?

A cost centre is "a location, person, or item of equipment or group of these for which costs may be ascertained and used for the purpose of control". Thus, a cost centre refers to a section of the business to which costs can be charged. It may be a location (a department, a sales area), an item of equipment (a machine, a delivery van), a person (a salesman, a machine operator) or a group of these (two automatic machines operated by one workman).

13. Define Cost Unit?

It has been seen above that cost centres help in ascertaining the costs by location, equipment or person. Cost unit is a step further which breaks up the cost into smaller sub-divisions and helps in ascertaining the cost of saleable products or services.

14. What is the meaning of Short-run and long-run costs?

The short-run costs are costs that vary with output when fixed plant and capital equipment remain the same and become relevant when a firm has to decide whether or not to produce more in the immediate future. The long-run-costs are those which vary with output when all input factors including plant and equipment vary and become relevant when the firm has to decide whether to set up a new plant or to expand the existing one.

15. What is the difference between Controllable and non-controllable costs?

The concept of responsibility accounting leads directly to the classification of costs as controllable or uncontrollable. The controllable cost is a cost chargeable to a budget or cost centre, which can be influenced by the actions of the person in whom control he centre is vested. It is always not possible to predetermine responsibility, because the reason for deviation from expected performance may only become evident later. For example excessive scrap may arise from inadequate supervision or from latent defect in purchased material. The controllable cost is a cost that can be influenced and regulated during a given time span by the actions of a particular individual within an organisation.

16. What is replacement cost?

The *Replacement cost* is a cost at which material identical to that is to be replaced could be purchased at the date of valuation (as distinct from actual cost price at the date of purchase). The replacement cost is a cost of replacing an asset at any given point of time either at present or the future (excluding any element attributable to improvement).

17. What do you meant by historical cost?

The *Historical* cost is the actual cost, determined after the event. Historical cost valuation states costs of plant and materials, for example, at the price originally paid for them whereas replacement cost valuation states the costs at prices that would have to be paid currently. Costs reported by conventional financial accounts are based on historical valuations. But during periods of changing price level, historical costs may not be correct basis for projecting future costs. Naturally historical costs must be adjusted to reflect current or future price levels.

18. **What is Out of pocket and Book Costs?**

The out of *pocket cost* is a cost that will necessitate a corresponding outflow of cash. The costs involving cash outlay or payment to other parties are termed as out of pocket costs. Out of pocket costs are relevant in some decision making problems such as fluctuation of prices during recession, make or buy decisions etc.

Book costs are those which do not require current cash payments. Depreciation is a notional cost in which no cash transaction is involved. The distinction between out of pocket costs and book costs primarily shows how costs affect the cash position. Book costs can be converted into out of pocket costs by selling the assets and having item on hire. Rent would then replace depreciation and interest.

19. What is sunk cost?

The Sunk costs are those costs that have been invested in a project and which will not be recovered if the project is terminated. The sunk cost is one for which the expenditure has taken place in the past. This cost is not affected by a particular decision under consideration. Sunk costs are always results of decisions taken in the past.

20. What is the difference between Relevant and Irrelevant Costs?

The *relevant cost* is a cost appropriate in aiding to make specific management decisions. Business decisions involve planning for future and consideration of several alternative courses of action. In this process the costs which are affected by the decisions are future costs. Such costs are called relevant costs because they are pertinent to the decisions in hand. The cost is said to be relevant if it helps the manager in taking a right decision in furtherance of the company's objectives.

21. What is opportunity cost?

Opportunity cost can be defined as the revenue forgone by not making the best alternative use. Opportunity cost is the prospective change in cost following the adoption of an alternative machine process, raw materials etc. It is the cost of opportunity lost by diversion of an input factor from use to another.

22. Define incremental cost?

The *Incremental cost* is the extra cost of taking one course of action rather than another. It is also called as different cost. The incremental cost is the additional cost due to a change in the level of nature of business activity. The change may take several forms e.g., changing the channel of distribution, adding a new machine, replacing a machine by a better machine, execution of export order etc.

23. What is manufacturing cost?

This is the cost of the sequence of operations which begins with supplying materials, labour and services and ends with completion of production.

24. What do you meant by Administration cost?

This is general administrative cost and includes all expenditure incurred in formulating the policy, directing the organisation and controlling the operations of an undertaking, which is not directly related to production, selling and distribution, research and development activity or function.

25. What is Variable cost?

The variable cost is a cost that tends to vary in accordance with level of activity within the relevant range and within a given period of time. The Prime product costs i.e., direct material, direct labour and direct expenses tend to vary in direct proportion to the level of activity. Variable costs have an explicit physical relationship with a selected measure of activity and exists an optimum cause and effect relationship between the input and output. Therefore variable costs are also known as engineered costs. All variable costs are not engineered costs.

26. *Write any three types of cost?*

Prime cost: It consists of direct material, direct labour and direct expenses. It is also known as basic, first or flat cost.

Factory cost : It comprises of prime cost and, in addition, works or factory overheads which include costs of indirect material, indirect labour, and indirect expenses of the factory. The cost is also known as works cost, production or manufacturing cost.

Office Cost : If office and administrative overheads are added to factory cost, office cost is arrived at. This is also termed as administrative cost or the total cost of production.

27. What is cost sheet?

The components of cost explained above can be presented in the form of a statement. Such a statement of cost giving total cost, cost per unit along with different cost components of is termed as a cost sheet.

28. Define Job costing?

All types of manufacturing concerns can broadly be classified into two categories: (a) Mass production concerns and (b) Special order concerns. In mass production, firms manufacture uniform types of products. Since production is of standard products, it is on a mass scale and on a continuous basis. No customer orders or specifications are required for production. Examples of mass production concerns are textile mills, chemical plants, paper manufacturing, tyre rubber companies etc.

29. What is Job Cost Sheet?

Job cost sheet is the most important document used in the job costing system. A separate cost sheet or card is maintained for each job in which all expenses regarding materials, labour and overheads are recorded directly from costing records. Job cost sheets are not prepared for specific periods but they are made out for each job regardless of the time taken for its completion. However, material, labour and overhead costs are posted periodically to the relevant cost sheet.

30. Define Process costing?

Process Costing is a method of costing used to ascertain the cost of a product at each process or stage of manufacture. In this method, the costs of materials, wages and overheads are accumulated for each process separately, for a given period, and then carried forward cumulatively from one process to the next process till the last process is completed. Records are also maintained to account for process losses.

13 MARK Question

1. Write about the Usefulness of cost accounting to managers?
2. Write in detail about the methods of costing?
3. Explain about the techniques of costing?
4. Explain Cost concept
5. What is cost accounting? Explain its nature and functions?
6. Discuss about the scope of cost accounting?
7. What are the advantages and disadvantages of cost accounting?
8. What is manufacturing cost? Explain its classifications?
9. What are the accountings for manufacturing cost?
10. Explain the components of a cost accounting system?
11. What is job order costing? Explain its features, advantages & disadvantages?
12. Explain job costing procedure?
13. What is process costing? Explain its features, advantages & disadvantages?
14. Explain the steps involve in process costing?
15. What is activity based costing? Explain its advantages & disadvantages?
16. What are the applications of activity based costing?
17. What is target costing? Explain the steps involved in target costing?

UNIT - IV

1. What is budget?

"A financial and/or quantitative statement, prepared and approved prior to define period of time, of the policy to be perused during that period for the purpose of attaining a given objective."

2. What is master budget?

When the functional budgets have been completed, the budget committee will prepare a master budget for the target of the concern. Accordingly a budget which is prepared incorporating the summaries of all functional budgets. It comprises of budgeted profit and loss account, budgeted

balance sheet, budgeted production, sales and costs. The ICMA England defines a Master Budget as ‘the summary budget incorporating its functional budgets, which is finally approved, adopted and employed’. The master budget represents the activities of a business during a profit plan. This budget is also helpful in coordinating activities of various functional departments.

3. What is fixed budget?

A budget is drawn fro a particular level of activity is called fixed budget. According to ICWA London ‘Fixed budget is a budget which is designed to remain unchanged irrespective of the level of activity actually attained.” Fixed budget is usually prepared before the beginning of the financial year. This type of budget is not going to highlight the cost variance due to the difference in the levels of activity. Fixed budgets are suitable under static conditions.

4. What is flexible budget?

Flexible budget is also called variable or sliding scale budget, ‘takes both the fixed and manufacturing costs into account. Flexible budget is the opposite of static budget showing the expected cost at a single level of activity. According to ICMA, England defined Flexible Budget is a budget which is designed to change in accordance with the level of activity actually attained.”

5. What do you meant by production budget?

Production budget is usually prepared on the basis of sales budget. But it also takes into account the stock levels desired to be maintained. The estimated output of business firm during a budget period will be forecast in production budget. The production budget determines the level of activity of the produce business and facilities planning of production so as to maximum efficiency. The production budget is prepared by the chief executives of the production department. While preparing the production budget, the factors like estimated sales, availability of raw materials, plant capacity, availability of labour, budgeted stock requirements etc. are carefully considered.

6. What is Sales Budget?

These should be analysed as between products, periods and areas. By reference to the trends disclosed by the past figures and with the aid of information supplied by the sales department, a forecast of anticipated sales for the forthcoming period can be made. In making such forecast regard must be had to general trading conditions, any special conditions affecting the particular business, elasticity of demand, pricing policy, future advertising policy and the relevant factors. The sales forecast or sales budget is the basic core budget on which other budgets depend. As such rational efforts should be made to develop a proper sales budget which can be

reasonably accomplished.

7. Define Purchase Budget?

The purchase budget indicates, either in terms of money or of quantity, the expected purchases of raw materials to be made during the budget period. After ascertaining the proper requirement of different types of raw materials, it needs adjustment between the contract already made for the purchase of raw materials and the existing level of stock (in order to maintain a balanced level of stock of raw materials). In this respect, it may also be mentioned that internal sources of raw materials, if any, are also to be considered. However, this budget is based on Sales Budget, Production Cost Budget, Maximum and Minimum Stock, Stock Level, Economic Order Quantity (EOQ) etc.

8. What is Production Budget?

Production budget is prepared after the preparation of Sales Budget, to determine the quantity of goods which should be produced to meet the budgeted sales. It is expressed in physical terms, such as: (a) Units of output; (b) Labour hours and (c) Material requirement.

9. What do you meant by Raw Material Budget?

This budget reveals the quantities of materials which are needed to make the budgeted production. It also shows the anticipated cost of materials to be purchased, terms of credit from suppliers, the time taken to procure raw materials etc.

10. What is Direct Labour Budget?

The direct labour budget tells about the estimates of direct labour requirements essential for carrying out the budgeted output. The direct labour cost is estimated as a result of the evaluation of standard hours worked or the quantity of work done by the individual worker in terms of certain average wage rate. This average wage rate may be different for each department.

11. What is Manufacturing Overhead Budget?

Manufacturing or Factory overhead includes the cost of indirect labour, indirect materials and indirect expenses. The manufacturing overhead can be classified into three categories, (i) Fixed, i.e. which tend to remain constant irrespective of any change in the volume of output, (ii) Variable, i.e. which tend to vary with the output and (iii) Semi-variable, i.e., which are partly variable and partly fixed. The Manufacturing Overhead Budget will provide an estimate of all these overheads to be incurred in the budget period.

12. Define Selling and distribution overheads budget?

The selling expenses include all items of expenditure on the promotion, maintenance and distribution of finished products. Sales office rent, salaries, depreciation and other miscellaneous expenses are provided for as a fixed amount per month. Advertising, selling commission, bad debts, travelling and delivery expenses are provided for as a percentage of

budgeted sales.

13. What is Cash Budget?

The cash budget is a summary of the firm's expected cash inflows and outflows over a particular period of time. In other words, cash budget involves a projection of future cash receipts and cash disbursements over various time intervals. There must be a balance between cash and the cash demanding activities/operations, capital expenditure and so on. Very often, the need for additional cash is not realised until the situation becomes critical

14. What do you meant by Zero-Base budgeting?

The ZBB takes into account consequences that may flow if the project or responsibility centre is scratched. In other words, the objects of the ZBB are to formulate the budget so as to estimate the amount of expenditure likely to be incurred if the existing project resumes operation after being scratched. This method is called Zero-Base Budgeting since the existing system is discontinued and a fresh is made or the existing system is reviewed on the assumption of 'Zero-Base'.

15. What is contribution?

As stated earlier, the difference between selling price and variable cost (i.e., the marginal cost) is known as ‘Contribution’ or ‘Gross Margin’. In other words, fixed costs plus the amount of profit is equivalent to contribution. It can be expressed by the following formula:

Contribution = Selling Price – Variable Cost

Or

Fixed Cost + Profit

16. What do you meant by profit/volume ratio?

This term is important for studying the profitability of operations of a business. Profit-volume ratio establishes is relationship between the contribution and the sale value. The ratio can be shown in the form of a percentage also. The formula can be expressed thus:

P/V Ratio = contribution/sales

17. Define Break-even point.

The point, which breaks the total cost and the selling price evenly to show the level of output or sales at which there shall be neither profit nor loss, is regarded as break-even point.

13 mark Question

1. Explain about the types of budget?
2. What are the requirements of a sound budgetary system?
3. What are the types of functional budgets?
4. Explain Zero based budgeting?
5. What are the advantages and disadvantages of budgetary control?
6. What is cash budget? Explain its features and purpose?
7. What is flexible budget? Explain its features, advantages and disadvantages?

UNIT – V

1. What is accounting in a computerized environment?

Students are familiar with the concepts of accounting and how different methods of accounting are to be adopted in different situations. The fundamentals of accounting does not change whether books of account are maintained manually or are computerized The same principles of debit and credit that we apply for recording income or expenditure, purchase or sale of assets or creation or discharge of liability in a manual accounting system is equally applicable in a computerized environment.

2. Write any two features of computerized accounting system?

- Fast, Powerful, Simple and Integrated

It is designed to automate and integrate all the business operations, such as sales, finance, purchase, inventory and manufacturing. With computerized accounting, accurate, up-to-date business information is literally at the fingertips.

- Complete Visibility & Scalability

The company will have greater visibility into the day-to-day business operations and access to vital information. Computerized accounting adapts to the current and future needs of the business, irrespective of its size or style.

3. What are the significance of computerized accounting system?

With computers becoming extensively used in business today – account entered earlier in manual should be replaced with computerized. Basic difficulties faced like balancing of trial balance, correct posting into the general ledger and subsidiary ledger is a thing of the past. Any person maintaining accounts in the computer does not have to consider that while making say a cash expense entry through the cash payment screen that the corresponding ledger posting of the expense has been done properly or not. Similarly the trial balance should automatically tally unless some mistake is made while recording the opening balances.

4. What is codification of data?

A proper codification requires a systematic grouping of accounts. The major groups or heads could be Assets, Liabilities, Revenue Receipts, Capital Receipt, Revenue Expenditure, and

Capital Expenditure. The sub-groups or minor heads could be "Cash" or "Receivables" or "Payables"and so on. The grouping and codification is dependant upon the type of organization and the extent of sub-division required for reporting on the basis of profit centres or product lines.

5. What are the hierarchies of ledger?

Account master file is created with codes and description of accounts Accounting software allow ledger and subsidiary to be created from the main ledgers. The subsidiary ledger can further be subdivided to sub subsidiary ledgers thereby allowing grouping under various profit centres. These are particularly useful where accounts are maintained without codes. In a coded system this is easily achieved by allotting codes to major, minor, sub and detailed heads a thereafter obtaining reports based on these codes. Apart from the general ledger and the subsidiary ledger (or the sub- subsidiary ledger as is available in some software)there are other ledger accounts that are automatically created by any standard accounting software. These are the debtors ledger and the creditors ledger.

6. What are the accounting packages?
    1. Spreadsheet
    2. Prepackaged accounting software
    3. Customized accounting software
    4. Enterprise Resource planning

7. What is spreadsheet?

Accounts can be maintained by spreadsheet package. User will have to use his knowledge and skills of spread sheet software to keep control of the figures. Special spreadsheet controls including physical spreadsheet controls like spreadsheets locked on a protected shared drive with restricted access and read/write access controls and password-protected cells and formulas with passwords should be used.

8. Write any two advantages of spreadsheet?
    - simple to use and easy to understand
    - Common functions like doing calculations, setting formulas; macros, replication of cell contents, etc can be easily done in a spreadsheet.
    - Grouping and regrouping of accounts can be done.

9. Write any two disadvantages of spreadsheet?

- Data limitations - the package they can accept data only up to a specified limit.
- Simultaneous access on a network may not be possible. Many of the modern software's allow locking of the table when updating is taking place.

10. What is pre-packaged accounting software?

Several prepackaged accounting software available in the market and it is used for small and medium organization. Software easy to use and relatively inexpensive and readily available. Installation of software is easy. An installation diskette or CD is provided with the software which can be used to install the software on a personal computer.

11. What are the advantages of pre-packaged accounting software?
    - Easy to install: The CD or floppy disk is to be inserted and the setup file should be run to complete the installation
    - Relatively inexpensive: These packages are sold at very cheap prices nowadays.
    - Easy to use: Mostly menu driven with help options. Further the user manual provides solution to the problem.
    - Backup procedure is simple: Housekeeping section provides a menu for backup.back up taken on floppy disk or CD.

13. What are the disadvantages of pre-packaged accounting software?
    - Does not cover peculiarities of specific business: Business today are becoming more and more complex.
    - Does not cover all functional areas. Eg production process not covered in most of the packages.
    - Reports generated are not sufficient. Demand for modern business management requires several reports for exercising control.

14. Define customized accounting software?

    Customized accounting software is one where the software is developed on the basis of requirement specifications provided by the organization. A feasibility study is first made before the decision to develop software is made. Customized accounting software begins with organization providing the user requirement. Based on requirement system analyst prepare requirement specification. Which is given for the approval by user management?

15. What are the advantages of customized accounting software?
    - The functional areas which are not in pre-packaged software covered gets computerized
    - The input screens can be tailor made to match the input documents for ease of data entry.
    - The reports can be as per the specification of the organization. Many additional MIS reports can be included in the list of reports.

16. What are the disadvantages of customized accounting software?
    - Requirement specifications are incomplete or ambiguous resulting in a defective or incomplete system.
    - Inadequate testing results in bugs remaining in the software
    - Documentation is not complete.

- Frequent changes made to the system with inadequate change management procedure resulting in system compromise.
- Vendor unwilling to give support of the software due to other commitments.

17. Define ERP?

    An ERP is an integrated software package that manages the business process across the entire enterprise.

18. What are the advantages of ERP?
    - Standardized processes and procedures: An ERP is a generalized package which covers most of the common functionalities of any specific module.
    - Standardized reporting: Majority of the desired reports are available in an ERP package. These reports are standardized across industry and are generally acceptable to the users.

19. What are the disadvantages of ERP?
    - Lesser flexibility: The user may have to modify their business procedure at times to be able to effectively use the ERP.
    - Implementation hurdles : Many of the consultants doing the implementation of the ERP may not be able to fully appreciate the business procedure to be able to do a good implementation of an ERP

20. What do you meant by outsourcing of accounting function?

    Recently a growing trend has developed for outsourcing the accounting function to a third party. The consideration for doing this is to save cost and to utilize the expertise of the outsourced party. The third party maintains the accounting software and the client data, does the processing and hands over the report from time to time

21. What are the advantages and disadvantages of outsourcing accounting functions?

    Advantages
    - Saving of time: The organization that outsources is able to save time to concentrate on the core area of business activity.
    - Utilization of expertise of the third party: The organization is able to utilize the expertise of the third party in undertaking the accounting work.
    - Data management by professional: Storage and maintenance of the data is in the hand of professional people.

    Disadvantages
    - Lack of security & confidentiality: The data of the organization is handed over to a third party this raises two issues, one of security and second of confidentiality. There have been instances of information leaking out of the third party data centres.

- Inadequate services provided: The third party is unable to meet the standards desirable.
- High cost: The cost may ultimately be higher than initially envisaged.

13 MARK Question:

1. What is computerized accounting system? Explain features and significance of computerized accounting system?
2. What is codification and grouping of data?
3. How to maintain hierarchy of ledger?
4. Explain accounting packages.
5. What is spreadsheet? What are the advantages and disadvantages of spreadsheet?
6. What is pre-packaged accounting software? What are the advantages and disadvantages of pre-packaged accounting software?
7. What is customized accounting software? What are the advantages and disadvantages of customized accounting software?
8. Explain Enterprise Resource Planning?
9. What is outsourcing of accounting function? What are the advantages and disadvantages of outsourcing of accounting function?
10. How to generate reports from software?