BA 4104 ACCOUNTING FOR MANAGEMENT

Unit-I

1. What do you understand by "Accounting"?

Accounting is the progression of recording financial transactions affecting a business. The summary of financial transactions for a particular accounting period, summarizing a company's data, financial position and cash flows by preparing financial statements is also known as accounting.

2. What is the change in the role of an accountant?

Now accountants not only record transactions but also provide requiredinformation to members. This will create new opportunities for the accountants to get indulged in other scope of business management.

3. What do you mean by Asset and liabilities?

Assets are the items owned by an individual or a company that can provide future economic benefit. Liabilities are what you owe to the other parties. Creditors, Debtors, Bills Payable, Bills Receivables Etc.

4. Define capital of the company.

Capital of the company is the mix of assets or resources a company can draw on in financing its business. Capital can be Assets, Equipments, Cash, Land andBuildings. etc.

5. Define debtors and creditors of the company.

Creditors are those people or firms to whom money is payable or extend credit to another party during the course of business. Debtors are those people or firms to whom money is receivable. Debtors are bound to pay the money due to them duringthe course of business.

6. To whom and for what process the accountant provides information?

Accountant of the company provides information to members of the company and shareholders, creditors, vendors, financial analysts, and government agencies for the decision making process, which helps management for fast and correct decision implementation.

7. Describe four nature of accounting

Accounting nature can be classified in following ways;

a) Accounting is an information system.
b) Accounting relates with financial information and transactions.
c) Accounting is mean and not an end.
d) Accounting is an art
e) Accounting is a process

8. Differentiate between Capital and working capital?

The difference between capital and working capital are:

Capital	Working capital
The capital is the assets and cash in a business.	Working Capital specifies the liquidity levels of companies for handling day-to-day expenses.

Capital can be Assets, Equipments, Cash, Land andBuildings. etc.	Cash and cash equivalents consists of cash, such as amount in checking or savings accounts, as cash equivalents are highly-liquid assets, such as money-market money and Treasury bills.

9. Distinguish between Expenses and expenditure of the company?

The difference between expenses and expenditure are:

Expenses	Expenditure
An expense is the cost of a business function that a company spends to generate revenue.	An expenditure signifies a payment with either cash or credit to purchase goods or services.
In the accrual accounting system, an expense is recognized when it is actually spent.	An expenditure represents thedisbursement of funds.
Examples: Rent, wages, interest, salaries, Cost of sales, utilities expense, discount allowed, cleaning expense, depreciationexpense etc.	Examples: An example of an expenditure is the money spent on office equipment that you have purchased.

10. Differentiate between profit and gain?

The difference between Profit and gain are:

Profit	Gain
Profit, also referred to as bookkeeping profit or financial profit, is net income made after subtracting all dollar costs from total revenue.	A gain is a general growth in the value of an asset or property.
It shows the amount of money a firm has available after subtracting the explicit costs of running the business.	A gain ascends if the existing price of something is higher than the original purchase price.
Profit is spread to shareholders.	Gain is applied in the company's working.

11. Explain reasons why users need accounting information.

- Owners or shareholders of the company who have invested in the companyneed to

know if they are getting satisfactory return for their investment.

- Directors and managers of the company need accounting information for the evaluation of the performance internally and externally.
- Stockholders have the right to know how a company is handling itsinvestments.
- Banks or financial lending companies can utilize the accounting data to help in making selections such as whether to lend or how much to lend a company.

12. What are the objectives of accounting?

The objectives of accounting are as follows:

- The main objective of accounting is to keep an organized record of financial transactions which helps the users to appreciate the day to day transactions in an organized way so as to gain knowledge about total business.
- To determine profit or loss of the business.
- To represent the financial situation of the business.
- To offer accounting data to the interested parties.

13. What are the different roles of accounting?

The different kind of roles of accounting is as follows;

- Regulator of financial policy and construction of planning.
- To preserve full and organized records of business transactions.
- It can be used for Evaluation of employees' performance.
- Nowadays accounting is used to determine the income of the company.

14. Explain the types of information external users of accounting information are interested.

Following is the type of information external users need:

- Investment created by external users including risk and reward.
- Creditors are interested in accounting data, because it enables them to fix thecredit worthiness of the business.
- The creditworthiness and ability of the company to pay.
- All the information of allocations of assets of the company and compliance are regularly carried out.
- Amount on credit taken by the company is paid off in which aspects and timeperiod it takes.

15. Definition of Book-Keeping

The proper maintenance or methodical keeping of accounts book is known as book-keeping. It is with the recognition of business transaction where book-keeping starts. Apart from being financial in nature, documentation is a must in these business transactions. For instance, an accounting transaction deals with the selling of commodities for money. It's because, in business, the commodities are going out of it and the money is being received. This transaction makes sure that there is a reduction in commodities and increase in cash, thereby affecting an organization's business finances.

16 Define the concept of Dual Aspect.

Ans: Every transaction has two parts: a debit and a credit, both of which have the same amount. It indicates that for every debit, there is a credit in one or more accounts of the same or equal value,

and vice versa. Both the debit and credit elements of debit and credit are recorded in the books of accounts according to the Dual Aspect.

17 What is meant by IGST?

Ans: The Integrated Goods and Services Tax (IGST) is a tax that applies to both goods and services. The Integrated Goods and Service Tax Act of 2016 governs IGST. When goods or services are sold from one state to another, the IGST is applied. CGST and SGST are two other taxes that fall under the Goods and Service Tax umbrella. They define the concept of "one tax, one nation" when taken together.

18 What are the Components of GST?

GST is made up of three parts:

- CGST, or Central Goods and Service Tax, is a tax levied by the Central governmenton purchases made within a state.
- SGST, or State Goods and Service Tax, is a tax levied by the state government on purchases made within the state.
- IGST, or Integrated Goods and Services Tax, is a federal tax that is collected for interstate commerce.

19 Explain Three Limitations of Accounting Standards? Ans: The following are the three limits of accounting standards:

- Accounting standards make it difficult to choose between alternative accountingtreatments.
- It is firmly adhered to and does not allow for any flexibility in the application ofaccounting rules.
- The statute cannot be overridden by accounting standards. The standards must beframed in the context of the current situation.

20 What is GAAP?

Ans: GAAP are basic accounting principles and guidelines that serve as the foundation for more extensive and comprehensive accounting regulations, standards, and other industry-specific accounting practises.

21.Give all the types of taxes which are subsumed under the centre and statelevel GST?

Ans: Following are the types of taxes subsumed under central level and state level GST:

Central Level	**State Level**
1. entral Excise duty 2. Duties of Excise (Medicinal and Toilet Preparations) 3. Additional Duties of Excise (Goods ofSpecial Importance) 4. Additional Duties of Excise (Textilesand Textile Products) 5. Additional Duties of Customs (commonly known as	1.State VAT 2.Central Sales Tax 3.Luxury Tax 4. Entry Tax (all forms) 5. Entertainment and Amusement Tax(except when levied by the local

CVD)	

22. Explain IFRS? State its uses.

Ans: By using a single set of accounting rules, the International Financial Reporting Standards (IFRS) help to promote global standardisation. The International Accounting Standards Board (IASB) produced the International Financial ReportingStandards (IFRS) (IASB).
The International Financial Reporting Standards (IFRS) are used in the following ways: The International Financial Reporting Standards (IFRS) are beneficial in a variety of ways.

- The International Financial Reporting Standards (IFRS) make comparing financialaccounts from different companies a breeze.
- Auditors and accountants can give better services to their clients by adopting IFRS, and a company's management can implement its business strategies on a worldwidescale by using IFRS.

23. State the differences between accrual basis of accounting and cash basis of accounting.

Ans: The difference between the accrual and cash accounting System are as follow:

Basis	Accrual Basis of Accounting	Cash Basis of Accounting
1. Acceptability	It is more accepted in business because it discloses accurate income and expenses, as well as assets and liabilities.	It is not acceptable in business because it concealsthe true profit and loss, as well as assets and obligations.
2. Reliability	It is more trustworthy because it captures both cash and credit transactions, revealing the correct profit or loss as well as assets and liabilities.	It is trustworthy since it simply records monetary transactions and so does not reveal accurate profit or loss, as well as assets and liabilities.

3. Suitability	This style of accounting is excellent for business because it requires complicated information thatmay be made available.	It is appropriate for non-profit organisations and professions such as accountants, doctors, and others. Because they necessitate a smaller amount of data.

24. Why is it necessary for accountants to assume that the business entity will remain a going concern?

Ans: The corporate entity is considered a going concern by the accountants since it provides the basis for reflecting the value of the assets on the balance sheet. This assumption allows the company to charge only the portion of the asset that has beenconsumed or used to generate revenue within a certain period. The remainder of theasset will be carried forward over the next few years.

25. When should revenue be recognized? Are there exceptions to the general rule?

Ans: The appropriate time to recognise revenue is when it is realised, that is, whenthe legal right to receive the revenue emerges. For instance, when products have been sold or services have been delivered. As a result, even though the money is collected later, the credit sales will be counted as revenue. The following are some deviations to the revenue realisation principle:

1. When products are sold on hire purchase, the amount collected in instalments is treated as realised; in contracts such as building work,
2. When extended periods of time are involved, the amount collected in instalmentsis treated as realised. The revenue is deemed to be recognised on a regular basis in proportion to the amount of contract work accomplished in this situation.

26. What do you means by journal?

Ans: After the transaction has been identified, it is recorded and a document knownas a journal is created. Write on your own example

27. **Define ledger account in accounting terms**.

Ans: The ledger is the book of accounts in which specific transactions are documented. Journal Entries are posted into ledger accounts.

28. Choose the correct option from the following:

a. **Capital= Liabilities + Asset**

b. **Capital = Asset - Liabilities**

c. **Asset =Capital - Liabilities**

d. **Liabilities= Capital +Assets**

29. Which transaction should be first recorded journal and ledger? State thereason.

Ans: The transaction is first recorded in the journal, and then transmitted to the ledger account. After the transaction has been identified, it is recorded and a document known as a journal is created. The information is then posted to individualaccounts, which are referred to as ledgers.

BIG QUESTIONS

1. Explain the Process of Book keeping in detail

There are several procedures which are involved in book-keeping. Those processes are as follows:

1. **Identification of accounting transactions**
   Accounting transactions are those business transactions which have required documentary proofs. These types of transactions are generally financial in nature. Any other kind of non-economic activities relating to respect, patriotism, and certain emotions do not hold its place in book-keeping. This section follows an extremely professional approach towards transaction identification of accounts.
2. **Former records of accounting transactions**
   Accounting transactions that are recognized are passed through certain books like sales book, purchase books, and through other books, which in combination are called subsidiary books. Some of those other books included in the subsidiary book are cash book, bills receivable book, returns inward book, bills payable book, returns outward book, and journal proper.
3. **Planning of ledger accounts**
   In a ledger account, every transaction details regarding any commodity, party, or even to any particular person are put together in a single place. The entire placement comes under one account which is a ledger.
   If the example of Industrial Management and Training Institute (IMTI) is taken as a certain party, its ledger account will contain some of the essential things. Those will include sales information to IMTI, payment received from there, any discounts issued to IMTI and so on.Amount receipts of any of these are required to be put in this ledger account.
   This format actually helps in comprehending about the dealings and IMTI's actual position which is easily scalable. It is with the help of journal proper and subsidiary books when you can prepare a ledger account.
4. **Balance between ledger accounts**
   A ledger account is prepared with a very balanced format. Balanced in term of this account is the established difference between its credit and debit side. The amount which is payable to or which is receivable is highlighted in a personal account.The value of goods on a specific date can be seen in the assets account. It is the ledger account which discloses capital liability, revenue, balance of expenses and commodities of a company.
5. **Preparation regarding trial balance**
   With the help of balances displayed by ledger accounts, a trial balance is constructed. It is very important to consider the dual aspects, i.e., the credit and debit balance of trial balance. It is an essentially regarding each transaction when it is passed through journal entries while preparing subsidiary books.

To be stated in simplified words, to check its mathematical accuracy, trial balances are prepared. Any mistake while calculating the total of credit and debit side of trial balance means a possible error during the entry. So, during its preparation, these errors are pinpointed and are corrected.

2. **Explain in detail about the Accounting, Book-keeping and Accountancy.**

Defining Accountancy

The process of recognizing, estimating, indicating and finally conveying financial information is defined as accounting.

In another definition, accounting is stated as a method of determining and giving an account of the details related to economic activities.

Accounting,Book-keeping and Accountancy

The combination of book keeping with the comprehension of financial nature transactions, and stating it, in brief, is known as accounting. In the current time, accounting is also stated as a decision-making activity as well as an information system of a business.

As book keeping is an essential part of accounting, it is defined as a completely methodical upkeep of book of accounts. This account book involves recognition of initial records, accounting transactions, trial balance, and ledger account preparation.

Organized knowledge regarding accounting is known as accountancy. It includes a subject's hypothetical knowledge and its methods to proper application, by communicating it to interested companies. To be stated in specific words, accountancy is the combination of accounting and book keeping, in addition to the explanation and mode of conveying accounting information.

Characteristics of accountancy

There are 4 important characteristics of accountancy.

- Economic events
- Identification, computation, registering and conveyance
- Corporation
- Interested users for information

Economic events

Any prominent or significant incidents in an organization are stated as an economic event. These events can be categorized as either an internal event or an external one.

Internal events usually take place inside the company. The happenings in these events involve the supply of raw materials from warehouses to manufacturing division.

In case of external events, services and commodities are exchanged between 2 organizations. These commodities and its associated services can be regarding anything as per the requirement of customers.

Economic event is related to commercial activities which have a specific outcome. Any purchase in cash has an outcome of decrease in funds (cash) and increase in commodities.

Identification, computation, registering and conveyance

In case of identification, it implicates an event's inspection regarding its material. This can be seen displayed in books of accounting. This particular event should be taken as an economic activity and accounting transactions as its application.

Appraisal of business transaction in case of money falls under computation. Any commodity without any economic value is insignificant for any accounting purpose, apart from providing suggestions related to decision making.

It can be easily explained with the help of an example. A manager of a company resigning from his post will not impact the funding, investment or any kind of monetary transaction. But his resignation will definitely make an impact on the company's decision making regarding the appointment of a future manager. Here, money is just the typical measurement unit which is important for accounting.

An organized presentation involving the amount used in a transaction and its relevant details which are thoroughly highlighted comes under registering or recording. Conveying these economic events in an efficient way helps an organization in correct decision making. When accounting reports are constructed as financial statements, it becomes an indicator, indicating the health of a company.

For a user's ease, analyses based on daily, monthly and quarterly reports are also composed.To accomplish an effective decision, the analysis report can be created concerning percentages and ratios.

Corporation

It is with the selection of suitable types of company; a firm can be organized and execute their business activities efficiently. The appropriate form can be anything. It could be:

- Company
- Partnership
- Sole proprietorship

It could also be a cooperative society or boards. Its type could include:

- Cricket board
- Municipal board
- Cantonment board or anything.

Interested users for information

As stated earlier, economic events are of two types. In the same way, users associated with accountancy are also of two types.

- External users
- Internal users

These external users are again divided into 2 divisions.

- Users who have a direct financial interest

These users are usually banks, debenture holders,creditors, investors and of similar background.

- Users who have an indirect financial interest

The users, in this case,are generally belonging to Sales tax, Excise departments, and Income tax.

Personnel belonging to lower, mid and higher managerial positions fall into the category of internal users. For their decision making purposes, they require accounting information. Information requirement is different for different categories.

- The high level user requires it for their strategic planning.
- The users in mid-level need it for their operational arrangement.
- Users in the lower level find it important for regulating and accomplishing their business operations.

The information provided to these users is related to cash, sales, and for expenses which are essential for an organization's future decision-making.

3. **Difference between Book keeping & Accountancy?**

Points of difference	Book-keeping	Accountancy
1. *Objective*	The objective of book-keeping is to prepare original books of accounts. It is restricted to journal, subsidiary books and ledger accounts only.	The objective of accounting is to record, analyse and interpret the business transactions.
2. *Scope*	It has limited scope and is concerned with the recording of business transactions.	It has wider scope as compared to book-keeping.
3. *Level of work*	It is restricted to low level of work. Clerical work is involved in it.	It is concerned with low level, medium level and even top level management. Low level clerks prepare the accounts, medium level report it and top level interpret it.
4. *Mutual dependence*	Book-keeping is only the art of recording transactions, so it has to depend upon accounting which makes it more meaningful and purposeful.	Accounting is based upon book-keeping which is its initial and vital part. It depends upon book-keeping.
5. *Result of the business*	It does not show the net result of the financial position of business.	Accounting shows the net result of the business. It tells us about the profit earned and also about the assets and liabilities of the business.
6. *Principles of Accountancy*	In book-keeping, accounting concepts and conventions are followed.	The methods of reporting and interpretation in accounting may vary from firm to firm.

4. Advantages of Book-Keeping and Accountancy

We are already aware of the fact that accountancy is an organized way of recording every transaction in a business which is financial in nature.These records help us to analyze the business situations, understand the overall result, and finally comprehend the company's performance. There are numerous advantages of accounting which are explained in brief.

1. **Helping to enhance performance in a business**

   Every transaction taking place in a business is properly recorded in an organized way with the help of accounting. One can know about any incurred loss or a profitable gain in a business with the assistance of income statement which is composed of such accounting records.To find out a company's gross profit or loss, trading account is created. And it is with the help of profit and loss account you can find about its net profit or loss.

2. **Documented proof**

   In the court of JAWS, these accounting records can also be put as an effective proof by a company for their claims. This documented evidence are made for every transaction which is entered and maintained by originals receipts. Due to this reason, these accounting records are accepted as verified proofs.

3. **Aiding the sales of a company**

   Asset values and liabilities values of any business are shown via their balance sheet or position statement. The net worth of a company can be highlighted with the help of this statement. It is with

the assistance of accounting calculations you can make your decision regarding which business to vend (sell).

4. **Helping hand to administrative body**

   The management body of a company finds the usefulness of accounting in many ways.

- It helps in comparing the former or desired performance of a company with its actual performance.
- The assessment of actual performance can be made, and its effective line of action can also be decided beforehand which is important for its future prospect.
- Accounting is also helpful in calculating numerous liquidity ratios, sales and profitability factors.
- It assists the administrative bodies to evaluate a company's performance achievements.
- To comprehend the gain of excess funds during the current year and the required application involved in it, fund flow statement is constructed.
- Apart from these, it also aids a company to recognize it weaker points or links and take proper measurements to remove those on time.

5. **Better option than memorizing**

   In a company, there are countless transactions of different types that take place every day. Most of these transactions are extremely complicated. And it is definitely not possible to remember or memorize all of these by any management body. Jotting these transactions down in an accounting book will help a businessman to keep track on his investments.

6. **Evaluate a company's financial status**

   It is through position statement that you can see a company's financial position. Position statement is also referred as a balance sheet. A company's balance sheet displays the actual position of liabilities and assets which is composed at the end of its accounting year. You can even find the positioning of these assets and liabilities of a specific date.

7. **Help in debt realization**

   There are a number of groups who work together to run a profitable business. For all of these groups, separate personal ledgers accounts are created. These individual personal ledgers reflect the precise due amount from the mortgagors. These accounts books are very helpful for businessmen who can use this as evidence to prove their claims in court against debtors.

8. **Identifying and intercepting frauds**

   A good accounting system, whose systematic internal arrangement is effective, helps you to check for possible leakage of money and commodities and prevent them on time. Accounting also aids in uncovering the losses made by swindling or theft or the misuse of funds, thereby helping to file are port against those.

5. Double Entry System- Characteristics Advantages Disadvantages

Every business organization has two facets associated with it. What is given out has a taker in itself, and every transaction has a loss and a gain associated with it.

As per the double entry system of bookkeeping, there are two accounts associated with any business organization. Introduced by Italian Lucas Pacioli in 1494, this system was primarily developed in England and has been regularly used in that country.

Understanding the double entry system:

The double entry system specifically involves two accounts such as cash account, which to a great extent would be increased and liability account where those loans that are to be paid would increase.

Basing itself on the concept of, ''Somebody's loss being another person's game'', it is imperative that there are double accounts in consideration of credit entry system.

As per the American measuring standards, every business transaction is specifically associated with liability, asset, expenses and revenue in a collective manner or individual manner. In every business transaction either there is an increase or a decrease in total range. Whereas increase in assets and expenses are debited, on the one hand, decrease in assets and expenditure are credited on the other. Other changes in debit and credit work in an according manner.

The point of recording debit and credit system in regards to same amount is the primary aspect of double entry system.

Specific features:

There are certain specific features that are associated with this concept:

- **Double accounts are to be affected:**
  The most important aspect associated with this system is the presence of dual accounts, the credit, and debit system. Though certain transactions have more than two accounts in specific cases, however, the amount pending both on credit and debit account tends to be similar.
- **There is dual aspect in every transaction:**
  It is to be noted that every debit has a specific credit associated with it, hence when counting is made it both these accounts are taken into consideration in a simultaneous matter.
- **Account is to be divided into two specific parts:**
  There are books of original account as journal and subsidiary against which the ledger account is to be placed. The left side is taken as debit while right side can be taken as credit.

6. **Explain in detail about the Accounting concepts and convention:**

To maintain the book of accounts in a correct manner, in most cases, the double entry system is followed.

1. **Preparation of trial balance:**
   There are two stages of recording in a double entry system. Initially, every business transaction is recorded in a subsidiary book or a journal. It is based on accounting details of these books that ledger accounts are prepared. Details from this ledger accounts are now specifically used for preparing trial balance and which itself tests arithmetical accuracy of accounting that has been made.
2. **Preparation of final accounts:**
   It is the final accounts that are prepared that helps in determining profit and loss aspects of a particular business organization. Trial balance that is prepared based on balance of ledger accounts has both credit and debit balances associated with it. When equated, it can be found that both these columns have similar end results.

In case of Income statements as Trading, Profit and Loss account as well, there are specific credit and debit sides associated. Such division can be seen in case of Balance sheet as well, and this preparation of data and presentation of that in a categorical manner depicts usage of a specific Double Entry System in case of accounting.

Positives associated with Double Entry System:

There are certain specific advantages that are associated with this system of accounting which ensures that every detail available can be used for further compilation of financial details.

- **Detailed information of the records:**
  Since business deals are associated with assets, expenses, revenue, capital and liabilities on a greater note, hence with help of this system a detailed note can be maintained, which can also act as a reliable fall-back option in case of any discrepancy.
- **Complete details of profit and loss:**

With help of this double entry system, the Trading Account can be formed which is associated with deriving the gross profit and loss amount. Also, with Profit and Loss account that is framed with help of this system, net profit or loss that an organization has incurred can also be seen.

- **Detailed knowledge of assets and liabilities:**
  The Balance Sheet that is prepared helps in segregating assets and liabilities and keeping track of the company's financial position.
- **Fraudulence:**
  Since there is a detailed description of assets and liabilities as well as profit and losses incurred by a company, hence chances of any unaccounted income or expenditure can be immediately brought to notice.
- **Comparative studies:**
  With the help of a Balance Sheet that is prepared with double-entry system, financial statements can be both compared on an annual basis as well as comparative analysis of actual performance obtained against desired performance.

Problems associated with Double Entry System:

These are certain areas which do not have any solution when this system is being used.

- **Errors of principle:**
  Since this system is specifically associated with balancing credit and debit side, hence it does not have capacity to check out discrepancies when cash sales account is being debited from cash account.
- **Errors of omission:**
  The major issue associated with this form of accounting is that, in case of detecting errors, it is important that there be a detailed format. In case of any discrepancy, if the recording is not available in the book, then it is very difficult to find out errors.
- **Compensation of errors:**
  Since this system is based on equating of credit with debit accounts, it may so happen that when a particular account is credited with a certain amount of money, another account is debited for the same amount. Though, equality of both accounts can be obtained, but this mistake remains.

UNIT-2

1. **Meaning of trial balance**

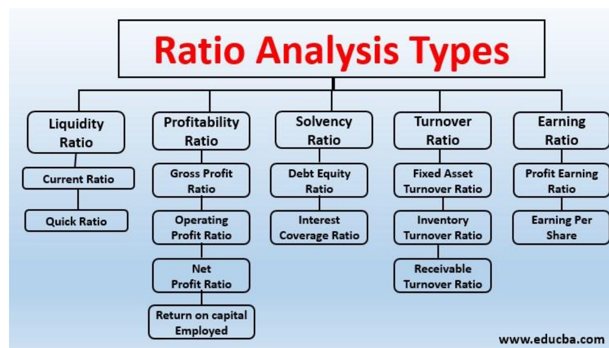
Trial balance is a statement that consists of debit and credit balanced of ledger account that is used to test arithmetical accuracy of books. It may also be considered with debit and credit total and balance of ledger accounts. Accounts are maintained by equal debit and credit so that both columns must tally and this system is called double entry system. Therefore a balanced debit and credit accounts are arithmetically correct.

2. Final Accounts Meaning

Final accounts are those accounts that are prepared by a joint stock company at the end of a fiscal year. The purpose of creating final accounts is to provide a clear picture of the financial position of the organization to its management, owners, or any other users of such accounting information.

Final account preparation involves preparing a set of accounts and statements at the end of an accounting year. The final account consists of the following accounts:

1. Trading and Profit and Loss Account
2. Balance Sheet
3. What are the Ratio Analysis Types?



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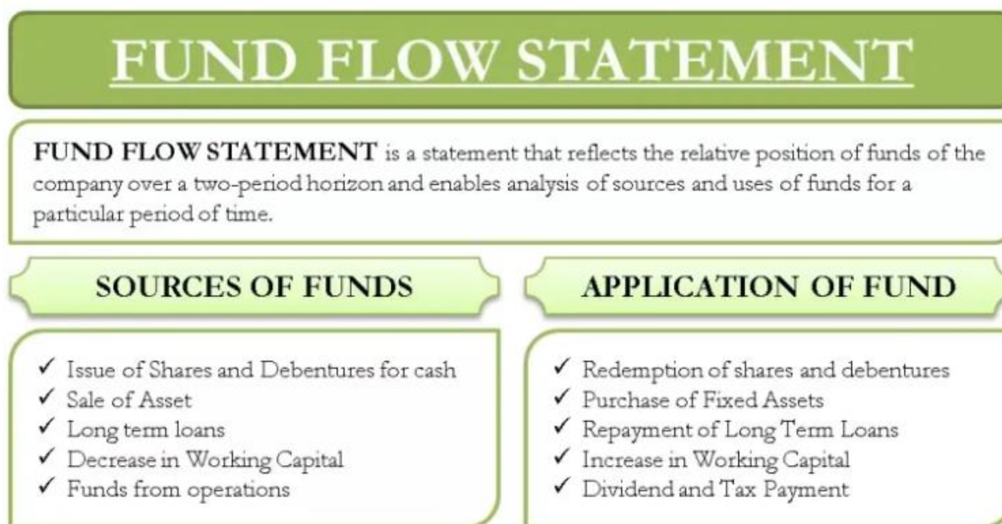
4. Write short notes on Fund Flow Statement.

   A fund flow refers to the inflow and outflow of funds or assets for a company and is often measured on a monthly or quarterly basis. A fund flow statement reveals the reasons for these changes or anomalies in the financial position of a company between two balance sheets. These statements portray the flow of funds - or the sources and applications of funds over a particular period.



5. Write short notes on cash flow statement

A **cash flow statement** shows the cash flows and cash equivalents of the business during business operations in one time period. A cash flow statement helps companies manage cash inflows (cash receipts), cash outflows (cash disbursements), and operating cash flow. It shows

   1. Cash from operating activities
   2. Cash from investing activities
   3. Cash from financing activities

6. Write short notes on comparative statement.

   Comparative statements or comparative financial statements are statements of financial position of a business at different periods. These statements help in determining the profitability of the business by comparing financial data from two or more accounting periods.

7. Write short notes on common size statement

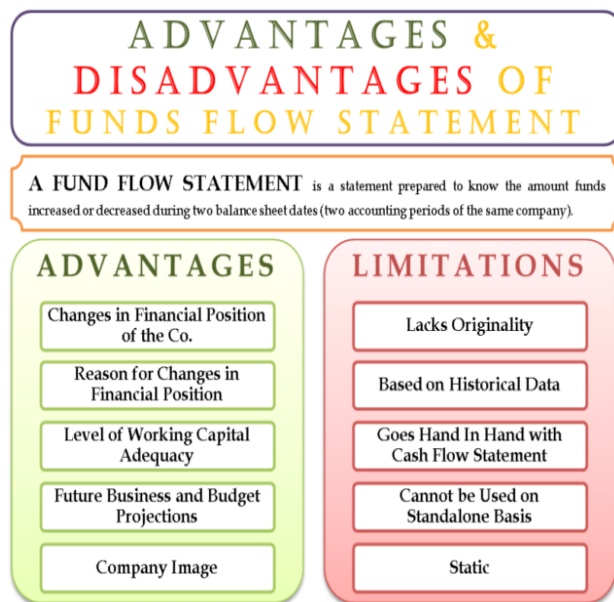
   Common size statement is a form of analysis and interpretation of the financial statement. It is also known as vertical analysis. This method analyses financial statements by taking into consideration each of the line items as a percentage of the base amount for that particular accounting period.Common size statements are not any kind of financial ratios but are a

rather easy way to express financial statements, which makes it easier to analyse those statements.Common size statements are always expressed in the form of percentages. Therefore, such statements are also called 100 per cent statements or component percentage statements as all the individual items are taken as a percentage of 100.

8. Why prepare a fund flow statement?

A company's financial statements already include a profit and loss statement and a balance sheet. So A profit and loss and balance sheet will show a company's financial position, but will not explain the reasons for fluctuations or variations in within the company's financial or cash position.A profit and loss and balance sheet will depict two sets of figures - the current and previous year - but will not explain why movement has happened.

9. Advantages & Disadvantages of Fund Flow Statement.



10.How to do Tren Analysis?

There are six basic steps in doing trend analysis: (1) Identify the need of the company that may be served by trend analysis; (2) Decide the time frame for the study; (3) Choose the types of data that will be used; (4) Gather the data; (5) Use charting tools to visualize the gathered data; (6) Identify the trend.

Detail Question:

1. Explain the Types of Comparative Statements in detail

There are two types of comparative statements which are as follows

1. Comparative income statement
2. Comparative balance sheet

Comparative Income Statement

Income statements provide the details about the results of the operations of the business, and comparative income statements provide the progress made by the business over a period of a few years. This statement also helps in ascertaining the changes that occur in each line item of the income statement over different periods.

The comparative income statement not only shows the operational efficiency of the business but also helps in comparing the results with the competitors, over different time periods. This is possible by comparing the operational data spanning multiple periods of accounting.

The following points should be studied when analysing a comparative income statement

1. Compare the increase or decrease in sales with a relative increase in the cost of goods sold
2. Studying the operational profits of the business
3. Overall profitability of the business can be analysed by an increase or decrease in the net profit

Steps in preparing a comparative income statement

The below steps are followed

1. Specify absolute figures of all the items related to the accounting period under consideration.
2. Determine the absolute change that has occurred in the items of the income statement. It can be achieved by finding the difference between previous year values with the current year values.
3. Calculate the percentage change in the items present in the current statement with respect to previous year statements.

The format of a comparative income statement is as follows:

Comparative Income Statement
for the years ended ...

Particulars	31st March, 2012 (₹)	31st March, 2013 (₹)	Absolute Change (Increase or Decrease) (₹)	Percentage Change (Increase or Decrease) (%)
I. **Revenue from Operations**	...	...	...	...
II. **Other Income**	...	...	...	...
III. **Total Revenue** (I + II)	...	...	...	...
IV. **Expenses**				
(a) Cost of Materials Consumed	...	...	...	...
(b) Purchases of Stock in-trade	...	...	...	...
(c) Changes in Inventories of Finished Goods, Work-in-progress and Stock-in-trade	...	...	...	...
(d) Employees Benefit Expenses	...	...	...	...
(e) Finance Cost	...	...	...	...
(f) Depreciation and Amortisation	...	...	...	...
(g) Other Expenses	...	...	...	...
Total Expenses	...	...	...	...
V. **Profit before Tax** (III – IV)	...	...	...	...
(–) **Income Tax**	...	...	...	...
VI. **Profit after Tax**	...	...	...	...

Comparative Balance Sheet

Comparative balance sheet analyses the assets and liabilities of business for the current year and also compares the increase or decrease in them in relative as well as absolute parameters.

A comparative balance sheet not only provides the state of assets and liabilities in different time periods, but it also provides the changes that have taken place in individual assets and liabilities over different accounting periods.

The following points should be studied when analysing a comparative balance sheet

1. The present financial and liquidity position (study working capital)
2. The financial position of the business in the long term
3. The profitability of the business

Steps in preparing a comparative balance sheet

The below steps can be followed

1. Determine the absolute value of assets and liabilities related to the accounting periods.
2. Determine absolute changes in the items of the balance sheet relative to the accounting periods in question.
3. Calculate the percentage change in assets and liabilities by comparing current year values with values of previous accounting periods.

The format of a comparative balance sheet is as follows:

Comparative Balance Sheet
as at ...

Particulars	Previous Year (₹)	Current Year (₹)	Absolute Change (Increase or Decrease) (₹)	Percentage Change (Increase or Decrease) (%)
I. EQUITY AND LIABILITIES				
1. **Shareholders' Funds**				
(a) Share Capital				
(i) Equity Share Capital	...	...	...	...
(ii) Preference Share Capital	...	...	..	...
(b) Reserves and Surplus	...	...	...	...
2. **Non-current Liabilities**				
(a) Long-term Borrowings	...	...	...	...
(b) Long-term Provisions	...	...	...	...
3. **Current Liabilities**				
(a) Short-term Borrowings	...	...	...	...
(b) Trade Payables	...	...	...	..
(c) Other Current Liabilities	...	...	...	...
(d) Short-term Provisions	...	...	...	...
Total	...	...	...	...
II. ASSETS				
1. **Non-current Assets**				
(a) Fixed Assets				
(i) Tangible Assets	...	...	...	...
(ii) Intangible Assets	...	...	...	...
(b) Non-current Investments	...	...	...	...
(c) Long-term Loans and Advances	...	...	...	...
2. **Current Assets**				
(a) Current Investments	...	...	...	...
(b) Inventories	...	...	...	...
(c) Trade Receivables	...	...	...	...
(d) Cash and Cash Equivalents	...	...	...	...
(e) Short-term Loans and Advances	...	...	...	...
(f) Other Current Assets	...	...	...	...
Total	...	...	...	...

2. Detail the Types of Common Size Statements

There are two types of common size statements:

1. Common size income statement
2. Common size balance sheet

Common Size Income Statement

This is one type of common size statement where the sale is taken as the base for all calculations. Therefore, the calculation of each line item will take into account the sales as a base, and each item will be expressed as a percentage of the sales.

Use of Common Size Income Statement

It helps the business owner in understanding the following points

1. Whether profits are showing an increase or decrease in relation to the sales obtained.
2. Percentage change in cost of goods that were sold during the accounting period.
3. Variation that might have occurred in expense.

4. If the increase in retained earnings is in proportion to the increase in profit of the business.
5. Helps to compare income statements of two or more periods.
6. Recognises the changes happening in the financial statements of the organisation, which will help investors in making decisions about investing in the business.

2. Common Size Balance Sheet:

A common size balance sheet is a statement in which balance sheet items are being calculated as the ratio of each asset in relation to the total assets. For the liabilities, each liability is being calculated as a ratio of the total liabilities.

Common size balance sheets can be used for comparing companies that differ in size. The comparison of such figures for the different periods is not found to be that useful because the total figures seem to be affected by a number of factors.

Standard values for various assets cannot be established by this method as the trends of the figures cannot be studied and may not give proper results.

Common Size Income Statement Format

The common size income statement format is as follows:

Common Size Income Statement
for the years ended ...

Particulars	Absolute Amounts		Percentage of Revenue from Operation (Net Sales)	
	Previous Year (₹)	Current Year (₹)	Previous Year (%)	Current Year (%)
(1)	(2)	(3)	(4)	(5)
I. **Revenue from Operations** (Net sales)	...	...	...	...
II. **Other Income**	...	...	...	...
III. **Total Revenue** (I + II)	...	...	...	...
IV. **Expenses**				
(a) Cost of Materials Consumed	...	...	...	...
(b) Purchases of Stock-in-trade	...	...	...	...
(c) Changes in Inventories of Finished Goods, Work-in-progress and Stock-in-trade	...	...	...	...
(d) Employess Benefit Expenses	...	...	...	...
(e) Finance Cost	...	...	...	...
(f) Depreciation and Amortisation	...	...	...	...
(g) Other Expenses	...	...	...	...
Total Expenses	...	...	...	...
V. **Profit before Tax** (III – IV)	...	..	..	...
VI. (–) Income Tax	...	...	...	...
VII. **Profit after Tax**	...	...	...	...

Preparing Common Size Balance Sheet

(1) Take the total of assets or liabilities as 100.

(2) Each individual asset is expressed as a percentage of the total assets, i.e., 100 and different liabilities are also calculated as per total liabilities. For example, suppose total assets are around Rs. 4 lakhs, and inventory value is Rs. 1 lakh. In that case, it will be counted as 25% of the total assets.

3. Explain the differences between a funds flow statement and a cash flow statement

	Basis of Difference	Funds Flow Statement	Cash Flow Statement
1.	**Basis of Analysis**	Funds flow statement is based on broader concept i.e. working capital.	Cash flow statement is based on narrow concept i.e. cash, which is only one of the elements of working capital.
2.	**Source**	Funds flow statement tells about the various sources from where the funds generated with various uses to which they are put.	Cash flow statement stars with the opening balance of cash and reaches to the closing balance of cash by proceeding through sources and uses.
3.	**Usage**	Funds flow statement is more useful in assessing the long-range financial strategy.	Cash flow statement is useful in understanding the short-term phenomena affecting the liquidity of the business.
4.	**Schedule of Changes in Working Capital**	In funds flow statement changes in current assets and current liabilities are shown through the schedule of changes in working capital.	In cash flow statement changes in current assets and current liabilities are shown in the cash flow statement itself.
5.	**End Result**	Funds flow statement shows the causes of changes in net working capital.	Cash flow statement shows the causes the changes in cash.
6.	**Principal of Accounting**	Funds flow statement is in alignment with the accrual basis of accounting.	In cash flow statement data obtained on accrual basis are converted into cash basis.

4. What are the benefits of a fund flow statement detail it.

1. Shows financial position. A funds flow statement helps indicate the addition in profits, which is a boon to shareholders.

2. Indicates addition of share capital. The fund flow statement can highlight changes in share capital.

3. Shows addition or reduction in share premium. The fund flow statement shows fluctuations in share premiums. This increases when shares are issued at premium or when preferential shares or debentures are reduced and the funds flow statement shows key information at a glance.

4. Reveals profit or loss of operation. The fund flow statement clearly shows whether an organization is earning profit or sustaining a loss.

5. Reveals addition in long-term borrowings. The statement can show the additional amount borrowed by issuing debentures.

6. Indicates decrease in working capital. The statement shows the reduction in working capital (i.e., when current assets are less than current liabilities).

7. Fund flow statement acts as a guide. The statement allows management to learn about future problems, needs, and fundraising requirements, helping the company to avoid financial problems.

8. Helpful in sound dividend policy. Sometimes, a company may have sufficient profit, yet it is advisable not to distribute dividends due to lack of cash or liquidity. The fund flow statement is useful in informing sound dividend policy.

9. Helpful in long-term borrowings. Before advancing long-term loans, lenders may ask for several years of fund flow statements to learn the firm's creditworthiness.

10. Useful information for investors. Before investing, some investors study a company's fund flow statements to know how funds are raised and used (e.g., whether funds are adequate for the payment of interest and principal sum).

5. How Ratio Analysis can be calculated:

1. Liquidity Ratios

These ratios indicate the company's cash level, liquidity position and the capacity to meet its short-term liabilities. The formula of some of the major liquidity ratios are:

- **Current Ratio = Current Assets / Current Liabilities**
- **Quick Ratio = (Cash & Cash Equivalents + Accounts Receivables) / Current Liabilities**
- **Cash Ratio = Cash & Cash Equivalents / Current Liabilities**

2. Solvency Ratios

These ratios indicate whether the company has the capability to meet its long-term obligations by comparing its debt level with its assets and equity etc. The formula of some of the major solvency ratios are:

- **Debt-To-Equity Ratio = Total Debt / Total Equity**
- **Debt Ratio = Total Debt / Total Assets**
- **Interest Coverage Ratio = EBITDA / Interest Expense**

3. Efficiency Ratios

These ratios indicate how efficiently a company is able to utilize its available assets or convert its inventories to cash. The formula of some of the major efficiency ratios are:

- **Receivables Turnover Ratio = Sales / Accounts Receivable**
- **Inventory Turnover Ratio = COGS / Inventories**
- **Payable Turnover Ratio = COGS / Accounts Payable**
- **Asset Turnover Ratio = Sales / Total Assets**
- **Net Fixed Asset Turnover Ratio = Sales / Net Fixed Assets**
- **Equity Turnover Ratio = Sales / Total Equity**

4. Profitability Ratios

These ratios demonstrate a company's efficiency to use its assets to generate profits. The formula of some of the major profitability ratios are:

- **Gross Margin = (Sales – COGS) / Sales**
- **Operating Profit Margin = EBIT / Sales**
- **Net Margin = Net Income / Sales**
- **Return on Total Asset (ROA) = EBIT / Total Assets**
- **Return on Total Equity (ROE) = Net Income / Total Equity**

6. Define the branches of accounting. Explain?

The development of the economy and its complexity with technological advancements has increased the importance of accounting and its uses. As due to these reasons it has given rise to the new branches or ways of accounting which areas:

a) **Financial accounting:** Financial accounting is the branch of accounting that deals with the summarization, analysis, and reporting of a company's financial activities. This entails the production of financial statements for public consumption. Financial accounting's primary goal is to correctly create an organization's financial accounts for a certain time, often known as financial statements. The Profit and loss statement, balance sheet, and statement of CFOsare the three major financial statements.

b) **Cost accounting:** "A structured set of methods for collecting and reporting computation of the cost of producing things and giving services in the collectionand in detail," according to the meaning of cost accounting. Calculating fixed and variable costs is a part of cost accounting. Fixed costs are monthly expenses thatdo not change depending on the amount of output. Rent, depreciation, interest onloans, and leasing expenditures are all examples.

c) **Management accounting:** The activity of finding, measuring, evaluating, interpreting, and presenting financial information to managers in order to achievean organization's objectives is known as management accounting. Management accounting enhances an organization's worth by certifying the efficiency and effective use of limited resources, including financial

resources. As a result, it gives crucial information for employees to improve their talents.

UNIT-3

1. What is Cost Accounting?

Cost Accountancy 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. Thus, Cost Accountancy is the science, art and practice of a Cost Accountant.

(a) It is a science because it is a systematic body of knowledge having certain principles which a cost accountant should possess for proper discharge of his responsibilities.

(b) It is an art as it requires the ability and skill with which a Cost Accountant is able to apply the principles of Cost Accountancy to various managerial problems.

(c) Practice includes the continuous efforts of a Cost Accountant in the field of Cost Accountancy. Such efforts of a Cost Accountant also include the presentation of information for the purpose of managerial decision making and keeping statistical records.

2. what are the Objectives of Cost Accounting?

The following are the main objectives of Cost Accounting :-

(a) To ascertain the Costs under different situations using different techniques and systems of costing

(b) To determine the selling prices under different circumstances

(c) To determine and control efficiency by setting standards for Materials, Labour and Overheads

(d) To determine the value of closing inventory for preparing financial statements of the concern

(e) To provide a basis for operating policies which may be determination of Cost Volume relationship, whether to close or operate at a loss, whether to manufacture or buy from market, whether to continue the existing method of production or to replace it by a more improved method of production....etc

3. write down the Scope of Cost Accountancy.

The scope of Cost Accountancy is very wide and includes the following:-

(a) Cost Ascertainment: The main objective of Cost Accounting is to find out the Cost of product / services rendered with reasonable degree of accuracy.

(b) Cost Accounting: It is the process of Accounting for Cost which begins with recording of expenditure and ends with preparation of statistical data.

(c) Cost Control: It is the process of regulating the action so as to keep the element of cost within the set parameters.

(d) Cost Reports: This is the ultimate function of Cost Accounting. These reports are primarily prepared for use by the management at different levels. Cost reports helps in planning and control, performance appraisal and managerial decision making.

(e) Cost Audit: Cost Audit is the verification of correctness of Cost Accounts and check on the adherence to the Cost Accounting plan. Its purpose is not only to ensure the arithmetic accuracy of cost records but also to see the principles and rules have been applied correctly.

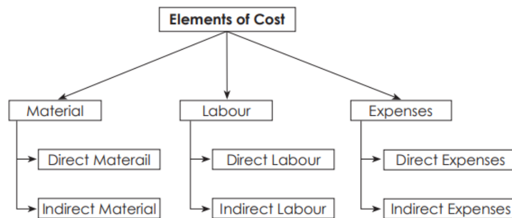
4. Difference between the Financial Accounting & Cost Accounting.

The main differences between Financial and Cost Accounting are as follows:

Financial Accounting	Cost Accounting
(a) It provides the information about the business in a general way. i.e Profit and Loss Account, Balance Sheet of the business to owners and other outside partners.	(a) It provides information to the management for proper planning, operation, control and decision making.
(b) It classifies, records and analyses the transactions in a subjective manner, i.e according to the nature of expense.	(b) It records the expenditure in an objective manner, i.e according to the purpose for which the costs are incurred.
(c) It lays emphasis on recording aspect without attaching any importance to control.	(c) It provides a detailed system of control for materials, labour and overhead costs with the help of standard costing and budgetary control.
(d) It reports operating results and financial position usually at the end of the year.	(d) It gives information through cost reports to management as and when desired.
(e) Financial Accounts are accounts of the whole business. They are independent in nature.	(e) Cost Accounting is only a part of the financial accounts and discloses profit or loss of each product, job or service.
(f) Financial Accounts records all the commercial transactions of the business and include all expenses i.e Manufacturing, Office, Selling etc.	(f) Cost Accounting relates to transactions connected with Manufacturing of goods and services, means expenses which enter into production.
(g) Financial Accounts are concerned with external transactions i.e. transactions between business concern and third party.	(g) Cost Accounts are concerned with internal transactions, which do not involve any cash payment or receipt.
(h) Only transactions which can be measured in monetary terms are recorded.	(h) Non-Monetary information likes No of Units / Hours etc are used.
(i) Financial Accounting deals with actual figures and facts only.	(i) Cost Accounting deals with partly facts and figures and partly estimates / standards.
(j) Financial Accounting do not provide information on efficiencies of various workers/ Plant & Machinery.	(j) Cost Accounts provide valuable information on the efficiencies of employees and Plant & Machinery.
(k) Stocks are valued at Cost or Market price whichever is lower.	(k) Stocks are valued at Cost only.
(l) Financial Accounting is a positive science as it is subject to legal rigidity with regarding to preparation of financial statements.	(l) Cost Accounting is not only positive science but also normative because it includes techniques of budgetary control and standard costing.
(m) These accounts are kept in such away to meet the requirements of Companies Act 2013 as per Sec 128 & Income Tax Act, 1961 Sec 44AA.	(m) Generally Cost Accounts are kept voluntarily to meet the requirements of the management, only in some industries Cost Accounting records are kept as per the Companies Act.

5.Elements of cost

Elements of Cost



Direct Material + Direct Labour + Direct Expenses = Prime Cost
Indirect Material+ Indirect Labour + Indirect Expenses = Overheads

6.Cost control & Cost Reduction

Cost Control vs. Cost Reduction: Both Cost Reduction and Cost Control are efficient tools of management but their concepts and procedure are widely different. The differences are summarised below:

Cost Control	Cost Reduction
(a) Cost Control represents efforts made towards achieving target or goal.	(a) Cost Reduction represents the achievement in reduction of cost.
(b) The process of Cost Control is to set up a target, ascertain the actual performance and compare it with the target, investigate the variances, and take remedial measures.	(b) Cost Reduction is not concern with maintenance of performance according to standard.
(c) Cost Control assumes the existence of standards or norms which are not challenged.	(c) Cost Reduction assumes the existence of concealed potential savings in standards or norms which are therefore subjected to a constant challenge with a view to improvement by bringing out savings.
(d) Cost Control is a preventive function. Costs are optimized before they are incurred.	(d) Cost Reduction is a corrective function. It operates even when an efficient cost control system exists. There is room for reduction in the achieved costs under controlled conditions.
(e) Cost Control lacks dynamic approach.	(e) Cost Reduction is a continuous process of analysis by various methods of all the factors affecting costs, efforts and functions in an organization. The main stress is upon the why of a thing and the aim is to have continual economy in costs.

7. Definition ofProcess Costing

Process costing is **a method of costing used mainly in manufacturing where units are**

continuously mass-produced through one or more processes. Examples of this include the manufacture of erasers, chemicals or processed food.

8. Steps in process costing

To accurately estimate the cost of producing each unit, process costing takes into account work in progress — items that have entered but not completed the production process — at the start and end of each period. Here are five primary steps in process costing.

1. **Analyze inventory:** Analyze the flow of items during the period to determine the amount of inventory at the beginning of the period, how many items were started during the period, how many were completed and transferred out and how many were incomplete at the end of the period.
2. **Calculate equivalent units:** Process costing uses the concept of equivalent units to account for items that are unfinished at the end of each period. For this step, multiply the number of incomplete units at the end of the period by a percentage representing their progress through the production process. For example, if there are 2,000 units of inventory still in progress and they're 75% complete, they are equivalent to 1,500 units for process costing purposes (2,000 x .75 = 1,500).
3. **Calculate applicable costs:** Total the costs for all production stages, including both direct materials and conversion costs.
4. **Calculate cost per unit:** Divide the total cost by the number of units. This calculation includes both completed units and equivalent units. So, if a business completed 4,000 products and another 1,000 units got halfway through production, the applicable costs would be divided by 4,000 + (1,000/2) = 4,500 units. If all the costs added up across all departments to produce those units was $16,875, simply divide the cost by the number of units to arrive at $3.75 per unit produced.
5. **Allocate costs to complete and incomplete products:** Allocate costs for the completed and ending work-in-progress inventory to the corresponding accounts. This helps determine how much money is tied up in current work-in-progress inventory. In the above example, since the equivalent of 500 units are in progress and it cost $3.75 to produce each unit, the work-in-progress inventory cost is $1,875 (500 x $3.75). And the complete product inventory cost is 4,000 x $3.75 = $15,000.

9. Types of Process Costing

In process costing there are three different ways to calculate costs: weighted average, standard costing and first-in first-out (FIFO). Carefully selecting the method that best meets your business needs is a best accounting practice.

- **Weighted average costs:** This is the simplest method of calculating cost. Companies add all costs for the current period and divide by the total number of units completed and transferred out, plus the equivalent units of work-in-progress at the end of the period. It's used for cases where cost fluctuations from period to period are minor.
- **Standard costs:** This method uses an estimated standard cost for each process stage instead of actual costs. Companies typically use this method when it's too difficult or time-consuming to collect current information about the real costs. It can also be beneficial for businesses that make a wide range of items and find it challenging to attribute precise costs to each of the products. The estimated totals are compared to actual totals after a production run is finished, and the difference is added to a variance account.

- **First in, first out (FIFO):** The most complicated process costing approach, FIFO is used to obtain more precise product costing, especially in situations where costs change significantly from one period to the next. FIFO assumes that the first units in (i.e., work in progress at the beginning of the current period) are the first to be completed. When calculating costs for the current period, it excludes costs incurred during the previous period for those beginning work-in-progress units.

10. Joint Costing

    According to Shukla, Grewal and Gupta, "Joint products represent two or more products separated in the course of the same processing operations, usually requiring further processing, and each product being in such proportion that no single product can be designated as a major product".

11. By Product Costing

    By-products have been defined as "any saleable or usual value incidentally produced in addition to the main product". Thus, the main difference between by-products and joint product is that in case of the former, generally no extra expense is to be incurred, whereas in the case of the latter additional expenditure will be necessary before the products can be sold. Joint products are produced simultaneously by a common process or series of processes, with each product processing more than a nominal value in the form in which it is produced. The definition emphasizes the point that the manufacturing process creates products in a definite quantitative relationship. An increase in one product's output will bring about an increase in the quantity of the other products, or vice versa, but not necessarily in the same proportion.

DETAIL QUESTION:

1. **Explain the Methods of Costing:**

Methods to be used for the ascertainment of cost of production differ from industry to industry. It primarily depends on the manufacturing process and also on the methods of measuring the departmental output and finished products.

Basically, there are two methods of costing (as per CIMA Terminology) viz.:

(i) Specific Order Costing (or Job/Terminal Costing) and

(ii) Operation Costing (or Process or Period Costing.)

Specific Order Costing is the category of basic costing methods applicable where the work consists of separate jobs, batches or contracts each of which is authorised by a specific order or contract. Job costing, batch costing and contract costing are included in this category.

Operation Costing is the category of basic costing methods applicable where standardized goods or services result from a sequence of repetitive and more or less continuous operations or process to which costs are charged before being averaged over units produced during the period.

All these methods are discussed briefly as under:

1. Job Costing:

Under this method, costs are collected and accumulated for each job, work order or project separately. Each job can be separately identified; so it becomes essential to analyse the cost according to each job. A job card is prepared for each job for cost accumulation. This method is applicable to printers, machine tool manufacturers, foundries and general engineering workshops.

2. Contract Costing:

When the job is big and spread over long periods of time, the method of contract costing is used. A separate account is kept for each individual contract. This method is used by builders, civil engineering contractors, constructional and mechanical engineering firms etc.

3. Batch Costing:

This is an extension of job costing. A batch may represent a number of small orders passed through the factory in batch. Each hatch is treated as a unit of cost and separately costed. The cost per unit is determined by dividing the cost of the batch by the number of units produced in a batch. This method is mainly applied in biscuits manufacture, garments manufacture and spare parts and components manufacture.

4. Process Costing:

This is suitable for industries where production is continuous, manufacturing is carried on by distinct and well defined processes, the finished products of one process becomes the raw material of the subsequent process, different products with or without byproducts are produced simultaneously at the same process and products produced during a particular process are exactly identical.

As finished products are obtained at the end of each process, it will be necessary to ascertain not only the cost of each process but also cost per unit at each process. A separate account is opened for each process to which all expenditure incurred thereon is charged.

The cost per unit is obtained by averaging the expenditure incurred on the process during a certain period. Hence, this is known as average costing. As the products are manufactured in a continuous process, this is also known as continuous costing. Process costing is generally followed in Textile Industries, Chemical Industries, Tanneries, Paper Manufacture etc.

5. One Operation (Unit or Output) Costing:

This is suitable for industries where manufacture is continuous and units are identical. This method is applied in industries like mines, quarries, oil drilling, breweries, cement works, brick works etc. In all these industries there is natural or standard unit of cost. For example, a barrel of beer in breweries, a tonne of coal in collieries, one thousand of bricks in brickworks etc.

The object of this method is to ascertain the cost per unit of output and the cost of each item of such cost. Here cost accounts take the form of cost sheets prepared for a definite period. The cost per unit is determined by dividing the total expenditure incurred during a given period by the number of units produced during that period.

6. Service (or Operating) Costing:

This is suitable for industries which render services as distinct from those which manufacture goods. This is applied in transport undertakings, power supply companies, municipal services, hospitals, hotels etc. This method is used to ascertain the cost of services rendered.

There is usually a compound unit in such undertakings, e.g., tonne kilometre (transport undertaking), kilowatt-hour (power supply) and patient day (hospitals).

7. Farm Costing:

It helps in calculation of total cost and per unit cost of various activities covered under farming. Farming activities cover agriculture, horticulture, animal husbandry (i.e., rearing of live-stocks), poultry farming, pisciculture (i.e., rearing of fish), dairy, sericulture (i.e. silkworm breeding), nurseries for growing and selling of seedlings and plants and rearing of fruits and flowers.

Farm costing helps to improve the farming practices to reduce cost of production, to ascertain the profit on each line of farming activity which ensures better control by management and to obtain loans from banks and other financial institutions as they give loans on the basis of proper cost accounting records.

8. (Multiple) Operation Costing:

Multiple operation method of manufacture consists of a number of distinct operations. It refers to conversion cost i.e., cost of converting the raw materials into finished goods. This method takes into

consideration the rejections in each operation for calculating input units and cost. The different operations in machine screw are—stamps, knurl, thread and trim. The cost per unit is determined with reference to final output.

9. Multiple Costing:

It represents the application of more than one method of costing in respect of the same product. This is suitable for industries where a number of component parts are separately produced and subsequently assembled into a final product. In such industries each component differs from the others as to price, material used and process of manufacture undergone. So it will be necessary to ascertain the cost of each component.

For this purpose, process costing may be applied. To ascertain the cost of the final product batch costing may be applied. This method is used in factories manufacturing cycles, automobiles, engines, radios, typewriters, aeroplanes and other complex products. This method has been dropped from the latest CIMA Terminology.

Table Showing Cost Units and Methods of Costing for Different Industries/Enterprises

Industry/Enterprise	*Cost Unit*	*Method of Costing*
Steel/Cement	Tonne	Process Costing
Sugar	Tonne, Quintal	Process Costing
Textiles	Metres, Yards	Process Costing
Bicycle Manufacturing	Number	Multiple Costing
Aircraft	Number	Job Costing
Hospital/Nursing Home	Per bed occupied per day/out patient visit	Operating or Service Costing
Timber	Cubic Foot	Process Costing
Transport	Tonne Kilometer, Passenger Kilometer	Operating Costing
Chemical	Tonne, Kilogram	Process Costing
Readymade Garments	Numbers	Batch Costing
Building	House or Area or Square Feet	Job Costing or Contract Costing
Soft Drinks	Cases of 24 bottles each or per bottle of different weights	Process Costing
Confectionery	Per Kg.	Process Costing
Automobile	Number	Process Costing
Brickkiln	Per 1,000 Bricks	Output Costing
Case Making	Per Case	Job Costing
Coal	Per Tonne	Single or One Operation or Output Costing
Interior Decoration	Per Job	Job Costing
Pharmaceutical	Per 1,000 Tablets, Ampulses	Batch Costing
Furniture	Per Unit	Multiple Costing
Advertising	Per Job	Job Costing
Oil Refining	Per Tonne/Quintal	Process Costing

2. Detail the Types or Techniques of Costing:

Following are the main types or techniques of costing for ascertaining costs:

1. Uniform Costing:

It is the use of same costing principles and/or practices by several undertakings for common control or comparison of costs.

2. Marginal Costing:

It is the ascertainment of marginal cost by differentiating between fixed and variable cost. It is used to ascertain the effect of changes in volume or type of output on profit.

3. Standard Costing:

A comparison is made of the actual cost with a pre-arranged standard cost and the cost of any deviation (called variances) is analysed by causes. This permits management to investigate the reasons for these variances and to take suitable corrective action.

4. Historical Costing:

It is ascertainment of costs after they have been incurred. It aims at ascertaining costs actually incurred on work done in the past. It has a limited utility, though comparisons of costs over different periods may yield good results.

5. Direct Costing:

It is the practice of charging all direct costs, variable and some fixed costs relating to operations, processes or products leaving all other costs to be written off against profits in which they arise.

6. Absorption Costing:

It is the practice of charging all costs, both variable and fixed to operations, processes or products. This differs from marginal costing where fixed costs are excluded.

Any of the methods of costing like unit or output costing, service costing, process costing etc. can be used under any techniques of costing.

3. Detail the ABC Costing in eloborative manner

Meaning of ABC

The activity-based costing (ABC) system is a method of accounting you can use to find the total cost of activities necessary to make a product. The ABC system assigns costs to each activity that goes into production, such as workers testing a product, setting up of machines, orders passed for purchase of raw materials etc.

Definition of Cost Pool and Cost Driver

Cost pool: It is an aggregate of all the costs associated with performing a particular business activity.

Cost driver: It is an activity that is the root cause of why a cost occurs. It must be applicable and relevant to the event that is incurring a cost. A cost driver assists with allocation expenses in a systematic manner that results in more accurate calculations of the true costs of producing specific products.

Steps in ABC

- Identify which activities are necessary to create a product
- Separate each activity into its own cost pool
- Assign activity cost drivers to each cost pool
- Divide the total overhead in each cost pool by the total cost drivers to get your cost driver rate
- Compute how many hours, parts, units, etc. that the activity used and multiply it by the cost driver rate to find total cost
- Calculate Cost per Unit by dividing the Total Cost by Total Units produced. Uses of ABC
- Identification of necessary activities: The ABC system shows how overhead is used, which helps to determine whether certain activities are necessary for production.
- Focus on Value adding activities: The Activity Based Costing helps the management on focusing the forces on value adding activities and eliminate non-value adding activities.
- Ensuring profit margin: The specific allocation of costs also helps to set prices that produce a healthy small business profit margin.
- Product pricing: With an ABC system, the business can assign costs to each activity in the

production process, allowing it to more accurately set a price that accounts for how much it costs to create a product.

• Measures to improve productivity: The accurate cost information helps the management to adopt productivity improvement approaches like Total Quality Management (TQM), Business Process Re-engineering (BPR) etc.

• Help in deciding Make or Buy: The management can take make or buy decisions by considering the cost of manufacture of a product or sub contract the same with an outside agency through Activity Based Costing analysis.

4. What is Target Costing?

Target costing is a system under which a company plans in advance for the price points, product costs, and margins that it wants to achieve for a new product. If it cannot manufacture a product at these planned levels, then it cancels the design project entirely. With target costing, a management team has a powerful tool for continually monitoring products from the moment they enter the design phase and onward throughout their product life cycles. It is considered one of the most important tools for achieving consistent profitability in a manufacturing environment.

Target costing is an excellent tool for planning a suite of products that have high levels of profitability. This is opposed to the much more common approach of creating a product that is based on the engineering department's view of what the product should be like, and then struggling with costs that are too high in comparison to the market price.

The primary steps in the target costing process are noted below.

Step 1. Conduct Research

The first step is to review the marketplace in which the company wants to sell products. The design team needs to determine the set of product features that customers are most likely to buy, and the amount they will pay for those features. The team must learn about the perceived value of individual features, in case they later need to determine what impact there will be on the product price if they drop one or more features. It may be necessary to later drop a product feature if the team decides that it cannot provide the feature while still meeting its target cost. At the end of this process, the team has a good idea of the target price at which it can sell the proposed product with a certain set of features, and how it must alter the price if it drops some features from the product.

Step 2. Calculate Maximum Cost

The company provides the design team with a mandated gross margin that the proposed product must earn. By subtracting the mandated gross margin from the projected product price, the team can easily determine the maximum target cost that the product must achieve before it can be allowed into production.

Step 3. Engineer the Product

The engineers and procurement personnel on the team now take the leading role in creating the product. The procurement staff is particularly important if the product has a high proportion of purchased parts; they must determine component pricing based on the necessary quality, delivery, and quantity levels expected for the product. They may also be involved in outsourcing parts, if this results in lower costs. The engineers must design the product to meet the cost target, which will likely include a number of design iterations to see which combination of

revised features and design considerations results in the lowest cost.
Step 4. Ongoing Activities
Once a product design is finalized and approved, the team is reconstituted to include fewer designers and more industrial engineers. The team now enters into a new phase of reducing production costs, which continues for the life of the product. For example, cost reductions may come from waste reductions in production (known as kaizen costing), or from planned supplier cost reductions. These ongoing cost reductions yield enough additional gross margin for the company to further reduce the price of the product over time, in response to increases in the level of competition.

UNIT-4

2 Marks

1. **DEFINE MARGINAL COST AND MARGINAL COSTING**

Marginal cost is defined as cost of producing one additional unit. Thus, marginal cost is the amount by which total cost changes when there is a change in output by one unit.

Marginal Cost means Variable Cost. Marginal cost per unit remains unchanged irrespective of the level of activity or output. Marginal cost is the sum total of direct material cost, direct labour cost, variable direct expenses and all variable overheads.

Under Marginal Costing technique, only variable costs are charged to cost units, the fixed costs attributable to a relevant period are written off in Costing Profit & Loss Account against the contribution for that period. Under Marginal Costing Technique, fixed costs are treated as period costs.

Marginal Costing is also known as:

- **Contributory Costing**
- **Variable Costing**
- **Comparative Costing**

2. **ABSORPTION COSTING**

Under Absorption Costing Technique, both variable cost and fixed costs are charged to cost units. Under Absorption Costing Technique, fixed cost is treated as product cost. In short, the cost of a finished unit in inventory will include direct materials, direct labour, and both variable and fixed manufacturing overhead.

3.DISTINCTION BETWEEN MARGINAL COSTING AND ABSORPTION COSTING

MARGINAL COSTING	ABSORPTION COSTING
Only variable cost is charged to products andinventory valuation.	Total cost (both fixed and variable) is charged to the cost of products and inventoryvaluation.

Fixed cost is not included in the cost of products. It is transferred to Costing Profitand Loss Account.	Fixed cost is included in the cost of products.
Stocks are valued only at variable costs. Stock values are lower in Marginal costing than in Absorption costing.	Opening and closing stocks are valued at total cost which inducts both fixed and variable costs. Stock values in Absorption costing are, therefore, higher than in Marginal costing.
Profitability is judged by the contribution made by various products or departments.	Profitability is measured by profit earned by various products or departments.
Cost data helps to know the total contribution and contribution of each product.	Cost data is arrived on conventional patternand hence is only the net profit for each product that is arrived at.
Difference in valuation of opening and closing stock does not affect the unit cost of production	Valuation of opening and closing stock isaffected due to the fixed costs.

4. **ADVANTAGES OF MARGINAL COSTING**

- **Simplified Pricing Policy**
  Since marginal (variable) cost per unit remains constant from period to period over a
  short span of time, firm's decisions on pricing policy can be taken.
- **Proper recovery of overheads**
  Overheads are recovered in costing on the basis of pre-determined rates. Under marginal costing technique, fixed overheads are excluded and hence there will be no problem of under or over recovery of overheads.
- **Shows Realistic Profit**
  Under Marginal costing technique, the stock of finished goods and work-in-progress are carried on variable cost basis and the fixed expenses are written off to profit and loss account. This shows the true profit of the period.
- **How much to produce**
  Marginal costing helps in the preparation of break-even analysis which shows the effect of increasing or decreasing production activity on the profitability of the company.
- **Helps in decision making**
  Marginal costing helps the management in taking a number of business decisions like make or buy, discontinuance of a particular product, replacement of machines etc.

5. LIMITATIONS OF MARGINAL COSTING

- Sales staff may make mistake of marginal cost for total cost and sell at a price which will result in loss or los profits. Hence, sales staff should be cautioned while giving marginal cost.

- Overheads of fixed nature cannot be altogether excluded particularly in large contracts, while valuing the work-in-progress.
- Some of the assumptions regarding the behaviour of various costs are not necessarily true in realistic situation. For example: the assumption that fixed cost will remain static throughout is not correct.
- Marginal cost ignores time factor and investment. The marginal cost of two jobs may be the same but the time taken for their completion and the cost of machines used may differ. The true cost of a job which takes longer time and uses costlier machine would be higher. This fact is not disclosed by marginal costing.

6.COST-VOLUME-PROFIT ANALYSIS AND ITS OBJECTIVES

It is a technique that may used by the management to evaluate how costs and profits are affected by changes in the volume of business activities. Managers are quite often faced with decisive situations involving sales level, sales mix, selling prices and the right combination of these factors that will produce acceptable profits. As a result of change in operating conditions or change in economic environmental factors, the value of and the relationship among these variables also change.

Cost Volume Profit analysis is the analysis of three variables i.e. cost, volume and profit. Such an analysis explores the relationship between costs, revenue, activity levels and the resulting profit. It aims at measuring variation in cost and volume.

7. <u>Importance of CVP analysis</u>

- The behaviour of cost in relation to volume.
- Volume of production or sales, where the business will break even.
- Sensitivity of profits due to variation in output.
- Amount of profit for a projected sales volume.
- Quantity of production and sales for a targeted profit level.

8. PROFIT VOLUME RATIO

The Profit volume (PV Ratio) is the relationship between contribution and sales. It is also termed as contribution to sales ratio.

<u>Significance of PV Ratio</u>

- PV Ratio is considered to be the basic indicator of the profitability of the business.
- The higher the PV Ratio, the better it is for a business. In the case of a firm enjoying steady business conditions over a period of years, the PV Ratio will also remain stable and steady.

If PV Ratio is improved, it will result in better profits

9. <u>Uses of PV Ratio</u>

- To compute the variable costs for any volume of sales
- To measure the efficiency or to choose a most profitable product line. The overall profitability of the firm can be improved by increasing the sales or output of a product giving a higher PV Ratio
- To determine break-even point and the level of output required to earn a desired profit

To decide more profitable sales-mix

10. MAIN USES OF BREAK EVEN CHART

Break even chart facilitates:

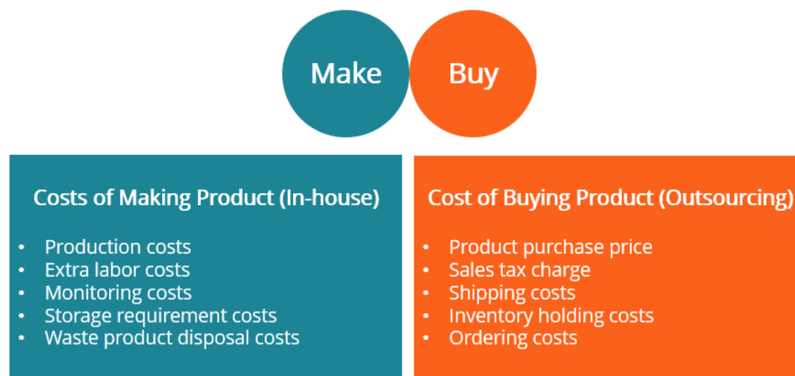
- Break even point
- Margin of safety
- Angle of incidence
- Sales required to earn desired amount of profit
- Fixed Cost, Variable Cost, Total Cost, Sales, Profit at various levels of operations.
- Inter firm comparisons
- Change in sales volume
- Change in Selling price
- Change in Variable Cost
- Change in fixed cost

11. ANGLE OF INCIDENCE

It is the angle of intersection between total sales line and total cost line drawn in the case of break even chart. It indicates the rate at which profits are earned. The larger the angle, the higher the rate of profit or vice versa.

12. What is a Make-or-Buy Decision?

A make-or-buy decision refers to an act of using cost-benefit to make a strategic choice between manufacturing a product in-house or purchasing from an external supplier. It arises when a producing company faces a diminishing capacity, experiences problems with the current suppliers, or sees changing demand.



The make-or-buy decision compares the costs and benefits that accrue by producing a good or service internally against the costs and benefits that result from subcontracting. For an accurate comparison of costs and benefits, managers need to evaluate the benefits of purchasing expertise against the benefits of developing and nurturing the same expertise within the company.

13. How do you determine sales mix?

Sales mix is the proportion of sales in individual product accounts for in a company's total sales. You can find sales mix by comparing the profit earned by a specific product to the total amount of sales brought in by the company during a specific period of time.

UNIT-5(2 marks)

1. Definition of BUDGETARY CONTROL: There are two types of control, namely budgetary and financial. Budgetary control is defined by the Institute of Cost and Management Accountants (CIMA) as:

"The establishment of budgets relating the responsibilities of executives to the requirements of a policy, and the continuous comparison of actual with budgeted results, either to secure by individual action the objective of that policy, or to provide a basis for its revision".

2. Budgetary control methods

a) **Budget:**

· A formal statement of the financial resources set aside for carrying out specific activities in a given period of time.

· It helps to co-ordinate the activities of the organisation.

An example would be an advertising budget or sales force budget.

b) Budgetary control:

· A control technique whereby actual results are compared with budgets.

· Any differences (variances) are made the responsibility of key individuals who can either exercise control action or revise the original budgets.

3. **Budgetary control and responsibility centres;**

These enable managers to monitor organisational functions.

A responsibility centre can be defined as any functional unit headed by a manager who is responsible for the activities of that unit.

There are four types of responsibility centres:

a) Revenue centres

Organisational units in which outputs are measured in monetary terms but are not directly compared to input costs.

b) Expense centres

Units where inputs are measured in monetary terms but outputs are not.

c) Profit centres

Where performance is measured by the difference between revenues (outputs) and expenditure (inputs). Inter-departmental sales are often made using "transfer prices".

d) Investment centres

Where outputs are compared with the assets employed in producing them, i.e. ROI.

4. **Advantages of budgeting and budgetary control**

There are a number of advantages to budgeting and budgetary control:

· Compels management to think about the future, which is probably the most important feature of a budgetary planning and control system. Forces management to look ahead, to set out detailed plans for achieving the targets for each department, operation and (ideally) each manager, to anticipate and give the organisation purpose and direction.

· Promotes coordination and communication.

· Clearly defines areas of responsibility. Requires managers of budget centres to be made responsible for the achievement of budget targets for the operations under their personal control.

· Provides a basis for performance appraisal (variance analysis). A budget is basically a yardstick against which actual performance is measured and assessed. Control is provided by comparisons of actual results against budget plan. Departures from budget can then be investigated and the reasons for the differences can be divided into controllable and non-controllable factors.

· Enables remedial action to be taken as variances emerge.

· Motivates employees by participating in the setting of budgets.

· Improves the allocation of scarce resources.
· Economises management time by using the management by exception principle.

5. **Problems in budgeting**

· Budgets can be seen as pressure devices imposed by management, thus resulting in:
a) bad labour relations
b) inaccurate record-keeping.
· Departmental conflict arises due to:
a) disputes over resource allocation
b) departments blaming each other if targets are not attained.
· It is difficult to reconcile personal/individual and corporate goals.
· Waste may arise as managers adopt the view, "we had better spend it or we will lose it". This is often coupled with "empire building" in order to enhance the prestige of a department.
Responsibility versus controlling, i.e. some costs are under the influence of more than one person, e.g. power costs.
· Managers may overestimate costs so that they will not be blamed in the future should they overspend.

6. **Characteristics of a budget**

A good budget is characterised by the following:
· Participation: involve as many people as possible in drawing up a budget.
· Comprehensiveness: embrace the whole organisation.
· Standards: base it on established standards of performance.
· Flexibility: allow for changing circumstances.
· Feedback: constantly monitor performance.
· Analysis of costs and revenues: this can be done on the basis of product lines, departments or cost centres.

7. **Budget organisation and administration:**

In organising and administering a budget system the following characteristics may apply:
a) Budget centres: Units responsible for the preparation of budgets. A budget centre may encompass several cost centres.
b) Budget committee: This may consist of senior members of the organisation, e.g. departmental heads and executives (with the managing director as chairman). Every part of the organisation should be represented on the committee, so there should be a representative from sales, production, marketing and so on. Functions of the budget committee include:
· Coordination of the preparation of budgets, including the issue of a manual
· Issuing of timetables for preparation of budgets
· Provision of information to assist budget preparations
· Comparison of actual results with budget and investigation of variances.
c) Budget Officer: Controls the budget administration The job involves:
· liaising between the budget committee and managers responsible for budget preparation
· dealing with budgetary control problems
· ensuring that deadlines are met
· educating people about budgetary control.
d) Budget manual:

This document:
· charts the organisation
· details the budget procedures
· contains account codes for items of expenditure and revenue
· timetables the process
· clearly defines the responsibility of persons involved in the budgeting system.

8. **Budget preparation**

Firstly, determine the principal budget factor. This is also known as the key budget factor or limiting budget factor and is the factor which will limit the activities of an undertaking. This limits output, e.g. sales, material or labour.

a) Sales budget: this involves a realistic sales forecast. This is prepared in units of each product and also in sales value. Methods of sales forecasting include:
· sales force opinions
· market research
· statistical methods (correlation analysis and examination of trends)
· mathematical models.

In using these techniques consider:
· company's pricing policy
· general economic and political conditions
· changes in the population
· competition
· consumers' income and tastes
· advertising and other sales promotion techniques
· after sales service
· credit terms offered.

b) Production budget: expressed in quantitative terms only and is geared to the sales budget. The production manager's duties include:
· analysis of plant utilisation
· work-in-progress budgets.

If requirements exceed capacity he may:
· subcontract
· plan for overtime
· introduce shift work
· hire or buy additional machinery
· The materials purchases budget's both quantitative and financial.

c) Raw materials and purchasing budget:
· The materials usage budget is in quantities.
· The materials purchases budget is both quantitative and financial.

Factors influencing a) and b) include:
· production requirements
· planning stock levels
· storage space
· trends of material prices.

d) Labour budget: is both quantitative and financial. This is influenced by:

· production requirements
· man-hours available
· grades of labour required
· wage rates (union agreements)
· the need for incentives.

e) Cash budget: a cash plan for a defined period of time. It summarises monthly receipts and payments. Hence, it highlights monthly surpluses and deficits of actual cash. Its main uses are:

· to maintain control over a firm's cash requirements, e.g. stock and debtors
· to enable a firm to take precautionary measures and arrange in advance for investment and loan facilities whenever cash surpluses or deficits arises
· to show the feasibility of management's plans in cash terms
· to illustrate the financial impact of changes in management policy, e.g. change of credit terms offered to customers.

Receipts of cash may come from one of the following:

· cash sales
· payments by debtors
· the sale of fixed assets
· the issue of new shares
· the receipt of interest and dividends from investments.

Payments of cash may be for one or more of the following:

· purchase of stocks
· payments of wages or other expenses
· purchase of capital items
· payment of interest, dividends or taxation.

9. Zero base budgeting (ZBB)

After a budgeting system has been in operation for some time, there is a tendency for next year's budget to be justified by reference to the actual levels being achieved at present. In fact this is part of the financial analysis discussed so far, but the proper analysis process takes into account all the changes which should affect the future activities of the company. Even using such an analytical base, some businesses find that historical comparisons, and particularly the current level of constraints on resources, can inhibit really innovative changes in budgets. This can cause a severe handicap for the business because the budget should be the first year of the long range plan. Thus, if changes are not started in the budget period, it will be difficult for the business to make the progress necessary to achieve longer term objectives.

One way of breaking out of this cyclical budgeting problem is to go back to basics and develop the budget from an assumption of no existing resources (that is, a zero base). This means all resources will have to be justified and the chosen way of achieving any specified objectives will have to be compared with the alternatives. For example, in the sales area, the current existing field sales force will be ignored, and the optimum way of achieving the sales objectives in that particular market for the particular goods or services should be developed. This might not include any field sales force, or a different-sized team, and the company then has to plan how to implement this new strategy.

The obvious problem of this zero-base budgeting process is the massive amount of managerial time needed to carry out the exercise. Hence, some companies carry out the full process every five years,

but in that year the business can almost grind to a halt. Thus, an alternative way is to look in depth at one area of the business each year on a rolling basis, so that each sector does a zero base budget every five years or so.

9. Accounting Standard (AS) 1 Disclosure of Accounting Policies (Detail)

(This Accounting Standard includes paragraphs set in bold italic type and plain type, which have equal authority. Paragraphs in bold italic type indicate the main principles. This Accounting Standard should be read in the context of the General Instructions contained in part A of the Annexure to the Notification.)

Introduction

1. This Standard deals with the disclosure of significant accounting policies followed in preparing and presenting financial statements.

2. The view presented in the financial statements of an enterprise of its state of affairs and of the profit or loss can be significantly affected by the accounting policies followed in the preparation and presentation of the financial statements. The accounting policies followed vary from enterprise to enterprise. Disclosure of significant accounting policies followed is necessary if the view presented is to be properly appreciated.

3. The disclosure of some of the accounting policies followed in the preparation and presentation of the financial statements is required by law in some cases.

4. The Institute of Chartered Accountants of India has, in Standard issued by it, recommended the disclosure of certain accounting policies, e.g., translation policies in respect of foreign currency items.

5. In recent years, a few enterprises in India have adopted the practice of including in their annual reports to shareholders a separate statement of accounting policies followed in preparing and presenting the financial statements.

6. In general, however, accounting policies are not at present regularly and fully disclosed in all financial statements. Many enterprises include in the Notes on the Accounts, descriptions of some of the significant accounting policies. But the nature and degree of disclosure vary considerably between the corporate and the non-corporate sectors and between units in the same sector.

7. Even among the few enterprises that presently include in their annual reports a separate statement of accounting policies, considerable variation exists. The statement of accounting policies forms part of accounts in some cases while in others it is given as supplementary information.

8. The purpose of this Standard is to promote better understanding of financial statements by establishing through an accounting standard the disclosure of significant accounting policies and the manner in which accounting policies are disclosed in the financial statements. Such disclosure would also facilitate a more meaningful comparison between financial statements of different enterprises. Explanation Fundamental Accounting Assumptions

9. Certain fundamental accounting assumptions underlie the preparation and presentation of financial statements. They are usually not specifically stated because their acceptance and use are assumed. Disclosure is necessary if they are not followed.

10. The following have been generally accepted as fundamental accounting assumptions:—

a. Going Concern The enterprise is normally viewed as a going concern, that is, as continuing in operation for the foreseeable future. It is assumed that the enterprise has

neither the intention nor the necessity of liquidation or of curtailing materially the scale of the operations.

b. Consistency It is assumed that accounting policies are consistent from one period to another.

c. Accrual Revenues and costs are accrued, that is, recognised as they are earned or incurred (and not as money is received or paid) and recorded in the financial statements of the periods to which they relate. (The considerations affecting the process of matching costs with revenues under the accrual assumption are not dealt with in this Standard) Nature of Accounting Policies

11. The accounting policies refer to the specific accounting principles and the methods of applying those principles adopted by the enterprise in the preparation and presentation of financial statements.

12. There is no single list of accounting policies which are applicable to all circumstances. The differing circumstances in which enterprises operate in a situation of diverse and complex economic activity make alternative accounting principles and methods of applying those principles acceptable. The choice of the appropriate accounting principles and the methods of applying those principles in the specific circumstances of each enterprise calls for considerable judgement by the management of the enterprise.

13. The various Standards of the Institute of Chartered Accountants of India combined with the efforts of government and other regulatory agencies and progressive managements have reduced in recent years the number of acceptable alternatives particularly in the case of corporate enterprises. While continuing efforts in this regard in future are likely to reduce the number still further, the availability of alternative accounting principles and methods of applying those principles is not likely to be eliminated altogether in view of the differing circumstances faced by the enterprises. Areas in Which Differing Accounting Policies are Encountered

14. The following are examples of the areas in which different accounting policies may be adopted by different enterprises. (a) Methods of depreciation, depletion and amortisation (b) Treatment of expenditure during construction (c) Conversion or translation of foreign currency items (d) Valuation of inventories (e) Treatment of goodwill Disclosure of Accounting Policies 5 (f) Valuation of investments (g) Treatment of retirement benefits (h) Recognition of profit on long-term contracts (i) Valuation of fixed assets (j) Treatment of contingent liabilities.

15. The above list of examples is not intended to be exhaustive. Considerations in the Selection of Accounting Policies

16. The primary consideration in the selection of accounting policies by an enterprise is that the financial statements prepared and presented on the basis of such accounting policies should represent a true and fair view of the state of affairs of the enterprise as at the balance sheet date and of the profit

17. For this purpose, the major considerations governing the selection and application of accounting policies are:—

a. Prudence In view of the uncertainty attached to future events, profits are not anticipated but recognised only when realised though not necessarily in cash. Provision is made for all known liabilities and losses even though the amount cannot be determined with certainty and represents only a best estimate in the light of available information.

b. Substance over Form The accounting treatment and presentation in financial statements of transactions and events should be governed by their substance and not merely by the legal form.

c. Materiality Financial statements should disclose all “material” items, i.e. items the knowledge of which might influence the decisions of the user of the financial statements.

18. To ensure proper understanding of financial statements, it is necessary that all significant accounting policies adopted in the preparation and presentation of financial statements should be disclosed.

19. Such disclosure should form part of the financial statements.

20. It would be helpful to the reader of financial statements if they are all disclosed as such in one place instead of being scattered over several statements, schedules and notes.

21. Examples of matters in respect of which disclosure of accounting policies adopted will be required are contained in paragraph 14. This list of examples is not, however, intended to be exhaustive.

22. Any change in an accounting policy which has a material effect should be disclosed. The amount by which any item in the financial statements is affected by such change should also be disclosed to the extent ascertainable. Where such amount is not ascertainable, wholly or in part, the fact should be indicated. If a change is made in the accounting policies which has no material effect on the financial statements for the current period but which is reasonably expected to have a material effect in later periods, the fact of such change should be appropriately disclosed in the period in which the change is adopted.

23. Disclosure of accounting policies or of changes therein cannot remedy a wrong or inappropriate treatment of the item in the accounts. Main Principles 24. All significant accounting policies adopted in the preparation and presentation of financial statements should be disclosed.

25. The disclosure of the significant accounting policies as such should form part of the financial statements and the significant accounting policies should normally be disclosed in one place.

26. Any change in the accounting policies which has a material effect in the current period or which is reasonably expected to have a effect in later periods should be disclosed. In the case of a change in accounting policies which has a material effect in the current period, the amount by which any item in the financial statements is affected by such change should also be disclosed to the extent ascertainable. Where such amount is not ascertainable, wholly or in part, the fact should be indicated.

27. If the fundamental accounting assumptions, viz. Going Concern, Consistency and Accrual are followed in financial statements, specific disclosure is not required. If a fundamental accounting assumption is not followed, the fact should be disclosed

Sums:

Unit-I

1. Journal
2. Ledger
3. Trial Balance
4. Final Account- With Adjustment & Without Adjustments

I. Trading & Profit Loss Account
II. Balance sheet

Unit-2

1. Ratio Analysis
2. Common- size Statement
    - P&L A/C
    - Balance sheet
3. Comparative statement
    - P&L A/C
    - Balance sheet
4. Trend Analysis
5. Statement of changes in working Capital
6. Cash flow Statement
    - Direct method
    - Indirect Method
7. Fund flow statement

Unit-3

1. Cost Sheet
2. Job costing
3. Process costing

Unit-4

1. Marginal Costing
2. BEP Analysis
3. Cost Volume Analysis
4. P/V Ratio
5. Make or buy Decision

Unit-5

1. Budgeting
    a. Master
    b. Production
    c. Sales
    d. Manufacturing
    e. Flexible
    f. Fixed