SASURIE COLLEGE OF ENGINEERING

DEPARTMENT OF MASTER OF BUSINESS ADMINISTRATION

REGULATION 2021

I YEAR – I SEMESTER

– BA4105

ACCOUNTING FOR DECISION MAKING

BA4105 ACCOUNTING FOR DECISION MAKING

UNIT I FINANCIAL ACCOUNTING *9*

Introduction to Financial, Cost and Management Accounting – Generally accepted accounting principles– Double Entry System – Preparation of Journal, Ledger and BalancePreparationofFinalAccounts:Trading,ProfitandLossAccountandBalanceSheet -Readingthefinancialstatements

UNITII ANALYSIS OF FINANCIAL STATEMENTS *9*

Financial ratio analysis, Interpretation of ratio for financial decisions - Dupont Ratios – Comparative statements - common size statements. Cash flow (as per Accounting Standard 3) and Funds flow statement analysis – Trend Analysis.

UNITIII COST ACCOUNTING *9*

Cost Accounts – Classification of costs – Job cost sheet – Job order costing – Process costing – (excluding InterdepartmentalTransfers and equivalent production) – Joint and By Product Costing – ActivityBased Costing, Target Costing.

UNITIV MARGINAL COSTING *9*

Marginal Costing and profit planning – Cost, Volume, Profit Analysis – Break Even Analysis–Decisionmaking problems -Makeor Buydecisions -Determinationofsales mix - Exploring new markets - Add ordropproducts -Expand or contract.

UNIT V BUDGETING AND VARIANCE ANALYSIS **9**

Budgetary Control – Sales, Production, Cash flow, fixed and flexible budget – Standard costing and Variance Analysis – (excluding overhead costing) -Accounting standards and accounting disclosure practices in India.

CHAPTER 1

FINANCIAL ACCOUNTING

Introduction to Financial, Cost & Management Accounting

WHAT IS ACCOUNTING?

The process of Accounting involves recording, classifying and summarizing of past events and transactions of financial nature, with a view to enabling the user of accounts to interpret the resulting summary.

Accounting is best known as the language of business and communicates the results of the business.

DEFINITION

The American Institute of Certified Public Accountants defines accounting as "the art of recording , classifying and summarizing in a significant manner and in terms of money transactions and events which are in part at least of a financial character and interpreting the result thereof".

OBJECTIVES OF ACCOUNTING

To keep systematic records

To facilitate rational decision making

To ascertain the operating results of the enterprises

To reveal the financial position of the business and

To enable control over the operation as well as the resources of the business.

FUNCTIONS OF ACCOUNTING

Communicating the results

Meeting the legal requirements

Protecting the properties of the business

Planning and controlling the business activities.

- Proprietors
- Managers
- Creditors
- Government
- Potential Investors
- Employees
- Researchers

CLASSIFICATION OF ACCOUNTING

FINANCIAL ACCOUNTING

- Financial accounting gathers and summarizes data to prepare financial report such as balance sheet and income statement for the organization'smanagement,lenders,suppliers,tax authorities and other stake holders.

It is the original form of accounting.

- It is mainly confined to the preparation of financial statements for the use of outsiders like shareholders,creditors,banks,debenture holders and financial institutions.
- The financial statements i.e. the profit & loss account and the balance sheet ,show them the manner in which operations of the business have been conducted during a specific period.

ADVANTAGES

- Reveal the financial position of the business
- keep systematic records
- It helps to know the profit or loss of the business
- **LIMITATIONS**
- Provides only limited information
- Financial accounts is only a post-mortem record
- Quantifiable information only is considered

- Fails to provide informational needs of different levels of management

- Chance for personal bias

MANAGEMENT ACCOUNTING

- The Anglo – American Council of Productivity defines Management Accounting "as the presentation of accounting information in such a way as to assist the management , in creation of policy and in the day-to-day operation of an undertaking".
- **FUNCTIONS OF MANAGEMENT ACCOUNTING**
- Provides data
- Modifies data
- Analyses and interprets the data
- Communicates the results
- Facilitates control
- **ADVANTAGES**
- Analyses financial statements
- Traces cash movements
- Estimates the working capital requirements
- Improve the efficiency of the organization
- Increases the standard of living
- Guards the management

LIMITATIONS

- Limitations of basic records
- Persistent efforts
- Drive for intuition
- Wide scope
- Costly

COST ACCOUNITNG

- The accounting mechanism through which the costs of the products or services are ascertained and controlled.
- It shows classification and analysis of costs on thebasisof functions, processes,products,centers etc.It also deals with cost consumption, cost savings ,cost reduction , etc.
- It refers to the process of determining the cost of a particular activity.

FUNCTIONS OF COST ACCOUNTING

- To ascertain the unit cost of product ,service or department and estimate the net result i.e., cost, profit or loss , for each item of operation ,production or service.
- To help construction of budget and budgetary control and standards costing and develop control through analysis and expectations.
- To present and interpret data for managerial decision – making and control and suggest suitable criteria for choosingamong alternative investments,products,market ,etc.
- **OBJECTIVES**
- Ascertainment of cost
- Estimation of cost
- Cost control
- Cost reduction
- Determining of selling price
- Facilitating preparation of financial and other statements

ADVANTAGES

- **It is an aid to management:**

It enables the management to maintain effective control over inventory, to maximize efficiency and to minimize wastage and losses by providing detailed costing information.

It is an aid to creditors:

Investors, banks and other financial institutions benefit immensely by the installation of an efficient costing system.

It is an aid to the employees:

Employees are benefited in a number of ways by the installation of efficient cost system.

It is an aid to the nation:

Costing system boosting up the government by bringing prosperity to the business firms.

LIMITATIONS

- As costing system changes according to the nature of the business, this affects the uniformity of each system.
- Installation of cost accounting is costly , which small firms cannot afford to have.

ACCOUNTING PRINCIPLES

- Accounting is the language of the business to communicate with outside world.
- In order to make it commonly understood by all, it is necessary that it should be based on certain uniform scientifically laid down standards.
- These standards are termed as accounting principles.
- Accounting principles may be defined as those rules of action adopted by the accountants universally while recording accounting transactions.
- These principles are classified into two categories:
- Accounting Concepts
- Accounting Conventions

ACCOUNTING CONCEPTS & CONVENTIONS

ACCOUNTING CONCEPTS

- The term ‘Concepts’ includes those basic assumptions or conditions upon which the science of accounting is based. The following are the important accounting concepts:

1.Separate Entity Concept:

Owner is treated as different person from the business.

2. Going Concern Concept:

Assumed that the business will last long, it will not be closed in the near future.

3. Money measurement Concept:

All transactions are recorded in terms of money only.

4. Cost Concept:

It considers the purchase price only.Depriciation will be deducted every year from the book value.

5. Dual aspect Concept:

For every debt there will be a corresponding credit.

6. Accounting period Concept:

Life of the business will be divided into accounting year .

7. Matching Concept:

Revenues are matched with the expenditures.

8. Realization Concept:

Revenue is considered only when the ownership is transferred.

ACCOUNTING CONVENTIONS

The term 'Conventions' includes those customs or traditions which guides the accountant while preparing the accounting statements. The following are the important accounting conventions:

1.**Consistency**:

Uniform principles, rules and practices should be followed every year.

2.**Full disclosure:**

Accounting reports should disclose full information honestly.

3. Conservatism:

Provide for all possible losses and exclude anticipated profit.

4. M**ateriality**:

Disclosure of accurate information depending upon the situation.

SYSTEM OF BOOK KEEPING

- There are two types systems under book keeping:

SINGLE ENTRY SYSTEM:

- Under this system only personal and cash aspects of the transactions are recorded in the books .
- Normally the impersonal aspects are ignored.
- It is not based on 'dual aspect concept'. Hence it is incomplete, inaccurate and unscientific.
- This system has been developed by some business houses, who keep only the essential records for their convenience.

DOUBLE ENTRY SYSYTEM

- It is the most common system of book keeping whereby the two aspects of every transaction are recorded in the books of accounts.
- This method of writing the every transaction in two different accounts on opposite sides for equal value is known as the double entry system of book keeping.

DIFFERENCE BETWEEN SINGLE AND DOUBLE ENTRY SYSTEM

CLASSIFICATION OF ACCOUNTS

- In order to understand the rules of double entry system, it is essential to know which classes of accounts are affected by a particular transaction.

- For this purpose all accounts are broadly classified as follows:
  - Personal A/C:Includes the persons with whom the business deals.

1. Natural person: Person's who are created by God are called Natural persons.E.g:Ram,Mohan etc.,

2. Artificial person:Organisations and companies which are created by natural person's are called Artificial persons.E.g:LIC,banks,Companies etc.,

3.Representative Person: Amount outstanding or prepaid represents the person involved is called Representative account.e.g:rent outstanding represents the landlord, insurance prepaid represents the Insurance company.

- Cont….
- Real account: It includes all the category of assets i.e. fixed asset, current asset and fictious account .E.g:Building,cash,goodwill etc.
- Nominal Account: It covers all the expenses, losses, all incomes and gains .E.g:Salary,rent,wages,bad debts etc.,

RULES OF DOUBLE ENTRY

- Each transaction will have two aspects.
- One aspect will be either 'receiving aspect ' or 'Incoming aspect' or 'Expenditure Aspect". This is termed as 'Debit Aspect'.
- Another aspect will be 'Giving Aspect' or 'outgoing Aspect' or 'income Aspect'. This is termed as 'Credit Aspect'.
- Cont…

1.Personal Account:

Debit – The Receiver

Credit – The Giver

2.Real Account :

Debit – What comes in

Credit – What goes out

3.Nominal Account :

Debit - All the expenses and losses

Credit – All the incomes and gains

BOOKS OF ACCOUNTS

- Large business concerns which follow the double entry system of book keeping should maintain the following books:

1. Journal – It is the book in which all the transactions are recorded.

2. Ledger – Classifying the transactions according to the type of the account .

3. Trial balance – it is a statement of all ledger balances.It helps to find out the arithmetic accuracy of accounts.

- Profit & Loss Account – It helps to know about the profit or loss of a particular period.
- Balance sheet – the left out items in the trial balance (i.e. not entered either in Trading a/c or in the profit & loss a/c) are extracted in the form of a statement which is called Balance sheet.

BALANCE SHEET AND RELATED CONCEPTS

DEFINITION

The Word 'Balance Sheet' is defined as "a Statement which sets out the Assets and Liabilities of a business firm and which serves to ascertain the financial position of the same on any particular date."

On the left hand side of this statement, the liabilities and capital are shown. On the right hand side, all the assets are shown. Therefore the two sides of the Balance sheet must always be equal. Capital arrives Assets exceeds the liabilities.

OBJECTIVES OF BALANCE SHEET:

1. It shows accurate financial position of a firm.

2. It is a gist of various transactions at a given period.

3. It clearly indicates, whether the firm has sufficient assents to repay its liabilities.

4. The accuracy of final accounts is verified by this statement

5. It shows the profit or Loss arrived through Profit & Loss A/c.

FORMAT OF A BALANCE SHEET:

Balance Sheet Template

Company Name Here

Balance Sheet

For the Period Ended ____________

Assets

Current Assets			
Cash		000000	
Short-term Investments		00000	
Accounts Receivables		00000	
Inventories		0000000	
Prepaid Insurance		000000	
Others		00000	000000
Long Term Investments			
Stock Investments		000000	
Cash Value of Insurance		0000000	000000
Fixed Assets			
Land		000000	
Building and Equipment	0000000		
Less Accumulated Depreciation	(00000)	000000	0000000
Intangible Assets			
Good Will			0000000
Other Assets			
Receivables from Employees			00000000
Total Assets			000000000

Liabilities

Current Liabilities			
Accounts Payable		000000	
Salaries Payable		00000	
Accrued Interest		00000	
Taxes Payable		0000	
Current Portion of Notes		000000	00000000
Long Term Liabilities			
Note Payable		000000	
Mortgage Liability		000000	00000000
Total Liabilities			00000000
Stock Holder's Equity			
Capital Stock		00000000	
Retained Earnings		0000000	
Total Stock Holder's Equity			000000
Total Liabilities			000000000

PROFIT AND LOSS ACCOUNT AND RELATED CONCEPTS:

Outstanding Expenses

The two fold effect of this entry will be:

- Outstanding salary will be added to salary, if any, on the debit side of Profit & Loss Account.
- Outstanding Salary Account, being personal and having credit balance, will be shown on the liabilities side of the Balance Sheet.

Prepaid or Unexpired Expenses

The double effect of this adjusting entry will be:

1. Prepaid insurance will be deducted from the insurance premium on the debit side of the Profit & Loss Account.
2. Prepaid insurance, being personal account and having debit balance, will be shown on the assets side of the Balance Sheet.

FORMAT OF PROFIT & LOSS ACCOUNT

Dr. Cr.

Particulars	Amount Rs.	Particulars	Amount Rs.
To Opening Inventory	....	By Sales....	....
To Purchases	....	Less, returns....	....
Less : Returns		By Closing Inventory	....
To Wages	....	By Gross loss	....
To Power and Fuel	....	(if no gross profit	....
To Other Direct Expenses	....	is there)	....
To Gross Profit c/d	....		....
To Gross Loss b/d (if any)	....	By Gross Profit b/d	....
To Salaries	....	Investment	....
To Depreciation	....	By Interest on	....
Machinery	....	By other Interest	....
Building etc.	....	By Miscellaneous	....
To Repairs to Buildings	....	Receipts	....
To Repairs to Machinery	....	By Profits on	....
To Insurance	....	Sale of Investments	
To Rent	....		
To Rates & Taxes	....		
To General Expenses	....		
To Interest on Debentures	....		
Add : Outstanding	....	By Net Loss (if any)	
To Provision for Bad and	....	(If no net profit is there)	....
Doubtful Debts, etc.	....		
To Contribution to Provident	....		
and Pension Funds	....		
To Stationery, Printing and	....		
Postage	....		
To Commission, Brokerage	....		
and Discounts	....		
To Loss on Sale of Investments	....		
To Discount on Debenture	....		
(Written off)	....		
To Auditors' Fees	....		
To Net Profits (if any)	....		

INTRODUCTION TO INFLATION ACCOUNTING:

Inflation Accounting

- Introduction :

The basic purpose of preparing financial statements is to present a true and fair view of the operating results and financial position of the business. The Profit & Loss A/c should show the true profits for the period of accounting and Balance Sheet should show the true position of assets and liabilities at the end of the accounting period.

Inflation Accounting

- Introduction :

The basic purpose of preparing financial statements is to present a true and fair view of the operating results and financial position of the business. The Profit & Loss A/c should show the true profits for the period of accounting and Balance Sheet should show the true position of assets and liabilities at the end of the accounting period.

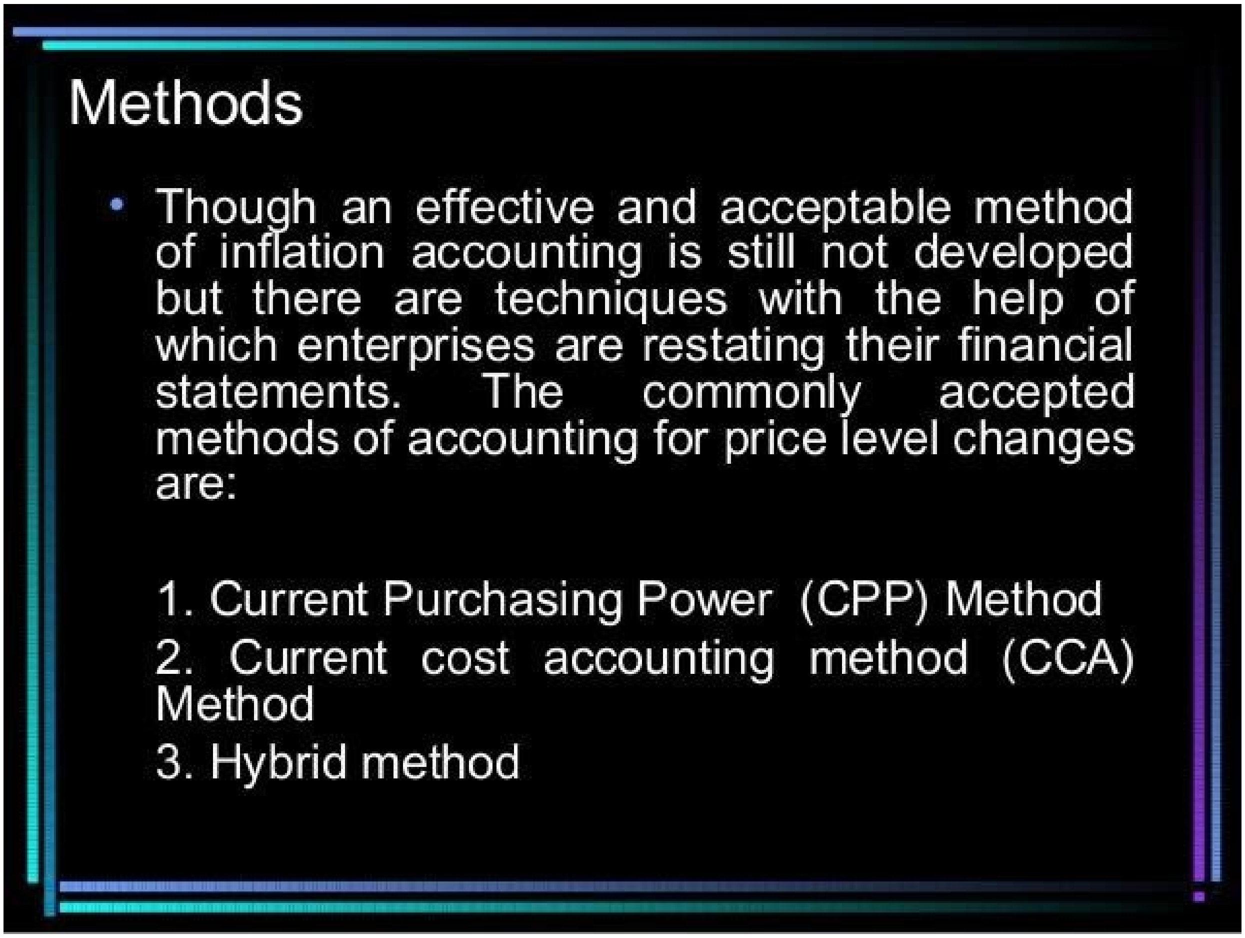
Limitation of conventional (traditional) financial statements:

1. It does not disclose the current value of the business.

2. Transactions which are non-comparable are considered together.

3. It does not provide for replacement at current price levels.

4. The operating profits shown by conventional accounts may not be entirely due to operating efficiency. It may include holding profits also.


Methods
• Though an effective and acceptable method of inflation accounting is still not developed but there are techniques with the help of which enterprises are restating their financial statements. The commonly accepted methods of accounting for price level changes are:
1. Current Purchasing Power (CPP) Method
2. Current cost accounting method (CCA) Method
3. Hybrid method

- Hence under CPP method:

1. Monetary items are not restated but Gain/loss on monetary items is determined
2. Non monetary items are restated at current price levels
3. Gain/loss on monetary items is adjusted in Profit /loss A/c
4. Any difference in Balance Sheet is shown as reserves.

- Criticisms against CPP

1. The selection of price index is not easy. There are different price indices
2. The price level selected is general price level and not for the individual items.

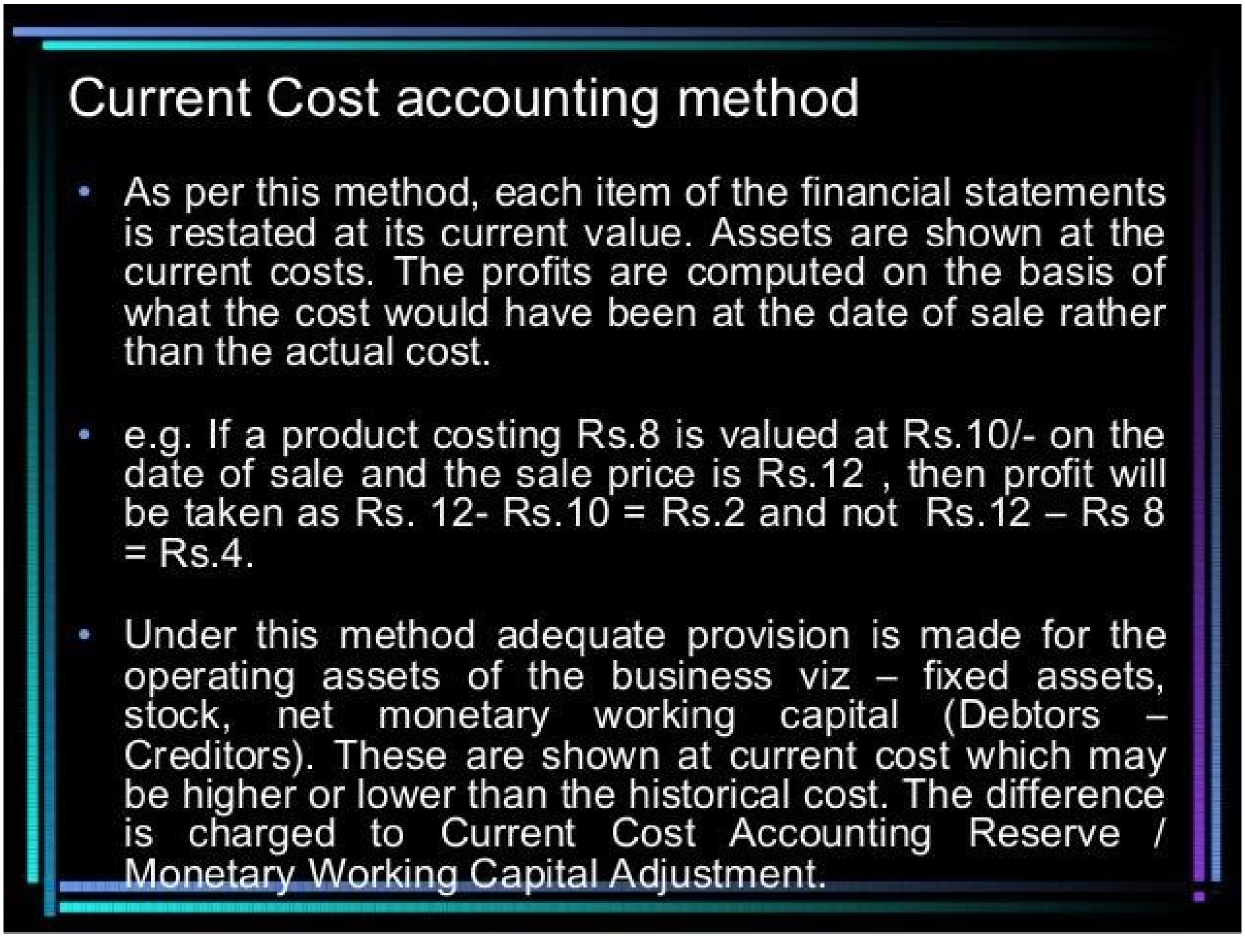
CPP method:

- In this method figure stated in the financial statements are converted into figures at current purchasing price.

  $$\text{Conversion factor} = \frac{\text{Price index at the time of conversion}}{\text{Price index at the date of transaction}}$$

- The figures in the financial statements are classified into monetary and non monetary items. Monetary items are those items whose amounts are fixed by contract. The changes in price levels do not have any effect on such items e.g. cash, debtors, creditors, loans, outstanding expenses etc. Monetary items need not be converted since they are already stated at current price levels. If a debtor is created on 1.1.2005 for Rs.1000 and he repays Rs.1000 on 31.12.2005 price index being 100 and 150 respectively. The debtor should have paid

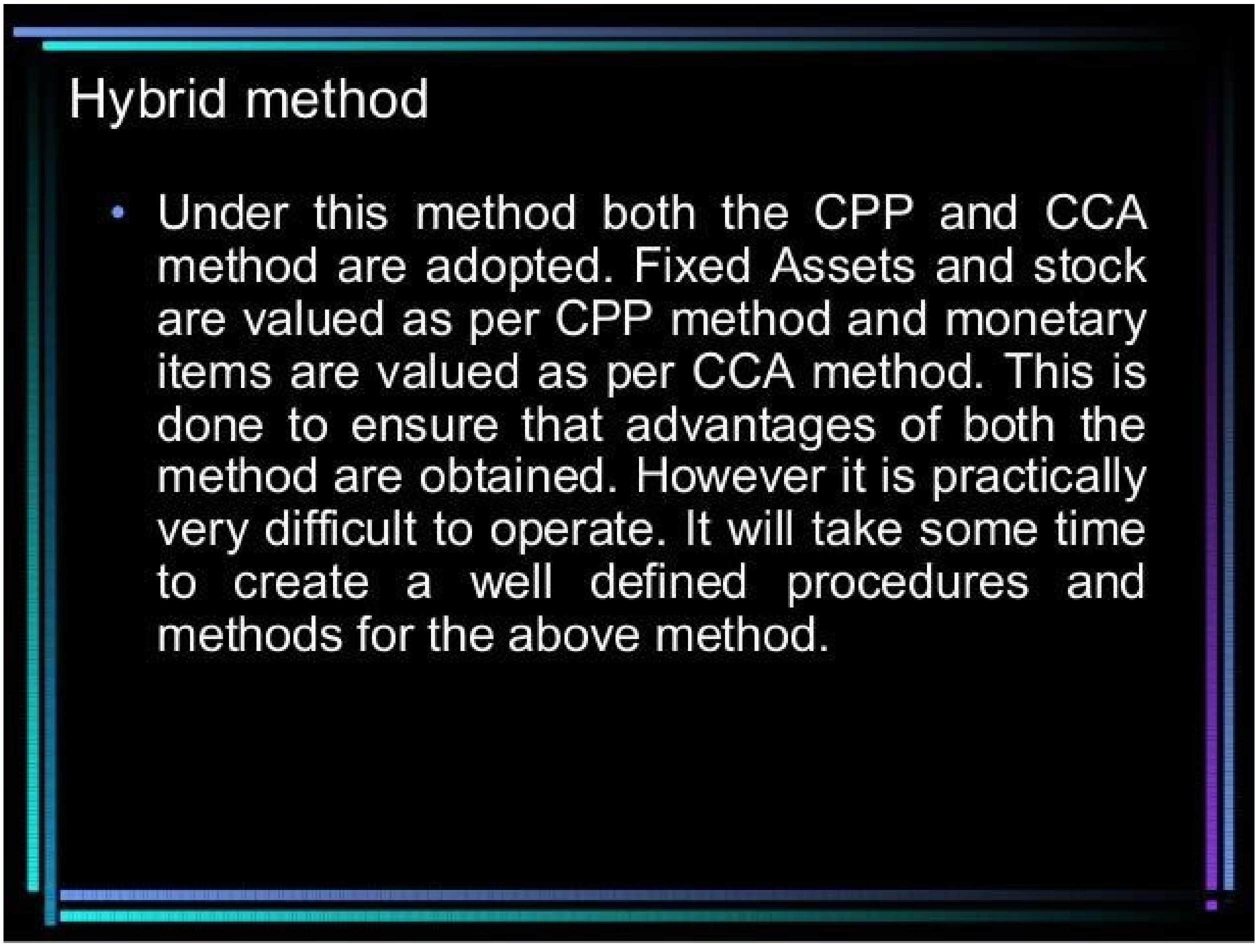
  $$1000^* \frac{150}{100} = 1500$$


Current Cost accounting method
As per this method, each item of the financial statements is restated at its current value. Assets are shown at the current costs. The profits are computed on the basis of what the cost would have been at the date of sale rather than the actual cost.
e.g. If a product costing Rs.8 is valued at Rs.10/- on the date of sale and the sale price is Rs.12 , then profit will be taken as Rs. 12- Rs.10 = Rs.2 and not Rs.12 – Rs 8 = Rs.4.
Under this method adequate provision is made for the operating assets of the business viz – fixed assets, stock, net monetary working capital (Debtors – Creditors). These are shown at current cost which may be higher or lower than the historical cost. The difference is charged to Current Cost Accounting Reserve / Monetary Working Capital Adjustment.

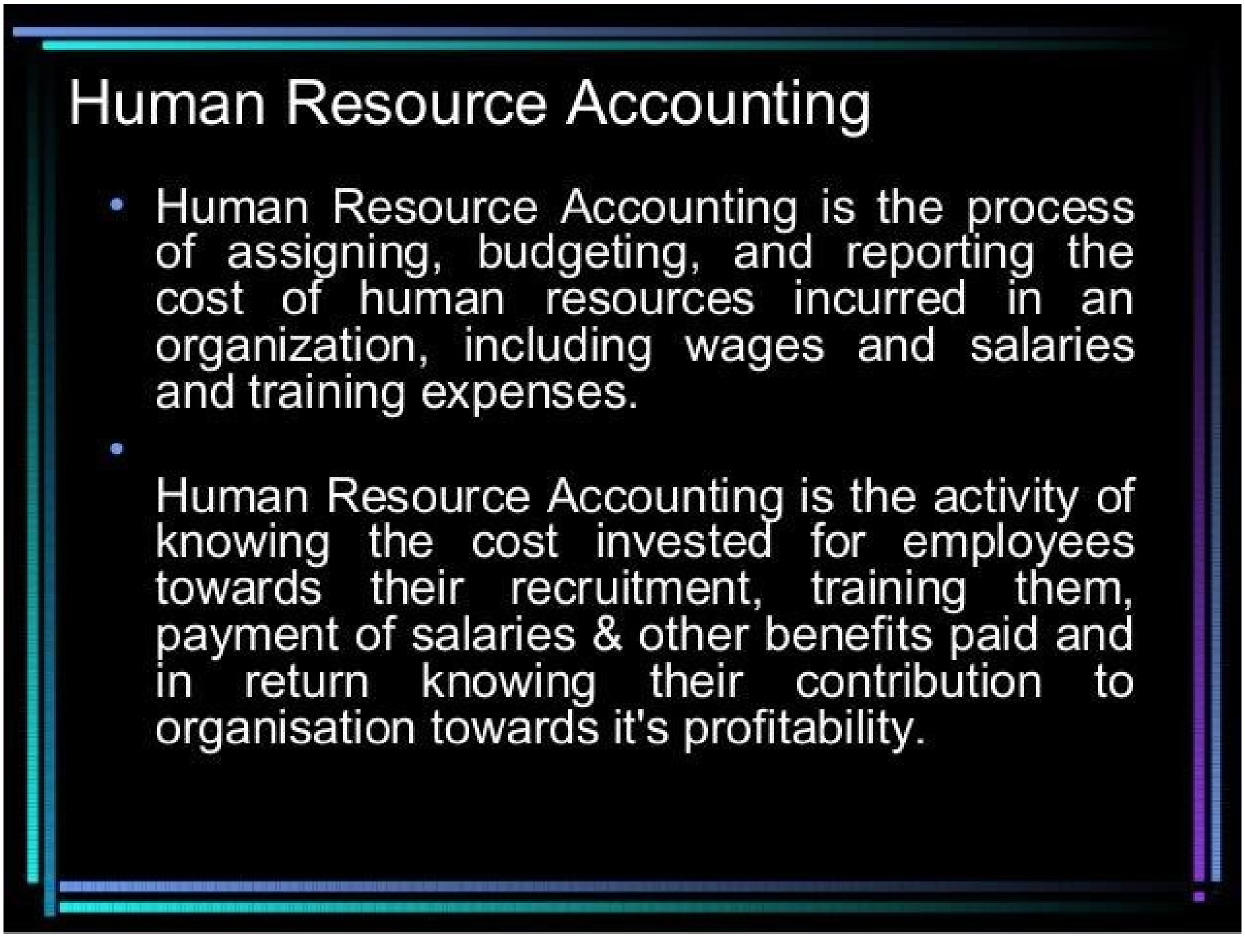
- CCA method is preferred by accountants since it measures the real profit or loss for the accounting year. This technique can be built in into the accounting system and financial statements can be regularly prepared on CCA basis.

- Criticisms:

1. Depreciation under CCA method is provided on the current value of the assets. They may not be adequate to provide for the replacement of all types of assets.
2. There is subjectivity in adopting the current value of the assets depending upon the discretion and personal judgments of the managers.
3. This method does not take into account the change in value of borrowed funds

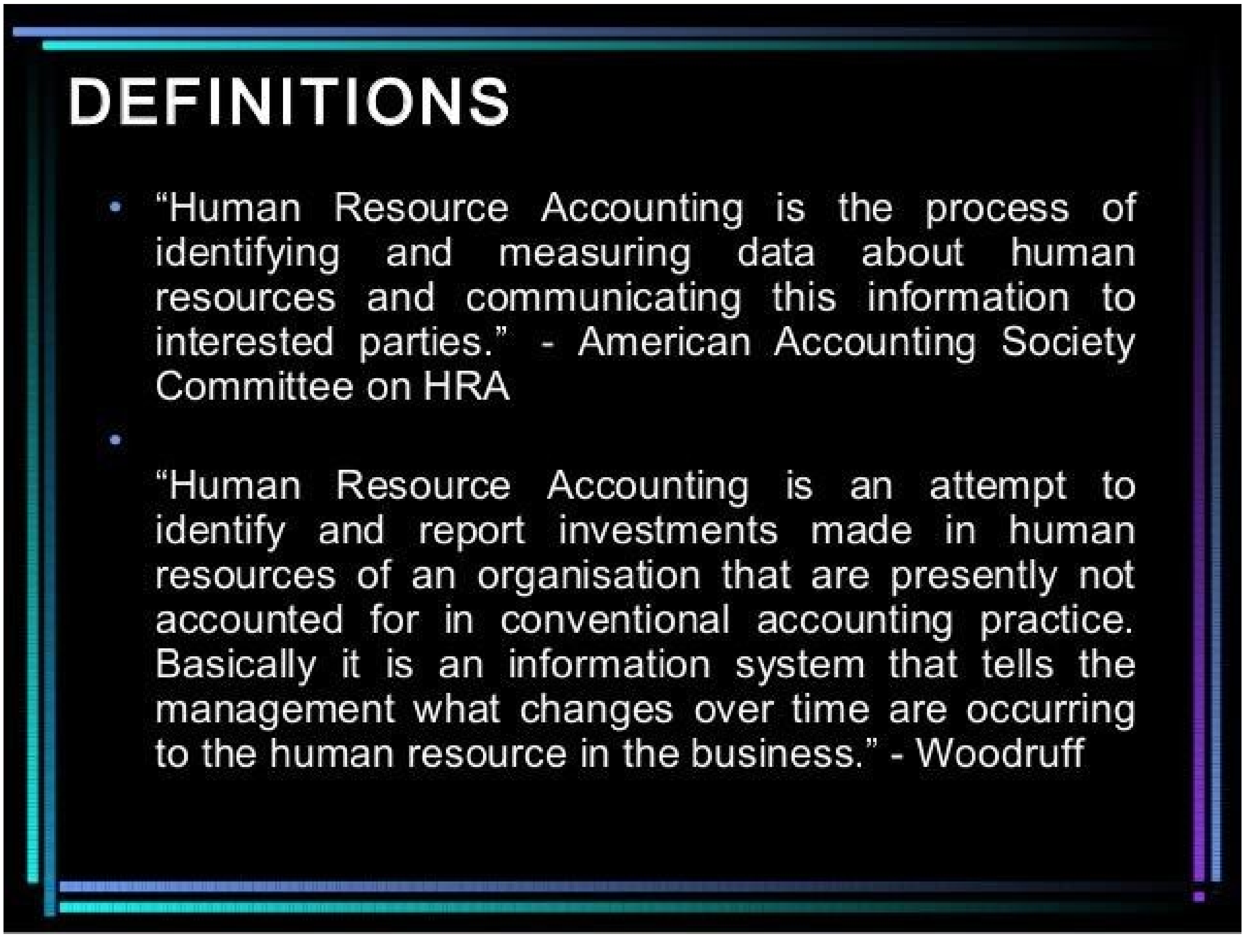


INTRODUCTION TO HUMAN RESOURCE ACCOUNTING


Human Resource Accounting
• Human Resource Accounting is the process of assigning, budgeting, and reporting the cost of human resources incurred in an organization, including wages and salaries and training expenses.
•
Human Resource Accounting is the activity of knowing the cost invested for employees towards their recruitment, training them, payment of salaries & other benefits paid and in return knowing their contribution to organisation towards it's profitability.

According to Likert (1971), HRA serves the following purposes in an organisation:

- It furnishes cost/value information for making management decisions about acquiring, allocating, developing, and maintaining human resources in order to attain cost-effectiveness;
- It allows management personnel to monitor effectively the use of human resources;
- It provides a sound and effective basis of human asset control, that is, whether the asset is appreciated, depleted or conserved;
- It helps in the development of management principles by classifying the financial consequences of various practices.


DEFINITIONS
“Human Resource Accounting is the process of identifying and measuring data about human resources and communicating this information to interested parties.” - American Accounting Society Committee on HRA
“Human Resource Accounting is an attempt to identify and report investments made in human resources of an organisation that are presently not accounted for in conventional accounting practice. Basically it is an information system that tells the management what changes over time are occurring to the human resource in the business.” - Woodruff

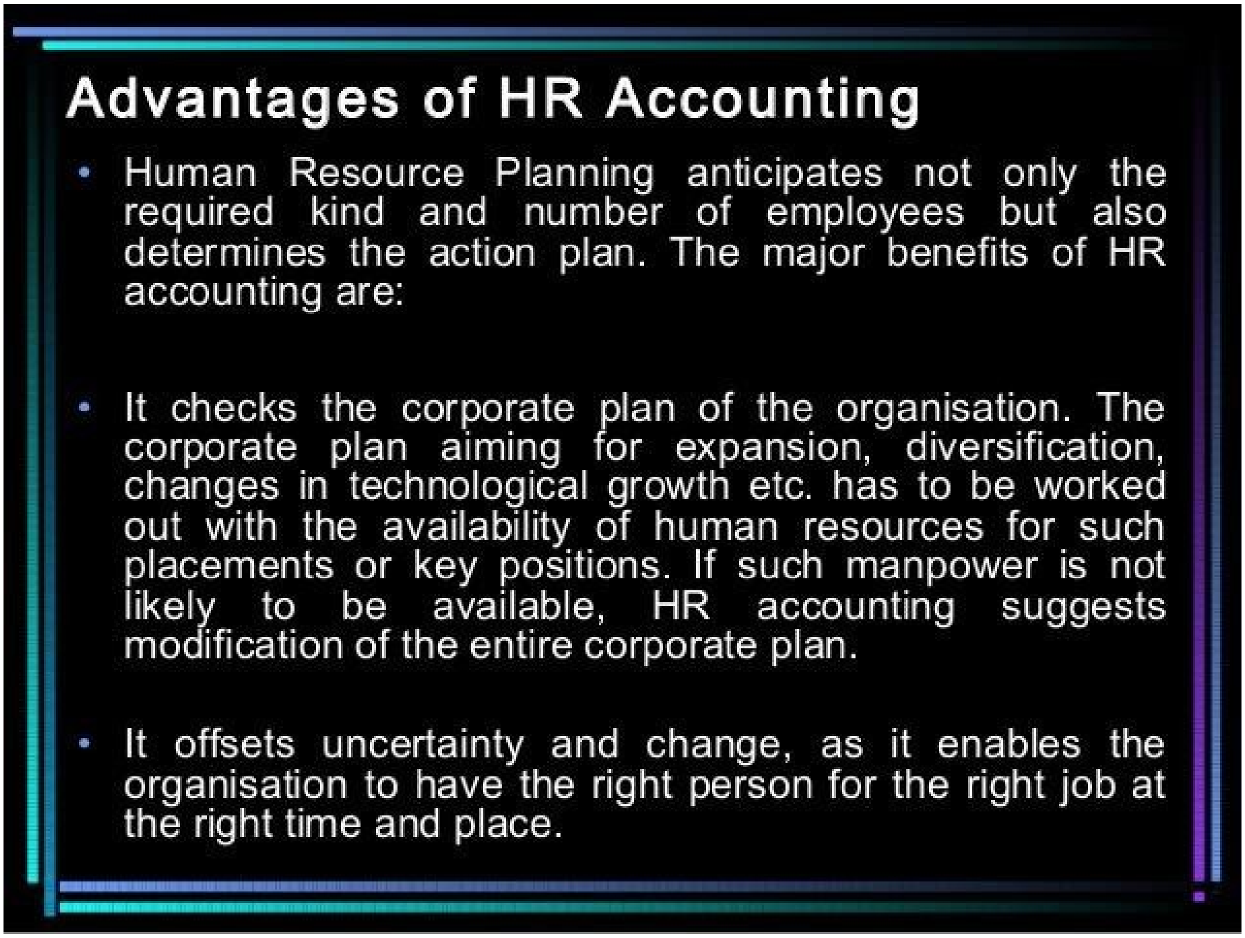
Objectives of HR Accounting

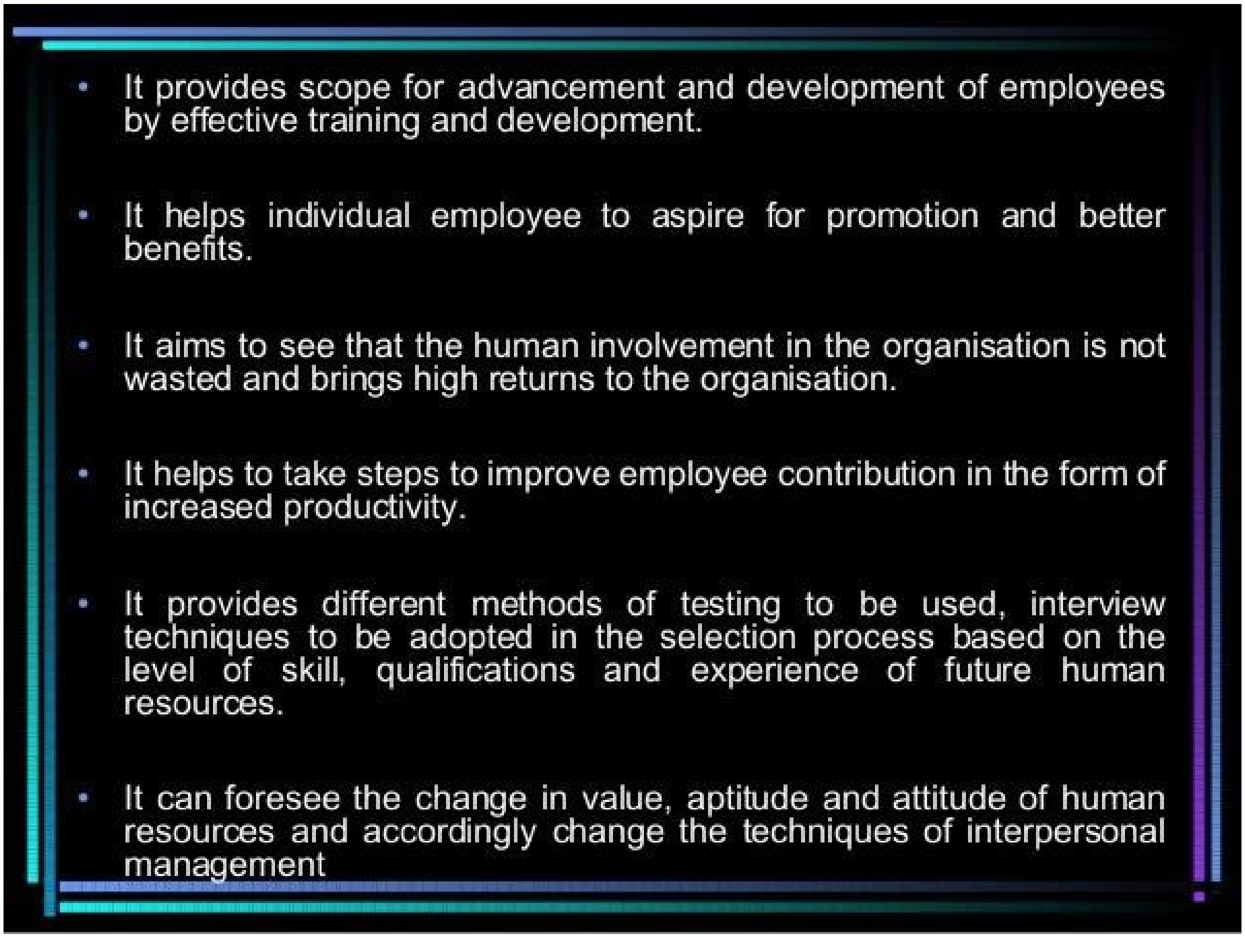
- The objective of HRA is not merely the recognition of the value of all resources used by the organisation, but it also includes the management of human resource which will ultimately enhance the quantity and quality of goods and services. The main objectives of HR Accounting system are as follows:

1. To furnish cost value information for making proper and effective management decisions about acquiring, allocating, developing and maintaining human resources in order to achieve cost effective organizational objectives.

2. To monitor effectively the use of human resources by the management.

3. To have an analysis of the human assets i.e. whether such assets are conserved, depleted or appreciated.


Advantages of HR Accounting
• Human Resource Planning anticipates not only the required kind and number of employees but also determines the action plan. The major benefits of HR accounting are:
• It checks the corporate plan of the organisation. The corporate plan aiming for expansion, diversification, changes in technological growth etc. has to be worked out with the availability of human resources for such placements or key positions. If such manpower is not likely to be available, HR accounting suggests modification of the entire corporate plan.
• It offsets uncertainty and change, as it enables the organisation to have the right person for the right job at the right time and place.


It provides scope for advancement and development of employees by effective training and development.
It helps individual employee to aspire for promotion and better benefits.
It aims to see that the human involvement in the organisation is not wasted and brings high returns to the organisation.
It helps to take steps to improve employee contribution in the form of increased productivity.
It provides different methods of testing to be used, interview techniques to be adopted in the selection process based on the level of skill, qualifications and experience of future human resources.
It can foresee the change in value, aptitude and attitude of human resources and accordingly change the techniques of interpersonal management

HR Accounting IN INDIA

- As far as the statutory requirements go, the Companies Act, 1956 does not demand furnishing of HRA related information in the financial statements of the companies. The Institute of Chartered Accountants of India too, has not been able to bring any definitive standard or measurement in the reporting of human resources costs. While qualitative pronouncements regarding the importance of Human Resources is often made by the chairmen, in the AGM, quantitative information about their contribution is rarely recorded or communicated.

- There are a few organizations, however, that do recognize the value of their human resources, and furnish the related information in their annual reports. In India, some of these companies are : Infosys, Bharat Heavy Electricals Ltd (BHEL); the Steel Authority of India Ltd. (SAIL), the Minerals and Metals Trading Corporation of India Ltd. (MMTC), the Southern Petrochemicals Industries Corporation of India (SPIC), the Associated Cement Companies Ltd, Madras Refineries Ltd. , the Hindustan Zinc Ltd. , Engineers India Ltd, the Oil and Natural Gas Commission, Oil India Ltd., the Cement Corporation of India Ltd. etc.

UNIT II

COMPANY ACCOUNTS

MEANING& DEFINITION OF A COMPANY

According to justice lindely, a company is an association of many person who contribute money or money's worth to a common stock and employs it for a common purpose

LTD COMPANY

- a company incorported under the companies act 1956.
- Liability of the members is ltd(liability of its members is ltd to the amount that they have to agreed to contribute to the company by the way of sharecapital

Advantages of incorporation

- Legal entity
- In corporated company never dies
- Share of an incorporated company is movable property

Characteristics of company

- Separate legal existence
- Limited liability of shareholders
- Voluntary association
- Free transferability of ownership rights
- Perpectual existence
- Common seal
- Professional mgt(sh-bod-ceo-other individual)
- Govt regulations

Kinds of company

Point of view formation

- Chartered companies(king or queen of england)east india co
- Statutory companies(act of parliament) sbi
- Registered companies(companies act 1956)

Point of view of the public investment

- Private company
- Public company

Point of view of liability

- Ltd company
- Unltd company
- Guarantee company
- Foreign company

Alteration of share capital

A public limited company starts its business with a certain amount of share capital. After a certain period it may need to alter it, to reduce or increase or re organise it.

<u>An alteration of share capital may be done in any one of the ways</u>

- Increase in share capital
- Consolidation
- Sub division
- Conversion of shares into stock /conversion of stock into shares
- Cancelling unissued shares

Legal procedure for alteration in share capital

According to sec 94, a public ltd company,limited by shares &ltd by guarantee,having share capital may alter their share capital.

To be authorized by articles of association(passed special resolution in general meeting)

Manner

- Increase in share capital(issue of new shares)
- Consolidation(ex :conversion of shares of rs10 each into rs 100 each)
- Sub division(ex:conversion of shares rs 100 each into shares of rs10 each)
- Conversion of shares into stock /conversion of stock into shares
- Cancelling unissued shares

To pass a resolution sec 94(2)

ordinary resolution & no need to get permission from court or central govt

To inform registrar sec 95(1)&95(2)

Inform to registrar within 30 days

He will make necessary changes in MOA or AOA

Provision for penalty SEC 95(3)- RS 500 penalty

Exemption from passing a resolution SEC 94(1)&94A(2)-Company amendment act 1974(an order made by the central govt Conversion of shares into stock /conversion of stock into shares

Preferential allotment

Meaning

- Issue of shres by a company to select group of shareholders,investors &promoters on a private placement is called preferential allotment
- An issue of equity by a listed company to selected investors at a price which may or may not be related to the prevailing market price is referred as preferential allotment
- 75% of voting rights to the share holders

<u>REASONS</u>

- The cost &uncertainty associated with the public issue is high
- Sophisticated investors like mutual funds and private equity investors are likely to pay a higher price

Full allotment

Some of the applicant get the allotment of all shares is called full allotment

Partial allotment or pro allotment:

Instead of returning the excess application of money , the same will be adjusted towards money due on allotment & balance of allotment money will be payable by applicant.

Procedure

- Issue of shares by a company only on the basis of preferential allotment
- Issue of shares by a company to select group of shareholders,investors &promoters
- Disclose the information of the allottee(name,fathers name,address&occupation)

Additional conditions(new rule 8)

- A fresh allotment is not made if an earlier offer is not complete
- Public offer
- Money payable through cheque/draft or other bank channel
- Adjustment against allotment of shares repayment of money where the company is unable to allot securities
- Where the company fails to repay the money ,interest rate 12% would be payable
- Additionally the offering company shall not make any public advertisement etc to on form public at large about such offer

EMPLOYEES STOCK OPTION (ESOP)

The Companies (Amendment) Act 2000 has inserted a new clause (15 A) in section 2 of the Companies Act, 1956, which states that "employee stock option" means the option given to the whole-time directors, officers or employees of a company, which gives such directors, officers or employees the benefit or right to purchase or subscribe at a future date, the securities offered by the company at a pre-determined price.

Securities and Exchange Board of India issued Employees Stock Option Scheme and Employee Stock Purchase Scheme Guidelines in 1999 under section 11 of the Securities and Exchange Board of India Act, 1992.

cash compensation

Non employees suppliers,consultants,lawyers etc

Grant: Grant of the option means giving an option to the employees to subscribe to the shares of the company.

Vesting: It is the process by which the employee is given the right to apply for shares of the company against the option granted to him in purchase of employee in pursuance of ESOS.

Vesting Period: It is the time period during which the vesting of the option granted to the employee on pursuance of employee stock option scheme (ESOS) takes place.

Option: Option means a right but not an obligation granted to an employee in pursuance of ESOS to apply for shares of the company at a pre-determined price.

ADVANTAGES

- Capital appreciation
- Incentive based retirement
- Tax advantages
- Company reduces its tax liability

DISADVANTAGES

- Dilution
- Fiduciary liability(trust for another)
- Liquidity
- Stock performance

Buy back of securities/shares

Meaning

Repurchase by a company of its own shares or other specified securities is called buy back of shares or securities

Sources of BBS

- Free reserves
- Securities premium account
- Proceeds of any shares or other specified securities

Methods &treatment of BBS

Buy back of shares may be done at

- Par
- Premium
- Discount

If shares are purchased in premium or discount it affects the reserves or surplus &capital reserve.

Incase of premium it is debited to r&s

Incase of discount it is transferred to

Reasons for buy back shares/securities

- To improve the overall value of the company
- To improve the earning per share
- To facilitate a company to restructure its capital
- To utilize the cash surplus.
- To achieve or maintain a target capital structure

Conditions for BBS

- Authorized by articles of association

- Special resolution has to be passed in general body meeting
- BBS should not exceed 25% of the paid up capital
- All shares or other specified securities should be fully paid up
- Follow SEBI Guidelines
- All matters should be completed within 12 months from the date of passing the special resolution
- After completion of buy back the company cannot issue the same kind of shares or securities for a period of 24 months
- Loans from bank /financial institutions should not be used for this purpose

Authorized Capital: Authorised capital is the amount of share capital which a company is authorised to issue by its Memorandum of Association. The company cannot raise more than the amount of capital as specified in the Memorandum of Association. It is also called nominal or registered capital. The authorised capital can be increased or decreased as per the procedure laid down in the Companies Act. It should be noted that the company need not issue the entire authorised capital for public subscription at a time. Depending upon its requirement, it may issue share capital but in any case, it should not be more than the amount of authorised capital.

Issued Capital: It is that part of the authorised capital which is actually issued to the public for subscription including the shares allotted to vendors and the signatories to the company's memorandum. The authorised capital which is not offered for public subscription is known as 'unissued capital'. Unissued capital may be offered for public subscription at a later date.

Subscribed Capital: It is that part of the issued capital which has been actually subscribed by the public. When the shares offered for public subscription are subscribed fully by the public the issued capital and subscribed capital would be the same. It may be noted that ultimately, the subscribed capital and issued capital are the same because if the number of share, subscribed is less than what is offered, the company allot only the number of shares for which subscription has been received. In case it is higher than what is offered, the allotment will be equal to the offer. In other words, the fact of over subscription is not reflected in the books.

Called-up Capital: It is that part of the subscribed capital which has been called up on the shares. The company may decide to call the entire amount or part of the face value of the shares. For example, if the face value (also called nominal value) of a share allotted is Rs. 10 and the company has called up only Rs. 7 per share, in that scenario, the called up capital is Rs. 7 per share. The remaining Rs. 3 may be collected from its shareholders as and when needed.

Paid-up Capital: It is that portion of the called up capital which has been actually received from the shareholders. When the share holders have paid all the call amount, the called-up capital is the same to the paid-up capital. If any of the shareholders has not paid amount on calls, such an amount may be called as ‘calls in arrears’. Therefore, paid-up capital is equal to the called-up capital minus call-in-arrears.

Uncalled Capital: That portion of the subscribed capital which has not yet been called-up. As stated earlier, the company may collect this amount any time when it needs further funds.

Reserve Capital: A company may reserve a portion of its uncalled capital to be called only in the event of winding up of the company. Such uncalled amount is called ‘Reserve Capital’ of the company. It is available only for the creditors on winding up of the company.

CHAPTER 3

ANALYSIS OF FINANCIAL STATEMENTS

FINANCIAL STATEMENT

- Financial statement generally refers to four basic statements i.e., Trading, Profit & Loss a/c, the Balance sheet, the statement of retained earnings and the sources and uses of funds statement.
- The financial statement taken together give the accounting picture of the firm's operations and financial position.
- Objectives of financial statement
- Different type of people need varied information and fortunately such information may be classified as relating to profitability ,liquidity and solvency.
- The main objective of financial statement is to satisfy the needs of such people.

OBJECTIVES OF FINANCIAL STATEMENT ANALYSIS

- Measuring short term Solvency
- Measuring long term Solvency
- Measuring operational efficiency
- Measuring profitability
- Forecasting, budgeting and deciding future line of action
- Assessing growth potential of the business

PARTIES INTERESTED IN THE FINANCIAL STATEMENT

- Management
- Financial Institutions including Bank
- Perspective Investors
- Customers

- Employees and the trade unions
- Tax authorities

LIMITATIONS OF FINANCIAL STATEMENT

- Information is incomplete
- Qualitative information is incomplete
- Financial statements mainly show historical information
- Financial statement are affected by window dressing
- Personal judgment influence financial statement

Analysis and Interpretation

Analysis :

Analysis refers to re – arrangement of the data given in the financial statements.

Interpretation:

It refers to explaining the meaning and significants of the data so simplified.

TOOLS/METHODS OF FINANCIAL STATEMENT ANALYSIS

The tools or methods used for financial statement analysis are

- Financial ratio analysis
- Fund flow analysis
- Cash flow analysis
- Comparative financial statement
- Common size statement

FINANCIAL RATIO ANALYSIS

Definition of Ratio:

"A ratio is an expression of the qualitative relationship between numbers".

Definition of Ratio Analysis:

"Ratio analysis is the study of relationship among the various financial factors in the business".

OBJECTIVES OF RATIO ANALYSIS

- Measuring the profitability of the business
- Judging the operational efficiency of business
- Assessing the solvency of the business
- Measuring the short term and long term financial position of the business
- Facilitating Comparative Analysis of the performance

ADVANTAGES OF RATIO ANALYSIS

- Simplification of mass of accounting data
- Facilitates better coordination and control
- A tool to assess important characteristics of business
- An effective tool for analysis for intra – firm and inter – firm comparisons
- Helpful in future forecasting
- **Limitations of Ratio Analysis**

LIMITATIONS OF FINANCIAL STATEMENTS

- No fixed standards
- Qualitative Factors are ignored
- Lack of standard formula
- It is not suitable for personal judgment
- Ignoring price level changes

- Formula for calculating ratios

BASED ON PROFITABILITY RATIOS

1.Return on Investment:

= Operating profit

.... X 100

Capital employed

2.Return on equity shareholders fund:

Net profit after interest & preference dividend

....x100

Shareholder's fund

3.Return on shareholders fund:

= Net profit after tax and interest

.... X 100

Shareholders fund

4.Return on total asset:

= Net profit after tax + interest

....X 100

Tangible Asset

5.Gross profit Ratio:

Gross profit

...............................X 100

Net sales

6.Operating profit ratio:

= operating profit

.... X 100 (or)

Net sales

= cost of goods sold + Operating expenses

.... X 100

Net sales

7. Expenses ratio:

= Specific expenses

.... X 100

Net sales

8. Net profit Ratio:

= Net profit

.... X 100

Net sales

9. Earnings per share:

= Net profit after tax and preference share

No. of equity share

10. Price earnings ratio:

= Market price per equity share

Earnings per equity share

11. Payout ratio :

= Equity dividend

....X 100

Net profit after tax and preference share

12. **Retained earnings ratio:**

= Retained earnings

.... X100

Net profit after tax and preference share

13. **Interest cover ratio:**

= profit before interest and tax

Fixed interest charges

14. **Fixed dividend ratio:**

= profit after tax

----

fixed interest charges

15. **Dividend yield ratio :**

= Dividend per share

.... X 100

Market price per share

BASED ON TURN OVER RATIOS

16. Inventory turnover ratio :

= cost of goods sold

Average stock

17. Debtors turnover ratio :

= Net credit sales

Average receivables

18. Debt collection period:

= month / days in a year

Debtor's turnover ratio

19. Creditor's turnover ratio:

= Net credit sales

Average accounts payable

20. Working capital :

= Current assets – current Liabilities

21. Working capital turnover ratio:

= Cost of sales

Net working capital

22. Fixed assets turnover ratio:

= Cost of sales

Net fixed assets

23. Capital turnover ratio :

= Cost of sales

Capital employed

24. Owned capital turnover ratio:

= Cost of sales

Shareholder's fund

SOLVENCY RATIO :

25. Current ratio:

= Current assets

Current liabilities

26. Liquid ratio :

= Liquid ratio

Current liabilities

27. Absolute liquidity ratio:

= Cash + Bank + Marketable securities

Current liabilities

28. Fixed asset ratio:

= fixed assets

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long term funds

29. Debt equity ratio:

= Total long term debt

Shareholder's funds

30. Proprietory ratio :

= Shareholder's fund

Total tangible assets

31. **Capital gearing ratio:**

= Long term loan + Debentures + pref.Capital

Equity shareholders funds

Cash flow statement

Meaning :

Cash flow statement is a statement which describes the inflows (sources) and outflows (uses) of cash and cash equivalents in an enterprise during a specified period of time. such a statement enumerates net effects of various business transactions on cash and it equivalents and takes into account receipts and disbursements of cash.

Objectives:

1. To show the causes of changes in cash balance between two balance sheets dates.
2. To indicate the factors contributing to the reduction of cash balance inspite of increase in profits and vice versa.

Uses of cash flow statement

This statement is the most useful to the management to prepare dividend and relation policies.

- It guides the management to evaluate the changes in financial position.
- It presents in brief to the management about the performance of of operational, financial and investments rativities for effective decision.
- It helps to know how the movement of cash took place and the factors which caused the changes in cash flows.
- It guides the management in order to take decisions about short term obligations.
- It also presents the details about the sources of cash and applications of cash during the particular period.

Difference between Funds Flow Statement and Cash Flow Statement

S.No	Funds Flow Statement	Cash Flow Statement
1	It helps to measure the causes of working capital.	It focuses on the causes for the movement of cash during a particular period.
2	It is prepared on the basis of fund and financial resources.	It is based on cash basis of accounting
3	It helps to the management for immediate and long term financial planning.	It guides the management for short term financial planning.

4	Statement of changes in working capital is required for preparation of fund flow statement	In this there is no such statement is required.

Limitations Cash Flow Statement

- Cash flow statement has limited scope as it compares with fund flow statement. Because it discloses inflows and outflows of cash alone.
- Cash flow statement cannot provide a comprehensive picture of a financial position because non cash items of expenses and incomes are excluded.
- The balances as disclosed by Cash flow statement may not be treated as actual liquid position of a concern since it cannot be easily influenced by postponing purchases and other payments.

Cash flow statement for the year ended ………..

Particulars	**Rs**	**Rs**
A. Cash flow from Operating Activities:	**xxx**	**xxx**
Net profit before tax and extra ordinary Activities	**xxx**	**xxx**
Add:	**xxx**	
Depreciation on fixed assets	**xxx**	
Gain/loss on sale of fixed asset	**xxx**	
Foreign exchange	**xxx**	
Miscellaneous expenditure written off	**xxx**	
Investment income	**xxx**	
Interest	**xxx**	
Dividend	**xxx**	
Operating profit before working capital changes: Adjustments for :	**xxx**	
Trade and other receivables	**Xxx**	
Inventories	**Xxx**	
Trade payables	**Xxx**	
Cash generated from operations:	**Xxx**	
Interest paid		
Direct taxes paid		
Cash flow before extraordinary items		
Net cash from operating activities		

Cont……		
Particulars	**Rs**	**Rs**
B.Cash flow from Investing Activities:	**xxx**	**xxx**
Purchase of fixed assets	**xxx**	**Xxx**
Sale of fixed assets	**xxx**	
Purchase of investments	**xxx**	
Sale of investments	**xxx**	
Interest received	**xxx**	
Dividend received	**xxx**	
Net cash from / used in investing activities	**xxx**	
C.Cash flow from Financing Activities:	**xxx**	
Proceeds from issue of share capital	**Xxx**	
Proceeds from long – term borrowings / banks	**Xxx**	
Payment of long – term borrowings	**Xxx**	
Dividend paid	**Xxx**	
Net cash from / used in financing activities	**Xxx**	
Net increase /decrease in cash and cash equivalents (A+B+C)	**Xxx**	
Cash and cash equivalents (Opening Balance)	**Xxx**	
Cash and cash equivalents (Closing Balance)	**XXX**	

FUNDS FLOW STATEMENT ANALYSIS

According Foulke "A statement of sourceandapplication of funds is a technicaldevicedesignedto analyse the changes to the financial condition of a business enterprise in between two dates"

Various Facets of Fund flow statement are as follows:

- ✓ Statement of sources and application of funds
- ✓ Statement changes in financialposition
- ✓ Analysis of working capital changes and
- ✓ Movement of funds statement

Objectives of fund flow statement analysis:

- ➢ It pinpoints the mobilization of resources and the further utilization of resources
- ➢ It highlights the financing of the general expansion of the business firms
- ➢ It exemplifies the utilization of debt finance in the structure of financing
- ➢ It portrays the relationship between the financing, investment, liquidity and dividenddecision of the firm during the given point of time.

METHODS OF PREPARATION

Steps in the preparation of Fund Flow Statement:

- First and fore most method is to prepare the statement of changes in working capital i.e., to identify the flow of fund / movement of fund through the detection of changes in the volume of working capital.
- Second step is the preparation of Non- Current A/c items-Changes in the volume of Non current a/cs have to be prepared only in order to quantify the flow fund i-e either sources or application of fund.
- Third step is the preparation Adjusted Profit& Loss A/c, which already elaborately discussed in the early part of the chapter.
- Last step is the preparation of fund flow statement.

Schedule of Changes in Working Capital

The ultimate purpose of preparing the schedule of changes in the working capital is to illustrates the changes in the volume of net working capital which envisages either sources or application of fund. The schedule of changes are focused asfollows:

A. Increase in Current Assets = Increase in Working Capital
B. Decrease in Current Assets = Decrease in Working Capital
C. Increase in Current Liability = Decrease in Working Capital
D. Decrease in Current Liability = Increase in Working Capital

FORMAT OF FUND FLOW STATEMENT

Particulars	**Previous Year**	**Current Year**	**Increase inWorking**	**Decrease in inWorking**
(A) Current Assets: Cash In Hand Cash at Bank Marketable Securities Bills Receivable Sundry Debtors				
(B) Current Liabilities: Creditors Bills Payable Outstanding expenses Pre received Income				
Net Working Capital(A-B)				

CHAPTER IV
COST ACCOUNTING

4.1 Meaning and Definitions of Cost Accounting

"Cost accounting is a quantitative method that accumulates, classifies, summarizes and interprets information for three major purposes: (in) Operational planning and control ;(ii) Special decision; and (iii) Product decision." **-Charles T. Horngren**

ADVANTAGES:

A good system of costing is the technique of controlling the expenditure and helps bringing economy in production, so it serves the needs of a large section of people in the following ways.

(a) **Benefits to the Management:** The information revealed by cost accounting aims at mainly assisting the management in decision making and optimizing profits. Besides this there are certain advantages of cost accounting to the management i.e. it helps in price fixation, in revealing profitable and unprofitable activities, idle capacity, in controlling cost and also helps in inventory control.

(b) **Benefits to the Employees:** Cost accounting introduces wage scheme, bonus to the efficient & sincere employees which in turn increasing productivity, profitability and lowering cost.

(c) **Benefits to Creditors:** The better management of finance through cost accounting leads to timely debt servicing by company in the form of repayment of loan and payment of interest. To stay and grow in competition and for judging soundness of present and perspective borrower and cost reports give better picture of efficiency profit prospectus and capacity.

(d) **Benefits to the Government:** Cost accounting enables the Govt. to prepare plans for economic development of the country, to make policies regarding taxation, excise duty, export, price, ceiling, granting subsidy etc.

(e) **Benefits to Consumers/Public:** Cost accounting helps consumers in getting goods of better quality at reasonable price.

1.6 Importance

Cost accounting gives information and reports to the management in the following ways:-

(a) **Control of Material Cost** –Cost of material is a major portion of the total cost of a product. It can be controlled by regular supply of material and spares for production, maintaining optimum level of funds in stocks of materials and stores

(b) **Control of Labour Cost:** If workers complete their work within the specified time cost of labour can be controlled.

(b) **Control of Overheads:** By keeping a strict check over various overheads such as factory, administrative and selling & distribution, this can be controlled.

(c) **Measuring Efficiency:** Cost accounting provides information regarding standards and actual performance of the concern activity for measuring efficiency.

(d) **Budgeting:** The preparation of the budget is the function of costing department and budgeting is done to ensure that the practicable course of action can be chalked out and the actual perform corresponds with the estimated or budgeted performance.

(e) **Price Determination:** On behalf of cost accounting information, management is enable to fix remunerative selling price for various items of products and services in different circumstances.

(f) **Expansion:** The management may be able to formulate its approach to expansion on the basis of estimates of production of various levels.

METHODS:

a) **Job Costing:** In this system the cost of each job is ascertained separately which is suitable in all cases where work is undertaken on receiving a customer's order. Like a printing press, motor work shop etc.

b) **Batch Costing:** It is considered as the extension of job costing. It represents a number of small orders passed through the factory in batch. Each batch here is treated as a separate unit of cost.

c) **Contract Costing:** It is suitable for the firms which are engaged in the work of construction of bridges, roads, buildings etc.

d) **Single or Output Costing:** It is used in the business where a standard production is turned out and it is desired to find the cost of a basic unit of production.

e) **Process Costing:** It is a method of costing used to ascertain the cost of a product which may passes through various processes before completion.

f) **Operating Costing:** The cost of providing a service is known as operating cost and the methods to ascertain the cost of such services is known as operating costing.

g) **Multiple Costing:** In multiple costing, a combination of two or more methods of costing is used in conjunction to determine the cost of final product. This method is used by the industries where different components are separately manufactured and subsequently assembled into the finished product. For e.g.: Motor car, Television, Ships etc.

1.10 Techniques

For ascertaining cost, following techniques of costing are usually used:-

a) **Uniform Costing:** The practice in which common methods of costing for different undertakings in the same industry are used is known as uniform costing.

b) **Historical Costing:** In this technique, ascertainment of cost is done after they have been incurred but the utility of this technique is limited.

c) **Direct Costing:** The practice of charging all direct costs to operations, processes or products leaving all indirect costs to be written off against profit's in which they arise are called as direct costing.

d) **Absorption Costing:** In this all costs, both variable and fixed are charged to production, operations or processes.

e) **Marginal Costing:** The method of ascertaining marginal cost by differentiating between fixed and variable costs. This technique is used to ascertain effect of changes in volume or type of output over the profits.

f) **Standard Costing:** The preparation of standard costs and applying them to measure the variations from actual cost and analyzing the causes of variations with a view to maintain maximum efficiency in production is known as standard costing.

g) **Activity Based Costing:** ABC is a system that focuses on activities as fundamental cost objects and utilizes the cost of these activities as building blocks or compiling the costs of other cost objects

LIMITATIONS.

a) **Not Reliable:** Cost Accounting is based on estimates and so it is not reliable.

b) **Failure of the System:** Cost Accounting system has failed to produce desired results in many concerns. Thus it could be said that this system is at fault.

c) **Unnecessary:** it is not necessary in Business concern as it involves duplication of work.

d) **Inapplicability**: Modern methods of cost accounting are not applicable to every type of industries.

e) **Expenses:** It is expensive because double set of account books has to be maintained and its introduction involves considerable amount of expenditure.

Cost Concepts

There are six basic cost concepts on which cost classification and various cost terms are based, which are as follows :

1. **Concept of Objectivity:** This concept helps to give direction to the operations referred to cost finding, cost analysing, cost recording and cost reporting. This concept requires goal congruence i.e. cost exercises have to be in harmony with the objectives. Objectives influence cost treatments and cost strategies which may include internal reporting for operational, external and specific non-repetitive decisions.

2. **Concept of Materiality:** This concept that forces exactness must be tempered by good judgement, if no misrepresentation of product cost is likely to result. For example, overhead may include few items of direct cost, which may not be as material as to justify tracing them to particular unit of production. A specific decision may be helpful, but benefits may not be materially sufficient to implement it. Materiality is determined with reference to nature of firm's affairs, managerial policies and competitors' practices.

3. **Concept of Time Span:** All assumptions relating to various cost exercises remain valid only during related specific time span. The fixed cost statement is relied upon a time span under consideration. No costs will remain fixed for the whole time. Time span choosed by a firm should be more enough

to permit the procedures to record the related cost, output, labour hours and other factors required in the interpretation or analysts. If time span is too less, leads and lags in recording the cost data may be quite hassle. If cost associating to a specific time span activity is recorded to another time span activity, cost result may turn out to be quite wrong.

4. **Concept of Relevant Range of Activity:** Relevant range of activity reveals the span of volume over which the cost behaviour is expected to remain valid. Various cost activities are relied upon on specific assumptions relating to cost behaviour patterns, which are valid only within the related range of cost exercise. A fixed cost is fixed only in relation to the relevant range of activity during the time span.

5. **Concept of Relevant Cost and Benefit:** This concept is for decision-making objectives. In appraising alternative courses of action, management should consider only relevant cost and relevant profits relating to alternatives under consideration. Irrelevant cost and benefits are ignored. The affects of this concept on operating or cong range capacity decisions are as follows :

   (a) Relevant Cost and Profit for Operating Decisions: In operating decisions concentration is on optimum application of existing capacity. Increment analysis based on differential cost and differential revenue is based directly on the concept of relevant cost and profit.

   (b) Relevant Cost and Profit for Capacity Decisions: Relevant cost and profits to a capacity decision are varied from the cost and profits relevant to an operating decision. In the long-term, the concepts of fixed and variable cost are meaningless. In long-term decisions, cost and profits are evaluated in relation of their influence on cost. A long-term decision must consider time value of money, the timing of the investment and recovery of cost. The terms out-of-pocket cost and sunk cost are also considered from this perspective.

6. **Concept of Normal and Abnormal Cost:** The term normal refers for cost or circumstances which is in agreement with what is representative, usual or regular. The term abnormal refers for cost or circumstances which are varied from what is normal, expected or ordinary. Various cost accounting treatments and strategies are laid down for

normal and abnormal cost and circumstances.

2 Cost Sheet

Cost sheet is an analytical statement of expenses relating to production of an article which informs regarding total cost, per unit cost and quantity of production.

According to **Wheldon**, "Cost sheets are prepared for the use of management and consequently, they must include all the essential details which will assist the manager in checking the efficiency of production."

In the words of **C.I.M.A., London**, "Cost sheet is a cost schedule or document which provides for the assembly of the estimated detailed cost in respect of a cost centre or cost unit"

When cost per unit of production is not necessary to calculate then a statement of cost is prepared to ascertain total cost and profit or loss on production.

Cost Sheet or Statement of Cost

For the year ending………………

Output…...............units

Particulars	**Total Cost**	**Cost Per Unit**
	Rs.	Rs.
Direct Materials Consumed	-----	------
Direct Wages	-----	------
Direct Charges or Chargeable Expenses	-----	------
Prime Cost	**-----**	**------**

Works Overhead	-----	------
Works Cost	**-----**	**------**
Administrative or Office Overhead	-----	------
Cost of Production or Cost of Goods Sold	-----	------
Selling and Distribution Overhead	-----	-----
Selling Cost or Total Cost	**----**	**----**
Profit ….% on Cost or Selling Cost	----	----
Sales	----	----

UNIT V

COMPUTERISED ACCOUNTING

FEATURES:

1. **Fast, Powerful, Simple and Integrated**: Computerized accounting is designed to automate and integrate all the business operations, such as sales, finance, purchase, inventory and manufacturing. With computerized accounting, accurate, up-to-date business information is literally at the fingertips.

2. **Complete Visibility & Scalability**: With Computerized accounting the company will have greater visibility into the day-to-day business operations and access to vital information. Computerized accounting adapts to the current and future needs of the business, irrespective of its size or style.

3. **Customized**: Computerized accounting allows the company to enter data in a variety of ways which makes work a pleasure. Adapting to the specific business needs is possible.

4. **For quick decision making & improved Business Performance**: This helps the company access information faster, and takes quicker decisions. Computerized accounting also guarantees real-time optimization of operations and enhanced communication. It generates real-time, comprehensive MIS reports and ensures access to complete and critical information, instantly.

CODIFICATION AND GROUPING OF ACCOUNTS

A coded accounting system is more convenient where there are numerous account heads and the complexity is high. It also to some extent reduces the possibility of the same account existing in several names due to spelling mistakes or abbreviations used.

A proper codification requires a systematic grouping of accounts. The major groups or heads could be Assets, Liabilities, Revenue Receipts, Capital Receipt, Revenue Expenditure, Capital Expenditure. The sub-groups or minor heads could be "Cash" or "Receivables" or "Payables" and so on. The grouping and codification is dependent upon the type of organisation and the extent of sub-division required for reporting on the basis of profit centers or product lines.

There could a classification based on geographical location as well.

(a) The main unit of classification in accounts should be the major head which should be divided into minor heads, each of which should have a number of subordinate heads, generally shown as sub-heads. The sub-heads are further divided into detailed heads.

Sometimes major heads may be divided into 'sub-major heads' before their further division into minor heads. The Major heads, Minor heads, Sub-heads and Detailed heads together may constitute a four tier arrangement of the classification structure of Accounts.

(b) Major heads of account falling within the Receipt Heads (Revenue Account) may correspond to different activities or line of business of the company such as car manufacture, servicing of cars, repairs and maintenance of cars, while minor heads subordinate to them shall identify the specific manufacturing activity like manufacture of car body, components and spare parts, etc. A manufacture of car body may consist of a number of activities like the manufacture of the chasis, the door, the front panel, the rear panel, etc. These will then correspond to 'sub-heads' below the minor head represented by the main activity - car manufacture.

(C) A "detailed head" is often termed as an object classification. In the expenditure account being considered in the above example the main purpose of the detailed head is to control expenditure on an item to item basis and at the same time group the objects according to the nature. Example of such detailed head could be 'Salaries', 'Office Expenses', 'Salesman Expenses', 'Workshop Overhead', etc.

(D) The detailed classification of account heads and the order in which the Major and Minor heads shall appear in all account records should be approved by the top management of the organisation and should be reviewed by the auditor before they are introduced in the computerised accounting environment.

Maintaining the Hierarchy of Ledgers

Once the classification of accounts into various groups is complete and codification is done after formation of major, minor, sub and detailed heads the same is required to be inserted into the computer system.

Account master files are created with codes and description of the accounts. Some accounting software allows ledgers and subsidiary ledgers to be created from the main ledgers. The subsidiary ledgers can further be subdivided to sub subsidiary ledgers thereby al owing grouping under various profit centers. These are particularly useful where accounts are maintained without codes. In a coded system this is easily achieved by allotting codes to major, minor, sub and detailed heads and thereafter obtaining reports based on these codes.

Apart from the general ledger and the subsidiary ledger (or the sub-subsidiary ledger as is available in some software) there are other ledger accounts that are automatically created by any standard accounting software. These are the debtor's ledger and the creditor's ledger.

At the time of creation of the account heads some of account heads are indicated to the system as cash account, bank account, debtors account and creditors account. Thereafter whenever an entry is made say with a cash account and a bank account the computer automatically indicates it as a contra in the reports. Similarly when a sale transaction is made, the reflection is given in the debtors account and when a purchase transaction is made the reflection goes to the creditors account.

Another important ledger which forms part of most standard accounting package is the inventory ledger. In simple accounting software's this may give only the movement of inventory items without valuation of inventories. However, many of the packages give the option of valuation of inventories based on the method of costing set like the FIFO, LIFO, weighted average, etc.

ACCOUNTING PACKAGES

Accounting software is an invaluable resource for modern business. Software allows detailed tracking of financial transactions and near instantaneous reporting and analysis.

Selection of the accounting software dependents upon the requirement of business. If you have small organization that makes only a few basic transactions a month—deposits, withdrawals and invoices, you can even use a spread sheet package like Microsoft Excel.

If your business is growing fast you should consider using pre-packaged accounting software like, Sage, Tally, or, FACT or any other billing software. At the higher end if you are in service industry or your business has some specific requirements which are not available in common pre-packaged software, you will have to go for customized accounting software.

Larger organizations go often for an ERP package where finance comes as module. An ERP is an integrated software package which manages the business process across the entire enterprise.

Spread Sheets

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

Advantages of spreadsheet software as an accounting tool are:

1. It is simple to use and easy to understand

2. Most of the common functions like doing calculations, setting formulas, macros, replication of cell contents, etc can be easily done in a spreadsheet.

3. Grouping and regrouping of accounts can be done.

4. Presentation can be made in various forms including graphical presentations like bar diagram, histogram, pie-chart, etc.

5. Basic protection like restricted access and password protection of cell can be used to give security to the spread sheet data.

Disadvantages of a spreadsheet as an accounting tool are:

1. It has data limitations. Depending upon the package they can accept data only up to a specified limit.

2. Simultaneous access on a network may not be possible. Many of the modern softwares allow locking of the table when updation is taking place. This is not possible in a spread sheet.

3. Double entry is not automatically completed. Formulas or other means have to be adopted to complete the double entry.

4. Reports are not automatically formatted and generated but have to be user controlled.

Each time a report has to be printed, settings have to be checked and data range has to be set. In many accounting software this is automatically taken care of by the program.

Prepackaged Accounting Software

There are several prepackaged accounting software which are available in the market and are used extensively for small and medium sized organisations. These softwares are easy to use, relatively inexpensive and readily available.

The instal ation of these softwares are very simple. An installation diskette or CD is provided with the software which can be used to install the software on a personal computer. A network version of this software is also generally available which needs to be installed on the server and work can be performed from the various workstations or nodes connected to the server.

Along with the software an user manual is provided which guides the user on how to use the software.

After installation of the software, the user should check the version of the software to ensure that they have been provided with the latest. The vendor normally provides regular updates to take care of the changes of law as well as add features to the existing software.

These softwares normally have a section (customer master file) which provides for the creation of a company. The name, address, phone numbers and other details of the company like VAT registration number, PAN and TAN numbers are feeded into the system. The accounting period has to be set by inserting the first and the last day of the financial year.

The next step in the use of this software could be the creation of accounts. This is done by adding the accounts along with their codes into the master file files. Each account has to be classified into whether it is an asset or liability or an income or expenditure account. Whether the account has other subsidiary ledgers under it needs to be indicated to the system. The opening balances are to be entered into the master file files. The company parameters need to be set at this point of time so that the accounts which are the cash, bank, sundry debtors, sundry creditors, etc are known to the system. The customers name, address and other basic details are also entered in the customer master file. Similarly, the creditors details are entered into the creditor master file files. Product details are entered through the product master file files. Here the unit of measurement and the opening stock quantities including the values are provided. The system of valuation of stock like the FIFO, LIFO, Weighted average, etc are defined in the product master file files.

Once the basic parameters are set and the master files are updated, the system is ready for use. To summarise, any standard prepackaged software will have the following master file screens:

- Company master file
- Accounts master file
- Sub ledger master file
- Customer master file
- Vendor master file

• Product master file

• Division master file

The entry screens differ in look and feel from software to software and from vendor to vendor.

However, the basic entry screens are the following:

• Cash Receipts and Payment Entry

• Bank Receipts and Payment Entry

• Petty Cash Voucher Entry

• Journal Entry

• Purchase Order, GRN, Bill, Purchase return Entry

• Sales Order, Challan, Invoice, Sales Return Entry

• Debit Notes and Credit Notes Entry

• Cash Sales & Purchase Memos

• Production

• Consumption

• Stock Transfer

Advantages of Pre-Packaged Accounting Software

Pre-packaged Accounting Software has many advantages. The significant advantages are as follows:

1. ***Easy to install*****:** The CD or floppy disk is to be inserted and the setup file should be run to complete the installation.

2. ***Relatively inexpensive*****:** These packages are sold at very cheap prices nowadays.

3. ***Easy to use*****:** Mostly menu driven with help options. Further the user manual provides most of the solutions to problems that the user may face while using the software.

4. ***Backup procedure is simple*****:** Housekeeping section provides a menu for backup. The backup can be taken on floppy disk or CD or hard disk.

5. ***Flexibility:*** Certain flexibility of report formats provided by some of the software's: This allows the user to make the invoice, challan, GRNs look the way they want.

6. ***Very effective for small and medium size businesses:*** Most of their functional areas are covered by these standardised packages.

Disadvantage of Pre-packaged Accounting Software

Some of the important Disadvantages of Pre-packed Accounting Software are as follows:

1. ***Does not cover peculiarities of specific business***: Business today are becoming more and more complex. A standard package may not be able to take care of these complexities.

2. ***Does not cover all functional area***: For example production process may not be covered by most pre-packaged accounting software.

3. ***Customisation may not be possible in most such softwares*****:** The vendors for these softwares believe in mass sale of an existing source. The expertise for customisation may not have been retained by the vendor.

4. ***Reports generated is not sufficient or serve the purpose***: The demands for modern day business may make the management desire for several other reports for exercising management control. These reports may not be available in a standard package.

5. ***Lack of security***: Any person can view data of all companies with common access password. Levels of access control as we find in many customised accounting software packages are generally missing in a pre-packaged accounting package.

6. ***Bugs in the software***: Certain bugs may remain in the software which takes long to be rectified by the vendor and is common in the initial years of the software.

CONSIDERATION FOR SELECTION OF PRE-PACKAGED ACCOUNTING SOFTWARE:

There are many accounting softwares available in the market. To choose the accounting software appropriate to the need of the organisation is a difficult task. Some of the criteria for selection could be the following:

1. ***Fulfilment of business requirements*****:** Some packages have few functionalities more than the others. The purchaser may try to match his requirement with the available solutions.

2. ***Completeness of reports*****:** Some packages might provide extra reports or the reports matches the requirement more than the others.

3. ***Ease of use*** **:** Some packages could be very detailed and cumbersome compare to the others.

4. ***Cost*** **:** The budgetary constrainsts could be an important deciding factor. A package having more features cannot be opted because of the prohibitive costs.

5. ***Reputation of the vendor*****:** Vendor support is essential for any software.

6. ***Regular updates*** **:** Law is changing frequently. A vendor who is prepared to give updates will be preferred to a vendor unwilling to give updates.

ACCOUNTING SOFTWARE AS PART OF ENTERPRISE RESOURCE PLANNING (ERP)

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

Advantages of Using an ERP

The advantages of using an ERP for maintaining accounts are as follows:

1. ***Standardised processes and procedures*** : An ERP is a generalised package which covers most of the common functionalities of any specific module.

2. ***Standardised reporting*** : Majority of the desired reports are available in an ERP

package. These reports are standardised across industry and are generally acceptable to the users.

3. ***No Redundancy*** **:**Duplication of data entry is avoided as it is an integrated package.

4. **Better Information** :Greater information is available through the package.

Disadvantages of an ERP

The disadvantages of an ERP are the following:

1. ***Lesser flexibility*** **:** The user may have to modify their business procedure at times to be able to effectively use the ERP.

2. ***Implementation hurdles*** **:** Many of the consultants doing the implementation of the ERP may not be able to fully appreciate the business procedure to be able to do a good implementation of an ERP

3. ***Very expensive*** **:** ERP are normally priced at an amount which is often beyond the reach of small and medium sized organisation. However, there are some ERP coming into the market which are moderately priced and may be useful to the small businesses.

4. ***Complexity of the software*** **:** Generally an ERP package has large number of options to choose from. Further the parameter settings and configuration makes it a little complex for the common users.

QUESTION BANK

BA7106-ACCOUNTING FOR MANAGEMENT

UNIT – 1 FINANCIAL ACCOUNTING

PART – A

1) What is meant by accounting? (or) Define accounting.
2) What are the objectives of accounting?
3) Explain the branches of accounting?
4) Name the users of accounting records of an organization.
5) What are the functions of accounting?
6) List down the advantages of accounting.
7) What are the different types of accounts? Give examples.
8) State the accounting rules.
9) What is double entry system of book keeping?
10) What are the advantages of double entry system of book keeping?
11) What do you mean by assets? Give examples.
12) What are the different types of assets? Give examples.
13) What is meant by liability? Give examples.
14) What are the different types of liabilities? Give examples.
15) Explain GAAP.
16) Explain the Cost Concept. What is a journal ?
17) Give the ruling of a Journal.
18) What is a ledger?
19) Give the format of a ledger account.

20) What is a trial balance? What are the objectives of preparing a trial balance?

PART – B (16 Marks)

1) Explain the accounting concepts and conventions.
2) Distinguish between single entry and double entry system of book-keeping.
3) Explain in detail Inflation Accounting.
4) Explain in detail Human Resource Accounting.
5) Explain the purpose and uses of management accounting systems.

6) The following balance has been extracted from the books of Mr. Ganesh on 31.03.2010.

Capital 8,00,000 Bad debts 5,000

Drawings 60,000 Sundry creditors 95,000

Machinery (1.4.2009) 2,00,000 Sales 12,00,000

Machinery additions (1/7/09) 50,000 Purchase returns 10,000

Stock on 1.4.2009 1,50,000 Provision for bad and doubtful debts (1/4/09) 8,000

Purchases 8,20,000 Commission received 16,000

Carriage on purchases 20,000 Sundry debtors 52,000

Furniture and fixtures 2,00,000 Insurance charges

10,000 Carriage on sales 25,000 Salaries 2,10,000

Sundry expenses 8,000 Cash in hand 62,000

Printing and stationery 12,000 Cash at bank 2,05,000

Rent, rates and taxes 40,000

Adjustments

(i) Closing stock Rs. 1,40,000.

(ii) Create provision for bad and doubtful debts at 5% on sundry debtors.

(iii) Provide depreciation of 20% on plant and machinery and 10% on furniture and fixtures.

(iv) Insurance paid in advance is Rs. 1,000.

(v) Commission receivable in arrears is Rs. 5,000.

(vi) Salaries payable are Rs. 15,000.

Prepare trading account, profit and loss account and balance sheet for the year ending 31¬3¬2010.

7) Distinguish between

(i) Current assets and fixed assets

(ii) Tangible assets and intangible assets

(iii) Current liabilities and long¬term liabilities

(iv) Gross profit and operating profit

(v) Nominal, real and personal accounts.

8) From the following Trail Balance of Ravi, prepare trading and Profit and Loss Account for the year ended December 31st 1993 and a Balance Sheet as on that date:

Trail Balance

Particulars	Debit (Rs.)	Credit (Rs.)
Capital		40,000
Sales		25,000
Purchases	15,000	
Salaries	2,000	
Rent	1,500	
Insurance	300	
Drawings	5,000	
Machinery	28,000	
Bank Balance	4,500	
Cash	2000	
Stock 1-1-93	5200	
Debtors	2500	
Creditors		1,000
TOTAL	**66,000**	**66,000**

Adjustments Required:

- Stock on 31-12-93 Rs.4,900
- Salaries unpaid Rs.300
- Rent paid in advance Rs.200
- Insurance prepaid Rs.90

9) Define Inflation Accounting. What are its merits?

10) What is Human Resource Accounting? What are its advantages?

UNIT-II-COMPANY ACCOUNTS

PART – A

1) Define company? What are its characteristics?
2) How company is incorporated?
3) What are the statutory books maintained by the company?
4) What profit presto incorporation? What are its procedure?
5) How company final accounts are prepared?
6) What is preferential allotment? What are its conditions?
7) Explain ESOP?
8) Discuss the provision on Buy Back of securities?

9) What do you understand by Reduction of capital?
10) What are the conditions to be satisfied for the reduction of capital?
11) What is capital reduction account? How is it prepared?
12) Distinguish between a capital reduction scheme and a reorganization scheme.

13) What do you meant by shares?
14) What are the components of final accounts of joint stock company?
15) Give an imaginary profit and loss appropriation account of a limited company?
16) How is provision for tax treated in the final accounts of a company?
17) What is dividend?
18) What is Interim Dividend?
19) What are the various methods of valuation of goodwill?

20) What are the various methods of valuation of shares of company?

PART-B

1) Draft the Balance sheet of a limited company in prescribed form as per schedule VI of

Indian companies act with imaginary figure?

2) Under what circumstances valuation of shares will be resorted to?

3) What are the conditions for the issue of shares under discount?

4) For what purposes the share premium can be utilized?

5) Define share and explain its types.

6) How the profit on re-issue of forfeited shares can be treated in accounts?

7) A ltd was registered with an authorized capital of Rs.6,00,000 in equity shares of Rs.10 each. The following is its Trail Balance on 31 March 2008.

Particulars	**Debit Balance Rs.**	**Credit Balance Rs.**
Goowill	25000	
Cash	750	
Bank	39900	
Purchases	185000	
Prelimiary Expenses	5000	
Share capital		400000
12% Debentures		300000
P&L A/C (Cr.)		26250
Calls-in-arrears	7500	
Premises	300000	
Plant & Machinery	330000	
Interim Dividend	39250	
Sales		415000
Stock (1-4-2007)	75000	
Furniture & Fixtures	7200	

Sundry Debtors	87000	
Wages	84865	
General Expenses	6835	
Freight and Carriage	13115	
Salaries	14500	
Directors Fees	5725	
Bad debts	2110	
Debenture Interest paid	18000	
Bills Payable		37000
Sundry Creditors		40000
General Reserve		25000
Provision for bad debts		3500
Total	12,46,750	1246750

Prepare Profit & Loss Account, Profit & Loss Appropriation A/C and Balance sheet in proper form after making the following adjustments:

- Depreciate Plant and Machinery by 15%
- Write off Rs.500 from preliminary expenses
- Provide for 6 months interest on debentures.
- Leave bad and doubtful debts provision at 5% on sundry debtors
- Provide for income tax at 50%
- Stock on 31-3-2008 was Rs.95,000
- A Provision for corporate dividend tax @ 10% is also made.

8) State the items that are included in the following major heads under which assets of a limited company are shown: a) Investments b) fixed assets c) Miscellaneous expenses

9) Define goodwill and explain the factors to be considered for valuing the goodwill.

10) A limited company issued 10, 000 equity shares of Rs. 10 each payable as under Rs.2 on application, Rs.5 on allotment, Rs. 3 on final call.

The pubic applied for 8000 shares which were allotted. All the money due on shares was received except the final call on 100 shares. These shares were forfeited and re-issued at Rs. 8 per share.

Show the Journal Entries in the books of the company.

UNIT- III ANALYSIS OF FINANCIAL STATEMENTS

PART-A

1) What is a financial statement? List out the various financial statements.
2) What is an income statement? What is the significance of an income statement?
3) What is a balance sheet? What does it reveal?
4) What is known as the statement of Retained Earnings?
5) List out the characteristics of financial statements.
6) What are the limitations of financial statements?
7) What is meant by analysis and interpretation of financial statement?
8) What is meant by comparative financial statement?
9) What is a common –size financial statement?
10) Explain Trend Percentage method of financial statement analysis.

11) What is Cost-Volume-Profit analysis?
12) What is fund flow analysis?
13) What is cash flow analysis?
14) What is Ratio analysis?
15) What is a current ratio? What is the ideal current ratio?
16) What is quick ratio? What is the ideal quick ratio?

17) What does profitability ratios indicate?

18) What does turnover ratios indicate?

19) What does solvency or financial ratios indicate?

20) What does capital gearing or leverage means?

PART-B

1) From the following summary of cash account of Y Ltd., prepare cash flow statement for the year ended March 31 in accordance with AS¬3 using direct method. The company does not have any cash equivalent.

PARTICULARS	Rs. in „000	PARTICULARS	Rs. in „000
Opening Balance	50	Payment to suppliers	2000
Issue of equity shares	300	Purchase of fixed assets	200
Receipts from customers	2800	Overhead expenses	200
Sale of fixed assets	100	Wages and salaries	100
		Tax	250
		Dividends	50
		Repayment of bank loan	300
		Closing Balance	150
Total	3,250	Total	3,250

2) What are the limitations of fund flow statement?

3) Differentiate between fund flow statement and income statement.

4) List down the sources of funds.

5) “A fund flow statement is a better substitute for an income statement.”- Discuss.

6) Distinguish between fund flow statement and balance sheet.

7) Explain the significance of a fund flow statement.

8) What do you mean by funds from operations? How it is determined?

9) “ Fund flow statement presents a decision view of business” - Comment

10) Prepare a statement of Funds flow from the following

Liabilities	2008	2009	Assets	2008	2009
Capital	7,00,000	9,00,000	Land & Building	4,50,000	7,00,000
Profit and loss account	1,50,000	1,90,000	Plant & Machinery	4,70,000	3,30,000
General reserves	75,000	95,000	Stock	1,90,000	2,30,000
Debentures	3,00,000	3,60,000	Debtors	1,35,000	1,15,000
Loan	2,00,000	--	Cash	1,55,000	1,90,000
Sundry creditors	70,000	95,000	Bills Receivable	50,000	25,000
Bills Payable	45,000	10,000	Preliminary Expenses	90,000	60,000
Total	15,40,000	16,50,000		15,40,000	16,50,000

Adjustments: Depreciation for Land and building Rs. 45,000 Depreciation for plant and machinery Rs. 35,000; Profit on sale of plant Rs. 20,000 Drawings of capital for the year Rs. 50,000.

UNIT - IV COST ACCOUNTING

PART - A (2 marks)

1. What is marginal costing technique?
2. What is the difference between marginal costing and absorption costing?
3. What is CVP analysis?
4. What is contribution?
5. What is break even point?
6. What is Margin of Safety?
7. Define cost accounting and state the objectives of cost accounting.
8. "Fixed costs are variable per unit and variable costs are fixed per unit."- Comment.
9. List out the components of total cost.
10. What is a) prime cost b) Factory cost c) Office cost and d) Cost of sales.
11. What is meant by allocation and absorption of overheads?
12. What is a cost sheet?
13. What is meant by overheads? What are the different types of overheads?
14. List out some of the methods of issuing inventory.
15. Explain Process Costing.
16. What is Standard Costing?
17. What are the reasons for Material Variances?
18. State some of the major reasons for labour cost variances.
19. What is a budget?
20. Distinguish budget, budgeting and budgetary control.

PART - B

1. What are the different methods of costing?

2. What are the reasons for material and labour variances

3. What is flexible budget and under what circumstances flexible budget is considered preferable?

4. What are the factors to be considered while preparing a) Sale budget b. Purchase budget c) production budget etc

5. What is a cash budget and what are the objectives of a cash budget?
6. List out the various functional budgets any explain its objectives. PART – A (20 marks) &
7. Explain in detail the advantages and disadvantages of budgetary control system.
8. Explain the concept of ZBB. Also discuss its advantages and disadvantages.
9. The following particulars are obtained from the records of a company manufacturing two

Products P and R.

Particulars	Product P (Per unit)Rs.	Product R (Per unit)Rs.
Selling Price	200	400
Material Cost (Rs.20 per kg)	40	100
Direct Wages (Rs.6	60	120

8

per hour)

Variable Overhead 20 40

Total fixed overhead is Rs.10,000.

Comment on profitability of each product when production capacity in hours is the limiting factor.

10. Sales Rs. 2,00,000, Profit Rs. 20,000 Variable Cost 60% You are required to calculate:
    (1) P *I* V Ratio (2) Fixed Cost (3) Sales volume to earn a profit of Rs. 50,000

UNIT - V ACCOUNTING IN COMPUTERISED ENVIRONMENT

PART-A

1) What are master files and transaction files?

2) What is Data processing?

3) State the meaning and advantages of Data coding.

4) Describe a program for simple book keeping system.

5) Mention a few general financial programs for computer applications.

6) Write a note on a) computer security problems b) VIRUS Problem

7) Write short note on outsourcing of accounting function.

8) Write the methods of data processing methods.

9) Define on-line processing.

10) Define real time processing

11) Distinguish between cost center and profit center.

12) What do you mean by adhoc report?

13) Define data entry.

14) Define data validation.

15) Define Reporting.

16) Define storage.

17) Write the need for computerized accounting.

18) State the basic requirements of the computerized accounting system.

19) Write disadvantages of computerized accounting.

20) What is outsourcing of accounting function.

PART-B

1) Briefly explain the computer application in business.

2) State the meaning and characteristics of computer

3) Explain the components of computer

4) What are the limitations of a computer?

5) Explain the role of computers in accounting.

6) Differentiate computerized accounting from manual accounting

7) State the meaning and special features of computerized accounting system.

8) State the objectives of introducing computer in accounting.

9) Enumerate the advantages and disadvantages of computer accounting.

10) Describe the data processing methods.

Reg. No. : | | | | | | | | | | | | |

Question Paper Code : 60306

M.B.A. DEGREE EXAMINATION, MAY/JUNE 2014.

First Semester

BA 7106 — ACCOUNTING FOR MANAGEMENT

(Regulation 2013)

Time : Three hours   Maximum : 100 marks

(Codes/Tables/Charts to be permitted, if any, may be indicated)

Answer ALL questions.

PART A — ($10 \times 2 = 20$ marks)

1. What is GAAP?

2. What is human resource accounting?

3. Define a 'joint stock company'.

4. What do you mean by employees stock option scheme?

5. Define the term fund.

6. From the following information, calculate cash from operations :

	Rs.
Funds from operation	84,000
Increase in current assets	73,000
Increase in current liabilities	21,000
Decrease in current assets	20,000

7. From the following information, calculate gross profit ratio

	Rs.
Sales	10,00,000
Sales returns	1,00,000
Cost of goods sold	5,85,000

8. What is target costing?

9. Calculate break even point from the following :
Sales 1,000 units at Rs.10 each Rs. 10,000
Variable cost Rs.6 per unit
Fixed cost Rs. 8,000.

10. State any two limitations of computerized accounting.

PART B — (5 × 16 = 80 marks)

11. (a) A Ltd. was registered with an authorized capital of Rs. 6,00,000 in equity shares of Rs.10 each. The following is its Trial balance on 31st March, 2009.

Particulars	Debit	Credit
Goodwill	25,000	–
Cash	750	–
Bank	39,900	–
Purchase	1,85,000	–
Preliminary expenses	5,000	–
Share capital	–	4,00,000
12% debentures	–	3,00,000
Profit and loss account	–	26,250
Calls in arrears	7,500	–
Premises	3,00,000	–
Plant and machinery	3,30,000	–
Interim dividend	39,250	–
Sales	–	4,15,000
Stock	75,000	–
Furniture	7,200	–
Sundry debtors	87,000	–
Wages	84,865	–
General expenses	6,835	–
Freight and carriage	13,115	–
Salaries	14,500	–
Directors' fees	5,725	–
Bad debts	2,110	–
Debenture interest paid	18,000	–
Bills payable	–	37,000
Sundry creditors	–	40,000
General reserve	–	25,000
Provision for bad debts	–	3,500
	12,46,750	12,46,750

Prepare profit and loss a/c profit and loss appropriation a/c and balance sheet in proper form after making the following adjustments :

(i) Depreciate plant and machinery by 15%

(ii) Write off Rs.500 from preliminary expenses

(iii) Provide for 6 months interest on debentures

(iv) Leave bad and doubtful debts provision at 5% on sundry debtors

(v) Provide for income tax at 50%

(vi) Stock on 31.3.2010 was Rs. 95,000

Or

(b) The following is the trial balance of Mr. Kumar as on 31st March, 2008 :

	Debit Rs.	Credit Rs.
Sales		1,20,000
Purchases	*82,000*	
Customs Duty	8,000	
Royalty	5,000	
Opening stock	12,000	
Accounts receivable	22,000	
Accounts payable		11,000
Bills receivable	10,000	
Bills payable		8,000
Bad debts	2,000	
Carriage inwards	1,000	
Telephone charges	2,000	
Printing and stationery	500	
Investments	6,000	
Interest		800
Land and buildings	40,000	
Rent		3,200
Income tax paid	3,000	
Cash	1,500	
Furniture	5,000	
Capital		57,000
	2,00,000	2,00,000

Adjustments :

(i) Closing stock is valued at Rs. 22,000

(ii) Carriage on purchase outstanding amounts to Rs. 300

(iii) Interest receivable amounts to Rs. 200

(iv) Rent received in advance amounts to Rs. 400

(v) Depreciation @ 10% is required on furniture.

Prepare Final accounts.

12. (a) G Ltd. was registered on 1.7.07 to acquire the running business of S & Co. with effect from 1.1.07. The following was the profit and loss a/c of the company on 31.12.07.

Particulars	Rs.	Particulars	Rs.
To Office expenses	54,000	By Gross profit b/d	2,25,000
To Formation expenses	10,000		
To Stationery and postage	5,000		
To Selling expenses	60,000		
To Director's fees	20,000		
To Net profit	76,000		
	2,25,000		2,25,000

You are required to prepare a statement showing profit earned by the company in the pre and post incorporation periods. The total sales for the year took place in the ratio of 1 : 2 before and after incorporation respectively.

Or

(b) Explain the concepts and conventions of accounting.

13. (a) From the following information, you are required to prepare a balance sheet :

Current ratio	1.75
Liquid ratio	1.25
Stock turnover ratio (cost of sales/closing stock)	9
Gross profit ratio	25%
Debt collection period	1.5 months
Reserves and surplus to capital	0.2
Fixed assets turnover (on cost of sales)	1.23
Capital gearing ratio (long term debt to share capital)	0.6
Fixed assets to net worth	1.25
Sales for the year	Rs. 12,00,000

Or

(b) Goodwill Ltd. Supplies you the following balance sheets on 31st December, 2011 and 2012 :

Liabilities	2011 Rs.	2012 Rs.	Assets	2011 Rs.	2012 Rs.
Share capital	70,000	74,000	Bank Balance	9,000	7,800
Bonds	12,000	6,000	Accounts Receivable	14,900	17,700
Accounts Payable	10,360	11,840	Inventories	49,200	42,700
Provision for Doubtful Debts	700	800	Land	20,000	30,000
Reserves and surplus	10,040	10,560	Goodwill	10,000	5,000
	1,03,100	1,03,200		1,03,100	1,03,200

Following additional information has also been supplied to you :

(i) Dividends amounting to Rs. 3,500 were paid during the year 2012

(ii) Land was purchased for Rs. 10,000

(iii) Rs.5,000 were written off on account of goodwill during the year

(iv) Bonds of Rs.6,000 were paid during the course of the year.

You are required to prepare a Cash Flow Statement.

14. (a) The product of a company passes through 3 distinct processes. The following information is obtained from the accounts for the month ending January 31. 2008.

Particulars	Process *A*	Process *B*	Process *C*
Direct material	7,800	5,940	8,886
Direct wages	6,000	9,000	12,000
Production overheads	6,000	9,000	12,000

3000 units @ Rs. 3 each were introduced to process – I. There was no stock of materials or work in progress. The output of each process passes directly to the next process and finally to finished stock A/c.

The following additional data is obtained :

Process	Output Units	% of normal loss	Value scrap per unit Rs.
Process A	2850	5	2
Process B	2520	10	4
Process C	2250	15	5

Prepare Process Cost Accounts, Normal Cost Account and Abnormal Gain or Loss Account.

Or

(b) Prepare a flexible budget for overheads on the basis of the following data and ascertain overhead rates at 50%, 60% and 70% capacity.

	At 60% capacity Rs.
Variable overheads :	
Indirect material	6,000
Indirect labour	18,000
Semi-variable overheads :	30,000
Electricity (40% fixed 60% variable)	3,000
Repairs (80% fixed 20% variable)	
Fixed overheads :	
Depreciation	16,500
Insurance	4,500
Salaries	15,000
Total overheads	93,000
Estimated direct labour hours	1,86,000

15\. (a) Explain the significance of computerized accounting and role of computer in accountancy.

Or

(b) Explain the considerations for selecting Pre-packaged accounting software and discuss its advantages and disadvantages.

MBA DEGREE EXAMINATION, JANUARY 2011.

571106 - ACCOUNTING FOR MANAGEMENT

PART –A (10*2=20)

1. List the main element of Balance sheet and income statement.

2. A financial statement that shows what the business is worth that in terms of assets and liabilities state whether true or false.

3. Describe the feature of a corporate organization.

4. Explain why buy of shares are done.

5. What is debt equity ratio?

6. What is the relationship of the assets turnover rate to the rate of return on total assets?

7. What are fixed overheads? Why are they called burdens?

8. How does ABC differ from traditional costing approach?

9. What is the significance of computerized accounting system?

10. What is pre packaged accounting software?

PART –B (5*16=80)

11. a (i) What is the function of financial statements

a (ii) Differentiate between financial accounting and management accounting.

(OR)

(b) Zeenath after completing her masters degree in computer science, established care Ltd., to provide computer maintenance service. During August, she completed the following transations.

August Deposited Rs. 40,000 in the companies bank in exchange for 4,000 shares

1 Paid two months office rent in advance Rs.2,200

Bought testing equipment on credit Rs.6,000

Bought office supplies for cash Rs. 480

Received fees for services provided Rs.6,900

Ordered testing equipment Rs.3,200

Paid assistance salary for first fortnight Rs. 2,300

Billed customers for services provided Rs. 9,700

Received testing equipment ordered on August 13 and agreed to pay for it on September

Paid telephone bill for the month Rs.390

Received cash for salaries to be provided later Rs.2,300

Paid assistant salary for second fortnight Rs. 2,300

12. (a)(i) Why are stock option plans popular with software

companies? (a)(ii) Write a note on preferential allotment.

(OR)

(b).The share capital of Veer Company consist of 10,000 equity share of Rs.10 par value and

2000 10% cumulative preference share of Rs. 10 par value. The company declared and

paid total dividends in the first four years of operations as follows: First year Rs.

800,

second year Rs. 1,200,third year Rs. 1,400, fourth year Rs. 17,000.

13. (a)(i) Depreciation is a non-cash expenses. Still it is an integral part of cash flows.

Explain

(a) (ii) Differentiate between cash flow analysis and funds flow

analysis. (OR)

13 (b) ABC Ltd finds that its opening bank balance of Rs.1,80,000 as on April, 1 has been converted into an overdraft of Rs. 75,000 by an end of the year. From the information given below, prepare a statement to show how this happened.

particulars

Year beginning

Year end

Fixed assets

7,50,000

11,20,000

Stock in trade

1,90,000

3,30,000

Bad debts

3,80,000

3,35,000

Trade creditors

2,70,000

3,50,000

Share capital

2,50,000

3,00,000

Share premium

-

25,000

Bill receivable

87,500

95,000

The profit before depreciation and income tax was Rs. 2,40,000. During the year, income tax to the extent of Rs. 1,37,500 was paid. During paid were (i) Final on the capital as on April 1St at 10 percent and

(ii)

Interim at 5 percent on the year end capital

14 (a) Standardized equipment Co, operates on standard costing system. The budgeted overheads for the year M arch 31St , were fixed at Rs. 4,20,000 with a predetermined overhead recovery rate of Rs. 7 per direct labour hour. The actual direct labour hours for the year amounted to 61,000 against which only 60,500 hours should have been spent for all the production completed during the year. The actual overhead rate worked our at Rs. 6.75 per direct labour hour. Your are required to compute the following variance

i)

Total overhead cost variance, ii) overhead budget variance iii) overhead efficiency variance and iv) overhead capacity variance.

(OR)

(b) Are you in agreement with the view that budgeting should better be called profit planning and control? Discuss.

15. (a) How is codification and grouping of accounts in a computerized environment different form manual accounts?

(b) Do you agree that a computerized environment of accounts will ensure flaws accounting system?