Q&A

WORK BOOK CUM QUESTION BANK WITH ANSWERS

FUNDAMENTALS OF MANAGEMENT ACCOUNTING

CLASS - XII

COMMERCE

SCHEDULED CASTES & SCHEDULED TRIBES
RESEARCH & TRAINING INSTITUTE (SCSTRTI)
ST & SC DEVELOPMENT DEPARTMENT
BHUBANESWAR

Work Book
cum
Question Bank with Answers

FUNDAMENTALS OF MANAGEMENT ACCOUNTING

CLASS-XII

COMMERCE

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RESEARCH & TRAINING INSTITUTE (SCSTRTI)
ST & SC DEVELOPMENT DEPARTMENT
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2020

FOREWORD

An innovative education program has been initiated by ST & SC Development Department, Govt. of Odisha for the students appearing in +2 Science and Commerce examination pursuing studies in the ST & SC Development Department Schools (EMRS & HSS) to ensure quality education at +2 level.

In this regard it is to mention that an Academic Performance Monitoring Cell (APMC)has been set up in SCSTRTI to monitor the Training and Capacity Building of Teachers of SSD Higher Secondary Schools and Ekalabya Model Residential Schools (EMRS) to enhance quality education for better performance of the students appearing +2 Science and Commerce examination.This effort by APMC will certainly help the students to equip themselves for appropriate answering the question in the examination in an efficient manner.

In order to materialize the effort, thebest ofsubject experts of the state have been roped into formulate self-contained and self-explanatory "Work book cumQuestions Bankwith Answers" as per the syllabi of CHSE,Odisha.They have tried to make the material as far as activity based and solution based as possible.This novel effort is first of its kind at +2 level in Odisha.

I would like to extend my thanks to Prof.(Dr.) A.B. Ota, Advisor-Cum-Director and Special Secretary, SCSTRTI and the team of Subject experts for their sincere effort for bringingout the study materials in quick time.

Hope, these study materials will be extremely useful for the students appearing the +2 examination in Science and Commerce of our SSD Schools.

Ranjana Chopra
Principal Secretary
ST & SC Development Department
Govt. of Odisha

PREFACE

The ST and SC Development Department, Government of Odisha, has initiated an innovative effort by setting up an Academic Performance Monitoring Cell (APMC) in Scheduled Castes and Scheduled Tribes Research and Training Institute (SCSTRTI) to monitor the Training and Capacity Building of teachers of SSD Higher Secondary Schools and Ekalavya Model Residential Schools (EMRS) and to ensure quality education of students studying at +2 level under the administrative control of the ST & SC Development Department. This innovative programme is intended to ensure quality education in the Higher Secondary Level of the schools of the ST & SC Development Department.

Since the introduction of +2 Science and +2 Commerce stream by the Council of Higher Secondary Education, Odisha, there was a great demand to cater to the needs of the students appearing the +2 Examination. But no organisation or institute has taken the initiative to fulfil the needs of the students appearing the +2 examination. Realizing the necessities and requirements of students to perform better and secure better marks in the examination and proper pattern of answering the question in a scientific way, the APMC under the banner of SCSTRTI has taken the initiative for the first time in Odisha to prepare Questions Banks in Physics, Chemistry, Botany, Zoology, Mathematics, IT, English & Odia of the Science Stream and all the disciplines of the Commerce stream in line with the Syllabus of the Council of Higher Secondary Education (CHSE).

These questions banks are first of this kind in Odisha, as per syllabi of CHSE and are self contained and self explanatory. The subject expert, who are the best in their respective subjects in the state have been roped in for the exercise. They have given their precious time to make the question banks as activity based and solution based as possible.

I take this opportunity to thank all the subject experts of different subjects for rendering help and assistance to prepare the question banks within a record time. I hope, this material will be extremely useful for the students preparing for the +2 examination in different subjects of Science & Commerce streams.

Prof. (Dr.) A.B. Ota
Advisor cum Director & Special Secretary
SCSTRTI, Govt. of Odisha

FUNDAMENTALS OF MANAGEMENT ACCOUNTING (2nd Year) Syllabus

Objectives :

- To provide students an understanding of the Concept, features, objectives, importance & functions of Management;
- To help the students in learning the principles & Techniques of Management;
- To develop Students with an understanding of Financial Markets with its types & functions;
- To acquaint students with concept, objectives and functions of marketing management;
- To enable students to act more effectively and responsibly as consumers, employers, employees and citizens after learning the concept and features of consumer protection act;

Course Inputs :

Unit-I Introduction :

Meaning, Objectives, Nature & Scope-Functions, Importance & Limitations of Management Accounting, Cost Accounting Vs Management Accounting, Difference between Management Accounting and Financial Accounting, Role of Management Accountant.

Unit-II Analysis of Financial Statement :

Financial Statement: Meaning, nature, objectives and types of financial statements - Importance and limitations of financial statement (Statement of Profit & Loss, Balance Sheet and Cash Flow Statement) Financial Statement Analysis : Meaning, Objective, Importance, Limitations and its types- Techniques or Device of Financial Analysis - Comparative Statement, Common-size Statement, Trend Analysis

Unit-III Ratio Analysis :

Ratio Analysis : Meaning and Utility of Ratio - Significance & Limitations of Ratio Analysis, Classification of Ratios - Calculation of Different Ratios : Liquidity Ratios (Current ratios, Acid Test Ratio, Absolute Liquid ratio), Activity Ratios : (Stock Turnover, Debtor Turnover, Creditor Turnover, Working Capital Turnover), Profitability Ratios (Gross Profit Ratios, Net Profit Ratio, Return on Investment, Return on Capital Employed).

Unit-IV Working Capital Management & Cash Flow Statements :

Working Capital Management : Meaning, Need, Concept, Classification of Working Capital- Sources of Working Capital- Determinants of Working Capital, Computation of Working Capital for Trading Concern. Cash Flow Statement : Meaning, Objectives, Transactions affecting Cash Flow Statement, Transactions not affecting cash flow statement, Difference between Cash Flow Statement & Funds Flow Statement, Process of Preparing Cash Flow Statement as per AS- 3.

QUESTION PATTERN OF CHSE

Theory	:	80 marks
Project Work	:	20 marks
Total	**:**	**100 marks**

Group - A (Objective type - Compulsory)

1.	Multiple choice Questions (12 bits from all units)	1 mark each x 12 = 12 marks
2.	One word answer / very short answer / Correct the sentence / fill up the blanks (12 bits from all units)	1 mark each x 12 = 12 marks

Group B (Short type Answer)

3.	Answer within 30 words (out of 13 bits, one has to answer 10 bits)	2 marks each x 10 = 20 marks
4.	Answer within 50 words (out of Six bits, one has to answer Four bits)	3 marks each x 4 = 12 marks

Group C (Long Answer type)

5. to 9.

Out of Five Questions from all units, one has to answer 3 questions.	8 marks each x 3 = 24 marks
TOTAL	**80 marks**

CHSE QUESTION PAPERS WITH ANSWERS

2019 to 2017

2019 (A)

Time : 3 hours — ***Full Marks : 80***

The figures in the right-hand margin indicate marks.
Carefully follow the instructions given in each Group and each Question

Group - A

All questions are compulsory

1. From the alternative given under each bit, write serially the correct answer against each bit along with its serial number: [1x12=12]

a) Retained earnings statement depicts
   i) Estimate of costs
   ii) Estimate of gross profit
   iii) Estimate of net profit
   iv) Appropriation of profits

b) One of the techniques of financial statement analysis is
   i) Profit and Loss Account
   ii) Comparative Statement
   iii) Balance sheet
   iv) Profit and Loss Appropriation Account

c) Financial statements are called
   i) Interim reports
   ii) Final reports
   iii) Costing reports
   iv) Managerial reports

d) Gross working capital means
   i) All current assets
   ii) Current assets minus current liabilities
   iii) Current assets plus current liabilities
   iv) Current assets plus fixed assets

e) Cash flow statement shows
   i) Inflow of cash
   ii) Financial position
   iii) Outflow of cash
   iv) Both inflow and outflow

f) Working capital increases, when
   i) Trade debtors increase
   ii) Bills payable increase
   iii) Bills receivable decrease
   iv) Furniture increase

g) The generally accepted standard for current ratio is
   i) 4:1 ii) 3:1
   iii) 2:1 iv) 1:1

h) One of the functions of Management Accounting is
   i) to determine cost of production
   ii) to determine the profit or loss
   iii) to prepare the Balance sheet
   iv) to facilitate communication of financial information

i) One of the following which is a current asset, is
   i) Machinery
   ii) Furniture
   iii) Building
   iv) Trade debtors

j) Profit and loss Account is also known as
   i) Profit and loss Appropriation Account
   ii) Profit and Loss Adjustment Account
   iii) Income statement
   iv) Position statement

k) Quick ratio tests
   i) Profitability
   ii) Liquidity
   iii) Solvency
   iv) Profitability and solvency

l) Copyright is an example of
   i) Intangible asset
   ii) Current asset
   iii) Liquid asset
   iv) Fictitious asset

2. Answer the following questions as per instructions given in each part: [1x12=12]

a) Fill in the blanks of the following sentences:
   i) Working capital decreases when Sundry creditors ______.
   ii) Current ratio studies the _____ of a concern.
   iii) Colliery is a ______ asset.

b) Correct the underlined portions of the following sentences:
   iv) 'Sundry creditors' are an important source of long term working capital.
   v) Trade mark is an example of wasting asset.
   vi) Preference shareholders get dividend after the equity shareholder.

c) Answer the following questions in one sentences each:
   vii) What is Net working capital?
   viii) What is Liquid asset?
   ix) Define 'Ratio'.

d) Answer the following questions in one word/ term each:
   x) Name any one of the profitability ratios.
   xi) What do debenture holders get from the company?
   xii) By which other name is the Balance Sheet known?

Group - B

3. Answer any ten of the following questions in not more than 30 words each: [2x10=20]

a) State any two limitations of Management Accounting.

b) Classify working capital on the basis of time.

c) Name the two financial statements usually considered for making comparative statement analysis.

d) Name any four non-current assets.

e) What are the two parameters of Debtors turnover ratio?

f) What is pro-rata allotment?

g) What do you mean by Stock Turnover ratio?

h) Define cash flow statement.

i) Give a suitable definition of Management Accounting.

j) What is meant by calls-in-arrear?

k) What is 'Issued capital'?

l) What is Redeemable Preference share?

m) What is Bearer debenture?

4. Answer any four of the following questions within 50 (fifty) words each: [3x4=12]

a) What is meant by current liability?

b) Distinguish between management Accounting and Cost Accounting (any three).

c) What do you mean by Trend Analysis?

d) State any three limitations of financial statement analysis.

e) Write ant three sources of short-term working capital.

f) Distinguish between share and Debenture (any three)

Group - C

Answer any three questions from the following : [8x3=24]

5. The comparative balance sheets of Mr. Chandrakanta are as follows:

Liabilities	2016 (₹)	2017 (₹)
Capital	15,00,000	17,50,000
Bank Loan	16,00,000	10,00,000
Creditors	8,50,000	9,30,000
Outstanding expenses	50,000	70,000
Bills payable	5,00,000	4,00,000
Long term loan	-	2,50,000
	45,00,000	**44,00,000**

Assets	2016 (₹)	2017 (₹)
Land and Building	11,00,000	15,00,000
Machinery	20,00,000	14,00,000
Stock	5,00,000	4,50,000
Debtors	7,00,000	8,00,000
Cash	1,50,000	2,20,000
Prepaid expenses	50,000	30,000
	45,00,000	**44,00,000**

Additional information:

a) Net profit for the year 2017 amounted to ₹6,00,000.

b) During the year, a machine costing ₹2,50,000 (accumulated depreciation ₹1,00,000) was sold for ₹1,30,000.

The provision for depreciation against machinery as on 31.12.2016 was ₹5,00,000 and on 31.12.2017 was ₹8,50,000.

You are required to prepare a cash flow statement.

6. From the following Income statements of 'B' Co. Ltd., prepare the comparative income statement and make commets:

Income statements for the year ending on 31st December 2016 and 2017

	2016 (₹)	2017 (₹)
To cost of goods sold	9,00,000	9,50,000
To administrative expenses	93,250	95,980
To selling expenses	1,80,000	1,99,000
	2016 (₹)	**2017 (₹)**
To Interest	18,000	17,000
To loss on sale of machinery	2,500	800
To Income tax	85,000	1,68,000
To Net profit	2,59,750	2,83,420
	15,38,500	**17,14,200**
By sales	15,25,000	17,00,000
By interest	7,500	6,200
By profit from sale of land	6,000	8,000
	15,38,500	**17,14,200**

7. The following information are available from the books of 'M' Ltd.:

Current ratio	2.75 : 1
Acid-test ratio	1.25: 1
Current liabilities	₹60,000.

Find out

(a) Current assets

(b) Liquid assets and

(c) Inventory

8. Distinguish between Management Accounting and financial Accounting.

9. Discuss any four sources of long-term working capital.

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ANSWERS 2019 (A)

Group - A

1. From the alternative given under each bit, write serially the correct answer against each bit along with its serial number:

a) iv) Appropriation of profits
b) ii) Comparative statement
c) i) Interim reports
d) i) All current assets
e) iv) Both inflow and outflow of cash
f) i) Trade debtors increase
g) iii) 2:1
h) iv) To facilitate communication of financial information
i) iv) Trade debtors
j) iii) Income statement
k) ii) Liquidity
l) i) Intangible asset

2. Answer the following questions as per instructions given in each part:

a) i) Increases
ii) Liquidity
iii) Fixed Asset/wasting assets

b) iv) Short-term
v) Intangible
vi) Before

c) vii) Net working capital is the difference between current assets and liabilities.
viii) Items like stocks, prepaid expenses and not easily marketable securities are excluded from currents to calculate liquid assets
ix) Ratio is an expression of quantitative relationship between two numbers.

d) x) Gross profit ratio or Net profit ratio or Operating profit ratio
xi) Interest
xii) Statement of financial position

Group - B

3. Answer any ten of the following questions in not more than 30 words each:

a) Two limitation of management Accounting
i) Limitation of basic record
ii) Based on historical data

b) Classify working capital on the basis of time
i) Long-term or permanent or fixed or regular working capital
ii) Short-term or temporary or variable or seasonal working capital

c) Two financial statements are for making comparative statement analysis
i) Comparative Balance Sheet
ii) Comparative statement of profit or loss

d) Four Non-current Assets
i) Investment in equality, preference, debenture or bonds
ii) Land, Building, Plant, Machinery
iii) Goodwill
iv) Long-term trade receivable

e) Two parameters of debtors turnover ratio-
i) Net credit sales- in case credit sales are not known total sales may be used as its Substitute
ii) Average trade debtor

f) Pro-rata allotment :
It means that all the applicants are allotted share on proportionate basis. It means shares are allotted in the ratio which total number of share to be allotted bears to the total number of share applied for.

g) Stock turnover ratio :
It is cost of goods sold divided by average inventory at cost. When it is not possible to find out the cost of cost of goods sold in its place 'net sales' can be used as an alternative.

h) Cash flow statement :
It is statement of changes in cash position the beginning and end of period. It summaries the sources from which cash payments are made during a particular period of time.

i) Definition of Management Accounting :
It is a system of accounting which is concerned with accounting information that is useful to the management.

j) Calls-in-arrear :
If the share holder fails to pay the amounts due on allotment or calls within a specified time, the amount not so paid by the shareholder, is called 'calls-in-arrear'.

k) Issued capital :
It is that part of authorised capital which is actually meant for public subscription.

l) Redeemable Preference Share :
Those share where the holders will be repaid their capital by the company within a stipulated period in accordance with the terms of issue and the fulfilment of certain conditions laid down in section 55 of the companies Act, 2013. The preference shareholders are to be redeemed at fully paid-up.

m) Bearer debenture :

Those debentures which are transferable by mere delivery and the company does not keep any record of names and addresses of the debenture holders.

4. Answer any four of the following questions within 50 (fifty) words each:

a) Current liability

A current liability refers to those business liabilities which are to be settled in cash within one year or operating cycle of a given firm. These are the obligations that are to be settled by current assets or by creation of new current liabilities. Bills payable, outstanding expenses, sundry creditor's short-term loans, accrued expenses, tax payable, dividend payable, bank overdraft etc. Come under current liabilities.

b) Distinguish between Management Accounting & Cost Accounting (Any three)

Management Accounting	Cost Accounting
1. Object- main object is to provide information to the management for planning, co-ordinating and decision making the activities of the business	1. Main object of cost accounting is to calculate the cost of the product
2. Nature- Deals with future projects and plans basing on past records	2. Concerned with past and present facts and figures
3. Data used- used both quantitative and qualitative information	3. Quantitative data used

c) Comparative financial statements made for a few consecutive years in terms of percentage trend is known as trend analysis. Under this analysis the information for a number of years is taken up and one year, normally the first year is taken as the base year.

d) Three limitations of financial statement analysis are:

i) Financial accounting is historical in nature and therefore, the financial statements are based on past data which does not consider the price level changes.

ii) Different methods for valuation of inventory and changing depreciation which makes Comparison meaningless.

iii) Changes in accounting procedure by a business unit may often make the financial analysis useless.

e) The sources of short-term working capital are:
i) Borrowings from banks
ii) Trade credit
iii) Outstanding expenses

f) Distinguish between share and Debenture (any three)

Share	Debenture
(1) Owned capital, (2) Dividend is the record, (3) Have the voting right	(1) Borrow capital, (2) Interest is the records for the debenture holder (3) No voting right

Group - C

Answer any three questions from the following :

5. Cash flow from operating activities

Net profit during the year 2017 - ₹ 6,00,000

Adjustment for Non cash and Non-operating items

Add depreciation on machinery (Working note 3)		4,50,000
Less or sale of machinery (Working note 2)		20,000
Operating profit before WC changes		10,70,000
Add decrease in current asset		
Stock -	50,000	
Prepaid expenses -	20,000	
Increase in CL		
Outstanding expenses -	20,000	
Creditor -	80,000	
	1,70,000	1,70,000
Less increase in CA		12,40,000
Debtor	(-) 1, 00,000	
Decrease in CL		
Bills Payable	(-) 1, 00,000	(-) 2,00,000
(A) Net cash Flows from operating activities		10,40,000
Cash flows from investing Activities		
Purchase of L/B - (-)	4,00,000	
Sales of machinery	1,30,000	
(B) Net cash used in Inventory activities		(-) 2,70,000
Cash flows from financing Activities		
Bank Loan	(-) 6,00,000	
Long-term loan	2,50,000	
Drawing (Working note-1)	(-) 3,50,000	
Net cash used in Financing Activity	(-) 7,00,000	

A) Cash flows from operating Activities-10,40,000

B) Cash used in Investing Activities- (-) 2,70,000

C) Cash used in financing Activities- (-) 7,00,000

70,000

Add cash or total cash equivalent 2016 1,50,000

Cash or cash equivalent 2017 2,20,000

Working Note (1)

Calculating of Drawing-

Capital of 2016 -	15,00,000
Add profit	6,00,000
	21,00,000
Less capital of 2017	17,50,000
Drawing	3, 50,000

Working note (2)

Machinery A/C

	₹		₹
To balance Bid (₹20,00,000 + Accumulated Depreciation ₹5,00,000)	25,00,000	By Bank A/C	1,30,000
		By Profit & Loss A/c (Loss or Sale) (2,50,000 -1,00,000-1,30,000)	20,000
		By provision on Depreciation (Depreciation on sold Machine)	1,00,000
		By balance Cid (4,00,000 + 8,50,000)	22,50,000
	25,00,000		**25,00,000**

Working Note (3)

	₹		₹
To machinery (Transfer of depreciation on machinery sold)	1,00,000	By balance bid	5,00,000
To balance Cid	8,50,000	By profit & loss A/C (Balancing figures being depreciation)	4,50,000
	9,50,000		**9,50,000**

6. **Comparative Income Statement**

	2016 Rs	2017 Rs	Increase (+) Decrease (-) Rs	Increase (+) Decrease (-) percentage
Net sales	15,25,000	17,00,000	1,75,000	11.47
Less cost of goods sold	9,00,000	9,50,000	50,000	5.56
(a) Gross profit	6,25,000	7,50,000	1,25,000	20
Operating Expenses: Admn. Exp.	93,250	95,980	2,730	2.9
Selling Exp.	1,80,000	1,99,000	19,000	10.56
(b) Total Operating Expenses	2,73,000	2,94,980	21,730	7.95
Operating Profit (a - b)	3,51,750	4,55,020	1,03,270	29.36
Add other income: Interest	7,500	6,200	-1,300	-17.33
Profit from sale of land	6,000	8,000	2,000	33.33
	13,500	14,200	700	5.18
Total Income	**3,65,250**	**4,69,220**	**1,03,970**	**28.46**
Less other expenses: Interest	18,000	17,000	-1,000	-5.55
Loss or sale of machinery	2,500	800	-1,700	-0.68
	20,500	17,800	-2,700	-13.17
Net Profit	3,44,750	4,51,420	1,06,670	30.94
Less Income tax	85,000	1,68,000	73,000	85.88
Net profit after tax	**2,59,750**	**2,83,420**	**23,670**	**9.11**

7. CR = CA/CL= 2.75/1

CA = 2.75 x 60,000 =1,65,000

AR= (CA - Inventory)/CL = 1.25/1

So, (1,65,000 - Inventory)/60,000 = 1.25

So, 1,65,000 - Inventory = 75,000

Inventory = 1,65,000 - 75,000 = 90,000

8.

Financial Accounting	Management Accounting
1. Object- prepared to find out P/I and financial position at the end of accounting year.	To help management in formulating plan and policies
2. Nature of Data- Historical, Quantitative monetary and objective	Descriptive, statistical subjective and relates to the future
3. Subject matter- Assessment of result as a whole	Assessing the activity of different units, department, divisions
4. Users- Internal and external	Internal
5. Legal compulsion- more or less compulsory or statutory	Voluntary basis
6. Precision- Actual figures	Approximate figures
7. Accounting principle- Governed by Generally accepted Accounting Principles(GAPP)	No set of principle
8. Period- For a particular period	No specific period
9. Preparation- Before management Accounting	After financial Accounting

9. Four sources of long-term working capital are:
   i) Equity share, preference share, debenture
   ii) Term loan from financial institutions
   iii) Public deposit
   iv) Retained earning

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2018 (A)

Time : 3 hours ***Full Marks : 80***

The figures in the right-hand margin indicate marks.
Carefully follow the instructions given in each Group and each Question

Group - A

All questions are compulsory

1. From the following alternatives, write serially the correct answer along with its serial number against each bit. [1x12=12]

i) Preliminary expenses is a/an:
(a) Current asset
(b) Liquid asset
(c) Intangible asset
(d) Fictious asset

ii) Outstanding rent Account is a:
(a) Personal account
(b) Representative personal Account
(c) Real Account
(d) Nominal Account

iii) Another name of Profit and Loss Appropriation Account is:
(a) Retained Earning Account
(b) Profit and Loss Account
(c) Profit and Loss Adjustment Account
(d) Revaluation Account

iv) Profit and Loss Account shows:
(a) Financial position
(b) Gross profit
(c) Net profit
(d) Appropriation of Profit

v) An example of short-term working capital is:
(a) Share capital
(b) Debenture
(c) Public deposit
(d) Sundry creditors

vi) Debenture holders get:
(a) Interest (b) Dividend
(c) Salary (d) Commission

vii) One of the functions of Management Accounting is:
(a) To determine the Profit/Loss
(b) To ascertain the cost of goods manufactured
(c) To find out the financial position
(d) To help the management in taking decisions

viii) The scope of Management Accounting includes:
(a) Cost Accounting
(b) Financial Accounting
(c) Reporting
(d) All the above and many more

ix) Cash flow statement shows:
(a) Inflow of cash
(b) Outflow of cash
(c) Both inflow and outflow of cash
(d) Financial position

x) Gross working capital means:
(a) Current assets plus current liabilities
(b) Current assets minus current liabilities
(c) Current assets plus fixed assets
(d) All current assets

xi) The accepted standard for current ratio is:
(a) 1:1 (b) 2:1
(c) 2.5:1 (d) 3:1

xii) Financial statements are called:
(a) Interim reports
(b) Financial reports
(c) Costing reports
(d) Managerial reports

2. Answer the following questions as per instructions given under each part: [1x12=12]

a) Answer the following questions within one word/term each:
(i) What is the other name of Balance Sheet?
(ii) Write another name of Liquid Ratio?
(iii) Name any one profitability ratio.

b) Answer the following questions within one sentence each:

(iv) What is 'Net working Capital'?

(v) What do you mean by current liabilities?

(vi) Define 'Ratio'.

c) Correct the underlined portions of the following sentences:

(vii) Share holders get <u>interest</u>.

(viii) Mine is <u>fictitious</u> asset.

(ix) Copyright is an example <u>wasting</u> asset.

d) Fill up the blanks of the following sentences:

(x) Bank overdraft is a source of _____ term working capital.

(xi) The accepted standard for quick ratio is _____.

(xii) Cash flow statement is prepared by taking the _____ balance of cash.

Group - B

3. Answer any ten of the following questions in not more than 30 words each: [2x10=20]

a) What advantages are enjoyed by the Equity shareholders compared to preference shareholders (any two) ?

b) Name any two types of debentures.

c) What is profitability ratio?

d) Define management Accounting?

e) Write the definition of 'Working Capital' as given by Gerstenberg.

f) What is Redeemable preference Share?

g) What do you mean by Bearer Debenture?

h) What is 'Issued Capital'?

i) What does 'calls-in-arrear' mean?

j) What do you mean by 'Bonus'?

k) What do you mean by 'Debtors turnover ratio'?

l) What are the financial statements usually considered for comparative financial statement analysis?

m) How is stock turnover ratio calculated?

4. Answer any four of the following questions within 50 (fifty) words each: [3x4=12]

a) Distinguish between Management Accounting and Financial Accounting (any three).

b) Distinguish between equity share and preference Share.

c) Write any three sources of short-term working capital.

d) Write any three objective of Management Accounting.

e) State any three sources of Cash inflows.

f) Why is it necessary for business to maintain adequate balance of cash?

Group - C

Answer any three questions from the following : [8x3=24]

5. **The following particulars are available from 'P' Co. Ltd.:**

Liabilities	**31.03.2016 (₹)**	**31.03.2017 (₹)**
Share Capital	1,40,000	1,48,000
Debentures	24,000	12,000
Provision for Doubtful Debts	1,400	1,600
Sundry creditors	20,700	23,680
P/L A/c	20,080	21,120
	2,06,200	**2,06,400**

Assets	**31.03.2016 (₹)**	**31.03.2017 (₹)**
Cash	18,000	15,600
Debtors	29,800	35,400
Stock	98,400	85,400
Land	40,000	60,000
Goodwill	20,000	10,000
	2,06,200	**2,06,400**

Additional information:

(i) Dividend paid ₹7,000

(ii) Land was purchased for ₹20,000

(iii) Amount provided for a mortisation of Goodwill ₹10,000

(iv) Debentures paid off ₹12,000

6. From the following particulars, prepare a comparative Income Statement of Bijay:

	2016 (₹)	2017 (₹)
Sales	3,00,000	3,75,000
Cost of goods sold	1,50,000	2,25,000
Administrative expenses	42,500	50,000
Selling expenses	10,000	25,000
Other incomes	7,500	15,000
Income tax	52,500	45,000

7. From the following data, calculate:

(a) Gross profit ratio

(b) Net profit ratio

(c) Inventory turnover ratio

(d) Working capital turnover ratio

	₹
Sales	12,60,000
Cost of sales	9,60,000
Net profit	1,80,000
Inventory	4,00,000
Other current assets	3,80,000
Fixed assets	7,20,000
Net worth	7,50,000
Debt	4,50,000
Current liabilities	3,00,000

8. Discuss the limitations of management Accounting.

9. Describe the various sources of short-term working capital.

***

ANSWERS 2018 (A)

Group - A

1. From the alternative given under each bit, write serially the correct answer against each bit along with its serial number:

i) a) current asset

ii) b) representative personal Account

iii) c) profit and loss Adjustment Account

iv) c) net profit

v) d) sundry creditors

vi) a) Interest

vii) d) To help the management in taking decision

viii) d) All the above and many more

ix) c) both inflow and outflow of cash

x) d) All current assets

xi) b) 2:1

xii) a) interim reports

2. Answer the following questions as per instructions given in each part:

a) Other name of balance sheet- statement of position of the business

i) or statement of assets and liabilities

ii) Other name of liquid ratio- Quick / Acid teat ratio

iii) Name any one profitability ratio Gross profit / net profit ratio

b) iv) Net working capital is the difference between current asset and current liabilities

v) Current liabilities refers to those business liabilities which are to be settled in cash within one year or operating cycle of a given firm.

vi) Ratio is simple arithmetic expression of the relationship between two variables.

c) vii) Dividend

viii) wasting assets

ix) Intangible assets

d) x) Short

xi) 1:1

xii) Opening

Group - B

3. Answer any ten of the following questions in not more than 30 words each:

a) Advantages enjoyed by Equity shareholders compared to preference share holder-
   - Owner of the business get dividend
   - Voting right

b) Name of two types of Debenture are:
   - Mortgaged/Secured Debenture
   - Registered Debenture

c) Profitability ratio is the relationship of profits which measures the efficiency of the business with respect to sales or earning.

d) Management Accounting is concerned with accounting information that is useful to the management.

e) 'Working Capital' definition as given by Gerstenberg-
   - Working capital is circulating capital which means current assets of a company that are changed in the ordinary course of business from one form to another.

f) Redeemable preference share-

   Those shares are to be repayable either after a fixed period or earlier at the option of the company as per the provisions laid down in section 80.

g) Bearer Debenture

   The debentures which are payable to the bearer or holder are called bearer debenture.

h) Issued capital- it is that part of authorised capital which is offered to the public for subscription.

i) Calls-in-arrear

   In case some shareholders fail to pay the allotment money or call money in time, such unpaid portion of the called up capital is known as calls-in-arrear.

j) Bonus- A sum of money added to employee's wages for good performance as extra benefits.

k) Debenture turnover ratio

   This ratio is calculated by dividing net credit sales by average trade debtors.

l) Two types-

   i) Comparative balance sheet

   ii) Comparative of profit and loss.

m) Stock turnover Ratio

   This is calculated by dividing cost of goods sold with average inventory at cost.

4.a) Distinguish between Management Accounting and Financial Accounting.

Management Accounting	Financial Accounting
1. Object-the object is to help management in formulating plan and policies.	The object is to record various transactions to find out profit and loss and financial position of the business at the end of accounting year,
2. It uses data which is descriptive, statistical, subjective and relates to the future	It makes use of data which is historical, Quantitative monetary and objective
3. Users- The user is mainly related to the management	The users are both internal and external to the organisation such as creditors, bankers, shareholders, Government and others.

b) Distinguish between equity share and preference Share

Equity share	Preference share
1. Equity shareholders are the real owner of the company and control the affairs of the company.	Preference share carry preferential rights as regards payment of dividend and repayment of capital.
2. Equity share holders have voting right	Preference shareholders generally do not posses voting right. However, they can vote if their own interests are affected.
3. Equity shareholders get back their capital only when preference shareholders get their capital in full.	They have a preferential right to return of capital before the capital of equity shareholder is returned when the company goes into liquidation.

c) Short-term sources (three) are:

i) Trade credit- This is the credit extended by one trader to another for the purchase of goods and services.

ii) Cash credit and overdraft- Under cash credit, the bank offers the firm to take a loan up to a certain limit.

iii) Commercial paper- it is an unsecured money market instrument issued in the form of a promissory note.

d) The main objectives of Management Accounting is to enable management to maximize profits or minimizes losses.

i) Planning and Policy formulation- It involves forecasting, setting goals, framing policy and deciding alternative course of action.

ii) Helping in interpretation process.

iii) Reporting to the management

e) Sources of cash inflows are summarised from three activities.

i) From operating activities- cash receipt from the sale of goods and rendering services.

ii) From investing activities- Disposal of long term assets and investment.

iii) Financing Activities- cash precedes from issuing share, Debenture, loan etc.

f) Adequate balance of cash is necessary to maintain the operating activities of the business.

i) Timely Purchase of material, payment of labour and to meet other expenses so that products will be available to be sold.

ii) Replacement and addition of assets and technology cash is necessary.

iii) Interest, dividend, taxes will be paid in time.

Group - C

Answer any three questions from the following :

5. **Cash flow statement of 'P' Co. Ltd.**

Bracket figure indicates '-' (minus)

CASH FLOWS FROM OPERATING ACTIVITIES

Increase in P/L A/c		1,040	
Adjustment for non-cash and non-operating items:			
Dividend paid	7,000		
Goodwill amortisation	10,000		
	-------------	17,000	
Adjustment for charge in current operating assets and liabilities:			
Increase in trade creditors	2,960		
Increase in provision for doubtful debts	200		
Increase in Debtor	(5,600)		
Decrease in Stock	13,000		
	-------------	10,560	
Cash generated from operation		**28,600**	**28,600**

a)	Net cash from operating activities	28,600
	Cash Flows from investment Activities	
	Purchase of land-	(20,000)
b)	Cash flows investment activities-	(20,000)
	Cash Flows from Financing Activities	
	Issue of share capital-	8,000
	Dividend paid-	(7,000)
	Debenture Redeemption	(12,000)
c)	Cash Flows from financing Activities	(11,000)
	Total Cash Flows a+b+c = 28,600 - 20,000-11,000	
		= (2,400)
	Cash at beginning	18,000

	Cash at end	15,600

6. **Comparative Income Statement**

Particular	**2016 Rs.**	**2017 Rs.**	**Absolute Change Rs.**	**Percentage Change %**
1. Sales	3,00,000	3,75,000	75,000	25%
2. Other income	7,500	15,000	7,500	100%
3. Total Revenue (1+2)	3,07,500	3,90,000	82,500	26.83%
4. Expenses				
a) Cost of goods sold	1,50,000	2,25,000	75,000	50%
b) Admin. Expenses	42,500	50,000	7,500	17.65%
c) Selling expenses	10,000	25,000	15,000	150%
Total expenses	2,02,500	3,00,000	97,500	48.15%
5. Profit before exceptional and extra ordinary item (3-4)	1,05,000	90,000	-15,000	-14.29%
Exceptional and extra ordinary items	-	-	-	-
Profit before tax	1,05,000	90,000	-15,000	-14.29%
Less tax expenses	52,500	45,000	-7,500	-14.29%
Profit for the year	52,500	45,000	-7,500	-14.29%

b) Net Profit Ratio

= (1,80,000/12,60,000)x100=14.29%

c) Inventory turnover Ratio

= (Cost of sales/inventory)x100

= (9,60,000/4,00,000)x100=240%

d) Working capital turnover Ratio

Working capital

=Current assets - Current liabilities

=7,80,000 - 3,00,000

=4,80,000

Working capital turnover Ratio

= (Cost of sales/Avg. Working capital)x100

=(9,60,000/4,80,000)x100

=200%

8. **Limitation of Management Accounting**

Management Accounting, being comparatively a new discipline, is in the process of development. Even than it renders valuable services to the management in performing it's functions, it is not free limitations. The limitations are as follows:

i) Limitations of basic records- sources being financial accounting, cost accounting and other records. Thus the limitation of those records is also limitations of management accounting.

ii) Based on historical records- It is based on historical data supplied by financial accounting and cost accounting.

iii) Lack of knowledge- Management accounting requires knowledge of a number of related subjects such as accounting, statistics, economics, taxation, principle of management. The management accountant fails to equip himself with sufficient knowledge in the field. Deficiency in knowledge of any of these subjects limits the use of management accounting.

iv) Personal Bias

v) Management accounting is only tools-

This is the tool but with regards to implementation his advice is taken by the management.

vi) Costly installation

vii) Resistance to change

viii) Preference to intuitive decision making

ix) Broad Based Scope.

9. Various sources of short-term working capital are Long-term sources and short-term sources.

Short term sources are:-

i) Borrowing from Bank

a) Demand loan

b) Cash credit

c) Purchasing and discounting of Bills

d) Overdraft Bills

e) Guarantee

ii) Trade credit

iii) Outstanding expenses

iv) Advances from customer

v) Commercial paper

vi) Factoring of receivable- it is type of short-term finance in which business would sell its accounts receivable (invoices) to a third party.

vii) Internal Sources- Such as provision for depreciation, provision of tax, proposed Dividend.

***

2017 (A)

Time : 3 hours | ***Full Marks : 80***

The figures in the right-hand margin indicate marks.
Carefully follow the instructions given in each Group and each Question

Group - A
All questions are compulsory

1. From the following alternative, write serially the correct answer along with its serial number against each bit: [1x15=15]

i) Outflow of funds takes place, when:
(a) Debenture are converted into shares
(b) Preference shares are redeemed
(c) Sundry creditors are paid
(d) Bank overdraft is paid

ii) Profit and loss Account is also known as:
(a) Income statement
(b) Position Statement
(c) Profit and loss Appropriation Account
(d) Profit and loss Adjustment Account

iii) Another name of funds flow statement is:
(a) Sources and Uses of Funds Statement
(b) Balance sheet
(c) Income statement
(d) Position statement

iv) Flow of Funds occurs, when:
(a) Sundry creditors are paid
(b) Fixed assets are sold
(c) Payment of bonus in cash
(d) Debtors are collected

v) Goodwill is an example of:
(a) Liquid asset
(b) Current asset
(c) Fictitious asset
(d) Intangible asset

vi) The objective of preparing funds flow statement is:
(a) to find out net profit or loss
(b) to find out flow of cash
(c) to find out flow of funds
(d) to find out financial position

vii) One of the techniques of financial statement analysis is:
(a) balance sheet
(b) Comparative Balance sheet
(c) Profit and loss Account
(d) Profit and loss Appropriation Accounts

viii) One of the sources of long-term working capital is:
(a) Advances from customers
(b) Trade credit
(c) Debenture
(d) Indigenous banks

ix) Working capital decreases, when:
(a) Bills Receivable increases
(b) Sundry creditors decreases
(c) Machinery increases
(d) Stock-in-trade decreases

x) The one which is a non-current item is:
(a) Preliminary expenses
(b) Investors
(c) Account payable
(d) Accounts receivable

xi) Gross working Capital is equal to:
(a) Sum total of all current assets
(b) Current assets plus fixed assets
(c) Current assets minus current liabilities
(d) Current assets plus current liabilities

xii) Quick ratio tests:
(a) Profitability and solvency
(b) Solvency
(c) Liquidity
(d) Profitability

xiii) Retained earnings statement depicts:
(a) Estimates of costs
(b) Estimates of gross profit
(c) Estimates of net profit
(d) Appropriation of profits

xiv) One of the functions of management Accounting is:
- (a) to determine profit or loss of a business
- (b) to determine cost of production
- (c) to facilitate communication of financial information
- (d) to prepare the balance sheet

xv) One of the following which is a current asset, is
- (a) Building (b) Goodwill
- (c) Work-in-progress (d) Machinery

2. Answer the following questions as per instructions: [1x15=15]

a) Fill in the blanks
- (i) Depreciation is a ______ of funds.
- (ii) Prepaid expense is a ______ asset.
- (iii) Current ratio studies the _____ of a concern.

b) Correct the underline portion of the following sentences:
- (iv) Sale of machinery causes <u>outflow</u> of funds.
- (v) Debenture is an important source of <u>short</u> term capital.
- (vi) In <u>broader</u> sense "fund" means cash only.
- (vii) Copyright is an example of <u>wasting</u> asset.

c) Answer the following questions within one sentence each:
- (viii) Name a ratio which can study the efficiency of the firm.
- (ix) What is meant by 'Acid-test' ratio?
- (x) What is gross working capital?
- (xi) Name a transaction which causes inflow of funds.

d) Answer the following questions in one word/ term each:
- (xii) What does the funds flow statement reveal?
- (xiii) What do debenture holders get from the company?
- (xiv) Name a ratio which can study profitability.
- (xv) What is the latest among the main branch of Accounting?

Group - B

3. Answer any eleven of the following questions, in not more than two sentences each: [2x11=11]
- (a) How is Debtor turnover ratio calculated?
- (b) What is Bonus share?
- (c) Explain 'Accrued' income.
- (d) What is meant by in term dividend?
- (e) Name any two Activity Ratio.
- (f) Write the two causes of decrease in working capital.
- (g) What is Redeemable Preference share?
- (h) What is Pro-rate allotment of shares?
- (i) What is 'Issued Capital'?
- (j) What are the two parameters of Return on capital employed?
- (k) Name any four non-current assets.
- (l) What are the financial statements generally considered for comparative financial statement analysis?
- (m) Define 'ratio'?
- (n) What is Bearer Debenture?

4. Answer any six of the following questions within six sentences each: [3x6=18]
- (i) State any three differences between Management Accounting and Financial Accounting.
- (ii) State any three limitations of Fund Flow statement.
- (iii) Mention ant three limitations of Management Accounting.
- (iv) State any merits of Management Accounting.
- (v) What is 'fund from operation'?
- (vi) Write any three uses of funds Flow Statement.
- (vii) What do you mean by trend Analysis?
- (viii) Why are investors interested in the financial statement of a business concern?

Group - C

Answer any three questions from the following : [$7^1/_2$x4=15]

5. Following are the extracts from the Balance Sheet of X Ltd. On 31st March, 2014 and 31st March, 2015. You are requested to compute funds.(Out of syllabus)

	31.03.2014 Rs.	31.03.2015 Rs.
Profit and Loss Appropriation	1,06,200	1,41,6000
General Reserve	70,800	88,500
Goodwill	35,400	17,600
Preliminary expenses	21,240	14,160
Provision for depreciation on machinery	34,400	42,480

	2014 (Rs.)	2015 (Rs.)
Sales	6,00,000	7,50,000
Cost of goods sold	3,00,000	4,50,000
Administrative and selling expenses	1,12,000	1,70,000
Other incomes	25,000	40,000
Income tax	1,40,000	1,00,000

7. From the information given below find out the different ratios:

(a) Sundry Debtors Rs.1,50,000; Stock-in-trade Rs.50,000; Bills receivable Rs. 40,000; prepaid expenses Rs.10,000; Sundry Creditors Rs.60,000 and Bills payable Rs.40,000. Find out current ratio.

(b) Cost of goods sold Rs.10,00,000; Opening stock Rs.1,20,000 and Closing Stock Rs.80,000. Find out stock turnover ratio.

(c) Sundry creditors Rs.30,000; Bills payable Rs.15,000; Bank overdraft Rs.40,000; Outstanding salary Rs.5,000; Sundry debtors Rs.40,000; Bills receivable Rs.30,000; Stock of goods Rs.35,000; Prepaid insurance Rs.2,000; Short term investment Rs. 50,000 and cash at bank Rs.15,000. Find out Quick ratio.

8. Explain various factors influencing the working capital requirements of a firm.

9. Discuss the functions of management Accounting.

10. Explain the differences between management Accounting and cost Accounting.

***

ANSWERS 2017 (A)

Group - A

1. From the following alternative, write serially the correct answer along with its serial number against each bit:

i) (b) Preference shares are redeemed
ii) (a) Income statement
iii) (a) Sources and Uses of Funds Statement
iv) (b) Fixed assets are sold(out of syllabus)
v) (d) Intangible asset
vi) (c) To find out flow of funds (out of syllabus)
vii) (b) Comparative Balance sheet
viii) (c) Debenture
ix) (d) Stock-in-trade decreases
x) (a) Preliminary expenses
xi) (a) Sum total of all current assets
xii) (c) Liquidity
xiii) (d) Appropriation of profits
xiv) (c) To facilitate communication of financial information
xv) (c) Work-in-progress

2. Answer the following questions as per instructions:

a) (i) Source
(ii) Current
(iii) Liquidity

b) (iv) inflow
(v) long
(vi) narrow
(vii) intangible

c) (viii) Working capital turnover ratio can study the efficiency of the firm.
(ix) Acid-test ratio is the ratio which shows the relationship between liquid assets and Current liabilities.
(x) It is the sum total of all the current assets of enterprise.
(xi) Issue of share or preference share

d) (xii) Change in the working capital on two balance sheet date.
(xiii) Interest
(xiv) Net profit ratio
(xv) Management accounting

Group - B

3. Answer any eleven of the following questions, in not more than two sentences each:

a) This is calculated by Dividing net Credit sales with Average trade Debtors.

b) Those shares are issued to equity shareholder in proportionate to their existing share without consideration.

c) This income is earned but not received and treated as an asset.

d) This dividend is paid within accounting period before finalisation of final dividend.

e) 1. Stock turnover ratio
2. Debtors turnover ratio

f) 1. Less current assets
2. More current liabilities

g) Those shareholders are repaid their capital within a stipulated period.

h) All the applicants are allotted share on proportionate basis.

i) Part of authorised capital which is actually offered for public subscription.

j) 1. Profit
2. Capital employed

Purpose is how efficiently the money is invested in business.

k) Four Non-current assets are:
i) Long term investment
ii) Purchase of land
iii) Building
iv) Machinery

l) Financial statements are balance sheet and profit and loss A/c.

m) It is simple arithmetical expression of relationship between two variables.

n) Those debenture which are transferrable by mere delivery.

4.i) Three differences between Management Accounting and Financial Accounting

Management Accounting	Financial Accounting
a) Object- to help management in formulating plans and policies	To record various transactions to find out profit and loss and financial position of the business.
b) Nature of data- uses data which is descriptive, statistical, subjective and relates to the future	Use of data which is historical, Quantitative, monetary and objectives.
c) Users- the user is internal mainly related to the management.	The users are both internal and external to the organisation such as creditors, bankers, shareholders, government and others.

ii) (Out of syllabus)

iii) Three limitations of Management Accounting are:
a) Management accounting does not have its own independent source of information. It derives information from financial accounting, cost accounting and other records.
b) Management accounting is based on historical data supplied by financial accounting and cost accounting.
c) In management accounting, there is every possibility of personal biasness in analysis and interpretation of data.

iv) State any merits of Management accounting-
a) Efficiency increase and effective control
b) Maximising profitability and minimizes losses
c) Facilitates communication and co-ordination

v) (Out of syllabus)

vi) (Out of syllabus)

vii) It is time series analysis of data which is very significant and meaningful for preparation of budgets and forecasting the future activities.

Group - C

Answer any three questions from the following :

5. **Out of syllabus**

6. **Comparative Income Statement**

	2014	2015	Absolute Change	Percentage Change %
1. Revenue from operation(sales)	6,00,000	7,50,000	1,50,000	25%
2. Add other income	25,000	40,000	15,000	60%
3. Total Income (1+2)	**6,25,000**	**7,90,000**	**1,65,000**	**26.4%**
4. Expenses cost of goods sold	3,00,000	4,50,000	1,50,000	50%
Admin and selling expenses	1,12,000	1,70,000	58,000	51.78%
Total expenses	**4,12,000**	**6,20,000**	**2,08,000**	**50.48%**
Profit before Income Tax	2,13,000	1,70,000	-43,000	-20.19%
5. Income Tax	1, 40,000	1,00,000	-40,000	-28.57%
Profit/Loss for the period	**73,000**	**70,000**	**-3,000**	**-4.1%**

7.a) **Current Ratio = Current Assets/ Current Liabilities**

Currect Asset	**₹**	**Currect Liabilties**	**₹**
Sundry Debtors -	1, 50,000	Sundry Creditors	60,000
Stock-in-trade-	50,000	Bills payable	40,000
Bills Receivable-	40,000		
Prepaid expenses-	10,000		
	2,50,000		**1,00,000**

Current Ratio = Current Assets/ Current Liabilities
= 2,50,000/1,00,000
= 2.5:1

b) Stock turnover ratio = Cost of goods sold / Average inventory
Average Inventory = (opening stock + closing stock) /2
= (1,20,000+80,000) / 2 = 1,00,000
Stock turnover Ratio = 10, 00,000/1, 00,000=10

c) Quick Ratio=Quick assets / Current liabilities

Quick Asset	**₹**	**Currect Liabilties**	**₹**
Sundry debtors	40,000	Sundry creditors	30,000
Bills receivable	30,000	Bills payable	15,000
Short-term Investment	50,000		
Outstanding Salary	5,000		
Cash at Bank	15,000		
	1,35,000		**50,000**

Quick Ratio = Quick Asset/ current liabilities
= 1,35,000/50,000=135/50=13.5/5=2.7:1

8. There are large numbers of factors upon which working capital requirements depend.

Those are:

i) Nature of Business:- Trading firm requires more working capital than public utility concern like electricity, water supply and railways undertakings.
ii) Size of Business- greater the size of business unit, generally large will be the requirements of working capital.
iii) Manufacturing cycle- needs of working capital is in direct proportion to length of manufacturing cycle.
iv) Production policy- If steady production policy is adopted, there will be a large accumulation of finished goods even during the slack season.
v) Length of operating cycle- Greater length of operating cycle i.e. conversion into cash in cycle order, more working capital.
vi) Business fluctuation- To meet the situation to alternate expansion and contraction in general economic activities the demand is affected due to which there will be fluctuation of requirement of working capital.
vii) Market competition- It influences the working capital requirement. For example if a firm enjoys monopoly the firm shall require lesser working capital.
viii) Price level changes- Rising in the price level needs a highly investment in working capital.
ix) Changes in technology- the technology changes and development in the area of production can have immediate effects on the needs of working capital.
x) Other factors- certain other factors such as operating efficiency, management attitude, import policy, taxation, depreciation policy, dividend and retention policy also influence the magnitude of working capital.

9. Functions of Management Accounting:

Management accounting renders the valuable functions to the different levels of management by using accounting information for taking managerial decision. Management accounting is assigned with the functions of classifying, processing, presenting and interpreting the data in such a way that it helps management to control and run the enterprise in an effective and efficient manner. The functions are:

i) Planning and Forecasting- planning refers to decide what is to done in future by setting the target and deciding alternative course of action. Various techniques used are budgeting, standard costing, marginal costing, funds flow statement, trend, ratios and probability.
ii) Modification of data- Accounting data required for managerial decision is properly compiled, classified and modified for the purpose. For example total sales may be classified into product-wise, period-wise, customer-wise, territory wise.
iii) Financial Analysis and Interpretation- It analyses and interprets financial data in a simple way and present it in a non-technical language.
iv) Facilitates communication- prepare the reports for the benefit of different levels of management, shareholders, creditors, investors and employees of the organisation.
v) Helping in managerial control- It helps the management to initiate effective control measures over the performance.
vi) Ensuring co-ordination- it ensures co-ordination between different departments and helps in attaining the objectives of the business.
vii) Decision-making- It furnishes accounting information required for decision making process for the survival and success of business.
viii) Use of qualitative information- Qualitative information like skill, efficiency and effectiveness of managers at different level.
ix) Improving service to the customers- various cost control measures helps to reduce cost and to supply qualitative products at reasonable price due to good customer relationship is developed.

10. **Difference between Management Accounting and Cost Accounting**

	Management Accounting	Cost Accounting
i) Object	To provide information to the management for planning, co-ordinating and decision making the activities of the business	To calculate the cost of product, job, centre or unit and effect cost control
ii) Nature	Deals with future projections and plans, basing on the past records	Concerned with past and present facts and figures
iii) Data used	Uses both quantitative and qualitative information	Only quantitative data
iv) Interested parties	Mostly internal parties	Both external and internal parties
v) Scope	Scope is very wide. It includes financial accounting	Deals primarily with cost ascertainment
vi) Approach	It is futuristic in its approach	It is historical in its approach
vii) Installation	It needs financial and cost accounting as its base for its installation and implementation	It can be installed without management accounting
viii) Planning	It is concerned with both short and long term planning	Concerned with short-term planning
ix) Base	Derived from both cost and financial accounting	Provides base for management accounting
x) Evolution	It has been developed since 1950	It has been evolved after industrial revolution
xi) Principles	No specific principles and procedures are followed in planning and policy making	Certain principles and procedures are followed in the ascertainment of cost of the product or service

***

GROUP - A

OBJECTIVE TYPE QUESTIONS

1. From the following alternatives, choose the correct answer.

1. Accounting to management is known as
   a) Cost Accounting
   b) Financial Accounting
   c) Management Accounting
   d) Revenue Accounting

2. Financial Accounts Provide a Summary of
   a) Assets b) Liabilities
   c) Accounts d) None of these

3. Financial statements are
   a) Estimated of Facts
   b) Anticipated Facts
   c) Recorded Facts
   d) None of the above

4. Which branch of Accounting is primarily used as the base of Management Accounting?
   a) Financial Accounting
   b) Specialised Accounting
   c) Company Accounts
   d) None of these

5. Financial Accounting deals with
   a) Historical costs b) Current cost
   c) Prospective costs d) None of these

6. Management accounting was used firstly in
   a) 1950 b) 1954
   c) 1946 d) 1960

7. Balance sheet reveals _____ of the business
   a) Profitability b) Position
   c) Scale d) None of these

8. Profitability can be ascertained by preparation
   a) Balance sheet
   b) Sales Account
   c) Profit and Loss Accounts
   d) Trial Balance

9. Management Accounting in used to communicate with
   a) Share holders b) Outside agencies
   c) Both a & b d) None of these

10. Management Accounting deals with
    a) Quantitative data b) Qualitative data
    c) Both a & b d) None of these

11. Which of the following is a currents liability?
    a) Mortgage loan b) Debenture
    c) Bill receivable d) Bills payable

12. Capital is a
    a) Natural Personal Accounts
    b) Artificial Personal Accounts
    c) Representative Personal Accounts
    d) None of these

13. Which of the following is a nominal Account ?
    a) Outstanding wages
    b) Prepaid salaries
    c) Accrued rent
    d) Discount allowed

14. Cash at Bank is a
    a) Personal Account
    b) Real Account
    c) Nominal Account
    d) None of these

15. How many columns are generally there in a comparative statement ?
    a) Four b) Five
    c) Six d) Seven

16. Trend analysis is _____________ analysis.
    a) Horizontal b) Vertical
    c) Inter firm d) None of these

17. Goodwill is an example of
    a) Current Asset b) Fictitious Asset
    c) Quick Assets d) Intangible Asset

18. Which of the following assets realise nothing during winding up of the business ?
    a) Tangible Fixed Assets
    b) Fictitious Assets
    c) Current Assets
    d) Wasting Assets

19. Discount Allowed in a
    a) Real Account
    b) Representative Personal Account
    c) Nominal Account
    d) Artificial Personal Account

20. Preliminary expenses is a
    a) Fixed Assets b) Fictitious Assets
    c) Nominal Accounts d) None of the above

21. Coal mine is a
    a) Fictitious Assets b) Wasting Assets
    c) Fixed Assets d) None of the above

22. Outstanding expenses are
    a) Nominal Accounts
    b) Representative Personal Accounts
    c) Artificial Personal Accounts
    d) Real Account

23. Accrued incomes are
    a) Nominal Account
    b) Artificial Personal Account
    c) Representative Personal Account
    d) Tangible Real Account

24. The asset which of the following as not a current asset is
    a) Sundry Debtors b) Goodwill
    c) Closing Stock d) Bills Receivable

25. Which of the following are the determinants of current ratio ?
    a) Current Assets and Liabilities
    b) Current Liabilities and Fixed Assets
    c) Current Assets and Fixed Liabilities
    d) Fixed Assets and Liabilities

26. Inventory is a _______ assets.
    a) Fixed b) Current
    c) Quick d) Absolute liquid

27. Which are of the following is a most liquid assets
    a) Cash in hand
    b) Cash at Bank
    c) Marketable Securities
    d) Short term investment

28. Which of the following assets are also called as liquid assets ?
    a) Current Assets b) Quick Assets
    c) Fictitious Assets d) Fixed Assets

29. Which ratio concern with evaluating the short term solvency position of a business firm ?
    a) Profitability b) Secondary
    c) Activity ratio d) Liquidity ratio

30. Which are the following is standard norm of an enterprise for quick ratio ?
    a) 2 : 1 b) 1 : 1
    c) 0.5 :1 d) None of these

31. Standard norm fixed for current ratio is
    a) 1 : 1 b) 2 : 1
    c) 0.5 : 1 d) None of these

32. Velocity ratio is the other name of
    a) Liquidity ratio b) Profitability ratio
    c) Activity ratio d) Solvency ratio

33. Satisfactory ratio of debt equity ratio
    a) 1 : 2 and more b) 2 : 1 and more
    c) 1 : 2 and less d) None of these

34. The most popularly used concept of working capital is
    a) Gross concept b) Net concept
    c) Both a and b d) None of the above

35. The extra amount of working capital required to meet some exigencies is called
    a) Fixed Working Capital
    b) Normal Working Capital
    c) Seasonal Working Capital
    d) Special Working Capital

36. Which one the following is a sources of Fixed Working Capital ?
    a) Retained Earning
    b) Discounting of Bills
    c) Trade Credit
    d) Outstanding Express

37. The excess of Fixed Working Capital over the normal requirement is called
    a) Normal Working Capital
    b) Contingent Working Capital
    c) Variable Working Capital
    d) Special Working Capital

38. The Bank overdraft is generally a source of
    a) Fixed Working Capital
    b) Variable Working Capital
    c) Owned Capital
    d) Normal Working Capital

39. Retained earnings are source of
    a) Internal Financing
    b) External Financing
    c) Institutional Loan
    d) None of these

40. Working capital is also unknown as ____ capital.
    a) Fixed Capital b) Revolving Capital
    c) Fixed Assets d) All of these

41. The gross working capital is a ____ concern concept
    a) Net Concern Concept
    b) Going Concern Concept
    c) Cash Concern Concept
    d) None of these

42. Who provides loans for working capital
    a) Indigenous loan
    b) Commercial Bank
    c) Trade Credit
    d) Commercial Paper

43. Bank overdraft is a source of
    a) Normal Working
    b) Owned Capital
    c) Variable Working Capital
    d) Fixed Working Capital

44. Which of the following is a source of Fixed Working Capital
    a) Trade Credit
    b) Retained Earning
    c) Discounting of bills
    d) Outstanding expenses

45. The excess of fixed working capital over the normal requirement is called
    a) Normal Working Capital
    b) Contingent Working Capital
    c) Variable Working Capital
    d) Special Working Capital

46. Commercial Paper represents
    a) Unsecured Promissory Note
    b) Written document
    c) A Bill
    d) None of these

47. Decrease in Current Liability
    a) Increase in Working Capital
    b) Decrease in Working Capital
    c) No Change
    d) None of these

48. Dividend payable is
    a) Current Asset b) Current Liability
    c) Fixed Asset d) All of the above

49. The popular concept of fund is
    a) Total Resources Concept
    b) Cash Concept
    c) Net Working Capital
    d) None of these

50. There is flow concept of fund which transactions are affected.
    a) Only Current Accounts
    b) Only Non-Current Accounts
    c) Both at a time
    d) None of the above

51. The debit balance of adjusted P&L Account is
    a) Funds from Operation
    b) Funds lost in operation
    c) Increase in working capital
    d) Decrease in working capital

52. Current Asset include
    a) Machinery
    b) Furniture
    c) Cash and Bank Balance
    d) None of the above

53. Which of the following is a non-current assets ?
    a) Interests received
    b) Rent received
    c) Contingent assets sold
    d) Goods gold.

54. Which of the following is a Trading Income ?
    a) Interest received
    b) Rent received
    c) Contingent assets sold
    d) Goods sold

55. One the sources of short term working capital is
    a) Debenture b) Equity Share
    c) Trade Credit d) Term Loan

56. Flow of funds occurs, when
    a) Shares are issued for cash
    b) Bonus is paid in the form of shares
    c) Cash in collected from debtors
    d) Bills reciavable are received from customer

57. Management Accounting in concerned with :
    a) Preparation of Profit and Loss Account
    b) Preparation of Balance Sheet
    c) Accounting information useful to management
    d) Determination of cost of producing a product

58. The primary goal or management accounting is to :
    a) Prepare the income statement
    b) Record all business transaction
    c) Determine the cost of product
    d) Provide information for planning and decision making

59. The use of Management Accounting is :
    a) Compulsory b) Optional
    c) Obligatory d) Not Necessary

60. Management Accounting deals with :
    a) Actual Figures only
    b) Standard Figures only
    c) Both Monetary and Non-monetary information
    d) Estimated Figures

61. One of the functions of management accounting is
    a) to help the management in taking decision
    b) to ascertain the cost of products manufactured
    c) to determine Profit and Loss of business
    d) to prepare the Balance Sheet

62. One of the following which is not a function of Management Accounting is :
    a) Planning
    b) Convening the Board meeting
    c) Decision making
    d) Analysis and interpretation

63. One of the following who is not the user of Management Accounting is :
    a) production manager
    b) sales manager
    c) promoter
    d) director

64. One of the following which is a tool of management accounting is :
    a) Standard Costing
    b) Budgetary Control
    c) Internal Audit
    d) All of these

65. Management Accounting includes :
    a) Financial Accounting
    b) Cost Accounting
    c) Reporting to Management
    d) All of these

66. One of the following which is not the nature of Management Accounting is :
    a) Following fixed norms
    b) Forecasting
    c) Cause and effect analysis
    d) Supply of information

67. Outflow of fund takes place, where (2017-A)
    a) Debenture are converted into shares (2017-A)
    b) Preference Shares are redeemed
    c) Sundry Creditors are paid
    d) Bank Overdraft is paid

68. Profit and Loss Account is also known as : (2017-A)
    a) Income Statement
    b) Position Statement
    c) Profit and Loss Appropriation Account
    d) Profit and Loss Adjustment Account

69. The objective of Preparing Trading Account is (2017-A)
    a) To find out Gross profit
    b) To know Net Profit
    c) To know Financial Position
    d) To know Cash Balance

70. The most recently originated branch of accounting is :
    a) Financial Accounting
    b) Cost Accounting
    c) Management Accounting
    d) Company Accounts

71. How many branches of Accounting are there
    a) One b) Two
    c) Three d) Four

72. Which branch of Accounting does not have any uniform Principle ?
    a) Financial Accounting
    b) Cost Accounting
    c) Management Accounting
    d) Company Accounts

73. Which branch of Accounting is still in a evolutionary stage ?
    a) Financial Accounting
    b) Cost Accounting
    c) Management Accounting
    d) Specialised Accounting

74. The decision taken deliberately for a specific purpose is :
    a) Ordinary decision
    b) Strategic decision
    c) Policy decision
    d) Special decision

75. Which branch of Accounting in Primarily used as the base of Management Accounting ?
    a) Financial Accounting
    b) Cost Accounting
    c) Management Accounting
    d) Specialised Accounting

76. Financial Statements are Prepared on the basis of information collected from :
    a) Customers b) Accounting records
    c) Local Public d) Lawyers

77. A customary practice in the field of Accounting is termed as :
    a) Concept b) Convention
    c) Assumption d) Postulate

78. As per Companies Act, 2013, Balance sheet of a company is prepared in
    a) Schedule I b) Schedule II
    c) Schedule III d) Schedule VI

79. In a Balance Sheet the item which is not a part of Shareholder's Fund is :
    a) Share Capital
    b) Reserves and Surplus
    c) Sundry Debtors
    d) Money received against share warrant

80. In a statement of Profit and Loss manufacturing expenses is shown under the head :
    a) Cost of material consumed
    b) Employees benefit expenses
    c) Finance cost
    d) Other expenses

81. Cash flow statement depicts the :
    a) Sources and application of funds
    b) Profitability
    c) Sources and use of cash
    d) Financial position

82. What is to be determined from manufacturing account.
    a) Cost of production
    b) Gross Profit
    c) Net Profit
    d) Financial Position

83. Which Financial Statement is generally called as the income statement.
    a) Profit and Loss Account
    b) Balance Sheet
    c) Trial Balance
    d) None of these

84. The analysis in which the analysts have direct accessibility to the details accounting record is :
    a) Internal analysis
    b) External analysis
    c) Horizontal analysis
    d) Vertical analysis

85. Inter-Firm analysis concerns with the analysis of Financial Statements of :
    a) One business firm
    (b) Two business firm
    (c) More than two business firm
    (d) None of these

86. The analysis which concern with determining absolute as well as percentage changes in various accounting items is called :
a) Comparative Statement
b) Common size statement
c) Trend analysis
d) None of these

87. Which Financial analysis concerns with representing various accounting items as a percentage of an important accounting item of the same financial statement ?
a) Comparative Statement
b) Common size Statement
c) Ratio analysis
d) Funds analysis

88. The objective of Preparing Fund Statement is : (2017-A)
a) To find out net profit or loss
b) To find and flow of cash
c) To find out flow of funds
d) To find out financial position

89. One of the following which is not a technique of financial statement analysis (2016-A)
a) Common size statement
b) Comparative statement
c) Funds flow statement
d) Position statement

90. The accounts which is also known as Retained Earning is :
a) Manufacturing Accounts
b) Trading Accounts
c) Profit and Loss Accounts
d) Profit and Loss Appropriate Accounts

91. One of the techniques of financial statement analysis in : (2015-A)
a) Profit and Loss Appropriation Accounts
b) Profit and Loss Accounts
c) Comparative Balance Sheet
d) Balance Sheet

92. Balance sheet is also known as :
a) Profit and Loss Account
b) Profit and Loss Adjustment Account
c) Income Statement
d) Position Statement

93. Financial statements present the relevant financial information in terms of :
a) Ratio b) Percentage
c) Absolute Figure d) Average Value

94. Normally financial statements are prepared at the end :
a) One month b) One year
c) Two years d) Two months

95. Division of financial statements analysis as internal analysis and external analysis in done as the basis of :
a) Working Capital requirement
c) Profitability
c) Sales volume
d) Need of the users

96. Comparison of different year's financial data with a base year is termed as
a) Dynamic analysis
b) Static analysis
c) Trend analysis
d) Multiple analysis

97. In a trend analysis generally first year data is taken as
a) Current year b) Previous year
c) Base year d) Normal year

98. Presentation of financial data for number of years along with its upward or downward direction percentage is around as :
a) Trend analysis
b) Common size statement
c) Cash flow statement
d) Funds flow statement

99. A statement of Profit and Loss which shown the percentage of individual item of income and expenses to their respective totals is known as :
a) Common size Balance Sheet
b) Common size Statement of Profit and Loss
c) Comparative Balance Sheet
d) Comparative Statement of Profit and Loss

100. The item which is not considered as a technique of financial statement analysis is :
a) Trend analysis
b) Ratio analysis
c) Security analysis
d) Cash Flow Statement

101. Inventory is a
a) Fixed asses
b) Quick asses
c) Current Asses
d) Absolute liquid asses

102. One of the following ratios, which tests the short-term solvency of the firm, is :
a) Profitability Ratio b) Secondary Ratio
c) Activity Ratio d) Liquidity Ratio

103. Efficiency in Payment of Credit is evaluated by :
a) Current Ratio
b) Credit Turnover Ratio
c) Debtor Turnover Ratio
d) Stock Turnover Ratio

104. Efficiency in recovery of debt is evaluated by :
a) Credit Turnover Ratio
b) Debt Equity Ratio
c) Debtors Turnover Ratio
d) Stock Turnover Ratio

105. One of the following which is not a Current Liability, is
a) Bills Payable
b) Creditors
c) Outstanding Expenses
d) Debenture

106. One of the following which is not a liquid asset is :
a) Cash b) Debtors
c) Bills receivable d) Stock

107. Debtor turnover ratio is calculated by dividing the annual credit sale by :
a) Average Trade Creditors
b) Average Trade Debtors
c) Bills Receivable and Payable
d) Average inventory

108. One of the following which is an absolute asset, is :
a) Inventory
b) Trade Debtor
c) Marketable Investments
d) Prepaid Expenses

109. Trade Debtor consist of :
a) Only Bills receivable
b) Bill receivables and sundry debtors
c) Only Sundry Debtor
d) Credit Sales

110. One of the following item which is not taken into consideration for calculation of capital employed in business, is :
a) Land and Building
b) Cash in Hand
c) Preliminary Expenses
d) Inside Investment

111. What does the debtor turnover ratio disclose ?
a) Rapidity in debt collection
b) Rapidity in debt payment
c) Rapidity in selling stock
d) None of these

112. The ratios concern with examining long term financial ability of a business firm is called :
a) Liquidity ratios
b) Turnover ratios
c) Solvency ratios
d) Profitability ratios

113. What are the determinants of debt-equity ratio ?
a) Long term debts and short term debts
b) Long term debts and shareholder's funds
c) Total debts and total Assets
d) Total Assets and total Liabilities

114. What is conventional norm to interpret the debt-equity ratio ?
a) 2 : 1 b) 1 : 1
c) 1 : 2 d) None of these

115. When does the debt-equity ratio improve ?
a) At the time of increase in long term debt
b) At the time of decrease in owner's funds
c) At the time of increase in owner's funds
d) All the above

116. The determinants of proprietary ratio are :
   a) Net worth and net assets
   b) Net assets and net liabilities
   c) Net worth and current liabilities
   d) Net worth and total debts

117. What is the interpretation norm of solvency ratio ?
   a) More than 50 percent
   b) Less than 50 percent
   c) 100 percent
   d) None of these

118. Which one of the following is a general profitability ratio?
   a) ROI
   b) Net Profit Ratio
   c) Return on Capital Employed (ROCE)
   d) None of these

119. The profitability ratios based on capital employed are called :
   a) General Profitability Ratios
   b) Special Profitability Ratios
   c) Overall Profitability Ratios
   d) None of these

120. Which of the following ratios is most important for inter-firm comparison ?
   a) Gross Profit Ratio
   b) Net Profit Ratio
   c) Return on Investment (ROI)
   d) Return on Capital Employed (ROCE)

121. Net capital employed is equal to :
   a) Total Liabilities Less Fictitious Assets
   b) Total Liabilities Less Current Assets
   c) Net Assets Less Current Liabilities
   d) Total Assets Less Outsiders' Claim

122. What is the base for calculating general profitability ratios ?
   a) Cost of goods sold
   b) Net sales
   c) Total assets
   d) Net worth

123. When does the proprietary ratio improve without any change in profit
   a) At the time of increase in Net worth
   b) At the time of decrease in Net worth
   c) At the time of increase in outside liabilities
   d) At the time of increase in total assets

124. What are the determinants of gross capital employed
   a) Total Liabilities and Current Assets
   b) Total Liabilities and Fictions Assets
   c) Total Assets and Current Liabilities
   d) Net worth and Fixed Assets

125. The amount of profit available on the owners of a business enterprise is called :
   a) EBIT b) EAT
   c) Gross Profit d) Operating Profit

126. The efficiency of various operational activities can be known from :
   a) Liquidity Ratios
   b) Solvency Ratios
   c) Profitability Ratios
   d) Activities Ratios

127. Cash flow statement classifies the cash plans according to :
   a) Operating and Non operating Flows
   b) Investing and Non operating Flows
   c) Operating, Investing and Financing Activities
   d) Inflows and Outflows

128. An example of Cash Flow from Operating Activity is :
   a) Purchase of Fixed Asset for Cash
   b) Purchase of goods for cash
   c) Issue of equity shares for cash
   d) Redemption of debenture in cash

129. An example of cash flow from investing activity is :
   a) Repayment of long-term loan
   b) Purchase of goods for cash
   c) Sale of Fixed Assets for cash
   d) Issue of debenture for cash

130. An example of cash flow from financing activity is :
   a) Purchase of Plant and Machinery in Cash
   b) Payment of Salary to employees
   c) Dividend received on investment
   d) Payment of dividend to shareholders

131. One of the following transactions which would not result in inflow or outflow of cash and cash equivalents, is :
   a) Purchase of goods for cash
   b) Shares issued for loan
   c) Depreciation or Fixed Assets
   d) Cash Sales

132. One of the following which is not an operating activity is :
    a) Cash purchases
    b) Cash paid to sundry creditors
    c) Sale of plant and Machinery in cash
    d) Salaries paid to employees

133. One of the following which is not a financing activity is :
    a) Issue of shares for cash
    b) Redemption of debentures in cash
    c) Dividend received
    d) Dividend Paid

134. If net increase in cash and cash equivalent is ₹ 25,000 and cash and cash equivalent at the beginning of the period was ₹ 5,000, then the cash and cash equivalent at the end of period would be :
    a) ₹ 30,000 b) ₹ 20,000
    c) ₹ 5,000 d) ₹ 25,000

135. If net decrease in cash and cash equivalents is ₹ 10,000 and cash and cash equivalents at the end of the period is ₹ 15,000, then the cash and cash equivalents at the beginning of the period would be :
    a) ₹ 10,000 b) ₹ 5,000
    c) ₹ 25,000 d) ₹ 15,000

136. Which of the following capital is circulated frequently from one form to another ?
    a) Working Capital b) Fixed Capital
    c) Debit Capital d) Owned Capital

137. Which of the following capital is also known as revolving capital ?
    a) Share Capital b) Reserve Capital
    c) Working Capital d) Debt Capital

138. The circular sequence in which the working capital is circulated repeatedly to convert itself from to another is called :
    a) Working Capital Cycle
    b) Business Cycle
    c) Production Cycle
    d) None of these

139. The increase in net working capital in shown in which column of the statement of change in working capital.
    a) Increase column
    b) Decrease column
    c) Both of these two
    d) None of these

140. The change of cash in known through the :
    a) Cash flow statement of two period
    b) Balance sheet of two period
    c) Income statement of two periods
    d) Statement of changes in working capital

141. Cash advances and loan made to third parties is an examples of cash flow from :
    a) Operating activities
    b) Financing activities
    c) Investing activities
    d) Creditors

142. Which financial statement is based on a broad concept of fund?
    a) Funds Flow Statement
    b) Cash Flow Statement
    c) Statement of Profit and Loss
    d) Positional Statement

143. Which Financial Statement is based on a narrow concept of funds ?
    a) Funds Flow Statement
    b) Cash Flow Statement
    c) Statement of Profit and Losses
    d) Balance Sheet

144. Cash Flow Statement classifies the cash flows according to :
    a) Operating and Non-operating Flows
    b) Investing and Non-operating Flows
    c) Operating, Investing and Financing Activities
    d) Inflows and Outflows

145. Cash Flows means
    a) Inflow or outflow of cash or cash equivalents
    b) Inflow of cash or cash equivalent only
    c) Outflow of cash or cash equivalent only
    d) Neither inflow or outflow of cash or cash equivalent

146. One of the following which is not considered as cash and cash equivalent, is :
 a) Cash at Bank
 b) Current Investment
 c) Cheques and Drafts or Hand
 d) Long-term Investments

147. One of the following transaction which would result in inflow or outflow of cash and cash equivalent, is :
 a) Writing of bad debts against provision for doubtful debts
 b) Payment of dividend
 c) Cash withdrawn for Bank
 d) Purchase of marketable securities in cash

148. One of the following transactions which would not result in inflow or outflow of cash and cash equivalent, is :
 a) Cash paid to trade creditors
 b) Cash received from trade creditors
 c) Interim dividend paid
 d) Cash deposited into Bank

149. Another name of Funds Flow Statements :
 a) Sources and uses of funds statement
 b) Balance sheet
 c) Position statement
 d) Income statement

150. One of the sources of short-term working capital is :
 a) Public deposit b) Bank overdraft
 c) Shares d) Debenture

151. Which branch of accounting is still in a evolutionary stage ?
 a) Financial Accounting
 b) Cost Accounting
 c) Management Accounting
 d) Specialised Accounting

152. Which branch of Accounting is Primarily used as the base of Management Accounting ?
 a) Financial Accounting
 b) Specialised Accounting
 c) Company Accounts
 d) None of these

153. Branch of Accounting does not include
 a) Financial Accounting
 b) Cost Accounting
 c) Management Accounting
 d) Specialised Accounting

154. Financial Accounting deals with
 a) Historical Cost b) Current Cost
 c) Prospective Cost d) None of the above

155. Balance Sheet and Profit and Loss Account Prepared in
 a) Financial Accounting
 b) Cost Accounting
 c) Management Accounting
 d) All of the above

156. Country in which Management Accounting firstly used
 a) USA b) UK
 c) USSR d) None of these

157. Logically thinking before performing a work is
 a) Planning b) Organising
 c) Staffing c) Co-ordinating

158. Financial accounts provide a summary of
 a) Assets b) Liabilities
 c) Accounts d) None of above

159. The liability of uncertain amount dischargeable within one year is called
 a) Provision
 b) Current Liability
 c) Noncurrent Liability
 d) None of these

160. Which financial statement analysis in also called as dynamic analysis
 a) External analysis
 b) Inter-Firm analysis
 c) Horizontal analysis
 d) Inner period analysis

161. Analysis in which analysis have direct accessibility
 a) External Analysis
 b) Internal Analysis
 c) Inter Firm Analysis
 d) None of the above

162. Financial statements are
 a) Final reports b) Interim reports
 c) Primary reports d) Secondary reports

163. Full from of EAT
   a) Earning After Tax
   b) Earning After Interest and Tax
   c) Earning at Time
   d) None of the above

164. Developing country like India will manage debt-equity ratio is
   a) 1:1 b) 1:2
   c) 2:1 d) 1:3

165. Quick Asses is equal to :
   (a) Current Assets+Inventories+Prepaid Expenses
   (b) Current Assets - Inventories - Prepaid Expenses
   (c) Current Assets - Inventories + Prepaid Expenses
   (d) None of these

166. Repair Expenses for a newly purchased old track is a
   a) Revenue Expenditure
   b) Capital Expenditure
   c) Deferred Revenue Expenditure
   d) Both Capital and Revenue Expenditure

167. The amount of profit available for the owners of a business enterprise is called :
   a) EBIT b) EAT
   c) Gross Profit d) Operating Profit

168. The efficiency of various operational activities can be known from :
   a) Liquidity Ratios b) Solvency Ratios
   c) Profitability Ratios d) Activity Ratios

169. The full form of SEBI is :
   a) Securities Exchange Board of India
   b) Security Exchange Board of India
   c) Securities and Exchange Board of India
   d) Stock Exchange Board of India

170. How many methods are there to calculate cash flows from operating activities.
   a) 3 b) 2
   c) 4 d) 5

171. Cash flow statement is helpful for
   a) Inflow of cash
   b) Outflow of cash
   c) Inflow and outflow of cash
   d) Management of cash

172. The value of fixed assets is shown as purchase price even after the use for several years is known as :
   a) Opportunity Cost b) Marginal Cost
   c) Historical Cost d) Direct Cost

173. One of the following which is not a liquid asset is
   a) Cash b) Bills receivable
   c) Debtors d) Stock

174. Management Accounting relates to :
   a) Recording of accounting data
   b) Recording of costing data
   c) Presentation of accounting data
   d) None of these

175. Stock in the beginning result in :
   a) Application of Funds
   b) Source of funds
   c) No flow of funds
   d) None of the above

176. Depreciation of machinery in :
   a) Source of Funds
   b) Application of Funds
   c) Neither Source or Application of Funds
   d) Both Source and Application of Funds

177. If Sum total of all current assets be ₹ 6,20,000 and total of all current liabilities be ₹ 3,30,000 then net working capital be :
   a) ₹ 9,50,000 b) ₹ 3,30,000
   c) ₹ 2,90,000 d) ₹ 6,20,000

178. A firm should raise the maximum amount of permanent working capital by :
   a) Issue of Equity Shares
   b) Issue or Commercial Paper
   c) Advances from customer
   d) Bank overdraft

179. One of Liquidity ratio is : (2015-A)
   a) Operating Ratio
   b) Debtors Turnover Ratio
   c) Current Ratio
   d) Stock Turnover Ratio

180. One of the following, which is not a fixed asset is :
   a) Land b) Sundry Debtors
   c) Furniture d) Machinery

2. Short questions

A. Answer the following questions in one word/term each.

1. Which statement shows the Financial position of a business ?
2. Which statement shows financial results of operation during a certain period ?
3. State in which schedule the statement of Profit and Loss is prepared.
4. Which statement is prepared as per requirement of AS-3 (Revised) ?
5. Name the component which was earlier considered as a part but not considered as a part of financial statement as per Companies Act, 2013.
6. Which important factor is not considered in financial statement analysis ?
7. What is the name of the financial statement analysis which is conducted by the auditors?
8. The analysis which considers the financial information of one year only in known as :
9. Name the statement which shows the charges of financial data is absolute higher as well as in percentage.
10. What is the other name of Horizontal Analysis?
11. The accounting which provides information to the management for making plans and policies.
12. The branch of accounting which was introduced in 1950.
13. The accounting that provides information to external and internal parties.
14. The accounting that is limited to cost ascertainment and cost information.
15. The liabilities which are to be met within a period of one year.
16. Excess of current assets over liabilities.
17. An asset that has no physical existence.
18. Relationship between one number and another number.
19. Funds that is kept aside and out of profit to be used in future.
20. More important ratios are known as :
21. What is total of all current assets called ?
22. State whether redemption of debenture in cash will result in inflow or outflow or no flow of cash.
23. State whether the amount received from trade debtor will result in inflow, outflow or no flow of cash.
24. Which ratio exhibits the relationship between a Profit and Loss Account and income statement item.
25. Which ratio measure the overall performance and effectiveness of the firm ?
26. What is the other name of current ratio ?
27. What is the name of stock turnover ratio ?
28. Which is an arrangement by which barks allows his customer to borrow money up to some limit ?
29. What is the other name of funds flow statement ?
30. What are the expense incurred but not paid ?
31. What is the name of ratios used for inter-firm comparison ?
32. What is the prime motive of every business undertaking ?
33. Which accounting protects the business properties through up-to-date financial records ?
34. Which accounting is helpful to management in planning, forecasting, controlling and taking policy decision ?
35. Which branch of accounting establishes cause and effect relation between various accounting facts and figures ?
36. Net Profit and Loss of income statement transferred to which account ?
37. What is the other name of Profit and Loss Appropriation Account ?
38. What is the basic accounting assumption ?
39. What is the other name of Debtors Turnover Ratio ?
40. Which Ratio concern with representing the Earning per share as a percentage on the market price per share ?

41. What is the name of the fund in narrow sense ?
42. Which one is the starting working capital cycle ?
43. Which one is called as acknowledgement of debt ?
44. Under which arrangement the borrower is required to transfer the physical possession of property ?
45. Which one is popularly known as L/C ?

B. Answer the following questions in one sentence each :

1. What are the branches of Accounting ?
2. What are the basic limitation of financial statement ?
3. Name user of financial accounting information.
4. What is the basic objective management accounting ?
5. Why comparative balance sheet is prepared?
6. What do you mean by long term solvency?
7. What is common size income statement ?
8. What is trend analysis ?
9. What is ratio analysis ?
10. What is operating profit ratio ?
11. What is return on investment (RoI)?
12. What is Earning Per Share (EPS) ?
13. What is capital turnover ratio ?
14. What is inventory turnover ratio ?
15. What is average collection period ?
16. What does current ratio indicate ?
17. What is other name liquid ratio ?
18. Why Debt-Equity Ratio is calculated ?
19. What is proprietor ratio ?
20. What is capital gearing ratio ?
21. What does Activity Ratio measure ?
22. What is window dressing ?
23. What does working capital mean ?
24. What is business cycles ?
25. What is cash flow statement ?
26. What is cash equivalents ?
27. What do you mean by financial statement ?
28. What does Retained Earnings Ratio reveal ?
29. When Ratio analysis becomes invalid ?
30. Which form of accounting conducts management more efficiently ?
31. What is Accounting ?
32. What is Financial Accounting ?
33. What is Management Accounting ?
34. What is Amortization ?
35. What is cost of goods manufactured ?
36. What is cost of goods sold ?
37. What is Fixed Assets ?
38. What is Forfeiture of Share ?
39. What is operating expenses ratio ?
40. What is Ratio analysis ?
41. What is coverage ratio ?
42. What is interest coverage ratio ?
43. What is Trade Credit ?
44. What is Cash Credit ?
45. What is instalment purchase ?

C. Correct the underlined portions of the following sentneces :

1. In <u>Management</u> Acounting emphasis is given to actual figures.
2. Report of management accounting is <u>slow.</u>
3. Investment made for purchase of land and building comes under <u>Current</u> Assets.
4. In a business trade <u>Payable</u> include sundry debtor.
5. Earning capacity of a company is known from its <u>Cash Flow</u> Statement.
6. <u>Income</u> statement shown the sources of funds and it's applications.
7. Financial statements are the <u>end</u> reports of a business unit.

8. Fixed Assets of a business are shown at its market price in the balance sheet.
9. Future Profit of a business can be estimated from static analysis.
10. Financial Statement do not consider Quantitative information.
11. Comparative Financial Statement presents the changes of financial data both in approximate figures and percentage.
12. Liquidity Ratio measures long-term solvency of a firm.
13. Preliminary expenses are Current Assets.
14. Excess of Current Assets over long term liabilities is called working capital.
15. Absolute Liquid Ratio is known as Acid Test Ratio.
16. Return on investment ratio measures Profitability of the business.
17. Net working capital refers to sum total of all current assets.
18. Inventory is an example of Fixed Assets.
19. Issue of share is a source for temporary working capital.
20. Permanent working capital is the amount of working capital which is required to meet the seasonal demands and some special exigencies.
21. If sum total of all current assets be ₹ 50,000 and total of all current liabilities be ₹ 20,000, then gross working capital shall be ₹ 30,000.
22. Investing Activities are the main revenue generating activities of an enterprise.
23. Bank overdraft is a short-term borrowing and is treated as Operating Activities.
24. Bank deposit with maturing period of six months or less are treated as cash equivalent.
25. The inflow of cash, when a fixed asset having bank value of ₹ 20,000, is sold at a loss of ₹15,000, is ₹ 35,000.
26. Depreciation of Fixed assets is added back to net profit while calculating cash flows from investing activities.
27. Revenue reserve is created out of capital profit.
28. Ability of a firm to pay short-term obligation is known as Quality.
29. The fluctating working capital is the amount of funds invested permanently on a certain minimum level.
30. The dividend which is declared in the annual general body meeting is called proposed dividend.
31. Branch of Accounting doesnot include Financial Accounting.
32. 'Balance Sheet' and 'Profit and Loss Account' are prepared in Managements Accounting.
33. Cost Accounting was formed during 2nd World War.
34. Profitability can be ascertained by preparation of Balance Sheet.
35. Accounting for improving effectiveness is cost accounting.
36. Preparation of financial statement is necessary under Income Tax Law.
37. Vertical analysis does not include Ratio analysis.
38. Discount Allowed is Personal A/c.
39. The current ratio may be increased by understating Current Assets.
40. The ROI is the ratio between Investment and Profit.
41. The payment ratio is calculated by retained earning/profit.
42. Indigenous Bank provide loans as working capital.
43. Accounting to Companies Act 1956, a Public Company can not issue preference share.
44. Cash Flow Statement is based on a wider concept of funds.
45. Cash flow statement is a substitute of cash account.

D. Fill in the balnks of the following sentences.

1. Management Accounting reports are meant for _____ use only.
2. Management accounting provides _____ to management.
3. Cash is treated as _____ blood of a business.
4. A company is required to publish its _____ statement every year.
5. On the basis of _____ facts financial statement are prepared.
6. A Cash Flow statement shows the _____ and outflow of cash and cash equivalents.
7. Money received against share warrants are shown as _____ fund in a balance sheets.
8. Trade mark and copyright are the ____ assets.
9. Writing off _____ fixed assets is termed as depreciation.
10. Carriage and Freight are shown under the head _____ expenses in a statement of Profit and Loss.
11. Prepaid expenses is treated as _____ Asset.
12. A balance sheet depicts _____ position of a business.
13. Non-monetary factors are _____ in financial statement analysis.
14. The other name of _____ analysis is Dynamic analysis.
15. In a trend analysis generally _____ year is taken as the base year.
16. In a _____ statement each component is experessed as a percentage of concerned total.
17. Goodwill is a/an _____ asset.
18. Current ratio is a test of short term _____ of a firm.
19. Trade debtors include sundry debtors and _____ receivable.
20. When the debtors turnover ratio is high the average collection period is _____.
21. _____ experses as current assets.
22. Sundry Debtors are current _____.
23. Sundry creditors are current _____.
24. Working capital is also known as _____ capital.
25. Public activity concerns need _____ amount of working capital.
26. Debenture is a source of financing _____ working capital.
26. Overdraft is a source of financing _____ working capital.
27. Proceeds from sale of patents are classified under _____ activities.
28. Purchase of goodwill is shown as _____ under cash flows from investing activities.
29. _____ are the loans against which no securities has given.
30. Live stocks are _____ assets.
31. _____ Accounting is the oldest and most developed branch of accounting.
32. _____ accounting is based on information presented in firnancial statement.
33. _____ assets and liabilities are not included in the financial statement.
34. The other name of gross profit is _____ profit.
35. Unearned income is a _____ liability.
36. Goods return to supply will _____ the current ratio if the original current is less than one.
37. The ratios which concern with evaluating the long-term financial ability of a business firm are called _____ ratios.
38. Current Assets - (minus) Inventories = _____.
39. Ratios classified on the basis of liquidity, solvency and profitability is called _____ calssfication.
40. Current ratio is _____ when debentures _____ are issued for cash.
41. _____ working capital is requires to maintain an additional amount of current assets for a short period.
42. Cash payment to employees is cash flows from _____ activities.
43. Decrease in creditor is _____ of cash.
44. Cash proceeds from issue of Debneture is _____ activity.
45. The other name of operating profit before working capital changes is _____.

***

ANSWERS

GGROUP - A

From the following alternatives, choose the correct answer.

1. c) Management Accounting
2. c) Accounts
3. c) Recorded Facts
4. a) Financial Accounting
5. a) Historical costs
6. a) 1950
7. b) Position
8. c) Profit and Loss Accounts
9. c) Both a & b
10. c) Both a & b
11. d) Bills payable
12. c) Representative Personal Accounts
13. d) Discount allowed
14. a) Personal Account
15. b) Five
16. c) Inter firm
17. a) Current Asset
18. b) Fictitious Assets
19. c) Nominal Account
20. d) None of the above
21. b) Wasting Assets
22. b) Representative Personal Accounts
23. c) Representative Personal Account
24. b) Goodwill
25. a) Current Assets and Liabilities
26. b) Current
27. a) Cash in hand
28. b) Quick Assets
29. d) Liquidity ratio
30. b) 1 : 1
31. b) 2 : 1
32. c) Activity ratio
33. c) 1 : 2 and less
34. b) Net concept
35. d) Special Working Capital
36. a) Retained Earning
37. b) Contingent Working Capital
38. a) Fixed Working Capital
39. a) Internal Financing
40. b) Revolving Capital
41. b) Going Concern Concept
42. b) Commercial Bank
43. c) Variable Working Capital
44. b) Retained Earning
45. b) Contingent Working Capital
46. a) Unsecured Promissory Note
47. a) Increase in Working Capital
48. b) Current Liability
49. c) Net Working Capital
50. c) Both at a time
51. a) Funds from Operation
52. c) Cash and Bank Balance
53. a) Interests received
54. d) Goods sold
55. c) Trade Credit
56. a) Shares are issued for cash
57. c) Accounting information useful to management
58. d) Provide information for planning and decision making
59. b) Optional
60. c) Both Monetary and Non-monetary information
61. a) to help the management in taking decision
62. b) Conversing the Board meeting
63. c) promoter
64. d) All of these
65. d) All of these
66. a) Following fixed norms
67. b) Preference Shares are redeemed
68. a) Income Statement
69. a) To find out Gross profit
70. c) Management Accounting
71. c) Three

72. c) Management Accounting
73. c) Management Accounting
74. b) Strategic decision
75. a) Financial Accounting
76. b) Accounting records
77. b) Convention
78. c) Schedule III
79. c) Sundry Debtors
80. d) Other expenses
81. c) Sources and use of cash
82. a) Cost of production
83. a) Profit and Loss Account
84. a) Internal analysis
85. a) One business firm
86. a) Comparative Statement
87. b) Common size Statement
88. c) To find out flow of funds
89. d) Position statement
90. d) Profit and Loss Appropriate Accounts
91. c) Comparative Balance Sheet
92. d) Position Statement
93. c) Absolute Figure
94. b) One year
95. d) Need of the users
96. a) Dynamic analysis
97. c) Base year
98. a) Trend analysis
99. b) Common size Statement of Profit and Loss
100. c) Security analysis
101. c) Current Asses
102. d) Liquidity Ratio
103. b) Credit Turnover Ratio
104. c) Debtors Turnover Ratio
105. d) Debenture
106. d) Stock
107. b) Average Trade Debtors
108. c) Marketable Investments
109. b) Bill receivables and sundry debtors
110. c) Preliminary Expenses
111. a) Rapidity in debt collection
112. c) Solvency ratios
113. b) Long term debts and shareholder's funds
114. c) 1 : 2
115. c) At the time of increase in owner's funds
116. a) Net worth and net assets
117. b) Less than 50 percent
118. b) Net Profit Ratio
119. c) Overall Profitability Ratios
120. d) Return on Capital Employed (ROCE)
121. c) Net Assets Less Current Liabilities
122. b) Net sales
123. a) At the time of increase in Net worth
124. b) Total Liabilities and Fictions Assets
125. b) EAT
126. d) Activities Ratios
127. c) Operating, Investing and Financing Activities
128. b) Purchase of goods for cash
129. c) Sale of Fixed Assets for cash
130. d) Payment of dividend to shareholders
131. c) Depreciation or Fixed Assets
132. c) Sale of plant and Machinery in cash
133. c) Dividend received
134. a) ₹ 30,000
135. c) ₹ 25,000
136. a) Working Capital
137. c) Working Capital
138. a) Working Capital Cycle
139. b) Decrease column
140. b) Balance sheet of two period
141. c) Investing activities
142. a) Funds Flow Statement
143. b) Cash Flow Statement
144. c) Operating, Investing and Financing Activities
145. a) Inflow or outflow of cash or cash equivalents
146. d) Long-term Investments
147. b) Payment of dividend
148. d) Cash deposited into Bank
149. a) Sources and uses of funds statement
150. a) Public deposit
151. c) Management Accounting
152. a) Financial Accounting

153. d) Specialised Accounting
154. a) Historical Cost
155. a) Financial Accounting
156. a) USA
157. a) Planning
158. c) Accounts
159. a) Provision
160. c) Horizontal analysis
161. b) Internal Analysis
162. b) Interim reports
163. a) Earning After Tax
164. a) 1:1
165. (b) Current Assets - Inventories - Prepaid Expenses
166. b) Capital Expenditure
167. b) EAT
168. d) Activity Ratios
169. c) Securities and Exchange Board of India
170. b) Outflow of cash
171. d) Management of cash
172. c) Historical Cost
173. b) Bills receivable
174. c) Presentation of accounting data
175. a) Application of Funds
176. a) Source of Funds
177. c) ₹ 2,90,000
178. a) Issue of Equity Shares
179. c) Current Ratio
180. b) Sundry Debtors

2. Short questions

A. Answer the following questions in one word/term each.

1. Balance Sheet
2. Profit and Loss A/c or Income Statements
3. Schedule III Part-II
4. Cash Flow Statement
5. Funds Flow Statement
6. Non-monetary
7. External Analysis
8. Static or Vertical Analysis
9. Comparitive Statement
10. Dynamic Analysis
11. Management Accounting
12. Management Accounting
13. Financial Accounting
14. Cost Accounting
15. Current Liabilities
16. Working Capital
17. Intangible Asset
18. Ratio
19. Revenue Reserve
20. Primary Ratios
21. Gross Working Capital
22. Outflow
23. Inflow
24. Composite Ratio
25. Profitability Ratio
26. Working Capital Ratio
27. Stock Velocity
28. Cash Credit
29. Statement of Sares and Applicationof Funds
30. Accrued Expenses
31. Primary ratios
32. Profit
33. Financial Accounting
34. Management Accounting
35. Management Accounting
36. Capital Account
37. Retained Earning
38. Accrual Assumption
39. Debtor Velocity Ratio
40. Earning Yield Ratio
41. Cash
42. Purchase of Raw Material
43. Debenture
44. Pledge
45. Letter of Credit

B. Answer the following questions in one sentence each :

1. Financial Accounting, Cost Accounting and Management Accounting are different branches of Accounting.
2. It is historical in nature.
3. Banker, Creditor, Owner, Public are various user of financial accounting information.
4. Planning and policy formulation is the basic objective of Management Accounting.
5. It is prepared to ascertain the increase or decrease in Proprietor's Fund in assets and in liabilites during the where of two years or more.
6. The financial strength to meet long term liability in known as long term solvency.
7. It is the statement prepared to show the percentage charge in the existing figures of income and expenses by taking the net sales as 100% and or that bags all the cost and expenses are shown as a percentage of total net sales for the purpose of comparison.
8. The directional upwords and downwords compare to base year technique in regarded as trend analysis.
9. This is the analysis of financial statements with the help of ratios.
10. This measures the relationship between operating point and sales.
11. This is the return expected or the amount of investment or capital employed.
12. This is the carring which will be available for the shareholders after meeting all the obligations to the outsiders.
13. This is the relationship of capital with that of turnover inorder to ensure the effective utilisation of capital employed.
14. This is the time duration through which avrage stocks are converted into sales.
15. This is the time limit within which the amount due to debtors can be recovered.
16. This indicates the company's ability to meet its short term obligation.
17. Other name of Liquid Ratio is Quick Ratio or Acid Test Ratio.
18. This is calculated to access the soundness of long-term financial policies by ascertaining the relative interest of outsiders and shareholders.
19. This link between shareholders investment in equity shares and total tangible assets.
20. This is the relationship between fixed interest, dividend seeing securities and equity shareholders funds.
21. This measures the efficiency with which the resources of a firm to capital employed.
22. This refers to manipulatio of accounting data.
23. Working capital nears the capital employed in the Current Assets which can be determined as the difference between Current Assets and Current Liabilities.
24. This is the expansion and contraction of general business activity.
25. It is a statement of charges in cash position between the beginning and end of a period.
26. Those are short-term highly liquid investment that are readily convertible into known animals of cash and which are subject to an insignificant issue of changes in value.
27. The process or determining strength and weakness of a firm in known as Financial Statement analysis.
28. Retained Earning Ratio reveals the Proportion of Profit kept aaside for the future and or Current Year's Profit for growth and exapnsion of business.
29. In case of price level changes, ratio analysis becomes invalid.
30. Management accounting conducts management more efficiently and effectively.
31. Accounting in the process of identifying, measuring and communicating economic information to permit informed judgement and decision by users of the information.
32. This is the branch of accounting concerns with determining the profit or loss and the financial position of a business.
33. It is concerned with detailed financial analysis and interpretation to assist the management of a businessundertaking for performing effective managerial activities.
34. The process of writing off intangible assets in termed as mortisation.
35. It is the total amount of expenses incurred on the production of finshed goods during aparticular accounting year.

36. It is the total amount of direct expenses concerned with the quantity of finished goods sold.
37. Fixed asets are those which are owned with expectation to get economic benefits ovr a number of accounting years.
38. It means depriving a shareholder of his rights to the share.
39. The percentage of total assertaining costs of a business on its net sales revenue is called asserating expenses ratio.
40. It is the process of determining the quantitative relationship between the related component of financial statement inorder to judge the financial effieicny of a business.
41. This is concerned with measuring sufficiency of profit earned to meet various fixed charges of business.
42. This ratio indicates the proportion of operating profit to the fixed interest charges of business concern.
43. It is the purchase of goods and services from the suppliers on a credit basis.
44. This is the arrangement of a Bank Loan Account in the name of the borrower by which he is allowed to withdraw and deposit and amount within the agreed limit.
45. Itis concerned with the payment of total purchase price of an asset by a number of installment.

C. Correct the underlined portions of the following sentences :

1. Financial
2. Fast
3. Fixed
4. Receivable
5. Profit and Loss
6. Funds Flow
7. Interior
8. Cost
9. Trend
10. Qualitative
11. Absolute
12. Short-term
13. Fictitious
14. Current
15. Cash
16. Efficiency
17. Gross
18. Current
19. Permanent
20. Temporary
21. ₹ 50,000/-
22. ₹ 50,000/-
23. Financing
24. Three
25. ₹ 5,000/-
26. Operating
27. Capital
28. Liqudity
29. Fixed
30. Annual
31. Specialised Accounting
32. Financial Accounting
33. Industrial Revolution
34. Profit and Loss A/c
35. Management Accounting
36. Company Law
37. Trend Analysis
38. Nominal A/c.
39. Overstating
40. Net Profit & Capital Employed
41. Dividend per Share/EPS.
42. Commercial Bank
43. Defereed Shares
44. Funds Flow Statement
45. Not a Substitute

D. Fill in the blanks of the following sentences

1. Internal
2. Information
3. Life
4. Financial
5. Recorded
6. Inflow
7. Non-monetary
8. Intangible
9. Tangible
10. Other
11. Current
12. Financial
13. Ignored
14. Horizontal
15. First
16. Common-size
17. Intangible
18. Solvency
19. Bills
20. Loss
21. Prepaid
22. Assets
23. Liabilities
24. Circulating or Short-term
25. Less or Nominal
26. Permanent
27. Temporary
27. Investing
28. Outflow
29. Unsecured Loan
30. Fixed
31. Financial
32. Management
33. Contingent
34. Trading
35. Current
36. Decrease
37. Solvency
38. Liquid Assets
39. Functional
40. Increased
41. Variable
42. Operating
43. Outflow
44. Financing
45. Fund from operationq

GROUP - B

SHORT TYPE QUESTIONS

3. Answer the following questions not more than 30 words each.(2 Marks)

1. What do you mean by Management Accounting?
2. State any two Advantages of Management Account.
3. State any two limitations of management Accounting.
4. Mention any two functions of Management Accounting.
5. What is the scope of Management Accounting?
6. State any two characteristics of Management Accounting.
7. Name the parties who are interested in financial statements.
8. What are the different components of financial statement?
9. How is cost of goods manufactured calculated?
10. What is cost of goods sold?
11. What is Manufacturing Account?
12. What is Trading Account?
13. What is operating expenses?
14. What is operating profits?
15. What is net profit?
16. What is Earning Before Interest and Tax (EBIT).
17. What is Balance Sheet?
18. What is Reserve and Surplus?
19. What is Debentures?
20. What is Secured Loan?
21. What is Unsecured Loan?
22. What is Current Liabilities?
23. What is Bank Overdraft?
24. What are provisions?
25. What is investment?
26. What is a current asset?
27. What is Fictitious Assets?
28. What is Stock Exchanges?
29. What is Equity Share?
30. What is preference Shares?
31. What is Share?
32. What is Calls-in-advance?
33. What is Calls-in-arrear?
34. What is under subscription?
35. What is over subscription?
36. What is surrender of share?
37. What is naked Debentures?
38. What is Debenture Interest?
39. What is Debenture Redemption Reserve (DRR)?
40. What is Internal Analysis?
41. What is External Analysis?
42. What is Horizontal Analysis?
43. What is Vertical Analysis?
44. What is comparative-statement?
45. What is comparative Balance Sheet?
46. What is comparative income statement?
47. What do you mean by common-size statement?
48. What is common-size Balance Sheet?
49. What is common-size income statement?
50. What do you mean by Trend Analysis?
51. What is depreciation?
52. What do you mean by Obsolescence?
53. What do you mean by Ratio?
54. What is Current Ratio?
55. What is Liquid Ratio?
56. What is Absolute Liquid Ratio/Cash Ratio?
57. What is Stock/Inventory Turnover Ratio?
58. What is Inventory Conversion Period?
59. What are debtors Turnover Ratio?

60. How Average collection period of debts is calculated?
61. How creditors Turnover Ratio are calculated?
62. What is Average Payment Period?
63. How working capital turnover ratio is calculated?
64. What is gross profit ratio?
65. What is net profit ratio?
66. What is net operating profit ratio?
67. What is Return on Investment (ROI) Ratio?
68. What is Return on Capital Employed (ROCE) Ratio?
69. What do you mean by gross working capital?
70. What is net concept of working capital?
71. What is permanent or fixed working capital?
72. What is short term or temporary or variable or seasonal working capital?
73. What are the different sources of meeting permanent working capital?
74. What are the different sources of short-term financing of working capital?
75. How production policy is affected in different situation?
76. What do you mean by length of operating cycle?
77. How inadequacy of working capital affects the business?
78. What do you mean by Primary Ratio?
79. What do you mean by Secondary Ratio?
80. What do you mean by Primary Ratio?
81. What is the interpretation of preference dividend coverage ratio?
82. What is the interpretation of current ratio?
83. What is the interpretation of liquid ratio?
84. What is the interpretation of Absolute Liquid Ratio?
85. What do you mean by raw material turnover ratio?
86. What is the interpretation of Debt Equity ratio?
87. What is interpretation of Solvency Ratio?
88. What do you mean by Dividend Payout ratio?
89. What do you mean by price earnings ratio?
90. What do you mean by Dividend yield ratio?
91. What is Demand loan?
92. What do you mean by cash credit?
93. What is overdraft?
94. What do you mean by purchasing and discounting of bills?
95. What is Guarantee?
96. What is Trade credit?
97. What do you mean by Advances from customers?
98. What is factoring?
99. What do you mean by cash flow statement?
100. What is cash equivalent?
101. What are different cash flows from operating activities?
102. How cash flows to investing activities?
103. What are different cash flows from financing activities?
104. How cash flows are determined under direct method?
105. How cash flows are determined under indirect method?
106. How depreciation is treated in cash flow statement?
107. How amortization of fictitious or intangible assets is treated in cash flow statement?
108. How bad debts written off are treated while preparing cash flow statement?
109. How different provision created is treated while preparing cash flow statement?
110. How profit on sale of fixed assets is treated while calculating operating profit?
111. How decrease in current assets is adjusted to find out cash generated from operation?

112. How does increase in current assets influences the cash generated from operation?
113. How does decrease in current liabilities influences the cash generated from operation?
114. How increases in current liabilities are adjusted in calculation of cash generated from operator?
115. What is DU-PONT control chart?
116. In which way ratio of fixed Assets to funded debt is useful.
117. In which way market value to book value ratio is useful.
118. What do you mean by Price-Earnings Ratio?
119. What do you mean by dividend pay-out ratio?
120. What is gross capital employed?
121. What is net capital employed?
122. What are the different types assets are not included in computing capital employed?
123. Considering liabilities approach how capital employed is calculated?
124. How proprietor's Net capital employed is calculated?
125. In narrow sense what is the meaning of funds for funds flow statement.
126. In a broader sense what is the meaning funds.
127. Why popular concept of funds is useful?
128. For which type of transaction flow or funds is affected?
129. What is basic purpose of a funds flow statement?
130. What does management know from the fund flow statement?
131. Whether funds flow statement is substitute of an Income statement?
132. Whether funds flow statement is substitute of a balance sheet?
133. What is a basic purpose of preparation of funds flow statements?
134. How funds flow statement is helpful in the analysis of financial operations?
135. How financial statement is helpful to proper allocation of resources?
136. How does financial statement help to know overall credit worthiness of a firm?
137. In how many format and what forms funds flow statement is prepared?
138. What are different methods of calculating funds from operations?
139. What do you mean by debenture issued for other than cash?
140. What do you mean by denture issued as collateral security?
141. What is the meaning of purchasing own debenture?
142. What is zero coupon bond?
143. What are the different methods of redemption of debenture?
144. What do you mean by Bonus share?
145. What do you mean by preference shares?
146. What do you mean by cumulative preference share?
147. What do you mean by Non-Cumulative preference shares?
148. What do you mean by redeemable preference shares?
149. What do you mean by Irredeemable preference shares?
150. What do you mean by participating preference share?
151. What are the different levels of stocks maintained for inventory control?
152. What are the different management reports?
153. What do you mean by Inflation Accounting?
154. What are various techniques used by management accountant in planning and forecasting of managerial information?
155. How management accounting ensures co-ordination among different departments?

156. How far management accounting is helpful to provide qualitative Information?
157. How far management accounting creates harmony in the relationship between the management and employees.
158. How far management accounting is helpful to minimize wastages?
159. How far management accounting helps to maximize profitability?
160. How far management accounting is helpful to provide better services to customers?
161. Is there any possibility that the management accounting information affects due to personal biasness in analysis and interpretation of data?
162. Why sometimes intuitive decision is taken in place of scientific decision taken with help of management accounting techniques?
163. What are the different types of common-size statements?
164. What is capital gearing ratio?
165. Why current ratio is considered on a crude ratio?
166. What are the objectives of funds flow statement?
167. What is the importance of funds flow statement?
168. Under what circumstances funds flow indicate the changes.
169. How depreciation helps to show correct financial position of a business?
170. What do you mean by published reserves?
171. Give one distinction between provisions and reserves.
172. What are first debentures?
173. What are second debentures?
174. Why the value of fixed assets does not give final and accurate position?
175. How non-monetary factors are treated in financial statement?
176. Why financial statements are not precisely stated?
177. What are the utilities of ratio analysis to shareholder?
178. What are the utilities of ratio analysis to government?
179. How far types of business influence current ratio?
180. How far types of products will influence current ratio?
181. What is weighted current ratio?
182. Why sometimes, bank overdraft is not included in current liabilities while calculating quick or acid test ratio?
183. What is interval measure or defensive interval ratio?
184. Why there is no standard norm for inventory turnover ratio?
185. Why there is no standard norm for average collection period ratio?
186. What is interpretation of interest coverage ratio?
187. How provision for taxation is treated in schedule for changes in working capital?
188. How interim dividend is treated in calculating funds from operation?
189. From what activities cash flow statement should report cash flows.
190. How foreign currency transaction is being treated in cash flow?
191. How acquisition and disposal of subsidiary unit would be presented in cash-flow?
192. What is financial leverage?
193. How operating leverage is calculated?
194. How management accounting guides and advises management at every step?
195. Why management accounts can't be audited?

***

ANSWERS

3. Answer the following questions not more than 30 words each.(2 Marks)

1. Management Accounting is concerned with detailed financial analysis and interpretation to assist the management of a business undertaking for performing effective management activities. It applies the accounting information useful to the management.

2. It increases the overall efficiency of the business concern in various business operations. It guides and advises management for better performance.

3. Management Accounting is based on historical data supplied by Financial Accounting and cost accounting. It does not have its own independent source of information from financial accounting and cost accounting and other records.

4. Management Accounting analysis and interprets financial data in a simple way and helps the management to evaluate alternative course of action to arrive at an appropriate decision.

5. Scope is very wide covering variety aspects of business operation such as budgeting and forecasting, cost control procedure, inventory management, tax planning, investment decision, and areas of internal audit.

6. (i) It is mainly based on accounting information to the different levels of management to take right decision.

   (ii) It attempts to examine the 'cause' and 'effect' of different accounting variable.

7. As the financial statements are the result of accounting process, there are several parties like shareholder or investor or creditors, Banker, Govt., Trade association, Stock exchange, Regulatory bodies like SEBI, Company law board, Registrar of companies etc.

8. Components are balance sheet, Profit and loss accounts, cash flow statement, statement of changes in equity, any explanatory note annexed to.

9. It is total amount of expenses incurred on the production of finished goods during a particular accounting year. It includes cost of material consumed by adjusting opening and closing work-in-progress and all direct and indirect expenses incurred in production department.

10. This is the total amount of direct expenses concerned with quantity of finished goods sold. Expenses on net purchases and other direct expenses like carriage and freight inward, wages, fuel, power, import duty and manufacturing overhead are included.

11. This is first part of income statement of manufacturing firm to determine the cost of goods manufactured. The balance of this account is cost of production on credit side of Trading A/C.

12. Part of income statement which is prepared to determine the gross profit or gross loss incurred during the concerned accounting year.

13. Those expenses are incurred on the operation of various indirect activities of the concern in general administration, selling and distribution activities.

14. It is the excess of gross profit over operating expenses. The interest paid and received, the profit or loss on sale of fixed assets are to be excluded to determine the operating result.

15. It is the excess of all incomes and gains over all expenses are also taken into account. This is the profit after interest on borrowed capital and before corporate income tax.

16. The profit before interest on borrowed capital and provision for corporate income tax is called earnings before interest and tax. The interest on borrowed capital is added to net profit to know EBIT.

17. The financial statement which reveals the financial position is known as balance sheet. It is prepared for a particular date and contents all assets, liabilities and capital of a concern.

18. Those are created out of capital profit or revenue profit in order to meet contingencies in future. Those may be capital reserve, capital redemption reserve, general reserve etc.

19. It is an acknowledgement of debt bearing fixed interest to be redeemed after specified time period and even enjoys voting rights to their context.

20. Loan taken by providing security or some properties of concern and normally not repayable within one financial year.

21. The loan taken without providing any security known as unsecured loan. Such loan may be in the form of public deposit, loans from Banking and insurance companies, loans from subsidiary companies.

22. Those are the obligation repayable within one accounting year. Items to be included are sundry creditor or Trade creditors, Bills payable, outstanding expenses and unearned income etc.

23. It is the excess amount withdrawn than the amount in credit of Current Bank Account. It is treated as current liability but the same is treated as non-current if it is made on permanent arrangement with Bank.

24. Provisions are some liabilities of uncertain amount dischargeable within one accounting year. They should be shown as a separate category immediately after current liabilities, because of their uncertainty.

25. Investments are the surplus money invested outside by the concern. Such investment may be made in government or trust securities, shares of other companies, debenture or bond of other concern, immovable properties etc.

26. The assets which are normally convertible into cash within one accounting year are called current assets. The items included in this asset are short-term marketable securities inventories, sundry debtors, bill receivable, cash at bank, cash in hand, accrued income, prepaid expenses, short-term advances.

27. The heavy losses and revenue expenditures of sign amount to be written off over a number of accounting years are called fictitious assets.

28. Stock exchanges are the ready market for buying and selling the securities of various enlisted corporate bodies. It provides valuable information to the buyers and seller of such securities. The analysis of financial statements enables them to determine the market price of securities.

29. These share holders are the real owner of the company having the voting rights on all matters. The rate of dividend is not fixed. They don't have any preferential right to dividend or return of capital in the event of winding up.

30. Those shareholders have preferential rights in respect of payment of dividend and return of capital in the event of liquidation of company. They are paid dividends at a fixed rate.

31. The capital of company is usually divided into different units of a fixed amount is known as Shares. A share is an interest of shareholder in the company measured by a sum of money. Each share is distinguished by its specific number and a certificate is issued to shareholders under the common seal of the company.

32. When shareholders pay money to the company in excess of what is due from them to avoid the botheration of paying calls from time to time it is known as calls-in-advance.

33. It may so happen that some holders fail to pay allotment money or call money in time. Such unpaid portion of the called up capital in known as calls-in-arrear.

34. Where the number of shares applied by the public for subscription is less than the number of shares issued, it is called under subscription.

35. Where the number of shares applied by the public for subscription is more than the number of shares issued, it is called over subscription.

36. It means voluntary return of shares to the company. When the shareholder is not in a position to pay the calls on the shares, he may voluntarily return to the company.

37. The debentures against which there is no security are known as naked Debentures. In this case, the company only promised to pay the principal and interest to debenture holders.

38. Interest or debentures in paid to the debenture holders at the specified rate whether the company earns profit or not. It is generally payable half-yearly on the face value of debenture and the same is charged to profit and loss account.

39. The companies raising resources through debentures are required to create a reserve fund for the redemption of such Debentures, known as Debenture Redemption Reserve (DRR).

40. The financial analysis, in which analysist have direct accessibility to detailed accounting records of the concern is called Internal Analysis. These analysist are usually the management and accounting employees of the concern.

41. Those analyses are conducted by those analysist who don't have direct accessibility to the detailed accounting records of the business enterprise. They may be shareholders, prospective investors, money lenders, creditors, stock brokers, customers, researchers etc.

42. It is concerned with the analysis of financial data of a firm over a number of accounting years. The accounting figures of same items, over a number of years are arranged chronologically in a horizontal structure in order to study their movements.

43. Under this analysis, the different accounting figures are evaluated vertically with their respective related figures of the same accounting year. This analysis is also known as static analysis or inner-period analysis.

44. It is a technique of financial analysis for making such comparative study. It concerns with making comparison between the similar accounting data presented in two similar financial statements.

45. The comparative balance sheet concerns with comparing the financial information presented in the balance sheets of two different dates. It is prepared to study the absolute and percentage increase or decrease in different assets and liabilities.

46. The representation of two different but similar income statements in a comparable form is called comparative income statement. It concerns with comparing the elements of one income statement with their respective related elements in another income statement.

47. The common-size statement is one of the technique which concerns with representing the financial information of two similar financial statements in a common form. Each and every accounting item of the financial statement is represented as percentage of an important item in the same financial statement.

48. It concerns with representing the items of two similar balance sheets in a common form. For this, individual assets and liabilities are calculated and shown as a percentage of total assets and total liabilities respectively.

49. The common-size income statement concerns with the representation of each item of the two different income statements as a percentage of their respective net sales. Items of the income statement should be classified and aggregated according to their similarity of characteristics in order to reflect the profit from different concepts.

50. The Trend Analysis is a technique which concerns with determining the quantitative movements of different accounting items over specified time series in absolute as well as percentage figures. For such representation, a particular year (usually the first year) is chosen as base year by taking its figure as one hundred.

51. The word 'depreciation' comes from Latin word 'depretium' meaning decrease in price. In accounting, depreciation means gradual decrease in the economic value of a fixed asset.

52. Due to technological improvement and new invention the value of an existing asset may decrease as result of which the asset may be discarded even though it is still workable.

53. A ratio is an arithmetic expression of quantitative relationship between related numerical facts. It may be expressed as quotient, percentage or proportion.

54. It is the ratio of current assets to current liabilities and found out simply by dividing total current assets by current liabilities and ratio is indicator of liquidity or short-term solvency of a firm.

55. This is the ratio of quick or liquid assets by current liabilities. Liquid assets are those which can be easily converted into cash without causing any loss or minimum loss and thus from current assets like stock, prepaid expenses and not easily marketable securities are excluded.

56. Sundry debtors, bills receivable and investments even though those are more liquid than the stock but uncertainty lies with regard to promptness of their realization, are excluded from current asset which is divided by current liabilities to know the absolute liquidity ratio.

57. Inventory turnover is calculated by dividing cost of goods sold/ net sales by average inventory. Purpose is to know how efficiently the stocks are used.

58. Inventory Turnover Ratio can be used to find out the average time taken for clearing the stock. This is calculated by dividing the number of days in a year by inventory turnover ratio.

59. This ratio is calculated by dividing net credit sales by average trade debtors. Incase credit sales is not known total sales may be used. This is known as Debtors velocity ratio.

60. It is the number of days for which a firm has to wait for the receivable to be converted into cash. Shorter the average collection period, better in the quality of debts.

61. This is calculated by dividing net credit annual purchase by Average trade creditors. This ratio indicates the velocity at which trade creditors are turned over in relation to purchase.

62. This is calculated by dividing Average trade creditors daily purchase. The same is calculated by number of working days by creditor's turnover ratio, lower the ratio, better is liquidity position.

63. This ratio is calculated by dividing cost of sales with Average working capital. High working capital turnover ratio indicates the efficient utilization of working capital.

64. It is calculated by dividing gross profit by net sales. This ratio indicates how much of a rupee sold is available to meet the expenses.

65. This ratio correlates net profit with net sales and aims at studying the efficiency of a firm. This ratio is an overall measure of success or failure. Normally expressed as percentage.

66. This is calculated by dividing net operating profit by net sales expressed as a percentage. It aims at measuring operating efficiency of the firm.

67. This ratio studies the relationship between net profit and shareholders' investment. This ratio is also known as return or return on shareholders' investment or net worth.

68. It correlates probabilities with capital employed in the business and aims at finding out how efficiently the money is invested in business.

69. This concept refers to the total value of all current assets. It is the total amount available for financing current assets which can be converted into cash within one accounting year.

70. This represents excess of current assets over current liabilities. Net working capital can be positive or negative.

71. It is the minimum amount of investment in all current assets which is required at all times to carry out minimum level of business activities. It is known as "Hardcore working capital" which is generally made from long-term sources.

72. This is the amount which is required over and above the permanent working capital to meet the seasonal demand and some special exigencies.

73. Generally the permanent working capital is financed by long-term sources like equity, preference share, debenture term loan, public deposit and retained earning.

74. Important sources of short-term financing of working capital are borrowing from banks, trade credit, outstanding expenses, advances from customer, commercial paper, factoring of receivable and internal sources like provision for depreciation, tax and proposed dividend.

75. In some industries the demand is subject to wide fluctuation due to seasonal variation where more working capital is required.

76. It refers to the length of time required to complete the cycle of events namely, conversion of cash into raw material and then to work-in-progress and finished goods which finally into sundry debtors and lastly into cash.

77. Working capital is the life blood of every business which is required to maintain the health of a firm. Inadequacy poses the problem in running the business.

78. The ratio which are helpful to evaluate the relative efficiency of business career, are the most important for inter-firm comparison.

79. These ratio are not so important and generally used to measure the efficiency of various internal activities.

80. These ratios are calculated by taking financial information from both financial statement like one from position statement and other from the income statement.

81. Such ratio reveals the inadequacy of the profit after tax to cover the dividend payable standard of preference dividend cover ratio is 1:1.

82. An increase in the current ratio indicates the improvement in the short-term financial position a decrease means deterioration in the ability to meet current obligation.

83. It indicates the ability of a firm to pay its current obligation immediately at their due date. The acceptable norm for quick ratio is usually 1:1 or more.

84. An absolute liquid ratio is 0.5:1 or more is considered satisfactory which means the worth of absolute liquid assets should be at least half of total current liabilities.

85. The turnover ratio which concern with measuring the rapidity of raw material consumption and useful to judge the efficiency in purchasing activity of business.

86. Generally standard norms of debt equity ratio is 1:2 which is satisfactory for long-term creditor's point of view.

87. It has been stated that the sum of proprietary and solvency ratios must be equal to 100 and proprietary ratio of 50% or more is considered satisfactory.

88. The ratio which concerns with determining the portion of earning paid as dividend is called as dividend payout ratio.

89. This ratio concerns with representing the market per share as a certain multiple of earnings per share. This is the reciprocal of earning yield ratio.

90. The percentage of dividend per share on the market price per share is called dividend yield ratio.

91. This type of loan is for specified amount, period and rate of interest. The entire amount of loan is disbursed in one drawing and sanctioned against government securities.

92. It is a short-term sources of finance under which bank offers the firm to take a loan upto a certain limit for the purpose of meeting the working capital requirements. It is given against collateral security.

93. It is a share of temporary working capital under which account holder is permitted to draw a specified amount for a period of three months on interest charged every month.

94. Under this facility, banks grant finance against cheque or bills of exchange where bank shall recover interest at prevailing rate and credit the balance amount to the account of customer.

95. Bank provides guarantee to secure the obligation of businessman against security of some tangible assets.

96. Trade credit is the credit extended by one trade to another for the purchase of goods and services. It facilities the purchase of goods and services without immediate cash payment.

97. Sometimes customers pay advance at the time of placing order. This is one of the popular short-term finance of the business enterprises as most of the time it does not carry interest for the customer.

98. It is a type of short-term finance in which a business would sell its accounts receivable to a third party known as factor. When receivable are factored, title to them is transferred to the factors and the same is no longer appear on the firm's balance sheet.

99. A cash flow statement is a statement of changes in cash position between the beginning and end of a period. In this case there is inflow or sources of cash and outflow or use of cash.

100. It is short-term highly liquid investment that are readily convertible into known amount of cash and which are subject to an insignificant risk of changes in value.

101. Cash flows from operating activities generally result from the transactions and events which are taken into account for determination of net profit or loss of the firm.

102. Cash outflows into investing activities reveal the expenditure made for resources intended to generate future income and inflow.

103. Financing activities are those activities that result in changes in size and composition of owner's capital including preference share in case of a company and borrowings of the enterprise.

104. In this method, actual cash receipts from operating revenues and actual cash payments from operating activities are arranged and difference between cash receipts and cash payment is the cash generated from operating activities.

105. In the method, net profit before tax for the period is used as the base to which adjustments are made for items that affect the income statement but doesn't affect the cash.

106. It is shown as expense in the statement of profit and loss but does not result in outflow of cash and hence, it is added back to profit.

107. Similarity those assets amortization does not involve any cash payment and hence, are added back to profit.

108. It does not involve any cash outflow and hence, are added back to profit. But if bad debt written off out of provision for doubtful debts, it's ignored while preparing cash flow statement.

109. Any provision is created and shown in the statement of profit and loss, it is added back to profit as it reduces the profit without reducing cash balance of the firm.

110. Profits on sale of fixed assets are shown in the statement of profit and loss as income is deducted from profit to find out operating profit.

111. Decrease in current assets such as trade debtors, inventories, prepaid expenses, accrued income are added to operating profit to find out cash generated from operation.

112. Increase in current assets such as trade debtors inventories, prepaid expenses, accrued incomes are deducted from operating profit to find out cash generated from operation.

113. Decrease in current liabilities such as trade creditors, outstanding expenses, incomes received in advance etc. are deducted from operating profit.

114. Increases in current liabilities are added to operating profit to determine the cash generated from operation.

115. A system of management control designed by an American company named DU-PONT Company is called as DU-PONT control chart where as inter-relationship of standard ratios are compared to present ratios and changes in performance are adjusted.

116. The relationship between fixed assets and the funded debts is very useful to the long-term creditor.
117. This ratio which studies the relationship between market value per share in which it studies the stock market position.
118. It is ratio between market price per equity share and earnings per share. The ratio is calculated to make an estimate of appreciation in the value of share of a company.
119. This ratio studies the relationship between Dividend per equity share and market value of share. This ratio is calculated to find the extent to which earning per share have been required in the business.
120. The term "gross capital employed" usually comprises the total assets, fixed as well as current assets used in the business.
121. The term "Net capital employed" comprises the total assets used in the business less its current liabilities.
122. Those assets which are idle, intangible, fictitious, and obsolete, are not included and similarly investment made outside the business and excess balance of cash or bank then required for smooth running of the business should be excluded.
123. This can be calculated by adding all liabilities (minus current liabilities in case of net capital employed) and further adjusting the total for increase in the value of assets on replacement cost, intangible, idle and obsolete assets.
124. This is calculated by adding fixed assets with current assets and from the sum outside liabilities (both long term and short term) is deducted.
125. In this sense the fund means cash only and a funds flow statement prepared on this basis is called a cash flow statement.
126. In this sense the term "Funds" refers to money values in whatever form it may exist. Here "funds" means all financial resources used in the business whether in the form of men, money, material and machine etc.
127. This is so because here funds means working capital which studies the total resources invested partly in fixed and partly kept in liquid form of a business.
128. In the transactions where are current account and other non-current are involved in those case flow of funds is affected.
129. The basic purpose is to reveal the changes in the working capital on the two balance sheet dates.
130. The management can come to know the adequacy or inadequacy of working capital even in advance due to which appropriate managerial decision can be taken.
131. It is not substitute of an income statement. It reports the results of activities and indicates the reasons for the profitability or lack thereof.
132. No is the answer. As balance sheet shown the financial position on particular date thus it is static in nature, where as funds flow statement discloses the causes for changes in assets and liabilities between two different points of time and thus it is dynamic one.
133. The basic purposes of a funds flow statements is to reveal the changes in the working capital on two balance sheet dates.
134. The funds flow statement explains causes for such changes or the liquidity position of the company. It also reveals the net effect of various financial transactions on operational and financial position.
135. A projected funds flow statement constructed for future help so far as deployment of resources and allocate them among various allocation.
136. Different financial institutions and banks will ask for funds flow statement constructed for a number of years before granting loans to know the paying capacity of the firm and after that the loan is granted.

137. Generally, the funds flow statement is prepared in two formats.

a) Report form

b) T-form or an account form or self balancing type.

138. First method is to prepare the profit and loss account a fresh by taking into consideration only funds and operational items. Second method is to proceed from the figures of net profit or net loss.

139. When debentures are issued to the vendors in lieu of purchase consideration. That is known as issue of debenture for consideration other than cash.

140. When debentures are issued as security in addition to any other security against a loan or bank overdraft such an issue is known as debentures issued as collateral security.

141. The company, from the open market can purchase its own debenture and so purchased may be cancelled immediately or may be kept as investment.

142. A zero coupon bond denotes a type of bond which does not carry specified rate of interest.

143. Debenture can be redeemed by lump-sum payment methods, drawing of lots method and conversion method.

144. Bonus shares are those shares which are issued by the company free of charge as bonus to the existing shareholders in proportion to their existing share holding.

145. Preference shares are those segments of share capital which enjoy preferential rights as to mode of payment of dividend and expected return of capital on priority over equity at time of liquidation.

146. A preference share is said to be cumulative when it contents the provision of payment of dividend still in arrears on priority basis in comparison to the other form of shares.

147. Non-Cumulative or simple preference shares gives right to fixed percentage dividend of profit of each year in case no dividend there on is declared in any year because of absence of profit.

148. Redeemable preference shares are preference shares which have to be repaid by the company after the term of which the preference shares have been issued.

149. Preference shares which are issued without any specific period fixed for redemption is known as irredeemable preference shares.

150. Participating preference share are those which are entitled to a preferential dividend at a fixed rate with the right to participate further in the profits either along with or after payment of certain rate of dividend on equity shares and in the surplus profit.

151. Different stock levels such as minimum level, maximum level, Re-ording level etc. are maintained for the inventory control.

152. The reports are presented in the form of graphs, diagrams, index number or other statistical techniques so as to make them easily understandable.

153. Inflation accounting attempts to identify certain characteristics of accounting that tend the reporting of financial results during the period of rapidly changing prices.

154. The various techniques such as budgeting, standard costing, marginal costing, funds flow statement, trend ratios and probability are useful in planning and forecasting accounting.

155. Management accounting ensures co-ordination between different departments. The targets and performances of different departments are communicated to the management for taking proper decisions.

156. Along with quantitative data management accounting provides qualitative information. For example while preparing sales budget, not only past sales figures are taken into account but also qualitative data like skill and efficiency of the sales manager and other sales personnel are to be considered.

157. This becomes possible by removing misunderstanding and unrest among the employees by fixing suitable targets and application of attractive incentive plan.

158. The use of management accounting techniques eliminates or minimizes various types of wastages. Every unit of the business enterprises tries to contribute maximum by making best use of factors of production.

159. The profits of the enterprise are maximized with the help of management accounting system. The cast of production is reduced by effective methods of cost control.

160. The cost control measure used in this system enables the reduction of prices. The quality of the products also improves due to predetermined standard.

161. Yes, personal prejudices and biasness affect the objectivity of decision. Personal judgment of an interpreter may make the organization sound or otherwise

162. Majority of management accounting and top level executive prefer their past experience and intuition in making business decision. The reason is that an intuitive decision making is very simple and easy.

163. There are two types
    i) Common-size balance sheet
    ii) Common-size statement of profit and loss

164. This ratio is also known as capita l structure ratio or leveraged ratio or capitalization ratio used to analyze the capital structure of the company and establishes relationship between equity shareholders funds.

165. Current ratio which measures the relationship between the current assets and current liabilities is a crude ratio because it means only the quantity not the quality.

166. It is generally serves the following purpose line analysis of financial position, evaluation of firms financing and an instrument for allocation of resources.

167. Funds flow statement helps management of various companies to analyze cash budget from the information supplied and it is very important from the prospective of investors to safeguard his interest.

168. Flow of funds can be considered as an indicator of changes in working capital as the business transition a current account along with a noncurrent account.

169. The purpose of balance sheet is to show the true and correct financial position of the concern. If depreciation is not provide the value of fixed assets will be over stated in the balance sheet than the real one.

170. The reserves which are shown in the liabilities side of balance sheet are called published reserve.

171. Provisions are shown in the asset side by way of deduction or appear in the liabilities side of balance sheet. But reserves are shown in the liabilities side of balance sheet only.

172. Such debentures have priority as regards receipt of interest and principal amount over other debenture.

173. These debentures are paid off after the repayment of the first debenture. The interest of such debentures is paid after interest being paid to first debenture.

174. The value of fixed assets in the balance sheet neither represents the value for which fixed assets can be sold nor the amount which will be required to replace these assets.

175. Non-monetary factors such as reputation of the management, credit worthiness of the concern, co-operation of employees etc. are ignored as those cannot be measured in monetary term.

176. This is so because the statements deals with matter which cannot be precisely stated due to various conversions, postulates, personal judgment etc.

177. With the help of ratio analysis the shareholder will ensure the security of his investment and then return in the form of dividend.

178. Government may base it future policies on the basis of industrial information available from various unit. The ratio may be used as indicator of overall financial strength as well as private sectors.

179. A business with heavy investment in fixed assets may be successful ever if the ratio is low. On the other hand, a trading concern will require a high current ratio on it has to pay its suppliers quickly.

180. A business dealing in goods whose demand changes fast will require a higher current ratio, on the other hand if products have more intrinsic value e.g. gold, silver etc, a lower current ratio may also do.

181. All current assets are not equally liquid and similarly all current liabilities are not repayable with same degree quicker. Thus discrimination can be made among the different current assets and liability or the assigned weight ratio is calculated.

182. The argument may be bank overdraft is generally a permanent way of financing and is not subject to be called on demand.

183. Sometime the liquidity position of a firm may be examined to measure whether the liquid assets are sufficient relative to firm's daily cash requirements for operating expenses. This is calculated by dividing quick or liquid assets with average daily cash operating expenses.

184. The norm may be different for different firm depending upon the nature of inventory and business condition.

185. This ratio is different from firm to firm depending upon credit policy, nature of business and business conditions.

186. Interest coverage ratio indicates the number of times interest is covered by the profits available to pay the interest charges. Higher the ratio, safer is the long-term creditors.

187. There are two ways of dealing with provision for taxation.
   i) As a current liability
   ii) As an appropriation of profit, not treated as both are current in nature.

188. The dividend paid or declared in between the two annual general meeting i.e. interim dividends, should be added back while calculating funds from operators.

189. Cash flows are classified into 3 main categories:
   i) Cash flows from operating activities
   ii) Cash flows from investing activities
   iii) Cash flows from financing activities

190. Transactions in a foreign currency are being converted to reporting currency at the date of cash flow.

191. The aggregate cash flows arising from acquisition and from disposal of subsidiaries or other business units should be presented separately and classified as investing activities.

192. The use of long-term fixed interest bearing debt and preference share capital along the equity share capital is called financial leverage or trading on equity.

193. It is obtained by dividing contribution i.e. sales minus variable cost by EBIT i.e. earnings before interest & tax.

194. Improvement in analytical and problem solving techniques of management accounting and information needs of various levels of management are met regularly management account for all round performance of enterprises.

195. This is so because the data used are not based on actual figures which are not based on projected data.

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QUESTIONS

4. Answer the following Questions within 50 words each.

1. Define Accounting?
2. Write any three objectives of management accounting.
3. Write ant three nature/features of management accounting.
4. What are the scopes of management accounting?
5. Write any three functions of management accounting?
6. Write any three advantages of management accounting?
7. Write any three limitations of management accounting.
8. Write any three rule of management accounting.
9. What are legal formalities for the preparation of financial statements?
10. Mention any three natures of financial statements.
11. Mention any three objectives of financial statements.
12. Mention any three importance's of financial statements.
13. Discuss any three limitations of financial statements.
14. What are the basis of arrangement of assets and liabilities and capitals?
15. What are different long-term borrowings?
16. What are the different classifications of tangible assets?
17. What are the different classifications of intangible assets?
18. Write a note on fictitious assets.
19. What do you mean by Equity Share?
20. What do you mean by preference shares?
21. What is Trading Account?
22. What is cost of goods manufactured?
23. What is cost of goods sold?
24. What is operating profit?
25. What is Balance Sheet?
26. What do you mean by provisions?
27. Write a note on comparative statement?
28. Write a note on common-size statements?
29. What is Ratio Analysis?
30. Write a note on position statement ratio.
31. What do you mean by Ratios?
32. What are significance of ratio analysis?
33. In what way ratio analysis helps Owners/ Shareholders/Investors?
34. How ratio analysis is helpful to Creditors/ Bankers?
35. How far government uses the ratio analysis?
36. How far the employees of a firm are interested in ratio analysis and to what extent?
37. What are basic limitations of ratio analysis?
38. How change of accounting procedure and business environment may influence the application of ratio analysis?
39. What do you mean by window dressing?
40. Why ratios so calculated become difficult in comparison?
41. What are the different classifications of ratios on the basis of source?
42. What are the different classifications of ratio on the basis of purpose of functional basis of classification?
43. What are the different classifications of ratios on the basis of significance or importance?
44. What are the different ratios calculated to measure the liquidity of a firm?
45. What is interpretation of current ratio?
46. What is Time Adjusted Current Ratio?

47. What is interpretation of Quick ratio?
48. What is current Assets movement or efficiency activity ratio?
49. What is inventory turnover ratio or stock turnover ratio?
50. What is debtor or Receivable turnover ratio?
51. What are creditor's turnover ratio and its interpretation?
52. What is working capital turnover ratio?
53. What is test of solvency?
54. What do you mean by Debit-Equity Ratio?
55. What do you mean by funded debts to total capitalisation ratio?
56. What is proprietary or Equity Ratio?
57. What do you mean by Solvency Ratio?
58. Why profitability ratio is analysed?
59. What is operating ratio?
60. What do you mean by operating profit ratio?
61. What is the interpretation and significance of return on shareholders Investment?
62. What are the different ratios of return on capital employed?
63. How far return on investment studies the inter-relationship of profitability ratio?
64. What are the different leverage ratios calculated to test the long term financial position of a firm?
65. How many ways the concept of funds has been defined?
66. What is the rule of Flow of funds?
67. What are other names of funds flow statements?
68. Is depreciation as a source of funds?
69. How some hidden information are taken care in preparation of funds flow Statement?
70. How does nature of business influence the working capital requirement?
71. How does production policy influence the working capital requirement?
72. What are the dangers of excessive working capitals?
73. What are the dangers of inadequate working capital?
74. What are advantages of adequate working capital?
75. Write three principles of working capital.
76. What do you mean by cash flows statement?
77. What are the different classifications of cash flow?
78. What are the non-cash transactions which are excluded from cash flow statement?
79. What are the basic differences of funds flow and cash flow statements?
80. Why cash flow statement is essential tool of financial analysis for short-term planning?
81. What are the limitations of cash flow statement?
82. How cash flows from operating activities under direct method?
83. Give three examples of cash inflows from investing activities.
84. Give three examples of cash flows from financing activities.
85. How net cash flow from operating activities is determined under indirect method.
86. What are the transactions not affecting cash flow statements?
87. For what type enterprises preparing of cash flow statement as per AS -3 is mandatory.
88. What do you mean by Reporting cash flows on a net basis?
89. How cash flows arising from transaction in a foreign currency are reported in the statement?
90. How taxes on income would be disclosed in cash flow statement?

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ANSWERS

4. Answer the following Questions within 50 words each.

1. The American Institute of certified public accountant defined accounting as "the art of recording, classifying and summarizing in terms of money, transactions and events of financial character and interpreting the result thereof". The accounting can also be defined as "the process of recording and analyzing the monetary transactions and events of business undertaking to interpret the results".

2. The fundamental objective of management accounting is to assist management in their functions of formulating policies, making decisions, planning objectives and controlling business operation.
   i) It facilitates planning and policy formulation
   ii) Enables to take decisions
   iii) It helps in controlling operation

3. Important features of management accounting are:
   i) Based on accounting information
   ii) It studies the cause and effect analysis
   iii) There is no fixed rule and format line double entry system of book-keeping.

4. The scope of management accounting is very wide and broad based. It includes a variety of aspects of business operations, such as, budgeting and forecasting, cost control procedure, inventory management, statistics, tax planning, internal audit etc. Important areas such as financial accounting, cost accounting, budgeting and forecasting financial management, quantitative technique, inflation accounting, inventory control etc. come within purview of management accounting.

5. The functions of management accounting are:
   i) Planning and forecasting. It also includes making forecast for the future.
   ii) Modification of data suitable for taking managerial decision
   iii) Financial analysis and interpretation.

6. With the increase of complexities in the business world management accounting is regarded as an integral part of management. It not only increases the efficiency of management but also improves the efficiency of the employees. It guides and advises management at every step for better performances.
   Some of the important advantages are:
   i) It increase the efficiency
   ii) It is effective control the functions
   iii) It helps to maximize the profit and minimizes the loss

7. Management accounting being comparatively new discipline is in the process of development. Even though it renders valuable services to the management in performing its function, it is not free from limitation.
   (i) Management accounting does not have its own independent sources of information. It has to depend on financial accounting, cost accountancy and other record. This limitation of those also becomes the limitation.
   (ii) Based on historical records.
   (iii) Personal bias.

8. The primary duty of management accounting is to help the management in taking correct policy decision and improving the efficiency.
   The important of management accounting:
   i) Planning and controlling
   ii) Reporting
   iii) Co-ordination, motivation etc.

9. Legal formalities to be observed in the preparation of financial statement is to fulfill the requirements of Indian companies Act,2013 or any other act as in force at that time.

   As per the new act balance sheet and statement of profit and loss are prepared in schedule II, under section 129. The earlier practice of preparing of statement of profit and loss and balance sheet was schedule VI, under section 211 of Indian companies (Amendment) Act, 1999.

10. Financial statements can be summaries in the following forms:
    i) The transactions measured and expressed in terms of money are recorded in accounting.
    ii) Conversions such as conversion of fall disclosure, conversion of materiality, conversion of conservation, consistency
    iii) Developed or postulates

11. Financial statements present the time and fair value of the state of affairs of one business. It is the source of information for the owners, creditors, customers, Government and the general public about the profitability and financial position of concern .The primary objectives of financial position and changes of that with the help of various statements.

12. In the light of several users the importances of financial statements are:
    i) Management - the financial statements are very much useful in deciding future course of action.
    ii) Creditors - Financial statements show the solvency (short term and long term) of firm.
    iii) Investors - any investors require the good security of their investment.

13. Since financial statements are based on accounting information, it also suffers from the limitation of accounting
    i) Recorded of monetary transaction only. Non-monetary items are not considered.
    ii) Based on historical cost
    iii) Effect of personal Bias.

14. The arrangement of assets and liabilities which is otherwise known as marshing assets and liabilities is either on the basis of i) liquidity or ii) permanence.

    The liquidity form of balance sheet is more suitable for the banking and other financial institutions.

15. Long term borrowings are:
    i) Band/Debenture
    ii) Term loans
    iii) Deferred payment liabilities
    iv) Deposit

    Besides those there are term repayment of term loan and other loans and period and amount of continuing default as on the balance sheet in repayment of loans and interest.

16. Different types of tangible assets are permanent in nature and whose benefit or use cover the longer time period. Such assets are land, building, plant and equipment, furniture and fixture, vehicle, office equipment etc. A reconciliation of the gross and net carrying amount of each class of assets at the beginning and end of the reporting period sharing addition, disposals, acquisitions through business combination and other adjustment and the related depreciation and impairment losses reversals shall be disclosed separately.

17. The fixed assets which do not have physical existence neither can be seen nor touched. These assets are goodwill, patents, trademarks, copy rights, recipes, formulae, model, design, prototypes, license and franchise. They help the concern in generating revenue till their existence.

18. The heavy losses and revenue expenditures of big amount to be written off over a number of accounting years are called fictitious assets. These are in intangible in nature and they do not generate any revenue for the concern in future. The unwritten parts of these items at the end of each accounting year are shown on the assets side of balance sheet. The examples of these items are, preliminary expenses, discount on issue of shares and debentures, uninsured heavy accidental losses, debit balance of profit and loss account and other deferred revenue expenditure line heavy advertisement cost.

19. These shares do not have any preferential right as to dividend or return of capital in the event of winding up of the company. The rate of dividend on such share is not fixed and equity shareholders are the real owners of the company because the bear the risk. Equity shareholders have voting rights of all matters and they have the control over the affairs of the company.

20. Preference shares are those shares which carry preferential rights in respect of payment of dividend and return of the capital in the event of liquidation of the company. The preference shareholders are paid dividend at a fixed rate before dividend is paid to equity shareholder.

21. It is a part of the income statement which is prepared to determine the gross profit or gross loss incurred during the concerned accounting year. It is the first part of income statement of a trading concern. The balance of this account is either gross profit or gross loss which is transferred to the profit and loss account in order to close this account. The credit balance of this account indicates the gross profit and debit balance shows the gross loss.

22. It is the total amount of expenses incurred on the production of finished goods during a particular accounting year. It includes the cast of raw material consumed, and all direct and indirect expenses incurred in the production department. The opening and closing work-in-progress, if any, are also adjusted accordingly to calculate the cost of goods manufactured during the concerned accounting year.

23. It is the total amount of direct expenses concerned with quantity of finished goods sold. The expenses on net purchases and other direct expenses like carriage and freight inward, wages, fuel and power, import duty etc. are included to calculate the cost of goods sold. The manufacturing overhead of a manufacturing concern are also included for this purposes. The opening and closing stock of finished goods are also adjusted properly to calculate the exact amount of cost of goods sold.

24. It is the excess of gross profit over operating expenses of the concern, In case of negative result, it is called operating loss. The interest paid and received, the profit and loss on sale of fixed assets etc. are to be excluded to determine the operating result.

25. The financial statements which reveal the financial position of a business concern is called position statement or balance sheet. It is prepared for a particular data and true for that particular date only. It contents all the assets, liabilities and capital of the concern. The assets or liability are arranged either in order of liquidity or in order of permanence. The contingent assets and liabilities, if any, are stated below the balance sheet as foot notes.

26. These are some liabilities of uncertain amounts dischargeable within one accounting year. They may also be included in the current liabilities. They may also be included in the current liabilities; they should be shown as separate category immediately after current liabilities, because of their uncertainty. The items of such provision are provision for taxation. Proposed dividend, provision for employee's pension and insurance.

27. It is concerned with making comparison between the similar accounting data presented in two similar financial statements. This technique is useful for inter-period comparison and inter-firm comparison so as to evaluate absolute or percentage increase or decrease in various accounting figure.

28. Sometimes the comparative statement may not be appropriate due to the fact that no two financial statements are perfectly comparable because of unequal resources and capacities. Thus common-size statements are concerned with presentation of two similar financial statements in a common for. Each and every accounting item of the financial statement is by represented as a percentage of an important.

29. It is concerned with calculating different ratios by using the required financial information presented in financial statements. Thus the ratio analysis is the process of determining the quantitative relationship between the related components of the financial statement in order to judge the financial efficiency of a business concern.

30. The ratios which are calculated by using the financial data exclusively from the position statement. These ratios are known as balance sheet ratio. They simply concern with assets, liability and capital of a business concern.

31. Ratio can be defined as a simple arithmetical expression of the relationship between two variables. It is the expression of quantitative relationship between two numbers, just by dividing one by other. Ratios are calculated for making meaningful comparison between any two or more related phenomenon.

32. Ratio analysis is a very popular and powerful tool used in financial statement analysis. Modern business managers at different levels of management, make use of it for managerial decision making and control. Other stakeholders in the business like inventors, creditors, employees, the Government, credit rating agency etc. also make use of this tool to study and evaluate their specific interest in the business.

33. Owners being the providers of capital to the business are always interested in a secured, high and steady return on their investment. They like to see their money, invested in better quality assets that appreciate and remain secured. They are interested in maximum return on capital employed and high earning per share and low debt to equity ratio so that it would be helpful to make decision whether to invest more or not.

34. Creditors of the firm are always interested to know whether the firm is capable of paying back their dues in time. Short-term creditors are normally paid and of the current assets of the firm. If current assets are sufficient to meet current liabilities then the creditors feel secured and extend credit to the business without any hesitation. Different liquidity ratios like current ratio, acid test ratio and absolute liquidity ratio help the creditors in studying their interest in the organization.

35. Government, being the ultimate regulator and facilitator of business activities in a country, make use of different financial ratios for policy making in the field of industry, trade and commerce for a fair assessment of tax, the income tax act,1961,requires that a corporate assesses shall provide some accounting ratios like gross profit turnover, net profit turnover, material consumed to finished goods etc. for the purpose of tax audit, accounting ratios for different years are usually compared by the auditors.

36. Employees are always interested in the profitability of the organization. The monetary and non-monetary benefits the employees get, is always associated with the volume of profit of the concern. They are interested to know how much profit the firm is making and in what is the contribution of the workers on the basis of which they demand for hike for wage. Different profitability ratios calculated from the financial statements help the workers as well as management in negotiating for a fair wage.

37. As the management accounting use historical data of financial statements, its technique ratio analysis also suffers from that post-mortem analysis which may be len relevant to the situation. Budgeting, Standard costing, trend analysis are often more useful to the management than ratios obtained by analysis of past data. Other limitation like use of single ratio, lack of adequate standard and personal biasness may reduce the usefulness of ratio analysis.

38. Change or variation in accounting procedure like from LIFO to FIFO with regards to stock valuation of the closing stock. Similarly changes in different environmental factors like economic policy, industrial policy, and exim policy will affect the financial result.

39. Sometimes financial statements are window dresses by shrewed businessmen to present a rosy picture of the business. For common man, it is very difficult to identify such traps as the financial statements is so manipulated to present a better and profitability position to outsides. Hence, one has to be very careful in making a decision from ratios calculated from such financial statement. Ratio calculated window dressing may be indulged in the following ways:
    a) Over-valuation of closing stock.
    b) Obsolete or worthless stocks are shown in the closing inventory at their costs instead of writing them off.
    c) Recording in advance cash receipts applicable to the next year's sales.
    d) Omission of liability for merchandise in inventory.
    e) Treating a short-term obligation as a long-term liability.
    f) Inadequate provision for bad and doubtful debts.

40. Difference in size, accounting procedure followed nature of business, makes it difficult for the ratios to be compared between firms or industries. They need to be used with precaution. Thus the ratios may be used as guidelines. While using them factors like internal and external business environment, price level changes and other relevant information must be studied properly.

41. Ratios are:
    i) Balance sheet ratios or position statement ratios
    ii) Profit and loss account ratios or revenue/ income statement ratios
    iii) Composite/ mixed ratios or inter statement ratios.

42. The accounting ratios may be classified on the basis of purpose of their use. As they are seeing used by different parties for different purposes to test different aspects of business, classification the basis of tests of purpose can be made as follows:
    i) Liquidity Ratios
    ii) Activity Ratios
    iii) Profitability Ratios

43. The ratios have also been classified according to their significance or importance. Some ratios are more important than others and the firm may classify them as primary and secondary ratios. The primary ratio is one which is of the prime importance to a concern, for example return on capital employed. The other ratios which support or explain the primary ratio are called secondary ratios, for example relationship of operating profit to sales or the relationship of sales to total assets of the firm.

44. To measure the liquidity of a firm following ratios are calculated
    i) Current ratio
    ii) Quick or acid test or Liquid ratio
    iii) Absolute liquid ratio or cash position ratio

45. A relatively high current ratio is an indication that the firm is liquid and has the ability to pay its current obligation in time as and when they become due. On the other hand, a relatively low current ratio represents that the liquidity position of the firm is not and the firm shall not be able to pay its current liabilities in time. An increased in the current ratio represents improvement in the liquidity position of the firm. As a convention the minimum 2:1 is referred to as a banker's rule of thumb or arbitrary standard of liquidity for a firm.

46. All types of current assets are not equally liquid and all current liabilities are not repayable with same degree of quickness. Further the value of money received today is more than the value or same amount of money received after a certain period. The sooner one receives

money, the better it is. Thus, if current ratio is to be used an index of liquidity, it has to be adjusted for the value of money various current assets and current liabilities can be adjusted for time value of money by multiplying discount factor as follows.

D.F=1/(1+r)n

Time Adjusted current ratio

= Time adjusted value of current assets / Time adjusted value of current liabilities

47. High quick ratio indicates the firm is liquid and has ability to meet its short-term obligation. As a rule of thumb conversion quick ratio is 1:1 but that ratio does not necessarily mean satisfactory liquidity position if all the debtor can't be realized and cash is needed immediately to meet current obligator. This ratio is used as complementary ratio to current ratio.

48. Funds are invested in various assets in business to make sales and earn profit. Activity ratio measures the efficiency or effectiveness with which a firm manages it resources or assets. These ratios are called turnover ratio.

49. Inventory turnover ratio is known as stock velocity which measure the relationship between sales or cost of goods sold with average inventory. The purpose is to see whether only required minimum amount is locked up in inventory. A high inventory turnover ratio measures the velocity of conversion of stock into sales.

50. Debtor turnover ratio indicates the velocity of debt collection of firm. In simple words, it indicates the number of time average debtor (receivable) is turned over during the year.

    Debtor turnover ratio= Net credit annual sales / Average trade debtors

    Generally, the higher the value of debtors turnover the more efficient is the management of debtor/sales or more liquid are the debtors.

51. Creditors/Payable turnover ratio is the net credit annual purchases divided by average trade creditor.

    If information about credit purchases is not available, the figure of total purchases may be taken as the numerator and trade creditor include sundry creditors and bills payable.

    Generally lower the ratio, the better is the liquidity position and vice versa.

52. It is the ratio calculated from cost of sales divided by average working capital. This ratio measures the efficiency with which the working capital is turned over in the course of a year. A higher ratio indicates efficiency utilisation of working capital and a lower ratio indicates otherwise. But a very high working capital turnover ratio is not a good situation for any firm and hence care must be taken while interpreting the ratio.

53. The term "solvency" refers to the ability of a concern to meet long term obligation. The long-term indebtedness of a firm includes debenture holders, financial institution providing medium and long-term loans and other creditors selling goods on instalment basis. The long-term creditors of a firm primarily interested in knowing the firm's ability to pay regularly interest on long-term borrowing, repayment of the principal amount at the maturity and security of their loans.

54. Debt-Equity ratio, also known as External-internal Equity ratio is calculated to measure the relative claims of outsiders and the owners. The ratio indicates the relationship between the external equities or the outsider's funds and the internal equities or shareholders funds. The outsider's funds include all debts/ liabilities to outsiders and the shareholders consist of equity share capital, preference share capital, capital reserves, revenue reserves and reserve representing accumulated profits and surplus line reserves for contingency. Some writers are of the opinion that preferences share capital should be included in external equity of the reason that they would be paid at fixed rate of interest and further redeemable after a certain time period.

55. The ratio establishes link between the long term funds raised from outsiders and total long term funds available in the business. The two words used in this ratio are:

    i) Funded debt

    ii) Total capitalisation

    Total capitalisation= Equity share capital + Reserves and surplus + other undistributed reserves + debenture + Mortgage loan + bonds + other long term loan.

    Funded debt is that part of total capitalisation which is financed by outsiders.

    Funded debt to total capitalisation ratio= Funded debt / total capitalisation

56. This ratio establishes the relationship between shareholder's funds to total assets of the firm. This ratio is known as shareholders to total equity ratio or net worth to total assets ratio. The share holders funds are equity share capital, preference share capital, undistributed profits, reserves and surpluses, out of this amount, accumulated losses should be deducted. The total asset on the other hand denotes total resources of the concern. Higher the ratio better is the long term solvency position of the company.

57. The ratio indicates the relationship between the total liabilities to outsiders to total assets of a firm and can be calculated as follows:

    Solvency ratio= Total liabilities to outsiders / Total assets

    Generally, lower the ratio of total liabilities to total assets, more satisfactory or stable is the long-term solvency position of a firm.

58. The primary objective of a business undertaking is to earn profits. Profit earning is considered essential for the survival of the business. A business needs profits not only for its existence but also for expansion and diversification. The inventors ant an adequate return on their investment, workers want higher wage, creditors want higher security for their interest and loan and so on. A business enterprise can discharge its obligation to the various segments of the society only through earning of profit.

59. Operating ratio establishes the relationship between cost of goods sold and other operating expenses of the one hand and the sales of the other.

    Operating Ratio= Operating Cost / Net Sales

    = (Cost of goods Sold + Operating Expenses) / Net Sales

    The two basic elements of this ratio are operating cost and net sales. Operating cost can be found by adding operating expenses to cost of goods. Operating expenses consists of:

    a) Administrative and office expenses like rent, salaries to staff, insurance, director's fees etc.

    b) Selling and distribution expenses like advertisement, salaries of salesmen etc.

60. This ratio is calculated by dividing operating profit by sales.

    Operating Profit = Net sales - Operating cost

    = Net sales - (Cost of goods sold + administrative and office expenses + Selling and Distribution expenses)

    Operating Profit = Net profit + Non-operating expenses - Non-operating income

    So Operating profit ratio=Operating profit / Sales

61. Return on shareholders' = net profit (After interest & tax) / Shareholders funds

    This ratio is one the most important ratios used for measuring the overall efficiency of a firm. This ratio reveals how well the resources of a firm are being used, higher the ratio, better are the results. The inter-firm comparison of this ratio determines whether the investments in the firm are attractive or not the investors would like to invest only where the return is higher.

62. Return on capital employed establishes the relationship between profits and the capital employed. The term 'capital employed' refers to the total of investment made in a business and can be defined in number of ways. Three most widely used definitions of this term are:
    i) Gross capital employed = Fixed Assets + current Assets
    ii) Net capital employed = Total assets-current liabilities
    iii) Propiters net capital employed = fixed Assets + current Assets - outside liabilities (both long term and short term)

63. Return on investment is related directly with net profit ratio and capital turnover ratio. This can be improved by improving net profit ratio or capital turnover ratio.

    Return on investment = Net profit (return) / capital employed

    = (net profit/sales) x (sales/ capital employed)

    = Net profit ratio x capital turnover ratio

64. Leverage or capital structure ratios are calculated to test the long-term financial position of a firm. Different leverage are
    a) Financial leverage or trading on equity where there is use of long-term fixed interest bearing debt and preference share capital along the equity share capital.

       Financial leverage = Earning Before Interest & Tax (EBIT) / Earnings before

       Interest & tax interest & preference dividend
    b) Operating leverage= contributor/ EBIT
    c) Combined leverage=financial leverage x operational leverage

65. The term 'funds' have been defined in a number of ways
    a) In narrow sense:- It means only cash only
    b) In a broader sense: - It refers to money value in whatever form it may exist.
    c) In a popular sense: - The term funds means working capital-excess of current assets over current liabilities.

66. The flow of funds occurs when a transaction changes on the one hand a non current account and vice-versa. In simple language funds more when a transaction affects
    i) A current assets and fixed assets or
    ii) A fixed and a current liability
    iii) A current assets and fixed liability or
    iv) A fixed liability and current liability

67. Other names of funds flow statements are sources and application of funds; statement of changes in financial positions: sources and uses of funds; summary of financial operations: where came in and where gone out statement: movement of working capital: funds received and disbursed: funds generated and expended statement.

68. There cannot be any definite answer 'yes' or 'no' to this question as there are difference of opinion on this important point. It can be said certainly that the depreciation does not amount to a source of fund directly. But indirectly under certain circumstances depreciation helps a business concern to affect savings in payment of tax and dividend and amount to withhold a part of funds generated through normal trading operation. However, it is not even an indirect source of funds under all circumstances. For example, a company is running into losses and there are no profits, then the amount of depreciation charged to profit and loss account will neither affect tax liability nor any payment of dividend as there are no profits. In this case depreciation does not amount to withholding of funds and hence it is not a source of funds at all.

69. While preparing a funds flow statement, one has to analyze the given balance sheet. Item relating to current accounts have to be shown in the schedule of changes in working capital. But the non-current assets and noncurrent liabilities have to be further analyzed to find out the hidden information relating to sale or purchase of non-current assets, issue and redemption of share capital, raising or repayment of long-term loans, transfer to reserve and provisions. Those hidden information can be digged and by preparing working note and treated accordingly.

70. The working capital needs are basically influenced by the nature of business. Trading firms require more working capital as they have to carry large stock of variety of merchandise to satisfy their customers varied demand. Such firm has low investment in fixed assets. On the other hand, public utility concern like electricity, water supply and railway undertakings require the large amount for investment in fixed assets. The manufacturing concerns require more working capital which falls between these two extremes.

71. The need of working capital depends upon the production policy followed by business unit. In some industries, the demand is subject to wide fluctuation due to seasonal variations. In order to maintain steady production policy, there will be large accumulation of finished goods during slack season. This will require more working capital. On the other hand, if the production is curtained during off season and increased during peak season, in this case working capital will fluctuate accordingly.

72. Excessive working capital is waste of precious resources due to idle of funds, unnecessary accumulation of stock which may result chances of theft, waste and obsolescence. Similarly this may result excessive debtors and chance of incidence of bad debits due to defective credit policy. There may be resultant of overall inefficiency where the firms may have high liquidity but suffers from low profitability. This may affect the market value of share fall.

73. The dangers of inadequate working capital are:-
    i) The firm will not able to par its short-term liabilities in time.
    ii) Difficult to maintain day to day expenses
    iii) Cannot buy its requirement in bulk and cannot avail discount thereon.
    iv) Unable to exploit favorable market condition.
    v) Impossible to utilize the full capacity of fixed assets due to non-availability of liquid funds.

74. Considering the danger of both excessive and inadequate working capital, a firm should like to maintain the adequate amount of working capital. Main advantages are:
    i) It helps to maintain short-term solvency of the business
    ii) It helps to maintain goodwill
    iii) Regular payment of day to day expenses
    iv) Exploitation favorable market conditions
    v) Quick and regular return on investment

75. The principles are:
    i) Principle of risk and profitability proper balance should be there where working capital is neither too conservative nor too liberal
    ii) Principle of risk and cost - A proper balance should be maintained in order to achieve the economy at a possible degree of risk
    iii) Principle of Justification - Proper justification for the total amount of funds invested on different components of current assets and investment on each current asset should be worthful for the operation of normal business activities.

76. Cash flow statement is a statement which describes the inflows (sources) and outflow (uses) of cash and cash equivalent in an enterprise during a specified period of time. Such a statement enumerates net effects of various business transactions on cash and its equivalents and taken into account receipts and disbursement of cash .cash comprises, cash on hand and demand deposits with bonus.

    Cash equivalent are short term, highly liquid investments that are readily convertible into known amount of cash and which are subject to insignificant risk of changes in value.

77. Cash flows are classified into three main categories.
    i) Cash flows from operating activities: - Those activities are the principal revenue-Producing activities

ii) Cash flows from investing activities:- Those activities are the acquisition and disposal of long-term assets and other investment not included in cash equivalents

iii) Cash flows from financing activities: - Those activities are the changes in size and composition of owner's capital and borrowing of the enterprise.

78. Many investing and financing activities don't have a direct impact on current cash flows although they don't affect the capital and asset structure of an enterprise. Examples of non-cash transaction are:-

i) The acquisition of assets by assuming directly related activities

ii) The acquision of an enterprise by means of issue of share, and

iii) The conversion of debt to equity

79. Funds flow statement is based on a wider concept of funds i.e. working capital, while cash flow statement is based on narrower concept of funds i.e. cash (and cash equivalent) only which is one element of working capital.

Funds flow statements is based on accrual basis of accounting while each flow is based on cash basis of transaction.

Cash flow statement is prepared by classifying all cash inflows and outflows in terms of operating, investing and financing activities where as in funds flow statement no such classification of fund is made.

80. This is so because cash flow statement is based on cash basis of accounting and thus useful in the evaluation of cash position of a firm. A projected cash flow statement can be prepared to know the future cash position of a concern so as to enable a firm to plan and co-ordinate its financial operation properly. A comparison of the historical and projected cash flow statement can be made so as find the variation and deficiency or otherwise in the performance so as to enable the firm to take immediate and effective action.

81. Despite a number of users, cash flow statement suffers from the following limitations.

i) It is based on cash basis of accounting thus it ignores the basic accounting concept of actual basis

ii) However working capital is wider concept of funds and thus a funds flow statement provides a more complete picture than the cash flow statement

iii) It is not suitable for judging the profitability of a firm as non-cash charges are ignored while calculating cash flows from operating activities

82. Under this method cash receipt (inflows) from operating revenues and cash payments (outflows) from operating expenses are calculated to arrive at cash flows from operating activities. The difference between cash receipts and cash payments is net cash flows provided by operating activities. Under this method there is no need to make any adjustment for depreciation, amortization of fictitious and intangible assets, gain or loss in sale of fixed assets and transfer to general reserve etc. because operating cash receipts and payments are reported directly on the cash flow statement.

83. Those are:

i) Cash receipts from disposal of fixed assets including in tangible assets

ii) Cash receipts from sale of shares, warrants or debt instrument of other enterprises

iii) Cash receipt from repayment of advances and loan made by financial enterprises

84. Those are:-

i) Cash receipts from issue of shares or other similar instrument

ii) Cash repayment of amount borrowed such as redemption of debentures, bonds, preference shares etc.

iii) Payment of interest and dividend

85. This is so made by adjusting net profit or loss for the effect of:

    i) Non-cash items such as depreciation, provisions, deferred tax and unrealized foreign exchange gains and losses

    ii) Changes during period in inventory and operating receivable and payable

    iii) All other items for which the cash effects are investing or financing cash flows

    This method is also known as reconciliation methods as it involves reconciliation of net profit or loss as given in the profit and loss account and net cash flows from operating activities as shown in cash flow statement

86. There are certain transactions, which do not involve cash flow or outflow although they affect the capital and assets of an enterprise. Thus those items are excluded while preparing cash flow statement. Examples are:

    i) Acquisition of assets by issue of share or debenture

    ii) Acquisition of assets on credit

    iii) Conversion of convertible debentures into share

    iv) Issue of bonus share

    v) Movement between items that constitute cash or cash equivalent. For example deposit of cash into bank, withdrawing from bank, purchase and sale of short-term investment or marketable securities

    vi) Bad debts written of out of provision for bad debts

87. Cash flow statement as prepared as per accounting standard -3(Revised) issued by Institute of chartered Accountants of India, has been made mandatory in respect accounting years commencing on or after 1st April,2001 for the following enterprises

    i) Enterprises whose equity or debt securities are listed on a recognized stock exchange in India

    ii) All other commercial, industrial and business enterprises whose turnover for the accounting year exceeds ₹50 crores

88. Cash flows arising from the following operating, investing or financial activities may be reported on a net basis

    i) Cash receipts and payments on behalf of customers when the cash flows reflects the activities of the customer rather than those of enterprise

    ii) Cash receipts and payments for items in which turnover is quick, the amounts are large, and the maturities are short

89. Cash flows arising from transaction in a foreign currency should be recorded in an enterprises reporting currency by applying to the foreign currency amount the exchange rate between the reporting currency and foreign currency at the date of cash flow. The effect of changes in exchange rate on cash and cash equivalent held in a foreign currency should be reported as a separate part of reconciliation of the changes in cash and cash equivalent during the period.

90. Cash flow arising from taxes on income should be separately disclosed and should be classified as cash flows from operating activities unless they can specifically identified with financing and investing activities. However, when it is practicable to identify the tax cash flow with an indentify the tax cash flow with an individual transaction that give rise to cash flows that are classified as investing or financing activities as appropriate when tax cash flows are allocated over more than one class of activity, the total amount of taxes paid is disclosed.

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GROUP - C

LONG TYPE QUESTIONS

1. What do you mean by management Accounting? What are their objectives?
2. Explain nature and scope of management accounting.
3. What are the functions of Management Accounting?
4. Differentiate management accounting and financial Accounting.
5. Difference between management Accounting and Cost Accounting.
6. Who is a management accountant? Explain his duties.
7. Discuss Accounting as an information System.
8. Discuss the nature and objectives of financial statement.
9. Discuss the importance of financial statements in the light of its several users by different parties.
10. Discuss the limitation of financial statements.
11. Discuss various financial statements.
12. Discuss the form and contents of balance Sheet.
13. Discuss the form and contents of income statement.
14. Discuss the characteristics of Ideal financial Statements.
15. What are different financial Analysis?
16. What are procedures of financial statement Analysis?
17. What are different methods of Devices of Financial Analysis?
18. What do you mean by comparative statements and how they are prepared?
19. Prepare comparative statements from the following data:

Income statement	**2017**	**2018**
	(Rupees in lakhs)	
Net Sales	600	750
Cost of goods sold	400	600
Admn. Expenses	20	20
Selling Expenses	10	10
Net profit	170	120

Balance Sheet	**2017**	**2018**
	(Rupees in lakhs)	
Equity Share capital	400	400
6% preference share capital	300	300
Reserves	200	245
6% Debentures	100	150
Bills payable	50	75
Creditor	150	200
(Delete margin)		
Tax payable	**100**	**150**
Land	100	100
Building	300	270
Plant	300	270
Furniture	100	140
Stock	200	300
Cash	?	?
	1300	**1500**

20. What do you mean by common-size statement? How it is prepared?

21. From the following information, prepare a common-size balance sheet.

		31st March 2017 (In Rupees)	31st March 2018 (In Rupees)
(A)	**Equity and Liabilities :**		
1.	Share holders fund		
	a) Equity share capital	60,000	60,000
	b) Reserves and surplus	10,000	20,000
2.	Non current liabilities	15,000	30,000
3.	Current Liabilities	15,000	20,000
		1,00,000	**1,30,000**
(B)	**Assets:**		
1.	Non current Assets:		
	a) Fixed Assets	50,000	70,000
	b) Non current investment	20,000	20,000
2.	Current Assets	30,000	40,000
		1,00,000	**1,30,000**

22. The following income statements were presented by Hindal Co. Ltd and Jindal Co. Ltd for the year ending 31st march 2018. You are requested to prepare common size statement of profit and loss assuming income tax @50%.

	Hindal Co. Ltd. (Rs.)	Jindal Co. Ltd. (Rs.)
Sales	10,00,000	15,00,000
Interest or income	50,000	30,000
	10,50,000	**15,30,000**
Expenses:		
Consumption of material	4,50,000	6,00,000
Salaries and wages	1,50,000	2,00,000
Office and admin. Exp.	50,000	60,000
Selling and distribution Exp.	60,000	80,000
Interest	20,000	30,000
	7,30,000	**9,70,000**
Net profit before tax	**3,20,000**	**5,60,000**

23. How trend analysis is calculated? Discuss the objectives of trend analysis.

24. From the following information calculate the trend percentage taking 2014 as the base year.

Yr.	**2014**	**2015**	**2016**	**2017**	**2018**
Purchase (Rs.)	40,000	48,000	42,000	50,000	46,000
Sales (Rs.)	60,000	75,000	72,000	80,000	70,000

25. From the following information, prepare a comparative income statement of Java Ltd.

	2017	**2018**
Sales	120% of cost of goods sold	150% of cost of goods sold
Cost of goods sold	Rs. 20,00,000	Rs.25,00,000
Indirect Expenses	10% of gross profit	
Rate of income tax	50% of net profit before tax	

26. What do you mean by ratio analysis? Discuss its uses?

27. Discuss the nature of ratio Analysis and how they are interpreted.

28. Discuss the guidelines or precautions for the use of ratios.

29. Discuss the limitations of Ratio analysis.

30. What are different classification ratios?

31. What are the different ratios used to analyses short-term financial position of a firm?

32. A firm's current Assets and current liabilities are Rs 24, 000 and Rs 6, 000 respectively. How much can it borrow from a bank without reducing current ratio below 1.5?

33. Find out current Assets when current ratio is 2.4 and working capital is 1,40,000.

34. Calculate

i) Current Assets

ii) Liquid Assets

iii) Inventory, when current liabilities are Rs.80,000/-, current ratio is 2:1, Liquid ratio is 1.5:1 and prepaid expenses are Rs.2,000.

35. Calculate current liabilities of a business concern whose current ratio is 2:2, liquid ratio 1.4, inventory Rs.40,000 and prepaid expenses are nil.

36. Calculate interval measures from the following information:

37. M/s Rakesh & Co. Supplies you the following information for the year ending 31st Dec. 2018. Credit sales: Rs. 1,50,000, Cash sales: Rs.2,50,000, Return inwards: Rs25,000, Opening stock: Rs.35,000.

38. Determine the sales of a firm with the following financial data:

Current Ratio = 1.5 Acid test ratio=1.2

Current Liabilities= Rs 4,00,000

Inventory turn Over ratio = 5 times

39. Calculate

i) Creditors Turnover Ratio

ii) Average Payment Period

	2017	2018
Annual credit purchases	6,80,000	7,50,000
Creditors on January 1	80,000	60,000
Creditors on Dec. 31	60,000	90,000

Take 360 days in a year.

40. Find out working capital turnover Ratio:

Cash	=	Rs. 10,000
Bills Receivable	=	Rs. 5,000
Sundry Debtors	=	Rs. 25,000
Stock	=	Rs. 20,000
Sundry Creditors	=	Rs. 30,000
Cost of Sales	=	Rs. 1,50,000

41. How long-term financial position or long-term solvency is analysed?

42. Extract from the financial accounts of M/s Rough and Tough Limited are given below.

	Yr-I Assets Rs.	Yr-I Liabilities Rs.	Yr-II Assets Rs.	Yr-II Liabilities Rs.
Stock	10,000		20,000	
Debtor	30,000		30,000	
Prepaid Expenses	2,000		-	
Cash in hand	20,000		15,000	
Sundry creditors		25,000		30,000
Bank overdraft		-		5,000
Acceptances		15,000		12,000
	62,000	**40,000**	**65,000**	**47,000**

Sales amounted to Rs 3, 50,000 in the 1st yr. and Rs. 3,00,000 in the 2nd yr.

You are required to comment on the solvency position of the concern with the help of accounting ratios.

43. Find out working capital turnover ratio:

44. What are the different ratios used to study the profitability of the concern?

45. Following information is given for a company whose accounting year ends on 31st March, 2018.

10,000 equity share capital of Rs. 10 each Rs. 8 paid	-	80,000
11% 5,000 preference shares of Rs. 20 each	-	1,00,000
Profit before tax	-	80,000
Rate of tax	-	50%

Calculate return on

i) Share holder's investment

ii) Return on equity capital

46. Compute the return on capital employed (total asset basis) from the following information relating to companies x and y.

	Company-X	Company-Y
Net sales for the year	Rs.2,75,000	?
Total Assets	?	Rs.42,000
Net profit or sales	4%	19%
Turnover of total assets	6 times	?
Gross margin	38%	Rs.4,680 (25%)

47. Compute the pay-out ratio and retained earning ratio from the following data.

No. of equity shares	-	3,000
Dividend per equity share	Rs.	0.40
Net profit	Rs.	10,000
Provision of tax	Rs.	5,000
Preference dividend	Rs.	2,000

48. A company's equity share are being traded in the market at Rs.48 per share with price-earning ratio of 8. The company's divided payout is 80%. It has 1,00,000 equity share of Rs.10 each and no preference share. Book value per share is Rs.40. Calculate:
    i) Earnings per share
    ii) Net income
    iii) Dividend yield
    iv) Return on equity

49. How capital structure or leverage ratios are used to study the relationship between various long-term form of financing.

50. How DU-PONT control chart is helpful to study ratios of inter-relationship for managerial attention.

51. Current Assets and current Liabilities of your company as at 31.3.2018 were Rs.20 lakhs and Rs.10 lakhs respectively. Calculate effect of each of the following transactions and total o the current ratio of the company.
    i) Purchase of new machinery for Rs.5 lakhs on cash
    ii) Purchase of new machinery for Rs5lakhs on short-term credit.
    iii) Purchase of new machinery for Rs. 5 lakhs on a medium-term bank loan with 20% margin.
    iv) Payment of Dividend Rs.2 Lakhs of which Rs. 0.50 lakh was tax deducted at source.

52. From the following information of a textile company, complete the proforma balance sheet if its sales are Rs. 32,00,000.

Sales to Net worth	-	2.3 times
Current debts to Net worth	-	42%
Total debts to net worth	-	75%
Current Ratio	-	2.9 times
Net sales to inventory	-	4.7 times
Average collection period	-	64 days
Fixed assets to net worth	-	53.2%

Proforma Balance Sheet

Net worth	?	Long-Term debt	?
Current debt	?	Fixed assets	?
Cash	?	Stock	?
		Sundry debtors	?
	Total		**Total**

53. Calculate current assets of a company from the following information:

Inventory turnover Ratio	=	4 times
Sales	=	Rs.3,00,000
Gross profit	=	25%
Current liabilities	=	Rs 40,000
Quick Ratio	=	0.75

Stock at the end is Rs.20,000 more than that in the beginning.

54. From the following information, prepare a summarised balance sheet of XYZ Ltd.

Working capital Rs.1,20,000 reserves and surplus	-	Rs.80,000
Fixed Assets/Proprietory funds	=	0.75
Current ratio	=	2.5
Quick ratio	=	1.5
Bank overdraft	=	Rs.20,000

There is no non-current liabilities.

55. Calculate debtors turnover ratio and average Debt collection period for the yr. 2017-2018 from the following information.

	1.4.2017 Rs.	31.3.2018 Rs.
Sundry Debtors	25,000	55,000
Bill Receivable	15,000	25,000
Provision for Doubtful debts	3,500	6,500
Total sale	2,30,000	
Sales return	15,000	
Cash sales	40,000	

56. Current Liabilities of a company are Rs.3,50,000, current ratio is 3:1 and acid test ratio is 1.75:1. Calculate the value of current assets, liquid assets and inventories.

57. Working Capital of a company is Rs.30,000 and current ratio=2.5:1. Calculate the value of current assets, current liabilities and acid test ratio, assuming inventories of Rs.26,000.

58. What is Working capital? Explain the concept of working capital.

59.

Balance Sheet of Mr. A as at 31st March, 2018			
Liabilities	**Amount (Rs.)**	**Assets**	**Amount (Rs.)**
Capital	12,20,000	Land & Building	8,10,450
General Reserve	3,00,000	Plant and Machinery	4,59,550
Bank Loan	1,50,000	Furniture	50,200
Short-term Loan	80,200	Inventories	80,150
Sundry Creditors	45,125	Sundry Debtors	70,135
Bills payable	22,320	Bills Receivable	25,000
Outstanding Expenses	5,027	Short-term Securities	2,25,000
		Marketable Securities	80,000
		Cash at Bank	20,100
		Cash in Hand	2,087
	18,22,672		**18,22,672**

60. Discuss the need of working capital.

61. Discuss the different classification of working capital.

62. Discuss the different sources of financing of working capital.

63. What are the determinants of working capital?

64. What are the dangers of inadequate working capital?

65. Discuss the disadvantages of dangers of excessive working capital.

66. Discuss the importance or advantages of adequate working capital.

67. How working capital needs of trading concerns is estimated.

68. Prepare a statement showing capital needs of trading concern from the following information.

Estimated Annual sales	Rs. 120 Lakhs
Net profit as a percentage of sales	10%
Goods are expected to remain in the godown on average	2 months
Average credit period allowed to customers	1 month
Average credit period allowed to suppliers	2 months
Cash in hand required to meet day-to-day expenses	Rs. 20,000

Add 10% to the computed figure to allow for contingencies

69. What do you mean by cash flow statement? Discuss its features of cash flow statement.

70. Discuss the objectives of cash flow statements.

71. Discuss advantages/importance/utility of cash flow statement.

72. Discuss limitation of cash flow statement.

73. What are the different transactions affecting cash flow statement?

74. What are different transactions not affecting cash flow statements?

75. Classify the following activities into

    a) Operating Activities

    b) Investing Activities

    c) Financing Activities in case of

       (A) Financial enterprise

       (B) Non-financial Enterprise

    i) Purchase of Equity share

    ii) Sale of securities

    iii) Issue of share

    iv) Interest on Securities received

    v) Brokage paid on purchase of equity shares

    vi) Loans and advances made

    vii) Receipt from repayments of loans and advances

    viii) Dividend paid

    ix) Dividend received

    x) Debenture Interest paid

76. A Ltd. made a profit of Rs.50,000 after charging depreciation Rs.10,000,transfer to General Reserves of Rs.15,000, provision for tax of Rs.2,000 and goodwill written off Rs.3,500. Gain on sale of machinery of Rs.1,500 was also shown as income in the income statement. The other information in respect of changes in the value of current assets and current liabilities were:

    At the end of the year trade debtor showed an increase of Rs.3,000,trade creditors an increase of Rs.5,000,prepaid expenses an increase of Rs.100 and outstanding expenses a decrease of Rs.1,000. Calculate the cash flows from operating activities.

77. The following details are available from a company

Liabilities	31.3.17 Rs.	31.12.18 Rs.	Assets	31.3.17 Rs.	31.3.18 Rs.
Share capital	70,000	74,000	Cash	9,000	7,800
Debenture	12,000	6,000	Debtors	14,900	17,700
Reserve for doubtful Debts	700	800	Stock	49,200	42,700
Trade Creditors	10,360	11,840	Land	20,000	30,000
PL A/C	10,040	10,560	Goodwill	10,000	5,000
	1,03,100	**1,03,200**		**1,03,100**	**1,03,200**

In addition, you are given

(i) Dividend paid total Rs. 3,500

(ii) Land purchased for Rs. 10,000

(iii) Amount provided for amortisation of goodwill Rs.5,000

(iv) Debenture paid off Rs.6,000

Prepare cash flow statement.

***

ANSWERS

1. What do you mean by management Accounting? What are their objectives?

Meaning:- In ordinary language, any system of accounting, which assist management in carrying out its functions more efficiently may be termed as management accounting.

Robert N. Anthony has defined the term Management Accounting as "It is concerned with accounting information that is useful to the management".

According to J. Barty "Management accounting is the term used to describe the accounting methods, systems and techniques which coupled with special knowledge and ability, assist management in its task of maximizing profits or minimizing losses.

According to Institute of Chartered Accountants of India "Such of its techniques and procedure by which accounting mainly seeks to aid the management collectively have come to be known as management accounting"

Objectives of Management Accounting:-

Fundamental objective of management accounting is to assist management theirs functions of formulating policies, making decision, planning activities and controlling the business operation. However it also provides the report to management and as means of communication.

2. Explain nature and scope of management accounting.

Nature: - Important features are:-

i) Based on Accounting information
ii) Management Accounting attempts to examine the "cause" and "effect" of different accounting variables.
iii) Forecasting- The management accounting is concerned with future.
iv) Use of special techniques and concepts
v) No Fixed rate

Scope:- The scope of management accounting is very wide and broad based. The following are the important areas which come within the scope of management accounting.

i) Financial accounting
ii) Cost accounting
iii) Budgeting and forecasting
iv) Financial Management
v) Management Reporting
vi) Quantitative technique
vii) Inflation Accounting
viii) Tax Accounting
ix) Inventory Control
x) Internal Audit

3. What are the functions of Management Accounting?

Management accounting is assigned with the functions classifying, processing, presenting and interpreting the data in such a way that it helps management to control and run the enterprise in an effective and efficient manner. The functions of management Accounting are as follows:-

i) Planning and forecasting
ii) Modification of data
iii) Financial analysis and interpretation
iv) Facilitates communication
v) Helping in managerial control
vi) Ensuing co-ordination and Decision making
vii) Use of Qualitative information
viii) Improving service to customers

4. Differentiate management accounting and financial Accounting.

Areas of differences are:-

i) **Objective-** Financial accounting object is to record various transactions to find out profit and loss and financial position of the business at the end of accounting year. Management accounting objects is to help management in formulating plans and policies.

ii) **Nature of data-** Financial accounting uses data which is historical, Quantitative, monetary and objective where as management accounting uses the data of descriptive, statistical, subjective and relates to future.

iii) **Subject matter-** Financial Accounting is concerned with assessment of results of the business as a whole where as management accounting deals with assessing the activities of different units, departments or divisions.

iv) **Users -** Financial accounting data users are both internal and external to the organization where management accounting user is internal mainly related to the management.

v) **Legal compulsion-** Financial accounting is more or less compulsory of statutory where as for management accounting is voluntary.

vi) **Precision-** In financial accounting actual figures are recorded where as in management accounting approximate figures are considered.

vii) **Accounting Principles-** Financial accounting is governed by General Accepted Accounting Principle (GAAP) and convention. In management accounting no set of principles are followed.

viii) **Period-** In financial accounting the accounts are prepared for a particular period, generally for one year whereas in management accounting no specific periods.

ix) **Publication-** The financial accounts are published for the benefits of the organization itself as well as outsiders where as the management accounts are not published and prepared for benefits of management only.

x) **Preparation-** Financial Accounting is prepared before preparation management accounting.

xi) **Benefits-** financial Accounting provides benefits to the general public including employees and management where as management accounting is prepared for the benefits of internal management of the organization.

xii) **Provision of Audit-** financial accounting is audited by practicising chartered accounts where as in management accounting there is no provision.

xiii) **Interdependence-** Financial accounting system can be installed without management accounting where as management accounting cannot be installed without proper financial accounting system.

xiv) **Report-** The reporting of financial accounting is slow and time consuming whereas the same for management accounting is very quick at regular interval.

5. Difference between management Accounting and Cost Accounting.

Points of Difference		Cost Accounting	Management Accounting
1.	Object	To calculate cost of product	To provide information to the management
2.	Nature	Concerned with past and present facts and figures	Deals with future projection and plans
3.	Principles	Followed to calculate the cost of product or service	No specific principle followed in planning and policy making
4.	Data Used	Quantitative data	Both Quantitative and Qualitative information
5.	Interested parties	External and internal parties	Mostly internal parties
6.	Evolution	After industrial revolution	Developed since 1950
7.	Scope	Cost ascertainment	Wide covering financial accounting, cost accounting, budget and tax planning
8.	Approach	Historic	Futuristic
9.	Installation	Can be installed even without management accounting	Needs financial and cost accounting as the base
10.	Planning	Short term	Both long and Short-term

6. Who is a management accountant? Explain his duties.

Person entrusted with supply of accounting information to the management is known as management accountant. The status on position of management accountant varies from organization to organization. He may be an executive in some concerns and a member of board of directors in some other concerns. His designation may be controller or chief account or management accountant or finance controller or finance advisor. Normally he occupies a key position in the organization heading the accounting department. He is responsible for installation, development and efficient functioning of the management accounting system. He plays an important role in gathering, compiling, reporting and interpreting the accounting information of the organization.

Important role performed by management accountant can be summarized as follows:

i) Planning for control
ii) Reporting
iii) Co-coordinating
iv) Motivating
v) Management information system

Management Accountant administers tax policies and procedure, supervises, ensures the protection of business assets, appraisal of economic and social forces and develops and implements fraud prevention measures and internal control system within the organization.

7. Discuss Accounting as an information System.

Accounting provides information to vested interests in business organization managers, shareholders, employees, creditors, customers and Govt. Those interested parties analyze and interprets the required information for achieving their objectives.

i) Information need of management
ii) Information need of shareholders and investors
iii) Information needs of employees
iv) Information needs of customers
v) Information needs of Government.

8. Discuss the nature and objectives of financial statement.

Financial statements reveal financial information relating to financial position of a business on a particular date and profitability of the business during a certain period. These information are very important for evaluating the financial performance of an enterprise in the form of liquidity analysis, profitability analysis and efficiency of management etc.

Nature - in the light of nature/characteristics of financial statements the American Institute of Certified Public Accountants (AICPA) state "they reflect a combination of recorded facts, accounting conversion and personal judgment and the judgments and conventions applied affect them materially". Thus, the nature of financial statements can be summarized in the following term:

a) Recorded facts
b) Conventions:
   i) Convention of full disclosure
   ii) Convention of materiality
   iii) Convention of conservatism
   iv) Convention of consistency
c) Postulates
d) Legal implication
e) Personal judgment

Objective- Financial statements present true and fair value of the state of affairs of one business enterprise. It is the source of information for the owners, creditors, customers, Government and general public about the profitability and financial position of a concern.

Significant Objectives are-

i) To provide necessary information about the financial activities of the business to the interested parties
ii) To supply information about the efficiency of the management as regards the effective utilization of scare resources
iii) To facilitate the management for the future financial forecasting
iv) To help in evaluation of earning capacity of the firm along with periodical earnings

v) To facilitate in taking decision regarding replacement of fixed assets and expansion of the business

vi) To supply required data to the government for collection of taxes and duties also to price control purposes

vii) To assist management in taking preventive measures for deviation between actual and budgeted performances

viii) To supply necessary information to the functional managers for internal control and formulation of overall policies.

ix) To safeguard the interest of the shareholders who are not allowed to access the day-to-day activities of the business

x) To help the credit rating agencies to determine the rating of the enterprise

9. Discuss the importance of financial statements in the light of its several users by different parties.

Financial statements are the result of accounting process and the mirror which reflects the financial position and operating strength or weakness of a business. These statements are very important tools in the hand of management for formulation of future financial policy and several other measures of a company. The importance of financial statements, in the light of its several users by different parties is discussed as under:

a) **Management-** It helps to identify the efficient and inefficient activities by which management exercises varies control measures to increase the profitability as well as productivity.

b) **Creditors-** Financial statements show the long-term as well as short-term solvency of an enterprise which the creditors of that concern are interested to know.

c) **Bankers-** Through the financial statements, the bankers can know the earning capacity and financial position of the borrowing organization and decide the types of loans to be sanctioned.

d) **Investors -** To study solvency position for the purpose of their investment of money either in shares of debentures.

e) **Government -** Analyzing financial statement the Govt. will prepare national accounts and calculating Gross domestic products etc.

f) **Researchers -** They studies the financial operations of different business units and compares the result for the purpose of submission of their project reports.

g) **Trade Associations -** They study the financial statement of different firms and develop uniform system of accounts.

h) **Stock Exchanges -** Financial statements help stock exchange in determining the security prices.

i) **Regulatory bodies -** Many regulatory bodies like Securities Exchange Board of India (SEBI), Company Law Board (CLB), Registrar of Companies(ROC), Pollution control board etc. have been formed to protect the interest of the investors and general public. They put on eye of the financial statements which show the functioning of a business.

j) **General public-** Common people also take interest to know the profitability and financial position of a business. A business unit having sound financial position generates employment opportunities, supplies goods at reasonable price, uses the local material and other resources and help in social development.

10. Discuss the limitation of financial statements.

The limitations of financial statements are:

a) **Recorded of monetary transaction only-** Financial statements are prepared on the basis of information compiled and supplied by accounting which is fully based on monetary transactions only. But there are many important non-monetary factors such as credit worthiness of the business, customer relation, human resources, competitor's activity, conflict between sales and production manager's personal reputation of managers, co-operation of employees with management are ignored.

b) **Based on historical cost-** At original cost or price paid at purchasing time never consider the current price.

c) **No time information-** prepared at the end of one accounting year not at regular time interval for taking decision at right time.

d) **Only interim report-** time position when it is liquidated.

e) **Effect of personal Bias-** depending upon the users.

f) **Use of Alternative methods-** For depreciation, stock valuation.

g) **Application of conservatism principle-** probable losses is shown in the statement where as probable income and gains are ignored.

h) No consideration of price level changes

11. Discuss various financial statements

a) Balance sheet or position statement

b) Income statement (or profit loss account)

c) Statement of changes in owners' equity (or retained earnings)

d) Statement of changes in financial position
   - i) Funds flow statement
   - ii) Cash flow statement

12. Discuss the form and contents of balance Sheet

There is no specific form for preparation of balance sheet in the case of proprietary concerns and partnership firm. The balance sheet is generally divided into three parts i.e. assets, liabilities and capital. The balance sheet is usually prepared in horizontal form. The order of assets and liabilities is either

i) On liquidity basis or

ii) On permanency basis

The companies Act, 1956 has prescribed a form for the preparation of balance sheet. This form is set out in part 1 of schedule VI or as near there to as circumstances admit section 211(i) states that every balance sheet of a company shall give a time and fair view of the state of affairs of the company as at the end of financial year and shall, subject to the provision of sections, be in the form set out in part 1 of schedule VI or as near thereto as circumstance admit or in such other form as may be approved by central government either generally or in particular case j and in preparing the balance sheet due regards shall be had, as far as may be to be general instructions for preparation of balance sheet under the heading "Notes" at the end of part. Provided that nothing contained in this subsection shall apply to any insurance or banking company or any company engaged in generation or supply of electricity or to any other class of company for which form of balance sheet has been specified in or under the Act governing such class of companies.

The balance sheet of a company may be either in (A) horizontal form or (B) vertical form.

Contents-

i) Share capital

ii) Reserve and surplus

iii) Secured Loan

iv) Unsecured Loan

v) Current liabilities and provision

Asset Side-

i) Fixed assets

ii) Investments

iii) Current assets

iv) Miscellaneous expenditure

13. Discuss the form and contents of income statement.

The income statement or profit and loss account is prepared according to nature of business. A trading concern will prepare trading and profit and loss A/C to find out gross profit and net profit respectively. A manufacturing concern will prepare first manufacturing A/c for finding out the cost of production and then it will prepare trading and profit and loss A/C.

In case of sole proprietary and partnership concern there are no prescribed for income statement. The preparation is not compulsory. In case of Joint Stock Company the preparation of income statement for every financial year is compulsory. Section 211 of the Act prescribed the contents. Section 211(2) says the profit and loss A/C of a company shall give a time and fair view of the profit and loss A/C for the financial year and shall comply with requirement of part II of schedule VI.

Joint Stock Company also prepares profit and loss appropriation Account also. This account is known as retained earning A/C.

14. Discuss the characteristics of Ideal financial Statements.

The financial statements are prepared with a view to depict financial position of the concern. The financial statement should be prepared in such a way that they are able to give a clear and orderly picture of the concern. The ideal financial statements have the following characteristics.

i) Depict true financial position
ii) Effective presentation
iii) Relevance
iv) Attractive
v) Easiness
vi) Comparability
vii) Analytical Presentation
viii) Brief
vii) Promptness

15. What are different financial Analysis?

Different types of financial analysis are:-

A) Depending upon material used
   i) External Analysis
   ii) Internal Analysis

B) On the basis of method of operation
   i) Horizontal Analysis
   ii) Vertical Analysis

16. What are procedures of financial statement Analysis?

There are three steps involved in the analysis of financial statements.

There are

i) Selection of information
ii) Methodical classification of data
iii) Interpretation - Drawing of inferences and conclusion

In order to analyze and interpret the financial statement the following procedure is adopted.

i) The analyst should acquaint himself with principles and postulates of accounting. He should know the plan and policies of the management.
ii) The extent of analysis should be determined so that the sphere of work may be decided.
iii) The financial data given in the statement should be re-organized and re-arranged.
iv) The relationship is established among financial statements with the help of tools and techniques such as ratio, trend, common size, funds flow etc.
v) The information is interpretation is presented to the management in form of reports.

17. What are different methods of Devices of Financial Analysis?

A number of methods of devices are used to study the relationship between different statements.

i) Comparative statement
ii) Trend Analysis
iii) Common-Size statement
iv) Funds flow analysis
v) Cash flow analysis
vi) Ratio analysis
vii) Cost-volume-profit analysis

18. What do you mean by comparative statements and how they are prepared?

The comparative financial statements are statements of financial position and performance at different period: time. Generally two financial statements are prepared-balance sheet and income statement. The comparative statement may show:

i) Absolute figures (rupee amount)
ii) Change in absolute figures i.e. increase or decrease in absolute figures.
iii) Absolute data in terms of percentage
iv) Increase or decrease in terms of percentage

The analyst will able to draw useful conclusion.

Comparative Balance Sheet- the analysis is study of trends of same items, group of items and computed items in two or more balance sheet of the same business enterprise on different dates.

While interpreting comparative balance sheet interpreter is expected to study the following aspects:

i) Current financial position and liquidity position
ii) Long-term financial position
iii) Profitability of the concern

Comparative Income Statements:- this gives the result of operation of a business. It gives idea of progress of a business over a period of time.

Interpretation Guidelines-

i) The increase or decrease in sale should be compared with increase or decrease in cost of goods. Increase shows increase in profit. The amount of gross profit should be studied.

ii) Study of operational profit by deducting office and administrative expenses, selling and distribution expenses. Increase or decrease in net profit will give an idea about increase or decrease of net profit which will ultimately show the profitability of the concern.

The judgment is made about the overall profitability.

19. Prepare comparative statements from the following data:

Comparative Income statement for the year ended 2017 and 2018

	2017	2018	Increase (+) Decrease (-) (Rs. Lakhs)	Increase (+) Decrease (-) (Percentages)
Net Sales	600	750	+150	+25
Less cost of goods sold	400	600	+200	+50
(a) Gross Profit	**200**	**150**	**-50**	**-25**
Operational Expenses:				
Administrative expenses	20	20	-	-
Selling expenses	10	10	-	-
(b) Total operating Expenses	**30**	**30**	**-**	**-**
Operating profit (a-b)	170	120	-50	-29.41
Less other expenses				
Net Profit	**170**	**120**	**-50**	**-29.41**

Comparative Balance Sheet for the period ended 2017 and 2018

	2017	2018	Increase/ Decrease (Rs. Lakhs)	Increase/ Decrease (Percentages)
Assets				
Current Assets:				
Cash	300	440	+140	+46.67
Stock	200	300	+100	+50
Total Current Assets	**500**	**740**	**+240**	**+48**
Fixed Assets:				
Land	100	10	-	-
Building	300	270	-30	-10
Plant	300	270	-30	-10
Furniture	100	140	+40	+40
Total Fixed Asset	800	780	-20	-2.5
Total Asset	**1300**	**1520**	**+220**	**+16.92**

Liabilities and Capital:				
Current liabilities:				
Bills payable	50	75	+25	+50
Creditors	150	200	+50	+33.3
Tax Payable	100	150	+50	+50
Total current liabilities	300	425	+125	+41.67
Debenture	100	150	+50	+50
Total Liabilities	**400**	**575**	**+175**	**+43.75**
Equity share capital	400	400	-	-
6% preference share Capital	300	300	-	-
Reserves	200	245	+45	+22.5
Total	**1300**	**1520**	**+220**	**+16.92**

Interpretation:-

a) Comparative income statement reveals that during 2018 net sales 25% while the cost of goods sold increased disproportionately by 50% resulting decreasing in gross profit of 25%.Although the operating expenses have remained constant, there has been decrease in net profit of 29.41%.

b) The comparative balance sheet reveals that during 2018 there has been decrease in fixed assets of Rs. 20 lakhs i.e. 25% while long term liabilities have increased by Rs. 50 lakhs i.e. 50%. There has been increase of Rs. 45 lakhs i.e. 22.5% in reserves. Thus, the company has used long-term resources to finance additional working capital.

The current assets have increased by Rs.240 lakhs in 2018. There has been sufficient increase in balance of cash as well as stock. On the other hand current liabilities have increased by only Rs.125 lakhs i.e. 41.67. These further confirm that the company has raised long-term finances even for the current assets resulting into an improvement in the liquidity position of the company.

20. What do you mean by common-size statement? How it is prepared?

It is the vertical presentation of financial data for different years indicating the percentage share of each individual component to its category total. For example total assets in a balance sheet are taken as 100 percent and each item of assets is converted into percentage of total assets. Likewise each component of liabilities is expressed as a percentage of total liabilities and equalities. In the statement of profit and loss also the items of expenses are converted into percent share of total sale revenue.

21. From the following information, prepare a common-size balance sheet.

Common-Size Balance Sheet				
(A) Equity and Liabilities	As on 31st March 2017		As on 31st March 2018	
1. Share holder's fund	Amount(Rs.)	%	Amount(Rs.)	%
a) Equity share capital	60,000	60	60,000	46.15
b) Reserves and Surplus	10,000	10	20,000	15.38
2. Non-Current Liabilities	15,000	15	30,000	23.09
3. Current Liabilities	15,000	15	20,000	15.38
(B) Assets	**1,00,000**	**100**	**1,30,000**	**100**
1. Non-current Assets a) Fixed assets	50,000	50	70,000	53.85
b) Non-Current Investment	20,000	20	20,000	15.38
2. Current Assets	30,000	30	40,000	30.77
	1,00,000	**100**	**1,30,000**	**100**

22. The following income statements were presented by Hindal Co. Ltd and Jindal Co. Ltd for the year ending 31st march 2018. You are requested to prepare common size statement of profit and loss assuming income tax @50%

Solution:

Common-Size statement profit and loss for the ended 2018

	Hindal Co. Ltd		Jindal Co. Ltd	
	Amount(Rs.)	**%**	**Amount(Rs.)**	**%**
1. Revenue from Sale	10,00,000	100	15,00,000	100
2. Other Income	50,000	5	30,000	2
(A) Total Revenue	10,50,000	105	15,30,000	102
3. Expenses:				
a) Material consumed	4,50,000	45	6,00,000	40
b) Salaries and wages	1,50,000	15	2,00,000	13.33
c) Office and Admn. Exp.	50,000	5	60,000	4
d) Selling & Distribution Expenses	60,000	6	80,000	5.34
e) Interest	20,000	2	30,000	2
(B) Total expenses	7,30,000	73	9,70,000	64.67
4. Profit before exceptional and extra ordinary items(A-B)	3,20,000	32	5,60,000	37.33
5. Exception and Extra ordinary items	-	-	-	-
6. Profit before tax 7. Income tax @50%	3,20,000 1,60,000	32 16	5,60,000 2,80,000	37.33 18.665
8. Profit for the year	1,60,000	16	2,80,000	18.665

23. How trend analysis is calculated? Discuss the objectives of trend analysis.

Comparative financial statements made for a few consecutive years in terms of percentage trend are known as trend analysis. Under this analysis the information for a number of years is taken up and one year, normally the first year is taken as the base year.

Steps:

i) Select a base year

ii) Consider the figures of base year as 100 percent

iii) Calculate the percentage of each individual item of each year and Compare it with the same item of the base year.

Objectives of trend Analysis:

i) Trend analysis is very much helpful for measuring the trend of profitability over the years.

ii) It helps in measuring the liquidity position of the enterprise to meet the short-term obligation.

iii) Measures long-term solvency

iv) Helps in inter-firm comparison

v) It discloses the financial position and it is useful for making comparative Analysis of data.

24. From the following information calculate the trend percentage taking 2014 as the base year.

	Absolute Figure					Trend Percentage				
	2014	**2015**	**2016**	**2017**	**2018**	**2014**	**2015**	**2016**	**2017**	**2018**
Purchase	40,000	48,000	42,000	50,000	46,000	100	120	105	125	115
Sales	60,000	75,000	72,000	80,000	70,000	100	125	120	133	117

25. From the following information, prepare a comparative income statement of Java Ltd.

	2017 (Rs.)	2018 (Rs.)	Absolute Change (Rs.)	Percentage Change (%)
Sales	24,00,000	37,50,000	13,50,000	56.25
Less cost of goods sold	20,00,000	25,00,000	5,00,000	25
Gross profit	4,00,000	12,50,000	8,50,000	212.50
Less indirect expenses	40,000	1,25,000	85,000	212.50
Profit before tax	3,60,000	11,25,000	7,65,000	212.50
Less income tax	1,80,000	5,62,500	3,82,500	212.50
Net Profit after tax	1,80,000	5,62,500	3,82,500	212.50

26. What do you mean by ratio analysis? Discuss its uses?

Ratio analysis can be defined as "the Quantitative relationship between the related components of the financial statement in order to judge the financial efficiency of a business concern". The ratio analysis may be used as a trend analysis or static analysis. Trend analysis concern with comparing a particular ratio of a concern over a time series, where as static analysis involves in comparing the different ratios of the firm for a particular accounting year.

(A) Management uses of ratio analysis-
1. Helps in decision making
2. Helps in financial forecasting and planning
3. Helps in communicating
4. Helps in co-coordination
5. Helps in control

(B) **Utility to shareholders/investors -** By assessing the financial position in long term solvency. Profitability ratio will be used to determine the profitability position.

(C) **Utility to Creditors -** By studying the short term credit of the concern by judging the current ratios.

(D) **Utility to employees -** They are interested in financial position of the concern for their demand for wage hike and other fringe benefit.

(E) **Utility to government-** Overall study of short-term, long-term and financial position to implement different policies.

(F) **Tax Audit requirement-** U/S 44 AB,IT ACT by finance A/C , 1984 any business exceeding turnover or gross profit exceeding Rs.40 lakhs is required to get the accounts audited by CA.

27. Discuss the nature of ratio Analysis and how they are interpreted.

The ratio may be used as symptom line blood pressure, the pulse rate or body temperature and their interpretation depend upon caliber and competence of analyst. The following are the 4 steps of ratio analysis.

i) Selection of relevant data from the financial statement depending upon the objective of analyst.
ii) Calculation of appropriate ratio.
iii) Comparison of calculated ratio with the same of firm in the past or ratio of other firms.
iv) Interpretation of ratios

Interpretation of ratios:-

Calculation is only clerical task where as interpretation needs skill, intelligence and foresightedness.

The inherent limitation of ratios also is kept in mind. The impact of factors such as price level changes, changes in accounting policies, window dressing should also be kept in mind when attempting to interpret ratios.

Interpretation can be made in the following ways-

i) Single Absolute ratio- One cannot draw any meaningful conclusion when a single ratio is considered. But single ratios may be studied in relation to certain rule of thumb which is based upon well proven conversion. For example current ratio 2:1 is considered to be a good.
ii) Group ratio
iii) Historical comparison
iv) Projected ratio
v) Inter firm comparison

28. Discuss the guidelines or precautions for the use of ratios.

Following guidelines or factors may be kept in mind while interpreting various ratios.

i) Accuracy of financial statement
ii) Objective or purpose of Analysis
iii) Selection of ratios
iv) Use of standard
v) Caliber of analyst- A wrong interpretation may create havoc for the concern since wrong conclusions may lead to wrong decision. Interpretation requires caliber and competency of analyst.
6. Ratio provide only a base- the ratios are only guidelines for the analyst, he should not base his decisions entirely on them.

29. Discuss the limitations of Ratio analysis.

The ratio analysis is one of the most powerful tools of financial management. Though ratios are simple to calculate and easy to understand, they suffers some serious limitations.

i) Limited use of single ratio
ii) Lack of adequate standards
iii) Inherent limitation of Accounting
iv) Change of Accounting Procedure
v) Window dressing- Window dressed to present a better picture of its financial and profitability position to outsiders
vi) Personal Bias
vii) Un-comparable with other business concern due to different accounting procedure & practice
viii) Absolute Figures distortive- As ratio analysis is primary Quantitative not a Qualitative
ix) Price Level Changes- No consideration is made to changes in price levels.
x) Ratios no substitute.

30. What are different classification ratios?

A) Traditional classification or statement ratios
i) Balance sheet ratios or position statement ratios
ii) Profit and loss Account ratios or Income (revenue statement ratios)
iii) Composite/Mixed ratios or Inter statement ratios

B) Functional classification or classification according to test
i) Liquidity ratios
ii) Leverage ratios
iii) Activity ratios
iv) Profitability ratios

C) Significance ratios or Ratios according to importance
i) Primary ratios
ii) Secondary ratios

31. What are the different ratios used to analyses short-term financial position of a firm?

Short term obligation of a firm can be met only when there are sufficient liquid assets. Neither inadequate nor high degree liquidity is good for business concern. For the purpose two types of ratios can be calculated.

A) Liquidity ratio
   i) Current ratio
   ii) Quick or Acid test or Liquid ratio
   iii) Absolute Liquid ratio or Cash position ratio

i) Current Ratio=Current Assets/Current Liabilities

Component of Current Ratio

Current Assets	**Current Liabilities**
1. Cash in hand	1. Outstanding Expenses/ Accrued expenses
2. Cash at bank	2. Bills payable
3. Marketable securities (Short-term)	3. Sundry Creditors
4. Short term Investment	4. Short term advances
5. Bills receivable	5. Income tax payable
6. Sundry Debtor	6. Dividend payable
7. Inventories	7. Bank overdraft (if not a permanent arrangement)
8. Work-in-process	
9. Prepaid expenses	

ii) Quick Ratio =
Quick or liquid Assets/ Current Liabilities

(Current Asset) - (Inventories + prepaid expenses)

Sometime also bank overdraft which is generally permanent way of financing is excluded from current liabilities.

iii) Absolute Liquid Ratio= Absolute Liquid Assets/ Current Liabilities

Or

Cash Ratio= (Cash & Bank + Short-term Security) / Current liabilities

B) Current Assets movement or efficiency / Activity ratio

(i) Inventory/stock turnover ratio

(ii) Debtor turnover ratio

(iii) Creditors/ payable turnover ratio

(iv) Working capital turnover ratio

32. A firm's current Assets and current liabilities are Rs 24, 000 and Rs 6, 000 respectively. How much can it borrow from a bank without reducing current ratio below 1.5?

Solution:

Current Ratio = Current Assets/ Current Liabilities = 24,000/6,000 = 4

Borrowing from Bank can be made either on temporary or long term basis.

When bank borrowing are taken on temporary basis or as a current liability.

CR = CA/CL= (24,000 + x) / (6,000 + x),

1.5 = (24,000 + x) / (6,000 + x)

CR-Current Ratio

CA-Current Asset

CL-Current liabilities

Solving equation x=30,000

Thus bank borrowing on short-term basis is Rs. 30,000/-

When bank borrowing as long term

1.5= (24,000 + x) / 6,000

Solving x=15,000

Long term borrowing Rs.15, 000/-

33. Solution:

Let the Current Asset = x
Current Liabilities=y
Current Ratio= Current Assets / Current Liabilities
2.4= x/y ... (1)
x= 2.4y
Working capital= CA - CL
1, 40,000 = x - y ... (2)
x= 1, 40,000+y
Putting the value of x in eqn (2)
2.4y=1, 40,000 +y
1.4y=1, 40,000
Or y= 1, 00,000
So, x=1,40,000 + y = 1,40,000 + 1,00,000=2,40,000
So Current Assets = 2,40,000.

34. Solution:

Current Ratio= Current Asset/ Current Liabilities
(2/1) = (x / 80,000)
So, x= 1, 60,000 i.e. Current Assets=1, 60,000
Liquid Ratio = Liquid Assets / Current Liabilities
= [Current Assets - (Inventory + prepaid expenses)] / Current Liabilities
1.5:1 = [1, 60,000- (Inventory + prepaid expenses)] / 80,000
Let the value of inventory be x
So, (1.5 / 1) = [1, 60,000 - (x + 2,000)] / 80,000
Or 1.5 x 80,000 = 1, 58,000 - x
So, x = 1, 58,000 - 1, 20,000 = 38,000
Liquid Assets = CA - (inventory+ prepaid)
= 1, 60,000 - (38,000 + 2,000)
= 1, 20,000

35. Solution:-

Let the current liabilities be Y.

Current Ratio = Current Asset / Current liabilities

2.2 = (x/y) --------- (1)

2.2 y = x

Liquid Ratio= Liquid Assets/ Current Liabilities =

CA - Inv. - Prepaid Expenses

1.4 = (x-40,000) / y

1.4y= x - 40,000

Putting the value of x

1.4y = 2.2y - 40,000

40,000 = 0.8y

Y= 40,000/0.8 = 50,000

Current liabilities=50,000

36. Solution:-

Interval measures= Quick or liquid Assets / Average daily cash operating Expenses

Average daily cash operating Expenses = (40,000+25,000+15,000- 8,000) / 360 = Rs.200

Interval Measure= 15,000/200 =75 days.

37. Solution:

Inventory Turnover Ratio= Cost of goods sold/ Average stock

Cost of goods sold - Net sales - Gross profit

Net sales= Cash sales+Credit sales - Return inward

= 2,50,000 + 1,50,000 - 25,000

= Rs. 3,75,000

Gross Profit = Rs. 3, 75,000 x (20/100) = Rs. 75,000

Cost of goods sold = 3,75,000-75,000=Rs.3, 00,000

Average stock= (Opening stock+Closing stock) / 2

= (Rs.25,000+Rs 35,000)/2=Rs. 30,000

i) Inventory Turn Over Ratio = Rs. 3,00,000/ Rs. 30,000=10 times

ii) Inventory conversion period = 365/10=36.5 or 37 days.

The inventory has been disposed or sold on an average in 37 days.

38. Solution:

Current Ratio = CA/CL or 1.5=CA/4,00,000 or CA=Rs. 6,00,000

Acid Test Ratio= Liquid Assets/ Current Liabilities

1.2 = LA / 4,00,000

LA = 1.2 x 4,00,000= Rs. 4,80,000

So, Liquid Assets = Rs 4, 80,000

Inventory = CA - LA

= 6,00,000 - 4,80,000

= 1, 20,000

Inventory turnover ratio = Sales / Inventory

5 = Sales/ 1, 20,000

So, Sales= 1, 20,000 x 5 = 6, 00,000

39. Solution:

i) Creditor's turnover ratio = Annual Net credit purchase / Average Trade creditors

For 2017 Creditor's Turnover Ratio = 6, 80,000 / 70,000 = 9.71 times

For 2018 creditor's Turnover Ratio = 7, 50,000/ 75,000= 10 times

ii) Average payment period = No. of days / Creditors turnover ratio

For 2017 Average Payment Period = 360 / 9.71 = 37 days (approx.)

For 2018 Annual payment Period = 360 / 10 = 36 days.

40. Solution:-

Working capital turnover ratio= cost of sales/ Net working capital

CA= 10,000 + 5,000+ 25,000+ 20,000= 60,000

CL= 30,000

Net Working Capital=Current Assets-Current Liabilities

= 60,000 - 30,000 = 30,000

Working capital turnover Ratio

= 1, 50,000/ 30,000 = 5 times

41. How long-term financial position or long-term solvency is analysed?

Solution:-

Solvency refers to the ability of a concern to meet its long term obligation. The long-term ineptness of a firm includes debenture holders, financial institution providing medium and long term loans and other creditors selling goods on instalment basis. They are primarily interested in knowing the firm's ability to pay regularly interest on long-term borrowing, repayment of the principal amount at the maturity and the security of their loans. Accordingly, a long term solvency ratio s indicate a firm's ability to meet the fixed interest and costs and repayment schedule associated with its long term borrowings.

Following ratios serve the purpose of testing long term solvency of a concern.

i) Debt-Equity Ratio= Outsiders Funds/ Shareholder's Funds

ii) Funded Debt to Total Capitalisation Ratio = Funded Debt / Total Capitalisation

iii) Proprietary Ratio or Equity Ratio= shareholder's fund / Total Assets

iv) Solvency Ratio= Total Liabilities to Outsiders / Total Assets

v) Fixed Assets to Net worth or fixed assets to proprietor's fund= Fixed Assets (after depreciation) / Shareholders fund

vi) Fixed Assets to total long term funds or fixed assets Ratio

Fixed Assets Ratio = Fixed Assets (After depreciation) / Total long-Term funds

vii) Ratio of current Assets to proprietors fund = Current Assets / Shareholder funds

viii) Debt Service ratio or Interest coverage ratio = net profit (before interest and taxes) / fixed

42. Solution:-

Analysis of the Short-term Solvency

(i) Current ratio = CA/ CL
CR of 1st Yr: - CR=CA/CL
=62,000/40,000=1.55: 1
CR of 2nd Yr: - 65,000/47,000= 1.38: 1

(ii) Acid test ratio=Quick Assets/Current Liabilities

Yr. I: Acid test ratio = 50,000/40,000 = 1.25:1

Yr. II: 45,000/47,000=0.96/1

(iii) Investment turnover Ratio = Net sales / Average inventory

Yr. I = 3, 50,000/10,000=35 times

Yr. II= 3, 00,000/15,000=20 times

(iv) Average collection period = Trade Debtor / Net sales per day

Or (Trade debtor/Net sales)xNo. of working days

Yr. I = (30,000/3,50,000) x 365= 31.3 days

Yr. II= (30,000/3, 00,000) x 365= 36.5 days

Comments on short term solvency Position

	Yr.I	Yr.II
CR	1.55 : 1	1.38 : 1

Indicates short term solvency is not sound.

In both yr. it is below standard norm 2:1. Further in 2nd position is deteriored.

Acid Test Ratio- 1st Yr. 1.25:1

2nd Yr. 0.96:1

In 1st Yr. it is satisfactory it is satisfactory as the standard ratio is 1:1 and in 2nd Yr. to standard and thus satisfactory.

Inventory turnover-

1st Yr 35 times

2nd Yr 20 times

Inventory turnover has fallen from 35 times to 20 times in 2nd Yr.

This is an alarming in downfall.

(B) Analysis of Long-term solvency position

(i) Debt-Equity ratio

= Outsider's funds/ share holders funds

Outsider's funds 1st yr- 40,000

2nd yr- 47,000

Share holder's funds

=Total Assets- Outsiders funds

1st yr=62,000-40,000=22,000

2nd yr=65,000-47,000=18,000

So, Debt/Equity

1st yr=40,000/ 22,000 =1.8/1

2nd yr=47,000/18,000=2.6/1

(ii) Proprietory Ratio= shareholders funds/ total assets

1st Yr=22,000/62,000=0.35:1

2nd Yr=18,000/65,000=0.28:1

Long-term solvency is unsatisfactory. In first year outsiders fund is 1.8 times the shareholders fund where accepted norm 1:1. The proprietary ratio also reveals that in 1st yr 35% of total asset have fallen to 28% in 2nd yr. This proves that the company is banking heavily on the outsiders or creditor for financing its affairs.

Both short-term and long-term solvency position is not satisfactory and it has deterioted considerably in the second year.

43. Find out working capital turnover ratio:

Solution:

Working Capital Turnover Ratio= Cost of sales / Net working capital

Current Assets = 10,000 + 5,000 + 25,000 + 20,000 = 60,000

Current liabilities=30,000

Net working capital = CA-CL = 60,000 - 30,000 = 30,000

So, working capital turnover ratio=1, 50, 000/ 30,000 = 5 times

44. What are the different ratios used to study the profitability of the concern?

A business needs profits not only for its existence but also for expansion and diversification. The investors want an adequate return on their investment, workers want higher wages, creditors want higher security for their interest and loan and so on. Profits to the management are the test of efficiency and a measurement of control. Generally, profitability ratios are calculated either in relation to sales or in relation to investment.

(A) Generally profitability Ratio
- (i) Gross Profit Ratio = Gross Profit / Net sales
- (ii) Operating Ratio = Operating Cost / Net sales
- (iii) Operating Profit Ratio= Operating Profit / sales
- (iv) Expenses Ratio - Relationship of various expenses to net sales.
- (v) Net Profit Ratio= Net profit after tax/ Net sales

(B) Overall profitability Ratios-
- (i) Return on shareholders' investment or Net worth=[Net profit (After interest & tax)]/Shareholders funds
- (ii) Return on equity capital = (Net profit after tax - preference dividend) / Equity share capital (paid up)
- (iii) Earnings per Share EPS = (Net profit after tax - preference dividend) / No. of equity share
- (iv) Return on capital employed- Relationship between profit and capital employed.
  Three most widely used definitions of this term are:
  - a) Gross capital employed - Fixed Assets + Current Assets
  - b) Net capital employed - Total Assets- CL
  - c) Proprietor's Net capital employed-
    Fixed Assets + current Assets - outside liabilities (both long-term and short-term)
- (v) Capital turnover ratio - cost of goods sold or sales/ capital employed
  Capital turnover ratio can be classified as : a) Fixed assets turnover, b) Working capital turnover ratio

45. Solution:

i) Return on shareholders' investment = Net profit after interest and tax / shareholders investment

Profit	--	80,000
Less tax 50%	--	40,000

Profit after tax		40,000

Share holder investment-

Equity share	--	80,000
11% preference share	--	1, 00,000

		1,80,000

So, return on shareholders' investment = (40,000/1, 80,000) x 100 = 22.22%

ii) Return on equity capital

= [(Net profit after tax - preference dividend)/Equity share capital (paid up)] x 100

= [(40,000 - 11,000) / 80,000] x 100 = [29,000 / 80,000] x 100 = 36.25%

46. Solution:

Company-X

Return on Capital Employed = Net profit/ Capital Employed

Capital employed in this case is equal to Total Assets

Net profit = (2,75,000 x 4) / 100 =11,000

Total Assets = 2,75,000/6 = 45,833

Return on capital employed = (11, 000 x 100)/ 45,833 =24%

Company-Y

Sales = (4,680 x 100) / 25 = 18,720

Net profit = (18,720 x 19) / 100 = 3,556.80

Return on capital employed = (3,556.80 x 100) / 42,500 = 8.36%

47. Solution:

Pay-out Ratio = Dividend per equity share/ Earning per share

Earning per share = Earning available for equity shareholder /No. of equity share

EPS = (10,000 - 5,000 - 2,000) / 3,000 = Rs.1.00

Retained Earning Ratio= 100 - payout ratio

Payout ratio= (0.40/1) x 100= 40%

Thus retaining earning ratio= 100 - 40% = 60%

48. Solution:

i) Price Earning Ratio = Market price per equity share/Earning per share

8 = 48/EPS

8 x EPS = 48

EPS = 48/8 = 6

ii) Net income = Earning per share x No. of shares = Rs. 6 x 1,00,000 = Rs. 6,00,000

iii) Dividend yield = Dividend per share/ market price per share
Dividend per share = Dividend paid to shareholder/No. of equity shares

= [6,00,000 x (80/100)] / 1,00,000 = 4.80

Dividend yield= (4.80/48) x100=10%

iv) Return on equity=[(Net profit after tax - preference dividend)/ equity share capital] x 100

a) ROE (Based on market price)= [(6,00,000) / (1,00,000 x 48)] x 100 = 12.5%

b) ROE (Based on Book value)=(6,00,000/1,00,000)x100 = 15%

49. How capital structure or leverage ratios are used to study the relationship between various long-term form of financing.

Leverage or capital structure ratios are calculated to test the long-term financial position of a firm. Capital structure refers to the relationship between various long-term form of financing such as debenture, preference share capital and equity share capital including reserves and surplus following ratios are generally calculated to analyse the capital structure of a firm.

i) Capital Gearing Ratio = (Equity share capital + Reserve and surplus) / (preference share capital + long - term debt bearing fixed interest)

Capital gearing ratio can also be calculated as below:

Capital Gearing Ratio= Fixed income bearing funds / Equity shareholder fund

= fixed income bearing funds/ total capital employed

Capital Gearing Ratio is very important Leverage ratio. Gearing should be kept in mind in such a way that the company is able to maintain a steady rate of Dividend. High Gearing ratio is not good for new company or company in which future earning are uncertain.

i) Total Investment to long-term liabilities =shareholders funds + long-term liabilities

iii) Ratio of fixed Assets to funded debt = fixed Assets/ funded debt

iv) Ratio of current liabilities to proprietor's funds5. Ratio of reserve to equity capital

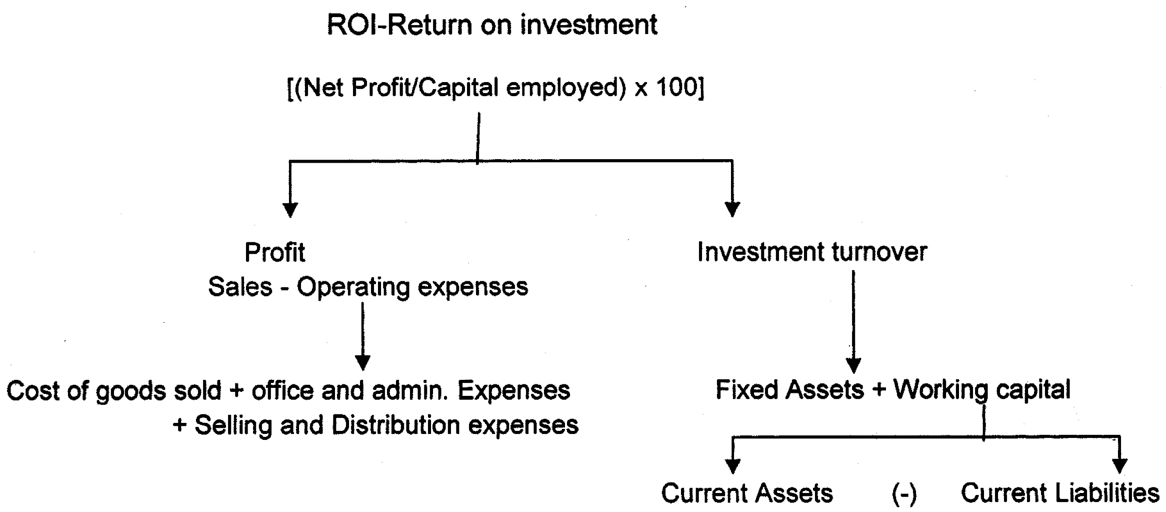
50. How DU-PONT control chart is helpful to study ratios of inter-relationship for managerial attention.

A system of management control designed by an American company named DU-PONT company is popularly called DU-PONT control chart. The system uses the ratio inter-relationship to provide charts for managerial attention. The standard ratios of the company are compared to present ratios and changes in performance are judged.

The chart is based on two elements i.e. Net Profit and capital employed. Net profit is related to operating expenses. If the expenses are under the control then profit margin will increases. Capital employed, on the other hand, consists of current assets and net fixed assets.

Ratio Return on Investment (ROI) = (Profit margin/Capital employed) x 100

DU-PONT control chart is presented as under



The profit return on investment becomes a yardstick to measure efficiency because return influences various operations. The efficiency can be improved either by better relationship between sales and costs or through more effective use of available capital. The profitability can be increased by controlling cost and/or increasing sales. The investment turnover can be raised by having a control over investment in fixed Assets and working capital without adversely affecting sales. The sales may also be increased with the use of same capital. The management is able to pinpoint weak spot and take corrective measures. The performance can be better judged by having inter-firm comparison. The ratios of return on investment, asset turnover and profit margin of comparable companies can be calculated and these can be used as standard of performance.

51. Solution:

Current Ratio = (Current Assets/ Current Liabilities) = 20/10 = 2:1

i) Purchase of new machinery for Rs 5 Lakhs on Cash/ Current assets are reduced by Rs 5 Lakhs.
Current Ratio= CA/CL = (20-5) Lakhs / 10 Lakhs = 15/10 = 1.5:1

ii) Purchase of new machinery for Rs.5 Lakh on short-term credit will increase current liabilities by Rs.5 Lakhs.
Current Ratio = CA/CL= 20 Lakhs / (10+5) Lakhs = 20/15=1.33:1

iii) Purchase of new machinery for Rs. 5 Lakhs on medium term will not affect but 20% margin to be paid in cash. Hence current would be reduced by as 1 Lakh.
CR= CA/CL= (20-1) Lakhs/ 10 Lakhs=19 Lakhs/ 10 Lakhs=1.9 :1

iv) Payment of dividend of Rs.15 Lakhs and tax deducted at source 0.50 Lakhs will reduce cash and hence the current assets by Rs.2 Lakhs. Current liabilities remain the same (presuming that dividend and tax deducted at source are not included in current liabilities of Rs.10 Lakhs).
CR= CA/CL =(20-2) Lakhs / 10 Lakhs=18 Lakhs / 10 Lakhs=1.8 : 1

The total effect of all four transactions:

Current Assets= (20-5-1-2) Lakhs= 12 Lakhs
Current Liabilities= (10+5) Lakhs = 15 Lakhs
So, Current Ratio=12 Lakhs/15 Lakhs=0.8: 1

52. Solution:

Net Worth-

Sales = Rs. 32,00,000

Sales to Net Worth = 2.3 times

So, Net Worth = 32,00,000/2.3 = 13,91,304

Current Debt-

Current Debt to Net Worth=42%

Current Debt =13, 91,304 x (42/100) = 5, 84,384

Long term Debt-

Total Debt to Net worth=75%

Total Debt = 13,91,304 x (75/100) = Rs.10, 43,478

Long term Debt= Total Debt - Current Debt

= 10,43,478 - 5,84,348 = Rs. 4,59,130

Fixed Assets-

13,91,304 x (53.2/100) = 7,40,174

Current Assets-

Current Ratio= Current Assets/ Current Liabilities

2.9 = Current Assets / 5, 84,348

So, Current Assets=5, 84,384 x 2.9 = 16, 94,609

Inventory or Stock-

Net sales to Inventory= Net Sales / Inventory

4.7 = 32,00,000 / Inventory

So, Inventory= 32, 00,000/ 4.7 = Rs 6, 80,851

Debtors- average collection period

= debtors/ sales per day

64= (Debtors/32, 00,000) x 365

= (64 x 32, 00,000)/365 = 5, 61,096

Cash - Cash = Total Assets - Stock - debtors

= 16, 94,609 - 6, 80,851 - 5, 61,096

= 4, 52,662

Proforma Balance Sheet

Liabilities	Rs.	Assets	Rs.
Net worth	13,91,304	Fixed assets	7,40,174
Long-term Debt	4,59,130	Cash	4,52,662
Current Debt	5,84,348	Stock	6,80,851
		Sundry Debtors	5,61,095
	24,34,782		**24,34,782**

(1) In sundry debtors adjustment (of Rs.1.00) for calculation has been made.

53. Solution:

Sales = Rs.3,00,000

Gross profit 25% of sales = Rs 75,000

Cost of goods sold= sales - gross profit

= Rs 3,00,000 - Rs. 75,000

= Rs 2, 25,000

Inventory turnover Ratio
= Cost of goods sold/ Average inventory

4 = 2, 25,000 / Av-Inventory

Av- Inventory = 2, 25,000/4= Rs 56,250

(Opening Inventory + Closing Inventory)/2=Rs.56,250

So, opening Inventory+closing Inventory=Rs. 1,12,500

X + x + 20,000 = Rs. 1,12,500

2x = 1,12,000 - 20,000

X = 92,500/2 = 46,250

Closing inventory = Rs. 66,250

Quick Ratio=Quick Assets / Current Liabilities =

Quick Assets/40,000 = 0.75

Quick Assets = 40,000 x 0.75 = Rs. 30,000

Current Assets=Quick Assets + Closing Inventory

= Rs. (30,000 + 66,250)

= Rs. 96,250

54. Solution:

Current Ratio= CA/CL=2.5

So,CA=2.5xCL

Working capital=CA-CL=1,20,000

2.5CL-CL=1,20,000

1.5CL=1,20,000

CL=1,20,000/1.5=Rs80,000

So, CA = Working Capital + CL

= Rs.1,20,000 + 80,000 = Rs. 2,00,000

Quick Ratio=Quick Assets/Current Liabilities=1.5

So, Quick Assets=1.5 x CL

= 1.5 x 80,000

= Rs1,20,000

Stock=CA-QA

=2,00,000-1,20,000 =Rs80,000

In balance sheet

Fixed Assets + Current Assets = Proprietory Fund + Current Liabilities + Non Current Liabilities

Fixed Assets / Propitory Fund=0.75

FA= 0.75 x propritory fund

So, 0.75 propritory fund + 2,00,000
= propritory fund + 80,000

1,20,000 = 0.25 propritory fund

So, propritory fund=1,20,000/0.25=Rs.4,80,000

Share Capital=Propritory Fund-Reserve and Surplus

= 4,80,000 - 80,000 = Rs. 4,00,000

Fixed Assets = 0.75 x 4,80,000 = Rs. 3,60,000

Balance Sheet of XYZ Ltd. as on

Liabilities	**Rs.**	**Assets**	**Rs.**
Share holder funds		Fixed Assets	3,60,000
- Share capital	4,00,000	Current Assets:	
Reserve & surplus		Stock	80,000
Noncurrent Liabilities	80,000	Other Current	1,20,000
Current Liabilities	NIL	Assets	
Bank Overdraft			
Other Current Liabilities	20,000		
	60,000		
	5,60,000		**5,60,000**

55. Solution:

Debtors turnover Ratio =
Net credit sales / Average Debtors

Net credit sales
= total sales - sales return - cash sales

= 2,30,000 - 15,000 - 40,000 = Rs. 1,75,000

Average Debtors
= (Opening Debtor + Closing Debtor)/2

= (40,000+80,000)/2 = Rs. 60,000

(Opening debtor=Sundry debtor + Bills receivable

= 25,000 + 15,000 = 40,000

Simillarly, Closing Debtor =80,000)

Debtor's turnover ratio=1,75,000/60,000=2.92

Average Debt Collection Period

= 365/ Debtors Turnover Ratio=365/2.92=125 days.

56. Solution:

Current Ratio=Current Assets/Current liabilities=3:1

Current Assets = Current Liabilities x 3

= Rs. 3,50,000 = Rs10,50,000

Acid test ratio =

Liquid Assets/ current liabilities=1.75:1

Liquid Assets = 1.75 x Current Liabilities

= 1.75 x Rs.3,50,000 = Rs. 6,12,500

Inventories = Current Assets - Liquid Assets

= 10,50,000 - 6,12,500 = Rs.4,37,500

57. Solution:

Working Capital= Current Assets - Current Liabilities

Current ratio=Current Assets/Current Liabilities

WC = CA - CL = 30,000

So, CA = 30,000 + CL

CR = CA/CL = 2.5:1

Putting the value of CA

(30,000 + CL)/CL = 2.5 : 1

So, 30,000 + CL = 2.5 CL

2.5 CL - CL = 30,000

1.5 CL = 30,000

CL = 30,000/1.5 = 20,000

CA = 30,000 + 20,000 = Rs.50,000

Acid test Ratio=Quick Assets/Current liabilities

=(CA-26,000)/20,000=(50,000-26,000)/20,000=1.2:1

58. What is Working capital? Explain the concept of working capital.

Working capital denotes the amount of funds needed for meeting day-to-day requirements of a concern. It circulates in the business like blood circulation in the human body. Current Assets, where in working capital invested are charged from one form to another in the ordinary course of the business i.e. from cash to raw material, raw material to work-in-progress, work-in-progress to finished goods, finished goods to receivable and from receivable to cash and this process continues. The duration of time required to complete the sequence of events from purchasing to cash realisation of cash is called working capital cycle or operating cycle. Working capital is also known as circulating capital or short-term capital.

According to Weston and Brisham "Working capital refers to firms investment in short-term asset such as cash, accounts receivables, inventories etc".

In the words of J.S Mills "The sum of the current assets is the working capital of the business"

According to Harry G. Guthman and Herbert E. Dongill "Working capital is the excess of current assets over current liabilities".

According to National council of applied Economic research "Working capital is taken as the total current assets or as the excess of current asset over current liabilities.

There are two concepts of working capital.

(i) Gross concept-
Gross Working Capital
= Total of all current assets.

(ii) Net concept-
Net working capital
= Current Assets - Current Liabilities

Both gross and net concept cannot be regarded as mutual exclusive. Each concept has its importance in specific situation. Gross working capital concept focuses on the problem of managing individual current assets in day-to-day operation. On the other hand, the net concept of working capital is in the nature of Qualitative definition, which helps the creditors and inventor to judge the financial soundness of an enterprise.

59. Solution

Gross Working Capital	
Current Assets:	Amount
Inventories	80,150
Sundry Debtors	70,135
Bills receivable	25,000
Short-term securities	2,25,000
Cash at Bank	20,100
Cash at hand	2,087
	4,22,472
Marketable securities	**80,000**
	5,02,472

Net Working Capital =

Current assets - Current Liabilities

=5,02,472 - Current Liabilities

Current Liabilities	
Short-term loan	80,200
Sundry creditor	45,125
Bills Payable	22,320
Out Standing expenses	5,027
	1,52,672

Net working Capital = CA - CL

= 5,02,472-1,52,672=3,49,800

60. Discuss the need of working capital.

Working capital is as important as the fixed capital. For the purpose of earning profit major part of fixed capital is usually invested. Working capital feeds the fixed assets and it is the force behind the utilisation of fixed assets. If working capital is inadequate or absent, effective utilisation of fixed assets becomes impossible. An enterprise with adequate working capital, can meet day-to-day expenses to ensure uninterrupted functioning. It can also take care of unforeseen contingencies and take advantages of business opportunities. Further; it pays off the creditors in time. This helps to improve credit worthiness of an enterprise. Thus working capital is the life blood and nerve centre of a business enterprise. If this centre becomes weak, sooner or later, it is likely to collapse.

Objectives of working capital as follows:

i) To have regular supply of goods or raw material.
ii) To avail cash discount and reduce cost.
iii) To exploits the favourable market conditions.
iv) To ensure smooth business operation
v) To strengthen the solvency
vi) To enable the firm to face crisis
vii) To ensure regular payment of wages and salaries
viii) To ensure quick and regular payment of dividend.

61. Discuss the different classification of working capital.

Working capital may be classified in two ways:

(A) On the basis of concept

Gross | Net

(B) On the basis of time

Permanent or fixed or Regular working capital | Temporary or variable or Seasonal working capital

(A) On the basis of concept working capital may be divided as Gross and Net capital.

Gross working capital is the capital invested in total current assets are those assets which can be converted into cash within a short period, normal one accounting year, such as cash in hand and at bank, sundry Debtor short-term loan and advances, inventory temporary investment, marketable securities prepaid expenses,accured income etc.

On the other hand net concept of working capital refers to the excess of current assets over current liabilities. Current liabilities are those liabilities which are intended to be paid in ordinary course of business within a short period, normally one accounting year, such as sundry creditors, Bills payable, short-term loan advances and deposit, bank over draft etc.

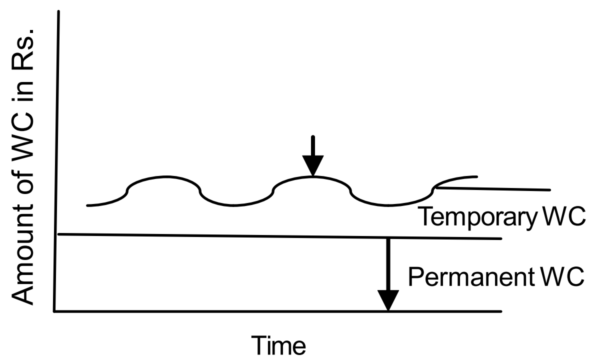
(B) On the basis of time, working capital may be classified into two categories long term or permanent or fixed or register.

WC- This is the minimum amount of investments which is required at all time to carry out the minimum level of business activities.

This is also known as hard core working capital. Financing of this portion of WC is generally made from long-term.

On the other hand, temporary or variable WC is the amount of working capital which is required over and above the permanent WC.

Firm dealing in products that are seasonal in nature require more temporary WC.



62. Discuss the different sources of financing of working capital.

Generally the permanent working capital is financed from long-term sources, while temporary or variable working capital is met from short-term sources.

Long term sources-

i) Equity shares

ii) Preference share

iii) Debenture

iv) Term loans from financial institution

v) Public deposit

vi) Retained earning

Short-term sources-

i) Borrowing from banks

ii) Trade Credit

iii) Outstanding expenses

iii) Advances from customers

iv) Commercial paper

v) Factoring of receivable

vi) Internal sources-such provision

63. What are the determinants of working capital?

There are several number factors those influence the magnitude of working capitals. These factors cannot be ranked as each of them has different importance and influence. The data and problem of each firm should be analysed to determine the amount of working capital.

Those factors are:

i) Nature of Business- trading firms requires more working capital. Whereas public utility concerns require more working investment in fixed assets.

ii) Size of Business- Actually size is measured in terms of the scale of operation. A firm with larger scale of operation will need more WC than a small firm.

iii) Manufacturing cycle- Longer the processing period of manufacturer, larger is the amount of WC.

iv) Production Policy- Steady production policy independent of fluctuations in demand for the product require more WC.

v) Length of Operating Cycle- Longer is the operating cycles more working capital.

vi) Business fluctuations

vii) Seasonal variation

viii) Growth and expansion

ix) Terms of purchase and sale

x) Market competition

xi) Overhead- more overhead expenses the requirement for WC will be more

xii) Price level changes

xiii) Rate of Stock Turnover

xiv) Ready availability of credit

xv) Changes in Technology

xvi) Other factors- Certain other factors such as operating efficiency, management attitude, import policy, taxation, Depreciation policy, dividend and retention policy also influence the magnitude of WC.

64. What are the dangers of inadequate working capital?

A firm has to face following problems on account of inadequate working capital.

i) A firm cannot meet short-term obligation in time due to inadequate working capital

ii) Cannot meet day-to-day expenses

iii) Cannot buy requirements in bulk and thus unable to avail the discount

iv) Fully utilisation of capacity

v) Cannot exploit the market condition

vi) Unable to pay dividend

vii) Impairs the credit rating

viii) To meet the requirement the firm may borrow at exorbitant rate of interest.

ix) Creditors may apply to the court for winding up if the firm fails to pay their obligation.

65. Discuss the disadvantages of dangers of excessive working capital.

Excessive working capital is a waste of precious resources and has the following disadvantages.

i) Excessive working capital means idle funds which no earn profits.

ii) Excessive working capital may lead to unnecessarily purchasing and accumulation of inventories causing more chances of theft, waste and obsolescence.

iii) Excessive working capital implies excessive debtor and defective credit policy which may cause higher incidence of bad debts.

iv) It may result in overall inefficiency in the organisation.

v) Due to low rate of return on investment, the value of shares may also fall.

vi) It leads to imbalance between liquidity and profitability i.e. the firm may enjoy high liquidity and at the same time, suffers from low profitability.

66. Discuss the importance or advantages of adequate working capital.

Considering the danger of both excessive and inadequate working capital, a firm would like to maintain adequate amount of working capital. The main advantages of maintaining adequate amount of working capital are as follows:

i) Solvency of the business- Helps in maintaining short-term solvency of the business by providing uninterrupted flow of production.

ii) Goodwill- Adequate working capital enables a business enterprise to make prompt payment and helps in creating and maintaining goodwill.

iii) Easy loan- Adequate working capital high solvency and credit standing, can arrange loans from banks and other financial institutions or easy and favourable terms.

iv) Regular payment of day-to-day expenses.

v) Exploitation of favourable market conditions.

vi) Cash discount.

vii) Uninterrupted production

viii) Quick and regular return on investment

ix) Ability to face crisis

x) High morale

Therefore, an efficient management should maintain an adequate amount of working capital on continuous basis. The excess working capital should be invested outside business, in marketable securities so that it will earn some interest to enhance the profitability of the firm.

67. How working capital needs of trading concerns is estimated.

Inadequacy of working capital is very dangerous due to which it may lead to business failure. On the other hand, excessive working capital leads to lower profitability and poor financial position. So it is necessary to appropriate working capital for running the business more profitability and efficiently.

Certain amount of funds is always tied up in inventories, sundry debtors and day-to-day cash requirement. The requirement of working capital can easily be estimated by making the forecasts of the amount of each component of current assets and current liabilities. The following factors are to be considered while estimating the working capital needs of a trading concern.

i) Total cost incurred on purchase of goods

ii) The period during which goods are to be kept in the godown waiting for sale.

iii) The average period of credit allowed to the customers

iv) The amount of cash required to pay day-to-day expenses of the business

v) The amount required for advance payments if any

vi) The average period of credit to be allowed by supplier

vii) Time lag in the payment of expenses like wage, salaries

68. Prepare a statement showing capital needs of trading concern from the following information.

Solution:

Statement Showing Working Capital Needs

	Amount
Stock (2 months)	
Rs1, 08, 00,000 x (2/12) =	Rs. 18,00,000
Sundry Debtors at cost (1 month)	
= 1,08,00,000 x (1/12) =	Rs. 9,00,000
Cash in hand	Rs. 20,000
Gross Working Capital	**Rs. 27, 20,000**
Less current liabilities	
Sundry creditors (2 months)	
Rs.1,08, 00,000 x (2/12) =	**Rs. 18,00,000**
Net working capital	Rs. 9,20,000
Add 10% contingency	Rs. 92,000
Working capital requirement	**Rs. 10,12,000**

Working Notes:

1. Sales= Rs 120 Lakhs

   Profit 10% of Rs.120 Lakhs = Rs. 12 Lakhs

   Thus cost of sale = Sales - Profit

   = Rs. 20 Lakhs - Rs 12 Lakhs

   = Rs.108 Lakhs

2. In a trading concern, cost of sales is assumed to be the purchases.

3. Sundry debtors have been taken at cost and profits have been ignored as funds provided by profits may or may not be used as a source of working capital.

69. What do you mean by cash flow statement? Discuss its features of cash flow statement.

Meaning of cash flow statement-

A cash flow statement is a statement of changes in cash position between the beginning and end of a period. The statement summaries the sources from which cash payments are made during a particular period of time. In other words, a cash flow statement shows the various sources of cash inflows and uses or applications of cash outflows during a period, thus explaining the changes in cash position of the firm. Thus, a cash flow statement is a statement of changes in the financial position of a firm on cash basis. It reveals the net effects of all business transactions of a firm during a period on cash and explains the reasons of changes in cash position between two balance sheet dates.

As per Accounting Standard (AS-3) issued by the Institute of Chartered Accountant of India, the term cash includes:

(i) Cash in hand

(ii) Demand deposit with Banks

(iii) Cash Equivalents

Cash equivalents are short-term highly liquid investments that are readily convertible into known amount of cash and are subject to an in significant risk of changes in value.

Features of cash flow statements-

(i) It is a periodical statement

(ii) It shows the movement of cash and cash equivalent in between two balance sheet dates.

(iii) It shows the sources and application of funds on cash basis during a particular period of a time.

(iv) It records the changes in fixed assets as well as current assets.

(v) It reflects how the financial position of a firm changes over a period of time due its operating activities, investing activities and financing activities.

(vi) It is an indicator of cash earning capacity of the firm

(vii) A projected cash flow statement is referred to as cash budget.

70. Discuss the objectives of cash flow statements.

Cash flow statement plays an important role in taking decisions and planning by investor's creditors and management. It also fulfils the following main objectives.

i) To know the cash inflows and outflows arising from operating, investing and financing activities.

ii) To assess liquidity and solvency position of a firm.

iii) To supply necessary information to the users of accounting information to assess the ability of a firm to pay its obligation as soon as it becomes due, to analyse and interpret the various transactions for future courses of action and see the cash generation ability of a firm.

iv) To help the management to ascertain cash planning for future and thereby avoid any awkward situation.

v) To help in taking decision about payment of dividend.

vi) To ensure intra-firm and inter-firm comparison.

vii) To identify non-cash items for ensuring cash incomes and expenses of a concern.

71. Discuss advantages/importance/utility of cash flow statement.

Cash flow statement is useful for short term planning and control of cash. A business entity needs sufficient amount of cash to meet its various obligations in the near future such as, payment of operating expenses, repayment of debts, payment for purchase of fixed assets. The main advantages of cash flow statement are:

i) Helpful in evaluation of cash position

ii) Useful in planning and control

iii) Helpful in performance evaluation

iv) Easy to know the liquidity position

v) Helpful in capital budgeting decisions

vi) Useful to outsiders-investors, debenture holders, bankers, lenders, suppliers.

72. Discuss limitation of cash flow statement.

Though it is useful tool for financial statement analysis still it suffers from some limitations which are as follows:

i) Fails to assess the liquidity and solvency position- This is so because proper liquidity does not depend upon cash alone. Liquidity also depends upon those assets which can be converted into cash easily. Cash flow statement does not represent the real liquidity position as it does not consider these assets.

ii) Possibility of window-dressing- The cash balance can be easily manipulated by postponing purchase and other payments and by rapidly collecting cash from trade debtors before the balance sheet date.

iii) Ignores the accrual concept of accounting

iv) Ignores non-cash transaction

v) Fails to present net income

73. What are the different transactions affecting cash flow statement?

A cash flow statement includes only those transactions which affect vcash and cash equivalents. As per AS-3(Revised), a cash flow statement should be prepared in a manner that it reflects inflows (sources) and outflows (user) of cash and cash equivalents of a firm during a specified period of time. All the activities of the firms are classified into three categories viz. Operating, investing and financing activities.

(A) **Cash flows from operating activities:**

Cash receipt from sale of goods and rendering of service, from royalties, fees, commissions and other revenue from trade debtors. Cash payments for purchase of goods and services, payment for wages, salaries and other payments to employees, cash payment and cash receipts from purchase and sale of securities etc.

(B) Cash flows from Investing activities:

Cash sale or cash payment of fixed assets, cash payment to acquire shares, warrants or debt instruments, cash receipt from sale of shares cash advances and loan, cash receipt from repayment of advances.

(C) Cash flows from financing activities:

Cash receipts from short-term borrowing such as debentures, bonds, loans and cash payment to the mentioned items. Cash payment for buy-back of equity shares.

74. What are different transactions not affecting cash flow statements?

There are certain transactions, which don't involves cash inflows or cash outflows. Although they affect the capital and assets of an enterprise, they do not affect cash flow statement and hence, are excluded while preparing the cash flows statement.

Those transactions are:

i) Acquisition of assets by issue of share or debentures

ii) Acquisition of assets on credit

iii) Sale of assets on credit

iv) Conversion of convertible debenture into shares

v) Issue of Bonus share

vi) Movement between item that constitute cash or cash equivalent.

vii) Bad debts written off out of provisions for bad debts.

75. Solution:

(A) In case of Financial Enterprises

a) Operating Activities-
   1) Purchase of equity share
   2) Sale of securities
   3) Interest on securities received
   4) Brokage paid on purchase of equity shares
   5) Loan and advances made
   6) Receipt from the repayment of loans and advances
   7) Dividend received
   8) Debenture Interest paid

b) Investing Activities - Nil

c) Financing Activities
   1) Issue of shares
   2) Dividend paid

(B) In case of non-Financial Enterprise:

a) Operating activities - Nil

b) Investing Activities
   1) Purchase of equity shares
   2) Sale of securities
   3) Interest on securities received
   4) Brokage paid on purchase of equity shares
   5) Loans and advances made
   6) Receipt from the repayment of loans and advances
   7) Dividend received

c) Financing Activities
   1) Issue of shares
   2) Dividend paid
   3) Debenture interest paid

Financies companies are banks, Investment and mutual funds.

All trading, manufacturing companies and other business establishments are non-financing companies.

76. Solution:

Calculation of Net Profit before tax:

Net profit after tax		Rs. 50,000
Add transfer to general Reserve		Rs. 15,000
Provision for tax		Rs 2,000

Net profit before tax		Rs. 67,000
(provision for tax made during the yr. is treated as tax paid)		
Adjustment for non-cash and non-operating item		
Add. Depreciation -	10,000	
Goodwill written off -	3,500	13,500
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		80,500
Less gain on sale Of Machinery		(-) 1,500

Operating profit before working capital changes		79,000
Add increase in current liabilities:		5,000

Trade Creditors		84,000
Less increase in current assets:		
Trade debtors	3,000	
Prepaid expense	100	
Decrease in current Liabilities		
Outstanding Expenses	1,000	
	------------	(-) 4,100

Cash generated from operating activities before tax		79, 900
Less income tax paid		(-) 2,000

Cash flows from operating Activities before extra-ordinary items		77,900
Add Extra-Ordinary items		NIL
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Net Cash flow from operating Activities		77,900

77. Solution: Cash flows from operating Activities

Net profit before tax and extra ordinary items

	Rs.	Rs
Adjustments for non-cash and non-extra ordinary Items:	7,00,000	
Depreciation (3,20,000 - 2,00,000)	1,20,000	
Operating profit before working capital changes	8,20,000	
Increase in trade creditors	2,00,000	
Increase in creditors for expenses	12,000	
Increase in debtors	(8,85,000)	
Increase in stock	(2,20,000)	
Cash generated from operation before tax	(73,000)	
Income tax paid [Working Note (i)]	(1,87,000)	
Cash flows from Investing Activities		**2,60,000**
Purchase of Fixed assets	(80,000)	
Sale of Investment [Working Note (ii)]	1,40,000	
Net cash provided by investing activities		60,000
Cash flows from financing Activities		
Proceeds from the issue of share capital	1,00,000	
Dividend paid [working Note (iii)]	(1,50,000)	
Net cash used in financing activities		(50,000)
Net decrease in cash or cash equivalent		(2,50,000)
Cash or cash equivalent at the beginning of the period		(11,50,000)
Cash or cash equivalents at the end of the period		(14,00,000)

Working Notes:

1. **Calculation of Income tax paid during the year**

Opening balance of provision for taxation -	1,97,000
Add: provision made during the year	3,60,000
	5, 57,000
Less: closing balance of provision for tax	3,70,000
Income tax paid during the year	1,87,000

2. **Calculation of cash received from sale of investments**

	Rs.
Investment in the beginning of the year	1,20,000
Invest at the end of the year	-
Lost of investment sold	1,20,000
Add: profit or sale of Investment	20,000
	1,40,000

3. **Calculation of cash paid for Dividends**

Proposed Dividend in the beginning of the year	1,50,000
Add: dividend proposed during the year	1,50,000
	3,00,000
Proposed dividend at the end of the year	1,50,000
	1,50,000

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