Q1. What is the role of accountant in any organization?

Ans. The person who records the data is called as an accountant. The accounting system and the accountants, who maintain it, provide useful service to the society. Accountants can broadly be classified into two categories:

1**. Accountants in public practice**. Accountants in public practice offer their services for conducting financial audit, cost audit, designing of accounting system and rendering other professional services for a fee

2. **Accountants in employment**. These are accountants who are employed in non-business entities (. Educational institutes, Hospitals, Churches etc) or business entities (for profit motive). These accountants provide information for tax returns, investment decisions, performance evaluation, financial reporting, budgeting, etc.

Role of Accountant in an organization as follows

1. **Maintenance of Books of Accounts:** An accountant keeps a systematic records of the transactions entered by a business firm in normal course of its operations. An organization cannot work effectively without recording all the transactions. Every businessman wants to know about the profit or los of the particular year. Knowledge about financial position is very important for every businessman for the future planning.
2. **Auditing of Accounts** Auditing is concerned with inspecting of accounting data for determining the accuracy and reliability of accounting statements and reports. Auditing may be of following two types:

a) **Statutory Audit:** Statutory audit is compulsory for an organization according to companies act. According to the act organization has to get its accounts audited by a qualified chartered accountant. The statutory auditor has to report whether the profit and loss a/c and balance sheet a/c are showing true and fair position of the company.

b) **Internal Audit**: Internal audit is applicable in large-scale organizations. In this audit organization audit all the records for maintaining proper control. They have separate internal audit department for this. Generally professionally qualified accountant heads this department

3. **Taxation** An accountant has proper knowledge of his client's accounts. Since he can present his case in a proper manner in front of taxation authorities. He can also assist his client in reduction of tax by making proper tax planning.
4. **Financial Services** an accountant being having full knowledge of taxation, legal, accounting matters, can properly advice regarding financial matters. He can suggest his client regarding most suitable sources of finance, where to invest his hard earned money, selection of a right and profitable project etc.

Q2. How fund flow statements differ from cash flow statement?

Ans. Difference between Fund Flow and Cash Flow Statement are as Follows:

Basis of Difference	Funds Flow Statement	Cash Flow Statement
1. Basis of Concept	It is based on a wider concept of funds.	It is based on a narrower of funds, i.e., cash

2. Basis of Accounting	It is based on accrual basis of Accounting.	It is based on cash basis of Accounting.
3. Schedule of changes in working capital	Schedule of changes in working Capital is prepared to show the changes in current assets and current liabilities.	No such schedule of changes in working capital is prepared
4. Method of Preparing	Fund Flow Statement reveals the sources and applications of funds. The net difference between sources and applications of funds represents net increase or decrease in working capital.	It is prepared by classifying all cash inflows and outflows in terms of operating, investing and financing activities. The net difference represents the net increase or decrease in cash and cash equivalents
. Basis of Usefulness	It is useful in planning intermediate and long term financing.	It is more useful for shot-term analysis and cash planning of the business.

Q 3. Define life cycle costing.

Ans. Life-Cycle Costs are all the costs associated with the product for its entire life cycle. Product life cycle costing traces costs and revenues of each product over several calendar periods throughout their entire life cycle. **The Life Cycle Cost (LCC) of an asset is defined as:**
"The total cost throughout its life including planning, design, acquisition and support costs and any other costs directly attributable to owning or using the asset".

Life Cycle Cost (LCC) of an item represents the total cost of its ownership, and includes all the cots that will be incurred during the life of the item to acquire it, operate it, support it and finally dispose it. Life Cycle Costing adds all the costs over their life period and enables an evaluation on a common basis for the specified period (usually discounted costs are used).

This enables decisions on acquisition, maintenance, refurbishment or disposal to be made in the light of full cost implications. In essence, Life Cycle Costing is a means of estimating all the costs involved in procuring, operating, maintaining and ultimately disposing a product throughout its life.

Life cycle costing is different from traditional cost accounting system which reports cost object profitability on a calendar basis (i.e. monthly, quarterly and annually) whereas life cycle costing involves tracing costs and revenues of a cost object (i.e. product, project etc.) over several calendar periods (i.e. projected life of the cost object). Thus, product life cycle costing is an

approach used to provide a long-term picture of product line profitability, feedback on the effectiveness of the life cycle planning and cost data to clarify the economic impact on alternative chosen in the design, engineering phase etc. It is also considered as a way to enhance the control of manufacturing costs. It is important to track and measure costs during each stage of a product's life cycle.

Q4. What do you mean by tally software package?

Ans. Tally is powerful accounting software**,**. It is easy to use software and is designed to simply complex day to day activities associated in an enterprise. Tally provides comprehensive solution around accounting principles, inventory and data integrity.

Tally also has feature encompassing global business. Tally software comes with easy to use interface thus making it operationally simple.

Tally accounting software provides a solution around inventory management, stock management, invoicing, purchase order management, discounting, stock valuation methodology, etc.

Tally accounting software also comes with drill down options, which can track every detail of transaction. It helps in maintaining simple classification of accounts, general ledger, accounts receivable and payable, bank reconciliation, etc.

The technology employed by tally makes data reliable and secure. Tally software supports all the major types of file transfer protocols. This helps in connecting files across multiple office locations. Tally accounting software is capable of undertaking financial analysis and financial management. It provides information around receivables turnover, cash flow statement, activity consolidation and even branch accounting.

Tally accounting software is east to set up and simple to use. A single connection can support multiple users. It can be easily used in conjunction with the Internet making possible to publish global financial reports.

Q4. Why accounting is considered as information system.

Ans. An accounting information system is one that accumulates, stores, and processes financial and accounting information. The system generates reports that are used to make decisions regarding how an organization is to be run. These reports are also used by outsiders to evaluate lending and investment opportunities with the firm. It is considered as Information System because of following points

a) **information needs of management** : management needs information for planning, organizing & controlling the activities of business. The supply of information at appropriate time help management in achieving the business objectives
b) **Information needs of shareholders & Investors** : various laws have been passed under which financial statements should be prepared in such a way that required information is supplied to the shareholders & creditors
c) **Information needs of employees:** accounting information is required for deciding workers share in profits, setting wages disputes, etc.
d) **Information needs of creditors** : Creditors are mainly interested in creditworthiness of the business. They need information about liquidity position of the company. So they will study information concerning solvency, liquidity, & profitability of the business.

e) **Information Needs of Government** : Govt. needs information about sales, profits, liquidity, dividend policy etc. The information helps the govt. in deciding the social & economic policies.

Q.5. Explain in detail concepts and Conventions used for preparation of financial statement .Discuss in detail relevance of it.

Ans: In India, Accounting principles are classified into two parts.
(a) Accounting concepts.
(b) Accounting conventions.

a) Accounting Concepts

1. **Business Entity Concept** : in accounting, business is treated as a separate entity from its owners so distinction is made between business transactions & personal transactions.
   Relevance: The following points highlight the significance of business entity concept : i) This concept helps in ascertaining the profit of the business as only the business expenses and revenues are recorded and all the private and personal expenses are ignored. ii) This concept restraints accountants from recording of owner's private/ personal transactions.
   iii) It also facilitates the recording and reporting of business transactions from the business point of view
   iv) It is the very basis of accounting concepts, conventions and principles
2. **Going Concern Concept** : it is presumed that the concern will continue to exist indefinitely or long period of time. The present resources of the concern are utilized to attain the long term objectives of the business.
   Relevance:

i) This concept facilitates preparation of financial statements.
ii) On the basis of this concept, depreciation is charged on the fixed asset.
iii) It is of great help to the investors, because, it assures them that they will continue to get income on their investments.
iv) In the absence of this concept, the cost of a fixed asset will be treated as an expense in the year of its purchase.
v) A business is judged for its capacity to earn profits in future.

3. **Money measurement Concept** : Only the monetary based transaction will be recorded in the accounting books, other transaction will be ignored from the accounting books. Money acts as a medium for immediate exchange of goods and services
   Relevance:
   i) This concept guides accountants what to record and what not to record.
   ii) It helps in recording business transactions uniformly.
   iii) If all the business transactions are expressed in monetary terms, it will be easy to understand the accounts prepared by the business enterprise. l
   iv) It facilitates comparison of business performance of two different periods of the same firm or of the two different firms for the same period.
4. **Dual Aspect Concept:** It is based on the principle that for every debit transaction , there is a corresponding credit transaction. Every transaction is recorded twice because if one is getting then the other is giving. So two entries are made

5. **Accounting period Concept**: It is the period for which we will prepare our accounts to determine profitability.
   Relevance
   i) It helps in predicting the future prospects of the business.
   ii) It helps in calculating tax on business income calculated for a particular time period.
   iii) It also helps banks, financial institutions, creditors, etc to assess and analyse the performance of business for a particular period.
   iv) It also helps the business firms to distribute their income at regular intervals as dividends
6. **Cost Concept**: Cost price is only recorded in the accounting books, market price will be ignored from the accounting books.
7. **Matching Concept**: At the end of the period total expenses matched with total revenue to find the profit or loss
8. **Realization Concept** : According to this concept sales or profit on sales will be considered to be realized when either money(cash) is realized or legal obligation is created , i.e. ownership or the title to the good is transferred
   Relevance:
   i) It helps in making the accounting information more objective.
   ii) It provides that the transactions should be recorded only when goods are delivered to the buyer.
9. **Accrual** : It means that revenues are recognized when they become receivable. Though cash is received or not received and the expenses are recognized when they become payable though cash is paid or not paid. Both transactions will be recorded in the accounting period to which they relate. Therefore, the accrual concept makes a distinction between the accrual receipt of cash and the right to receive cash as regards revenue and actual payment of cash and obligation to pay cash as regards expenses.
   Relevance:
   i) It helps in knowing actual expenses and actual income during a particular time period.
   ii) It helps in calculating the net profit of the business.

b) Accounting Conventions

1. **Conventions of Disclosure**: Material based information (Profit and Loss A/c, Balance Sheet) disclosed to owners, investors and government bodies. This information should not only include figures given in the final accounts but also information which occurs after the preparation of balance sheet but before presentation of financial statements
2. **Conventions of Consistency**: Accounting principles and practices should not be changed year to year. It may continue for long period of time. There should be uniformity in accounting departments. System once started should not be changed randomly, but should be followed continuously .
3. **Conventions of Conservatism** : It's all about adopting policy "Playing Safe". If there is a possibility of loss, it should be taken into account at the earliest. A prospect of profit should be ignored up to the time it does not materialize. The principle of ' anticipate no profit & provide for all possible losses' is followed

4. **Conventions of Materiality** Only those items should be recorded which are material (significant) for the firm. According to it immaterial item should not be recorded. An item can be material for one business and can be immaterial for the other. E.g. a single pencil is purchased. Cost of that pencil is immaterial. That can be ignored. Now if hundreds of pencils are purchased, then cost is now material and will be recorded.

Relevance:

1. Preparation of Financial Statements:
2. It helps in comparing the statements

Q6. Discuss in detail concept and objectives of financial statement analysis. What are latest tools of financial statement analysis?

Ans. Financial statement analysis refers to the process of determining financial strengths and weakness of the firm by establishing strategic relationship between the items of the balance sheet, profit and loss account and other operative data.

The purpose of financial analysis is to diagnose the information contained in financial statements so as to judge the profitability and financial soundness of the firm. The term '**financial statement analysis**' includes both 'analysis', and 'interpretation'.

Latest tools of financial statement analysis

1. Comparative statements;
2. Trend Analysis;
3. Common-size statements;
4. Fund Flow Analysis;
5. Cash Flow Analysis;
6. Ratio Analysis;

1. **COMPARATIVE STATEMENTS**: In this method the financial statements are compared at different period of time. The financial position is shown in a comparative form so as to give an idea of financial position at two or more periods. The comparative statement may show

- Absolute figures (rupee amounts).
- Changes in absolute figures i.e., increase or decrease in absolute figures.
- Absolute data in terms of percentages.
- Increase or decrease in terms of percentages.

The two comparative statements are **(i) Balance Sheet, and (ii) Income statement.**

Comparative Balance Sheet : has 2 columns for data of original balance sheets, 3rd column for increase in figures & 4th for giving %ages in increase or decrease.

While interpreting interpreter is to study:

i. Current financial position & liquidity position
ii. Long term financial position
iii. Profitability of concern

Comparative Income Statement : 1st two columns for actual figures for 2 yrs. 3rd & 4th for increase or decrease in absolute fig. & %ages.

2. **Trend Analysis** : This method determines the direction upwards or downwards and involves the computation of the percentage relationship that each statement item bears to the same item in base year. The information for a number of years is taken up and one year, generally the first year, is taken as a base year. The figures of the base year are taken as 100 and trend ratios for other years are calculated on the basis of base years. The analyst is able to see the trend of figures, whether upward or downward.
3. **Common size Statements :** The total assets are taken as 100 and different assets are expressed as a percentage of the total. Similarly, various liabilities are taken as a part of total liabilities. These statements are also known as component percentage or 100 per cent statements because every individuals item is stated as a percentage of the total 100.The analyst is able to assess the figures in relation to total values.
4. **Ratio Analysis**: Ratio analysis is a technique of analysis and interpretation of financial statements. It is the process of establishing and interpreting various ratios for helping in making certain decisions.

   We prepare 4 types of ratios to determine position of the firm

a) Liquidity Ratios: to know current liquid position of the firm. We prepare current ratio and acid test ratio
b) Solvency Ratios: these ratios are utilized to know long term solvency ratio of the firm like Dedt equity ratio, ROI, RONA etc.
c) Profitability Ratios: These ratios are determined to know profitability position of the firm like Operating Ratio, Net profit ratio, etc
d) Turnover Ratios: These ratios are also called efficiency ratios like inventory turnover ratio, creditor turnover ratio etc.

5. **Fund Flow Statement**: Fund Flow Statement is a technical device which analyses the changes in financial position of business enterprise between two Balance Sheets. Flow of funds means change in the amount of funds caused by financial transactions. Flow of Funds means inflow and outflows. Inflow means increase in the amount of funds and is to be a source of funds and outflow of funds is a decrease in the amount of funds and is called as the use of funds or application of funds
6. **Cash Flow Statement**: Cash flow statement is a statement which shows the sources of cash inflow and uses of cash out-flow of the business concern during a particular period of time. "cash flow statement, also known as *statement of cash flows*, is a financial statement that shows how changes in balance sheet accounts and income affect cash and cash equivalents, and breaks the analysis down to operating, investing, and financing activities."

Q7. Discuss in detail with the help of example fund flow statement and cash flow statement.

Ans. The fund flow statement is a statement which shows the movement of funds and is a report of the financial operations of the business undertaking. It indicates various methods by which funds are obtained during a particular period and the ways in which these funds are employed. In simple words, it is a statement of sources and application of funds.

"The funds flow statement describes the sources from which additional funds were derived and the use to which these sources were put."

Uses of Fund Flow Statement:

1. Helps in analysis of financial operations.
2. Helps in formulation of realistic dividend policy.
3. Helps in proper allocation of resources.
4. It acts as a future guide.
5. Helps in appraising the use of working capital.
6. It helps knowing the overall creditworthiness of a firm.
7. It throws light on many questions of general interest.

i. Why were the net CA lesser in spite of profits.

ii. Why dividend could not be declared in spite of available profits.

iii. What are the sources of repayment of debts

Format of Fund Flow Statement:

T Form An Account Form or Self Balancing Type

Funds Flow Statement

(For the year ended…….)

Sources	**Rs.**	**Applications**	**Rs.**
Funds from operations Issue of Share Capital Issue of Debentures Raising of long-term loans Receipts from partly paid shares, called up Sales of non-current (fixed) assets Non-trading receipts such as dividends Sale of long-term Investments Net Decrease in Working		Funds lost in Operations Redemption of Preference Share Capital Redemption of Debentures Repayment of long-term loans Purchase of non-current (fixed) assets Purchase of long-term investments Non-trading payments Payment of Dividends* Payment of tax*	

Capital		Net Increase in Working Capital	

Funds from Operations or Trading Profits.

Adjusted P & L Account

Particulars	**Amount**	**Particulars**	**Amount**
To Depreciation & Depletion or amortization of fictitious and intangible assets, such as: Goodwill, Patents, Trade Marks, Preliminary Expenses etc. To Appropriation of Retained Earnings such as: Transfers to General Reserve, Dividend Equalization Fund, Sinking Fund, etc. To Loss on sales of any non-current or fixed asset To Dividends (including interim dividend) To Proposed Dividend (if not taken as a current liability) To Provision for taxation (if not taken as a current liability) To Closing balance (of P & L A/C) To Fund lost in Operations (balancing figure, in case credit side exceeds the debit side)		By Opening Balance (of P & L A/c) By Transfers from excess provisions By Appreciation in the value of fixed assets By Dividends received By Profit on sale of fixed or non-current assets By Funds from Operations (balancing figure in case debit side exceeds credit side)	

- **Cash Flow Statement:** Cash flow statement is a statement which describes the inflows (sources) and outflows (uses) of cash and cash equivalents in an enterprise during a specified period of time. Such a statement enumerates net effects of the various business transactions on cash and its equivalents and takes into account receipts and disbursement of cash. A cash flow statement summarizes the causes of changes in cash position of a business enterprise between dates of two balance sheets
- **Classification Cash Flows**
  i) **Cash flows from operating activities**: it includes cash effects of those transactions & events that enter into the determination of net profit or loss
  ii) **Cash flows from investing activities:** these are the acquisition & disposal of long term assets such as land, building, plant & machinery etc.
  iii) **Cash flows from financing activities** : are those activities that result in changes in the size & composition of owner's capital & borrowings of the enterprise.

Format of Cash Flow Statement

Cash Flow Statement(for the year ended……)

Particulars	**Rs.**
A. Cash Flow Operating Activities	
Net Profit/Loss before tax and extraordinary items	
Adjustments for:	
Depreciation	
Gain/Loss on sale of fixed assets	
Foreign exchange	
Miscellaneous expenditure written off	
Investment income	
Interest	
Dividend	
Operating profit before working capital changes	
Adjustments for:	
Trade and other receivables	
Inventories	
Trade Payables	
Cash generated from operations	
Interest paid	
Direct taxes paid	
Cash flow before items	
Extraordinary items	
Net Cash from Operating Activities	
B. Cash Flow From Investing Activities	
Purchase of fixed assets	
Sales of fixed assets	
Purchase of investments	

Sale of investments	
Interest received	
Dividend received	
Net Cash from/used in investing activities	
C. Cash Flow Financing Activities	
Proceeds from issue of share capital	
Proceeds from long-term borrowings/banks	
Payment of long-term borrowings	
Dividend paid	
Net Cash from /used in financing activities.	
Net Increase /Decrease in Cash and Cash Equivalents	
Cash and Cash Equivalents as at…….(Opening Balance)	
Cash and Cash Equivalents as at…….(Closing Balance)	

Q8. What is the need of intra company transfer pricing? Discuss the major techniques for transfer pricing and outline the circumstances in which each may be used with advantages.

Ans: The transfer price is the price that one division of a company charges another division of the same company for a product transferred between the two divisions. The basic purpose of transfer pricing is to induce optimal decision making in a decentralized organization (i.e., in most cases, to maximize the profit of the organization as a whole).

The need of intra company transfer Pricing are as follows:

i) It generate separate profit figures for each division and thereby evaluate the performance of each division separately. •

ii) Help coordinate production, sales and pricing decisions of the different divisions (via an appropriate choice of transfer prices). Transfer prices make managers aware of the value that goods and services have for other segments of the firm. •

iii) Transfer pricing allows the company to generate profit (or cost) figures for each division separately. •

iv) The transfer price will affect not only the reported profit of each center, but will also affect the allocation of an organization's resources.

Methods of transfer pricing

1. Cost based Transfer pricing
2. Market based Transfer pricing
3. Negotiated Transfer pricing
4. Dual pricing method

1. Cost Based Transfer Pricing: When external markets do not exist or are not available to the company or when information about external market prices is not readily available, companies may decide to use some forms of cost-based transfer pricing system. Cost-based transfer prices may be in different forms such as variable cost, actual full cost, full cost plus profit margin, standard full cost. Variable cost-based pricing approach is useful when the selling division is operating below capacity. The manager of the selling division will generally not like this transfer price because it yields no profit to that division. In this pricing system, only variable production costs are transferred. These costs are direct materials, direct labor and variable factory overhead. In actual full cost approach, transfer

price is based on the total product cost per unit which will include direct materials, direct labour and factory overhead

2. Market based Transfer Pricing: When there is a competitive external market for the transferred product, market prices work well as transfer prices. When transferred goods are recorded at market prices, divisional performance is more likely to represent the real economic contribution of the division to total company profits. When transferred goods are recorded at market prices, divisional performance is more likely to represent the real economic contribution of the division to total company profits.
3. Negotiated Prices : Negotiated prices are generally preferred as a middle solution between market prices and cost- based prices. Under negotiated prices, the managers involved act much the same as the managers of independent companies. Negotiation strategies may be similar to those employed when trading with outside markets. If both divisions are free to deal either with each other or in the external market, the negotiated price will likely be close to the external market price. If all of a selling division's output cannot be sold in the external market (that is, a portion must be sold to the buying division), the negotiated price will likely be less than the market price and the total margin will be shared by the divisions.
4. Dual Price: Under dual prices of transfer pricing, selling division sells the transferred goods at a (i) market or negotiated market price or (ii) cost plus some profit margin. But the transfer price for the buying division is a cost-based amount (preferably the variable costs of the selling division). The difference in transfer prices for the two divisions could be accounted for by special centralised account. This system would preserve cost data for subsequent buyer departments, and would encourage internal transfers by providing a profit on such transfers for the selling divisions.

Kaplan and Atkinson have given the following recommendations in choosing a transfer pricing practice:

1. Where a competitive market exists for the intermediate product, the market price, less selling, distribution, and collection expenses for outside customers, represents an excellent transfer price.

2. Where an outside market exists for the intermediate product but is not perfectly competitive and where a small number of different products are transferred, a negotiated-transfer- price system will probably work best, since the outside market price can serve as an approximation of the opportunity cost. At least occasional transactions with outside suppliers and customers must occur if both divisions are to have credibility in the negotiating process and if reliable quotes from external firms are to be obtained.

3. no external market exists for the intermediate product, transfers should occur at the long-run marginal cost of production. This cost will facilitate the decision making of the purchasing division by providing the stability needed for long-run planning but at the same time exposing the cost structure so that short-run improvements and adjustments can be made. A periodic fixed fee based on capacity reserved for the buying division is incorporated in the marginal cost calculation. The fixed fee, ideally based on product and facility-sustaining costs from an ABC model, should allocate the capacity-related costs of the facility in proportion to each user's planned use of the facility's resources. The fixed fee forces the purchasing division to recognize the full cost of the resources required to

produce the intermediate product internally, and it provides a motivation for the producing divisions to cooperate in choosing the proper level of productive capacity to acquire.

4. A transfer price based on fully allocated costs per unit (using present, that is, non-ABC, methods of allocation) or full cost plus markup has no discernible desirable properties. Although the full-cost transfer price, has limited economic validity, it remains widely used. The marginal cost calculated from an ABC model does provide the capability for managers to use a full-cost approach that is consistent with economic theory.

Q9. Explain with the help of example how marginal costing differs from absorption costing.

Ans. Marginal Costing:

Marginal Costing, also known as Variable Costing, is a costing method whereby decisions can be taken regarding the ascertainment of total cost or the determination of fixed and variable cost to find out the best process and product for production, etc. It identifies the Marginal Cost of production and shows its impact on profit for the change in the output units. Marginal cost refers to the movement in the total cost, due to the production of an additional unit of output. In marginal costing, all the variable costs are regarded as product related costs while fixed costs are assumed as period costs. Therefore, fixed cost of production is posted to the Profit & Loss Account. Moreover, fixed cost is also not given relevance while determining the selling price of the product or at the time of valuation of closing stock (whether it is finished goods or Work in Progress).

Absorption Costing

Absorption Costing is a method for inventory valuation whereby all the manufacturing expenses are allocated to the cost centres to recognize the total cost of production. These manufacturing expenses include all fixed as well as variable costs. It is the traditional method for cost ascertainment, also known by the name Full Absorption Costing.

In an absorption costing system, both the fixed and variable costs are regarded as product related cost. In this method, the objective of the assignment of the total cost to cost centre is to recover it from the selling price of the product.

On the basis of function, the expenses are divided into Production, Administration and Selling & Distribution. The following are the types of Absorption Costing:

- Activity Based Costing
- Job Costing
- Process Costing

The difference between marginal costing & absorption costing is as below:

1. Under marginal costing: for product costing & inventory valuation, only variable cost is considered whereas, under absorption costing; for product costing & inventory valuation, both fixed cost & variable cost are considered.

2. Under marginal costing, there is a different treatment of fixed overhead. Fixed cost is considered as period cost & by Profit/Volume ratio (P/V ratio), profitability of different products is judged. On the other hand, under absorption costing system, the fixed cost is charged to cost of production. A reasonable share of fixed cost is to be borne by each product & thereby subjective apportionment of fixed overheads influences the profitability of product.

3. Under marginal costing, the presentation of data is so oriented that total contribution & contribution from each product gets highlighted. Under absorption costing, the presentation of cost data is on conventional pattern. After deducting fixed overhead, the net profit of each product is determined.

4. Under marginal costing, the unit cost of production does not get affected by the difference in the magnitude of opening stock & closing stock. Whereas, under absorption costing, due to the impact of the related fixed overheads, the unit cost of production get affected by the difference in the magnitude of opening stock & closing stock.In

Example Marginal Costing Proforma

	£	£
Sales Revenue		xxxx
<u>Less Marginal Cost of Sales</u>		
Opening Stock (Valued @ marginal cost)	xxxx	
Add Production Cost (Valued @ marginal cost)	xxxx	
Total Production Cost	xxxx	
Less Closing Stock (Valued @ marginal cost)	(xxx)	
Marginal Cost of Production	xxxx	
Add Selling, Admin & Distribution Cost	xxxx	
Marginal Cost of Sales		(xxxx)
Contribution		xxxxx
Less Fixed Cost		(xxxx)
Marginal Costing Profit		xxxxx

Absorption Costing - Proforma

	£	£
Sales Revenue		xxxxx
<u>Less Absorption Cost of Sales</u>		
Opening Stock (Valued @ absorption cost)	xxxx	

Add Production Cost (Valued @ absorption cost)	xxxx	
Total Production Cost	xxxx	
Less Closing Stock (Valued @ absorption cost)	(xxx)	
Absorption Cost of Production	xxxx	
Add Selling, Admin & Distribution Cost	xxxx	
Absorption Cost of Sales		(xxxx)
Un-Adjusted Profit		xxxxx
Fixed Production O/H absorbed	xxxx	
Fixed Production O/H incurred	(xxxx)	
(Under)/Over Absorption		xxxxx
Adjusted Profit		xxxxx

Q 10. Explain Human Resource Accounting and methods in detail.

Human Resource Accounting may be considered as such an accounting system which recognizes the human resources as an asset and records it in the books or accounts after measuring its value in the same way as other physical resources

Methods :

1. Historical Cost Method
2. Replacement Cost Method
3. Opportunity Cost Method
4. Standard Cost Method
5. Present Value Method

1. Historical Costing: In this approach, actual cost incurred on recruiting, hiring, training and development the human resources of the organisation are capitalised and amortised over the expected useful life of the human resources. Thus a proper recording of the expenditure made on hiring, selecting, training and developing the employees is maintained and a proportion of it is written off to the income of the next few years during which human resources will provide service.
2. Replacement Costing: This approach was first suggested by Rensis Likert, and was developed by Eric G. Flamholtz on the basis of concept of replacement cost. Human resources of an organization are to be valued on the assumption that a new similar organization has to be created from scratch and what would be the cost to the firm if the existing resources were required to be replaced with other persons of equivalent talents and experience. It takes into consideration all cost involved in recruiting, hiring, training and developing the replacement to the present level of proficiency This approach is more realistic as it incorporates the current value of company's human resources in its financial statements prepared at the end of the year
3. **Opportunity Cost:** This method was first advocated by Hc Kiman and Jones for a company with several divisional heads bidding for the services of various people they need among themselves and then include the bid price in the investment cost.

Opportunity cost is the value of an asset when there is an alternative use of it. There is no opportunity cost for those employees that are not scarce and also those at the top will not be available for auction. As such, only scarce people should comprise the value of human resources.

4. **Standard Cost**: Instead of using historical or replacement cost, many companies use standard cost for the valuation of human assets just as its used for physical and financial assets. For using standard cost, employees of an organization are categorized into different groups based on their hierarchical positions. Standard cost is fixed for each category of employees and their value is calculated. This method is simple but does not take into account differences in employees put in the same group. In many cases, these differences may be quite vital.
5. **Present value of future earnings**: In this method, the future earnings of various groups of employees are estimated up to the age of their retirement and are discounted at a predetermined rate to obtain the present value of such earnings. This method is similar to the present value of future earnings used in the case of financial assets. However, this method does not give correct value of human assets as it does not measure their contributions to achieving organizational effectiveness

Q11. What do you mean by Solvency Ratios? Explain it relevance.

Ans. .

a. Debt Equity Ratio
b. Funded debt to Capitalization Ratio
a. Equity ratio or proprietary Ratio
b. Solvency ratio
c. Fixed assets to net worth or proprietor's Funds Ratio
d. Fixed assets to Long term funds or fixed assets ratio
e. Ratio of current assets to proprietor’s funds
f. Debt service ratio
g. Cash to debt service ratio

1. Debt Equity Ratio = $\frac{\text{Outsiders Fund (total debt)}}{\text{Shareholders' Funds}}$

$$= \frac{\text{External Equities}}{\text{Internal Equities}}$$

Shareholder fund = Equity Share + Preference Shares + R & S –accumulated losses & deferred exp

2. Debt to total capital ratio $= \frac{\text{Funded debt}}{\text{Total capitalization}} \times 100$

Funded Debt =debentures + mortgage loans + bonds + other long term liabilities

Total Capitalization = Equity shares + preference shares + R& S+ other undistributed reserves +debentures + mortgage loans + bonds + other long term liabilities

Relevance: Smaller the ratio better it is (up to 50% or 55% is tolerable & not beyond that

$$3.\text{Proprietary Ratio Or Equity Ratio} = \frac{\text{Shareholder Fund}}{\text{Total Assets}}$$

Relevance: Higher the ratio or the share of the shareholders in the total capital of the co., better is the long term solvency position of the company

4. $$\text{Solvency Ratio} = \frac{\text{Total Liability to Outsiders}}{\text{Total Assets}}$$

Relevance: Lower the ratio of total liabilities to total assets , more satisfactory or stable is long solvency position of a firm

5. Fixed Assets To Total Long Term Funds

$$\text{Fixed Assets Ratio} = \frac{\text{Fixed Assets (after dep.)}}{\text{Long Term Funds}}$$

Relevance: If F.A. are more then firm has financed a part of fixed assets out of W.C. which is not good financial policy but if Long term funds are more than F.A.then W.C. requirement is met out of long funds of the firm

6. Ratio of Current Assets to Proprietors Funds
$$= \frac{\text{Current Assets}}{\text{Proprietors Funds}}$$
7. Fixed Assets to Net Worth Ratio Or Fixed Assets to Proprietor's Funds = $\frac{\text{Fixed Assets (after dep.)}}{\text{Shareholders Funds}}$

Relevance: If the ratio is less than 100% , it implies owners funds are more than total fixed assets & part of W.C. is provided by shareholders funds & if it is more than 100% , it implies owners funds are not sufficient to finance F.A. & firm has to depend upon outsiders to finance F.A.

8. Debt Service Ratio or Interest Coverage Ratio
$$= \frac{\text{Net Profit (before interest \& tax)}}{\text{Fixed Interest Charges}}$$

Relevance: It shows how must profit before tax is available to cover Fixed Interest Ratio.

Q12. Write a short note on Kaizen Costing.

Ans. Kaizen is a Japanese term meaning "Change for the Better". The concepts relates to wide range of ideas; it involves making the work environment more efficient and affective by creating a team atmosphere, improving everyday procedures, ensuring employee satisfaction and making a job more fulfilling, less tiring and safer.

Kaizen costing is the process of continual cost reduction that occurs after a product design has been completed and is now in production. Cost reduction techniques can include working with suppliers to reduce the costs in their processes, or implementing less costly re-designs of the product, or reducing waste costs. These reductions are needed to give the seller the option to reduce prices in the face of increased competition later in the life of a product.

Features

1. Main focus on cost reduction not to obtain more accurate product cost.
2. Cost reduction is a team not an individual responsibility.
3. Work teams are responsible for generating ideas to achieve cost reduction targets; they have authority to make small scale investments if these can be demonstrated to have cost reduction paybacks.

Objectives

3. Elimination of waste
4. Quality control
5. Just in time delivery
6. Standardized work
7. Use of efficient equipment

Q13. Describe in detail Activity Based Costing with process.

Ans. **Activity based costing ABC** is a method for assigning costs to products, services projects, tasks, or acquisitions, based on

- Activities that go into them.
- Resources consumed by these activities.

ABC contrasts with traditional costing (cost accounting), which sometimes assigns costs using somewhat arbitrary allocation percentages for overhead or the so-called indirect costs. As a result, ABC and traditional cost accounting can estimate **cost of goods sold** and **gross margin** very differently for individual products. Contradictory and uncertain cost estimates can be a problem when management needs to know exactly which products are profitable and which are selling at a loss.

Features of ABC

- It increases the number of cost pools used to accumulate overhead costs. The number of cost pools depends upon the cost driving activities.
- It improves the traceability of the overhead costs, which results in more accurate unit cost data for management.
- Identification of cost during activities and their causes not only help in computation of more accurate cost of a product but also eliminate non-value added activities would drive down the cost of the product.

Process of ABC

Activity-based costing is best explained by through its various steps. They are:

1. **Identify costs.** The first step in ABC is to identify those costs that we want to allocate. This is the most critical step in the entire process, since we do not want to waste time with an excessively broad project scope. For example, if we want to determine the full cost of a distribution channel, we will identify advertising and warehousing costs related to that channel, but will ignore research costs, since they are related to products, not channels.
2. **Load secondary cost pools.** Create cost pools for those costs incurred to provide services to other parts of the company, rather than directly supporting a company's products or services. The contents of secondary cost pools typically include computer services and administrative salaries, and similar costs. These costs are later allocated to other cost pools that more directly relate to products and services. There may be several of these secondary cost pools, depending upon the nature of the costs and how they will be allocated.
3. **Load primary cost pools**. Create a set of cost pools for those costs more closely aligned with the production of goods or services. It is very common to have separate cost pools for

each product line, since costs tend to occur at this level. Such costs can include research and development, advertising, procurement, and distribution. Similarly, you might consider creating cost pools for each distribution channel, or for each facility. If production batches are of greatly varying lengths, then consider creating cost pools at the batch level, so that you can adequately assign costs based on batch size.

4. **Measure activity drivers.** Use a data collection system to collect information about the activity drivers that are used to allocate the costs in secondary cost pools to primary cost pools, as well as to allocate the costs in primary cost pools to cost objects. It can be expensive to accumulate activity driver information, so use activity drivers for which information is already being collected, where possible.
5. **Allocate costs in secondary pools** to primary pools. Use activity drivers to apportion the costs in the secondary cost pools to the primary cost pools.
6. **Charge costs to cost objects**. Use an activity driver to allocate the contents of each primary cost pool to cost objects. There will be a separate activity driver for each cost pool. To allocate the costs, divide the total cost in each cost pool by the total amount of activity in the activity driver, to establish the cost per unit of activity. Then allocate the cost per unit to the cost objects, based on their use of the activity driver.
7. **Formulate reports. Convert** the results of the ABC system into reports for management consumption. For example, if the system was originally designed to accumulate overhead information by geographical sales region, then report on revenues earned in each region, all direct costs, and the overhead derived from the ABC system. This gives management a full cost view of the results generated by each region.
8. **Act on the information**. The most common management reaction to an ABC report is to reduce the quantity of activity drivers used by each cost object. Doing so should reduce the amount of overhead cost being used.

We have now arrived at a complete ABC allocation of overhead costs to those cost objects that deserve to be charged with overhead costs. By doing so, managers can see which activity drivers need to be reduced in order to shrink a corresponding amount of overhead cost.

Q14. Define Marginal Costing.

Ans. Marginal costing means that when there is a change in total costs due to increase or decrease in one unit of production or output, that change in total cost is termed as marginal cost".

Marginal costing is a technique of costing. This technique of costing uses the concept `marginal cost'. Marginal cost is the change in the total cost of production as a result of change in the production by one unit. Thus marginal cost is nothing but variable cost. In marginal costing technique only variable costs are considered while calculating the cost of the product, while fixed costs are charged against the revenue of the period. The revenue arising from the excess of sales over variable costs is known as `contribution'. Using contribution as a vital tool, marginal costing helps to a great extent in the managerial decision making process

Marginal Costing requires segregation of costs into fixed and variable. This means that semi variable costs will have to be segregated into fixed variable elements. Various methods for segregation are :

- Level of output compared to level of expenses method : Output at two different levels is compared with the corresponding level of expenses . Since the fixed expenses remain constant, the variable overheads are arrived at by the ratio of change in expense to change in output.
- Range Method : Similar to the previous method except that only the highest and lowest points of output are considered.
- Degree of Variability Method : Degree of variability is noted for each item of semi variable expense ex some items may have 30% variability and others 70% variability.

Q15. Describe in detail Zero Based Budgeting.

Ans. The traditional budgeting technique is quite meaningless under the present dynamic conditions where the management must review and evaluate every task in the light of changed circumstances.

Zero base Budgeting (ZBB) examines a programme or function or responsibility from 'scratch'. Nothing is allowed simply because it was being done in the past. The manager proposing the activity has, therefore, to prove that the activity is essential and the various amounts being asked for, are reasonable taking into account the volume of the activity.

Process of Zero Base Budgeting

1. Determination of objectives of Budgeting : The objective may be to effect cost reduction in staff overheads or analyze and drop the projects which do not fit in the organizational structure etc.
2. Determination of the extent to which ZBB is to be introduced: Whether it is to be introduced in all areas of activities or only in a few selected areas on a trial basis.
3. Development of decision units : Decision units refer to units regarding which a cost benefit analysis will be done to arrive decide whether they should be allowed to continue or not. It may be a functional department, a programme, a product line or a sub-line.
4. Development of decision packages: After identification of decision units, the manager of each decision unit reviews the activities of his unit and examines alternative ways of accomplishing the objectives. He does a cost benefit analysis and selects the best alternative. He then prepares a decision packages which effectively summarize his plans and the resources required to achieve them.
5. Review and ranking of decision packages: The management ranks the decision packages in order of increasing benefit or importance to the organization.
6. Preparation of Budgets: After the choice of decision package to be implemented is made, resources are allocated to different decision units and budgets relating to each unit are prepared.

Advantages of ZBB

1. Provides the organization with a systematic way to evaluate different operations and programmes.
2. Ensures that every programme being undertaken by the manager is essential to the organization and is being performed in the best possible way.
3. No arbitrary cuts or increase in budget estimates are made. All approvals are made on the basis of cost benefit analysis.
4. Helps identify areas of wasteful expenditure.
5. Links budgets with corporate objectives. Nothing will be allowed simply because it was being done in the past.
6. It can be used for introduction and implementation of the system of 'management by objectives'.

Q16. Define the term Variance.

- **Ans.** The deviation of actual cost or profit or sales from the standard cost or profit or sales is known as "Variance". When actual cost is less than standard cost or actual profit is better than standard profit, it is known as favourable variance. Variances of different items of cost provide the key to cost control because they disclose whether and to what extent standards set have been achieved**.**

Types of Variance

1. Direct Material Variances
2. Direct Labour Variances
3. Overhead Variances
4. Sales Variances

Q17. What do you mean by cost accounting? Discuss in detail classification, advantage and disadvantages of costing..

Ans. Cost Accounting is concerned with recording, classifying and summarizing costs for determination of costs of products or services ;planning, controlling and reducing such costs and furnishing information to management for decision making.

According to Chartered Institute of Management Accountants, London, cost accounting is 'the process of accounting for costs from the point at which the expenditure is incurred or committed to the establishment of its ultimate relationship with cost units. In its widest sense, it embraces the preparation of statistical data , the application of cost control methods and the ascertainment of the profitability of the activities carried out or planned

Objectives of Cost Accounting

i. Ascertainment of cost : Involves computation of cost incurred
ii. Estimation of costs : As compared to 'what has been the cost' it emphasizes on 'what is likely to be the cost' or 'what should be the cost'.
iii. Cost Control : Involves i) determination of standard costs and ii) analyzing the cause of variations between standard and actual cost.
iv. Cost Reduction
v. Determining selling price
vi. Facilitating preparation of financial and other statements: A developed cost accounting system provides immediate information regarding stock of raw materials, work-in-progress and finished goods. This helps in speedy preparation of financial statements.

Provides basis for operating policy: ex. make or buy, Shut down or operate at loss etc

Classification Of Cost

a. **Opportunity Cost**: The advantage which has been foregone on account of not using the facilities in the manner originally planned. It is the alternative revenue foregone. Ex. If an owned building is proposed to be utilized for housing a new project plant, the likely revenue which the building could fetch, is the opportunity cost.
b. **Product Costs and Period Costs** : Costs which become part of the cost of the product rather than an expense of the period in which they are incurred are called 'Product costs'. They are included in inventory values. They can be fixed or variable ex. Cost of raw material, direct wages. Costs which are not associated with production are called ' Period costs'. They are treated as an expense of the period in which they are incurred. They can be fixed or variable ex. general administration costs, salesmen salaries etc.

Shut down and sunk costs:

c. **Shut down Cost** :If a plant is idle due to temporary difficulties, certain fixed costs have to be incurred even if no work is being done ex. rent, insurance of building, depreciation etc. Such costs of the idle plant are known as shut down costs.

d. **Sunk Cost**: Historical or past costs. Created by a decision that was made in the past and cannot be changed by any decision that will be made in the future ex. Investment in building, plant and machinery. Such costs are irrelevant for decision making.

e. Differential, Incremental or Decremental cost :

Differential Cost: Difference in total cost between two alternatives.

Incremental Cost: increase in total cost as a result of choice of alternative.

Decremental Cost: Decrease in total cost as a result of choice of alternative.

Advantages:

1. **Eliminates Waste**: accounting system eliminates wastes, losses and inefficiencies by fixing standard for everything.

2. **Cost Reduction**: New and improved methods of production are followed under cost accounting system. It leads to cost reduction.

3. **Identify the reasons for Profit or Loss**: A good cost accounting system highlights the reasons for increasing or decreasing profit. If so, the management can take remedial action to maintain profitability of the concern. There is no possibility of shutting down of any product or process or department.

4. **Advises on Make or Buy Decision**: On the basis of cost information, the management can decide whether make or buy a product in open market. The management can rightly choose the best out of many alternatives. Sometimes, spare capacity can be used profitably.

5. **Price Fixation**: The total cost of a product is available in the costing records. It is highly useful for price fixation of a product.

6. **Cost Control**: Budgets are prepared and standards are fixed under cost accounting system. The expenses are not permitted beyond the budget amount. The actual performance is compared with standard to find the variation. If there is any variation, reasons are find out and the management can exercise control. Period to period cost comparison also helps cost control.

Disadvantages

1. Only past performances are available in the costing records but the management is taking decision for future.
2. The cost of previous year is not same in the succeeding year. Hence, cost data are not highly useful.

3. The cost is ascertained on the basis of full utilization of capacity. If capacity is partly utilized, the cost may not be true.

4. Financial character expenses are not included for cost calculation. Hence, the calculated cost is not correct always.

5. In cost accounting, costs are absorbed on pre-determined rate. It leads to over absorption or under absorption of overheads.
6. Cost Accounting fails to solve the problems relating to work study, time and motion study and operation research.

7. Installation of Cost Accounting System requires the maintenance of many costing records. If results in heavy expenditure.

Q18. Write down the following :

a. Price level accounting
b. Tally Software Package

Ans. A. Accounting for price level is that accounting technique by which transactions are recorded at current prices and the effect of changes in price-level on accounting items is neutralized or such effects are made clear along with transactions recorded at historical costs

Features

- The recording procedure is automatic
- The unit of measurement is not assumed to be stable.
- It considers all elements of the financial statements.
- Current Cost Accounting Technique

Techniques of Price Level Accounting

1.Current Purchase Power Method

- Current Cost Accounting Method
- Cost of Sales Adjustment

- Replacement Cost Accounting
- Current Value Accounting Technique

1. **Current Purchasing Power Technique** of accounting requires the companies to keep their records and present the financial statements on conventional historical cost basis but if further requires presentation of supplementary statements in items of current purchasing power of currency at the end of the accounting period. The main objective of this method is to take into consideration the changes in the value of money as a result of changes in the general price levels
2. **Replacement Cost Accounting** (RCA)Technique is an **improvement** over Current Purchasing Power Technique(CPP). One of the major weakness of Current Purchasing Power technique is that it does not take into account **the individual price index related to the particular assets of a company.**
3. In the **Current Value Accounting Technique** of price level accounting all assets and liabilities are shown in the balance sheet at their current values. The value of the net assets at the beginning and at the end of the accounting period is ascertained and the difference in the value in the beginning and the end is termed as profit or loss, as the case may be. In this method also, like replacement cost accounting technique, it is very difficult to determine relevant current values and there is an element of subjectivity in this technique.
4. The committee presented its report in the year **1975** and recommended the adoption of **Current Cost Accounting Technique** in place of Current Purchasing Power of Replacement Cost Accounting Technique for price level changes. The crux of the current cost accounting technique is the preparation of financial statements (Balance Sheet and Profit and Loss Account) on the current values of individual items and not on the historical or original cost.

B) Tally Software : Tally is powerful accounting software**,**. It is easy to use software and is designed to simply complex day to day activities associated in an enterprise. Tally provides comprehensive solution around accounting principles, inventory and data integrity.
Tally also has feature encompassing global business. Tally software comes with easy to use interface thus making it operationally simple. Tally accounting software provides a solution around inventory management, stock management, invoicing, purchase order management, discounting, stock valuation methodology, etc.
Tally accounting software also comes with drill down options, which can track every detail of transaction. It helps in maintaining simple classification of accounts, general ledger, accounts receivable and payable, bank reconciliation, etc.

The technology employed by tally makes data reliable and secure. Tally software supports all the major types of file transfer protocols. This helps in connecting files across multiple office

locations. Tally accounting software is capable of undertaking financial analysis and financial management. It provides information around receivables turnover, cash flow statement, activity consolidation and even branch accounting.

Tally accounting software is east to set up and simple to use. A single connection can support multiple users. It can be easily used in conjunction with the Internet making possible to publish global financial reports.

Q19. Describe the concept of budget. Discuss in detail types of budgets preparation.

Ans. A budget is ‘ a predetermined detailed plan of action developed and distributed as a guide to current operations and as a partial basis for the subsequent evaluation of performance’.

Following are the essentials of a budget:

- It is prepared in advance and is based on a future plan of action.
- It relates to a future period and is based on objectives to be attained.
- It is a statement expressed in monetary and/or physical units prepared for the implementation of policy formulated by the management.

It is the system of management control and accounting in which all operations are forecasted and so far as possible planned ahead, and the actual results compared with the forecasted and planned ones. Thus, budgetary control involves :

- Establishment of budgets.
- Continuous comparison of actual with budgets for target achievement and variance analysis.
- Revision of budgets in the light of changed circumstances.

The difference between, budgets, budgeting and budgetary control has been stated as , ‘Budgets are the individual objectives of a department etc., where as budgeting may be said to be the act of building budgets. Budgetary control embraces all and in addition includes the science of planning the budgets themselves and the utilization of such budgets to effect an overall management tool for the business planning and control.’

Types of Budgets:

1. **According to time:**

- **Long term Budget:** Designed for a long period, generally 5 to 10 yrs. Concerned with the planning of the operations of a firm over a considerably long period of time.
- **Short term Budget :** Designed for a period generally not exceeding 5 yrs**.**
- **Current budgets:** Cover a very short period, say a month or a quarter. They are essentially short term budgets adjusted to current conditions**.**

Rolling Budgets: A new budget is prepared at the end of each month or quarter for a full year ahead. The figures for the month or quarter which has rolled down, are dropped and the figures for the next month or quarter are added

2. ***According to function:***

Sales Budget: It is a forecast of sales to be achieved in a budget period. Factors to be considered while preparation of sales budget include past sales figures and trends, Salesmen’s estimates, Plant capacity, Orders in hand, Seasonal fluctuations, Potential market etc.

Production Budget*:* Provides an estimate of the total volume of production product-wise, with the scheduling of operations by days, weeks and months and a forecast of the closing finished product inventory.

Purchase Budget*:* Forecasts the quantity and value of purchases required for production.

Capital Expenditure Budget *:* Forecasts the amount of capital that may be required for procurement of capital assets during the budget period.

3. Cash Budget:

Forecasts the estimated amount of cash receipts and payments and the likely cash balance in hand at the end of different periods. A cash budget helps the management in

i) Determining the future cash needs of the firm.

ii) Planning for financing of those needs

iii) Exercising control over cash and liquidity of the firm.

A Cash budget can be prepared in any of the following three ways:

Receipts and Payments Method : Cash receipts and payments from various sources are estimated and a budget is prepared using the estimates.

Adjusted Profit & Loss Account Method: Cash budget is prepared on the basis of opening cash and bank balances

4. According to Flexibility:

Fixed Budget : According to CIMA London, ‘ a fixed budget is a budget which is designed to remain unchanged irrespective of the level of activity actually attained’. Hence it is unrealistic yardstick incase the level of activity actually attained does not conform to the one assumed for budgeting purposes.

Flexible Budget : According to CIMA London, a flexible budget is , ‘ a budget designed to change in accordance to the level of activity actually attained’.

Q20. Explain Branches of accounting

Ans. There are three Branches of Accounting:

1. Financial accounting
2. Cost accounting
3. Management accounting

1. **Financial accounting** records ,classifies business transactions and prepares summaries of the same to determine profit and loss and the financial position of the concern .It is that branch of accounting which communicate the financial information of a business unit .

Functions of Financial Accounting:

a) Recording of information
b) Classification of data .
c) Making summaries
d) Dealing with financial transactions .
e) Interpreting financial information .
f) Communicating results
g) Making information more reliable .

2. **Cost Accounting**: Cost Accounting is the classifying , recording & appropriate allocation of expenditure for the determination of the costs of products or services. It includes the ascertainment of the cost of every order, job, contract, process, service or unit

Functions of Cost Accounting

a) Analysis and ascertainment of costs.
b) Presentation of costs for cost reduction & cost control
c) Planning & decision making
d) Preparation of budgets and implementation of budgetary control .
e) Ascertaining profitability of each product .
f) Providing useful data to the management for taking decisions .

3. **Management Accounting:** Management accounting is that system of accounting which helps management in carrying out its functions more efficiently .It is that field of accounting which deals with providing information for the purpose of planning ,decision-making ,performance evaluation ,control management of costs and determination for financial purpose .

According to **T.G. Rose** "Management accounting is concerned with accounting information which is useful to management ."

Functions of Management Accounting

a) Planning and forecasting

b) Modification of data

c) Financial Analysis & interpretation

d) Facilities managerial control

e) Communication

f) Use of qualitative information

g) Coordinating

h) Helpful in taking strategic decisions

i) Supplying information to various levels of management

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