UNIT I
(2 marks)

1. Define Accounting

Ans: It is a systematic process of identifying, recording, measuring, classifying, verifying, summarizing, interpreting and communicating financial information. It shows profit or loss for a period and the value and of assets, liabilities and owners' capital.

2. What is Financial accounting?

Ans: It is a process of recording, summarizing, analyzing all money related transactions. This involves preparation of Financial Statements.

3. What is Cost accounting?

Ans: Cost accounting is the classifying and recording all the expenditure of products or services. It helps to report the correct information to the management in making decisions. It helps in planning and control of an organization.

4. What is Management accounting?

Ans: Management accounting is the process of preparing management reports and accounts that provide accurate and timely financial and statistical information required by managers to make day-to-day and short-term decisions.

5. What is Balance sheet?

Ans: A balance sheet is a financial statement that summarizes a company's assets, liabilities and shareholders' equity (capital) at a period. These three balance sheet segments give investors an idea as to what the company owns and owes, as well as the amount invested by shareholders.

6. What is Capital and Revenue Expenditure?

Ans: Capital expenditures represent expenditure of fund for an asset for example land, Building, goodwill plant, machinery etc. Capital expenses are for the acquisition of long-term assets. Revenue Expenditure is shorter-term expenses required for running the business, for example wages, salary, rent etc.

7. What is Capital and Revenue Receipt?

Ans: Capital Receipt is the amount received in the form of additional capital introduced, loan received, and sale of fixed assets. Revenue Receipt are the amount received from day to day activity of business like sale of goods and services.

8. What is Accounting Policies?

Ans: Principles, rules and procedures selected, and consistently followed, by the management of an organization in preparing and reporting the financial statements. Accounting policies must be shown in the financial statements.

9. What are the Ethical issues in Accounting?

Ans: Ethics in accounting are concerned with how to make good and moral choices in regard to the preparation, presentation and disclosure of financial information. Intentionally recording transactions in a manner that is not in accordance with generally accepted accounting principles. It is considered fraudulent financial reporting.

10. What is Balance Sheet Equation?

Ans: The Balance sheet Equation is the foundation of double entry accounting system. It is showing that the total assets of a company are equal to the total of liabilities and shareholder equity.

The accounting equation is: Assets = Liabilities + Shareholder Equity (Capital).

11. What is 'Separate Entity Concept'

Ans : The separate entity concept is the basic accounting concept that we should always separately record the transactions of a business and its owners. A business or an organization and its owners are treated as two separately parties.

12. What is Revenue Concept?

Ans : The amount of money that a producer receives in exchange for the sale proceeds is known as revenue. The concept of revenue consists of three important terms; Total Revenue, Average Revenue and Marginal Revenue.

13. What is GAAP

Ans: Generally accepted accounting principles (GAAP) are a common set of accounting principles, standards and procedures that companies must follow when they prepare their financial statements. It provides ways of recording and reporting accounting information.

14. State any 2 Indian Government Accounting Standard (IGAS).

Ans : The Indian Government Accounting Standards (IGAS), formulated by the Government Accounting Standards Advisory Board (GASAB) and notified by the Ministry of Finance, Government of India.

- Guarantees given by Governments: Disclosure Requirements (IGAS 1)
- Accounting and Classification of Grants-in-aid (IGAS 2)
- Loans and Advances made by Governments (IGAS 3)
- Foreign Currency Transactions and Loss/Gain by Exchange Rate Variations (IGAS 7)
- Government Investments in Equity(IGAS 9)

- Public Debt and Other Liabilities of Governments (IGAS 10)

(**Write any 2 points from above)**

15. What is Accounting Statement

Ans : Accounting statement is a periodic summary of accounting activities with a beginning date and an ending date. The statements can be monthly, quarterly or yearly.

16. What is Financial Segment

Ans : A division of a business' operations, especially in large companies is called as Financial Segments. Segmentation can be made according to income, expenses, assets, liabilities, etc

17. Describe Accounting Standards

Ans: An accounting standard is a principle that guides and standardizes accounting practices. Accounting standards are widely accepted ways of preparing financial statements.

18. What is IFRS

Ans : International Financial Reporting Standards (IFRS) provides guidelines and rules set by the International Accounting Standards Board (IASB) that companies and organizations can follow when presenting financial statements.

19. Write short notes on Assets

Ans : Anything tangible or intangible that can be owned or controlled to produce value for organisation. Example inventory, land, building, goodwill, etc

20. Define Long Term Liabilities

Ans : A long - term liability is a noncurrent liability . The payment which is not made within one year. Example debenture, long term mortgage loan, etc

21. What is Dividends?

Ans : A dividend is a distribution of a company's Profit to its shareholders. It is decided by the board of directors. It can be in the form of cash , shares of stock, or other property.

22. Write short notes on Financial instruments.

Ans: financial instrument is any contract between parties that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Example a cheque, draft, bond, share, bill of exchange, etc

UNIT I (3 MARKS)

1. Explain the finance function and accounting.

Ans: Accounting involves the creation of financial records of business transactions. It helps to know the flow of finance. It is a process of creating wealth in an organisation. It shows financial position of business at a particular moment in time. It involves management of flow of money through an organisation. It helps to know where funds are utilised.

2. What do you mean by accounting as a career and profession?

Ans : accounting is considered as a profession as it requires specialized knowledge. In India for becoming Chartered Accountant we need to pass examination conducted by Institute of chartered accountant of India (ICAI). For becoming Company Secretary the Institute of Company Secretary of India (ICSI) conduct exams and to become Cost and Work Accountant, the Institute of cost and work accountant of India conduct exams(ICWAI)

3. Write short notes Accounting as an academic discipline

ans : Academic discipline is a field of study and knowledge that is taught and research. Accounting is also related with other subjects like

Accounting and Economics: Economics means making rational decisions regarding use of scares resources for satisfying unlimited human wants. Accounting is a part of finance and finance helps to decide how much we can demand.

Accounting and statistics : Statistics means collecting data for making decisions and in accounting we collect the data for financial records.

Accounting and Law : there are certain Laws which need to be followed while recording transactions like Companies Act, Banking Regulation Act etc.

4. Explain the relation between Auditing and internal control.

Ans: Auditing means checking all the transaction of business and reports whether they are true and fair. It is done by external person from the organisation i.e. Chartered Accountant.

Internal control is done by internal management of organisation. Internal control aims at safeguarding or ensuring that all the financial transactions are recorded correctly or not.

5. Difference between Cost and Financial Accounting

6. Difference between Management and Financial Accounting

7. What is International Financial Reporting Standard?

8. What do you mean by Accounting as an Information system?

9. State any 3 Ind AS

10. What is India's roadmap to the convergence with IFRS?

11. Classify the items on the Assets Side of Balance sheet with one example.

12. What do you mean by current Liabilities, give 2 examples

13. Difference between the Capital and Revenue Expenditure

14. State 3 Golden Rules of Accounting

Ans: Personal Account : Debit the Receiver
Credit the Giver

Real Account : Debit what comes in
Credit what goes out

Nominal Account : Debit all Expenses and Losses
Credit all Income and Gain

15. What is Balance Sheet

16. What is Financial Statement

17. How to classify the Items of Balance sheet

18. Explain IGAS

19. Write Ethical Issues in Accounting

20. How to prepare Balance Sheet

21. What is Revenue and Expenditure Accounting

22. Explain the term Accounting Standard

23. What is the different carrier in accounting Field?

24. Explain Format of Balance Sheet

25. Write short note on forms of Organisation.

UNIT I
(5 MARKS)

1. What is Accounting conversation?

Ans: Accounting conventions are standards, customs or guidelines regarding the application of accounting rules.

Important accounting conventions are:

1. Conservatism convention
2. Full disclosure
3. Consistency
4. Materiality

These accounting conventions are explained below:

1. Conservatism:According to this convention, accounts follow the rule "anticipate no profit but provide for all possible losses", while recording business transactions. In other words, the Accountant follows the policy of "playing safe". This convention includes the inventory is valued at cost or market price whichever is less! Similarly a provision is made for possible bad and doubtful debts out of current year's profits.

2. Full Disclosure: According to this convention the users of financial statements (proprietors, creditors and investors) are informed of any facts necessary for the

proper interpretation of the statements. Full disclosure means showing full and true information to the users of financial statement.

3. Consistency: This convention means that once the organisation has decided to follow one method, it should use the same method for all years unless it has a sound reason to change methods. If an entity made frequent changes in the manner of handling the accounting records, comparison of its financial statements for one period with those of another period would be difficult.

4. Materiality: it means give all material that is important information of financial statement and avoid minor things. For example round figure amount of amount in paisa.

2. What do you mean by International Financial Reporting (IFRS)?

Ans: International Financial Reporting Standards (IFRS) is a set of accounting standards developed by an independent, not-for-profit organization called the International Accounting Standards Board (IASB).

The goal of IFRS is to provide standard format for how public companies prepare and disclose their financial statements. IFRS provides general guidance for the preparation of financial statements.

International Financial Reporting Standards (IFRS) are a set of international accounting standards showing how particular types of transactions and other events should be reported in financial statements. IFRS are issued by the International Accounting Standards Board, and they specify exactly how accountants must maintain and report their accounts.

3. Prepare suitable format of Balance sheet

Ans: **Balance sheet**

Liabilities	**Amount**	**Assets**	**Amount**
Owners fund		**Fixed Assets**	
Capital		Land and building	
Reserves		Plan and machinery	
Profit or loss		Goodwill	
Long term Liabilities		**Investment**	
Secured loan		Long term investment	
Unsecured loan		Short term investment	
Current liabitilies and Provisions		**Current assets**	
Creditors		Cash	
Bills Payable		Bank	
Outstanding exp.			

Provision **<u>Contingent liabilities</u>**		Debtors Bills receivable Prepaid exp. Stock **<u>Fictitious Assets</u>** Preliminary exp.	
Total		**Total**	

4. Write short note on Accounting as an information system.

Ans: An accounting information system (AIS) is a system of collecting, storing and processing financial and accounting data that are used by decision makers. An accounting information system is generally a computer-based method. The resulting financial reports can be used internally by management or externally by other interested parties including investors, creditors and tax authorities. Accounting information systems are designed to support all accounting functions and activities including auditing, financial accounting & reporting, managerial/management accounting and tax. The most widely adopted accounting information systems are auditing and financial reporting modules. It ensures the highest level of accuracy in a company's financial transactions and recordkeeping and to make financial data easily available to those who require it.

5. State the Indian Government Accounting Standard.

Ans : The Indian Government Accounting Standards (IGAS), formulated by the Government Accounting Standards Advisory Board (GASAB) and notified by the Ministry of Finance, Government of India. It helps in improving standards of Governmental accounting and financial reporting which will enhance the quality of decision-making and public accountability.

- Guarantees given by Governments: Disclosure Requirements (IGAS 1)
- Accounting and Classification of Grants-in-aid (IGAS 2)
- Loans and Advances made by Governments (IGAS 3)
- Foreign Currency Transactions and Loss/Gain by Exchange Rate Variations (IGAS 7)
- Government Investments in Equity(IGAS 9)
- Public Debt and Other Liabilities of Governments (IGAS 10)

6. State Generally Accepted Accounting Principles.

Ans : Generally accepted accounting principles (GAAP) are a common set of accounting principles, standards and procedures that companies must follow when they prepare their financial statements. It provides ways of recording and reporting accounting information.

It consists of three important sets of rules:

(1) the basic accounting principles and guidelines,

(2) the detailed rules and standards issued by FASB(Financial Accounting Standards Board)

(3) the generally accepted industry practices.

If a company distributes its financial statements to the public, it is required to follow generally accepted accounting principles in the preparation of those statements. Further, if a company's stock is publicly traded, the company's financial statements be audited by independent public accountants. Both the company's management and the independent accountants must certify that the financial statements and the related notes to the financial statements have been prepared in accordance with GAAP.

7. Explain the forms of organisation and their effect on Accounting.

Ans: There are various forms of organisations. The principle of accounting do not change with the forms of accounting. However the way of showing financial statement is different in some forms of organisation.

Forms of organisation	**Ownership**	**Financial statement**	**Auditing**	**Regulation on accounting**	**suitability**
Sole proprietorship	Single owner	No format	Not compulsory	Minimum	Small business
Partnership firm	Minimum: 2 Maximum: 20	No format	Not compulsory	Minimum	Small & medium business
Limited Liability Partnership(LLP)	Minimum: 2 Maximum: no limit	Specific format	Compulsory	Very less	Medium size business
Private company	Minimum: 2 Maximum: 50	Specific format	Compulsory	Minimum regulation	Medium & large business
Public company	Minimum: 7 Maximum: no limit	Specific format	Compulsory	Minimum regulation	Large business
Listed Public company	Widespread	Specific format	Compulsory	Stiff regulations	Large business
Bank	Widespread	Specific	Compulsory	Stiff	Banking

		format		regulations	business
Insurance company	Not so widespread	Specific format	Compulsory	Stiff regulations	Insurance business
Cooperative society	Minimum 10 Maximum no limit	Specific format	Compulsory	Stiff regulations	Medium size business

8. Mention the classification of item on a Balance Sheet.

9. On the Basis of given data prepare Balance Sheet.

10. Difference between Financial Account and Cost Account.

11. Explain different carrier in Accounting? Explain with suitable example.

12. Explain different Accounting policies in detail.

13. Write steps to create Balance Sheet.

Ans: In financial accounting, a balance sheet or statement of financial position is a summary of the financial balances of a sole proprietorship, a business partnership, a corporation or other business organization. Preparation of balance sheet of company is very necessary, because Indian Company law 1956 gives strict instruction about the format of balance sheet of a company.

Steps to create Balance Sheet

1. First we have to make Journal entry in Journal Book
2. Then we post each account from journal book to Ledger
3. next step is to close all the accounts of ledger book and transfer those balances to Trial balance.
4. with the help of trial balance and adjustment if any we prepare trading account , profit and loss account and balance sheet.

14. What do you mean by auditing? Explain its advantages and disadvantages.

Ans: An audit is a systematic examination of books, accounts, records, documents and vouchers of an organization to see whether the financial statements are true and fair or not.

Advantages :

1. Audited accounts are readily accepted by Government authorities like Tax authorities and Central banks.
2. By auditing the accounts Errors and frauds can be detected and rectified in time.
3. Audited accounts carry greater authority than the accounts which have not been audited.

4. For accessing finance from financial institutions like Banks, previous years audited accounts are evaluated for determining repayment capability.
5. Regular audit of account create fear among the employees in the accounts department from committing frauds and errors.

Disadvantages
1. The payment of audit fees brings extra cost burden to the organization.
2. During an audit the auditor requires the attention several company staff and therefore causes disruption.
3. An audit does not assure the effectiveness and efficiency of management.
4. Auditors express opinion and therefore does not give total assurance of the true fair presentation of annual reports.

UNIT I
(10 MARKS)

1.Explain the interrelationship between financial, costing and management accounting.

Ans : Financial Accounting gives out information about the enterprise's financial activities and situation. It makes use of the past or historical data. All the transactions and statements are recorded and presented in terms of money mostly. Persons who make use of these financial statements are outsiders like banks, shareholders, creditors, government authorities etc. Financial statements are usually presented once in a year and there is a certain format for their presentation. It is mandatory for the companies to follow the rules and policies framed under GAAP (Generally Accepted Accounting Principles). It indicates whether the company is running in loss or profit.
Cost Accounting helps in the determination of the cost of the product, how to control it and in making decisions. It makes use of both past and present data for ascertainment of product cost. There is no specific format for the preparation of cost accounting statements. It is used by the internal management of the company and usually the cost accountant prepares this to ascertain the cost of a particular product taking into account the cost of materials, labor and different overheads. No certain periodicity is needed for the preparation of these statements and they are needed as and when required by the management. This makes use of certain rules and regulations while computing the cost of different products in different industries.
Management Accounting deals with both quantitative and qualitative aspects. This involves the preparation of budgets, forecasts to make valuable future

decisions by the management. Many decisions are taken based on the projected figures of the future. There is no question of rules and regulations to be followed while preparing these statements but the management can set their own principles. Like cost accounting, in management accounting also there is no specific time span for its statement and report preparation. It makes use of both cost and financial statements as well to analyze the data.

2. State the importance of accounting officer in the organization

Ans: An accounting officer is a senior employee whose overall responsibility is managing the financial resources of an organization to ensure efficient and effective functioning of its operations. He is the head the accounting department, though his position can change to meet specific administrative needs of a company.

Importance of Accounting Officers

1. Assessing Financial Decisions : The management of an organization can't make financial decisions without understanding accounting information. Managers rely on the accounting officers to assess decisions or projects that can affect the company's finances, evaluate their implications and make recommendations as necessary. For example, if an organization wants to hire more employees or purchase more vehicles to increase efficiency, the accounting officer analyzes the decision and determines whether it will improve efficiency while minimizing costs.

2. Implementing Accounting Policies : Although accounting policies and procedure vary with organizational needs, they generally help to prevent fraud, theft or errors by maintaining reliable reporting systems and safeguarding assets. The accounting officer enforces these policies, protecting his employer's business. Most accounting officers are charged with the responsibility to review the company's accounting policies, from time to time, to ascertain their suitability to a dynamic business environment. If the accounting officer feels the policies need some amendments, he collaborates with company management to make appropriate changes.

3. Supervising Accounting Staff : The effectiveness of the accounting department depends on how well the accounting officer supervises and delegates tasks to his support staff. In today's business environment, where accounting officers are asked to do more with less staff, accounting officers them by putting management and leaderships skills to work. Besides ensuring that staff members are working efficiently, motivating them helps to direct their efforts toward achieving the organization's goals.

4. Managing Banking Relationships : Banks play a huge role in the business world, providing banking services and financial solutions to enterprises. Companies need banks for services such as money transmission, brokering, trade support products and asset finance. The accounting officer handles the organization's transactions with various banks, ensuring a smooth working relationship between them. If there is need to forge new banking partnerships, the accounting officer leads the process, often after identify new banking firms that can help the company achieve its financial goals.

3. Write in brief the accounting concepts

Ans : Accounting concept are the basic assumptions that are followed while recording business transaction and financial statement.

1. Separate entity concept: it means the business and the owner of the business are two different entities. In other words, I and my business are separate.

For example, Mr A starts a new business in the name of ABC co. ltd. and introduced a capital of Rs 2,00,000 in cash. It means ABC co is liable to pay Rs 2,00,000 to Mr A.

2. Money measurement concept : According to this concept we record only money related transactions in accounting. It does not record personal relationships of employees with managers or customers or labour etc.

3. Going concern concept : Our accounting is based on the assumption that a business unit is a going concern and will not close down within some year. It will run for long time. We record all the financial transaction of a business in keeping this point of view in our mind that a business unit is a going concern; Otherwise, the banker will not provide loans, the supplier will not supply goods or services, the employees will not work properly.

4. Consistency : consistency means same accounting principles, assumptions and methods should be used for preparing financial statement year after year.

5. Accrual Concept:

6. Accounting period concept: it means accounting transactions are recorded and close after certain period. It can be one year, quarterly or half yearly.

7. Dual aspect concept : Every transaction has two effects that is one is debit and second is credit.

8. Matching concept : It means expenses in a period are matched with the revenue generated for the same period.

9. cost concept : it means all the assets are recorded in the books at their purchase price and not at the market price.

4. Write in short the Indian Accounting Standards

Ans : Accounting Standards Issued by the Institute of Chatered Accountants of India are as below:

Disclosure of accounting policies:

Valuation Of Inventories:

Cash Flow Statements

Contingencies and events Occurring after the Balance sheet Date

Net Profit or loss For the period, Prior period items and Changes in accounting Policies.

Depreciation accounting.

Construction Contracts.

Revenue Recognition.

Accounting For Fixed Assets.

The Effect of Changes In Foreign Exchange Rates.

Accounting For Government Grants.

Accounting For Investments.

Accounting For Amalgamation.

Employee Benefits.

Borrowing Cost.

Segment Reporting.

Related Party Disclosures.

Accounting For Leases.

Earning Per Share.

Consolidated Financial Statement.

Accounting For Taxes on Income.

Accounting for Investment in associates in Consolidated Financial Statement.

Discontinuing Operation.

Interim Financial Reporting.

Intangible assets.

Financial Reporting on Interest in joint Ventures.

Impairment Of assets.

Provisions, Contingent, liabilities and Contingent assets.

Financial instrument.

Financial Instrument: presentation.

Financial Instruments, Disclosures and Limited revision to accounting standards.

5. Prepare Balance Sheet

6. Describe user of financial statement in detail.

Ans: Users of Accounting Information - Internal & External

Accounting information helps users to make better financial decisions. Users of financial information may be both internal and external to the organization.

Internal users (Primary Users) of accounting information include the following:

Management: for analyzing the organization's performance and position and taking appropriate measures to improve the company results.

Employees: for assessing company's profitability and its consequence on their future remuneration and job security.

Owners: for analyzing the viability and profitability of their investment and determining any future course of action.

Accounting information is presented to internal users usually in the form of management accounts, budgets, forecasts and financial statements .

External users (Secondary Users) of accounting information include the following:

Creditors: for determining the credit worthiness of the organization. Terms of credit are set by creditors according to the assessment of their customers' financial health. Creditors include suppliers as well as lenders of finance such as banks.

Tax Authourities: for determining the credibility of the tax returns filed on behalf of the company.

Investors: for analyzing the feasibility of investing in the company. Investors want to make sure they can earn a reasonable return on their investment before they commit any financial resources to the company.

Customers: for assessing the financial position of its suppliers which is necessary for them to maintain a stable source of supply in the long term.

Regulatory Authorities: for ensuring that the company's disclosure of accounting information is in accordance with the rules and regulations set in order to protect the interests of the stakeholders who rely on such information in forming their decisions.

External users are communicated accounting information usually in the form of financial statements.

7. What do you mean by Accounting policies?Explain its various types in detail.

Ans: Accounting policies means principles, rules and procedures selected, and consistently followed, by the management of an organization in preparing and reporting the financial statements. Accounting policies must be shown in the financial statements.

Following are the type of accounting policies.

- Valuation of inventories

- Treatment of goodwill
- Valuation of fixed assets
- Treatment of contingent liabilities
- Valuation of investment
- Treatment of retirement benefit
- Treatment of depreciation
- Treatment of foreign exchange transactions

8. Explain International Financial Reporting Standard (IFRS) in detail.

9. How to classify items on Balance sheet?Explain each item in detail.

10. What do you mean by current Assets? Differentiate between current assets and fixed assets.

Ans : Current Assets: Assets which are easily convertible into cash like stock, inventory, marketable securities, short-term investments, fixed deposits, accrued incomes, bank balances, debtors, prepaid expenses etc. are classified as current assets. Current assets are generally of a shorter life span as compared to fixed assets which last for a longer period. Current assets can also be termed as liquid assets.

• Fixed Assets: Fixed assets are of a fixed nature in the context that they are not readily convertible into cash. It requires time for their sale and converted into cash. For example Land, building, plant, machinery, equipment and furniture are some examples of fixed assets. Other names used for fixed assets are non-current assets, long-term assets or hard assets. Generally, the value of fixed assets reduces over a period of time known as depreciation.

Fixed assets are parts of the company that help with production and are components that last over time in the company. They are physical assets that can be seen. Current assets are the general inventory of a company, including cash, accounts receivable, insurance claims, investments, and intangible or non-physical items. Current assets account for the worth of a company, showing the earnings-to-debt ratio by the year's end. Each current asset has the ability to be cashed out to financially help the business or liquidated to save the company from debt or bankruptcy.

Current assets , or short-term assets, are assets that can be converted into cash within one year or one operating cycle. Current assets are used to facilitate day-to-day operational expenses and investments. Short-term assets are liquid; that is, they can be readily converted into cash. Some examples of current assets listed on the balance sheet are cash, accounts receivables, inventory, short-term investments and prepaid expenses.

UNIT II (2 Marks)

1. What is profit and loss a/c

Ans : This is the second part of the income statement, it is used to calculate the Net Profit or Net Loss of a concern. Net profit refers to the surplus which remains after deducting operating and non operating expenses from the Gross Profit. It includes office and administrative expenses, selling and distribution expenses.

2. State the meaning of Appropriation of profit.

Ans : After finding profit or loss from profit & loss account, net profit is transfer to Appropriation account. It includes interest on capital, interest on drawings, salaries of partners, transfer to reserve fund, payment of dividends, etc. it helps to find out appropriation profit.

3. What do you know about Double Entry System.

Ans : According to this concept every transaction have two effects, one is debit and second is credit. Every transaction have equal amount of debit and credit. As a result total of debits must be equal to credits.

4. State the meaning of Ledger.

Ans : A ledger is a group of accounts. All the accounts of a business entered in a ledger from the journal book. A businessmen doesn't know his total cash, purchases, amount spent under each head of expense and without making Ledger.

5. Mention the meaning of Trial Balance

Ans : The trial balance is a list of names of the accounts, and the balances in each account as at a given time, with debit balances in one column and credit balances in another column. It shows whether the equality of debits and credits has been maintained and it helps for preparation of final accounts.

6. What do you mean by Accounting Errors

Ans : An accountant can make mistakes or commit errors while recording and posting transactions. These are called 'Accounting Errors'. Accounting errors are the errors committed by persons responsible for recording and maintaining accounts of a business firm in the course of accounting process. These errors may be in the form of omitting the transactions to record, recording in wrong books, or wrong account or wrong totaling and so on.

7. What is Depreciation

Ans : Depreciation is the decrease in the value of the fixed assets because of their use. It is a common experience that whenever an asset is used, it reduces in value, which is known as depreciation. Thus, depreciation is a permanent, continuing and gradual reduction in the book value of a fixed asset.

8. What is fixed Assets?

Ans : Fixed assets are of a fixed nature, it can not converted into cash. It requires time for their sale and converted into cash. For example Land, building, plant, machinery, equipment and furniture are some examples of fixed assets. Other names used for fixed assets are non-current assets, long-term assets or hard assets.

9. How are accounts classified

Ans :accounts are classified into 3 parts

Personal Accounts: Accounts recording transactions relating to individuals or firms or company are known as personal accounts.

Real Accounts: The accounts recording transactions relating to tangible or intangible things are real accounts.

Nominal Accounts: The accounts recording transactions relating to the losses, gains, expenses and incomes e.g. Rent, salaries, wages, commission, interest, bad debts etc., are nominal accounts.

10. Explain nominal account

Ans : The accounts recording transactions relating to the losses, gains, expenses and incomes e.g. Rent, salaries, wages, commission, interest, bad debts etc., are classified as nominal accounts. Rule of Nominal account - Debit all expenses and losses, Credit all incomes and gains.

11. What is Error of Omission?

Ans : When transaction is partly or completely not recorded in boks it is calles as Errors of omission it can be (a) Error of complete omission or (b) Error of partial omission.When a transaction is completely omitted from recording in the books of original record, it is an error of complete omission When the recording of transaction is partly omitted from the books, it is an error of partial omission.

12. What do you understand by Representative Personal Account?

Ans : The accounts recording transactions relating to the expenses and incomes are payable to the individuals or recoverable from individuals are called as Representative Personal Account. e.g. wages outstanding account, pre-paid Insurance account, outstanding rent, outstanding salary etc.

13. State any 2 methods of calculating depreciation

Ans : Depreciation is the decrease in the value of the fixed assets because of their use.

Methods of Depreciation

- Straight Line Method/ Fixed installment method(SLM)
- Diminishing Balance Method / Reducing Balance Method (RBM)

14. What is computerised Accounting

Ans : Ccomputerised accounting is accounting done with the help of a computer. It involves accounting software and digital spreadsheets to keep records of a business or client's financial transactions. Well known accounting software is Tally ERP 9.

15. What is Trading Account

Ans : Trading Account is the first stage in the final account which is prepared to know the trading results of gross profit or loss during a particular period. In other words, it is a summary of the purchases, and sale of goods. It shows gross profit/loss of the business.

16. Write Advantage of P & L a/c

Ans : it gives overall view of business result, It gives detail information about income and expenses, It helps in calculating profitability ratios. It helps to find out net profit or loss of a business.

17. Explain Subsidiary Books

Ans : Business transaction can be classified into purchase, sales, cash etc .so all these transactions are recorded separately in separate book which is called as subsidiary books.

18. Explain format of P&L a/c

Ans : The purpose of preparing the profit and loss account to calculate the Net Profit or Net Loss of a company. The operating expenses and non operating expenses are shown on the debit side and all operating and non operating gains and incomes are shown on the credit side of the Profit and Loss Account. The difference of two sides is either Net Profit or Net Loss.

19. Explain Journals

Ans : Journal is a book which records accounting transactions of a business, before posting them to ledgers. All the business transactions are firstly recorded into journal book so that we can use it while posting transaction into ledger book.

20. Explain Accounting Cycle

Ans : a) The opening balances of accounts from the balance sheet & day to day business transaction of the accounting year are first recorded in a book known as journal.

b) Periodically these transactions are transferred to concerned accounts known as ledger accounts.

c) At the end of every accounting year these accounts are balanced & the trial balance is prepared.

d) Then the final accounts such as trading & profit & loss accounts are prepared.

e) Finally, a balance sheet is made which gives the financial position of the business at the end of the period.

21. Write a note on impairment of Assets

Ans : An unexpected or sudden decline in the utility of an asset due to physical damage to the assets or due to technological obsolesces is called as impairment of assets.

Unit II (3 marks)

1. **Write Advantage of P & L a/c**

   Ans: The determination of Gross Profit or Gross Loss is done by preparation of Trading Account. But it does not reveal the Net Profit or Net Loss of a concern during the particular period. This is the second part of the income statement and is called as Profit and Loss Account. The purpose of preparing the profit and loss account to calculate the Net Profit or Net Loss of a concern. Net profit refers to the surplus which remains after deducting related trading expenses from the Gross Profit.

2. What is Classification of Accounts?

3. Write short note on Accounting Errors and their Rectification

Ans : An accountant can make mistakes or commit errors while recording and posting transactions. These are called 'Accounting Errors'. Accounting errors are the errors committed by persons responsible for recording and maintaining accounts of a business firm in the course of accounting process. These errors may be in the form of omitting the transactions to record, recording in wrong books, or wrong account or wrong totaling and so on.

Rectification of errors can be made by passing correct entry and reversing wrong entry with the help of suspense account.

4. Explain meaning of Bank Reconciliation Statement

Ans : Bank Reconciliation Statement is a statement prepared to reconcile the difference between the balances as per the bank column of the cash book and pass book on any given date.

5. What is impairment of Assets

6. What is Cost of Fixed Assets?

Ans : The cost of fixed assets includes its purchase price and any expenses incurred for bringing that assets into working conditions. Trade discount is not included in it. It includes import duties, taxes, delivery charges, installation cost carriage inward or transportation charges etc.

7. Explain Subsidiary Books.

8. Write need of Depreciation

Ans : Depreciation is the decrease in the value of the fixed assets because of their use. It helps show correct value of assets on balance sheet. It helps to know how much money is required after the complete use of life of assets for replacement.it also helps in reducing tax liabilities.

9. Mention the meaning of Trial Balance

10. What is manufacturing Account

Ans : Manufacturing Account is the important part which is required to preparing Trading, Profit and Loss Account.it helps in calculating the Gross Profit or Gross Loss, it is essential to determine the Cost of Goods Manufactured or Cost of Goods Sold which is transferred to the Trading Account. This account is debited with opening stock and all items of costs including purchases related to production and credited with closing balance of work in progress and cost of goods produced transferred to Trading Account.

11. State the methods of calculating depreciation

Ans : Depreciation is the decrease in the value of the fixed assets because of their use.

Methods of Depreciation

- Straight Line Method/ Fixed installment method(SLM)
- Diminishing Balance Method / Reducing Balance Method (RBM)
- Annuity Method
- Depreciation Fund Method
- Insurance Policy Method
- Provision for Depreciation Method
- Machine Hour Rate Method
- Sum of Year's Digit Method

12. Write disadvantages/ limitations of P & L a/c

Ans : it shows the expenses only by name and not in detail. It prepare only after ledger and trial balance. it can be prepared by only skilled and knowledgeable person. It shows only net profit and not entire position of a company.

13. Write advantages of computerised Accounting

14. State the type of Errors which are not disclosed by Trial Balance

15. Write importance of Bank Reconciliation Statement

16. Write Advantage of Trial Balance

17. State various needs of Double Entry System

18. What is Fixed Assets

19. Write note on Ledger

Ans: The transaction first recorded in Journal book and then transfer to the ledger account. Periodically these transactions are transferred to concerned accounts known as ledger accounts.

20. Write note on Journal

Ans: The opening balances of accounts from the balance sheet & day to day business transaction of the accounting year are first recorded in a book known as journal.

21. Explain the term income statement

22. Explain term accounting transaction.

UNIT II (5 MARKS)

1. What is accounting cycle

2. Explain the meaning of subsidiary books.

3. State the concept of computerized accounting.

4. Explain the importance of bank reconciliation statement.

5. State the name of depreciation methods.

6. What do you mean by profit and loss account explain its advantages and disadvantages in detail.

7. What do you mean by ledger explain with suitable examples.

8. Write steps to prepare trial balance

10. What do you mean by appropriation of profit explain with suitable examples.

11. What is different accounting error. Explain with suitable example

Numerical problem

1. **preparing journals**
2. **preparing ledger**
3. **preparing trial balance**
4. **preparing profit and loss account**
5. **preparing Profit and Loss appropriation account**
6. **manufacturing account**
7. **bank reconciliation statement**

UNIT II (10 MARKS)

1. Explain the various depreciation methods

Ans: Depreciation is the decrease in the value of the fixed assets because of their use.

Methods of Depreciation

- Straight Line Method/ Fixed installment method(SLM)
- Diminishing Balance Method / Reducing Balance Method (RBM)
- Annuity Method
- Depreciation Fund Method
- Insurance Policy Method
- Provision for Depreciation Method
- Machine Hour Rate Method
- Sum of Year's Digit Method

Most commonly used methods are Straight Line Method/ Fixed installment method (SLM) and Diminishing Balance Method / Reducing Balance Method (RBM).

1. Straight Line Method: This method is also termed as Constant Charge Method. Under this method, depreciation is charged for every year will be the <u>constant amount throughout the life of the asset</u>. Accordingly depreciation is calculated by deducting the scrap value from the original cost of an asset and the balance is divided by the number of years estimated as the life of the asset.

2. Written-Down Value Method (WDV)

This method is also known as Fixed Percentage On Declining Base Method (or) Reducing Installment Method. Under this method depreciation is charged at fixed rate on the reducing balance (i.e.Cost less depreciation) every year. Accordingly the amount of depreciation gradually reducing every year.

The depreciation charge in the initial period is high and negligible amount in the later period of the asset.

(3) Annuity Method: This method charges depreciation on the assumption that fixed rate of interest is charged on the asset, treating the fixed asset as an investment. The first two methods i.e. Straight Line Method and Diminishing Balance Method ignore interest aspect.

The annuity method takes into account the interest lost on the acquisition of an asset. The amount to be written off as depreciation is calculated from the annuity table. The depreciation will be different according to the rate of interest and according to the period over which the asset is to be written off.

(4) Depreciation Fund Method: Funds are needed for replacement of the fixed asset. As and when the fixed asset is required to be replaced with a new asset, all the above three methods do not provide ready funds for replacing the asset. Non-availability of ready funds is the greatest handicap in respect of all the above methods. Depreciation Fund Method provides the advantage of ready funds for replacing the asset, as and when needed.

Depreciation Fund Method is also known as 'Sinking Fund Method'.

Method of working: Firm invests the depreciation amount, every year, outside the business. Depreciation amount is kept aside and invested in ready saleable securities – preferably Government securities. When the life of the asset expires, requiring replacement, the securities are sold and a new asset is purchased with the help of sale proceeds.

(5) Machine Hour Rate Method: Under this method, total cost of the machine is divided by the total number of hours of the life of the machine to arrive at the hourly rate of the machine. In order to calculate the depreciation amount, the actual number of hours in a particular year is multiplied with the hourly rate.

(6) Insurance Policy Method : Under this method an asset to be replaced by taking required amount of insurance policy from Insurance Company. A fixed premium is paid which is equal to the amount of depreciation for every year. At the end of the agreed sum, i.e., on the maturity of the policy, the amount will be used for replacing the existing assets.

(7**) Sum of Years Digits (SYD) Method**: The Sum of years Digits Method is designed on the basis of Written-Down Value Method. Under this method the amount of depreciation to be charged to the Profit and Loss Account goes on decreasing every year throughout the life of the asset.

The formula for calculating the amount of depreciation is as follows:

$$\text{Rate of Depreciation} = \frac{\text{Life of the Asset (Including current year)}}{\text{Sum of all the digits of the life Of the assets in years}} \times \text{Original Cost of the Asset}$$

(8) Provision for Depreciation Method: This method is designed to accumulate the depreciation provided on an asset in a separate account generally called ‘depreciation provision’ or ‘accumulated depreciation’. Such accumulation of depreciation enables that the asset account need not be disturbed in any way i.e. Asset account continues to appear at its original cost year after year over its entire life ;

Depreciation is accumulated on a separate account instead of being adjusted into the asset account at the end of each accounting period.

2. State the meaning and rules of double entry system

Ans: : According to this concept every transaction have two effects, one is debit and second is credit. Every transaction have equal amount of debit and credit. As a result total of debits must be equal to credits.

Classification of accounts

1. Personal
2. Real

3. Nominal

Personal Accounts: Accounts recording transactions relating to individuals or firmsor company are known as personal accounts. Personal accounts may further be classified as:

(i) Natural Person's personal accounts: The accounts recording transactions relating to individual human beingse.g., Anand's a/c, Ramesh's a/c, Pankaj a/c are classified as natural persons' personal accounts.

(ii) Artificial Persons' Personal accounts: The accounts recording transactions relating to limited companies, bank, firm, institution, club, etc., Delhi Cloth Mill; M/s Sahoo & Sahoo; Hans Raj College; Gymkhana Club are classified as artificial persons' personal accounts.

(iii) Representative Personal Accounts: The accounts recording transactions relating to the expenses and incomes are classified as nominal accounts. But in certain cases (due to the matching concept of accounting) the amount, on a particular date, is payable to the individuals or recoverable from individuals. Such amount (i) relates to the particular head of expenditure or income and (ii) represent persons to whom it is payable or from whom it is recoverable. Such accounts are classified as representative personal accounts e.g., "wages outstanding account", pre-paid Insurance account, etc.

Real Accounts: The accounts recording transactions relating to tangible things (which can be touched, purchased and sold) such as goods, cash, building, machinery etc., are classified as tangible real accounts. Whereas the accounts recording transactions relating to intangible things (which do not have physical shape) such as goodwill, patents and copy rights, trade marks etc., are classified as intangible real accounts.

Nominal Accounts: The accounts recording transactions relating to the losses, gains, expenses and incomes e.g. Rent, salaries, wages, commission, interest, bad debts etc., are classified as nominal accounts.

Rules of debit and credit (classification based)

1. Personal accounts : Debit the receiver
   Credit the giver (supplier)
2. Real accounts : Debit what comes in
   Credit what goes out
3. Nominal accounts : Debit expenses and losses
   Credit incomes and gains

3. State the procedure of preparing bank reconciliation statement

4. What is income statement. Explain their component.

Ans: The Income Statement format is revenues, expenses, and profits (or losses) of an entity over a specified period of time. In other words, it is a description of the entities profitability over a period of time (usually quarterly or annually).

Component of income statement

Profit and loss account shows the financial performance of the business. It shows the income earned from various sources and the cost expenses. Income under various heads profit and loss account is also known as income statement. Income refers to increase in economic benefits during the accounting period. It includes both revenue and expenses. Revenue is income that arises in the course of ordinary activities of an entity, including sales fees, interest dividend, royalty. **Profit = Revenue – Cost.**

Revenue includes the cross inflows of economic benefits received and receivable by the entity in its own account. Amount collected on behalf of third parties , taxes are not economic benefits which flows to the entity ,therefore they are excluded from revenue. Revenue arises from sale of goods rendering of services interest royalties and dividend cost includes expenses incurred on various business activities, generally it is classified as manufacturing expenses, administrative expenses, selling expenses,then at the end we calculate profit with the using formula that is profit is equal to revenue minus cost.

5. Describe types of subsidiary books with appropriate example.

Ans: There are numerous transactions which occur so many times in a day. It is inadequate and inconvenient to record all these transactions in a journal book. Every transaction recording in journal consumes more labour, time and money. So the transactions which are of repetitive are recorded in a separate book through special journal. Such separate book of original entry. Maintained for recording the similar transaction like purchase sales etc. is called subsidiary books.

Types of subsidiary books

The following are the importance types of subsidiary books.

• Purchase book
• Sales book
• Purchase return book
• Sales return book
• Cash book
• journal book

Purchase book : All credit purchase of goods are written in this book. Cash purchase of goods and credit purchase of assets are not recorded in this book.

Other names of purchase book are purchase day book, purchase journal, bought journal, inward invoice book etc.

Sales Book: All sales of goods are written in this book. Cash sale of goods and credit sale of assets are not recorded in this book. Other names of Sales Book are Sales Day Book, Sales Journal, Sold book, Outward Invoice Book etc.

Purchase Return Book: It may be necessary to return some goods that the firm has bought on credit for a variety of reasons. All returns of such goods are recorded primarily in Return Outward Book. This book is also known as Purchase Return Book.

Sales Return Book :Goods may be returned by the customers for a variety of reasons. All goods returned from customers are recorded in Sales Return Book. This book is also known as Return Inward Book.

Bills Receivable Book:When credit sales of goods are made the purchaser gives his guarantee to make payment in future in the form of bill. When the seller receives such bill, it is Bill Receivable for him as he will receive payment in future against such bill. In case a business house receives a number of bills, a Bills Receivable Book is maintained to record all such bills.

Bills Payable Book: When credit purchases are made by a firm it gives a guarantee to the seller to make payment in future in the form of a bill. This bill is said to be Bills Payable for the firm as he will pay for the bill in future. A Bills Payable Book is opened to record all such bills.

Journal book: It is a subsidiary book maintained to record the transaction which cannot be recorded in other special subsidiary books. Usually the transactions of infrequent character are recorded in the journal proper. The entries like adjustment entries, opening entries, closing entries, transfer entries, purchase and sale of assets on credit, interest on capital, interest of drawing etc. are recorded in journal proper.

Cash Book: Transactions held in cash or by cheque are recorded in this book. There are two sides in a cash book. In the left hand side all cash receipts are recorded and in the right hand side all cash payments are recorded. Cash Book is of five types: single column cash book, double column cash book, triple column cash book, bank cash book and petty cash book. In the single column cash book only receipt of cash and payment of cash are recorded.

6. What is computerised accounting. Explain its advantages and disadvantages.

Ans : Computerised accounting is accounting done with the help of a computer. It involves accounting software and digital spreadsheets to keep records of a business or client's financial transactions. Computerized accounting systems (or software) have replaced manual-based accounting in all businesses and organizations, providing accountants, managers, employees and stakeholder access to various accounting information.

Advantages of Computerized Accounting:

1. Better Quality Work: The accounts prepared with the use of computers are usually uniform, neat, accurate and more reliable than manual job.

2. Lower Operating Costs: Computer is a labor and time saving devise. Hence, the volume of job handled with the help of computers results in economy and lower operating costs.

3. Improved Efficiency: Computer brings speed and accuracy in preparing the records and accounts and thus increases the efficiency of employees.

4. Facilitates Better Control: From the management point of view, greater control is possible and more information may be available with the use of computer in accounting. It ensures efficient performance in accounting work.

5. Greater Accuracy: Computerized accounting ensures accuracy in accounting records and statements. It prevents clerical errors and omissions.

6. Relief from Monotony work: Computerized accounting reduces the monotony of doing repetitive accounting jobs, which are tiresome and time consuming.

7. Facilitates Standardization: Computerized accounting facilitates standardization of accounting routines and procedures. Therefore, standardization in accounting is ensured.

8. Minimizing Mathematical Errors: While doing mathematics with computers, errors are virtually eliminated unless the data is entered improperly in the first instance.

Disadvantages of Computerized Accounting:

1. Reduction of Manpower: The introduction of computers in accounting work reduces the number of employees in an organization. Thus, it leads to greater amount of unemployment.

2. High Cost: A small firm cannot install a computer accounting system because of its high installation and maintenance cost. To be more economical there should be large volume of work. If the system is not used to its full capacity, then it would be highly uneconomical.

3. Require Special Skills: Computer system calls for highly specialized operators. The availability of such skilled personnel is very scarce and very costly.

4. Other Problems: Frequent repair and power failure may affect the accounting work very much. Computers are prone to viruses. Often time's people will

assume the computer is doing things correctly and problems will go unchecked for long period of time.

7. Differentiate between computerised accounting and Manual accounting.

Ans: **Manual Accounting VS Computerized Accounting**

Manual Accounting:

1. The identification of transactions is done manually.
2. Transactions are recorded through books of original entries.
3. Transactions are recorded first in the books of journal entry, then they are to be posted into ledger accounts. Thus, they are recorded twice.
4. After the preparation of ledger accounts, balances of various accounts are known and hence a trial balance is prepared in order to summaries the data.
5. Financial statements are prepared on the basis of trial balance.
6. Adjustments are made in order to balance the expenses incurred and the revenue generated in the accounting period. Hence, entries are passed for errors and rectification
7. Books are closed at the end of accounting period by posting of closing and reversing journal entries.

Computerized Accounting:

1. The transactions are identified on the bases of well designed programmes.
2. Transactions are recorded and stored in well designed databases.
3. The stored data is processed automatically in classified ledger accounts.
4. Need not required to take help of ledger accounts because balances are transferred automatically on trial balance.
5. The financial segments is independent of trial balance because such statements are directly processed using the originally stored data.
6. Need not pass manual entries for errors and rectification. Computerized vouchers are prepared and stored that follow the principle of cost matching revenue.
7. Opening and closing account balances are stored in databases.

8. Write a procedure to create reconciliation statement with suitable example.

Ans: Bank Reconciliation Statement is a statement prepared to reconcile the difference between the balances as per the bank column of the cash book and pass book on any given date.

PROCEDURE FOR PREPARATION OF BANK RECONCILIATION STATEMENT

A bank reconciliation statement is prepared to reconcile the two balances of Cash Book and Pass Book. So, when you will prepare bank reconciliation statement you will start it with one balance adjust and then you will reach to the other balance. This way both the balances will agree. The way the adjustments should be made may be illustrated as follows:

	Particulars	Amount
	Balance at Bank as Per Cash Book ADD (1)Cheques issued but not yet presented for payment xxx (2) Interest allowed by the bank xxx (3) Interest and dividend collected by the bank xxx (4) Direct payments into the bank by a customer (5) Bills collected by the bank on behalf of the customer xxx ----------------- LESS (1) Cheques paid into the bank but not yet cleared xxx (2) Interest and expenses charged by the bank xxx (3) Direct payment by the Bank xxx (4) Dishonor of a bill discounted with the bank xxx	**XXX** **XXX** **- XXX**
	Balance as per Pass Book	**XXX**

Note: If you start the question with balance as per pass book all the adjustments will be reversed.

8. **Explain accounting cycle in detail write steps to interpret financial reports.**

Ans: ACCOUNTING CYCLE : After taking decisions such as selecting a business, selecting the form of organisation of business, making decision about the amount of capital to be invested, selecting suitable site, acquiring equipment & supplies, selecting staff, getting customers & selling the goods etc. a business man finally resorts to record keeping. For all types of business organisations, transactions such as purchases, sales, manufacturing & selling expenses, collection from customers & payments to suppliers do take place. These business transactions are recorded in a set of ruled books such as journal, ledger, cash book etc. Unless these transactions are recorded properly he will not be in a position to know where exactly he stands.

The following is the complete cycle of Accounting

a) The opening balances of accounts from the balance sheet & day to day business transaction of the accounting year are first recorded in a book known as **journal.**

b) Periodically these transactions are transferred to concerned accounts known as **ledger** accounts.

c) At the end of every accounting year these accounts are balanced & the **trial balance** is prepared.

d) Then the final accounts such as **trading & profit & loss** accounts are prepared.

e) Finally, a **balance sheet** is made which gives the financial position of the business at the end of the period.

Numerical problem

1. **Journal entries,**
2. **Bank reconciliation statement**
3. **Final account**
4. **Rectification of error**
5. **Depreciation**

Unit III
(2 MARKS)

1. What is the meaning of inventory valuation?

Ans: An inventory valuation allows a company to provide monetary value for current assets. Inventory valuation is necessary to prepare financial statement. if inventories are not properly valued expenses and revenues cannot be properly match and the company will not able to make proper decisions.

2. State the meaning of inventory.

Ans: Inventory is tangible property. Inventory would include items which are held for sale in the ordinary course of business (Finished goods) or which are in the process of production for the purpose of sale (Work-in-Process), or which are to be used in the production of goods or services, which will be for sale (Raw Materials).

3. What is the term debenture.

Ans: Debenture is also known as loan or Dept. Debentures are freely Transferable and can be listed and traded on stock exchange. Debenture holder is a creditor of the company. Debenture holder received fix rate of interest on a due date. The principal amount is repaid on maturity. Debenture holders do not enjoy voting right.

4. Define bonds

Ans: A written and signed promise to pay a certain sum of money on a certain date, or on fulfillment of a specified condition. All documented contracts and loan agreements are bonds.

5. Write short notes on issue of shares.

Ans: Issue of shares can be collected in installment that is an application, on allotment and on calls. Applications of shares are the starting point of shares capital. It is the amount received at the time of application. Calls on shares are the allotment money received from the shareholders when it is called by the company.

6. What do you mean by shares

Ans: A share is a fraction of share capital and forms the basis of ownership interest in a company. The person who contribute money through shares are referred to as shareholders.

7. What is Share Capital

Ans: Share capital is the amount of money contributed by owners are shareholders the shareholder get dividend for contribution of their money for the business.

8. Write the term free cash flow

Ans: Free cash flow is the cash that a company is left with after its payout interest and dividend to its investors and pays for the capital expenditure.

Free cash flow is equal to cash flow from operating activities - Capital expenses to keep current level of operation - Interest - Dividends.

9. Define cash flow.

Ans: Cash flow statement is a financial report that describes the sources of cash and how it was spent over a period of time. It shows cash received and cash payment. It shows flow of capital. It shows flow of cash in and cash out of an organisation. cash flow statement is a financial statement that describes the sources and application of cash from various activities over a specified time period.

10. State the concept fund

Ans: According to the accounting standard, 'the term "fund" generally refers to cash and cash equivalents, or to working capital. It is divided into fund flow statement and cash flow statement where transactions are recorded regarding sources of fund and application of fund.

11. What is FIFO

Ans: . First-In, First-Out Method: According to FIFO, it is assumed that items from the inventory are sold in the order in which they are purchased or produced. Goods purchase or manufacture first are issued or sold first. This means most recent stocks are remains in the stock.

12. What do you understand by perpetual inventory system.

Ans: Under this method continues records are maintained for the movement of inventory. Whenever items are purchased or issued or sold or get spoiled the records are updated immediately to know the latest stock.

13. What is an IPO

Ans: Initial Public Offer is a sale of shares by a company to public. It is used by existing companies to raise capital. It is by new company to become listed company. IPO market is known as primary market.

14. What is public limited company?

Ans: A public limited company is a form of business organization that operates as a separate legal entity from its owners. It is formed and owned by shareholders. Shares of a public limited company are listed and traded at a stock exchange market freely. It must have a minimum of **7 members** and no limit with regards to the maximum number of members.

15. Explain the term buyback of shares.

Ans : A buyback means repurchase. a company buys back its own shares from the marketplace, usually because management thinks the shares are undervalued , reducing the number of outstanding shares . The company buys shares directly from the market or offers its shareholders the option of tendering their shares directly to the company at a fixed price .

16. Explain cash flow activities

Ans: Cash Flows are inflows and outflows of cash and cash equivalents.The statement of cash flow shows three main categories. Operating, investing and financing activities.

(a) **Operating activities** are the principal revenue generating activities of the enterprise.

(b) **Investing activities** include the purchase and sale of long term assets and other investments.

(c) **Financing activities** are activities that result in change in the size of the owner's capital (including Preference share capital in the case of a company) and borrowings of the enterprise.

17. Define term fund flow

Ans: The term 'Flow' means change and, therefore, the term 'Flow of Funds' means 'Change in Funds' or 'Change in Working Capital'. In other words, any increase or decrease in working capital means 'Flow of Funds'.

18. Write note on operating activities.

Ans: Cash flows from operating activities are primarily derived from the principal revenue-producing activities of the enterprise. Therefore, they generally result from the transactions and other events that enter into the determination of net profit or loss. Examples of cash flows from operating activities are: cash inflow from sales, royalties, fees, commissions and other revenue; and cash outflow to suppliers for goods and services; income taxes, cash purchase, payments of wages, etc.

19. How to keep records of inventory

Ans : Perodic Inventory System : It is a process of physical verification of inventory by taking actual physical count (or weight) at periodical interval.

Perpetual Inventory System : Under this method continues records are maintained for the movement of inventory. Whenever items are purchased or issued or sold or get spoiled the records are updated immediately to know the latest stock.

20. What do you mean by company

Ans: A company is an incorporated association of persons created by law to carry on the expressly laid down objectives. A company exist by law. It may be formed by an act of parliament, or by Royal Charter or by registration under the company law. A company has perpetual existence i.e. the existence of a company can only be terminated by law and not by the death, retirement, insanity of its members.

21. Write a note on types of company.

Ans:(write any 2) 1.Statutory Company: A company formed by a special Act passed either by the central or the state legislature is called a statutory company.

2. Registered Company: Company registered under the Indian Companies Act is known as Registered Company.

3. Public Company: A public limited company is a form of business organization that operates as a separate legal entity from its owners.

4. Holdings and Subsidiary: A company which controls another company is called a Holding Company and the company so controlled is called a Subsidiary Company.

22. Write note on company annual report.

Ans: An annual report is a comprehensive report on a company's activities throughout the preceding year. Annual reports are given to shareholders and other interested people information about the company's activities and financial performance.

23. What do you mean by corporate accounting.

Ans : Corporate Accounting is a special branch of accounting which deals with the accounting for companies ,preparation of their final accounts and cash flow statements, analysis and interpretation of company's financial results and accounting for specific events like amalgamation, absorption, preparation of consolidated balance sheets.

UNIT III

(3 marks)

1. **What do you mean about analysis of inventory.**
2. **State the term share and share capital.**
3. **Define the meaning of Bond**
4. **Write the meaning of funds.**
5. **Write the term buyback of shares.**
6. **What is debenture**
7. **What do you mean by income statement**

   Ans: Income statement is a financial statement that reports a company's financial performance over a specific accounting period. Financial performance over a specific accounting period. Financial performance is assessed by giving a summary of how the business incurs its revenues and expenses through both operating and non-operating activities
8. **What are different types of share capital.**

Ans: (1) Preferences Shares: Shares which enjoy the preferential rights as to dividend and repayment of capital in the event of winding up of the company over the equity shares are called preference shares.

(2) Equity Shares: Equity shares will get dividend and repayment of capital after meeting the claims of preference shareholders. There will be no fixed rate of dividend to be paid to the equity shareholders.

9. **What do you mean by free cash flow.**

Ans: Free cash flow is a measure of a company's financial performance, calculated as operating cash flow minus capital expenditures.it represent the cash that a company is able to generate after spending the money required to maintain or expand its asset base.

10. **State the importance of annual report of a company.**
11. **Write various methods of inventory valuation.**

Ans: Inventory valuation methods

1. First-In First-Out Method: it means sale of stock of those goods which are porchase first.
2. Last-In First-Out Method: it means sale of stock which are purchase last.
3. Simple Average Method: the price to be considered for the issue of materials is the average price.
4. Weighted Average Method: Under this method the number of units, i.e. the quantity of materials is also taken into consideration to calculate the average price.
5. Specific Identification Method: this method requires the physical identification and matching of the particular items sold.

12. **Explain cash flow activities**
13. **Explain fund flow statement.**
14. **Write a various advantages of debentures.**
15. **Differentiate between debentures and shares**
16. **What is company.**
17. **Explain various types of company.**
18. **Explain needs of shares in company**
19. **Write steps to prepare cash flow statement.**

UNIT III

(5 marks)

1. **Write a note short the various types of companies**
2. **Write short note on issue of shares.**
3. **Explain the term buyback of shares.**

4. State the concept of debentures and bonds.
5. What is fund flow statement
6 .What do you understand by company annual report.
7. Explain the difference between debentures and bond.
8.State the difference between fund flow and cash flow statement
9. What is difference between share and bonds.
10. Differentiate between Debenture and Bond.
11. What do you mean by cash flow statement explain with suitable example.
12. What do you mean by inventory? Explain its advantages and disadvantages in detail.
13. What do you mean by debenture? Explain its various types in details.
14. Explain various types of shares in detail.
15. Write steps to prepare cash flow statements.

Ans: The statement is divided into four parts.

1. Cash flows relating to your operations – the core activities of your business. This includes
   - cash receipts (cash received) from your customers
   - cash paid to suppliers and
   - cash paid to employees
   - Tax paid.

2. Cash flow from investing activities like purchase and sale of assets
- computer equipment
- vehicles,
- building

3. Cash flow from financing activities-It is where we get cash from.
- owners equity
- Loans
- Repayment of a loan
- Drawings
- Dividends

The final section comprises the net cash increase or decrease for the period and the cash balance at the beginning and end of the period.

16. List various items available in balance sheet write various advantages of company in detail.

<u>Numerical problem</u>

1. Fund flow statement

2. Prepare statement showing working capital

UNIT IV

(10 marks)

1. **State the meaning and component of company annual report.**
2. **Write the difference between fund flow statement and cash flow statement.**

Ans: 1. A Cash Flow Analysis is concerned only with the change in cash position while a Fund Flow Analysis is concerned with change in working capital position, between two balance sheet dates. Cash is only one of the constituents of working capital besides several other constituents such as inventories, accounts receivable, prepaid expenses.

2. A Cash Flow Statement is merely a record of cash receipts and payments. It is valuable in its own way but it fails to bring to light many important changes involving the uses of resources. While studying the short-term solvency of a business one is interested not only in cash balance but also in the assets which can be easily converted into cash.

3. Cash flow analysis is more useful to the management as a tool of financial analysis in short-periods as compared to funds flow analysis. For example, if it is to be found out whether the business can meet its obligations maturing after 10 years from now, a good estimate can be made about the firm's capacity to meet its long-term obligations if changes in working capital position on account of operations are observed.

4. Cash is part of working capital and, therefore, an improvement in cash position results in improvement in the funds position but the reverse is not true. In other words 'inflow of cash' results in 'inflow of funds' but inflow of funds may not necessarily result in 'inflow of cash'. Thus, a sound funds position does not necessarily means a sound cash position but a sound cash position generally means a sound funds position.

5. Another distinction between a cash flow analysis and a funds flow analysis can be made on the basis of the techniques of their preparation. An increase in a current liability or decrease in a current asset results in decrease in working capital and vice versa. While an increase in a current liability or decrease in a current asset (other than cash) will result in increase in cash and vice versa.

3. **Explain the various methods of inventory valuation.**
4. **Explain the procedure of issue of shares.**
5. **Explain significant accounting policies for inventory.**
6. **Differentiate between public company and private company.**
7. **Write short note on-**

a) **Calls in arrears**

Ans: When the company sends notice to the shareholders to pay allotment or call money, it has to be paid by them within the specified time period. If it is not paid by any one or more of the shareholders, the unpaid amount becomes arrears due from them. Such arrears are transferred to an account termed as Calls-in-Arrears A/c

Call in advance: If a shareholder pays any amount to company before it is demanded, it is called Call-in-Advance. This amount is put in a separate account known as Calls-in-Advance A/c. This amount is not shown as capital of the company, till such time the company makes a demand from all the shareholders. Call-in-Advance A/c is shown on the liabilities side of the Balance Sheet. For example if a company issued shares of Rs 10 on which it has already called Rs 5. Against the uncalled portion of Rs 5 per share the company makes a call Rs 3 per share, the entry for call money due will be made only for Rs 3 per share. Now suppose a shareholder pays Rs 5 per share including the uncalled amount of Rs 2 per share along with the call money, it means he has paid Rs 2 per share in advance, which will be credited to calls in Advance A/c.

b) **Forfeiture of shares**

c) **Buyback of shares**

Numerical problems on

1. **Inventory valuation**
2. **Final accounts of company**
3. **Cash flow statement**
4. **Fund flow statement**
5. **Issue of share.**

Unit 4
2 marks

1. What is horizontal analysis?

Ans: Horizontal analysis is a comparison of two or more year's financial data of the same entity or organisation. It is conducted by preparing comparative statement or trend statement.

2. Define EPS

Ans: Earning Per Share indicates profit available for its equity shareholders. This ratio plays a very important role for the investors to take decision on investment. It is calculated as $EPS = \frac{\text{Profit available for equity shareholders}}{\text{Number of Equity shares}}$.

3. What do you mean by trend statement?

Ans: These are prepared to analyse long-term Movement in financial figures. In trade statement initial year is taken as a base(100) and percentage is calculate for the following years. It enables an analysis of performance of the same company for many years.

4. Write the term profitability ratio.

Ans: Profitability implies ability to generate earnings particularly with respect to turnover. There are certain formulas of calculating profitability ratio like Gross Profit Ratio, Operating profit ratio. Net profit ratio, Earning Before Interest Tax ratio (EBIT), Earning per share EPS

5. What is consolidate financial statement

Ans: It is a financial statement presented by the parents and subsidiary group of companies. It is financial statement which shows together the items like assets, liabilities, income and expenses.

6. Define the concept creative accounting.

Ans: it is manufactured of financial figures. It refers to malpractice in which Accountants shows false the information so that company financial position loks better. It can be technically correct but deviation from how accounting policies were intended to be used.

7. What is EBIT.

Ans: Earning Before Interest and Taxes ratio indicates profit earned by the firm operating activities. It is also known as operating profit or profit before interest and taxes.

$$\textbf{EBIT} = \frac{\textbf{EBIT} \times 100}{\textbf{Sales}}$$

8. Write the meaning of HRA.

Ans: Human Resource Accounting (HRA) means to measure the cost and value of the people (i.e. of employees and managers) in the organisation. It measures the cost incurred to recruit, hire, train and develop employees and managers. HRA also finds out value of its employees and managers.

9. What do you understand by the term liquidity ratio?

Ans: The term liquidity means convertibility of assets into money for paying of its short-term liabilities. Liquidity ratios are useful to show firm's ability to meet its current liabilities. following ratios are commonly used:

(1) Current Ratio,(2) Quick Ratio (or) Acid Test or Liquid Ratio,(3) Absolute Liquid Ratio (or) Cash Position Ratio.

10. Give any two examples of profitability ratio.

Ans: The term profitability means the profit earning capacity of any business activity. Profitability Ratio is used to measure the overall efficiency or performance of a business. Following are the ratios used for calculating profitability. 1. Gross Profit Ratio,2. Operating Ratio, 3. Operating Profit Ratio.
4. Net Profit Ratio.

11. What is P/E ratio.

Ans: This ratio calculate the amount that investors are willing to pay for each rupee of earning.

$$\text{P/E Ratio} = \frac{\text{Market Price Per share}}{\text{Earning Per Share}}$$

12. What is vertical analysis?

Ans : vertical analysis is use in comparing the performance of financial position of two or more companies. Comparison of companies in the same industry makes more sense since different companies are of different size absolute figures cannot be compared.

13. What do you mean by working capital?

Ans: It is capital of business which is used in its day to day operation. It is calculated as current assets minus current liabilities.

14. Explain acid test ratio

Ans: Quick Ratio also termed as Acid Test or Liquid Ratio. It is supplementary to the current ratio. The acid test ratio is a more accurate test of a firm's ability to pay its short-term obligations 'as and when they become due. Quick Ratio establishes the relationship between the quick assets and current liabilities.

15. What is environmental accounting

Ans: Environmental accounting deals with computation of environmental cost of commercial and industrial decisions using traditional accounting and financial principle. Environmental accountant communicate the economic impact that a company will have on the environment.

16. What do you mean by current ratio

Ans: Current Ratio establishes the relationship between current Assets and current Liabilities. It attempts to measure the ability of a firm to meet its current obligations. In order to compute this ratio, the following formula is used :

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

17. Explain NP ratio

Ans: Net Profit Ratio is also termed as Profit Margin Ratio (or) Net Profit to Sales

Ratio. This ratio shows the firm's overall efficiency in operating the business. Net profit Ratio is used to measure the relationship between net profit (either before or after taxes) and sales. This ratio can be calculated by the following formula :

$$\text{Net Profit Ratio} = \frac{\text{Net Profit After Tax}}{\text{Net Sales}} * 100$$

18. What do you mean by turnover ratio

Ans: Turnover Ratios may be also termed as Efficiency Ratios or Performance Ratios or Activity Ratios. Turnover means the number of times assets are converted or turned over into sales. The following are turnover ratios :

1. Inventory Ratio or Stock Turnover Ratio (Stock Velocity)
2. Debtor's Turnover Ratio or Receivable Turnover Ratio (Debtor's Velocity)
3. Creditor's Turnover Ratio or Payable Turnover Ratio (Creditor's Velocity)
4. Fixed Assets Turnover Ratio etc

19. What do you mean by Current Ratio

Ans: Current Ratio establishes the relationship between current Assets and current Liabilities. It attempts to measure the ability of a firm to meet its current obligations. In order to compute this ratio, the following formula is used :

Current Assets

Current Ratio = Current Liabilities

The two basic components of this ratio are current assets and current liabilities. Current asset normally means assets which can be easily converted in to cash within a year's time. On the other hand, current liabilities represent those liabilities which are payable within a year.

20. What do you mean by Joint venture

Ans: It is the business agreement between two or more parties to undertake joint business. This exercise includes joint control over the business. It share profit and loss, assets and liabilities jointly.

21. Explain the term environment accounting.

22. Write a note on forensic accounting

Ans: forensic accounting is utilised in accounting auditing, investigating skills when conducting an investigation. It communicates financial information clearly and concisely in the court. Forensic accounting provides an accounting analysis that is suitable for the basic for discussion, debate, ultimately for solving dispute.

23. What do you mean by lean accounting

Ans: Lean accounting is an accounting type that is design for those companies who have implemented Lean manufacturing techniques. Lean accounting provides positive ways of improving performance of the organisation which traditional accounting does not always provides.

24. Write short note on inflation accounting

Ans: Inflation means rise in price and inflation accounting means showing firm's real financial position in inflationary time. Accounting records historical cost of assets but current market price of that assets are different therefore inflationary accounting are maintained.

25. Write short note on HRA

26. Write an objective of HRA

UNIT IV

3 marks

1. What is Ratio

Ans: The term 'ratio' refers to the mathematical relationship between any two inter-related variables. It establishes relationship between two items expressed in quantitative form. The analysis of the financial statements and interpretations of financial results of a particular period of operations with the help of 'ratio' is termed as "ratio analysis

2. Explain the term financial statement

Ans: financial statement is a summary report that shows how a firm has used the funds invested by its stockholders (shareholders) and lenders, and what is its current financial position. The three basic financial statements are the (1) balance sheet, which shows firm's assets, liabilities, and net worth on a stated date; (2) income statement (also called profit & loss account), which shows how the net income of the firm is arrived at over a stated period, and (3) cash flow statement, which shows the inflows and outflows of cash caused by the firm's activities during a stated period.

3. Write the meaning of profitability ratio

Ans: The term profitability means the profit earning capacity of any business activity. Thus, profit earning may be judged on the volume of profit margin of any activity and is calculated by subtracting costs from the total revenue accruing to a firm during a particular period. Profitability Ratio is used to measure the overall efficiency or performance of a business.

5. What is Transfer pricing

Ans : It is the price recorded in accounting for transfer of goods or services from one center to another, from one company to another which belongs to same group.

6. Define forensic accounting

7. What is segment reporting

Ans: Segment means division. Segment reporting means giving separate information of each division. It can be divided by geographical segment, reportable segment, segment revenue, segment expenses.

8. State the concept of Return Ratio

Ans: The term return means Profits or Net Profits. This ratio measures a return on the owner's or shareholders' investment. There are various ratios which helps to calculate return ratios like Return on Investment Ratio, Return on Capital Employed Ratio, Earning Per Share Ratio, Dividend Payout Ratio, Dividend Yield Ratio, Price Earnings Ratio, etc.

9. Define solvency ratio

Ans: The term 'Solvency' generally refers to the capacity of the business to meet its short-term and long term obligations. Short-term obligations include creditors, bank loans and bills payable etc. Long-term obligations consist of debenture, long-term loans and long-term creditors etc. Solvency Ratio indicates the sound financial position of a concern to carryon its business smoothly and meet its all obligations.

10. Explain the objects of Human Resource accounting

11. Define the term joint venture

12. Write short note on HRA

Ans: Human Resource Accounting is the activity of knowing the cost invested for employees towards their recruitment, training them, payment of salaries & other benefits paid and in return knowing their contribution to organisation towards its profitability.

The American Accounting Association's Committee on Human Resource Accounting (1973) has defined Human Resource Accounting as "the process of identifying and measuring data about human resources and communicating this information to interested parties".

13. Explain inflation accounting

14. Write objectives of HR accounting

Ans: The main objectives of HR Accounting system are as follows: (any 3)

1. To furnish cost value information for making proper and effective management decisions about acquiring, allocating, developing and maintaining human resources in order to achieve cost effective organisational objectives.
2. To monitor effectively the use of human resources by the management.
3. To have an analysis of the human assets i.e. whether such assets are conserved, depleted or appreciated.
4. To aid in the development of management principles. and proper decision making for the future by classifying financial consequences of various practices.
5. In all, it facilitates valuation of human resources recording the valuation in the books of account and disclosure of the information in the financial statement.

15. Explain consolidated financial statement

Ans: Consolidated financial statements are the combined financial statements of a parent company and its subsidiaries. Because consolidated financial statements present an aggregated look at the financial position of a parent and its subsidiaries.

Consolidated financial statements are the Financial statements of a group in which the assets , liabilities , income , expenses and cash flows of the parent (company) and its subsidiaries are presented as those of a single economic entity.

16. What is the accounting for investment

17. Define term financial instruments

18. Explain segment report

19. Explain profitability ratio

20. Write short note on EBIT

21. Describe solvency ratio

UNIT IV

5 marks

1. What is Lease accounting

2. Write the term foreign currency accounting

3. Explain the meaning of financial statement analysis

Ans: Financial statements for businesses usually include income statements, balance sheets , statements of retained earnings and cash flows . It is standard practice for businesses to present financial statements that adhere to generally accepted accounting principles (GAAP) to maintain continuity of information and presentation across international borders. Financial statements are often audited by government agencies, accountants, firms, etc. to ensure accuracy and for tax, financing or investing purposes.

Financial statements are a collection of reports about an organization's financial results, financial condition, and cash flows .

They are useful for the following reasons:

- To determine the ability of a business to generate cash, and the sources and uses of that cash.
- To determine whether a business has the capability to pay back its debts.
- To track financial results on a trend line to spot any looming profitability issues.
- To derive financial ratios from the statements that can indicate the condition of the business.
- To investigate the details of certain business transactions, as outlined in the disclosures that accompany the statements.

4. Write short note on environmental accounting

5. What do you mean by financial statement analysis? Explain its various techniques

6. What is extensible business reporting language (XBRL)

7. What do you mean by financial statement analysis? Explain its advantages and disadvantages.

8. Differentiate between horizontal analysis and vertical analysis.

9. Explain operating cycle with suitable example

10. Explain different account for investments

11. What are the contemporary issues in accounting

12. Explain various types of environmental cost

13. What do you mean by lean accounting? Explain its various objectives in detail

Numerical problem

1. Calculate various ratio

2. Determine /calculate working capital

3. Prepare the financial statement

4. Inflation accounting

UNIT IV

(10 marks)

1. What is Human Resource accounting state its objects

Ans: HRA is the art of valuing, recording and presenting systematically the work of human resources in the books of accounts of an organisation. Thus, it is primarily an information system, which informs the management about the changes that are taking place in the human resource of an organisation.

DEFINITIONS

"Human Resource Accounting is the process of identifying and measuring data about human resources and communicating this information to interested parties."

- American Accounting Society Committee on HRA

"Human Resource Accounting is an attempt to identify and report investments made in human resources of an organisation that are presently not accounted for in conventional accounting practice. Basically it is an information system that tells the management what changes over time are occurring to the human resource in the business."

The main objectives of HR Accounting system are as follows: (any 3)

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

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

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

4. To aid in the development of management principles. and proper decision making for the future by classifying financial consequences of various practices.

5. In all, it facilitates valuation of human resources recording the valuation in the books of account and disclosure of the information in the financial statement.

2. Explain in brief the techniques of financial statement analysis

3. Write short note on

a) Inflation accounting

b) Environment accounting

4. What do you know about lean accounting and responsibility accounting

5. What do you mean by cash flow statement? Explain its importance in detail

Ans: Cash Flow Statement deals with flow of cash which includes cash equivalents as well as cash. This statement is an additional information to the users of Financial Statements. The statement shows the incoming and outgoing of cash. The statement assesses the capability of the enterprise to generate cash and utilize it. Thus a Cash-Flow statement may be defined as a summary of receipts and disbursements of cash for a particular period of time. It also explains reasons for the changes in cash position of the firm. Cash flows are cash inflows and outflows.

Importance

I. Cash flow statement aims at highlighting the cash generated from operating activities.

2. Cash flow statement helps in planning the repayment of loan schedule and replacement of fixed assets, etc.

3. Cash is the center of all financial decisions. It is used as the basis for the projection of future investing and financing plans of the enterprise.

4. Cash flow statement helps to ascertain the liquid position of the firm in a better manner. Banks and financial institutions mostly prefer cash flow statement to analyse liquidity of the borrowing firm.

5. Cash flow Statement helps in efficient and effective management of cash.

6. The management generally looks into cash flow statements to understand the internally generated cash which is best utilised for payment of dividends.

6. What do you mean by fund statement? Differentiate between fund flow and cash flow

Ans: The term 'Flow' means change and, therefore, the term 'Flow of Funds' means 'Change in Funds' or 'Change in Working Capital'. In other words, any increase or decrease in working capital means 'Flow of Funds'.

Meaning A cash flow statement is a statement showing the inflows and outflows of cash and cash equivalents over a period.

A fund flow statement is a statement showing the changes in the financial position of the entity in different accounting years.

Purpose of Preparation

To show the reasons for movements in the cash at the beginning and at the end of the accounting period.

To show the reasons for the changes in the financial position, with respect to previous year and current accounting year.

Analysis cash flow statement is a Short Term Analysis of cash planning.

Fund flow statement is a Long Term Analysis of financial planning

Discloses cash flow statement Inflows and Outflows of Cash

Fund flow statement Sources and applications of funds

Opening and closing balance

Cash flow statement contains opening and closing balance of cash and cash equivalents.

Fund flow statement does not contain opening balance of cash and cash equivalents.

Part of Financial Statement

Cash flow statement is a part of financial statement.

Fund flow statement is not a part of financial statement.

7. Differentiate between horizontal analysis and vertical analysis

Ans: Horizontal vs Vertical Analysis

Horizontal analysis is a procedure in the fundamental analysis in which the amounts of financial information over a certain period of time is compared line by line in order to make related decisions.

Vertical analysis is the method of analysis of financial statements where each line item is listed as a percentage of another item to assist decision making.

Main Purpose

The main purpose of horizontal analysis is to compare line items to calculate the changes over time.

Main purpose of vertical analysis is to compare changes in percentage terms.

Usefulness

Horizontal analysis becomes more useful when comparing company results with previous **financial years.**

Vertical analysis is more useful in comparing company results with other companies.

Summary- Horizontal vs Vertical Analysis

The key difference between horizontal and vertical analysis depends on the way financial information in statements are extracted for decision making. Horizontal analysis compares financial information over time by adopting a line by line method. Vertical analysis is focused on conducting comparisons of ratios calculated using financial information. Both these methods are conducted using the same financial statements and both are equally important to make decisions that affect the company on an informed basis

8. Explain segment reports in detail

9. Write short note on

a) Quick ratio/ Acid test ratio/ liquid ratio

1. **Ans:** Quick Ratio also termed as Acid Test or Liquid Ratio. It is supplementary to the current ratio. The acid test ratio is a more severe and stringent test of a firm's ability to pay its short-term obligations 'as and when they become due. Quick Ratio establishes the relationship between the quick assets and current liabilities. In order to compute this ratio, the below presented formula is used : **Acid Test Ratio /Quick Ratio / Liquid Ratio =**

$$\textbf{Acid Test Ratio /Quick Ratio / Liquid Ratio} = \frac{\textbf{Liquid Assets}}{\textbf{Liquid Liabilities}}$$

- Liquid Assets =Current Assets –Stock– Prepaid Exp.
- Liquid Liability=Current Liability–Bank Overdraft

b) Working capital ratio

c) Dept Equity ratio

Ans: This ratio also termed as External - Internal Equity Ratio. This ratio is calculated to ascertain the firm's obligations to creditors in relation to funds invested by the owners. The ideal Debt Equity Ratio is 1: 1. This ratio also indicates all external liabilities to owner recorded claims. It may be calculated as Ratio Analysis

(a) Debt - Equity Ratio = $\frac{\text{External Equities}}{\text{Internal Equities}}$

or

(b) Debt - Equity Ratio = $\frac{\text{Outsider's Funds}}{\text{Shareholders' Funds}}$

The term External Equities refers to total outside liabilities and the term Internal Equities refers to all claims of preference shareholders and equity shareholders' and reserve and surpluses.

d) Proprietor fund ratio

Ans: Proprietary Ratio is also known as Capital Ratio or Net Worth to Total Asset Ratio. This is one of the variant of Debt-Equity Ratio. The term proprietary fund is called Net Worth. This ratio shows the relationship between shareholders' fund and total assets. It may be calculated as : Proprietary Ratio = $\frac{\text{Shareholders' Fund}}{\text{Total Assets}}$

Shareholders' Fund = Preference Share Capital + Equity Share Capital + All Reserves and Surplus

Total Assets = Tangible Assets + Non-Tangible Assets + Current Assets (or) All Assets including Goodwill

Numerical problem

1. Ratio

2. Working capital ratio

3. Financial statement analysis

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