

ACCOUNTING FOR MANAGERS

CALICUT UNIVERSITY

5RD SEMESTER B.COM

“SHORT QUESTIONS/ 2 MARKS QUESTIONS”

1. What is Acid test Ratio?

This is the ratio of liquid assets to current/ liquid liabilities. It shows a firm's ability to meet current liabilities with its most liquid assets.

$$\frac{\text{Creditsale} - \text{returninward}}{\text{Debtors} + \text{receivables}} = \frac{42000 - 2000}{5000 + 3000} = 5$$

2. What is Trend analysis?

Comparing past data over a period of time with a base year is called trend analysis. It enables to know the changes in the financial function and operational efficiency between the time period chosen.

3. What is management accounting?

According to RN Anthony, "management accounting concerned with accounting information that is useful to management".

4. What are Liquidity ratios?

Current ratio/working capital ratio, Liquid / acid test ratio, super quick ratio

5. Calculate Debtor Turner over ratio from the following information.

Credit sale – Rs.42000,

Return inward- Rs.2000

Debtors- Rs.5000

Bill receivable- Rs. 3000

Debtors turnover ratio= Net credit sale / (average Debtors average receivable)

6. Cash-15000,Bill receivable-15000

Sundry debtors-20000, stock-10000

Creditors-30000, Cost of sales-180000

Calculate working capital turnover ratio?

Net working capital= current assets- current liabilities

Working Capital=

$$(15000 + 15000 + 20000 + 10000) - (30000) = 30000$$

Working capital turnover ratio=

$$\frac{\text{Sales}}{\text{Networkingcapital}}$$

$$= \frac{180000}{30000} = 6$$

7. Calculate BEP from the following data

Fixed cost-Rs.4000, P/V ratio- 25%

$$\text{BEP} = \frac{\text{Fixed cost}}{\text{PVratio}} = \frac{4000}{25\%}$$

$$=16000$$

8. Calculate P/V ratio from the following
 Selling price per unit-Rs.25
 Variable cost per unit- Rs.15
 Fixed costs – Rs.28000

$$\begin{aligned} \text{Contribution} &= \text{Selling price} - \text{variable cost} \\ &= 25 - 15 = 10 \end{aligned}$$

$$\text{PV ratio} = \frac{\text{Contribution}}{\text{Sales}} \times 100$$

$$\begin{aligned} &= \frac{10}{25} \times 100 \\ &= 40\% \end{aligned}$$

9. Find out current liabilities when current ratio is 3:1 and current assets are Rs.105000

$$\text{Current ratio} = \frac{\text{Current asset}}{\text{Current liabilities}} = 3:1$$

$$\frac{105000}{\text{Current liabilities}} = 3$$

$$3 = \frac{\text{Current liabilities}}{105000}$$

$$3 \times \text{Current liabilities} = 105000$$

$$\text{Current liabilities} = 35000$$

10. What is horizontal analysis?

Comparison of financial data of a company for several years. The figures for this type of analysis are presented horizontally over a number of columns. The figures of the various years are compared with standard or base year. This type of analysis is also called Dynamic analysis as it is based on the data from year to year rather than on data of any one year.

11. What is CVP analysis?

It is the study of the impact of a change in cost, price and volume on profit. Break even analysis is a narrow interpretation of cost volume profit analysis. But it is mainly confined to finding out the breakeven point. In CVP analysis the relationship between cost, volume and profit is studied in detail. It helps management in profit planning, decision making and cost control.

12. What is P/V ratio?

Contribution is an absolute measure of profitability but it cannot be used for comparison of two products or departments. Therefore, the contribution is related to volume of sales. It is called Contribution / Sales Ratio or Profit/Volume Ratio [P/V Ratio]

$$\text{P/V Ratio} = \frac{\text{Contribution}}{\text{Sales}} \times 100$$

13. What is marginal costing?

It is the technique of costing in which only marginal costs or variable are charged to output or production. The cost of the output includes only variable costs. Fixed costs are not charged to output. These are regarded as 'Period Costs'

14. What do you mean by EPS?

Earnings per share ratio (EPS Ratio) is a small variation of return on equity capital ratio and is calculated by dividing the net profit after taxes and preference dividend by the total number of equity shares.

The formula of earnings per share is:

Earnings per share (EPS) Ratio = (Net profit after tax – Preference dividend) / No. of equity shares (common shares)

15. Mention any four applications of fund?

- (i) Purchase of assets
- (ii) Repayment of loan
- (iii) Redemption of share/ debenture
- (iv) Payment of tax

16. What do you understand by comparative financial statement?

Comparative Financial Statement analysis provides information to assess the direction of change in the business. The Comparative Financial Statement provides information about two or more years' figures as well as any increase or decrease from the previous year's figure and it's percentage of increase or decrease.

17. What is responsibility accounting?

Responsibility accounting is a system used in management accounting for control of costs. It is used along with other systems like budgetary control and standard costing. The organization is divided into different centres called "responsibility centres" and each centre is assigned to a responsible person

18. What are cost objects?

A cost object is a term used primarily in cost accounting to describe something to which costs are assigned. Common examples of cost objects are: product lines, geographic territories, customers, departments or anything else for which management would like to quantify cost.

19. What are the features of responsibility accounting?

(a) It is a control system used by top management for monitoring and controlling operations of a business.

(b) It is based on clearly defined functions and responsibilities assigned to executives.

(c) The organization is divided into meaningful segments called responsibility centres.

(d) Costs and revenues of each centre and responsibility of them are fixed on the individuals.

20. Explain the term fund?

In a narrow sense it means cash and in a broader sense it is capital or all financial resources of a business. But the fund is commonly used in its popular sense as working capital or net current assets. Thus for accounting purpose and for preparing funds flow statements, the term fund means working capital of the excess of current assets over current liabilities

21. What do you mean by 'fund flow'?

The term flow of funds means the transfer of economic values from one asset of equity to another. Flow of funds is said to have taken place when any transaction makes changes in the amount of funds available before happening of the transaction. In effect, transaction results in increase of funds are called inflow of funds and transaction which decreases funds are called outflow of funds. Further if a transaction does not change the funds, it is said to have no flow of funds. According to working capital concept of fund, the term flow of funds means movement of funds in the working capital.

22. What is cash flow statement?

Cash flow statement is a statement which describes the inflows and outflows of cash and cash equivalents in an enterprise during a specified period of time. It explains the reasons for changes in a firm's cash position during an accounting year

23. What is contribution?

Contribution is the excess of sales over marginal cost. It is not purely profit. It is the profit before recovery of fixed assets. Fixed costs are first met out of contribution and only the remaining amount is regarded

as profit. Contribution is an index of profitability. It has a fixed relationship with sales. Larger the sales more will be the contribution and vice versa.

$Contribution = Sales - Marginal\ cost$

24. What are the advantages of marginal costing?

(a) It is simple to understand and easy to apply to any firm

(b) There is no arbitrary apportionment of fixed cost in this system. Fixed costs are transferred to costing profit and Loss account.

(c) It also prevents the illegal carry forward in stock valuation of some proportion of current years fixed cost.

(d) The effect of different sales mix on profit can be ascertained and management can adopt the optimum sales mix

25. What is margin of safety?

Margin of safety represents the strength of the business to face an adverse market condition. It is the excess of actual sales over break even sales. Higher the Margin of safety, better the position of the firm.

$Margin\ of\ safety = Actual\ sales - Break\ even\ sales$

$Margin\ of\ safety = Profit / P/V\ Ratio$

Or $Profit = margin\ of\ safety \times P/V\ Ratio$

26. What is break even chart?

It is the graphical presentation of breakeven point. It shows the relationship between sales volumes, variable and fixed costs. It also shows the profit or loss at different levels of output or volume of sales.

27. What is angle of incidence?

It is the angle caused by the intersection of the total sales line and total cost line at the breakeven point. The width of the angle represents the rate of profitability i.e., the larger the angle the greater will be the profit the business is making on additional sales

28. Explain different types of analysis?

External analysis.

This analysis is done by outsiders who do not have access to the detailed internal accounting records of the business firm.

Internal analysis.

This analysis is conducted by persons who have access to the internal accounting records of a business firm.

Horizontal analysis.

Comparison of financial data of a company for several years. The figures for this type of analysis are presented horizontally over a number of columns. The figures of the various years are compared with standard or base year. This type of analysis is also called *Dynamic analysis* as it is based on the data from year to year rather than on data of any one year.

Vertical analysis

It refers to the study of relationship of the various items in the financial statements of one accounting period. In this type of analysis the figures from the financial statement of a year are compared with a base selected from the same year's statement. It is also known as *Static Analysis*.

29. State any two functions of management accountant?

Provides data: Management accounting serves as a vital source of data for management planning. The accounts and documents are a repository of a vast quantity of data about the past progress of the enterprise, which are a must for making forecasts for the future

Analyses and interprets data: The accounting data is analysed meaningfully for effective planning and decision-making. For this purpose the data is presented in a comparative form. Ratios are calculated and likely trends are projected.

30. Calculate current ratio

Current assets Rs. 52000, Fixed assets Rs.150000, Current liabilities Rs. 22000, Fixed liabilities Rs. 70000

$$\text{Current ratio} = \frac{\text{Currentasset}}{\text{Currentliabilities}}$$

$$= \frac{52000}{22000} = 2.36$$

31. Net profit Rs. 24000, Net sales Rs. 200000, Calculate net profit ratio?

$$\text{Net profit ratio} = \frac{\text{Netprofit}}{\text{Sales}} \times 100$$

$$= \frac{24000}{200000} \times 100 = 12$$

32. What is interest coverage ratio?

This ratio relates the fixed interest charges to the income earned by the business. It indicates whether the business has earned

sufficient profits to pay periodically the interest charges. It is calculated by using the following formula.

$$\text{Interest Coverage Ratio} = \frac{\text{Net Profit before Interest and Tax}}{\text{Fixed Interest}}$$

33. What is key factor?

A limiting factor or key factor is defined as the factor which restricts the volume of operation of the firm. Sometimes a firm may be confronted with scarce supply of materials, labour hours or production capacities. When there is a limiting factor in operation, the product that gives a higher contribution per unit of the limiting factor is more profitable than other products. Therefore contribution is related to unit of the limiting factor and choose the product mix based on higher contribution per unit of the limiting factor

34. A Ltd has a current ratio of 3.5:1 and quick ratio of 2:1. If closing stock is Rs. 24000, calculate total current assets and current liabilities?

$$\text{Current Ratio} = \frac{\text{Currentasset}}{\text{Currentliabilities}} = \frac{3.5x}{1x}$$

$$\text{Quick Ratio} = \frac{\text{Quickasset}}{\text{Currentliabilities}} = \frac{2x}{1x}$$

$$\text{Stock} = \text{Current assets} - \text{Quick assets}$$

$$\text{Stock} = 3.5x - 2x = 1.5x$$

$$24000 = 1.5x$$

$$\frac{24000}{1.5} = 16000$$

$$X = 1.5$$

$$\text{Current assets} = 3.5 \times 16000 = 56000$$

$$\text{Current liabilities} = 1 \times 16000 = 16000$$

35. What do you mean by solvency ratio?

It is the ratio of total borrowed funds to total assets (also equal to total liabilities). It indicates the relative contribution of outsiders in financing the assets of the firm. It is calculated as:-

$$\text{Solvency ratio} = \frac{\text{TotalBorrowedFund}}{\text{TotalAsset}}$$

36. What is Du pond Chart?

37. The Du Pont Control Chart is called as such because Du Pont Company of the USA first used it. The various factors affecting the Return on Investment (ROI) are illustrated through this chart. ROI represents the earning power of the business.

38. Give important use of fund flow statement?

- a) *It helps in the analysis of financial operations*
- b) *It gives answers to many questions like happening of net profit, proceeds of sale of shares etc.*
- c) *It helps in the formation of a realistic dividend policy*
- d) *It helps in the proper allocation of resources*
- e) *It acts as a guide for future to the management.*
- f) *It helps in appraising the use of working capital*

39. What do you mean by intra firm analysis?

The term intra firm comparison means comparison of two or more departments or division's belonging to the same firm with the objective of making meaningful analysis for the purpose of increasing the effectiveness or efficiency of the departments or division's involved.

40. State difference between contribution and profit?

Gross profit margin -- also called "gross margin" -- is an overall measure of the total profit on sales that a company makes after subtracting only those costs directly associated with production.

Contribution margin shows the gross profit contribution of a given product or group of products offered by the company. Gross margin is a group photo; contribution margins are individual snapshots.

41. Give a note on fund flow statement?

Funds flow statement is a statement which discloses the analytical information about the different sources of a fund and the application of the same in an accounting cycle.

42. What do you mean by comparative balance sheet?

A comparative balance sheet presents side-by-side information about an entity's assets, liabilities, and shareholders' equity as of multiple points in time. For illustration, a comparative balance sheet could present the balance sheet as of the end of each year for the past three years. The changes in periodic balance sheet items reflect the conduct of a business.

43. What are the constituents of complete financial statement?

Balance Sheet

Income Statement

Cash Flow Statement

Notes to Accounts and Accounting Policies

44. List out the limitations of fund flow statement?

a) *The funds flow statement cannot substitute the income statement or balance sheet.*

b) *The interpretation of fund as working capital distorts the real change in financial position of a business*

c) *Preparation of funds flow statement requires a lot of workings and preparation of non-current accounts.*

d) *Certain items like provision for tax and proposed dividend can be treated differently as current liability or noncurrent liability which gives misleading results regarding funds from operations*

