**VALLUVAR COLLEGE OF SCIENCE AND MANAGEMENT, KARUR**

**DEPARTMENT OF BUSINESS ADMINISTRATION**

**CLASS : III BBA SEMESTER: VI**

**SUBJECT : MANAGEMENT ACCOUNTING CODE: 16CCBB14**

**1. What is Management Accounting?**

The term management accounting refers to accounting for the management. Management accounting provides necessary information to assist the management in the creation of policy and in the day – to – day operation. It enables the management to discharge all its functions i.e. planning, organization, staffing, direction and control efficiently with the help of accounting information.

**2. Define management Accounting**

“Management Accounting is concerned with accounting information that is useful to management.” – R.N.ANTHONY

**3. Sate the function of Management Accounting**

* Forecasting
* Organizing
* Co – Ordination
* Controlling
* Analysis and Interpretation
* Communicating
* Economic Appraisal

**4. State the Advantages and limitation of management accounting**

* Helps in Decision Making
* Helps in Planning
* Helps in Organizing
* Facilitates Communication
* Helps in Coordinating

**5. What are Financial Statements?**

Financial statements are mainly prepared for decision making purposes. But the information as is provided in the financial statements is not adequately helpful in drawing a meaningful conclusion. By financial statements we mean two statements

I) Profit and loss Account or Income Statement

(ii) Balance Sheet or Position Statement

6. What is financial statement analysis?

The term ‘financial analysis’, also known as analysis and interpretation of financial statements’, refers to the process of determining financial strengths and weaknesses of the firm by establishing strategic relationship between the items of the balance sheet, profit and loss account and other operative data

#### 7. Sate the Objectives and Importance of Financial Statement Analysis

I)  To assess the earning capacity or profitability of the firm.

(ii) To assess the operational efficiency and managerial effectiveness.

(iii) To assess the short term as well as long term solvency position of the firm.

(iv) To identify the reasons for change in profitability and financial position of the firm.

(v) To make inter-firm comparison.

(vi) To make forecasts about future prospects of the firm.

(vii) To assess the progress of the firm over a period of time.

viii) To help in decision making and control.

#### 8. Sate the Parties Interested in Financial Analysis

(1) Investors or potential investors.

(2) Management.

(3) Creditors or suppliers.

(4) Bankers and financial institutions.

(5) Employees.

(6) Government.

(7) Trade associations.

**9. List out the tools of Financial Statement Analysis.**

* Comparative financial statements
* Common size statements
* Trend analysis
* Ratio analysis
* Funds flow analysis
* Cash flow analysis

10. **What is Comparative Balance Sheet**?

The comparative balance sheet shows the different assets and liabilities of the firm on different dates to make comparison of balances from one date to another. The comparative balance sheet has two columns for the data of original balance sheets. A third column is used to show change (increase/decrease) in figures. The fourth column may be added for giving percentages of increase or decrease.

11**. What is Common size statements?**

The CSS represents the relationship of different items of a financial statement with some Common item by expressing each item as a percentage of the Common item. In Common size Balance Sheet, each item of the Balance Sheet is stated as a percentage of the total of the Balance Sheet. Similarly in Common size Income Statement, each item is stated as percentage of the Net Sales.

12. **What is Trend analysis** ?

The TPA is a technique of studying several financial statements over a series of years. In TPA, the trend percentages are calculated for each item by taking the figure of that item for some base year as 100. So, the trend percentage is the percentage relationship, which each item of different years bears to the same item in the base year

13. **What is Ratio analysis**?

Ratio analysis is a quantitative method of gaining insight into a company's liquidity, operational efficiency, and profitability by comparing information contained in its financial statements.

14. **What is current Ratio**?

Compares current assets to current liabilities, to see if a business has enough cash to pay its immediate liabilities.

Current Assets

Current Ratio =

Current Liabilities

15**. What is meant by Current Assets**?

A current asset is an item on an entity's [balance sheet](https://www.accountingtools.com/articles/2017/5/17/the-balance-sheet) that is cash, a [cash equivalent](https://www.accountingtools.com/articles/2017/5/5/cash-equivalent), or which can be converted into cash within one year.

Current Assets: Stock, Debtors, Cash in hand & bank, Bills receivable, Prepaid Expanses

16.**What is meant by Debt-Equity ratio**?

The debt-equity ratio establishes the relationship between shareholders’ funds and outsiders’ funds. Outsiders’ funds include all long-term and short-term debts. Shareholders’ funds consist of preference share capital, equity share capital and reserves and surplus.

Debt Outsiders’ funds

Debt – Equity ratio = (or)

Equity Shareholders’ funds

17.) What is meant by External Analysis of FSA?

This analysis meant for the outsiders of the business firm. Outsiders may be investors, creditors, suppliers, government agencies, shareholders etc. These external people have to rely only on these published financial statements for important decision making.

**18. What is meant by Internal Analysis of FSA?**

Internal analysis performed by the persons who are internal to the organization. These internal people who have access to the books of accounts and other informations related to the business. Such analysis can be done for the purpose of assisting managerial personnel to take corrective action and appropriate decisions

19. **What is meant by Horizontal Analysis of FSA?**

Horizontal analysis is also termed as Dynamic Analysis. Under this type of analysis, comparison of the trend of each item in the financial statements over the number of years are reviewed or analyzed. This type of comparison helps to identify the trend in various indicators of performance.

20. **What is meant by Vertical Analysis of FSA?**

Vertical Analysis is also termed as Static Analysis. Under this type of analysis, a number of ratios used for measuring the meaningful quantitative relationship between the items of financial statements during the particular period

**UNIT II**

**1.State the Meaning of Fund Flow Statement.**

The funds flow statement is a report on the movement of funds or working capital. It explains how working capital is raised and used during an accounting period.

2. **State the Definition of Fund Flow Statement.**

“A statement of sources and application of funds is a technical device designed to analyses the changes in the financial condition of a business enterprise between two dates.”

3. **State the Objectives of Fund Flow Statement.**

* 1. To show how the resources have been obtained and used.
  2. To indicate the results of current financial management.
  3. To throw light upon the most important changes that has taken place during a specific period.
  4. To show how the general expansion of the business has been financed.
  5. To indicate the relationship between profits from operations distribution of dividend and raising of new capital or term loans.
  6. To have an assessment of the working capital position of the concern.

4. **State the meaning of Schedule of changes of working capital**

Working capital is the difference between current assets and current liabilities. The schedule of changes in working capital is prepared to find out the increase or decrease in working capital during the year

5. **State the meaning of** **Preparation of Adjusted Profit and Loss Account.**

The adjusted profits and loss account is prepared to ascertain funds from operation. The regular profit and loss account shows only the net profit or loss. To ascertain the funds generated by operation the adjusted profit & loss account is prepared by taking into account only the non – fund and non – operating items

6. **List the sources of funds**.

* Issue of Shares and debenture
* Raising of long term loans
* Income from investments
* Sale of fixed assets and long term investments
* Funds from operations

**7. List the applications of funds.**

* Redemption of preference shares and debenture
* Repayments of loans
* Purchase of long term investments
* Purchase of fixed assets
* Payment of taxes and dividends
* Loss of cash by embezzlement
* Funds lost in operations

**8. State the Meaning of Fund Flow Statement.**

A statement prepared from the historical data (i.e., income statements and balance sheet) showing sources and uses of cash is called cash flow statements. It reveals the inflow and outflow of cash during the particular period. Cash flow statement can be prepared for a year, half year, quarter or for any other duration. The term cash is used to refer bank balance also.

9. **State the objectives of Fund Flow Statement.**

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

10. **Sate the** **Significance and uses of cash flow statement**

1. The cash flow statements explain the reasons for low cash balance in spite of huge profits or large cash balance in spite of low profits.

2. It helps in short – term financial decisions relating to liquidity

3. It helps the management in planning the repayment of loans, replacement of assets, credit arrangement etc.

11. **State the** **Difference between cash flow statement and funds flow statement**

1. In a cash flow statement, only cash receipts and payments are recorded. But in a funds flow statement increase or decrease in working capital is recorded.
2. The cash flow statement indicates the causes for changes in cash position. On the other hand, a funds flow statement shows the cause of changes in working capital.
3. A cash flow statement is appropriate for short planning while funds flow statement is appropriate for long range planning.
4. Whenever there is inflow of cash there will definitely be inflow of funds. But it is not vice versa. Inflow of funds does not necessarily mean inflow of cash.

5) Cash flow statement starts with opening cash balance and closes with the closing cash balance. But there are no opening and closing balance in funds flow statement

12. **Sate the meaning of working capital**.

Working capital can be understood as the capital needed by the firm to finance current assets. It represents the funds available to the enterprise to finance regular operations, i.e. day to day business activities, effectively. It is helpful in gauging the operating liquidity of the company, i.e. how efficiently the company is able to cover the short-term debt with short-term assets.

**Working Capital = Current Assets – Current Liabilities**

**13. Write short notes on types of working capital.**

**Gross Working Capital**: It denotes the company’s overall investment in the current assets.

**Net Working Capita**l: It implies the surplus of current assets over current liabilities. A positive net working capital shows the company’s ability to cover short-term liabilities, whereas a negative net working capital indicates the company’s inability in fulfilling short-term obligations.

**UNIT-III MARGINAL COSTING**

**1. What is mean by Marginal Costing?**

The term Marginal Cost refers to the amount at any given volume of output by which the aggregate costs are charged if the volume of output is changed by one unit. Accordingly, it means that the added or additional cost of an extra unit of output.

**2. Define marginal costing.**

The institute of Cost and Works Accountants of India (ICWAI) defines marginal costing

as, “A method considers only the variable cost as cost of production, leaving out period costs to

be absorbed from the marginal contribution.”

**3. State the features of marginal costing.**

* + All elements of costs are classified into fixed and variable costs.
  + Marginal costing is a technique of cost control and decision making.
  + Variable costs are charged as the cost of production.
  + Valuation of stock of work in progress and finished goods is done on the basis of variable costs.
  + Profit is calculated by deducting the fixed cost from the contribution, i.e., excess of selling price over marginal cost of sales.
  + Profitability of various levels of activity is determined by cost volume profit analysis.

4. **What is meany by Cost Volume Profit Analysis (C V P?**

Cost Volume Profit Analysis (C V P) is a systematic method of examining the relationship between changes in the volume of output and changes in total sales revenue, expenses (costs) and net profit. In other words. it is the analysis of the relationship existing amongst costs, sales revenues, output and the resultant profit.

**5.State the Objectives of Cost Volume Profit Analysis.**

* + Cost volume is a powerful tool for decision making.
  + It makes use of the principles of Marginal Costing.
  + It enables the management to establish what will happen to the financial results if a specified level of activity or volume fluctuates.
  + It helps in the determination of break-even point and the level of output required earning a desired profit.

6. **What** **is meant by Contribution?**

The term Contribution refers to the difference between Sales and Marginal Cost of Sales. It also termed as "Gross Margin." Contribution enables to meet fixed costs and profit. Thus, contribution will first covered fixed cost and then the balance amount is added to Net profit.

7. **What is meant by** **P/V (Profit Volume) Ratio?**

This is the ratio of contribution to sales. It is an important ratio analysis the relationship between sales and contribution. A high P/V ratio indicates high profitability and low P/V ratio indicates low profitability. This ratio helps in comparison of profitability of various products.

**8.** **What is menat by** **Break even Analysis and Break even Point?**

Break even analysis is a method of studying relationship between revenue and costs in relation to sales volume of a business enterprise and determination of volume of sales at which total costs are equal to revenue. At the break even point a business man neither earns any profit nor incurs any loss. Break even point is also called “No profit, no loss point” or “Zero profit & zero loss point”.

9. **What is meant by Margin of Safety**

Break even analysis includes the concept of margin of safety. Margin of safety is the difference between actual sales and break even sales. It indicates the value/volume of sales which directly contribute of profit, as fixed costs have already been recovered at break even point.

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