MANAGEMENT ACCOUNTING – 16CCBB14

2 MARKS QUESTIONS AND ANSWER

1. Define Management Accounting.
   "It is the adaptation and analysis of accounting information and its diagnosis and explanation in such a way as to assist management" - T.G. Rose
2. Explain Cash flow statement.
   It is a statement showing the inflow and outflow of cash during a particular year. It explains the changes in cash position between two balance sheet dates. It shows the sources of cash receipts and the purpose for which payments are made. It is just a 'Receipts and payments account".
3. What is Ratio?
   The relationship between two figures expressed mathematically is called a ratio. The relationship between two figures may be a numerical or quantitative. It is calculated by dividing one by another.
4. Explain the term ratio analysis.
   Ratio analysis is a technique of analysis and interpretation of financial statements. As compared to other tools, the ratio analysis provides useful conclusions about various aspects of the working of an enterprise. It is the process of analyzing and interpreting the various ratios for helping in decision making.
5. Explain the term financial statements.
   A financial statement is an organized collection of data according to logical and consistent accounting procedure. It refer to combination of statement like balance sheet, income statement, statement of retained earnings etc. It is prepared from the accounting records maintained by the firm.
6. Write a short note on trend analysis.
   Trend analysis or tend percentage helpful in making a comparative study of financial statements for several years. For calculating the trend percentage ratio, one particular year is taken as base year as 100. It can be compared with other years to know the increase or decrease percentage.
7. Explain the term Fund.
   The term fund has a variety of meaning. In a narrow sense it means cash only. But a statement prepared with cash flow is called cash flow statement. The term

fund refers to "Net working capital" is mostly accepted one. The net working capital is the difference between current assets and current liabilities.

8. What is a cash flow statement?

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9. Explain the concepts of working capital.

   It means excess of current assets over current liabilities fund invested in current assets is known as "Gross working capital". The different between current assets and current liabilities is known as "Net working capital".

10. Define marginal costing.

    The Institute of Cost and Management Accountant, London, has defined Marginal Costing as "the ascertainment of marginal costs and of the effect on profit of changes in volume or type of output by differentiating between fixed costs and variable costs".

11. Explain cvp

    It is a technique for studying the relationship between cost, volume and profit. Profit of an undertaking depends upon a large number of factors. But the most important f these factors are the cost of manufacture, volume of sales and the selling prices of the products.

12. Explain the term Contribution.

    It is the difference between sales and variable cost or marginal cost of sales. It mu also be defined as the excess of selling price over variable cost per unit. Contribution is also known as Contribution Margin or Gross Margin.

13. Explain BEP

    That point of sales volume at which total revenue is equal to total cost. It s a point no profit , no loss. It is total sales are equal to its total costs. It is refers to the level of output which evenly breaks the costs and revenues. This point called as 'Critical point' or 'Equilibrium point' or 'Balancing point'.

    Sales revenue at Break Even Point = Fixed Costs + Variable Costs.

14. Explain margin of safety

    The excess of actual or budgeted sales over the break-even sales is known as the margin of safety.

Margin of Safety = Total Sales - Sales at Break-Even Point

15. Define Budget

    "Budgets are the individual objectives of a department, etc., whereas budgeting may be said to be the act of building budgets, Budgetary control embraces all and in addition includes the science of planning the budgets to effect an overall management tool for the business planning and control" - Rowland and William.

16. Explain the term Angle of incidence.

    The angle of incidence is the angle between the sales line and the total cost line formed at the break-even point where the sales line and the total cost line intersect each other. The angle of incidence indicates the profit earning capacity of a business.

17. Explain Budget Centres.

    It is that part of the organization for which the budget is prepared.

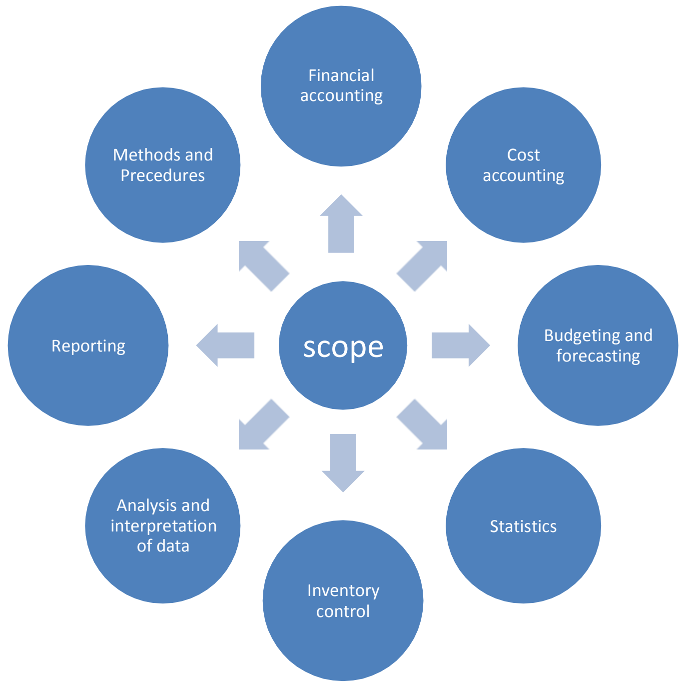
    A budget centre may be a department, section of a department or any other part of the department.

18. Explain Sales budget.

    It is an estimate of expected sales during a budget period. A sales budget is known as a nerve centre or backbone of the enterprise.

5 MARKS QUESTIONS AND ANSWER

19. Role of Management Accounting
    - Planning
    - Organizing
    - Coordinating
    - Controlling
    - Motivating
    - communicating
20. What are the scope of management accounting?



21. Limitations of Management Accounting

=➔ Based solely on Accounting Records

=➔ Constant Efforts Required

=➔ Widespread Knowledge

=➔ Resistance to Systemic Changes

=➔Expensive system

=➔Incommensurability between progressive phase and Static Techniques.

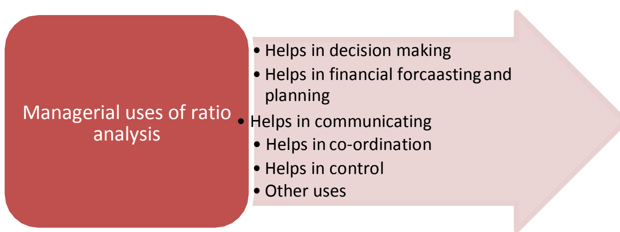
22. DIFFERENCE

Basis	Management Accounting	Cost Accounting
Objective	Provide information to management	To record the cost producing a product or service
Scope	It is very wide	It deals with cost ascertainment
Nature	It is main concerned is projection of figures for future	It is uses both past and present figures
Date used	Quantitative and qualitative information used	Quantitative aspects are used
Development	This has been developed in last 3 decades	It has developed during industrial revolution
Principle	No specific rules and procedures	Certain principles and

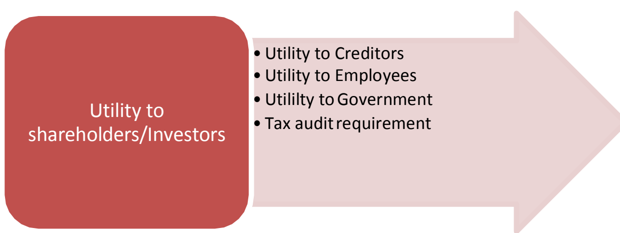
followed	are followed	procedures are followed for recording costs

23. Explain various factors influencing working capital.

- ⇨ Nature of business
- ⇨ Credit policies
- ⇨ Manufacturing process
- ⇨ Changes in technology
- ⇨ Rapidity of turnover
- ⇨ Business cycle
- ⇨ Seasonal variation
- ⇨ Fluctuation of supply
- ⇨ Dividend policy



24. Uses and significance of Ratio Analysis



25. Successful Budgetary control system

- ➢ Clarifying objectives
- ➢ Proper delegation of authority and responsibility
- ➢ Budget education
- ➢ Proper communication system
- ➢ Participation of all employees
- ➢ Flexibility
- ➢ Motivation

26. Essentials of Budgetary control.

- Organisation for budgetary control
- Budget centres
- Budget officer
- Budget manual
- Budget committee
- Budget period
- Determination of key factor.

27. Classification and types budget.

Classification according to time	Classification on the basis of function	Classification on the basis of Flexibility
• Long-term budgets • Short-term budgets • Current budgets	• Operating budgets • Financial budgets • Master budget	• Fixed budget • Flexibility budget

10 MARKS QUESTIONS AND ANSWER

28. Explain the tools and techniques of management accounting?

- Financial planning
- Analysis and financial statement
- Historical cost accounting
- Standard costing
- Budgetary control
- Marginal costing
- Decision accounting
- Revaluation accounting
- Ratio accounting
- Internal auditing
- Management information system
- Statistical techniques

29. Summarize the main methods /device/tools available for financial statement analysis.

1. Comparative financial statements
2. Common size statements
3. Trend analysis
4. Statement of changes in working capital
5. Fund flow analysis
6. Cash flow analysis
7. Ratio analysis
8. Cost-volume – profit analysis

30. Function of Management Accounting

- Provides data
- Modifies data
- Analyses and interprets data
- Serves as a means for communicating
- Facilitates control
- Use of qualitative information

31. DIFFERENCE

Basis	**Management Accounting**	**Financial Accounting**
Objectives	Provide information to management	Main aim is to supply data or information
Performance	It provides the data of all department and their function performed	It measures an overall performance of the business
Data usage	Quantitative and qualitative information used	It used historical in nature uses past data
Monetary management	In this case even non-monetary events also enter into the books	Only monetary transactions are taken into consideration
Reporting	It needs continuous availability of	It is longer than management

	the data and report	accounting
Nature	This is subjective in nature and highly based on judegment	It has been more objective than management accounting
Legality	It is voluntary practice as per organizations requirement	It is more or less a mandatory practice for every business
Coverage	It is limited in this case focusing on the needs of the management	It covers all the aspects of the concern nature
Publication and audit	In case of management accounting no such provisions are made	It is published and audited for the use of general public and stakeholders
methodology	It is revealed in various statement and reported to different centres	It is prepared in various prescribed formats