



SRR & CVR Government Degree College (Autonomous), Vijayawada.
Department of Commerce and Business Management
Proposed syllabus of

III Year B. Com (General, CA, BIFS, A&T) Degree Course -V/VI Semester
(w.e.f – 2022-23 Academic Year)

Course Code : MAP N-5101

Title of the Course: MANAGEMENT ACCOUNTING AND PRACTICE
 (Skill Enhancement Course (Elective))

No. of lecture hours/week	05	Continuous Internal Assessment (CIA)	40
No. of Credits	04	Semester End Evaluation (SEE)	60
Total numbers of hours	75	Total Marks	100

I. COURSE OUT COMES: On completion of this course, the students will be able to

CO1: Understand the nature and scope of management accounting and differentiate management accounting, financial accounting and cost accounting.

CO2: Compute ratios and draw inferences

CO3: Analyze the performance of the organization by preparing funds flow statement and cash flow statements

CO4: Prepare cash budget, fixed budget and flexible budget.

II. SYLLABUS; (Total 75hrs (Teaching 60, Training 10, Others 05 including IE etc.)

UNIT I: Introduction

Evolution, Meaning, Nature, Scope, and Objectives of Management Accounting – Management Accounting Principles – Significance of Management Accounting – Difference between management accounting, financial accounting and Cost accounting – Advantages and Limitations of Management Accounting – Installation of Management Accounting – Tools of Management Accounting. (Theory Only)

UNIT 2: Ratio Analysis

Meaning - Advantages and Limitation of Ratio Analysis – Types of Ratios – Profitability Ratios: Gross Profit Ratio (GPR) – Net Profit Ratio (NPR) – Operating Ratio – Solvency Ratios: Current Ratio – Liquidity Ratio – Debt-Equity Ratio – Turnover Ratios: Fixed Assets Turnover Ratio – Working Capital Turnover Ratio – Debtors Turnover Ratio – Creditors Turnover Ratio - Stock Turn Over Ratio - Return on Investment (ROI) - Calculation and interpretation. (Including Problems)

UNIT 3: Fund Flow and Cash Flow Analysis as per AS3

Meaning and Concept of Working Capital (Fund) – Fund Flow Statement – Meaning and Uses of Funds Flow Statement – Preparation of Funds Flow Statement. Cash Flow Statement – Meaning and Uses of Cash Flow Statement – Preparation of Cash Flow Statement – Difference between Cash Flow Statement and Funds flow Statement. (Including Problems)

UNIT 4: Budgeting and Budgetary Control

Meaning and Concept of Budget – Forecast and Budget - Elements of Budget – Features – objectives and budget procedure – Classification of Budgets - Meaning of Control – Meaning of Budgetary control – objectives of Budgetary control system – Advantages and Limitations of Budgetary control system. Prepare cash budget, fixed budget and flexible budget. (Including Problems)

UNIT 5: Management Reporting:

Reports - Meaning – Modes of Reporting – Requisites of a good report – Kinds of Reports – General formats of Reports - Need for Management Reporting- financial reporting Vs. Management Reporting - Strategies for Writing Effective Reporting. (Theory Only)

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Question Paper Format for III-B.Com.

Semester-V/VI: Management Accounting and Practice

(w.e.f. 2022-23)

Time: 3 Hours

Max. Marks: 60

Section-A

[5 X 4=20]

Answer any FIVE of the following questions.

1. Contents of Unit-I
2. Contents of Unit-I
3. Contents of Unit-II
4. Contents of Unit-II
5. Contents of Unit-III
6. Contents of Unit-III
7. Contents of Unit-IV
8. Contents of Unit-IV
9. Contents of Unit-V
10. Contents of Unit-V

Section-B

[5 x 8=40]

Answer ALL the questions

- 11 (a) Contents of Unit-I (Theory)
(OR)
(b) Contents of Unit-I (Theory)
- 12 (a) Contents of Unit-II (Problem)
(OR)
(b) Contents of Unit-II (Problem)
- 13 (a) Contents of Unit-III (Problem)
(OR)
(b) Contents of Unit-III (Problem)
- 14 (a) Contents of Unit-IV (Problem)
(OR)
(b) Contents of Unit-IV (Problem)
- 15 (a) Contents of Unit-V (Theory)
(OR)
(b) Contents of Unit-V (Theory)

SRR & CVR Govt. Degree College (A), Vijayawada
Dept. of Commerce & Management
Semester-V/VI: Management Accounting and Practice
(w.e.f. 2022-23)

Time: 3 Hours

Max. Marks: 60

SECTION-A**5 x 4 = 20 Marks****Answer any FIVE of the following Questions:**

1. Define Management Accounting
2. What are the tools of Management Accounting?
3. Define ratio. Explain the importance of ratio analysis.
4. Explain Current Ratio and Quick Ratio with significance.
5. What is Funds Flow Statement?
6. How do you calculate Cash from Operations in order to prepare Cash Flow Statement?
7. What is Zero Based Budgeting?
8. What is Flexible Budget?
9. Meaning of Report.
10. Management Reporting.

SECTION-B**5 x 8 = 40 Marks****Answer the following Questions:**

11. (a) Define Management Accounting. Explain the advantages and dis-advantages of Management Accounting.
 (or)
 (b) What are the differences between Management Accounting and Financial Accounting?
12. (a) From the following Trading and Profit and Loss Account, work out:
 1. Gross Profit Ratio
 2. Net Profit Ratio
 3. Operating Ratio
 4. Operating Profit Ratio

Trading and Profit and Loss Account

Particulars	₹	Particulars	₹
To Opening Stock	40,000	By Sales	5,00,000
To Purchases	4,00,000	By Closing Stock	1,00,000
To Direct Expenses	60,000		
To Gross Profit c/d	<u>1,00,000</u>		
	<u>6,00,000</u>		
		By Gross Profit b/d	<u>6,00,000</u>
To Operating Expenses:			1,00,000
a. Adm. Expenses	20,000		
b. Selling Expenses	10,000		
To Finance Expenses	20,000		
To Income Tax	10,000		
To Net Profit	<u>40,000</u>		
	<u>1,00,000</u>		<u>1,00,000</u>

(or)

(b) The following is the Balance sheet of ABC Ltd. as on 31st March,2022
Balance Sheet

Liabilities	₹	Assets	₹
Share Capital	2,00,000	Fixed Assets	1,60,000
Reserves & Surplus	30,000	Stock	50,000
Creditors	20,000	Debtors	20,000
Bills Payable	5,000	Bills Receivable	15,000
Bank Overdraft	17,000	Prepaid Expenses	5,000
Outstanding expenses	8,000	Cash at Bank	30,000
Provision for tax	<u>20,000</u>	Cash in hand	<u>20,000</u>
	<u>3,00,000</u>		<u>3,00,000</u>

Calculate

Liquidity Ratios and also comment on the liquidity of the firm.

13. (a) From the following balance sheet of Vijayawada Ltd on 31.03.2021 and 31.03.2022, you are required to prepare:

- A schedule of changes in working capital.
- A Funds Flow Statement

Balance Sheet

Liabilities	2021 ₹	2022 ₹	Assets	2021 ₹	2022 ₹
Share Capital	1,00,000	1,20,000	Goodwill	12,000	10,000
General Reserve			Building	40,000	36,000
Profit & Loss a/c	14,000	18,000	Plant	37,000	56,000
Sundry Creditors			Investments	10,000	13,000
Bills Payable	16,000	13,000	Stock	30,000	23,400
Provision for Tax			Bills Receivable	2,000	3,200
Provision for doubtful debts	8,000	5,400	Sundry debtors	18,000	19,000
	1,200	800	Cash at bank	6,600	15,200
Proposed Dividend	16,000	18,000	Preliminary Expenses	5,000	3,000
	400	600			
	<u>5,000</u>	<u>3,000</u>			
	<u>160,600</u>	<u>1,78,000</u>		<u>1,60,600</u>	<u>1,78,800</u>

The following additional information has also been given:

- Depreciation charged on plant was ₹ 4,000 and on building ₹ 4,000
- Provision for taxation of ₹ 19,000 was made during the year.
- Interim dividend of ₹ 8,000 was paid during the year 2023

(or)

(b) Balance Sheet

Liabilities	2021 ₹	2022 ₹	Assets	2021 ₹	2022 ₹
Share Capital	2,00,000	2,50,000	Land & Buildings		
General Reserve			Machinery	2,00,000	1,90,000
Profit & Loss a/c	50,000	60,000	Stock	1,50,000	1,69,000
Sundry Creditors			Debtors	1,00,000	74,000
Bank Loan	30,500	30,600	Cash	80,000	64,200
Provision for Tax			Bank	500	600
	1,50,000	1,35,200	Good will	-	8,000
	70,000	-----		-	5,000
	30,000	35,000			
	<u>5,30,500</u>	5,10,800		5,30,500	5,10,800

You are required to prepare the Cash Flow Statement.

14. (a) From the following forecasts of Income and Expenditure prepare a cash budget for the three months commencing 1st June when the balance was ₹ 10,000.

Month	Sales (₹)	Purchases (₹)	Wages (₹)	Factory Overheads (₹)	Administration & Selling Overheads (₹)
April	8,000	4,100	560	390	1,000
May	7,650	4,050	540	420	1,400
June	7,850	3,850	540	510	1,500
July	9,000	3,700	480	510	1,700
August	9,500	3,500	470	600	1,300

Plant valued at ₹ 6,500 will be purchased and paid for in August. Dividend for the last year ₹ 1,500 will be paid in July. There is a two-month credit period allowed to customers and received from suppliers.

(or)

- (b) The expenses for the production of 500 units in a factory are given as follows:

	Per unit (₹)
Materials	80
Labour	60
Variable Overhead (Factory)	15
Fixed Factory Overhead (5,000)	10
Administrative expenses (20% variable)	10
Selling and Distribution expenses (50% fixed)	<u>10</u>
Total Cost per unit	<u>185</u>

You are required to prepare a flexible budget for 600 units.

15. (a) What are the essential requisites of a good report?

(or)

- (b) Explain kinds of reports.

QUESTION BANK

UNIT I: INTRODUCTION

(Theory Only)

SHORT ANSWER QUESTIONS:

1. Define Management Accounting.
2. Nature of Management Accounting
3. Scope of Management Accounting.
4. Significance of Management Accounting.
5. Limitations of Management Accounting.
6. Installation of Management Accounting.
7. Tools of Management Accounting.

ESSAY QUESTIONS:

1. Define Management Accounting. Explain the nature of Management Accounting.
2. Explain the Advantages and Dis-Advantages of Management Accounting.
3. Difference between Financial Accounting and Management Accounting.
4. Difference between Cost Accounting and Management Accounting.

UNIT 2: RATIO ANALYSIS

SHORT ANSWER QUESTIONS:

1. Meaning of Ratio Analysis
2. Advantages of Ratio Analysis.
3. Limitations of Ratio Analysis.
4. Profitability Ratios
5. Write short notes on Current Ratio and Quick Ratio.
6. Debt-Equity Ratio
7. Turnover Ratios
8. Return on Investment (ROI)

PROBLEMS

1. Following is the Profit and Loss Account of Mr. X for the year ended 31st March, 2022:

Dr	₹	Cr	₹
To Opening Stock	1,00,000	By Sales	5,60,000
To Purchases	3,50,000	By Closing Stock	1,00,000
To Wages	9,000		
To Gross Profit c/d	<u>2,01,000</u>		
	<u>6,60,000</u>		<u>6,60,000</u>
To Administrative Expenses	20,000	By Gross Profit c/d	2,01,000
To Selling and Distribution Expenses	89,000	By Interest on Investments (Outside Business)	10,000
To Non-Operating Expenses	30,000	By Profit on Sale of Investments	8,000
To Net Profit	<u>80,000</u>		
	<u>2,19,000</u>		<u>2,19,000</u>

You are required to calculate:

- i. Gross Profit Ratio
- ii. Net Profit Ratio
- iii. Operating Ratio
- iv. Operating Profit Ratio
- v. Administrative Expenses Ratio

2. From the following Trading and Profit and Loss Account, work out:

- i. Gross Profit Ratio
- ii. Net Profit Ratio
- iii. Operating Ratio
- iv. Operating Profit Ratio

Trading and Profit and Loss Account

Particulars	₹	Particulars	₹
To Opening Stock	40,000	By Sales	5,00,000
To Purchases	4,00,000	By Closing Stock	1,00,000
To Direct Expenses	60,000		
To Gross Profit c/d	<u>1,00,000</u>		
	<u>6,00,000</u>		<u>6,00,000</u>
To Operating Expenses		By Gross Profit b/d	1,00,000
a. Adm. Expenses	20,000		
b. Selling Expenses	10,000		
To Finance Expenses	20,000		
To Income Tax	10,000		
To Net Profit	<u>40,000</u>		
	<u>1,00,000</u>		<u>1,00,000</u>

3. The following are the transactions of a firm for the year ending 31-03-2022.

	₹		₹
Sales	2,60,000	Operating Expenses	29,000
Purchases	1,61,125	Non-Operating Incomes:	
Opening Stock	38,125	Dividends on shares	4,500
Closing Stock	49,250	Profit on sale of shares	1,500
Sales returns	10,000	Non-Operating Expenses:	
Selling and Distribution Expenses	11,000	Loss on sale of assets	2,000
		Provision for tax	20,000

Calculate Gross Profit Ratio, Net Profit Ratio, Operating Ratio and Operating Profit Ratio after arranging the above information in a suitable for analysis.

4. The following data has been taken from the balance sheet of three companies.

	Company A ₹	Company B ₹	Company C ₹
Cash	20,000	40,000	1,00,000
Sundry Debtors	1,60,000	1,60,000	4,00,000
Stock in hand	<u>1,20,000</u>	<u>2,00,000</u>	<u>6,00,000</u>
Total Current Assets	3,00,000	4,00,000	11,00,000
Total Current Liabilities	<u>1,00,000</u>	<u>1,50,000</u>	<u>8,00,000</u>
Working Capital	<u>2,00,000</u>	<u>2,50,000</u>	<u>3,00,000</u>

Comment on their comparative liquidity or short-term financial health.

5. Following is the Balance Sheet of ABC Ltd., as on 31st March, 2022

Liabilities	₹	Assets	₹
Share Capital	2,00,000	Fixed Assets	1,60,000
Reserves & Surplus	30,000	Stock	50,000
Creditors	20,000	Debtors	20,000
Bills Payable	5,000	Bills Receivables	15,000
Bank Overdraft	17,000	Prepaid Expenses	5,000
Outstanding Expenses	8,000	Cash at bank	30,000
Provision for tax	<u>20,000</u>	Cash in hand	<u>20,000</u>
	<u>3,00,000</u>		<u>3,00,000</u>

Calculate 1. Current ratio 2. Quick ratio. 3. Absolute Liquidity Ratio.

6. The following is the Balance Sheet of XYZ Ltd. as on 31st March, 2022.

Liabilities	₹	Assets	₹
Equity Share Capital	2,00,000	Land & Buildings	1,50,000
Preference Share Capital	2,00,000	Plant & Machinery	2,50,000
General Reserve	80,000	Furniture & Fixtures	50,000
Profit & Loss a/c	40,000	Stock	1,50,000
12% Debentures	2,20,000	Debtors	70,000
Creditors	1,00,000	Bills receivable	80,000
Bills payable	50,000	Cash at bank	1,00,000
		Cash in hand	40,000
	<u>8,90,000</u>		<u>8,90,000</u>

Calculate:

- Current Ratio
- Quick Ratio
- Debt- Equity Ratio

7. From the following information calculate

- Current ratio
- Quick ratio
- Debt- Equity ratio

Balance Sheet of Pushpa Limited as on 31st March, 2022

Liabilities	₹	Assets	₹
Equity Share capital	1,00,000	Cash in hand	2,000
6% Preference Share capital	1,00,000	Cash at Bank	10,000
7% Debentures	40,000	Bills receivable	30,000
8% Govt. Loan	20,000	Investments	20,000
Bank Overdraft	40,000	Debtors	70,000
Creditors	67,000	Stock	40,000
Proposed Dividend	10,000	Furniture	30,000
Reserves	1,50,000	Land & Buildings	2,20,000
Provision for tax	20,000	Machinery	1,00,000
Profit and Loss a/c	20,000	Goodwill	35,000
		Preliminary expenses	10,000
	<u>5,67,000</u>		<u>5,67,000</u>

8. Calculate:

- Working Capital Turnover Ratio
- Fixed Assets Turnover Ratio

Balance Sheet

Liabilities	₹	Assets	₹
Share Capital	1,00,000	Fixed Assets	1,70,000
12% Debentures	80,000	Current Assets	1,00,000
Reserve	20,000		
Current Liabilities	70,000		
	<u>2,70,000</u>		<u>2,70,000</u>

9. Calculate Debtors Turnover Ratio from the following:

₹

Total Sales for the year 2022	1,00,000
Cash Sales for the year 2022	18,000
Provision for doubtful debts	2,000
Sales Returns	2,000

Debtors as on 1-1-2022	10,000
Debtors as on 31-12-2022	15,000
Bills receivable as on 1-1-2022	7,500
Bills receivable as on 31-12-2022	12,500

10. A trader purchases goods both on cash as well as on credit terms. The following particulars are obtained from the books:

	₹
Total Purchases (Gross)	2,00,000
Cash Purchases	20,000
Purchase returns	34,000
Creditors at the end	70,000
Bills Payable at the end	40,000

You are required to calculate Creditors Turnover ratio.

11. Following is the Trading Account of Sea Shells Ltd., Calculate Stock Turnover ratio.

Trading Account

Particulars	₹	Particulars	₹
To Opening stock	80,000	By Sales	3,30,000
To Purchases	2,00,000	By Closing Stock	70,000
To Wages	20,000		
To Carriage	10,000		
To Gross Profit c/d	<u>90,000</u>		
	<u>4,00,000</u>		<u>4,00,000</u>

12. From the following information calculate Return on Investment (ROI):

Balance Sheet

Liabilities	₹	Assets	₹
Equity Share Capital	15,00,000	Net Fixed Assets	18,00,000
Preference Share Capital	3,00,000	Current Assets	16,00,000
Debentures	2,00,000		
Current Liabilities	10,00,000		
Profit of the year	<u>4,00,000</u>		
	<u>34,00,000</u>		<u>34,00,000</u>

13. Following is the Balance Sheet of Nagarjuna Ltd. as on 31-03-2022:

Balance Sheet as on 31.03.2022

Liabilities	₹	Assets	₹
Current Liabilities:		Current Assets:	
Creditors	6,000	Cash	5,000
Bills Payable	10,000	10% Investments	15,000
Outstanding expenses	1,000	Sundry Debtors	20,000
Provision for tax	<u>13,000</u>	Closing Stock	<u>30,000</u>
	30,000		70,000
6% Debentures	70,000	Fixed Assets:	
7% Preference Shares	10,000	Machinery	1,00,000
Equity Share Capital	50,000	Less: Dep	<u>50,000</u>
Reserves & Surplus	<u>40,000</u>	Land & Buildings	<u>80,000</u>
	<u>2,00,000</u>		<u>2,00,000</u>

Other information:	₹
i. Net sales	3,00,000
ii. Cost of goods sold	2,58,000
iii. Net income after interest and tax	10,000

Calculate:

- Net Profit ratio
- Current ratio
- Debt- equity ratio
- Stock turnover ratio
- Debtors turnover ratio
- Fixed Assets turnover ratio
- Return on Investment

UNIT 3: FUND FLOW AND CASH FLOW ANALYSIS as per AS3

SHORT ANSWER QUESTIONS:

- Define Working Capital
- What is Funds Flow Statement?
- Advantages of Funds Flow Statement.
- What are the Sources of funds and Uses of funds?
- Meaning of Cash Flow Statement.
- Significance of Cash Flow Statement.
- How do you calculate Cash from Operations?
- Difference between Funds Flow Statement and Cash Flow Statement.

PROBLEMS

A. Funds Flow Statement

- The following is the Balance sheets of National Company as on 31st March 2021 and 31st March 2022.

LIABILITIES	31 st March 2021 ₹	31 st March 2022. ₹	ASSETS	31 st March 2021 ₹	31 st March 2022. ₹
Share capital	5,00,000	7,00,000	Land &		
Profit & Loss A/c	1,00,000	1,60,000	Buildings	80,000	1,20,000
General Reserve	50,000	70,000	Plant & Mach	5,00,000	8,00,000
Creditors	1,53,000	1,90,000	Stock	1,00,000	75,000
Bills payable	40,000	50,000	Debtors	1,50,000	1,60,000
Outstanding exp	7,000	5,000	Cash	20,000	20,000
	<u>8,50,000</u>	<u>11,75,000</u>		<u>8,50,000</u>	<u>11,75,000</u>

Additional information:

- ₹ 50,000 depreciation has been charged on plant and machinery during 2021-22.
- A piece of machinery was sold for ₹ 8,000 during the year 2021-22. Its original cost was ₹ 12,000 and depreciation provided on that part of machinery was ₹ 7,000.

You are required to prepare Funds Flow Statement.

2. The following is the Balance sheets of Gopal Ltd., as on 31st March 2021 and 31st March 2022.

LIABILITIES	31 st March 2021 ₹	31 st March 2022. ₹	ASSETS	31 st March 2021 ₹	31 st March 2022. ₹
Equity Share Capital	50,000	53,000	Cash	20,000	25,000
Long Term Debts	14,000	13,000	Sundry Debtors	24,000	27,000
Profit & Loss A/c Accumulated	28,000	37,000	Stock in trade	31,000	32,000
Depreciation	21,000	25,000	Other Current Assets	8,000	7,000
Sundry Creditors	20,000	21,000	Fixed Assets	50,000	58,000
	<u>1,33,000</u>	<u>1,49,000</u>		<u>1,33,000</u>	<u>1,49,000</u>

Additional information:

- Purchased fixed assets for ₹ 12,000 during 2021-22.
- Fixed assets (Original cost ₹ 4,000, accumulated depreciation ₹ 1,500) was sold at book value.
- Depreciation for 2022 amounted to ₹ 5,500 was debited to Profit & Loss Account.
- Dividends paid for 2022 was ₹ 3,000.

You are required to prepare Funds Flow Statement.

3. From the following Comparative Balance sheet of Gupta & Co you are required to prepare (a) Schedule of Changes in Working Capital. (b) Funds from Operations

© Funds Flow Statement.

LIABILITIES	31 st March 2021 ₹	31 st March 2022. ₹	ASSETS	31 st March 2021 ₹	31 st March 2022. ₹
Share capital	90,000	1,00,000	Good will	12,000	10,000
General Reserve	14,000	18,000	Buildings	40,000	36,000
Profit & Loss A/c	19,500	12,000	Machinery	37,000	36,000
Provision for Taxation	16,000	17,000	Stock	30,000	25,400
Sundry Creditors	8,000	5,400	Sundry Debtors	20,000	22,200
Bills Payable	6,200	1,300	Cash at Bank	6,600	15,200
Provision for Bad debts	1,900	2,100	Investment	10,000	11,000
	<u>1,55,600</u>	<u>1,55,800</u>		<u>1,55,600</u>	<u>155,800</u>

Additional information:

- Depreciation charged on Machinery ₹ 4,000 and on Building ₹ 4,000.
- Interim Dividend paid during 2022 was ₹ 7,500.
- Provision of ₹ 5,000 was made for taxation during 2022.

4. From the following Comparative Balance sheet of Ganesh & Co you are required to prepare (a) Schedule of Changes in Working Capital. (b) Funds from Operations © Funds Flow Statement.

LIABILITIES	31 st March 2021 ₹	31 st March 2022. ₹	ASSETS	31 st March 2021 ₹	31 st March 2022. ₹
Share capital	1,00,000	1,00,000	Goodwill	6,000	6,000
General Reserve	14,000	18,000	Buildings	50,000	46,000
Bank Overdraft	3,000	2,000	Patents	6,000	6,000
Profit & Loss A/c	16,000	13,000	Machinery	27,000	26,000
Provision for Taxation	10,000	11,000	Investment	10,000	11,000
Sundry Creditors	5,000	3,400	Stock	20,000	13,400
Bills Payable	1,200	800	Sundry Debtors	18,000	19,000
Provision for Bad debts	400	600	Bills Receivables	12,000	13,200
Proposed Dividend	6,000	7,000	Cash at Bank	6,600	15,200
	<u>1,55,600</u>	<u>1,55,800</u>		<u>1,55,600</u>	<u>155,800</u>

Additional information:

- Depreciation charged on Machinery ₹ 4,000 and on Building ₹ 4,000.
- Interim Dividend paid during 2022 was ₹ 8,000.
- Provision of ₹ 4,000 was made for taxation during 2022.

5. From the following Comparative Balance sheet of Bata Ltd., you are required to prepare (a) Schedule of Changes in Working Capital. (b) Funds from Operations © Funds Flow Statement.

LIABILITIES	31 st March 2021 ₹	31 st March 2022. ₹	ASSETS	31 st March 2021 ₹	31 st March 2022. ₹
Equity Share Capital	15,000	20,000	Good will	5,750	4,500
Preference Share Capital	7,500	5,000	Land and Buildings	10,000	8,500
General Reserve	2,000	3,500	Machinery	4,000	10,000
Profit & Loss A/c	1,500	2,400	Trade Debtors	8,000	10,000
Proposed Dividend	2,100	2,500	Cash in Hand	750	500
Trade Creditors	2,750	4,150	Cash at Bank	500	400
Bills Payable	1,000	800	Closing Inventory	3,850	5,450
Provision for Taxation	2,000	2,500	Bills Receivables	1,000	1,500
	<u>33,850</u>	<u>40,850</u>		<u>33,850</u>	<u>40,850</u>

Additional information:

- Depreciation charged on Machinery ₹ 500 during 2022.
- Depreciation on Land and Buildings ₹ 1,000 during 2022.
- Interim Dividend paid during 2022 was ₹ 1,000.
- Income Tax ₹ 1,750 was paid during the year 2022.

B. Cash Flow Statement

6. The following is the Balance sheets of Jannu Ltd as on 31st March 2021 and 31st March 2022.

LIABILITIES	31 st March 2021 ₹	31 st March 2022. ₹	ASSETS	31 st March 2021 ₹	31 st March 2022. ₹
Share capital	70,000	74,000	Cash	9,000	7,800
Debentures	12,000	6,000	Debtors	14,900	17,700
Provision for doubtful debts	700	800	Stock	49,200	42,700
Trade Creditors	10,360	11,840	Land	20,000	30,000
Profit & Loss A/c	10,040	10,560	Goodwill	10,000	5,000
	<u>1,03,100</u>	<u>1,03,200</u>		<u>1,03,100</u>	<u>1,03,200</u>

Additional information:

- Dividends paid during 2021-22 ₹ 3,500.
- Land was purchased for ₹ 10,000.
- Goodwill written off ₹ 5,000.
- Paid for debenture redemption ₹ 6,000

You are required to prepare Cash Flow Statement.

7. The following is the Summarized Balance sheets of William Ltd as on 31st March 2021 and 31st March 2022.

LIABILITIES	31 st March 2021 ₹	31 st March 2022. ₹	ASSETS	31 st March 2021 ₹	31 st March 2022. ₹
Share capital	90,000	7,00,000	Fixed Assets	80,000	64,000
General Reserve	60,000	1,60,000	Investments	10,000	12,000
Profit & Loss A/c	11,200	70,000	Stock in Trade	48,000	42,000
Creditors	33,600	1,90,000	Sundry Debtors	42,000	91,000
Provision for Tax	15,000	50,000	Bank Balance	29,800	39,400
Mortgage Loan		5,000			
	<u>2,09,800</u>	<u>2,48,400</u>		<u>2,09,800</u>	<u>2,48,400</u>

Additional information:

- Investments costing ₹ 1,600 were sold during 2021-22 for ₹ 1,700.
- Provision for tax made during the year was ₹ 1,800.
- During the year a part of fixed assets costing ₹ 2,000 was sold for ₹ 2,400 and the profit was included in profit and loss account.
- Dividend paid during the year 2021-22 was ₹ 800.

You are required to prepare Cash Flow Statement.

8. From the following Comparative Balance sheet of Bata Ltd., you are required to prepare Cash Flow Statement.

LIABILITIES	31 st March 2021 ₹	31 st March 2022. ₹	ASSETS	31 st March 2021 ₹	31 st March 2022. ₹
Equity Share Capital	15,000	20,000	Good will	5,750	4,500
Preference Share Capital	7,500	5,000	Land and Buildings	10,000	8,500
General Reserve	2,000	3,500	Machinery	4,000	10,000
Profit & Loss A/c	1,500	2,400	Trade Debtors	8,000	10,000
Proposed Dividend	2,100	2,500	Cash in Hand	750	500
Trade Creditors	2,750	4,150	Cash at Bank	500	400
Bills Payable	1,000	800	Closing Inventory	3,850	5,450
Provision for Taxation	2,000	2,500	Bills Receivables	1,000	1,500
	<u>33,850</u>	<u>40,850</u>		<u>33,850</u>	<u>40,850</u>

Additional information:

- Depreciation charged on Machinery ₹ 500 during 2022.
- Depreciation on Land and Buildings ₹ 1,000 during 2022.
- Interim Dividend paid during 2022 was ₹ 1,000.
- Income Tax ₹ 1,750 was paid during the year 2022.

9. The following is the summarized Balance sheets of Bharath Ltd as on 31st March 2021 and 31st March 2022.

LIABILITIES	31 st March 2021 ₹	31 st March 2022. ₹	ASSETS	31 st March 2021 ₹	31 st March 2022. ₹
Equity Share Capital	2,40,000	3,60,000	Land & Buildings	1,66,200	3,39,600
Share Premium	24,000	36,000	Machinery	1,06,800	1,53,900
General Reserve	18,000	27,000	Furniture	7,200	4,500
Profit & Loss A/C	58,500	62,400	Stock	66,300	78,000
8% Debentures	-----	78,000	Debtors	1,09,500	1,17,300
Provision for Tax	29,400	32,700	Bank	14,400	12,000
Creditors	1,00,500	1,09,200			
	<u>4,70,400</u>	<u>7,05,300</u>		<u>4,70,400</u>	<u>7,05,300</u>

Other information:

Depreciation written off during the year:

On Machinery ₹ 38,400

On Furniture ₹ 1,200

You are required to prepare Cash Flow Statement.

10. The following is the summarized Balance sheets of Raju Ltd as on 31st March 2021 and 31st March 2022.

LIABILITIES	31 st March 2021 ₹	31 st March 2022. ₹	ASSETS	31 st March 2021 ₹	31 st March 2022. ₹
Share Capital	2,50,000	3,06,000	Cash	20,000	94,000
Bank Loan	80,000	1,00,000	Debtors	60,000	1,00,000
Loan from IDBI	50,000	-----	Closing stock	70,000	50,000
Creditors	80,000	88,000	Machinery	1,60,000	1,10,000
Profit & Loss A/C	2,00,000	2,40,000	Buildings	1,50,000	2,20,000
			Goodwill	2,00,000	1,60,000
	<u>6,60,000</u>	<u>7,34,000</u>		<u>6,60,000</u>	<u>7,34,000</u>

Other information:

- During the year company paid a Dividend of ₹ 30,000.
- Machinery having a book value of ₹ 40,000 was sold.
- Loan from IDBI paid off.

You are required to prepare Cash Flow Statement.

UNIT 4: BUDGETING AND BUDGETARY CONTROL

SHORT ANSWER QUESTIONS:

- Meaning of Budget.
- Difference between forecast and budget.
- Zero Based Budgeting (ZBB).
- Meaning of Budgetary Control.
- Advantages of Budgetary Control.
- Limitations of Budgetary Control.
- Flexible Budget.

PROBLEMS

1. A company is expecting to have ₹ 32,000 cash in hand on 1.4.2022 and it requests you to prepare cash budget for the three months, April to June 2022. The following information is supplied to you:

Month	Sales (₹)	Purchases (₹)	Wages (₹)	Expenses (₹)
February	70,000	44,000	6,000	5,000
March	80,000	56,000	9,000	6,000
April	96,000	60,000	9,000	7,000
May	1,00,000	68,000	11,000	9,000
June	1,20,000	62,000	14,000	9,000

Other information:

- Period of credit allowed by suppliers is two months.
- 25% of sales is for cash and the period of credit allowed to customers for credit sales is one month.
- Delay in payment of wages and expenses one month.
- Income tax ₹ 28,000 is to be paid in June 2022.

2. XY Co wishes to arrange overdraft facilities with bankers during the period April to June of a particular year, when it will be manufacturing mostly for stock. Prepare a cash budget for the above period from the following data, indicating the extent the bank facilities, the company will require at the end of each month:

a.

Month	Sales (₹)	Purchases (₹)	Wages (₹)
February	1,80,000	1,24,800	12,000
March	1,92,000	1,44,000	14,000
April	1,08,000	2,43,000	11,000
May	1,74,000	2,46,000	10,000
June	1,26,000	2,68,000	15,000

- b. 50% of credit sales are realized in the month following the sales and the remaining sales in second month following.
 c. Creditors are paid in the following month of purchase.
 d. Cash at bank on 1st April ₹ 25,000.

3. ABC Ltd. wishes to prepare cash budget for the 3 months period from July to September 2022

Month	Sales (₹)	Purchases (₹)	Wages (₹)
June	2,40,000	1,80,000	26,000
July	2,60,000	1,90,000	27,500
August	2,00,000	1,44,000	22,500
September	1,80,000	1,50,000	23,000

- a. 50% of sales are cash and 50% for credit.
 b. Creditors are paid in the month following the month of purchases.
 c. Plant costing ₹ 20,000 is to be purchased in July. 50% of same is paid in the month and the remaining 50% in the next month.
 d. Cash balance on 1st July is ₹ 10,000.
 e. Wages are paid on the first day of the following month.

4. From the following forecasts of Income and Expenditure prepare a cash budget for the three months commencing 1st June when the balance was ₹ 10,000.

Month	Sales (₹)	Purchases (₹)	Wages (₹)	Factory Overheads (₹)	Administration & Selling Overheads (₹)
April	8,000	4,100	560	390	1,000
May	7,650	4,050	540	420	1,400
June	7,850	3,850	540	510	1,500
July	9,000	3,700	480	510	1,700
August	9,500	3,500	470	600	1,300

Plant valued at ₹ 6,500 will be purchased and paid for in August. Dividend for the last year ₹ 1,500 will be paid in July. There is a two-month credit period allowed to customers and received from suppliers.

5. From the following budget data, forecast the cash position at the end of April, May and June 2021:

Month	Sales (₹)	Purchases (₹)	Wages (₹)	Miscellaneous (₹)
February	90,000	66,000	4,000	6,000
March	80,000	60,000	4,000	6,000
April	96,000	88,000	6,000	7,000
May	1,00,000	60,000	5,000	8,000
June	1,20,000	70,000	6,000	7,200

Additional information:

- Customers are allowed a credit period of one month.
 - Creditors are allowed a time- lag of two months for making payment.
 - Wages of a month are paid in the next month.
 - Other expenses of a month are paid in the first week of the next month.
 - A machinery is to be bought for cash in May for ₹ 32,000
 - Balance of cash on 1st April 2011 is ₹ 8,000.
 - All purchase and sales are on credit terms.
6. Prepare a flexible budget at 60%, 80% and 100% capacities from the following information.
- Fixed expenses ₹ 1,49,500
 - Semi- Variable expenses of 50% capacity – ₹ 89,500
 - Variable expenses at 50% capacity – ₹ 2,67,000
- Semi variable expenses remained constant between 40% and 70% capacity, increases by 10% between 70% and 85% capacity and 15% between 85% and 100% capacity. Sales at 60% are ₹ 5,10,000, at 80% capacity ₹ 6,80,000 and at 100% capacity ₹ 8,50,000. Assume that all the products are sold.
7. Prepare a flexible budget for the products of 80% and 100% activity on the following information.

Production at 50% capacity	5,000 units
Direct material	₹ 80 per unit
Direct Labour	₹ 50 per unit
Direct Expenses	₹ 15 per unit
Factory Expenses	₹ 50,000 (50% fixed)
Administration Expenses	₹ 60,000 (60% Variable)

8. The following information at 50% capacity is given. Prepare a flexible budget and forecast the profit or loss at 60%,70% and 90% capacity.

Expenses at 50% capacity
₹

Fixed Expenses:	
Salaries	50,000
Rent and Taxes	40,000
Depreciation	60,000
Administrative Expenses	70,000
Variable Expenses:	
Materials	2,00,000
Labour	2,50,000
Others	40,000
Semi-Variable Expenses:	
Repairs	1,00,000
Indirect Labour	1,50,000
Others	90,000

It is estimated that fixed expenses will remain constant at all capacities. Semi-variable expenses will not change between 45% and 60% capacity, will rise by 10% between 60% and 75% capacity, a further increase of 5% when capacity crosses 75%.

Estimated sales at various levels of capacity are:

Capacity	Sales (₹)
60%	11,00,000
70%	13,00,000
90%	15,00,000

9. Draw up a flexible budget at 80% capacity for overhead expenses on the basis of the following data and determine the overhead rates at 90% capacity:

₹

Variable Overheads:

Indirect Labour	12,000
Stores including spares	4,000

Semi-Variable Overheads:

Power (30% fixed)	20,000
Repairs (60% fixed)	2,000

Fixed Overheads:

Depreciation	11,000
Insurance	3,000
Salaries	<u>10,000</u>

Total Overheads	<u>62,000</u>
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10. The expenses for budgeted production of 10,000 units in a factory are furnished below:

Per Unit

₹

Materials	70
Labour	25
Variable Overhead	20
Fixed Overhead (₹ 1,00,000)	10
Variable Expense (Direct)	5
Selling Expense (15% fixed)	13
Distribution Expense (20% fixed)	7
Administration Expense (₹ 50,000 fixed)	<u>5</u>
	<u>155</u>

You are required to prepare a flexible budget at production levels of 8,000 and 6,000 units.

11. The cost of an article at a capacity level of 10,000 units is given under A below. For a variation in capacity above or below this level, the individual expenses vary as indicated in B below:

	A (₹)	B
Materials	50,000	100% Varying
Labour	30,000	100% Varying
Power	3,000	80% Varying
Repairs and Maintenance	3,500	80% Varying
Stores	2,000	100% Varying
Inspection	800	25% Varying
Depreciation	10,000	100% Varying
Administration Overhead	3,600	25% Varying
Selling Overhead	<u>4,500</u>	50% Varying
Total	<u>1,07,400</u>	
Cost per unit	<u>10.74</u>	

You are required to prepare a flexible budget at production levels of 8,000 and 12,000 units.

UNIT 5: MANAGEMENT REPORTING

(Theory only)

SHORT ANSWER QUESTIONS:

1. Meaning of Report
2. Write short notes on Written Reporting, Graphic reporting and oral reporting.
3. Explain briefly Routine reports and Special reports.
4. Management Reporting.
5. Financial Reporting.

ESSAY QUESTIONS:

1. What are the essential characteristics of a good report?
2. Explain kinds of Reports.
3. Explain the strategies for Writing Effective Reporting.

Theory Notes

UNIT I: INTRODUCTION

(Theory Only)

SHORT ANSWER QUESTIONS:

1. Define Management Accounting.

Management Accounting is comprised of two words 'Management' and 'Accounting'. It means the study of managerial aspect of accounting. The emphasis of management accounting is to redesign accounting in such a way that it is helpful to the management in formation of policy, control of execution and appreciation of effectiveness.

Management Accounting can be viewed as Management-oriented Accounting. Management Accounting involves the study of accounting information and techniques that managers use in analyzing information.

Management Accounting is not a specific system of accounts, but could be any form of accounting which enables a business to be conducted more effectively and efficiently.

DEFINITION OF MANAGEMENT ACCOUNTING:

- i. **Anglo-American Council of Productivity:** "Management Accounting is the presentation of accounting information in such a way as to assist the management in creation of policy and the day to day operation of an undertaking".
- ii. **Institute of Chartered Accountants of England and Wales:** "Any form of accounting which enables a business to be conducted more efficiently can be regarded as Management Accounting".
- iii. **Institute of Cost and Management Accountants, London:** "Management Accounting is the application of professional knowledge and skill in the preparation of accounting information in such a way as to assist management in the formulation of policies and in the planning and control of the operation of the undertakings".

2. Nature of Management Accounting

Management Accounting is comprised of two words 'Management' and 'Accounting'. It means the study of managerial aspect of accounting. Management Accounting can be viewed as Management-oriented Accounting.

NATURE OF MANAGEMENT ACCOUNTING:

- i. Grounded on Accounting Information
- ii. Cause and Effect Analysis
- iii. Use of Special Techniques and Concepts
- iv. Aids in Taking Important Decisions
- v. Aims at Achieving Objectives
- vi. No Fixed Norms
- vii. Improves Efficiency
- viii. Delivers Information and not Decision
- ix. Involved in Forecasting

3. Scope of Management Accounting.

Management Accounting has moved from a mere information gathering and processing system to an all-encompassing business solution box. Its scope is, therefore, quite vast and includes within its fold almost all aspects of business operations.

SCOPE OF MANAGEMENT ACCOUNTING:

- i. Financial Accounting:
- ii. Cost Accounting
- iii. Revaluation Accounting
- iv. Budgetary Control
- v. Inventory Control
- vi. Statistical Methods
- vii. Interim Reporting
- viii. Taxation
- ix. Office Services
- x. Internal Audit
- xi. Management Information System [MIS]

4. Significance of Management Accounting.

In the present complex business world, management accounting has become an integral part and useful tool of management system. The report prepared and data edited on the basis of management accounting become the foundation of successful operation of managerial activities.

SIGNIFICANCE OF MANAGEMENT ACCOUNTING:

- i. Increase in Efficiency
- ii. Proper Planning
- iii. Measurement of Performance
- iv. Effective Management Control
- v. Improved Services to Customers
- vi. Maximizing Profits
- vii. Prompt and Correct Decision.
- viii. Reduction in Business Risks

5. Limitations of Management Accounting.

Management Accounting, being comparatively a new discipline, suffers from certain limitations which limits its effectiveness.

LIMITATIONS OF MANAGEMENT ACCOUNTING:

- i. Limitations of Basic Records
- ii. Persistent Efforts
- iii. Management Accounting is only a Tool
- iv. Wide Scope
- v. Top-Heavy Structure
- vi. Opposition to Change
- vii. Evolutionary Stage

6. Installation of Management Accounting.

The installation of management accounting system involves the following steps:

- i. Preparation of Organizational Manual
- ii. Preparing Forms and Returns
- iii. Requisite Staffing
- iv. Classifying Accounts and Integrating the System
- v. Introducing Standard Costing Techniques
- vi. Setting up Budgetary Control System
- vii. Setting up Operational Research Techniques

7. Tools of Management Accounting.

A number of tools and techniques are used to supply the information required by the management. No one tool can satisfy all managerial needs.

- i. Financial Planning
- ii. Financial Statement
- iii. Cost Accounting
- iv. Funds Flow Analysis
- v. Cash Flow Analysis
- vi. Standard Costing
- vii. Marginal Costing
- viii. Budgetary Control
- ix. Revaluation Accounting
- x. Decision-Making Accounting
- xi. Management Information System (MIS)
- xii. Statistical Techniques
- xiii. Management Reporting
- xiv. Ratio Analysis

ESSAY QUESTIONS:**1. Define Management Accounting. Explain the nature of Management Accounting.**

Management Accounting is comprised of two words 'Management' and 'Accounting'. It means the study of managerial aspect of accounting. The emphasis of management accounting is to redesign accounting in such a way that it is helpful to the management in formation of policy, control of execution and appreciation of effectiveness.

Management Accounting can be viewed as Management-oriented Accounting. Management Accounting is not a specific system of accounts, but could be any form of accounting which enables a business to be conducted more effectively and efficiently.

DEFINITION OF MANAGEMENT ACCOUNTING:

- i. **Anglo-American Council of Productivity:** "Management Accounting is the presentation of accounting information in such a way as to assist the management in creation of policy and the day to day operation of an undertaking".
- ii. **Institute of Chartered Accountants of England and Wales:** "Any form of accounting which enables a business to be conducted more efficiently can be regarded as Management Accounting".
- iii. **Institute of Cost and Management Accountants, London:** "Management Accounting is the application of professional knowledge and skill in the preparation of accounting information in such a way as to assist management in the formulation of policies and in the planning and control of the operation of the undertakings".

NATURE / CHARACTERISTICS OF MANAGEMENT ACCOUNTING:

- i. **Grounded on Accounting Information** Management Accounting is based on accounting information.
- ii. **Cause and Effect Analysis** Management Accounting discusses the cause and effect relationship. The reasons for the loss are probed and the factors directly influencing the profitability are also analyzed.
- iii. **Use of Special Techniques and Concepts** Management Accounting uses special techniques and concepts according to necessity, to make accounting data more useful.
- iv. **Aids in Taking Important Decisions** It supplies necessary information to the management which may be useful for its decisions. The historical data is studied to see its possible impact on future decisions.
- v. **Aims at Achieving Objectives** Management Accounting uses the accounting information in such a way that it helps in formatting plans and setting up objectives.
- vi. **No Fixed Norms** No specific rules are followed in management accounting as that of financial accounting.
- vii. **Improves Efficiency** The purpose of using accounting information is to increase efficiency of the concern. The performance appraisal will enable the management to pin-point efficient and inefficient spots.
- viii. **Delivers Information and not Decision** Management accountant is only to guide to take decisions. The data is to be used by the management for taking various decisions.
- ix. **Involved in Forecasting** The management accounting is concerned with the future. It helps the management in planning and forecasting. The historical information is used to plan future course of action.

2. Explain the Advantages and Dis-Advantages of Management Accounting.

In the present complex business world, management accounting has become an integral part and useful tool of management system.

ADVANTAGES OF MANAGEMENT ACCOUNTING:

- 1. Increase in Efficiency:** The targets of different departments are fixed in advance and later on actual performance is compared with them.
- 2. Proper Planning:** The work-load of each and every individual is fixed in advance and the activities of the concern are planned in a systematic manner.
- 3. Measurement of Performance:** Measurement and management of work performance through the techniques of standard costing and budgetary control.
- 4. Effective Management Control:** Efficiency of management depends upon its effective control.
- 5. Improved Services to Customers:** The installation of various types of control through management accounting leads to reduction in cost and price and maintenance of standard level of quality of goods produced and services rendered.
- 6. Maximizing Profits:** The thrust of various techniques of management accounting is to control cost of production and to increase operational efficiency. It all results in maximizing the profits.
- 7. Prompt and Correct Decision:** Management accounting provides continuous information and analysis is to various levels of management in respect of various aspects of business operations. It helps in prompt and correct decision by management.
- 8. Reduction in Business Risks:** Management can prepare such plans which may minimize the impact of trade cycle or seasonal fluctuations and consequently reduction in various types of business risks.

DIS-ADVANTAGES OF MANAGEMENT ACCOUNTING:

Management Accounting, being comparatively a new discipline, suffers from certain limitations which limits its effectiveness. These limitations are as follows:

- 1. Limitations of Basic Records:** Management Accounting derives its information from financial accounting, cost accounting and other records, their limitations are also the limitations of management accounting.
- 2. Persistent Efforts:** The conclusions drawn by the management accountant are not executed automatically, he must be an efficient salesman in selling his ideas.
- 3. Management Accounting is only a Tool:** Management Accounting cannot replace the management. Management accountant is only an adviser to the management.
- 4. Wide Scope:** Management Accounting has a very wide scope incorporating many disciplines. It considers both monetary as well as non-monetary factors.
- 5. Top-Heavy Structure:** The installation of Management Accounting system requires heavy costs on account of an elaborate organization and numerous rules and regulations. It can, therefore, be adopted only by big concerns.
- 6. Opposition to Change:** Management Accounting demands a break away from traditional accounting practices. It calls for a rearrangement of the personnel and their activities which is generally not liked by the people involved.
- 7. Evolutionary Stage:** Management Accounting is in its evolution stage. It has, therefore, the same impediments as a new discipline will have, e.g., fluidity of concepts, raw techniques and imperfect analytical tools. This all creates doubt about the very utility of management accounting. The rapid changes in the business scenario are big challenge before management accounting.

3. Difference between Financial Accounting and Management Accounting.

BASIS	FINANCIAL ACCOUNTING	MANAGEMENT ACCOUNTING
1. Objective	Financial Accounting aims at recording business transaction systematically to ascertain profit or loss and financial position at the end of the financial year.	The aim of Management Accounting is to prepare various statements for managerial planning, control and decision making.
2. Time Period	In Financial Accounting the accounts are prepared for a particular period.	In Management Accounting the reports are prepared from time to time to update with the changing business environment.
3. Audit	In Financial Accounting under Company law Financial accounts are subject to compulsory Audit.	In Management Accounting audit is optional.
4. Principles	Financial Accounting is prepared as per Generally Accepted Accounting principles (GAAP).	In Management Accounting no set of standing principles are followed
5. Nature	Financial Accounting is concerned with historical data. It records only those transactions which have already taken place.	The Management Accounting is concerned with both historical data and estimated data. Thus, the accounts prepared here are like post-mortem report.
6. Publication	In Financial Accounting, Financial Statements are published annually for external parties interested in the accounting information.	In Management Accounting the statements and reports are not published. They are meant for internal use of the management.
7. Quickness	In Financial Accounting, reporting is slow and time consuming. Hence, one has to wait till the end of the accounting year to get the financial statements	In Management Accounting, reporting is very quick as it is meant for decision making.
8. Nature of Information	Financial Accounting is concerned with quantitative information expressed in terms of money.	Management Accounting is concerned with both qualitative and quantitative information.
9. Reporting	In Financial Accounting, Financial reports are prepared not only for the organization but for others interested in the accounting information of the business.	In Management Accounting, the reports are prepared for internal use only.
10. Legal Compulsion	Preparation of financial accounts is mandatory to comply with statutory requirements.	Management Accounting is not compulsory

4. Difference between Cost Accounting and Management Accounting.

Basis	COST ACCOUNTING	MANAGEMENT ACCOUNTING
1. Purpose	The purpose of Cost Accounting is the ascertainment of cost at each stage of production.	The purpose of Management Accounting is to provide information to the management for decision making.
2. Basis	Cost Accounting is prepared mainly on the basis of past and less emphasis is given for the future.	Management Accounting purely aims at the future based on the past information.
3. Preparation	Cost Accounting is prepared on the basis of some rules and regulations prescribed by the ICAI (Institute of Cost Accountants of India).	Management Accounting is prepared without adopting any specific and rigid rules. It may be prepared according to the will of the managerial personnel.
4. Reports	The Reports of the Cost Accounting are subject to statutory audit.	The reports of the Management Accounting are not subject to statutory audit.
5. Useful	The reports of the Cost Accounting are useful both to the internal and external parties.	The reports of the Management Accounting are useful only for the internal parties.
6. Scope	Cost Accounting does not include tax planning and tax accounting.	Management Accounting includes tax planning and tax accounting.
7. Evolution	Cost Accounting evolves due to the limitation of financial accounting,	Management Accounting evolves due to the limitations of cost accounting. It is the managerial aspects of financial accounting and cost accounting.
8. Maintenance of Records	The maintenance of records is compulsory for complying the statutory requirements in selected industries as notified by Govt. from time to time.	The maintenance of records is purely voluntary and for internal use of management of the Company.
9. Planning Aspect	Cost Accounting is mainly concerned with short-term planning.	Management Accounting is concerned with short term as well as long term planning of the organization.
10. Installation of System	Cost Accounting can be installed without the help of the Management Accounting in the organization	Management Accounting system cannot be properly installed without a proper cost accounting system.
11. Derivation of Data	Cost Accounting data are derived basically from financial accounts.	Management Accounting data are derived from both Cost Accounts as well as from Financial Accounts.
12. Status	The status of the Cost accountant in the organization comes after the management accountant.	The status of the Management accountant is higher than Cost accountant in the organization due to direct participation in decision making process.

UNIT 2: RATIO ANALYSIS

SHORT ANSWER QUESTIONS:

1. Meaning of Ratio Analysis

Ratio analysis is a quantitative analysis of data enclosed in an enterprise's financial statements. It is used to assess multiple perspectives of an enterprise's working and financial performance such as its liquidity, turnover, solvency and profitability.

To put it in other words, Ratio analysis is the method of analysing and comparing financial data by computing meaningful financial statement value percentages rather than comparing line items from each financial statement.

The analysts very much rely on the current and past financial statements in order to obtain important data for analysing financial performance of the company. The data or information thus obtained during the analysis is helpful in determining whether the financial position of a company is improving or deteriorating.

2. Advantages of Ratio Analysis

- i. Helps in forecasting and planning by performing trend analysis.
- ii. Helps in estimating budget for the firm by analysing previous trends.
- iii. It helps in determining how efficiently a firm or an organisation is operating.
- iv. It provides significant information to users of accounting information regarding the performance of the business.
- v. It helps in comparison of two or more firms.
- vi. It helps in determining both liquidity and long-term solvency of the firm.

3. Limitations of Ratio Analysis

- i. Financial statements seem to be complicated.
- ii. Several organisations work in various enterprises each possessing different environmental positions such as market structure, regulation, etc., Such factors are important that a comparison of 2 organisations from varied industries might be ambiguous.
- iii. Financial accounting data is influenced by views and hypotheses. Accounting criteria provide different accounting methods, which reduces comparability and thus ratio analysis is less helpful in such circumstances.
- iv. Ratio analysis illustrates the associations between prior data while users are more concerned about current and future data.

4. Profitability Ratios

The purpose of profitability ratios is to determine the ability of a company to earn profits when compared to their expenses. A better profitability ratio shown by a business as compared to its previous accounting period shows that business is performing well.

Gross Profit Ratio

Gross Profit Ratio is a profitability ratio that measures the relationship between the gross profit and net sales revenue.

$$\text{Gross Profit Ratio} = \text{Gross Profit} / \text{Net Sales} \times 100$$

Operating Ratio

Operating Ratio is calculated to determine the cost of operation in relation to the revenue earned from the operations.

$$\text{Operating Ratio} = (\text{Cost of Goods Sold} + \text{Operating Expenses}) / \text{Net Sales} \times 100$$

Operating Profit Ratio

Operating profit ratio is a type of profitability ratio that is used for determining the operating profit and net sales.

$$\text{Operating Profit Ratio} = \text{Operating Profit} / \text{Net Sales} \times 100$$

$$\text{Or Operating Profit Ratio} = 100 - \text{Operating ratio}$$

Net Profit Ratio

Net profit ratio is an important profitability ratio that shows the relationship between net sales and net profit after tax.

$$\text{Net Profit Ratio} = \text{Net Profit after tax} \div \text{Net sales}$$

5. Write short notes on Current Ratio and Quick Ratio

Liquidity is a very critical part of a business. Liquidity ratios are a measure of the ability of a company to pay off its short-term liabilities.

Liquidity ratios determine how quickly a company can convert the assets and use them for meeting the dues that arise. The higher the ratio, the easier is the ability to clear the debts and avoid defaulting on payments.

This is a very important criterion that creditors check before offering short term loans to the business.

Current Ratio or Working Capital Ratio

The current ratio is a measure of a company's ability to pay off the obligations within the next twelve months. This ratio is used by creditors to evaluate whether a company can be offered short term debts. It also provides information about the company's operating cycle.

$$\text{Current ratio} = \text{Current Assets} / \text{Current Liabilities}$$

Quick Ratio or Acid Test Ratio

Quick ratio is also known as Acid test ratio is used to determine whether a company or a business has enough liquid assets which are able to be instantly converted into cash to meet short term dues. It is calculated by dividing the liquid current assets by the current liabilities

$$\text{Quick Ratio} = (\text{Cash} + \text{Marketable securities} + \text{Accounts receivable}) / \text{Current liabilities}$$

6. Debt-Equity Ratio

Debt-Equity Ratio is calculated by dividing a company's total liabilities with the shareholder's equity. These values are obtained from the balance sheet of the company's financial statements.

It is an important metric which is used to evaluate a company's financial leverage. This ratio helps understand if the shareholder's equity has the ability to cover all the debts in case business is experiencing a rough time.

$$\text{Debt to equity ratio} = \text{Long term debt} / \text{shareholder's funds}$$

Or

$$\text{Debt to equity ratio} = \text{Total liabilities} / \text{shareholders' equity}$$

A high debt-to-equity ratio is associated with a higher risk for the business as it indicates that the company is using debt for fuelling its growth. It also indicates lower solvency of the business.

7. Turnover Ratios

Activity ratios are used to determine the efficiency of the organisation in utilising its assets for generating cash and revenue. It is used to check the level of investment made on an asset and the revenue that it is generating. For this reason, the activity ratio is also known as the efficiency ratio or the more popular turnover ratio.

The role of activity ratio or turnover ratio is in the evaluation of the efficiency of a business by careful analysis of the inventories, fixed assets and accounts receivables.

Stock Turnover Ratio or Inventory Turnover Ratio

It shows how fast the inventory gets cleared in an accounting period

$$\text{Stock Turnover Ratio} = \text{Cost of Goods Sold} / \text{Average Inventory}$$

Debtor Turnover Ratio

This ratio which shows how well a company is able to provide credit facilities to its customers and at the same time is also able to recover the due amount within the payment period.

$$\text{Debtor Turnover Ratio} = \text{Credit Sales} / \text{Average Debtors}$$

Creditors Turnover Ratio

Creditors turnover ratio is a measure of the capability of the company to pay off the amount for credit purchases successfully in an accounting period.

$$\text{Creditors Turnover ratio} = \text{Net Credit Purchases} / \text{Average accounts payable}$$

Working Capital Turnover Ratio

This ratio is helpful in determining the effectiveness with which a company is able to utilise its working capital for generating sales of its goods.

$$\text{Working capital turnover ratio} = \text{Sale or Costs of Goods Sold} / \text{Working Capital}$$

Net Asset Turnover Ratio

It determines the ability of the business to generate sales revenue by the use of net assets of the business. The ratio is calculated using the following formula

$$\text{Net Asset Turnover Ratio} = \text{Net Sales} / \text{Capital Employed}$$

8. Return on Investment (ROI) or Return on Capital Employed (ROCE)

Return on capital employed (ROCE) or Return on Investment (ROI) is a profitability ratio that measures how well a company is able to generate profits from its capital. It is an important ratio that is mostly used by investors while screening for companies to invest.

$$\text{ROCE or ROI} = \text{EBIT} \div \text{Capital Employed} \times 100$$

Where EBIT = Earnings before interest and taxes or Profit before interest and taxes

Capital Employed = Total Assets – Current Liabilities

UNIT 3: FUND FLOW AND CASH FLOW ANALYSIS as per AS3

SHORT ANSWER QUESTIONS:

1. Define Working Capital

- i. Working capital, also called net working capital, represents the difference between a company's current assets and current liabilities.
- ii. Working Capital = Current Assets - Current Liabilities
- iii. "Current" refers to a time period of one year or less. Current assets are available within 12 months; current liabilities are due within 12 months.
- iv. Working capital is a measure of a company's liquidity and short-term financial health.
- v. Positive working capital indicates that a company can fund its current operations and invest in future activities and growth.
- vi. Negative working capital is an indicator of poor short-term health, low liquidity, and potential problems paying its debt obligations as they become due.
- vii. High working capital isn't always a good thing. It might indicate that the business has too much inventory, not investing its excess cash, or not capitalizing on low-expense debt opportunities.

2. What is Funds Flow Statement?

The Funds Flow Statement is a statement which shows the movement of funds and is a report of the financial operations of the business undertaking.

It indicates various means by which funds were obtained during a particular period and the ways in which these funds were employed in simple words, it is a statement of sources and applications of funds.

Funds Flow Statement is a method by which we study changes in the financial position of a business enterprise between beginning and ending financial statements dates. It is a statement showing sources and uses of funds for a period of time.

"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". - **Foulke**

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

3. Advantages of Funds Flow Statement

- i. Funds flow statement reveals the net result of Business operations done by the company during the year.
- ii. In addition to the balance sheet, it serves as an additional reference for many interested parties like analysts, creditors, suppliers, government to look into financial position of the company.
- iii. The Fund Flow Statement shows how the funds were raised from various sources and also how those funds were deployed by a company, therefore it is a great tool for management when it wants to know about where and from what sources funds were raised and also how those funds got utilized into the business.
- iv. It reveals the causes for the changes in liabilities and assets between the two balance sheet dates therefore providing a detailed analysis of the balance sheet of the company.
- v. Funds flow statement helps the management in deciding its future course of plans and also it acts as a control tool for the management.

4. What are the Sources of funds and Uses of funds?

Sources of Funds

- i. Issue of Shares and Debentures for Cash
- ii. Long Term Loans: The Amount received on raising Long Term Loans is shown under this head. Short Term Loans are not to be shown here as their treatment has already been done while preparing the Statement of Changes in Working Capital.
- iii. Sale of Investments and other Fixed Assets
- iv. Funds from Operations
- v. Decrease in Working Capital

Application of Funds

- i. Purchase of Fixed Assets and Investments: The Cash Payment made for purchase of Fixed Assets and Investments is an application of Funds.
- ii. Redemption of Debentures, Preference Shares and Repayment of Loan
- iii. Payment of Dividend & Tax: Payment of Dividend and Tax are to be taken as applications of fund if the provisions are excluded from Current Liabilities.
- iv. Increase in Working Capital.

5. Meaning of Cash Flow Statement

A Cash Flow Statement is a statement showing changes in cash position of the firm from one period to another. It explains the inflows (receipts) and outflows (disbursements) of cash over a period of time.

The inflows of cash may occur from sale of goods, sale of assets, receipts from debtors, interest, dividend, rent, issue of new shares and debentures, raising of loans, short-term borrowing, etc.

The cash outflows may occur on account of purchase of goods, purchase of assets, payment of loans loss on operations, payment of tax and dividend, etc.

A cash flow statement is different from a cash budget. A cash flow statement shows the cash inflows and outflows which have already taken place during a past time period. On the other hand, a cash budget shows cash inflows and outflows which are expected to take place during a future time period.

A Cash Flow Statement comprises information on following 3 activities:

- i. Operating Activities
- ii. Investing Activities
- iii. Financing Activities

6. Significance of Cash Flow Statement

- i. It shows the actual cash position available with the company between the two balance sheet dates which funds flow and profit and loss account are unable to show. So, it is important to make a cash flow report if one wants to know about the liquidity position of the company.
- ii. It helps the company in accurately projecting the future liquidity position of the company enabling it arrange for any shortfall in money by arranging finance in advance and if there is excess than it can help the company in earning extra return by deploying excess funds.
- iii. It acts like a filter and is used by many analyst and investors to judge whether company has prepared the financial statements properly or not because if there is any discrepancy in the cash position as shown by balance sheet and the cash flow statement, it means that statements are incorrect.

7. How do you calculate Cash from Operations?

Cash flow from operations is the section of a company's Cash Flow Statement that represents the amount of cash a company generates (or consumes) from carrying out its operating activities over a period of time. Operating activities include generating revenue, paying expenses, and funding working capital.

Cash Flow from Operations = Net Income + Non-Cash Items + Changes in Working Capital

Follow these three steps:

- i. Take net income from the income statement
- ii. Add back non-cash expenses
- iii. Adjust for changes in working capital

8. Difference between Funds Flow Statement and Cash Flow Statement

	Basis of Difference	Funds Flow Statement	Cash Flow Statement
1.	Basis of Analysis	Funds flow statement is based on broader concept i.e. working capital.	Cash flow statement is based on narrow concept i.e. cash, which is only one of the elements of working capital.
2.	Source	Funds flow statement tells about the various sources from where the funds generated with various uses to which they are put.	Cash flow statement starts with the opening balance of cash and reaches to the closing balance of cash by proceeding through sources and uses.
3.	Usage	Funds flow statement is more useful in assessing the long-range financial strategy.	Cash flow statement is useful in understanding the short-term phenomena affecting the liquidity of the business.
4.	Schedule of Changes in Working Capital	In funds flow statement changes in current assets and current liabilities are shown through the schedule of changes in working capital.	In cash flow statement changes in current assets and current liabilities are shown in the cash flow statement itself.
5.	End Result	Funds flow statement shows the causes of changes in net working capital.	Cash flow statement shows the causes the changes in cash.
6.	Principle of Accounting	Funds flow statement is in alignment with the accrual basis of accounting.	In cash flow statement data obtained on accrual basis are converted into cash basis.

UNIT 4: BUDGETING AND BUDGETARY CONTROL

SHORT ANSWER QUESTIONS:

1. Meaning of Budget

CIMA Official Terminology has defined the terms 'budget' as "Quantitative expression of a plan for a defined period of time. It may include planned sales volumes and revenues; resource quantities, costs and expenses; assets, liabilities and cash flows."

CHARACTERISTICS OF BUDGET

- i. A budget is concerned for a definite future period.
- ii. A budget is a written document.
- iii. A budget is a detailed plan of all the economic activities of a business.
- iv. All the departments of a business unit co-operate for the preparation of a business budget.
- v. Budget is a mean to achieve business and it is not an end in itself.
- vi. Budget needs to be updated, corrected and controlled every time when circumstances change. Therefore, it is a continuous process.
- vii. Budget helps in planning, coordination and control.
- viii. Different types of budgets are prepared by industries according to business requirements.

2. Difference between forecast and budget

	BUDGET	FORECAST
1.Meaning	A budget is a financial plan expressed in quantitative terms, prepared by the management in advance for forthcoming period.	Forecast means estimation of future trends and outcomes, based on the past and present data.
2.What is it?	It is the financial expression of a business plan or target.	It is the prediction of upcoming events or trends in business, on the basis of present business conditions.
3.Target	Budget sets target.	There are no targets.
4.Updation	Annual basis	At regular intervals
5.Estimates	What business wants to achieve	What business will achieve
6.Variance Analysis	Yes	No

3. Zero Based Budgeting (ZBB)

Zero- based Budgeting (ZBB) is defined as 'a method of budgeting which requires each cost element to be specifically justified, although the activities to which the budget relates are being undertaken for the first time, without approval, the budget allowance is zero'.

ZBB is an activity-based budgeting system where budgets are prepared for each activity rather than functional department. Justification in the form of cost benefits for the activity is required to be given.

ZBB involves the following stages:

- i. Identification and description of Decision packages
- ii. Evaluation of Decision packages
- iii. Ranking (Prioritization) of the Decision packages
- iv. Allocation of resources

4. Meaning of Budgetary Control

CIMA has defined the terms 'budgetary control' as "Budgetary control is the establishment of budgets relating to the responsibilities of executives of a policy and the continuous comparison of the actual with the budgeted results, either to secure by individual action the objective of the policy or to provide a basis for its revision".

It is the system of management control and accounting in which all the operations are forecasted and planned in advance to the extent possible and the actual results compared with the forecasted and planned ones.

Budgetary Control Involves:

- i. Establishment of budgets
- ii. Continuous comparison of actual with budgets for achievement of targets.
- iii. Revision of budgets after considering the changes in the circumstances.
- iv. Placing the responsibility for failure to achieve the budget targets.

5. Advantages of Budgetary Control

- i. **Efficiency:** The use of budgetary control system enables the management of a business concern to conduct its business activities in the efficient manner.
- ii. **Control on expenditure:** It is a powerful instrument used by business houses for the control of their expenditure. It in fact provides a yardstick for measuring and evaluating the performance of individuals and their departments.
- iii. **Finding deviations:** It reveals the deviations to management, from the budgeted figures after making a comparison with actual figures.
- iv. **Effective utilisation of resources:** Effective utilisation of various resources like—men, material, machinery and money—is made possible, as the production is planned after taking them into account.
- v. **Revision of plans:** It helps in the review of current trends and framing of future policies. **Implementation of Standard Costing system:** It creates suitable conditions for the implementation of standard costing system in a business organisation.
- vi. **Cost Consciousness:** Budgets are studied by outside fund providers also such as banking and financial institutions, realising that management encourages cost consciousness and maximum utilisation of available resources.
- vii. **Credit Rating:** Management which have developed a well-ordered budget plans and which operate accordingly, receive greater favour from credit agencies.

6. Limitations of Budgetary Control

- i. **Based on Estimates:** Budgets are based on series of estimates which are based on the conditions prevailed or expected at the time budget is established. It requires revision in plan if conditions change.
- ii. **Time factor:** Budgets cannot be executed automatically. Some preliminary steps are required to be accomplished before budgets are implemented. It requires proper attention and time of management.
- iii. **Co-operation Required:** Staff co-operation is usually not available during budgetary control exercise. The success of the budgetary control depends upon willing co-operation and teamwork.
- iv. **Expensive:** Its implementation is quite expensive. For successful implementation of the budgetary control proper organisation structure with responsibility is prerequisite.
- v. **Not a substitute for management:** Budget is only a managerial tool and must be applied correctly for management to get benefited. Budgets are not a substitute for management.
- vi. **Rigid document:** Budgets are considered as rigid document. But in reality, Budget should be flexible enough to incorporate ongoing developments in the internal and external factors affecting the very purpose of the budget.

7. Flexible Budget

According to CIMA, “a flexible budget is defined as a budget which, by recognizing the difference between fixed, semi-variable and variable costs is designed to change in relation to the level of activity attained.”

- ❖ Unlike static(fixed) budgets, flexible budgets show the expected results of a responsibility center for different activity levels.
- ❖ Such budgets are especially useful in estimating and controlling factory costs and operating expenses.
- ❖ It is more realistic and practicable because it gives due consideration to cost behavior at different levels of activity.
- ❖ While preparing a flexible budget the expenses are classified into three categories
 - a. Fixed,
 - b. Variable, and
 - c. Semi-variable. Semi-variable expenses are further segregated into fixed and variable expenses.

Suitability for flexible budget:

- i. Seasonal fluctuations in sales and/or production, for example in soft drinks industry;
- ii. A company which keeps on introducing new products or makes changes in the design of its products frequently;
- iii. Industries engaged in make-to-order business like ship building;
- iv. An industry which is influenced by changes in fashion; and
- v. General changes in sales.

UNIT 5: MANAGEMENT REPORTING

(Theory only)

SHORT ANSWER QUESTIONS:

1. Meaning of Report

- i. The word 'Report' is derived from the Latin word '**portare**' which means 'to carry'. So 'Report' is a document which carries the information.
- ii. The word Report consists of two parts, viz., RE+PORT. The meaning of the word RE is 'again' or 'back' and PORT means 'to carry'. Combining the two words it means to carry the information again.
- iii. It must be clear that reports are always written for any event which has already occurred. So, report is a written document which carries the information again.
- iv. **G.R. Terry** talks about report as a written communication prepared on the basis of collected information related to present, past or future.
- v. In the words of **Johnson and Savage**, "A good business report is a communication that contains factual information, organized and presented in clear, correct and coherent language".
- vi. A mere expression of opinion without supporting factual data is not a report.

2. Write short notes on Written Reporting, Graphic reporting and oral reporting.

Reports may be presented in a number of ways.

- a) Written Reporting.
- b) Graphic Reporting.
- c) Oral Reporting.

a) Written Reporting:

A number of written reports may be sent to different levels of management. These reports may be

- i. Formal Financial Statements
- ii. Tabulated Information
- iii. Accounting Ratios.

b) Graphic Reporting:

The reports may be presented in form of charts, diagrams and pictures. The reports have advantage of quick grasp of trends of information presented. A look at the chart or diagram may enable the reader to have an idea about the information.

c) Oral Reporting:

Oral reporting may be in the following forms:

- i. Group Meetings
- ii. Conversation with individuals

Oral reporting is helpful only to a limited extent. It cannot form a part of important managerial decision making.

- ❖ A combination of written, graphic and oral reporting may be useful for the concern.

3. Explain briefly Routine reports and Special reports.

According to period the reports may be (a) Routine Reports and (b) Special Reports.

(a) Routine Reports:

- i. These reports are prepared about day-to-day working of the concern.
- ii. They are periodically sent to various levels of management, daily, weekly, monthly or quarterly.
- iii. These reports differ according to the nature of information and details to be reported.
- iv. Routine reports may relate to sales information, production figures, capital expenditure, purchase of raw materials, market trends, labour situation, etc.

(b) Special Reports:

- i. The management may confront some difficulties and routine reports may not give sufficient information to tackle these situations. Under such circumstances, special reports are called for. Special reports are required for special purpose only.
- ii. Special reports are prepared according to the need of the situation.
- iii. According to J. Batty "Special reports should be divided into sections, each covering the following main purposes:
 1. Reasons for the report.
 2. Investigation made.
 3. Finding a conclusion and recommendations.

4. Management Reporting.

- i. The process of providing information to the management is known as 'Management Reporting'.
- ii. The reports are regularly sent to various levels of management so as to enable in judging the effectiveness of their responsibility centres.
- iii. These reports also become a base for taking corrective measures if necessary.
- iv. "Reports on what has happened in a business, are useful for two general purposes which may be called information and control, respectively". -**Anthony and Reece**
- v. Information reports are useful to tell management what is going on. Control reports, on the other hand, are useful in assessing personal performance and economic performance.
- vi. Reporting is not equivalent to communication. Communication is both downward and upward. But reporting is only upward.

5. Financial Reporting.

- i. Financial reporting may be defined as communication of financial statements and other related financial information to external users including investors, money lenders, suppliers, customers, government agencies and public at large by a corporate form of organisation.
- ii. Corporate financial reporting is reporting of financial information to user group.
- iii. The basic objective of financial reporting is to provide information useful to investors, creditors and other user groups in making sound investment decisions.
- iv. Financial reporting not only includes financial statements but also other means of communicating information that relates directly or indirectly to information provided by the accounting system. However financial statements are a central feature of financial reporting.

ESSAY QUESTIONS:**1. What are the essential characteristics of a good report?**

A report should contain all the information which are required by the interested parties. Hence, some principles are followed while drafting a report. These principles are simply guidelines.

Qualities or Characteristics of Good report:

1. **Suitable Title:** A suitable title has to be provided to each report according to the nature of contents. It should also highlight upon its origin and the person for whom it is being prepared.
2. **Simple:** In case the reports are of regular nature, it is preferable to get language more or less standardized.
3. **Promptness:** Information delayed is information denied. At the same time, accuracy of information should not be given up at the cost of achieving objective of promptness.
4. **Comparability:** The main objective of comparability is to highlight significant variations.
5. **Consistency:** A report should be prepared for many years from the same type of information and statistical data. The usage of report is increased through consistency.
6. **Precise and Accurate:** A report should be precise, accurate and specific.
7. **Relevant Information:** Relevant accurate data is alone included in the report.
8. **Routine Details:** Every report should contain the routine details like the period of time of preparing report, the period covered in the report, date of presentation of report, etc.
9. **Adaptability:** The format and contents of the report should be suitable to the person or group of persons who are going to use the report and the purpose for which it is required.
10. **Economy or Cost Consciousness:** This cost of preparing and presenting the report should not be more than the advantage derived from such reports.
11. **Principle of Exception:** Trouble spots and/or illuminating priority areas are calling for management attention and action.
12. **Frequency of Reports:** The frequency of reports should be decided, well in advance according to the nature of information and its purpose.
13. **Media of Presentation:** A report may be in written form or oral form or graphic form. An ideal report is presented in the form which carries successful blending of different media.
14. **Up to Date:** A report should contain only latest information.
15. **Good Form and Content:** The following points are to be considered while drafting a report.
 - i. A report is **prepared in well classified paragraph** with suitable heading and sub-heading if possible.
 - ii. The **title of the report explains the purpose** for which the report is prepared and the period covered by the report. For example: Report of the Performance of Sales Representatives of January 2022.
 - iii. The title also enables to point out the persons who need the report.
 - iv. If statistical figures are to be given only significant figures given in the body of the report and other **detailed figures should be given in appendix.**
 - v. The reports **should contain facts and not opinions.** The opinions are given if necessary.
 - vi. The report **must contain the date of its preparation and date of submission.**
 - vii. Sometimes a report is prepared on the basis of request made by the management. If so, the **report should bear the reference number** of such request or letter.
 - viii. A report is prepared to satisfy only one purpose. **Separate reports be prepared for different subjects.**
 - ix. The contents of the **report should be in a logical sequence.**

2. Explain kinds of Reports.

I. On the basis of Objects or purpose:

1. Internal Reports:

Internal report is meant for different levels of management. This can be classified into three types:

- i. Report meant for top level management,
- ii. Report meant for middle level management, and
- iii. Report meant for lower level management.

Internal report need not conform to any standard form as it is not statutorily required to be prepared.

2. External Reports:

It is prepared for meeting the requirements of persons outside the business, such as shareholders, creditors, bankers, government, stock exchange and so on.

External report is brief in size as compared to internal report and they are prepared as per the statutory requirements. E.g. of external reports: profit & loss a/c, balance sheet.

II. On the basis of nature:

1. Enterprise Report:

These reports are prepared for the concerns as a whole. These reports serve as a channel of communication with outsiders. It may include income tax returns, balance sheet, income statement, employment report, and chairman's reports and so on...

2. Control report:

It deals with two aspects. One is relating to the personal performance and other deals with economic performance. The types of report are prepared for controlling the performance.

3. Investigating Report:

These reports are linked with control reports. These reports are prepared when there is some serious problem arises for investigating and analysing the situation.

III. On the basis of period:

1. Routine reports:

These reports are prepared about day-to-day working of the concern. They are periodically sent to various levels of management. These reports may relate to sales information, production figures, capital expenditures, purchase of raw materials, market trends etc.

2. Special reports:

These reports are prepared according to the need of situation. Available accounting information may not be sufficient, so data may have to be especially collected. There may be need to put extra staff for compiling these reports. These reports are prepared for some purposes (i.e. make or buy decision, technological changes in industry, market analysis, changes in government policies and so on...).

IV. On the basis of functions:

1. Operating reports:

These reports provide information about operations of the concern. These reports can be classified into three types:

(a) Control reports: Which are prepared to exercise control over various operation of the business.

(b) Information report: Which are prepared for facilitating planning and policy formulation in a business.

2. Financial reports:

Such reports provide information about financial position of the undertaking. These reports may be prepared annually to show the financial position for the year as in the case of balance sheet or periodically to show the cash position for a given period as in the case of fund flow analysis and cash flow analysis.

3. Explain the strategies for Writing Effective Reporting.

The process of writing and designing a report consists of three stages:

1. Deciding the nature and purpose of the report.
2. Structure of the report.
3. Drafting of a report.

1. Deciding the nature and purpose of the report:

The first stage is to know the type of report. Whether the report is statutory or non-statutory. Its type shall determine the nature and shape of the report. It is also very essential to know the purpose or object of the report. The purpose shall determine the other two stages.

2. Structure of the report:

There is no one way to design the structure of the report. But following parts are common in any report.

- i. Heading
- ii. Address
- iii. Contents
- iv. Terms of Reference or Introduction
- v. Body of the Report
- vi. Recommendations
- vii. Reference and Appendices
- viii. Signature

3. Drafting of a report:

Drafting of a report includes the following considerations:

- i. **Collection of data and its analysis:** Data can be collected from secondary or primary sources. Data is collected by investigations, observations, interviews or by surveys etc. Collected data has to be classified, tabulated, edited and analysed. The collected data has to be arranged logically and conclusions are drawn.
- ii. **Format of a report:** Format of a report refers to structure of a report. It can be standardized for the purpose.
- iii. **Writing of report:** Reports are written for others so the needs and style preferred by the readers should be kept in mind while writing a report.
- iv. **Presentation of report:** General layout of a report should be pleasing to the eye. Report may be typewritten, printed or handwritten depending on the number of copies required. Sufficient space and margin should be kept on the left-hand side. Reports should be written on one side of the paper with double spacing. Pages, paras and sections should be numbered. Use of diagrams, illustrations, charts, tables may be made and these should be numbered. If report is voluminous or is liable to constant handling it should be in bound form.