

# Fundamentals of Management Accounting

CLASS-XII (COMMERCE)



**SCHEDULED CASTES & SCHEDULED TRIBES  
RESEARCH & TRAINING INSTITUTE (SCSTRI)  
ST & SC DEVELOPMENT DEPARTMENT  
BHUBANESWAR**



# **FUNDAMENTALS OF MANAGEMENT ACCOUNTING**

***Workbook Cum Question Bank with Answers***

**CLASS-XII (CHSE)  
COMMERCE**

*Writer*

**Dr. Upendra Nath Mohanty**

Principal (Retd.)  
S.C.S. Junior College,  
Puri



**SCHEDULED CASTES & SCHEDULED TRIBES  
RESEARCH & TRAINING INSTITUTE (SCSTRI)  
ST & SC DEVELOPMENT DEPARTMENT  
BHUBANESWAR**

**2022**

# FOREWORD



The ST & SC Development Department, Government of Odisha has introduced an innovative education programme for the students appearing in +2 Science and Commerce examination pursuing studies in the ST & SC Development Department Schools (EMRS & HSS) to ensure quality education at +2 level. In this regard it is to mention that an Academic Performance Monitoring Cell (APMC) has been set up in SCSTRTI to monitor the Training and Capacity Building of Teachers of SSD Higher Secondary Schools and Ekalavya Model Residential Schools (EMRS) to enhance quality education for better performance of the students appearing +2 Science and Commerce examination.

Since March 2020 due to Covid-19 Pandemic Situation, the state government has closed all the HSS & EMRS and online classes were going on. The CBSE & CHSE Board were unable to conduct the offline examinations in 2020 and 2021. Since a few months, offline classes are going on. To combat the situation, the CBSE & CHSE Boards have introduced alternate comprehensive examination patterns such as 1<sup>st</sup> and 2<sup>nd</sup> Term End Examinations and Quarter End Examinations etc. to be operative from 2021-22 academic session. Accordingly the Question patterns have completely being changed by both Boards.

To face this situation, the APMC has designed Workbook-Cum-Question Bank with Answers as per the new direction of the Boards. The best of subject experts have been roped to formulate self-contained and self-explanatory "Workbook-Cum-Question Bank with Answers" as per the new pattern of examinations of CHSE & CBSE Boards. They have tried to make the material as far as activity based and solution based as feasible.

I would like to extend my sincere thanks to Prof. (Dr.) A. B. Ota, Advisor-Cum-Director and Special Secretary, SCSTRTI. I would also like to thank Dr. S. C. Das, SLPM, APMC and the team of subject experts for their sincere effort in bringing out the Question Bank in a very short time.

The Workbook-Cum-Question Bank with Answers will cater to the needs of students during this pandemic situation and will be extremely useful for students of Science and Commerce of CBSE and CHSE to face the new pattern of examination, as these are designed accordingly.

A handwritten signature in black ink, consisting of a stylized 'R' followed by a horizontal line.

**Ranjana Chopra**  
Principal Secretary  
ST & SC Development Department  
Govt. of Odisha



# PREFACE



An innovative education programme has been initiated by setting up an Academic Performance Monitoring Cell (APMC) in Scheduled Castes and Scheduled Tribes Research and Training Institute (SCSTRTI) to monitor the Training and Capacity Building of Teachers of SSD Higher Secondary Schools and Ekalavya Model Residential Schools (EMRS) and to ensure quality education of students studying at +2 level under the administrative control of the ST & SC Development Department.

Due to Covid-2019 pandemic situation, all the schools under administrative control of ST & SC Development Department are closed since March 2020. As a result different Boards were not able to conduct offline examinations in 2020 and 2021. As an alternative, CBSE Board and CHSE Board have made comprehensive examination patterns in the form of 1<sup>st</sup> & 2<sup>nd</sup> Term End and 3<sup>rd</sup> Quarter End examinations respectively to be followed from 2021-22 academic session.

The present situation demands to fulfill the desire of students and designed new pattern of questions, which will cater to the need of students to face the examinations boldly without any fear and nervousness. The APMC under the banner of SCSTRTI has taken the initiative to prepare Workbook-Cum-Question Bank with Answers in Physics, Chemistry, Biology (Botany & Zoology), Mathematics, Information Technology / Computer Science, English and Odia of Science stream and Business Mathematics and Statistics, Business Studies and Management, Accounting, Cost Accountancy, Fundamentals of Management Accounting, Fundamentals of Entrepreneurship, Banking & Insurance etc. of Commerce stream as per the new pattern of questions to be adopted in both CBSE and CHSE Boards and prepared books separately.

The subject experts, who are the best in their respective subjects in the state have been roped in for this exercise. They have given their precious time to make the new pattern of Question Bank as activity and solution based as per the direction of both CBSE and CHSE Boards.

I hope this material will be extremely useful for the students preparing for the +2 examination in different subject of Science and Commerce streams.

A handwritten signature in black ink, appearing to be 'A. B. Ota'.

**Prof. (Dr.) A. B. Ota**

Advisor-Cum-Director & Special Secretary  
SCSTRTI, Govt. of Odisha

# CONTENTS

| <b>Sl. No.</b> | <b>Unit</b>      | <b>Topics</b>                          | <b>Page No.</b> |
|----------------|------------------|--|-----------------|
| <b>1.</b>      | <b>Unit - I</b>  | <b>Introduction</b>                    |                 |
|                | Group - A        | Very Short Type Question with Answers  | 1-10            |
|                | Group - B        | Short Type Question with Answers       | 11-13           |
|                | Group - C        | Long Type Question with Answers        | 14-16           |
| <b>2.</b>      | <b>Unit - II</b> | <b>Analysis of Financial Statement</b> |                 |
|                | Group - A        | Objective Type Question with Answers   | 17-26           |
|                | Group - B        | Short Type Question with Answers       | 27-28           |
|                | Group - C        | Long Type Question with Answers        | 29-30           |
| <b>3.</b>      | <b>Unit - II</b> | <b>Analysis of Financial Statement</b> |                 |
|                | Group - A        | Objective Type Question with Answers   | 31-40           |
|                | Group - B        | Short Type Question with Answers       | 41-44           |
|                | Group - C        | Long Type Question with Answers        | 45-49           |

**UNIT - I****INTRODUCTION****Group - A**

***A-I From the alternatives given under each bit, write the correct answer***

- 1. The term "Management Accountancy" was first used in :**
  - a) 1910
  - b) 1939
  - c) 1950
  - d) 1959
- 2. Accounting to Management is known as**
  - a) Cost Accounting
  - b) Financial Accounting
  - c) Management Accounting
  - d) Revenue Accounting
- 3. Management Accounting is concerned with:**
  - a) Preparation of Profit and Loss Account
  - b) Preparation of Balance Sheet
  - c) Accounting information useful to management
  - d) Determination of cost of producing a product
- 4. The use of Management Accounting is :**
  - a) Compulsory
  - b) Optional
  - c) Obligatory
  - d) Not necessary
- 5. Management Accounting deals with :**
  - a) Actual figures only
  - b) Standard figures only
  - c) Both monetary and non-monetary information
  - d) Estimated figures
- 6. Management Accounting deals with :**
  - a) Quantitative data
  - b) Qualitative data
  - c) Both 'a' and 'b'
  - d) None of these
- 7. Which branch of Accounting is primarily used as the base of Management Accounting ?**
  - a) Financial Accounting
  - b) Specialized Accounting
  - c) Company Accounts
  - d) Non of these
- 8. Management Accounting is used to communicate with**
  - a) Share holders
  - b) Outside Agencies
  - c) Both 'a' and 'b'
  - d) None of these

- 9. One of the functions of Management Accounting is :**
- a) To help the management in taking decisions
  - b) To ascertain the cost of products manufactured
  - c) To determine profit and loss of business
  - d) To prepare Balance Sheet
- 10. One of the following which is not a function of Management Accounting**
- a) Planning
  - b) Convening the Board meeting
  - c) Decision making
  - d) Analysis and interpretation
- 11. One of the following who is not the user of Management Accounting is :**
- a) Production Manager
  - b) Sales Manager
  - c) Promoter
  - d) Director
- 12. One of the following which is a tool of Management Accounting is:**
- a) Standard Costing
  - b) Budgetary Control
  - c) Internal Audit
  - d) All of these
- 13. Management Accounting includes :**
- a) Financial Accounting
  - b) Cost Accounting
  - c) Reporting to Management
  - d) All of these
- 14. One of the following which is not the nature of Management Accounting is :**
- a) Following fixed norms
  - b) Forecasting
  - c) Cause and effect analysis
  - d) Supply of information
- 15. Financial Accounting deals with :**
- a) Historical cost
  - b) Current cost
  - c) Prospective cost
  - d) None of these
- 16. Which one is not advantage of Management Accounting ?**
- a) Increase efficiency
  - b) Ensuring effective management control
  - c) Personal Bias of interpreter
  - d) Improves service to customers
- 17. One of the following which one is not limitation of Management Accounting**
- a) Historical Cost
  - b) Lack of specialized knowledge
  - c) Proper planning
  - d) Intuitive decision
- 18. The cost of installation of Management Accounting System is**
- a) Very high
  - b) Marginal
  - c) No cost
  - d) None of these

- 19. Management Accounting has no set of rules and formal as the analysis of data depends upon**
- a) Person using
  - b) Purpose for which it is needed
  - c) Organization where it is used
  - d) All of the above
- 20. Management Accounting may be called as "Science"**
- a) Only examine the cause
  - b) Studies only effect
  - c) Both 'a' and 'b'
  - d) Neither 'a' nor 'b'
- 21. Management Accounting provides mainly which types of report :**
- a) Final report
  - b) Interior report
  - c) No reporting
  - d) None of the above
- 22. The accounting data required for managerial decision**
- a) Properly compiled
  - b) Classified
  - c) Modified
  - d) All of the above
- 23. In order to improve efficiency of the organization it is required**
- a) To spot efficient and non-efficient areas
  - b) Making the areas of deviation
  - c) Taking corrective action
  - d) To make integrated effort of all the above
- 24. In Management Accounting there is :**
- a) Always provision of Audit
  - b) Occasional provision of Audit
  - c) No provision of Audit
  - d) Non of the above
- 25. The cost control devices employed in Management Account enables :**
- a) Reduction of price
  - b) Quality of product becomes good
  - c) Increases in production of goods
  - d) All of the above
- 26. The decision taken deliberately for a specific purpose is :**
- a) Ordinary decision
  - b) Strategic decision
  - c) Policy decision
  - d) Special decision
- 27. Management Accounting relates to :**
- a) Recording of accounting data
  - b) Recording of costing data
  - c) Presentation of Accounting data
  - d) None of these
- 29. Analysis in which analysts have direct accessibility :**
- a) External Analysis
  - b) Internal Analysis
  - c) Inter firm Analysis
  - d) None of the above



**30. Country in which Management Accounting first used :**

- a) USA
- b) U.K.
- c) U.S.S.R.
- d) None of these

**31. Which branch of Accounting is still in an evolutionary stage ?**

- a) Financial Accounting
- b) Cost Accounting
- c) Management Accounting
- d) Specialized Accounting

***A-II Answer the following in one word / term each***

- |   |   |
|---|---|
| 1. The branch of Accounting which was introduced in 1950.                                     | 11. The accounting data required for managerial decision is properly complied, classified and modified in which branch of accounting.   |
| 2. The Accounting which provides information to the management for making plans and policies. | 12. Which branch of accounting does not have it's own independent sources of information ?  |
| 3. The accounting that provides information to external and internal parties.                 | 13. Which branch of accounting uses both quantitative and qualitative information ?   |
| 4. The accounting that is limited to cost ascertainment and cost information.                 | 14. The period for which Management Account is prepared ?   |
| 5. The branch of accounting which gives emphasis to actual figures.                           | 15. Who provides base for Management Accounting ?   |
| 6. Which branch of accounting is optional ?   | 16. Who defines Management Accounting as Accounting information that is useful to management ?  |
| 7. Which branch of accounting is governed by general accepted accounting principles (GAAP).   | 17. Who defines Management Accounting as methods, systems and techniques which coupled with special knowledge and ability to assist management in it's task of maximizing profits or minimizing losses. |
| 8. In which branch of accounting reporting is ?   |   |
| 9. Which branch of accounting is still in a evolutionary stage ?                              |   |
| 10. Which branch of accounting does not have any uniform principle ?                          |   |

18. Which Institute has defined Management Accounting as a system of collection and presentation of relevant economic information relating to an enterprise for planning, controlling and decision making.
19. Who expresses the plans, policies and goals of the firm for a definite period in future ?
20. Who refers to deciding at present for unseen future ?
21. Which branch of Accounting uses qualitative information ?
22. What is the extent of scope of Management Accounting ?
23. Mention the influence of Management Accounting on employees.
24. What does Management Accounting provide ?
25. Mention where duties and responsibilities of various managerial level are explained.

**A-III Answer in one sentence**

1. What are the branches of Accounting ?
2. What are the basic limitation of Financial Accounting ?
3. Name user of Financial Accounting information.
4. What is the basic objective of Management Accounting ?
5. How does Institute of Chartered Accountants of England and Wales define Management Accounting ?
6. How does Management Accounting provide help for co-ordination ?
7. How the efficiency in various business operation can be measured ?
8. What should be the essential aim of Management Accounting ?
9. Why no specific rules are followed in Management Accounting ?
10. Why the management should be informed about the earliest position of the concern ?
11. What are the nature of data used Management Accounting ?
12. What Management Accounting deals ?
13. Why Management Accounting is prepared ?
14. What should be the nature of reporting of Management Accounting ?
15. In what way Management Accountant is responsible ?
16. Why inventory control as a tool of Management Accounting is significant ?
17. In which way Management Accounting is helpful in controlling the performance ?
18. What are the strategic decision taken by Management for ensuring corrective action ?
19. How does Management Accounting process begin ?
20. What should the measuring rod of efficiency in Management Accounting ?

**A-IV Correct the underlined portion of sentences**

1. In Management Accounting emphasis is given to actual figures.
2. Report of Management Accounting is slow.
3. 'Balance Sheet' and 'Profit and loss A/c' are prepared in 'Management Accounting'.
4. Cost Accounting was formed during 2nd World War.
5. Accounting for improving effectiveness is Cost Accounting.
6. Financial Accounting deals only with that information which is helpful to the management.
7. Cost Accounting deals with both quantitative and qualitative information.
8. Publication of Financial Accounting Statements is not compulsory.
9. Initiative decision limit the usefulness of Financial Accounting.
10. Management Accounting is limited to cost ascertainment and cost information.
11. Financial Accounting provides information to the management for making plans and policies.
12. Management Accounting provides information to external and internal parties.
13. Management Accounting is concerned only with the present state of business concern.
14. In Management Accounting only those figures are used which can be measured in monetary term.
15. Financial Accounting does not have its own independent source of information.
16. The installation of Financial Accounting System brings some changes in the organizational set up and accounting practice.
17. Cost Accounting deals with future projections and plans basing on past records.
18. Financial Accounting facilitates communication and coordination between different departments which help in attaining the objectives of business.
19. Financial Accounting helps in modifying accounting data.
20. Financial Accounting attempts to examine the 'cause' and 'effect' of different accounting variables.

**A-V Fill in the blanks of the following sentences**

1. Management Accounting reports are meant for \_\_\_\_\_ use only.
2. Management Accounting provides \_\_\_\_\_ to management.
3. Financial Accounting states the \_\_\_\_\_ position of a concern.
4. Accounting information is \_\_\_\_\_ to make it useful.
5. Accounting is an art of recording Financial \_\_\_\_\_.
6. Only \_\_\_\_\_ information is recorded in accounting.
7. Management Accounting is helpful in increasing \_\_\_\_\_.
8. Financial Accounting deals with \_\_\_\_\_ data.
9. Management Accounting is helpful in increasing \_\_\_\_\_ of data.
10. \_\_\_\_\_ accounting deals with both qualitative and quantitative information.
11. \_\_\_\_\_ deals only with that information which is useful to the management.
12. \_\_\_\_\_ is concerned only with present state of business concern.
13. In \_\_\_\_\_ no emphasis is given to actual figures.
14. Preparation of Financial Statement is necessary under \_\_\_\_\_ law.
15. Management Accounting is helpful in increasing \_\_\_\_\_ of data.
16. Initiative decision limit the usefulness of \_\_\_\_\_ .
17. \_\_\_\_\_ to report and interpret the result of operation to all levels of management and the owner of the business.
18. \_\_\_\_\_ adds value to the organization by motivating all the employees.
19. \_\_\_\_\_ is audited by practising Chartered Accountant.
20. Reporting of Management Accounting is very \_\_\_\_\_.

**ANSWER KEYS****Group - A**

**A-I From the alternatives given under each bit, write the correct answer**

- |  |   |
|--|---|
| 1. (c) 1950  | 15. (a) Historical cost                               |
| 2. (c) Management Accounting                       | 16. (c) Personal Bias of interpreter                  |
| 3. (c) Accounting information useful to management | 17. (c) Proper Planning                               |
| 4. (b) Optional                                    | 18. (a) Very high                                     |
| 5. (d) Both monetary and non-monetary information  | 19. (d) All of the above                              |
| 6. (c) Both 'a' and 'b'                            | 20. (c) Both 'a' and 'b'                              |
| 7. (a) Financial Accounting                        | 21. (b) Interior Report                               |
| 8. (c) Both 'a' and 'b'                            | 22.   |
| 9. (a) To help the management in taking decisions  | 23. (d) To make integrated effort of all of the above |
| 10. (b) Convening the board meeting                | 24. (c) No provision of Audit                         |
| 11. (c) Promoter                                   | 25. (d) All of the above                              |
| 12. (d) All of these                               | 26. (b) Strategic decision                            |
| 13. (d) All of these                               | 27. (c) Presentation of accounting data               |
| 14. (a) Following fixed norms                      | 28. (b) Internal analysis                             |
|  | 29. (a) U.S.A.  |
|  | 30. (c) Management Accounting                         |

**A-II Answer in one word / term**

- |                          |                           |
|--------------------------|---------------------------|
| 1. Management Accounting | 7. Financial Accounting   |
| 2. Management Accounting | 8. Management Accounting  |
| 3. Financial Accounting  | 9. Management Accounting  |
| 4. Cost Accounting       | 10. Management Accounting |
| 5. Financial Accounting  | 11. Management Accounting |
| 6. Management Accounting | 12. Management Accounting |



- |  |                           |
|--|---------------------------|
| 13. Management Accounting  | 19. Budgeting             |
| 14. No specific period   | 20. Planning              |
| 15. Financial and Cost Accounting                                | 21. Management Accounting |
| 16. Rebert N. Anthony  | 22. Wide                  |
| 17. J. Batty   | 23. Motivation            |
| 18. Institute of cost and works accountant of India (ICWA India) | 24. Information           |
|  | 25. Organization Manual   |

**A-III Answer in one sentence**

- |  |   |
|--|---|
| 1. Financial Accounting, Cost Accounting and Management Accounting are different branches of accounting.           | 9. This is so as the users differ from concern to concern.  |
| 2. It is historical in nature.   | 10. This helps management in taking proper and timely decision.   |
| 3. Banker, creditor, owner, public are various user of Financial Accounting information.                           | 11. Management Accounting uses data which are descriptive, statistical, subjective and relates to the future.                             |
| 4. Planning and Policy formation is the basic objective of Management Accounting.                                  | 12. Management Accounting deals with assessing the activities of different units, departments or decisions.                               |
| 5. Management Accounting enables a business to be conducted more efficiently.                                      | 13. Management Accounting is prepared for the benefit of management only.   |
| 6. Management Accounting provides tools which are helpful in coordinating the activities of different departments. | 14. Reporting of Management Accounting is very quick at regular interval.   |
| 7. The targets of different departments are fixed in advance and steps are taken to achieve the targets.           | 15. Management Accountant is responsible for the installation, development and efficient functioning of the Management Accounting system. |
| 8. The essential aim of Management Accounting should be to assist management in decision making and control.       | 16. Inventory control is significant as it involves large sum investment in cost of production.   |

**FMA**

17. Comparison of performance is made with standard set, deviation found and for subsequent corrective measures taken.
18. Decision may be stoppage of production, replacement, expansion or diversification of work.

**Question Bank with Answers**

19. The management process begin with identification, measurement and accumulation of relevant data from financial and cost accounting records and also from other external sources.
20. The measuring rod of efficiency of a concern should be a return on capital employed.

**A-IV Correct the underlined portion of sentences**

- |                          |                           |
|--------------------------|---------------------------|
| 1. Financial             | 11. Management            |
| 2. Fast                  | 12. Financial             |
| 3. Financial Accounting  | 13. Financial             |
| 4. Industrial Revolution | 14. Financial             |
| 5. Management Accounting | 15. Management Accounting |
| 6. Management            | 16. Management            |
| 7. Management            | 17. Management Accounting |
| 8. Management            | 18. Management            |
| 9. Management            | 19. Management            |
| 10. Cost                 | 20. Management            |

**A-V Fill in the blanks of the following sentences**

- |                   |                               |
|-------------------|-------------------------------|
| 1. Internal       | 11. Management Accounting     |
| 2. Information    | 12. Financial Accounting      |
| 3. Financial      | 13. Management Accounting     |
| 4. Modified       | 14. Company                   |
| 5. Facts          | 15. Interpretation            |
| 6. Quantitative   | 16. Management Accounting     |
| 7. Efficiency     | 17. Management Accountant     |
| 8. Historical     | 18. Management Accountant     |
| 9. Interpretation | 19. Financial Accounting      |
| 10. Management    | 20. Quick at regular interval |

**Group - B****SHORT TYPE QUESTION WITH ANSWERS**

***Out of 4 questions examines are required to answer 3 questions not more than 30 words each***

**Q1. What do you mean by Management Accounting ?**

**Ans.** Management Accounting is concerned with detailed financial analysis and interpretation to assist the management of a business undertaking for performing effective management activity. It applies the accounting information useful to the management.

**Q2. Mention the evolution of Management Accounting.**

**Ans.** The term Management Accounting comes to the light in the mid 20th Century. The term was first used in 1950 by a team of accountants visiting U.S.A under the auspices of Anglo-American Council on productivity.

**Q3. How Robert N. Anthony has defined Management Accounting ?**

**Ans.** Robert N. Anthony has defined the term Management Accounting as "it is concerned with accounting information that is useful to the management". Management is concerned with the provision of financial and non financial decision making information.

**Q4. What is the main objective of Management Accounting ?**

**Ans.** The main objective of Management Accounting is to maximize profit or minimizes losses. In any business concern this helps to formulate policies, making decisions, planning and controlling the business activities to achieve that.

**Q5. What are the main areas of Management Accounting ?**

**Ans.** Scope is very wide covering variety aspects of business operations such as budgeting and forecasting, cost control procedure, inventory management, tax planning, investment decision and area of internal audit.

**Q6. How Management Accounting is helpful to examine 'cause' and 'effect' analysis?**

**Ans.** Management Accounting attempts to examine the 'cause' and 'effect' of different accounting variable. For example, if there is profit, the factors directly influencing the profitability are studied and necessary action made to ensure.

**Q7. What are the functions of Management Accounting ?**

**Ans.** Management Accounting is assigned with the functions of classifying, processing, presenting and interpreting the data in such a way that it helps management to control and run the enterprise in an effective and efficient manner.

**Q8. What are the various techniques used by Management Accounting in Planning and Forecasting?**

**Ans.** The various techniques such as budgeting, standard costing, marginal costing, trend ratio and profitability are useful in planning and forecasting.

**Q9. How Management Accounting facilitates the management control ?**

**Ans.** Management Accounting is very useful in controlling by setting the standards of various business activities, making comparison with actual, finding out the deviation and enforcing the remedial course of action.

**Q10. How Management Account acts as coordinator ?**

**Ans.** Management Accounts acts as coordinator among different financial departments through budgeting and financial reports. The targets and performance of different department are communicated to appropriate concerned.

**Q11. What do you mean by Management Accounting Process ?**

**Ans.** The Management Accounting process with identification, measurement and accumulation of relevant data from financial and cost accounting records and also from other external sources.

**Q12. What is nature of Management Accounting ?**

**Ans.** Management Accounting deals with projection of data for the future. It uses historical data only for taking decision for the future.

**Q13. Why there are no specific rules followed in Management Accounting ?**

**Ans.** No specific rules are followed in Management Accounting as the different concerns use in different way. The analysis of data depends upon the person using it.

**Q14. How Management Accounting is helpful in increasing efficiency of the concern ?**

**Ans.** The efficiency can be achieved by setting up goals for each department or sector. The performance appraisal will enable the management to pin point efficient and inefficient spots. An effort is made to take corrective measures in inefficient area.

**Q15. How are the control of inventory will help in controlling costs of product ?**

**Ans.** The management by determining different stock level, will control the inventory which have significant contribution in cost of product.

**Q16. How interpretation of data of various financial statement are made in Management Accounting ?**

**Ans.** The financial statements may be studied in comparison to the statements of earlier periods or in comparison with the statements of similar other concern. Accordingly, interpretation of data are made.

**Q17. How Management Accounting will be helpful in motivating the employees ?**

**Ans.** Management Accounting helps to select the best alternative of doing the things since the targets are fixed, employees are motivated to achieve it and further incentives may be given for improving their performance.

**Q18. What are different non-monetary events are used in Management Accounting ?**

**Ans.** Non monetary events like competition in the market, impact of political changes, situation of trade cycle etc. are considered and analyzed from which interpretation are made.

**Q19. What is important convention of Management Accounting ?**

**Ans.** The convention of objectivity should be followed. There should be no room for personal bias or prejudice. Attainment of object should be main consideration.

**Q20. What should be main aim of management ?**

**Ans.** The aim of management should be to utilize the resources of the concern in the best possible way. The use of various processes and methods should enable the achievement of that object.



**Group - C****LONG TYPE QUESTION WITH ANSWERS**

***Out of 3 questions 2 questions to be answered***

**Q1. What are objects of Management Accounting ?**

**Ans.** The fundamental objective of Management Accounting to assist management in their functions of formulating policies, making decision, planning objective and controlling business operations. Other objectives are reporting to management, helping coordination and above all to facilitate organization in setting up effective and efficient organizational frame work.

**Q2. Discuss the nature of feature of Management Accounting ?**

**Ans.** The important features of Management Accounting are

- a) Based on accounting information
- b) Studies cause and effect analysis
- c) No fixed rule and format
- d) Achieving the objectives
- e) Assisting management in carrying out functions and taking decision.
- f) Above all increasing efficiency

**Q3. Mention the scope of Management Accounting.**

**Ans.** Important areas which come with In scope are

- a) Financial Accounting
- b) Cost Accounting

- c) Budgeting and forecasting
- d) Financial Management
- e) Management Reporting
- f) Quantitative Technique
- g) Inflation Accounting
- h) Inventory Control
- i) Internal Audit

**Q4. Discuss the functions of Management Accounting.**

**Ans.** Management Accounting is developed for taking managerial decision by using more and more accounting information. Functions are

- a) Planning and forecasting
- b) Modification of data
- c) Financial analysis and inter petition
- d) Facilitates communication
- e) Helping management control
- f) Ensuring coordination
- g) Decision making
- h) Improving services to customer

**Q5. Mention the importance of Management Accounting.**

**Ans.** Management Accounting guides and advises management at every step for better performance of the organization. Important advantages / importance of Management Accounting are

- a) Increases efficiency
- b) Scientific Planning
- c) Effective Control
- d) Measurement of performance
- e) Maximizing profitability
- f) Better services to customer
- g) Facilitates communication and coordination
- h) Minimizing wastages
- i) Saving time

**Q6. Mention the limitation of Management Accounting ?**

**Ans.** Management Accounting is a new discipline and is in the process of development while performing its functions it suffers from certain limitations. These are

- a) Limitation of basic records
- b) Base on Historical Data
- c) Lack of knowledge
- d) Personal bias
- e) Management Accounting is only a toe
- f) Costly installation
- g) Resistance to change by employee

**Q7. How Management Accounting process works ?**

**Ans.** Management process begins with identification, measurement and accumulation of relevant data from financial and cost accounting records

and also form other external sources. The data in their regrouped, classified and analysis. The interpretations are made and information is communicated to internal and external users of such information for making decisions. Decisions making is linked to planning and control. Variations from plans are identified and feedback is built up for corrective measures.

**Q8. Differentiate Management Accounting and Financial Accounting.**

**Ans.** Financial Accounting object is to record various transactions to find and profit loss and financial position of the business at the end of accounting year. Management Accounting object is to help management in formulating plans and policies. Areas of differences are

- a) Nature of data :- Financial Accounting uses historical, quantitative and monetary data where as Management Accounting uses data of descriptive, statistical and subjective.
- b) Subject matter :- Financial Accounting is concerned with assessment of results of the business as a whole where as Management Accounting deals with assessing the activities of different units, department or divisions.
- c) Users :- In Financial Accounting users are both external and internal where as in Management Accounting user is internal mainly related to management.

**FMA****Question Bank with Answers**

- d) Legal compulsion :- Financial Accounting is more or less compulsory or statutory where as Management Accounting is voluntary.
- e) Precision :- In Financial Accounting actual figures are recorded where is in Management Accounting approximate or estimated figures are consideration.
- f) Accounting Principles :- Financial Accounting is governed by general accepted. Accounting Principle (GAAP) where as in Management Accounting no set of principles are followed.
- g) Period :- In Financial Accounting accounts are prepared for a particular period where as in Management Accounting no specific period.

**Q9. Differentiate between Management Accounting and Cost Accounting.****Ans.**

| Point of Difference   | Cost Accounting  | Management Accounting                               |
|-----------------------|--|---|
| 1. Object             | 1. To calculate cost of product                          | 1. To provide information to management             |
| 2. Nature             | 2. Concerned with past and present facts and figures     | 2. Data with future projection and plans            |
| 3. Principles         | 3. Followed to calculate the cost of produces or service | 3. No specific principles followed                  |
| 4. Data used          | 4. Quantitative  | 4. Bothe quantitative and qualitative data          |
| 5. Interested Parties | 5. External and Internal                                 | 5. Mainly Internal                                  |
| 6. Evolution          | 6. After Industrial Revolution                           | 6. Developed since 1950                             |
| 7. Scope              | 7. Cost ascertainment                                    | 7. Wide covering                                    |
| 8. Approach           | 8. Historic  | 8. Futuristic                                       |
| 9. Planning           | 9. Short term  | 9. Both short and long term                         |
| 10. Installation      | 10. Can be installed without Management Accounting       | 10. Needs universal and cost accounting as the base |

**Q10. Discuss Accounting as an information system.**

**Ans.** Accounting provides information to rested interested parties such as manager, stock holders, employees, creditors, customers and Govt. Those interested parties analyze and interprets the required information for achieving their objectives.

**UNIT - II****ANALYSIS OF FINANCIAL STATEMENT****Group - A**

***A-I From the alternatives given under each bit, write the correct answer***

1. **Financial Statements are prepared on the basis of information collected from**
  - a) Customers
  - b) Accounting records
  - c) Local public
  - d) Lawyers
2. **The financial position of a business is revealed from**
  - a) Trading Account
  - b) Profit and loss Account
  - c) Trial Balance
  - d) Balance Sheet
3. **Profitability can be ascertained by preparation**
  - a) Balance Sheet
  - b) Sales Account
  - c) Profit and Loss Account
  - d) Trial Balance
4. **A customary practice in the field of Accounting is termed as**
  - a) Concept                      b) Convention
  - c) Assumption                d) Postulate
5. **"Anticipate no future profits but provide for all possible losses" is the slogan of accounting principle**
  - a) Conservatism    b) Materiality
  - c) Full disclosure    d) Consistency
6. **The value of fixed assets is shown as purchase price even after use for several years is known as**
  - a) Opportunity
  - b) Marginal Cost
  - c) Historical Cost
  - d) Direct Cost
7. **As per Companies Act 2013, Balance Sheet of a company is prepared in**
  - a) Schedule-I                      b) Schedule-II
  - c) Schedule-III                    d) Schedule-IV
8. **With enactment of Companies Act 2013, the statement which is not a part of Financial Statement is**
  - a) Funds Flow Statement
  - b) Cash Flow Statement
  - c) Statement of Profit and loss
  - d) Statement of changes in equity
9. **In a Balance Sheet the item which is not a part of shareholders found is**
  - a) Share Capital
  - b) Reserve and surplus
  - c) Sundry debtors
  - d) Money received against share warrants

- 10. In a statement of profit and loss, manufacturing expenses is shown under the head**
- a) Cost of materials consumed
  - b) Employees benefit expenses
  - c) Finance Cost
  - d) Other expenses
- 11. Cash flow statement depicts the :**
- a) Sources and application of funds
  - b) Profitability
  - c) Sources and uses of cash
  - d) Financial position
- 12. Financial Statements are based on:**
- a) Estimated of facts
  - b) Recorded Facts
  - c) Anticipated Facts
  - d) Budgeted Facts
- 13. Financial Accounts provide a summary of**
- a) Assets                      b) Liabilities
  - c) Accounts                d) None of these
- 14. Retained earning statement depicts**
- a) Appropriation of profits
  - b) Estimates of profits
  - c) Estimates of Costs
  - d) None of these
- 15. Which Financial statement is generally called as the income statement ?**
- a) Profit and Loss Account
  - b) Balance Sheet
  - c) Trial Balance
  - d) None of these
- 16. What is to be determined from Manufacturing Account ?**
- a) Cost of production
  - b) Gross Profit
  - c) Net Profit
  - d) Financial Position
- 17. Division of Financial Statement analysis as done on the basis of**
- a) Working capital requirement
  - b) Profitability
  - c) Sales Volume
  - d) None of these
- 18. Comparison of different years financial data with a base year is termed as**
- a) Dynamic Analysis
  - b) Static Analysis
  - c) Trend analysis
  - d) Multiple Analysis
- 19. Inter firm comparison means, comparison of financial statements of :**
- a) One firm for different years
  - b) One industry with some other industries for many years
  - c) Different firms for many years
  - d) Different firms for same accounting year
- 20. A comparative statement presents the changes of financial data in terms of**
- a) Absolute figures only
  - b) Percentage only
  - c) Ratio and percentage
  - d) Absolute figures and percentage



- 21. A statement of profit and loss which shows the percentage of individual item of incomes and expenses to their respective totals is known as**
- a) Common size Balance Sheet
  - b) Common size statement of profit and loss
  - c) Comparative Balance Sheet
  - d) Comparative Statement of profit and loss
- 22. In a trend analysis generally first year data is taken as :**
- a) Current Year      b) Previous Year
  - c) Base Year          d) Normal Year
- 23. Presentation of financial data for number of years along with its upward or downward direction percentage is known as :**
- a) Trend Analysis
  - b) Common Size Statement
  - c) Cash Flow Statement
  - d) Funds Flow Statement
- 24. The item which is not considered as a technique of Financial Statement Analysis is :**
- a) Trend Analysis
  - b) Ratio Analysis
  - c) Security Analysis
  - d) Cash Flow Statement
- 25. The analysis in which the analysis have direct accessibility to the details accounting record is :**
- a) Internal analysis
  - b) External Analysis
  - c) Horizontal Analysis
  - d) Vertical Analysis
- 26. Financial Statement presents the relevant financial information in terms of :**
- a) Ratio
  - b) Percentage
  - c) Absolute Figure
  - d) Average Value
- 27. One of the following which is not a technique of financial statement analysis :**
- a) Common size Statement
  - b) Comparative Statement
  - c) Funds Flow Statement
  - d) Position Statement
- 28. One of the techniques of Financial Statement Analysis is :**
- a) Profit and Loss Appropriation Accounts
  - b) Profit and Loss Account
  - c) Comparative Balance Sheet
  - d) Balance Sheet
- 29. Balance Sheet is known as :**
- a) Profit and Loss Account
  - b) Profit and Loss Adjustment Account
  - c) Income Statement
  - d) Position Statement
- 30. Normally Financial Statement are prepared at the end of :**
- a) One Month
  - b) One Year
  - c) Two Years
  - d) Two Months

**A-II Answer the following in one word / term each**

1. Which statement shows the financial position of a business ?
2. Which statement shows financial results of operation during a certain period ?
3. State in which schedule the statement of profit and loss is prepared.
4. Which statement is prepared as per requirement of AS-3 (revised) ?
5. Name the component which was earlier considered as a part but not considered as a part of financial statement as per Companies Act 2013.
6. Which important factor is not considered in Financial Statement analysis ?
7. What is the name of financial statement analysis which is conducted by the auditors ?
8. The analysis which considers the financial information of one year only is known as :
9. Name of the statement which shows the changes of financial data in absolute figure as well as in percentage.
10. What is other name of Horizontal Analysis ?
11. Under which head in statement of profit and loss, the divided income is recorded ?
12. What is the number of major heads of the assets side of a company's Balance Sheet ?
13. What is the number of major heads of the equity and liabilities side of a company's Balance Sheet ?
14. What does a statement of profit and loss shows ?
15. What is the name of the Financial Statement Analysis which is conducted by outsiders ?
16. The analysis which considers the financial information of one year only is known as ;
17. What is the other name of Horizontal Analysis ?
18. Which is the form of Horizontal Analysis ?
19. Which is one of tool of Vertical Analysis ?
20. What is nature of reports of Financial Analysis ?

**A-III Answer in one sentence**

1. What is Common-size Statement ?
2. What do you mean by Financial Statement ?
3. What does the Financial Statement reflects ?
4. How Financial transactions are expressed ?
5. What are different items shown in Financial Statement ?
6. What do you mean by Accounting convention ?
7. What does full discloser of Financial Statement involve ?
8. What do you mean by convention of materiality ?
9. What do you mean by convention of conservatism or prudence ?
10. What do you mean by consistency convention ?
11. What do you mean by postulates ?
12. What do you mean by legal formalities to prepare financial statement?
13. How personal judgments are applied while preparing financial statement ?
14. What does financial statement present in one business enterprise ?
15. Who are the users of accounting information ?
16. What are the schedule for preparation of balance sheet and profit and loss accounts ?
17. What do you mean by financial statement analysis ?
18. What is the primary objective of financial statement analysis ?
19. Why financial statement is to be analyzed ?
20. What do you mean by internal analysis of financial statement ?
21. What is external analysis of financial statement ?
22. What is Dynamic or Horizontal analysis of Financial Statement ?
23. What is static or vertical analysis of financial statement ?
24. What do you mean by comparative statement ?
25. What is trend analysis ?

**A-IV Correct the underlined portion of sentences**

1. Financial Statement show the financial position and man power of a concern.
2. Future profit of a business can be estimated from static analysis.
3. Financial Statement are prepared or the basis of geographical data which does not consider price level changes.
4. Different methods of charging depreciations in financial statement give same result.
5. Financial Statement do not consider quantitative information.
6. On the basis of method of operation, financial statement analysis is divided as horizontal and technical analysis.
7. In a trend analysis the figure of the middle ear is taken as 100.
8. Comparative financial statement presents the charges of financial data both in approximate figures and percentages.
9. Financial Statement are only final reports.
10. The impact of non-monetary facts can be recorded in financial statement.
11. Investment made for purchase of land and building comes under current asset.
12. In a business trade payable include sundry debtors.
13. Financial Statement convey market information to different interested parties.
14. Earning capacity of a company is known from cash flow statement.
15. A major part of other income is revenue from the sale of products and services.
16. Fixed assets of a business are shown at its market price in the balance sheet.
17. Prepaid expenses is treated as fixed assets.
18. Trade marks and copyrights are the intangible assets.
19. Common size statements are the form of horizontal analysis.
20. Comparative Statement are the form of vertical analysis.

**A-V Fill in the blanks of the following sentences**

1. Cash is treated as \_\_\_\_\_ blood of a business.
2. A company is required to publish its \_\_\_\_\_ statement every year,
3. On the basis of \_\_\_\_\_ facts financial statements are prepared.
4. A cash flow statement shows the \_\_\_\_\_ and outflow of cash and cash equivalent.
5. The impact of \_\_\_\_\_ transactions are ignored in accounting.
6. Money received against share warrants are shown as \_\_\_\_\_ fund in Balance Sheet.
7. Writing of \_\_\_\_\_ fixed asset is termed as depreciation.
8. Carriage and freight are shown under the head \_\_\_\_\_ expenses in a statement of profit and loss.
9. Horizontal analysis is also known as \_\_\_\_\_ .
10. Comparative statement are the form of \_\_\_\_\_ analysis.
11. Financial Statement Analysis shows \_\_\_\_\_ and weakness of an enterprise.
12. A Balance Sheet depicts \_\_\_\_\_ position of a business.
13. Non-monetary factors are \_\_\_\_\_ in Financial Statement analysis.
14. Financial Statement analysis is a \_\_\_\_\_ to an end, but not end in itself.
15. The analysis of Financial Statements made by management is known as \_\_\_\_\_ analysis.
16. The other name of \_\_\_\_\_ analysis is dynamic analysis.
17. In trend analysis generally \_\_\_\_\_ year is taken as the base year.
18. In a \_\_\_\_\_ statement each component is expressed as a percentage of concerned total.
19. Comparative Statement assess the equity, solvency and \_\_\_\_\_ position of a firm.
20. Financial Statement measures the growth and \_\_\_\_\_ of the business.

**ANSWER KEYS****Group - A****A-I From the alternatives given under each bit, write the correct answer**

- |                                  |  |
|----------------------------------|--|
| 1. (b) Accounting Records        | 17. (c) Sales Volume                             |
| 2. (d) Balance Sheet             | 18. (b) Static Analysis                          |
| 3. (c) Profit and Loss Account   | 19. (d) Different firms for same Accounting Year |
| 4. (b) Convention                | 20. (d) Absolute Figures and Percentage          |
| 5. (a) Conservation              | 21. (b) Common Size Statement of Profit and Loss |
| 6. (c) Historical Cost           | 22. (c) Base Year                                |
| 7. (c) Schedule-III              | 23. (a) Trend Analysis                           |
| 8. (a) Funds Flow Statement      | 24. (c) Security Analysis                        |
| 9. (c) Sunday Debtors            | 25. (a) Internal Analysis                        |
| 10. (d) Other Expenses           | 26. (c) Absolute Figure                          |
| 11. (c) Sources and uses of Cash | 27. (d) Position Statement                       |
| 12. (b) Recorded Facts           | 28. (c) Comparative Balance Sheet                |
| 13. (c) Accounts                 | 29. (d) Position Statement                       |
| 14. (a) Appropriation of Profits | 30. (b) One Year                                 |
| 15. (a) Profit and Loss Accountx |  |
| 16. (a) Cost of Production       |  |

**A-II Answer in one word / term**

- |   |                                 |
|---|---------------------------------|
| 1. Balance Sheet                              | 11. Other income                |
| 2. Profit or loss account or Income Statement | 12. Two                         |
| 3. Schedule- III Part- II                     | 13. Four                        |
| 4. Cash Flow Statement                        | 14. Net profit / loss           |
| 5. Funds Flow Statement                       | 15. External Analysis           |
| 6. Non-monetary                               | 16. Static or vertical analysis |
| 7. External Analysis                          | 17. Dynamic Analysis            |
| 8. Static or vertical analysis                | 18. Comparative Statement       |
| 9. Comparative Statement                      | 19. Common size Statement       |
| 10. Dynamic Analysis                          | 20. Interim Report              |

**A-III Answer in one sentence**

1. It is statement prepared to show the percentage change in existing figures of financial statement.
2. Financial Statements are the outcome of a summarizing process of accounting.
3. Financial Statement reflects a combination of recorded facts, accounting conventions and personal judgment.
4. The transactions measured and expressed in terms of money.
5. Various items like cash in hand and at banks, purchases, sales, bills receivable, trade debtors and creditors of expenses and incomes ; are shown in financial statements.
6. Convention is the general agreement on the basis of long-standing usage or customary practice in social or economic life.
7. Full disclosure involves proper classification and narrative explanation of all relevant and material facts for clear understanding of its users.
8. Convention of materiality means relative importance of an item.
9. Conservatism or prudence convention means consideration of all possible losses and ignore all expected profits.
10. Consistency means accounting procedure, practice and method are to be followed continuously.
11. The postulates are recognized assumptions concepts which are validly accepted do not require to be proved.
12. Legal formalities mean all Indian companies must prepare their financial statement as per Indian Companies Act 2013 or any other Act as in force at that time.
13. Personal judgments like valuation of stock, depreciation method, determination of period for writing off intangible assets are applied by accountant while preparing financial statements.
14. Financial Statements present the time and fair value of the state of affairs of one business enterprise.
15. Users of accounting information are management, creditors, bankers, investors, government, researchers, trade, associations, stock exchanges, regulatory bodies like SEB, company law board, register of companies, Pollution Control Board etc.
16. Section 19 of Indian Companies Act 2013 has given a prescribed vertical format of Balance Sheet and profit and loss A/C to be prepared as Part-II of schedule III respectively.
17. Financial Statement analysis refers to study of relationship among various financial factors of a business which are disclosed in financial statements.
18. The Primary objective of Financial Statement analyses is to provide a clear picture and understanding about the financial position and profitability of a concern.
19. Financial Statement is to analyzed as it is a mean of assessing past performance

**FMA**

- in order to understand the financial health of the business.
20. Internal analysis of financial statement means analysis made by the management and persons who have access to the accounting records of a concern.
21. External analysis conducted by the persons who do not have access to the books if accounts of the business.
22. Dynamic or Horizontal analysis refers to comparison of financial information of a business for several years.

**Question Bank with Answers**

23. Vertical or static refers to the study of relationship between various items contained in the financial statement of one accounting period.
24. Comparative statement is a toe for comparison of financial statement between two or more years in the same firm or between two companies firms in the same industry.
25. Comparative Financial Statement made for a few consecutive years in terms of percentage trend as known as trend analysis.

**A-IV Correct the underlined portion of sentences**

- |                  |                     |                 |
|------------------|---------------------|-----------------|
| 1. Profitability | 8. Absolute         | 15. Operating   |
| 2. Trend         | 9. Interim          | 16. Cost price  |
| 3. Historical    | 10. Monetary        | 17. Current     |
| 4. Different     | 11. Fixed           | 18. Tangible    |
| 5. Qualitative   | 12. Receivable      | 19. Comparative |
| 6. Vertical      | 13. Financial       | 20. Common size |
| 7. Base          | 14. Profit and loss |                 |

**A-V Fill in the blanks of the following sentences**

- |                  |                |                           |
|------------------|----------------|---------------------------|
| 1. Life          | 8. Other       | 15. Internal              |
| 2. Financial     | 9. Dynamic     | 16. Horizontal            |
| 3. Recorded      | 10. Horizontal | 17. First                 |
| 4. inflow        | 11. Strength   | 18. Common size statement |
| 5. Non-monetary  | 12. Financial  | 19. Profitability         |
| 6. Share holders | 13. Ignored    | 20. Development           |
| 7. Tangible      | 14. Mean       |                           |



**Group - B****SHORT TYPE QUESTION WITH ANSWERS**

***Out of 4 questions examines are required to answer 3 questions not more than 30 words each***

**Q1. What do you mean by Financial Statement ?**

**Ans.** Financial Statements are the outcome of a summarizing process of accounting. Those provide a summary of accounts of a business enterprise.

**Q2. What do you mean by postulates of Financial Statement ?**

**Ans.** The recognized assumptions and concepts which are validis accepted and do not require to be provedm are called the postulates.

**Q3. What are Primary objectives of Financial Statements ?**

**Ans.** The primary objectives of Financial Statements are to show the performance, financial position and charges in financial position of a firm with the help of various statements like profit and loss A/c, Balance Sheet etc.

**Q4. Why Financial Statements are important ?**

**Ans.** This is so because those statement show the result and act as mirror which reflect the financial position and operating strength or weakness of a business concerned.

**Q5. Who are several users of Financial Statement ?**

**Ans.** Several users are management, creditor bankers, investors, government, researchers trade association, stock-exchange and regulatory bodies.

**Q6. What are different regulatory boards are formed to protects the interest of investors and general public.**

**Ans.** Various regulatory bodies like Securities Exchange Board of India (SEBI), Company Law Board (CLB), Registrar of Companies (RoC) Pollution Control Board have been formed to protect the interest of investors and general public.

**Q7. How does personal bias affects the Financial Statement ?**

**Ans.** The Financial Statement cannot speak themselves and the analysis provides tongue to those data and make them speak.

**Q8. What do you mean by Balance Sheet ?**

**Ans.** Balance Sheet is a statement of assets and liabilities of a business unit, normally prepared at the end of accounting period.

**Q9. What does shareholders fund include?**

**Ans.** It includes - share capital, reserves and surplus and money received against share warrant.

**Q10. What are different payment facility of a business concern ?**

**Ans.** Deferred payment liabilities includes deposit, loan and advances, long term maturity and other loan and advances.

**Q11. Define Current Assets ?**

**Ans.** Current Assets expected to be realized or is intended for sale or consumption in company's normal operating cycle.

**Q12. What is contingent liabilities ?**

**Ans.** Contingent liabilities may be claim against the company not acknowledged as debt, guarantees and other money for which company is contingently liable.

**Q13. What do you mean by Financial Statement analysis ?**

**Ans.** Financial Statement analysis is a process of evaluating the relationship between component parts of a financial statement to obtain a better understanding of a firm's position and performance.

**Q14. Why Financial Statement is analyzed ?**

**Ans.** Financial Statement is analyzed to know the financial health of the business and enabling more effective decision making.

**Q15. Mention outsiders those are interested in analyzing Financial Statements ?**

**Ans.** The outsiders those who do not have access to the books of accounts are

creditors, bankers, investors, general public etc.

**Q16. What do you mean by Comparative Balance Sheet ?**

**Ans.** Comparative Balance Sheet is a statement which shows the assets and liabilities of different periods or of different firms for comparison and finding out changes in absolute figures as well as in percentage.

**Q17. What does a Comparative Statement of profit and loss signify ?**

**Ans.** A Comparative Statement of profit and loss signifies the progress of the business concern over a period of time.

**Q18. What does a common size statement present ?**

**Ans.** A common-size statement presents the individual items both in absolute figures and its percentage to their respective total.

**Q19. What is Trend Analysis ?**

**Ans.** In trend analysis the financial figures for number of years is taken up and one year, normally the first year is taken as the base to find out trend percentage.

**Q20. What are steps of Trend analysis ?**

**Ans.** Steps are a) select a base year b) consider the figures of base year as 100 percent c) calculate the percentage of each individual item of each year and compare it with the same item of the base year.

**Group - C****LONG TYPE QUESTION WITH ANSWERS*****Out of 3 questions 2 questions to be answered*****Q1. Why Financial Statements are prepared ?**

**Ans.** Financial Statements are prepared to know the trading result during a particular period and to find out the financial position as at the end of same accounting period. Those are used for taking necessary and proper decision about the allocation of economic resources and future planning.

**Q2. How Financial Statements are composed ?**

**Ans.** According to John N. Myer the Financial statements are composed of data which are the result of combination of

- a) Recorded facts concerning the business
- b) Conventions adopted to facilitate the accounting technique
- c) Postulates or assumptions made
- d) Personal judgments used in the application of the conventions and postulates

**Q3. Mention the limitation of Financial Statements ?**

**Ans.** Since Financial Statements are based on accounting information, so it also suffers from limitations of accounting. Those are

- a) Based on Historical Cost
- b) No timely information
- c) Only interim reports
- d) Effect of personal bias
- e) Use of several alternative methods
- f) No consideration of price level charges
- g) Application of conservatism principle

**Q4. What are different non-current assets?**

**Ans.** Those non-current assets are

- a) Fixed Assets - Tangible, Intangible Capital Work-in-Progress
- b) Non current investments
- c) Deferred tax assessment
- d) Long term loans and advances
- e) Other non-current assets

**Q5. What are different short-term borrowing ?**

**Ans.** Short-term borrowings shall be classified as

- a) Loan repayable or demand
  - from banks
  - from other parties
- b) Loans and advances from related parties
- c) Deposits

## **FMA**

### **Q6. What are different non-current investments ?**

**Ans.** Non-current investments shall be classified as trade investment and other investment and further classified as

- a) Investment in Property
- b) Investment in Equity Instrument
- c) Investment in Preference Shares
- d) Investment in Government or trust security
- e) Investment in debenture or bond
- f) Investment in mutual fund
- g) Investment in partnership firm

### **Q7. What do you mean by cash flow statement ?**

**Ans.** Cash flow statement is a statement which is prepared in a prescribed format describing the acquisition of cash from different sources and application of the same for different payments through out the year. It deals with the inflow and outflow of cash in a business unit between two balance sheet dates. The term cash here means, demand deposits with banks and cash equivalents.

### **Q8. Discuss the objectives of Financial Statement Analysis ?**

**Ans.** Significant objectives of Financial Statement analysis are

- a) To ascertain the short-term liquidity position

## **Question Bank with Answers**

- b) Long-term solvency position
- c) To assess the earning capacity
- d) To estimate future profit
- e) To determine the working capital position
- f) To measure the growth and development of the business
- g) To facilitate the forecasting for the future

### **Q9. What does the Comparative Statement sheet ?**

**Ans.** Comparative Statement shows :-

- a) Financial data in absolute figures for more than one year of a firm or for more than one firm for one year.
- b) Changes (either increase or decrease) in absolute figures.
- c) Increase or decrease in percentage
- d) Interpretation of changes

### **Q10. Discuss the objective of trend analysis ?**

**Ans.** Trend analysis objectives are :-

- a) Measuring the trend or profitability
- b) It helps to measure the trend of short-term and long-term obligation of the firm
- c) It helps inter-firm comparison between two or more firms

However, it is helpful to dispose the financial position and making comparative analysis of data.

**UNIT - III****RATIO ANALYSIS****Group - A**

**A-I From the alternatives given under each bit, write the correct answer**

1. Out of the following pairs of alternatives, which determines current ratio is :-
  - a) Current Assets and Current Liabilities
  - b) Current Liabilities and Fixed Assets
  - c) Current Assets and Fixed Assets
  - d) Fixed Assets and Ing-term liabilities
2. Inventory is a :-
  - a) Fixed Assets
  - b) Quick Assets
  - c) Current Assets
  - d) Absolute Liquid Assets
3. One of the following which is not a liquid assets is :-
  - a) Cash
  - b) Debtors
  - c) Bills receivable
  - d) Prepaid expenses
4. Trade Debtor consist of :-
  - a) Only bill receivable
  - b) Bill receivable and sundry debtors
  - c) Only sundry debtor
  - d) Credit sales
5. One of the following which is an absolute asset is :-
  - a) Inventory
  - b) Trade Debtor
  - c) Marketable Investments
  - d) Prepaid Expenses
6. One of the following which is not a current liability is :-
  - a) Bill Payable
  - b) Outstanding Expenses
  - c) Creditors
  - d) Debenture
7. Standard norm fixed for current ratio is :-
  - a) 1:1
  - b) 2:1
  - c) 0:5:1
  - d) 1:2
8. Standard norm for for absolute liquid ratio is :-
  - a) 1:1
  - b) 0:5:1
  - c) 2:1
  - d) 1:5:1
9. One of the following ratio, which tests the short term solvency of the firm is :-
  - a) Profitability Ratio
  - b) Secondary Ratio
  - c) Activity Ratio
  - d) Liquidity Ratio

- 10. Other name of Activity Ratio is :-**
- a) Liquidity Ratio
  - b) Velocity Ratio
  - c) Primary Ratio
  - d) Solvency Ratio
- 11. Other name of Quick Ratio is :-**
- a) Acid Test Ratio
  - b) Primary Ratio
  - c) Solvency Ratio
  - d) None of these
- 12. In Absolute Liquid Ratio consist of:-**
- a) Cash in hand
  - b) Cash at bank
  - c) Short-term securities
  - d) All of the above
- 13. Efficiency in payment of credit is evaluated by :-**
- a) Current Ratio
  - b) Credit turn over Ratio
  - c) Debtor turn over Ratio
  - d) Stock turn over Ratio
- 14. Efficiency in recovery of debt is evaluated by :-**
- a) Credit turn over Ratio
  - b) Debt equity Ratio
  - c) Debtors turn over Ratio
  - d) Stock turn over Ratio
- 15. Debtor turn over Ratio is calculated by dividing the annual credit sale by :-**
- a) Average Trade Creditors
  - b) Average Trade Debtors
  - c) Bill receivable and payable
  - d) Average inventory
- 16. One of the following which is an absolute asset is :-**
- a) Inventory
  - b) Trade Debtor
  - c) Marketable Investment
  - d) Prepaid Expenses
- 17. Trade Debtor consists of :-**
- a) Only bills receivable
  - b) Bills receivable and Sundry Debtors
  - c) Only Sundry Debtors
  - d) Credit Sales
- 18. What does the debt turnover ratio disclose ?**
- a) Rapidity in debt collection
  - b) Rapidity in debt payment
  - c) Rapidity in selling stock
  - d) None of these
- 19. What is base for calculating general profitability ratios " ?**
- a) Cost of goods sold
  - b) Net sales
  - c) Total Assets
  - d) Net Worth
- 20. The Profitability Ratio based on capital employed are called :-**
- a) General Profitability Ratio
  - b) Special Profitability Ratio
  - c) Overall Profitability Ratio
  - d) None of these

- 21. Which one of the following is a General Profitability Ratio :-**
- a) Return or Investment (ROI)
  - b) Net Profit Ratio
  - c) Return or Capital employed (ROCE)
  - d) None of these
- 22. Which of the following ratio is most important for inter-firm comparison?**
- a) Gross Profit Ratio
  - b) Net Profit Ratio
  - c) Return or Investment (ROI)
  - d) Return or Capital Employed (RoCE)
- 23. What is interpretation norm of Solvency Ratio ?**
- a) More than 50 percent
  - b) Less than 50 percent
  - c) 100 percent
  - d) None of these
- 24. The amount of profit available or the owners of business enterprise is called earning :**
- a) Earning Before Interest and Tax (EBIT)
  - b) Earning After Tax (EAT)
  - c) Gross Profit
  - d) Operating Profit
- 25. The efficiency of various operational activities can be known from :-**
- a) Liquidity Ratios
  - b) Solvency Ratios
  - c) Profitability Ratios
  - d) Activity Ratios
- 26. The determinant of Proprietary Ratios are :-**
- a) Net worth and net assets
  - b) Net assets and net liabilities
  - c) Net worth and current liability
  - d) Net worth and total debts
- 27. Net Capital employed is equal to :**
- a) Total Liabilities Less Fictitious Assets
  - b) Total Assets Less Outsiders Claim
  - c) Total Liabilities Less Current Assets
  - d) Net Assets Less Current Liabilities
- 28. When does the proprietary Ratio improve without any change in profit ?**
- a) At time of increase in net worth
  - b) At time of decrease in net worth
  - c) At time of increase in outside liabilities
  - d) At time of increase in total assets
- 29. The ratio concern with examining long-term financial ability of a business firm is called :-**
- a) Liquidity Ratio
  - b) Turnover Ratio
  - c) Solvency Ratio
  - d) Profitability Ratio
- 30. What are the determinants of debt-equity ratio ?**
- a) Long term debts and short term debts
  - b) Long term debts and share holder's funds
  - c) Total Debts and Total Assets
  - d) Total Assets and Total Liabilities

**A-II Answer the following in one word / term each**

1. Liabilities which are to be met with in a period of one year.
2. Relationship between one number and another number.
3. Ration which test the financial standing of a firm.
4. Excess of current assets over liabilities.
5. Assets that has no tangible existence or realizable value but represents actual cash expenditure.
6. An asset that has no physical existence.
7. A reserve created by the accumulated capital surplus of an organization.
8. Funds that is kept aside out of profits to be used in future.
9. The ratio studying the absolute liquidity of an organization.
10. More important ratios are known as
11. Which ratio measure the overall performance and effectiveness of the firm ?
12. What is the name of ratio used for inter firm comparison ?
13. Which ratio exhibits the relationship between a profit and loss account and income statement items ?
14. What is other name of current ratio ?
15. What is other name of stock turnover ratio ?
16. What is other name of liquid ratio ?
17. What is other name of Debtors Turnover Ratio ?
18. What is other name of absolute liquid ratio ?
19. What is standard norm or rule of thumb of quick ratio ?
20. Which type of ratio indicate the efficiency with which the resources of a firm have been employed ?
21. Which ratio indicates the velocity with which the creditors are turned over in relation to credit purchase ?
22. Which ratio indicates the velocity of utilization of net working capital ?
23. Which ratio is calculated to measure the extent to which debt financing has been used in a business ?
24. What is other name of equity ratio ?
25. Which ratio is established to study the relationship between cost of goods sold and other operating expenses on the one hand and sales on the other ?
26. What type of net profit in mentioned in Net Profit Ratio ?
27. Which element measures overall efficiency of a business ?
28. What term 'net capital employed' indicate?
29. The assets which cannot be used in the business ?
30. Which ratio indicates the product of Net Profit Ratio capital turnover ratio ?



**A-III Answer in one sentence**

1. What do you mean by Ratio ?
2. What do you mean by Ratio Analysis ?
3. What type of tool in Ratio Analysis ?
4. In which way Ratio Analysis is helpful in planning and decision making ?
5. How Ratio analysis is helpful in controlling ?
6. What do owners / share holders / investors want from the business ?
7. In which part short-term creditors are interested ?
8. Why the Government is interested in Ratio Analysis ?
9. What do you mean by window dressing?
10. What makes Ratio Analysis universal limited acceptance ?
11. What do you mean by Balance Sheet or Position Statement Ratio ?
12. What do profit and loss account or Revenue / Income Statements Ratios deal ?
13. What do Composite / Mixed Ratios or Inter Statement Ratio exhibit ?
14. Why activity Ratio are calculated ?
15. What do Liquidity Ratios measure ?
16. What do Profitability Ratio measure ?
17. How short-term obligations of a firm can be met ?
18. What do you mean by liquidity ?
19. What does current Ratio study ?
20. What do you mean by Current Assets ?
21. What do you mean by Current Liabilities?
22. What are different types of ratios on the basis of classification of ratios according to importance for inter-firm comparison ?
23. What does Inventory Turnover Ratio ?
24. What do you mean by average collection period ?
25. What do you mean by creditors / payable Turnover Ratio ?
26. Why profit is considered as essential for the business ?
27. What does Gross Profit Ratio indicate?
28. What does Net Profit Ratio establish ?
29. What does share holders funds include?
30. How Net Profit is visualized from the view point of owners ?

**A-IV Fill in the blanks of the following sentences**

1. Current Ratio is a test of short-term \_\_\_\_\_ of a firm.
2. Activity Ratio are also known as \_\_\_\_\_ ratio.
3. Current Assets \_\_\_\_\_ (minus) inventories = \_\_\_\_\_
4. Ratios classified on the basis of liquidity, solvency and profitability is called \_\_\_\_\_ classification.
5. Sundry Debtors are current \_\_\_\_\_.
6. Sundry Creditors are current \_\_\_\_\_.
7. Trade Debtors include Sundry Debtors and \_\_\_\_\_ receivable.
8. \_\_\_\_\_ expenses as Current Assets.
9. When the debtors turnover ratio is high the average collection period is \_\_\_\_\_.
10. Bank overdraft is a \_\_\_\_\_ liability.
11. Excess of Current Assets over current liabilities is \_\_\_\_\_.
12. \_\_\_\_\_ correlates the Gross Profit with net sales.
13. \_\_\_\_\_ considers all business and non-business incomes and expenditures.
14. Operating Net Profit divided by net sale ratio thus calculated is \_\_\_\_\_.
15. Return on investment (ROI) is known as \_\_\_\_\_.
16. 'Gross Capital Employed' normally means \_\_\_\_\_ made in business.
17. In order to calculate \_\_\_\_\_ total current liabilities of the firm should be deducted from the gross capital employed.
18. Average capital employed may be considered as better alternative to capital employed as capital does not remain \_\_\_\_\_ throughout the year.
19. \_\_\_\_\_ can be defined as a simple arithmetical expression of relationship between two variable.
20. Ratio analysis is only an \_\_\_\_\_ tool not a confirmatory test.
21. \_\_\_\_\_ are always interested in a secured, high and steady return on their investment.
22. Employees are always interested in the \_\_\_\_\_ of the organization.
23. Balance Sheet and Revenue statement ratios are also known as \_\_\_\_\_.
24. \_\_\_\_\_ is normally treated as a current liability unless it is permanent feature and there is an understanding to the effect with the bank.
25. Average collection period indicates \_\_\_\_\_ liquidity.
26. \_\_\_\_\_ is like food for business.
27. A high operating profit indicates \_\_\_\_\_ management of operating expenses.
28. Share holders fund may also be called as \_\_\_\_\_ fund.
29. \_\_\_\_\_ is based on net profit and capital employed.
30. \_\_\_\_\_ ratio establishes the relationship between cost of goods sold and other operating expenses on the one hand and the sales on the other.

**ANSWER KEYS****Group - A****A-I From the alternatives given under each bit, write the correct answer**

- |   |   |
|---|---|
| 1. (a) Current Assets and current Liabilities | 16. (c) Marketable Investments                  |
| 2. (c) Current Assets                         | 17. (b) Bills receivable and sundry debtor      |
| 3. (d) Prepaid Expenses                       | 18. (a) Rapidity in debt collection             |
| 4. (b) Bills receivable and sundry debtors    | 19. (b) Net sales                               |
| 5. (c) Marketable Investments                 | 20. (c) Over all profitability ratio            |
| 6. (d) Debenture                              | 21. (b) Net Profit Ratio                        |
| 7. (b) 2:1                                    | 22. (d) Return on Capital employed              |
| 8. (b) 0:5:1                                  | 23. (b) Less than 50 percent                    |
| 9. (d) Liquidity Ratio                        | 24. (b) Earning After Tax (EAT)                 |
| 10. (b) Velocity Ratio                        | 25. (d) Activity Ratio                          |
| 11. (a) Acid Test Ratio                       | 26. (a) Net worth and net assets                |
| 12. (d) All of the above                      | 27. (d) Net assets less current liabilities     |
| 13. (b) Credit Turnover Ratio                 | 28. (a) At the time of increase in net worth    |
| 14. (c) Debtor turnover ratio                 | 29. (c) Solvency Ratio                          |
| 15. (b) Average trade debtor                  | 30. (b) Long term debts and share holders funds |

**A-II Answer in one word / term**

- |                        |                         |
|------------------------|-------------------------|
| 1. Current Liabilities | 7. Capital reserve      |
| 2. Ratio               | 8. Revenue reserve      |
| 3. Solvency Ratio      | 9. Absolute liquidity   |
| 4. Working Capital     | 10. Primary Ratio       |
| 5. Fictitious Assets   | 11. Profitability Ratio |
| 6. Intangible Assets   | 12. Primary Ratiox      |

**FMA**

13. Composite Ratio
14. Working Capital Ratio
15. Stock Velocity
16. Acid Test or Quick Ratio
17. Debtor Velocity Ratio
18. Cash Ratio
19. 1:1
20. Activity Ratio
21. Creditors / payable turnover Ratio

**Question Bank with Answers**

22. Working capital turnover ratio
23. Debt-equity Ratio
24. Proprietary Ratio
25. Operating Ratio
26. After Tax
27. Profit
28. Total assets less current liabilities
29. Absolute Assets
30. ROI or Return on Investment

**A-III Answer in one sentence**

1. Ratio can be defined as a simple arithmetical expression of the relationship between two variable.
2. Ratio Analysis is important tool in the kit of business manager, which helps to identify problems related to sales, purchases, credit, profit, finance etc.
3. Ratio Analysis is an indicative tools which identify the related problems of business.
4. Ratio Analysis provides necessary financial information for purpose.
5. On the basis of study of ratios the management can take pre-cautionary as well as corrective measures to guide the organization in achieving the objectives.
6. owners / shareholders / investors want secured, high and steady return on their investment.
7. Short-term creditors are interested in short-term liquidity or the business.
8. Govt. is interested in Ratio analysis to formulate the regulation for policy making in the field industry, Trade and Commerce.
9. Window dressing in process where shrewd business man presents better picture of its financial and profitability position to out-siders.
10. This is due to each of accepted standards for calculation of ratios.
11. Balance Sheet Ratio deal with the relationship between two Balance Sheet items e.g. Current Ratio.

12. Profit and loss A/c or Revenue / Income Statement Ratio deal with the relationship between two profit and loss account items e.g. GP Ratio.
13. Composite/mixed ratios or Inter Statement Ratio exhibits the relation between a profit and loss accounts and a balance sheet item. e.g. Stock turnover.
14. Activity Ratios are calculated to measure the efficiency with which resources of a firm have been employed.
15. Liquidity Ratios measure the short-term solvency or financial position of a firm.
16. The profitability Ratios measure the result of business operations or overall performance and effectiveness of business firm.
17. The short-term obligations of a firm can be met only when there are sufficient liquid assets.
18. Liquidity refers to the ability of a concern to meet its current obligations as and when these become due.
19. Current Ratio otherwise known as working Capital Ratio studies the relationship between Current Assets and Current Liabilities.
20. Current Assets are those which include cost and those assets which can be easily converted in to cash within a short period of time generally, one year.
21. Current Liabilities are those obligations which are payable with in a short period of time generally, one year.
22. For inter firm comparison, the ratios may be classified as Primary Ratio and Secondary Ratio.
23. Inventory turnover ratio indicates the velocity of conversion of stock into sales.
24. The average collection period represents the average number of days for which a firm has to wait before its debtors are converted in to cash.
- Average Collection Period
- $$= \frac{\text{Average Trade Debtors}}{\text{Sales per day}}$$
25. Creditors / payable turnover ratio indicates the velocity with which the creditors are turned over in relation to purchase.
- Creditors / payable turnover Ratio
- $$= \frac{\text{Net Credit Annual Purchases}}{\text{Average Trade Creditors}}$$
26. Profit is considered as essential for the business not only for its existence but also for expansion and diversification.

**FMA**

27. The Gross Profit Ratio indicates the extent to which selling prices of goods per unit may decline without resulting in losses on operations of a firm
28. Net Profit Ratio establishes a relationship between net profit (after taxes) and sales and indicates the efficiency of the management in manufacturing, selling, administrative and other activities of the firm.

**Question Bank with Answers**

29. Share holders funds includes equity share capital, preference share capital, free reserves such as premium, revenue reserve, capital reserve, retained earnings and surplus, less accumulated losses, if any.
30. Net profits visualized from the view point of owners are deducting interest on long-term borrowing and income tax.

**A-IV Fill in the blanks of the following sentences**

- |   |   |
|---|---|
| 1. Solvency   | 16. Total Investment                            |
| 2. Velocity / Movement                              | 17. Net Capital Employed                        |
| 3. Liquid Assets                                    | 18. Constant                                    |
| 4. Functional                                       | 19. Ratio                                       |
| 5. Assets   | 20. Indicative                                  |
| 6. Liabilities                                      | 21. Owners                                      |
| 7. Bills  | 22. Profitability                               |
| 8. Prepaid  | 23. Mixed or composite or inter statement ratio |
| 9. Less   | 24. Bank over draft                             |
| 10. Current   | 25. Poor  |
| 11. Working Capital                                 | 26. Profit                                      |
| 12. Gross Profit Ratio                              | 27. Better                                      |
| 13. Net Profit                                      | 28. Proprietors                                 |
| 14. Net Operating Profit Ratio                      | 29. DU-PONT Control Chart                       |
| 15. Return on share holders investment or Net worth | 30. Operating                                   |

**Group - B****SHORT TYPE QUESTION WITH ANSWERS**

***Out of 4 questions examines are required to answer 3 questions not more than 30 words each***

**Q1. Mention the significance of 'Ratio Analysis'.**

**Ans.** Ratio analysis used by different levels of management to make use of it for managerial decision making and control and other stake holder to evaluate their specific interest in the business. It is a very popular and powerful tool used for financial statement analysis.

**Q2. Why the ratio calculated are difficult to make comparison ?**

**Ans.** Difference in size, accounting procedure followed and nature of business make the ratio are difficult to make comparison between firm or industries. They need to be used with precaution.

**Q3. What are different classification of ratios on the basis of purpose ?**

**Ans.** As they are being used by different parties for different purposes, classification can be make as follows :

- a) Liquidity Ratios
- b) Activity Ratios
- c) Profitability Ratios
- d) Long-term solvency and leverage ratios

**Q4. What are ratios used to test short term solvency ?**

**Ans.** The ratio used to test short-term solvency are current ratio, Liquidity Ratio, Absolute Liquidity Ratio. Those ratios are meant to study short-term solvency or paying ability of a business firm.

**Q5. Why Activity Ratio are calculated ?**

**Ans.** The Activity Ratios like stock turnover ratio debtor turnover, ratios are calculated to indicate the speed at which resources or assets are being turned over into sales.

**Q6. What is interpretation of Current Ratio ?**

**Ans.** Higher the current ratio, the larger the amount of rupees of available per rupee of current liabilities and safety for short-term creditors. But sometime the quantity is not indicator as the quality of current assets may be bad.

**Q7. What is interpretation of liquid ratio?**

**Ans.** A liquid / quick / Acid test ratio indicates that the firm is capable of meeting the short-term financial obligation in time without any difficulty. On the other hand, low ratio speaks of the reverse.

**Q8. A company has a current ratio of 2:5:1, its stock is ₹ 80,000/- and its current liabilities are ₹ 80,000/-, calculate liquid ratio.**

**Ans.** Current Ratio =  $\frac{\text{Current Assets}}{\text{Current Liabilities}}$

$$\frac{\text{Current Assets}}{80,000} = 2.5 : 1$$

$$\therefore \text{Current Assets} = 2,00,000/-$$

$$\text{Liquid Assets} = \text{CA} - \text{Inventories}$$

$$= 2,00,000/- (-) 80,000/- = 1,20,000/-$$

$$\text{Liquid Ratio} = \frac{1,20,000}{80,000} = 1.5 : 1$$

**Q9. Current Liabilities of a company are ₹ 3,50,000/-. Its current ratio is 3:1 and acid test ratio is 1:75:1, calculate the value of current assets, liquid assets.**

**Ans.** Current Ratio =  $\frac{\text{CA}}{\text{CL}} = 3 : 1$

$$\therefore \text{CA} = ₹ 3,50,000 \times 3 = ₹ 10,50,000/-$$

$$\text{Acid Test Ratio} =$$

$$\frac{\text{Liquid Assets}}{\text{CL}} = 1.75 : 1$$

$$\begin{aligned} \text{Liquid Assets} &= ₹ 3,50,000/- \times 1.75 \\ &= ₹ 6,12,500/- \end{aligned}$$

Where

CA - Current Asset

CL - Current Liabilities

**Q10. Working capital of a company is ₹ 30,000/-, its current ratio is 2:5:1, calculate the value of current assets, current liabilities.**

**Ans.** Working Capital

$$= \text{CA} - \text{CL} = ₹ 30,000/- \quad \dots (1)$$

$$\text{Current Ratio} = \frac{\text{CA}}{\text{CL}} = 2.5 : 1 \quad \dots (2)$$

$$\therefore \text{CA} = 2.5 \text{ CL}$$

Putting the value of CA in eqn. 1

We get

$$2.5 \text{ CL} - \text{CL} = ₹ 30,000/-$$

$$1.5 \text{ CL} = ₹ 30,000/-$$

$$\therefore \text{CL} = \frac{30,000}{1.5} = ₹ 20,000/-$$

$$\therefore \text{CA} = ₹ 50,000/-$$

**Q11. If Inventory Ratio is 5 times and average stock at least is ₹ 75,000/-, find out cost of goods sold ?**

**Ans.** Inventory turnover Ratio

$$= \frac{\text{Cost of Goods Sold}}{\text{Average Inventory at Cost}}$$

$$= \frac{\text{Cost of Goods Sold}}{₹ 75,000}$$

$$= ₹ 75,000/- \times 5 = ₹ 3,75,000/-$$

**Q12. Find out a) Debtor turnover and b) average collection period from the following information. Annual sales ₹ 80,000/-, debtors at end ₹ 1,00,000/- days to be taken for the year : 360.**

**Ans.** Debtor turnover

$$= \frac{\text{Net Credit Sales}}{\text{Average Trade Debtor}}$$

$$= \frac{5,00,000}{90,000} = 5.56 \text{ times}$$

Average collection period

$$= \frac{360}{5.56} = 64.7 \text{ days or } 65 \text{ days}$$



**Q13. What does working capitals indicate ?**

**Ans.** Working Capital Turnover Ratio indicates the velocity of utilization of net working capital. This ratio indicates the number of times the working capital is turned over in the course of a year.

**Q14. What are different Profitability Ratio ?**

**Ans.** Profitability Ratio are calculated either in relation to sales or to investment. Those ratios are Gross Profit Ratio, Operating Profit Ratio, Net Profit Ratio, Operating Ratio and Expenses Ratios.

**Q15. What does Operating Ratio establish ?**

**Ans.** Operating Ratio establishes the relationship between cost of goods sold and other operating expenses on the one hand and the sales or other. In other world hand and the sales or other. In other words, it measures the cost of operations per rupee of sales. Operating expenses consist of administrative and office expenses and selling and distributor expenses.

**Q16. Find out Operating Ratio :**

**Cost of goods sold ₹ 3,50,000/- selling and distribution expenses ₹ 20,000/-, Administrative and Office expenses ₹ 30,000/-, Net Sales ₹ 5,00,000/- and Office expenses ₹ 30,000/-, Net sales ₹ 5,00,000/-**

**Ans.** Operating Ratio

= Cost of goods sold +

$$\frac{\text{Operating Expenses}}{\text{Net Sales}} \times 100$$

$$= \frac{3,50,000 + 20,000 + 30,000}{5,00,000} \times 100$$

$$= \frac{4,00,000}{5,00,000} \times 100$$

= 80%

**Q17. How operating profit is calculated ?**

**Ans.** Operating Profit

= Net Sales - (Operating Cost

= Net Sales - (Cost of goods sold  
+ Administrative and office expenses  
+ selling and distribution expenses)

Operating Profit can also be calculated.

Operating Profit

= Net Profit + Non operating expenses  
- Non operating income

**Q18. From the following information, calculate operating profit ratio.**

**Cost of goods sold ₹ 4,00,000/-, Administrative and Office expenses ₹ 35,000/-, selling and distribution expenses ₹ 45,000/-, Net sales ₹ 6,00,000/-**

**Ans.** Operating Profit Ratio

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

**FMA**

Operating Profit =

Sales - Cost of goods sold +  
administrative and office expenses +  
selling and distribution expenses )

= 6,00,000 - (4,00,000/- + 35,000/- +  
45,000/-) = 1,20,000/-

Operating Profit Ratio

$$= \frac{1,20,000}{6,00,000} \times 100 = 20\%$$

**Q19. Mention the interpretation and significance of Return on Investment (RoI).**

**Ans.** Return on Investment (RoI) Ratio reveals how well the resources of a firm are being used, higher the ratio, better are the results. The inter-firm comparison of this ratio determines whether the investments in the firm are attractive or not as the investors would like to invest only where the return is higher.

**Question Bank with Answers**

**Q20. Mention the inter-relationship of Profitability Ratio.**

**Ans.** The various Profitability Ratios have direct relationship with each other. The relationship between Net Profit Ratio, Capital Turnover Ratio and the return on Capital employed or RoI can be derived as below :

Return on Capital Employed (RoI)

$$= \frac{\text{Net Profit (Return)}}{\text{Capital Employed}}$$

$$= \frac{\text{Net Profit}}{\text{Sales}} \times \frac{\text{Sales}}{\text{Capital Employed}} \times 100$$

$$\text{As } \frac{\text{Net Profit}}{\text{Sales}} \times 100 = \text{Net Profit ratio}$$

$$\frac{\text{Sales}}{\text{Capital Employed}} \times 100 =$$

Capital Employed

Hence, RoI = Net Profit Ratio x  
Capital Turn Over Ratio

**Group - C****LONG TYPE QUESTION WITH ANSWERS*****Out of 3 questions 2 questions to be answered*****Q1. Discuss the nature of Ratio Analysis?**

**Ans:** Ratio analysis is a technique of analysis and interpretation of Financial Statement. It is the process of establishing and interpreting various ratio for helping in making certain decision. The ratios may be used as a system like blood pressure.

4 steps involved

- a) Selection of relevant date from the financial statement depending upon the objective of the analysis.
- b) Calculation of appropriate ratio.
- c) Comparison of calculated ratio with ratios of the same firm in the past.
- d) Interpretation of the ratio.

**Q2. How the Accounting Ratio are helpful in carrying and different managerial functions ?**

**Ans:** Accounting Ratio are helpful in carrying out different managerial functions as follows :

- a) Decision Making
- b) Planning and forecasting
- c) Communicating
- d) Coordinating
- e) Controlling

**Q3. Mention the limitation of Ratio Analysis.**

**Ans:** Accounting Ratios are no doubt a powerful tools in hands of business managers but they have some limitations too. Those are

- a) Limited use of single ratio - use of single ratio without reference to either related ratios may lead to erroneous conclusion.
- b) Inherent limitation of Accounting - Due to use of historical data
- c) Lack of Adequate Standard
- d) Change of Accounting Procedure
- e) Change in Business Environment
- f) Window Dressing
- g) Personal Bias
- h) Difficulty in comparison - due to difference in size, accounting procedure followed and nature of business.

**Q4. How the ratios can be classified on the basis of purpose ?**

**Ans:** The accounting ratios may be classified on the basis of purposes of their use. Those are being used by different parties for different purposes to test different aspects or business.

## FMA

- a) Liquidity Ratio :- Those ratios are used to test short-term solvency position. Different ratios are Current Ratio, Liquidity Ratio, Absolute Liquid Ratio.
- b) Activity Ratio :- to measure the efficiency with which the resources of the business are employed. Those ratios are called as Turnover Ratio, Ratios are Inventory / Stock Turnover Ratio, Debtor Turnover, Creditor Turnover.
- c) Profitability Ratio:- Measures the profitability overall efficiency of the business activities are reflected by those ratios. Ratios are Gross Profit Ratio, Net Profit Ratio, Return on Investment.
- d) Long Term Solvency and Leverage Ratio:- Those ratios are meant to test the long-term solvency or paying ability in long-term. Exp- Capital Gearing Ratio

### Q.5 How the ratios can be classified on the basis of importance ?

**Ans:** On this basis the ratio can be classified as Primary and Secondary. More important ratios from the management point of view are Primary and the others are called Secondary. The Secondary Ratios support the Primary Ratios. For example, Return on capital employed is a Primary Ratio but operating profit to sales, sales to capital employed, sales to fixed assets, stock turnover, Debtor turnover etc. are Secondary Ratios.

## Question Bank with Answers

Similarly, Net Profit Ratio is a Primary Ratio but different examples ratios like administrative and office expenses ratio, Selling and distribution expense ratio and non-operating expense ratio etc. are Secondary Ratios.

Importance of ratios significantly varies among industries. Therefore, each industry has its own Primary and Secondary ratios. A ratio that is of primary importance in one industry may be of secondary importance in another industry.

- Q6.** A firm's current assets and current liabilities are ₹ 24,000/- and ₹ 6,000/- respectively, How much can it borrow from a bank without reducing current ratio below 1.5 ?

**Ans:** Current Ratio

$$= \frac{\text{Current Assets}}{\text{Current Liabilities}} = \frac{24,000}{6,000} = 4$$

The borrowing from bank could be either on temporary basis (current liability) or long-term basis not a current liability)

When the borrowings are taken as a current liability.

Current Assets = 24,000/- + (let the borrowing be x current liabilities)

Current Liabilities 6,000/- + x

Current Ratio

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

$$= \frac{24,000 + x}{6,000 + x} = 1.5$$

$$\therefore x = 30,000/-$$

Hence, the firm can be borrow from a bank (as current liability) up to ₹ 30,000/- without reducing its current ratio below 1.5.

When borrowing taken as long-term liabilities.

$$CR = \frac{CA}{CL} = \frac{24,000 + x}{6,000} = 1.5$$

$$X = ₹ 15,000/-$$

Firm can borrow up to ₹15,000/- without reducing CR below 1.5.

**Q7. Assuming the Current Ratio is 2 state in each of the cases, whether the ratio will improve or decline or will have no change.**

**a) Purchase of Fixed Assets**

**Ans:** Purchase of Fixed Assets will reduce current ratio. The purchase may either be in cash or on credit. If payment in cash then current assets will be reduced and current liabilities will remain at the same figure. In the second alternative when payment is on credit, current liabilities will go up while current assets will remain same at the previous figure. In both situation current ratio will decline.

**b) Cash collected from customer.**

**Ans:** The collection of cash from customer (debtors) will not affect the current ratio.

**c) Bills receivable dishonored.**

**Ans:** On dishonoring a bills receivable the current ratio will not change. Increase in debtors by reducing bills receivable will not affect total current assets.

**d) Issue of new share**

**Ans:** It will improve current ratio, The receipt of cash will increase current assets.

**e) Payment of current liability will improve current ratio because current asset and current liabilities will be reduced by same figure.**

$$CR = \frac{CA}{CL}$$

Where CR - Current Ratio  
CA - Current Assets  
CL - Current Liabilities

**Q8. How the profit is calculated in order to find out return or capital employed?**

**Ans:** Profits for the purpose of finding out return on capital employed depends upon the concept capital employed. Again the profit shown in the statement of profit and loss need some adjustment. Necessary adjustments are

a) Net Profit should be taken before payment of tax and making any provision for taxation as they are paid after the income is earned.

## FMA

- b) When the capital employed is gross capital - interest a long-term borrowing as well as short-term borrowing should be added with net profit. When the capital employed is net capital only interest or long-term borrowing be added to the net profit.
- c) The income from those assets, which are excluded for calculation of capital employed shall not be taken into account for calculation of profit.
- d) Any abnormal, non-recurring, not-operating loss or gain should be adjusted against net profit.
- e) When assets are taken but their replacement price for calculation of capital employed depreciation on them should be adjustment accordingly and reflected in profit.

### Q9. How capital employed is calculated on Asset Approach Method ?

**Ans:** Capital employed is calculated by adding different asset value as follows :

- a) All fixed assets used for the business at their written down value or at replacement value.
- b) Investment made inside the business
- c) All current assets.

The sum of all the assets mentioned above constitute the gross capital employed for finding out net capital, employed total current liabilities should be deducted from the gross capital employed.

## Question Bank with Answers

However, for finding out capital employed in business under this method following points must be taken into consideration.

- a) Assets must be those which are used in business. Idle assets or any surplus assets that are not required for business should be excluded.
- b) Intangible assets should be excluded under they have certain sales value or they are acquired by making payments.
- c) Fictitious assets should be excluded.
- d) Absolute assets must not be taken in to account.
- e) Investment made outside the business should be excluded.

### Q10. The following is the revenue statement of a Ltd. Company for the year ending 31-12-2020.

|                             |                  |
|-----------------------------|------------------|
| Sales -                     | 6,00,000.00      |
| Less Cost of goods sold     | 4,00,000.00      |
| Gross Profit                | 2,00,000.00      |
| Less Operating expenses     | 1,20,000.00      |
| Operating Profit            | 80,000.00        |
| Add non operating income    | 12,000.00        |
|                             | <b>92,000.00</b> |
| Less non operating expenses | 4,000.00         |
| Net Profit                  | <b>88,000.00</b> |

Calculate gross Profit Ratio, Operating Ratio, Operating Profit Ratio, Net Profit Ratio

$$\text{Ans: Gross Profit Ratio} = \frac{\text{Gross Profit}}{\text{Net Sales}} \times 100$$

$$= \frac{2,00,000}{6,00,000} \times 100 = 33.33\%$$

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

$$= \frac{4,00,000 + 1,20,000}{6,00,000} \times 100$$

$$= \frac{5,00,000}{6,00,000} \times 100 = 86.67\%$$

Operating Profit Ratio

$$= \frac{\text{Operating Profit}}{\text{Net Sales}} \times 100 = \frac{80,000}{6,00,000} \times 100 = 13.33\%$$

OR

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

$$= 100 - 86.67 = 13.33\%$$

$$\text{Net Profit Ratio} = \frac{\text{Net Profit}}{\text{Sales}} = \frac{88,000}{6,00,000} = 14.67\%$$

