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CS-EXECUTIVE
(MODULE-2)

CORPORATE & MANAGEMENT ACCOUNTING

(Vol.-2)

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With the Blessings of

"MAA SARASWATI"

<u>Dedicated</u>

<u>To My Lovely Parents</u>

<u>Sh. MUNENDRA PAL SINGH TOMAR</u>

<u>Smt. SEEMA TOMAR</u>

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SEVEN GOLDEN MESSAGES TO ALL STUDENTS

- *Dear student, always believe in yourself. You have the ability to do any kind of work whatever it is easy or tough. So be confident and work hard to get your dream.*

- *Be a good human who helps everyone. Be a good partner, a good friend, a good soul who is honest, trustworthy and responsible. Happiness will find you.*

- *You are the person who can change the world. You have a big responsibility to make the world better. I know you can do this very well. All the best my dear student.*

- *Dear, my true success will be seeing you in a better position. Wishing you will be a successful person in life, that will be the best gift for me. So work hard and achieve your success.*

- *In your life, you will face many bad and hard times. Never lose hope in your bad time. After the heavy rain, we can see the sunshine. Always be positive.*

- *I am proud that I have got the chance to teach you. You all are very brave and active. Always keep this spirit up. I wish you all the very best.*

- *Dear Student, there is nothing you can't do, only thing is that you really want to do or not. If you really want then nothing is impossible for you my dear. Yes you may fail some times to achieve your success but remember "You are not defined by failure, but you are empowered by them."*

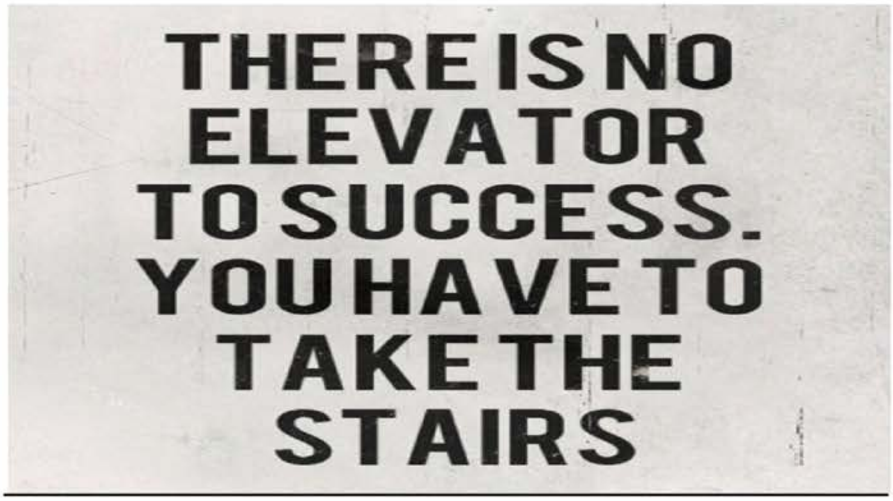
Thanking You

CA Anuj Singh Tomar

(CA, B.Com (Hons.))

YOUR & MY DREAM

"Always Remember there is no shortcut of Success"



"Don't stop yourself because nothing is impossible for you."

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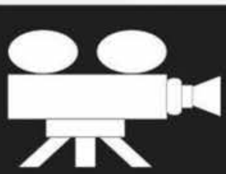

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CHAPTER – 1
COST SHEET

Cost

Cost is the amount of resource given in exchange for some goods or services. The resource given money or money's equivalent expressed in monetary units.

Costing

Costing is the techniques and processes of ascertaining costs. These techniques consist of principles and rules which govern the procedure of ascertaining cost of products or services.

Cost Accounting:

- ✓ Cost accounting may be regarded as a specialized branch of accounting which involves classification, accumulation, assignment and control of costs.
- ✓ Cost accounting as "classifying, recording and appropriate allocation of expenditure for determination of costs of products or services and for the presentation of suitably arranged data for purposes of control and guidance of management".

Cost Accountancy

- ✓ Cost Accountancy has been defined as "the application of costing and cost accounting principles, methods and techniques to the science, art and practice of cost control and the ascertainment of profitability.
- ✓ It includes the presentation of information derived there from for the purpose of managerial decision making".

Importance & Relevance of Cost Accounting

(A) COSTING AS AN AID TO MANAGEMENT

It provides detailed costing information to the management to enable them to maintain effective control over stores and inventory, to increase efficiency of the organization and to check wastage and losses. It facilitates delegation of responsibility for important tasks and rating of employees. The various advantages derived by the management from a good system of costing are as follows:

1. *Cost accounting helps in periods of trade depression and trade competition*: In periods of trade depression, an organization cannot afford to have losses, which pass unchecked. The management must know the areas where economies may be sought, waste eliminated and efficiency increased.

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2. *Cost accounting aids price fixation* : Although the law of supply and demand to a great extent determines the price of the article, cost to the producer does play an important role too. The producer can take necessary guidance from his costing records in case he is in a position to fix or change the price charged.

3. *Cost accounting helps in making estimates* : Adequate costing records provide a reliable basis for making estimates and quoting tenders.

4. *Cost accounting helps in channelizing production on right lines* : Proper costing information makes it possible for the management to distinguish between profitable and non-profitable activities. Profits can be maximized by concentrating on profitable operations and eliminating non-profitable ones.

5. *Cost accounting eliminates wastages* : As cost accounting is concerned with detailed break-up of costs, it is possible to check various forms of wastages or losses.

6. *Cost accounting makes comparisons possible* : Proper maintenance of costing records provides various costing data for comparisons which in turn helps the management in formulation of future lines of action.

7. *Cost accounting provides data for periodical Profit and Loss Account* : Adequate costing records provide the management with such data as may be necessary for the preparation of Profit and Loss Account and balance sheet at such intervals as may be desired by the management.

8. *Cost accounting helps in determining and enhancing efficiency* : Losses due to wastage of materials, idle time spent by workers, poor supervision, etc., will be disclosed if the various operations involved in the production are studied carefully. Efficiency can be measured, costs controlled and various steps can be taken to increase the efficiency.

(B) COSTING AS AN AID TO CREDITORS

They can base their judgment about the profitability and future prospects of the enterprise on the costing records.

(C) COSTING AS AN AID TO EMPLOYEES

They are benefited due to continuous employment and higher remuneration in the form of incentives, bonus plans, etc.

(D) COSTING AS AN AID TO NATIONAL ECONOMY

The overall economic development of a country takes place as a consequence increase in efficiency of production. Cost control, elimination of wastage and efficiency lead to the progress of industry and consequently of the country as a whole.

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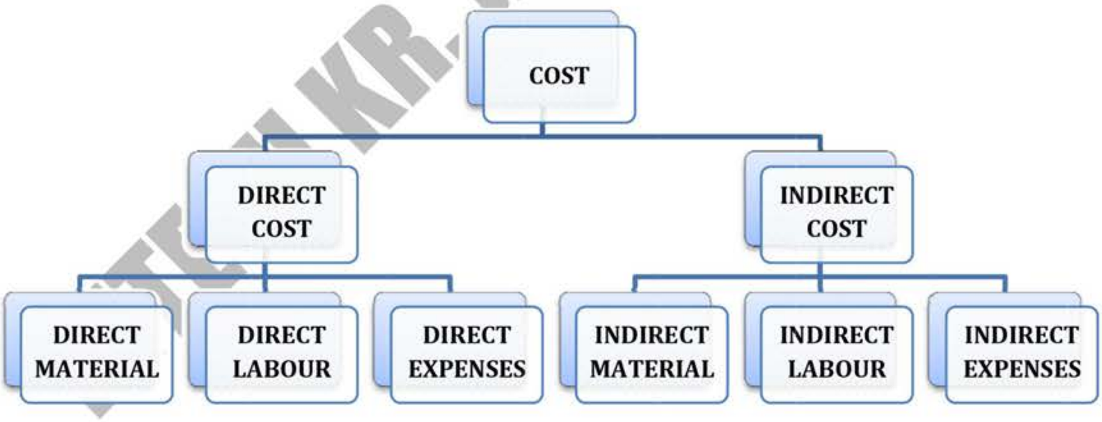
Objectives of Cost & Management Accounting

1. To ascertain the cost per unit and total cost of different product manufactured by the business.
2. To aid the management of business in price fixation of particular product or service rendered.
3. To ascertain the profitability of each of the products and advise management as to how these profits can be maximized;
4. To exercise effective control on the stocks of raw materials, work-in-progress, consumable stores and finished goods in order to minimize the capital locked up in these areas;
5. To advise the management about future expansion policies and proposed capital projects;
6. To help in the preparation of budgets and implementation of budgetary control;
7. To guide the management in the formulation and implementation of incentive bonus plans based on productivity and cost savings

Scope of Cost & Management Accounting:

1. Cost Ascertainment
2. Help to control the cost
3. Proper matching of cost with revenue
4. Formation of Rules and Regulation
5. Aids to Management Decision-making

ELEMENT OF COST:



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OVERHEAD:

Overheads include the cost of indirect material, indirect labour and indirect expenses.
Generally overheads are classified on the following basis:
(1) Functional analysis
(2) Behavioural analysis

1. Functional Analysis

Overheads can be divided into the following categories on functional basis:

(a) Manufacturing or production or factory overheads: Manufacturing overheads includes all indirect costs (indirect material, indirect labour and indirect expenses) incurred for operation of manufacturing or production division in a factory. It is also known as factory overheads, works overheads, factory cost or works cost, etc.

(b) **Administration overheads:** It is the sum of those costs of general management, secretarial, accounting and administrative services which cannot be directly related to production, marketing, research or development functions of the enterprise.

(c) Selling and distribution overheads: It comprises the cost of products to distributors for soliciting and recurring orders for the articles or commodities dealt in and of efforts to find and retain customers.

Distribution overhead is the expenditure incurred in the process which begins with making the packed product available for dispatch and ends with the making the reconditioned returned empty package, if any, available for reuse. It includes expenditure incurred in transporting articles to central or local storage.

(d) Research and development overheads: Research overhead is incurred for a new product or a new process of manufacturing any product. The development overhead is incurred for putting research result on commercial basis

2. Behavioural Analysis

Under this overheads are classified, depending on their tendency to vary with the production/sales volume or activity levels.
Based on this behaviors, the expenses may be classified into:
(a) Fixed Overhead
(b) Variable Overhead
(c) Semi-Variable Overhead

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EXPENSES

Direct Expenses

- ✓ Direct expenses are defined as "costs, other than materials or wages, which are incurred for a specific product or salable service.
- ✓ Types of Direct Expenses are as under:
  (i) Royalties, if it is charged as a rate per unit.
  (ii) Hire charges of the plant if is used for a specific job.
  (iii) Subcontract or outside work, if jobs are sent out for some kind of special processing.
  (iv) Salesman's commission, if it is based on the value of units sold.
  (v) Freight if the goods are handled by an outside carrier whose charges can be related to individual units.
  (vi) Travelling, hotel and other incidental expenses incurred on a particular contract.
  (vii) Cost of making a design or a pattern for a specific job.
  (viii) Cost of any special process not forming part of the normal manufacture like water proofing for canvas cloth.

Indirect Expenses

- ✓ Indirect expenses are other than the direct ones. These refer to those expenses which cannot be directly, conveniently and wholly allocated to cost centre or cost units. E.g. factory rent & insurance, power, general repairs, etc.
- ✓ A few examples of such expenses are as follows:
  (i) Rent, rates and insurance of factory and office.
  (ii) Depreciation, repairs and maintenance of plants, machinery, furniture, etc.
  (iii) Power, fuel, lighting, heating of factory and office.
  (iv) Advertising, legal charges, audit fees, bad debts, etc.

Notional Expenses

- ✓ Expenses that are usually incurred should be included in costs even if a particular firm is not required to pay for such expenses. Rent for own premises is an example. If a firm occupies its own buildings, it does not pay any rent for it, but for costing purposes, an appropriate amount of rent is be included in costs.

COST SHEET

Cost Sheet is statement designed to show the total cost, cost per unit of a particular product for the current period, preceding period and budget period. Cost Sheet is a memorandum Sheet.

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Advantages of the cost sheet:

1. I t discloses the total cost & the cost per unit of the units produced during a given period.
2. It enables a manufacturer to keep a close watch & control over the cost of production.
3. By providing a comparative study of the various elements of current cost with the past results & standard costs, it is possible to find out the causes of variations in costs & to eliminate the adverse factors & conditions which increase the total cost.
4. It acts as a guide to the manufacturer & helps him in formulating a definite useful production policy.
5. It helps in fixing up the selling price more accurately.
6. I t helps businessmen to minimize the cost of production when there is a cut throat competition.
7. I t helps businessmen to submit quotations with reasonable degree of accuracy against tenders for the supply of goods.

FORMAT OF COST SHEET

Cost Sheet for the Period________________

Production _________ Units

PARTICULAR	TOTAL COST	AMOUNT
Opening Stock of Raw Material Add: Purchase of Raw materials Add: Purchase Expenses Less: Closing stock of Raw Materials		
Raw Materials Consumed Direct Wages (Labour) Direct Charges		
Prime cost		
Add :- Factory Over Heads: Factory Rent Factory Power Indirect Material Indirect Wages Supervisor Salary Drawing Office Salary Factory Insurance Factory Asset Depreciation		
Gross Works cost Incurred Add: Opening Stock of WIP Less: Closing Stock of WIP		
Net Works cost		
Add:- Administration Over Heads:- Office Rent Asset Depreciation General Charges		

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Audit Fees Bank Charges Counting house Salary Other Office Expenses		
Cost of Production		
Add: Opening stock of Finished Good Less: Closing stock of Finished Goods		
Cost of Goods Sold		
Add:- Selling and Distribution OH:- Sales man Commission Sales man salary Traveling Expenses Advertisement Delivery man expenses Sales Tax Bad Debts		
Cost of Sales		
Profit (balancing figure)		
Sales		

Notes:-

(1) Factory Over Heads are recovered as a percentage of direct wages

(2) Administration Over Heads, Selling and Distribution Overheads are recovered as a percentage of works cost.

(3) The following cost are of financial Nature and thus not recorded while preparing a cost sheet:

a) Interest, Dividend Paid
b) Income Tax Paid, Provision of Tax
c) Profit/Loss on sale of assets
d) Preliminary Expenses, Goodwill Written Off
e) Loss due to fire, theft, natural disaster
f) Transfer to reserve, provisions
g) Cash Discount
h) Donation, etc

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PRACTICE QUESTIONS

Q1. The following information has been obtained from the records of Little Bright Ltd. for the month of Jan 2019:

Stock of Raw Material as on 1st Jan 2019	Rs 20,000
Stock of Raw Material as on 31st Jan 2019	Rs 30,000
Cost of WIP as on 1st Jan 2019	Rs 12,000
Cost of WIP as on 31st Jan 2019	Rs 18,000
Cost of Finished Goods as on 1st Jan 2019	Rs 25,000
Cost of Finished Goods as on 31st Jan 2019	Rs 18,000
Purchase of Raw Material	Rs 500,000
Direct Wages	Rs 112,000
Factory/Works Overhead	Rs 62,000
Administration Overhead	Rs 52,000
Selling & Distribution Overhead	Rs 28,000
Sales	Rs 10,00,000

Prepare Cost Sheet.

Q2. Mr. A furnishes the following data relating to the manufacture of a standard product during the month of Jan 2016:

Raw Material Purchased	Rs 15,000
Opening Stock of RM	Rs 4,000
Closing Stock of RM	Rs 5,000
Direct Labour Cost	Rs 9,000
Factory Overhead	Rs 4,500
Carriage Inward	Rs 1,000
Administration Overhead	20% on Work Cost
Selling Overhead	50 paisa per unit sold
Unit Produced	17,100 units
Opening Stock of FG	2000 units @ Rs 150 per unit
Unit Sold	16,000 units
Selling Price per unit	Rs 4

Prepare Cost Sheet.

Q3. The books and records of the Anand manufacturing Co present following data for the month of Aug 2016:

Direct Labour Cost	Rs 16,000 (160% of Factory Overheads)
Cost of Goods Sold	Rs 56,000

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Inventory accounts showed these opening and closing balances:

	Aug 1(Rs.)	Aug 31(Rs.)
Raw Material	8,000	8,600
WIP	8,000	12,000
FG	14,000	18,000

Other Data:

Selling and Distribution Expenses	Rs 3,400
General Administration Expenses	Rs 2,600
Sales	Rs 75,000

Prepare Cost Sheet.

Q4. The following data relates to the manufacture of a standard product during the month of April 2019:

Raw Material	Rs 180,000
Direct Wages	Rs 90,000
Machine Hours Worked(Hours)	10,000
Machine Hour Rate (Per hour)	Rs 8
Administration Overhead	Rs 35,000
Selling overhead per unit sold	Rs 5
Unit Produced	4,000
Unit Sold	3600
Selling Price Per Unit	Rs 125

Prepare Cost Sheet.

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MCQ FOR PRACTICE

Q1. Generally, for the purpose of Cost sheet preparation, costs are classified on the basis of:
(A) Functions (B) Variability
(C) Relevance (D) Nature

Q2. Elements of Cost of a product are:
(A) Material (B) Labour
(C) Expenses (D) All of the above

Q3. Prime Cost consists of:
(A)Direct Material (B) Direct Labour
(C) Direct Expenses (D) All of the above

Q4. Direct material, Direct Labour and Direct Expenses collectively form ____________.
(A) Overhead Cost (B) Prime Cost
(C) Job Process (D) Production Cost

Q5. Indirect material, Indirect Labour and Indirect Expenses collectively form ____________.
(A) Overhead Cost (B) Prime Cost
(C) Job Process (D) Production Cost

Q6. Rent, Rates and Insurance of Factory and Office are examples of:
(A) Direct Expenses (B) Indirect Expense
(C) Notional Expenses (D) Miscellaneous expenses

Q7. If sale price of a product if Rs 85,800 and the profit margin on cost is 10%, the amount of profit will be:
(A) Rs 7,800 (B) Rs 8,580
(C) Rs 7,200 (D) Rs 9,533

Q8. The total cost of a product Rs 10,000; Profit 25% on selling Price. Profit will be:
(A) Rs 2,500 (B) Rs 4,000
(C) Rs 3,333 (D) Rs 2,000

Q9. If the sales of a product is Rs 94,080 and the profit margin on cost 12%, the amount of profit will be
(A) Rs 7,800 (B) Rs 10,080
(C) Rs 11,290 (D) None of the above

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Q10. Cost of Production plus opening stock less closing stock of finished goods is equal to:
(A) Prime Cost (B) Works/ Factory Cost
(C) Cost of good sold (D) Cost of sales

Q11. Following is the information available regarding an organization:

Direct Material Purchased	Rs 150,000
Direct Material Consumed	Rs 80,000
Direct Labour	Rs 50,000
Direct Expense	Rs 30,000
Manufacturing Overhead	Rs 20,000

The Prime Cost for the organization is:
(A) Rs 230,000 (B) Rs 160,000
(C) Rs 310,000 (D) None of the above

Q12. Calculate Cost of sales from the following:

Net Work Cost	Rs 200,000
Office & Administration Overheads	Rs 100,000
Opening Stock of WIP	Rs 10,000
Closing Stock of WIP	Rs 20,000
Closing Stock of FG	Rs 30,000
There was no opening stock of FG.	
Selling Overheads	Rs 10,000

(A) Rs 280,000 (B) Rs 270,000
(C) Rs 300,000 (D) None of the above

Q13.

Direct Material Cost	Rs 45,000
Direct Labour Cost	40% of direct Material Cost
Royalties on Production	Rs 4,000
Other Direct Expense	20% of Prime Cost

Prime Cost will be:
(A) Rs 80,400 (B) Rs 90,000
(C) Rs 83,750 (D) None of the above

Q14. Following information is given:

Direct Material Purchase	Rs 600,000
Direct Material consumed	Rs 700,000
Direct Labour	Rs 300,000
Direct expense	Rs 250,000
Manufacturing Overheads	Rs 300,000

Prime Cost will be:
(A) Rs 14,50,000 (B) Rs 11,50,000
(C) Rs 12,50,000 (D) Rs 15,50,000

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Q15. Net Work Cost Rs 300,000

Administration Overhead	Rs 100,000
Opening Stock of FG	Nil
Closing Stock of FG	Rs 20,000
Selling Overhead	Rs 10,000

From the above, cost of sales will be:

(A) Rs 4,30,000 (B) Rs 3,70,000

(C) Rs 3,90,000 (D) Rs 4,10,000

Q16. Calculate the value of Closing Finished Goods by using FIFO and LIFO method:

Cost of Production (10,000 Unit)	Rs 60,000
Opening Stock (2,000 units)	Rs 18,000
Sales	9,000 units

(A) Rs 27,000 & Rs 18,000 (B) Rs 18,000 & Rs 24,000

(C) Rs 18,000 & Rs 27,000 (D) None of the above

Q17. Cost of Production for 10,000 units Rs 160,000

Opening Stock of FG(1,000 units)	Rs 18,000
Closing Stock of FG (FIFO)	2,000 units
Selling and Distribution Expenses	Rs 2 per unit
Profit mark up on Selling price	20%

The amount of Profit will be:

(A) Rs 39,000 (B) Rs 41,000

(C) Rs 40,000 (D) None of the above

Q18. The following information is extracted from the job ledger in respect of Job No 404:

Material	Rs 3,400
Labour	80 hours @ Rs 2.50 per hour
Variable Overhead for all jobs	Rs 5,000 for 4,000 labour hours

If the job is billed for Rs 4,200, the profit will be:

(A) Rs 600 (B) Rs 650

(C) Rs 700 (D) Rs 500

Q19. Which of the following cost is not a factory overhead expenses?

(A) Depreciation of equipment used in the research department.

(B) Salary of Quality control inspector

(C) Overtime paid to labour

(D) Machine maintenance labour cost

Q20. Item(s) excluded from the cost sheet are:

(A) Direct Material (B) Administration Overhead

(C) Provision for Taxation (D) All of the above

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Q21. Item(s) excluded from the cost sheet are:
(A) Debenture interest (B) interest paid on bank deposit
(C) Dividend paid on share capital (D) All of the above

Q22. Item(s) included from the cost sheet are:
(A) Interest paid (B) Income Tax paid
(C) Goodwill written off (D) Salesman Commission

Q23. Conversion Cost refers to:
(A) Manufacturing Cost incurred to produce unit of a product
(B) All cost associated with manufacturing other than direct labour
(C) The sum of direct material cost and all factory overhead costs
(D) The sum of raw material cost and overhead costs.
Q24. Conversion cost is the summation of:
(A) Direct Material and Direct Wages
(B) Direct Wages and Office overheads
(C) Direct Wages, Direct expenses and works overhead
(D) None of the above

Q25. Costs which can be identified easily and indisputably with a unit of operation or costing unit or cost centre is called:
(A) Direct Cost (B) Fixed Cost
(C) Variable cost (D) Indirect cost

Q26. Which of the following does not form part of prime cost:
(A) Cost of packing
(B) Cost of transportation paid to bring raw material to factory
(C) GST paid on purchase of raw material
(D) Overtime premium paid to workers.

Q27. Salary paid to plant supervisor is a part of:
(A) Direct expenses (B) Factory Overhead
(C) Selling and Distribution Overhead (D) Administration Overhead

Q28. Depreciation of director's laptop is treated as part of:
(A) Direct expenses (B) Factory Overhead
(C) Research and development Cost (D) Administration Overhead

Q29. Audit fees paid to auditor is part of:
(A) Direct expenses
(B) Factory/ Production Overhead
(C) Selling and Distribution Overhead
(D) Administration Overhead

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Q30. Salary paid to factory store staff is a part of:
(A) Direct employee cost (B) Factory Overhead
(C) Production cost (D) Administration Overhead

Q31. Canteen expenses for factory workers are part of:
(A)Marketing Cost (B) Factory Overhead
(C) Administration Overhead (D) None of the above

Q32. A company pays royalty to state government on the basis of production, it is treated as:
(A) Direct expenses (B) Factory Overhead
(C) Direct Material Cost (D) Administration Overhead

ANSWERS

Cost Sheet

1. A	2. D	3. D	4. B
5. A	6. B	7. A	8. C
9. B	10. C	11. B	12. A
13. C	14. C	15. C	16. B
17. B	18. D	19. C	20. C
21. D	22. D	23. A	24. C
25. C	26. C	27. B	28. D
29. D	30. B	31. B	32. A

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CHAPTER – 2
BUDGETORY CONTROL

Budget

(a) The quantitative expression of a proposed plan of action by management for a specified period, and

(b) An aid to coordinate what needs to be done in order to implement the plan.

Budgeting

Budgeting is the complete process of designing, implementing and operating budgets. The main emphasis in budgeting process involved the provision of resources to support plans which are being implemented.

Budgetary Control

- ✓ Budgetary control involves continuous comparison of actual results with the budgets and taking appropriate remedial action promptly. A budgetary control system, in this sense is also a control system.
- ✓ CIMA, London, defines budgetary control as "the establishment of budgets relating to the responsibilities of executives to the requirements of a policy, and the continuous comparison of actual with budgeted results, either to secure by individual action the objective of that policy or to provide a basis for its revision".

Objectives of Budgetary Control

(1) To use different levels of management in a cooperative endeavour to achieve of the objectives of the firm.

(2) To facilitate centralized control with delegated authority and responsibility.

(3) To achieve maximum profitability by planning income and expenditure through optimum use of the available resources.

(4) To ensure adequate working capital in other resources for efficient operation of business.

(5) To reduce losses and wastes to the minimum.

(6) To bring out clearly where effort is needed to remedy the situation.

(7) To see that the firm is not deflected from marching towards its long-term objectives without being overwhelmed by emergencies.

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Advantages of Budgetary Control

1. It brings efficiency and economy in the working of the business enterprises.
2. I t establishes divisional and departmental responsibility.
3. I t coordinates the various divisions of a business, and therefore results in smoother operation of the entire organization.
4. I t guards against undue optimism leading to over expansion.
5. It acts as a safety signal for the management. It serves as an automatic check on the judgement of the executives as losses are revealed in time which is a caution to the management to stop wastage.
6. Uniform policy without the disadvantage of a military kind of a business organization can be pursued by all divisions of the business by centralizing budgetary control.
7. It helps the management in obtaining the most profitable combination of different factors of production.
8. It is the only means of predetermining when and to what extent financing will be necessary, avoiding the possibility of both over and under capitalization as well.
9. It provides a clear definition of the objective and policies of the concern and the tool for periodic examination the policies periodically.

Limitation of Budgetary Control

(1) Budgetary control starts with the formulation of budgets which are mere estimates. Therefore, the adequacy or otherwise of budgetary control system, to a very large extent, depends upon the adequacy or accuracy with which estimates are made.

(2) Budgets are meant to deal with business conditions which are constantly changing. Therefore, budgets estimates lose much of their usefulness under changing conditions because of their rigidity.

(3) The system of budgetary control is based on quantitative data and represents only an impersonal appraisal to the conduct of business activity unless it is supported by proper management of personal administration.

(4) I t has often been found that in practice the organization of budgetary control system become top heavy and costly, specially from the point of view of small terms.

(5) Budgets and budgetary control have given rise to a very unhealthy tendency to be regarded as the solvent of all business problems. This has resulted in a very lukewarm human effort to deal with such problems and consequently the budgetary control system ends in failure.

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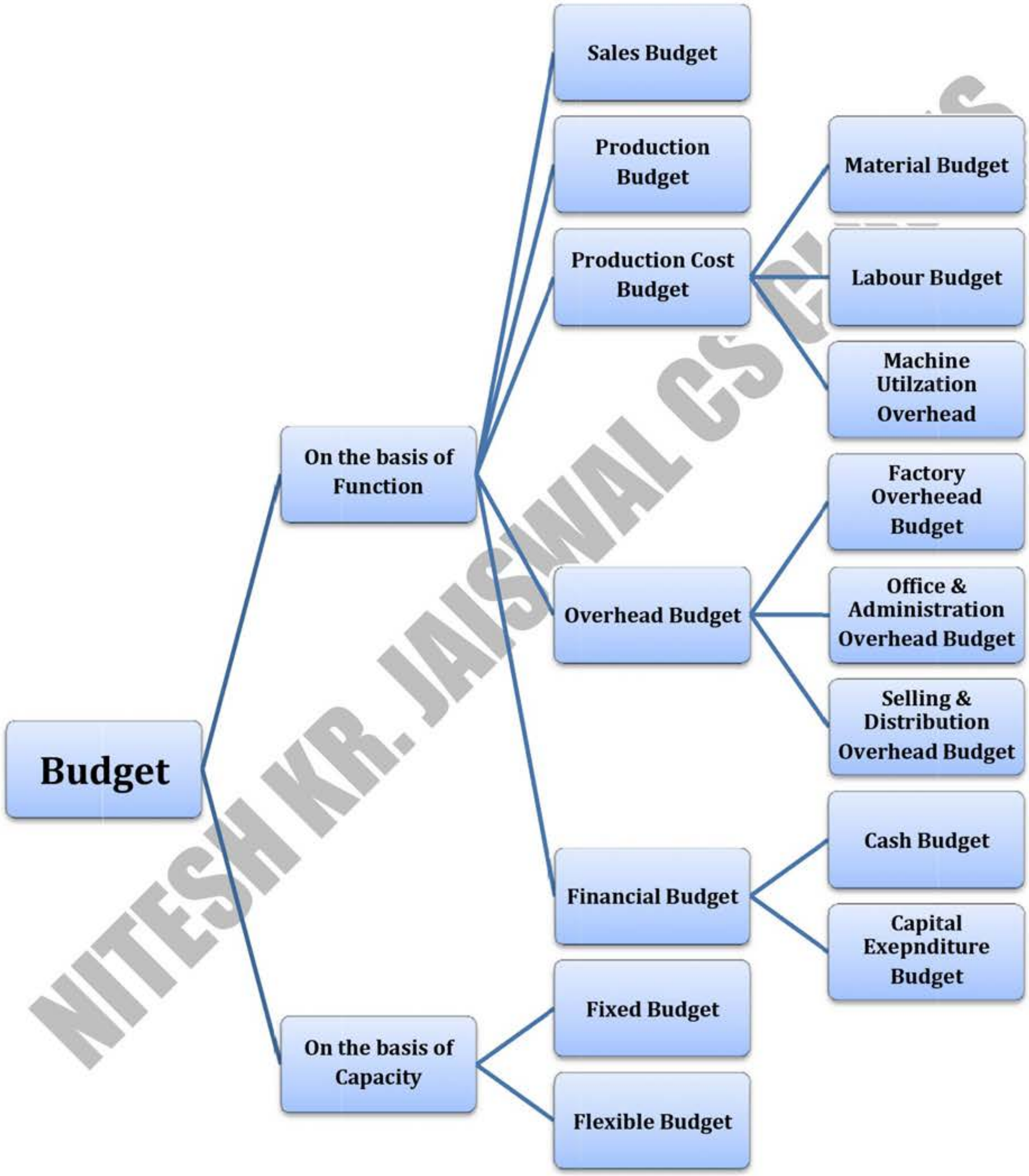
TYPES OF BUDGET



FIXED AND FLEXIBLE BUDGETS:

- ✓ A fixed budget is a budget designed to remain unchanged irrespective of the level of activity attained. It is designed for a specific planned output and is not adjusted to the level of activity attained at the time of comparisons between the budgeted and actual costs.
- ✓ A flexible budget is a budget designed to change in sympathy with the level of activity actually attained. It is prepared in a manner so as to give different budgeted costs for different level of activity attained.

Point of Distinction	*Fixed Budget*	*Flexible Budget*
1. Flexibility	It is inflexible and does not change with the actual volume of output achieved.	It is flexible and can be suitably recasted quickly according to the level of activity attained.
2. Condition	It assumes that conditions would remain static.	It is designed to change according to changed conditions.
3. Classification of costs	Costs are not classified according to their variability *i.e.* fixed, variable and semi- variable	Costs are classified according to the nature of their variability.
4. Comparison	Comparison of actual and budgeted performance cannot be done correctly if the volume of output differs.	Comparisons are realistic as the changed plan figures are placed against actual ones.
5. Forecasting	It is difficult to forecast accurately the results in it.	It clearly shows the impact of various expenses on the operational aspect of the business.

Zero Base Budgeting

- ✓ A company should not only make decisions about the proposed new programmes, but it should also from time to time review the appropriatness of the existing programmes.
- ✓ Zero base budgeting is one of the such techniques of such an appraisal.
- ✓ CIMA defines zero-base budgeting as "a method of budgeting whereby all activities are re-evaluated each time a budget is set. Discrete levels of each activity are valued and a combination chosen to match funds available."
- ✓ Zero base budgeting, may be better termed as "De nova budgeting" or budgeting from the beginning without any reference to any base past budget and actual happening.
- ✓ Zero base budgeting as "a method of budgeting whereby all activities are re-evaluated each time a budget is set.

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Performance Budget

- ✓ Performance budgeting involves evaluation of the performance of an organization in the context of both specific as well as overall objectives of the organization.
- ✓ This requires complete clarity about both the short-term as well as long-term organizational objectives.
- ✓ Performance budgeting, is looked upon as a budget based on functions, activities and projects and is linked to the budgetary system based on objective classification of expenditure.

Budget Variance

- ✓ A budget variance is the difference between the budgeted or baseline amount of expense or revenue, and the actual amount.
- ✓ The budget variance is favourable when the actual revenue is higher than the budget or when the actual expense is less than the budgeted expense.
- ✓ Negative variances can be caused by an efficiency problem, utilization problem, or due to unexpected or unavoidable occurrence whereas positive variance can provide insight why you did so well and what processes are working for your business.

NITESH KR. JAISWAL CS CLASES

Practice Question

Q1. Ram Ltd. provides you the following figures for the year 2017.

	Product A	Product B
Sales (in units): Ist Quarter	1,250	1,600
IInd Quarter	2,950	800
IIIrd Quarter	2,700	1,000
IVth Quarter	3,100	600
Selling price per unit	Rs. 24	Rs. 50
Targets for 2018:		
Sales quantity increase (decrease)	(20%)	25%
Selling price increase (decrease)	25%	(20%)

Sales area X, Y and Z respectively produce 10%, 20%, 70% of Product ' A' sales and 70%, 20% and 10% of Product' B 'sales.
Prepare a sales budget for 2018.

Q2.

	Product A	Product B
Sales (in units) as per Sales Budget;		
1st Quarter 2018	1,000	2,000
2nd Quarter 2018	2,360	1,000
3rd Quarter 2018	2,160	1,250
4th Quarter 2018	2,480	750

	Product A	Product B
Stock position as on 1.1.2018:		
Percentage of 1st Quarter 2018 sales	20%	100%
Stock position ending 1st\ 2nd and 3rd Quarter		
Percentage of Next Quarter's sales	50%	50%
Stock position on 31.12.2018	2,200	1,000

Prepare Production Budget for the year 2018.

Q3. Appex Co. can produce 4,000 units of a certain product at 100% capacity. The following information is obtained from the books of account: .

Units produced	April	May
	2,800	3,600
	R s.	Rs.
Power.	1,800	2,000
Repairs & Maintenance	500	560
Indirect labour	700	900
Consumable stores	1,400	1,800
Salaries	1,000	1,000
Inspection	200	240
Depreciation	1,400	1,400

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Direct material cost per unit is Re. 1, and direct wages per hour is Rs.4. The rate of production per hour is 10 units. Compute the cost of production at 100%, 80% and 60% capacity showing the variable, fixed and semi- fixed items under the flexible budget.

Q4. X Ltd. has provided you the following information:

Production capacity	80%	60%
Costs (Rs. Lakhs)		
Direct Materials	2.00	1.50
Direct Labour	2.00	1.50
Direct expenses	1.60	1.20
Manufacturing Expenses	4.00	3.85
Administrative Expenses	4.00	3.80
Selling Expenses	4.00	3.75
Sales	20.00	15.00

Prepare a flexible budget at 50% and 90% capacity.

Q5. For the production of 10,000 electric automatic irons the following are the budgeted expenses

	(Per unit) Rs
Direct Material	60
Direct Labour	30
Variable overhead	25
Fixed overhead (Rs.1,50,000)	15
Variable expenses (direct)	5
Selling expenses (10% fixed)	15
Administration expenses (Rs 50,000 rigid for all levels of production)	5
Distribution expenses (20%) fixed	5
The total cost of sale per unit	160

Prepare a budget for the production of 6,000 and 7,000 and 8,000 irons showing distinctly the marginal cost and the total cost.

Q6. The budget manager of Jaypee Electricals Ltd. is preparing a flexible budget for the accounting year commencing from 1st April, 2017. The company produces on product- a component – peekay. Direct material costs Rs. 7 per unit. Direct labour averages Rs. 2.50 per hour and requires 1.60 hours to produce one unit of peekay. Salesmen are paid a commission of Re. 1 per unit sold. Fixed-selling and administration expenses amount to Rs. 85,000 per year. Manufacturing overheads under specified condition of volume have been estimated as follows:

Normal capacity of production of the company is 1,25,000 units. Prepare a budget of total cost at 1,40,000 units of output.

Volume of production (Units)	1,20,000	1,50,000
Expenses:	Rs	R s
Indirect material	2,64,000	3,30,000
Indirect labour	1,50,000	1,87,500
Inspection	90,000	1,12500
Maintenance	84,000	1,02,000
Supervision	1,98,000	2,34,000
Depreciation - plant and equipment	90,000	90,000
Engineering services	94,000	94,000
Total manufacturing overheads	9,70,000	11,50,000

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Q7. Activity ratio of the company is 80% and its capacity ratio is 120%. Find out its efficiency ratio.

Solution:

Activity ratio = capacity ratio x Efficiency ratio

80 = 120 x efficiency ratio

Efficiency ratio = 80 /120

= 66.67%

Q8. The Sales Director of a manufacturing Company reports that next year he expects to Sell 50,000 units of a particular product:

The Production Manager consults the storekeeper and casts his figures as follows:

Two kinds of raw materials A and B are required for manufacturing the products.

Each unit of the product requires 2 units of A and 3 units of B.

The estimated opening balances at the commencement of the next year:

Finished Products:	10,000 units
Material A	12,000 units
Material B	15,000 units

The desirable closing balances at the end of the next year are:

Finished Products:	14,000 units
Material A	13,000 units
Material B	16,000 units

Draw up a quantitative chart showing materials purchase budget for the next year.

Q9. With the following data for a 600% activity, prepare a budget at 80% and 100% activity:

Production at 60% capacity -	600 units
Materials	Rs. 100 per unit
Labour	Rs. 40 per unit
Expenses	Rs. 10 per unit
Factory expenses	Rs. 40,000 (40% fixed)
Administration expenses	Rs. 30,000 (60% fixed)

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MCQ FOR PRACTICE

Q.1 Units produced – 10,000
Administration cost (Fixed) – Rs 5,00,000
Calculate Administration Cost for 6,000 units and 12,000 units.
(a) Rs 3,00,000; Rs 6,00,000
(b) Rs 5,00,000; Rs 500,000
(c) Rs 3,00,000; Rs 3,00,000
(d) None of the above

Q.2 Unit produced – 5,000
Direct material cost – Rs 2,50,000
Calculate Direct Material cost of 10,000 units
(a) Rs 5,00,000
(b) Rs 3,25,000
(c) Rs 2,00,000
(d) Rs 3,50,000

Q.3 Units produced – 10,000
Selling expenses (Fixed) – Rs 20 per unit
Calculate Selling Cost for 8,000 units and 12,000 units.
(a) Rs 2,40,000; Rs 3,60,000
(b) Rs 3,00,000; Rs 3,60,000
(c) Rs 2,00,000; Rs 2,00,000
(d) None of the above

Q.4 Unit produced – 1,00,000
Inspection cost – Rs 5,00,000 (80% Variable)
Calculate Inspection cost of 2,00,000 units
(a) Rs 9,00,000
(b) Rs 8,00,000
(c) Rs 10,00,000
(d) None of the above

Q.5 Unit produced – 1,00,000
Selling expenses per unit (20% Fixed) – Rs 10
Calculate total selling expenses at 8,000 units
(a) Rs 3,00,000
(b) Rs 80,000
(c) Rs 2,64,000
(d) None of the above

Q.6 Unit produced – 1,00,000
Selling expenses per unit (20% Fixed) – Rs 10
Calculate total selling expenses at 12,000 units
(a) Rs 3,00,000 (b) Rs 80,000 (c) Rs 2,64,000 (d) Rs 2,96,000

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Use the Following information for Questions 7 to 13

The following information is obtained from the records of a manufacturing company for a budgeted production of 10,000 units per annum:

	Rs (Per unit)
Direct material	120.00
Direct labour	60.00
Variable overheads	50.00
Fixed overheads (Rs 3,00,000)	30.00
Variable expenses (Direct)	10.00
Selling expenses (10% fixed)	30.00
Administrative expenses (Rs 1,00,000 – rigid for all levels of production)	10.00
Distribution expenses (20% Fixed)	10.00
Total cost of sales (per unit)	320.00

You are required to prepare budget for production levels of 6,000; 7,000 and 8,000 units respectively, showing distinctly marginal cost and total cost.

Q.7 What is the amount of variable overheads at 6,000 units
(a) Rs 4,00,000 (b) Rs 3,00,000 (c) Rs 2,00,000 (d) None of the above

Q.8 What is the amount of administrative expenses at 8,000 units
(a) Rs 1,00,000 (b) Rs 80,000 (c) Rs 2,00,000 (d) None of the above

Q.9 Calculate distribution expenses at 8,000 units
(a) Rs 64,000 (b) Rs 20,000 (c) Rs 84,000 (d) None of these

Q.10 Calculate fixed selling expenses at 7,000 units
(a) Rs 30,000 (b) Rs 60,000 (c) Rs 90,000 (d) None of these

Q.11 Calculate total marginal cost at 6,000 units
(a) Rs 16,00,000 (b) Rs 17,00,000
(c) Rs 18,00,000 (d) Rs 16,50,000

Q.12 Calculate total fixed cost at 7,000 units
(a) Rs 4,50,000 (b) Rs 5,00,000
(c) Rs 6,00,000 (d) None of the above

Q.13 calculate total cost at 8,000 units
(a) Rs 26,55,000 (b) Rs 26,50,000
(c) Rs 30,00,000 (d) None of the above

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Q.14 Cost | 6,000 units (Rs) | 9,000 units (Rs)

Cost	6,000 units (Rs)	9,000 units (Rs)
Salaries	28,000	28,000

Calculate salaries cost at 7,000 units and 8,000 units

(a) Rs 25,000; Rs 28,000 (b) Rs 28,000; Rs 28,000
(c) Rs 30,000; Rs 25,000 (d) None of the above

Q.15

Cost	6,000 units (Rs)	9,000 units (Rs)
Indirect Material	42,000	63,000

Calculate indirect material cost at 7,000 units and 8,000 units

(a) Rs 42,000; Rs 42,000 (b) Rs 42,000; Rs 63,000
(c) Rs 49,000; Rs 56,000 (d) None of the above

Q.16 The cost per unit of a product manufactured in a factory amounts to Rs 160 (75% variable) when the production is 10,000 units. When Production increases by 25% the cost of production will be Rs _______ per unit.

(a) Rs 145 (b) Rs 152 (c) Rs 150 (d) Rs 140

Q.17 Cost maintenance of an equipment for 12,000 hours of running is Rs 1,70,000 and for 18,500 hours of running. It is Rs 2,09,000. The cost of maintenance for 14,000 hours will be –

(a) Rs 1,81,500 (b) Rs 1,80,000 (c) Rs 1,82,000 (d) Rs 1,90,000

Q.18 The monthly cost of maintenance of machinery for 12,000 machine hours run is Rs 1,70,000 and for 18,500 hours it is Rs 2,02,500. The cost of maintenance for 14,000 hours is Rs _______

(a) 2,00,000 (b) 1,90,000 (c) 1,80,000 (d) 1,85,000

Q.19 Following information is related to Product- A:
In 2015, variable cost was Rs 200 per unit and fixed cost Rs 40 per unit. Production was 1,20,000 units. It is expected that production in 2016 will increase to 1,60,000 units. The variable cost will increase by 25% and fixed cost by 10% in 2016.
The amount of fixed cost in 2016 will be –

(a) Rs 52,80,000 (b) Rs 70,04,000 (c) Rs 64,00,000 (d) Rs 48,00,000

Q.20 PQR Ltd. has prepared the budget for the production of one lakh units of the only commodity manufactured by them for a costing period as follows:

Cost elements	Rs. (in Lakh)
Raw material	252
Direct Labour	75
Direct expenses	10
Works overheads (60% fixed)	225
Administration overheads (80% fixed)	40
Selling overheads (50% Fixed)	20

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If the actual production during the period was 60,000 units, the revised budget cost per unit will be –

(a) Rs 740 (b) Rs 800 (c) Rs 700 (d) Rs 840

Q.21 The budget system designed to change in relation to level of activity actually attained is known as –

(a) Fixed budgeting (b) Flexible budgeting

(c) performance budgeting (d) functional budgeting

Q.22 Flexible budget recognise the difference between fixed, variable and ________ costs.

(a) Actual cost (b) Budgeted cost

(c) Semi Variable cost (d) None of the above

Q.23 ____is a budget designed to furnish budgeted costs for any level of activity actually attained.

(a) Master budget (b) Fixed budget

(c) Current budget (d) Flexible budget

Q.24 A budget designed to remain unchanged irrespective of the level of activity actually attained is called

(a) Master budget (b) Fixed budget

(c) Current budget (d) Flexible budget

Q.25 A flexible budget is a budget which is designed to change in relation to the level of activity –

(a) Budgeted (b) Attained (c) Non budgeted (d)Forecasted

Q.26 Fixed cost per unit increase when –

(a) Production volume decreases (b) Production volume increases

(c) Variable cost per unit decreases (d) None of the above

Q.27 Variable cost per unit does not remain ________

(a) Fixed (b) Variable (c) Both (a) and (b) (d) None of the above

Q.28 Variable cost goes on changing with the ________ level.

(a) Normal level (b) Abnormal level

(c) Production level (d) None of the above

Q.29 A flexible budget recognize the behavior of ______ and ________.

(a) Variable cost and Fixed cost (b) Variable cost and Semi variable cost

(c) Fixed cost and semi fixed cost (d) None of the above

Q.30 To produce one unit of 'A' , two ingredients, i.e., 2 Kg of X and 3 Kg of Y are required :

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Stick Levels	Opening	Closing
A (Units)	5,000	8,000
X (Kg)	11,000	14,000
Y (Kg)	18,000	21,000

What will be the quantity of consumption of ingredients X and Y, if 20,000 units of A are sold

(a) 46,000 Kg and 69,000 kg
(b) 49,000 Kg and 72,000 Kg
(c) 40,000 Kg and 60,000 Kg
(d) 43,000 Kg and 63,000 Kg

Use the Following information for Questions 31 to 37

The following are the estimates sales of a company for eight months ending 30.11.2017:

Months	Estimated Sales (units)
Apr 2017	12,000
June 2017	13,000
May 2017	9,000
July 2017	8,000
Aug 2017	10,000
Sep 2017	12,000
Oct 2017	14,000
Nov 2017	12,000

As a matter of policy, the company maintains the closing balance of finished goods and raw materials as follows:

Stock item	Closing balance of a month
Finished Goods	50% of the estimated sales for the next months
Raw Materials	Estimated consumption fur the next month.

Every unit of production requires 2 kg. of raw materials costing Rs. 5 per kg. Prepare Production Budget (in units) and Raw Materials Purchase Budget (in units and cost) of the company for the half year ending 30 Sep, 2017.

Q31. What is expected production for the month of may?

(A) 13,000
(B) 10,000
(C) 11,000
(D) None of the above

Q32. What is expected production for the month of June?

(A) 8500
(B) 10,000
(C) 11,000
(D) None of the above

Q33. What is expected production for the month of Sept?

(A) 13,000
(B) 10,000
(C) 11,000
(D) None of the above

Q34. What is opening stock of finished goods for the month of April?

(A) 6,000
(B) 5,000
(C) 7,000
(D) None of the above

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Q35. How much raw material required to be purchased for the month of may?

(A) 18,000 (B) 17,000

(C) 20,000 (D) None of the above

Q36. How much raw material required to be purchased for the month of August?

(A) 22,000 (B) 26000

(C) 19,000 (D) None of the above

Q37. How much raw material required to be purchased for the month of July?

(A) 26,000 (B) 22,000

(C) 17,000 (D) None of the above

Q.38 Crown Ltd. has forecast its sales for the next three month as follows:

April :	12,000 units,
may :	15,000 units,
June :	17,000 units.

Opening stock as on 1st April is expected to be 3500 units. Closing stock should be equal to 20% of the coming month's sales needs. The number of units required to be produced is May is –

(a) 14,600 units (b) 11,500 units (c) 15,400 units (d) 13,600 units

Q.39 ABC Ltd. produces and sells a single product. Sales budget to the calendar year 2015 for each quarter is as under:

No of units to be sold :

Quarter –I	:	12,000
Quarter –II	:	15,000
Quarter –III	:	16,500
Quarter – IV	:	18,000

The year 2015 is expected to open with an inventory of 4,000 units of finished product and close with an inventory of 6,500 units. Production is customarily scheduled to provide for two – thirds of the current quarter's demand plus one –third of the following quarter's demand . Production for Quarter –IV would be –

(a) 13,500 units (b) 15,500 units (c) 17,700 units (d) 18,500 units

Q 40 A company estimates its quarter wise sales (in units) for the next year as under :

Quarter	I	II	III	IV
Sales (units)	30,000	37,500	41,250	45,000

The opening stock of finished goods is 10,000 units and the company expects to maintain the closing stock of finished goods at 16,250 units at the end of the year. The production pattern in each quarter is based on 80% of the sales of the current quarter and 20% of the sales of the next quarter. The production for quarter IV will be –

(a) 36.000 units (b) 42,000 units (c) 48,250 units (d) 38,250 units

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Use the Following information for Questions 41 to 45

Prepare a cash budget for the months of May, June And July 2017 on the basis of following information:

Income & Expenditure Forecast

Month	Credit Sales(Rs.)	Credit Purchase (Rs.)	Wages	Manufacturing Expenses	Office Expenses	Selling Expenses
March	60,000	36,000	9,000	4,000	2,000	4,000
April	62,000	38,000	8,000	3,000	1,500	5,000
May	64,000	33,000	10,000	4,500	2,500	4,500
June	58,000	35,000	8,500	3,500	2,000	3,500
July	56,000	39,000	9,500	4,000	1,000	4,500
Aug	60,000	34,000	8,000	3,000	1,500	4,500

1. Cash balance on 1st May, 2017 is Rs 8,000.
2. Plant costing Rs 16,000 is due for delivery in July, payable 10% on delivery and the balance after 3months.
3. Advance tax of Rs 8,000 each is payable in march and June.
4. Period of credit allowed by suppliers – 2 months and to customers – 1 month.
5. Lag in payment of manufacturing – ½ months.
6. Lag in payment of office and selling expenses – 1 month.

Q41. What is the amount of office expenses payable in the month of June?

(A) Rs 2,500 (B) Rs 2,000
(C) Rs 1,000 (D) None of the above

Q42. What is the amount of selling expenses payable in the month of May?

(A) Rs 3500 (B) Rs 5,000
(C) Rs 4,000 (D) None of the above

Q43. What is the amount of manufacturing expenses payable in the month of may?

(A) Rs 5000 (B) Rs 3750
(C) Rs 4500 (D) None of the above

Q44. What is the amount receivable from debtors in July?

(A) Rs 5000 (B) Rs 3750
(C) Rs 4500 (D) None of the above

Q45. What is the amount payable to creditor in June?

(A) Rs 32000 (B) Rs 36500
(C) Rs 38000 (D) None of the above

Q.46 _________ is a detailed budget of cash receipts and cash expenditure incorporating both revenue and capital items.

(a) Cash budget (b) Capital Expenditure Budget
(c) Sales Budget (d) Overhead Budget

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Q.47 A budget in which a responsibility centre management must justify each planned activity and its budget total cost is called –

(A) Traditional budget (b) Zero based budget

(c) Master budget (d) Functional budget

Q.48 Zero base budgeting overcomes the weakness of ________

(a)Conventional Budgeting (b) Modern Budgeting

(c) Flexible budgeting (d) None of the above

Q.49 Traditional budgeting is accounting oriented whereas zero base budgeting is –

(a) Activity oriented (b) Decision budgeting

(c) Event oriented (d) None of the above

Q50. Budgeted standard hours of a factory are 15,000. The capacity utilization ratio for May, 2016 is 85% and efficiency ratio for the month is 120%. The standard hours for actual production in the month will be –

(a) 12,750 (b) 18,000 (c) 15,300 (d) 17,000

Q.51 Two article A and B are produced in a factory. Their specifications show that 4 units of A or 2 units of B can be produced in one hour. The budgeted production for January, 2015 is 800 units of A and 200 units of B. The actual production for the month was 900 units of A and 180 units of B. Actual labour hours spent were 350. The efficiency ratio for January, 2015 is –

(a) 80% (b) 85% (c) 90% (d) 95%

Q52. Activity ratio of the company is 80% and its capacity ratio is 120%. Find out its efficiency ratio.

(A) 66.67% (B) 150% (C) 96% (D) None of the above

Q53. Activity ratio of the company is 90% and its efficiency ratio is 80%. Find out its capacity ratio.

(A) 72% (B) 112.5% (C) 96% (D) None of the above

Q54. Capacity ratio of the company is 90% and its efficiency ratio is 80%. Find out its Activity ratio.

(A) 72% (B) 75% (C) 90% (D) None of the above

Q.55 Budgeted sales of Product –X for March, 2016 are 25,500 units. At the end of production process, 10% of net production units are scrapped as defective. Opening stock of Product –X for March is budgeted to be 15,000 units and closing stock will be 12,000 units. All stock of finished goods must have successfully passed the quality control check. The production budget of Product – X for March,2016 is –

(a) 25,000 units (b) 25,500 units (c) 25,900 units (d) 20250 units

NITESH KR. JAISWAL CS CLASES

Q.56 __________ determine the priorities of functional budgets.

(a) Budget Key factor (b) Sales factor

(c) Production factor (d) Purchase factor

Q.57 __________ is a document which sets out the responsibilities of the person engaged in the routine of and the forms and records required for budgetary control.

(a) Budget controller (b) Budget manual

(c) Budget key factor (d) None of the above

Q.58 A budget is a statement that is always prepared __________ to a defined period of time.

(a) Prior (b) Subsequent (c) Prior & Subsequent (d) None of these

Q.59 The cost that increase as the volume of activity decreases within the relevant range, is known as –

(a) Average cost per unit (b) Average variable cost per unit

(c) Total fixed cost (d) Total variable cost

Q.60 Form the following, which one is a functional budget –

(a) Master budget (b) fixed budget

(c) Sales budget (d) Current budget

Q.61 The following information is available :

Wages for January : Rs 20,000

Wages for February : Rs 22,000

Delay in payment of wages : ½ month

The amount of wages paid during the month of February is –

(a) Rs 11,000 (b) Rs 22,000 (c) Rs 20,000 (d) Rs 21,000

Q.62 In an organization, cash sales is 25% and credit sales is 75%. Sales is October' 2013 is Rs 12,00,000, November'2013 Rs 14,00,000, December'2013 Rs 16,00,000, January'2014 Rs 6,00,000 and February' 2014 Rs 8,00,000. 60% of credit sales collected in the next month after sales, 30% in the second month and 10% in the third month. No bad debts are anticipated.

The cash collected in the month of February'2014 from debtors is –

(a) Rs 15,00,000 (b) Rs 9,80,000 (c) Rs 7,35,000 (d) Rs 80,000

Q.63 A document which set out the responsibility of the persons engaged in the routine of and the procedures, forums and records required for budgetary control is called –

(a) Budget centre (b) Budget report

(c) Budget controller (d) Budget material

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Q.64 A budget that gives a summary of all the functional budget and budgeted statement of profit and loss is called –

(a) Flexible budget (b) Master Budget

(c) Performance Budget (d) zero base budget

Q.65 Budget which remains unchanged regardless of the actual level of activity is known as

(a) Flexible budget (b) functional Budget

(c) Fixed Budget (d) cash budget

Q.66 Estimated wages for January is Rs 4,000 and for February Rs 4,400. If the delay in payment of wages is ½ month, the amount of wages to be considered in cash budget for the month of February will be –

(a) Rs 4,000 (b) Rs 4,400 (c) Rs 4,600 (d) Rs 4,200

Q.67 Which of the following formula is used to calculate efficiency ratio –

(a) $\frac{\text{Actual hours}}{\text{Budgeted Hours}} * 100$

(b) $\frac{\text{Standard hours for actual production}}{\text{Actual hours}} * 100$

(c) $\frac{\text{Standard hours for actual Production}}{\text{Budgeted hours}} * 100$

(d) $\frac{\text{Actual Hours}}{\text{Standard hours for actual production}} * 100$

Q.68 Which of the following formula is used to calculate Activity ratio –

(a) $\frac{\text{Actual hours}}{\text{Budgeted Hours}} * 100$

(b) $\frac{\text{Standard hours for actual production}}{\text{Actual hours}} * 100$

(c) $\frac{\text{Standard hours for actual Production}}{\text{Budgeted Standard hours}} * 100$

(d) $\frac{\text{Actual Hours}}{\text{Standard hours for actual production}} * 100$

Q.69 Which of the following formula is used to calculate Capacity ratio –

(a) $\frac{\text{Actual hours}}{\text{Budgeted Hours}} * 100$

(b) $\frac{\text{Standard hours for actual production}}{\text{Actual hours}} * 100$

(c) $\frac{\text{Standard hours for actual Production}}{\text{Budgeted hours}} * 100$

(d) $\frac{\text{Actual Hours}}{\text{Standard hours for actual production}} * 100$

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Q.70 The following date relates to two activity levels of production:

	Level –I	Level –II
No of units :	4,000	5,500
Overheads (Rs) :	2,80,000	3,50,000

Variable cost per unit would be :-

(a) Rs 46.67 (b) Rs 133.33 (c) Rs 70 (d) Rs 64

Q.71 The budget which usually takes the form of budgeted profit and loss account and balance sheet is known as :-

(a) Cash budget (b) Master budget (c) Flexible budget (d) Sales Budget

Q.72 Which one of the following would not form part of master budget –

(a) Cash budget (b) Statement of profit and loss

(c) Statement of financial position (d) None of the above

Q.73 The basic difference between a static budget and a flexible budget is –

(a) A static budget is based on one specific level of production and a flexible budget can be prepared for any production level within a relevant range

(b) A static budget is for an entire production, but a flexible budget is applicable only to a single department

(c) Flexible budget allows management latitude in meeting goals, whereas a static budget is based on a fixed standard

(d) flexible budget allows management latitude in meeting goals, whereas a static budget is based on a fixed standard.

Q.74 Statement – I

Segmentation of expenses as fixed and variable helps the management to exercise control over expenditure.

Statement –II

The management can compare the actual variable expenses and take corrective action through variance analysis.

Select the correct answer from the following:-

(a) Both statements are correct

(b) Both statements are incorrect

(c) Statement – I is correct , but Statement – II is incorrect.

(d) Statement – I is incorrect , but Statement – II is correct.

Q. 75 A _____is a booklet specifying the objective of an organization in relation to its spending strategy.

(a) Budgetary control (b) Budget manual

(c) Key factor (d) Budget controller

Q.76 Monsoon is an example of key factor in which of the following industry ?

(a) Motor car (b) Aluminium

(c) Electro - optics (d) hydro power generation

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ANSWERS

Budgetary Costing

1. B	2. A	3. C	4. A
5. C	6. D	7. B	8. A
9. C	10. A	11. D	12. A
13. B	14. B	15. C	16. B
17. C	18. C	19. A	20. A
21. B	22. C	23. D	24. B
25. B	26. A	27. B	28. C
29. A	30. A	31. C	32. A
33. A	34. A	35. B	36. B
37. B	38. C	39. D	40. C
41. A	42. B	43. C	44. C
45. C	46. A	47. B	48. A
49. B	50. C	51. C	52. C
53. B	54. A	55. A	56. A
57. B	58. A	59. A	60. C
61. D	62. C	63. D	64. B
65. A	66. D	67. B	68. C
69. A	70. A	71. B	72. D
73. A	74. A	75. B	76. D

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CHAPTER – 3 MARGINAL COSTING

- ✓ In Marginal costing, costs are classified into fixed and variable costs.
- ✓ The contribution is the difference between the sales volume and the marginal cost of sales.
- ✓ In Marginal costing it is not possible to determine the profit per unit of product because fixed overheads are charged in total to the Profit and Loss Account rather than recovered in product costing.
- ✓ Contribution is a pool of amount from which total fixed costs will be deducted to arrive at the profit or loss.

ABSORPTION COSTING MARGINAL COSTING

Absorption Costing	Marginal Costing
1. Total cost (both fixed and variable) is charged to the cost of products and inventory valuation.	1. Only variable cost is charged to products and inventory valuation.
2. Fixed cost is included in the cost of products.	2. Fixed cost is not included in the cost of products. It is transferred to Costing Profit and Loss Account.
3. Opening and closing stocks are valued at total cost which inducts both fixed and variable costs. Stock values in Absorption costing are, therefore, higher than in Marginal costing.	3. Stocks are valued only at variable costs. Stock values are lower in Marginal costing than in Absorption costing.
4. Profitability is measured by profit earned by various products or departments.	4. Profitability is judged by the contribution made by various products or departments.

Important decision-making areas where MARGINAL COSTING Technique is used

Marginal costing is a technique frequently used for short-term decision-making. The important applications of marginal costing as a tool for decision making are listed below:

a) Key or Limiting factor Analysis

b) Profit planning
c) Selection of profitable product mix
d) Make or buy decisions
e) Introduction of a new product
f) Discontinuance of a product or closure of a department
g) Accept or Reject special offer and sub-contracting
h) Planning of activity level
i) Market expansion
j) Temporary cessation of operations

COST-VOLUME-PROFIT ANALYSIS

- ✓ **COST-VOLUME-PROFIT (CVP) ANALYSIS** is a technique that may used by the management to evaluate how costs and profits are affected by changes in the volume of business activities.
- ✓ A management accountant may be of great help to answer the questions about the consequences of following particular courses of action such as:
  - What would the effect on profits be if the selling price is reduced/or more units are sold?
  - What is the level of sales at which the firm will just break even and will not be earning any profits?
  - What level of sales must be achieved to earn a desired level of profits?
  - What sales level is required to meet additional fixed costs?
  - What is the most profitable sales mix?
  - What will be the effect of offering sales commission to a salesman out of the profit of the firm?

Techniques of CVP Analysis

There are two basic techniques of CVP analysis. These are:
1. The Contribution Margin Analysis, and
2. The Break-Even Analysis.

Contribution Margin Analysis

Contribution Margin (CM) is equal to the sales minus variable costs. This can be stated as:

Contribution Margin = Sales – Variable Cost

This can also be expressed in the form of Contribution Margin Ration as follows:

CM Raito= (Selling Price-Variable Cost) X 100
(Selling Price)

The CM Ratio is also known as Profit – Volume Ratio (PV ratio) or Contribution to Sales Ratio.

THE BREAK EVEN ANALYSIS

- The BE point is the sales level at which the contribution margin is just equal to the fixed cost, and the firm has no profit no loss.
- At the BE sales level, the total costs fixed + variable) are just covered.

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- Any sales level below the BE level will therefore result in loss, and sales level above the BE level will bring profit to the firm. Once the BE sales level has been achieved, the net profit will increase by the unit contribution amount for each unit sold.
- BE sales level may be computed for a product or for group of products or for the entire firm.
- BEP(units) = Fixed Cost/ Contribution Margin per unit.

Margin of Safety

- ✓ The Margin of Safety is the difference between the Actual Sales (or the budgeted sales) and the BE Sales for a given period.
- ✓ So, the margin of safety indicates by how much decrease in the sales would make the incurs loses.
- ✓ The Margin of Safety can be presented as a % of sales or as an amount as follows:
- ✓ Margin of Safety = S.P × (Actual Sales - BE Sales)

  or Margin of Safety= $\frac{\text{(Expected Sales-BE Sales)} \times 100}{\text{(Expected Sales)}}$

Limiting or Key Factor

A limiting or key factor may thus be defined as the factor in the activities of an undertaking which at a particular point in time or over a period limit the volume of output. Examples of limiting factors are :
(i) Sales
(ii) Labour of particular skill
(iii) Financial resources
(iv) Materials
(v) Production capacity or machine hours

Contribution per unit of key factor – In case a key factor is operating, the most profitable position is reached when contribution per unit of key factor is maximum.

Formulas Used in Marginal Costing

1. **Contribution (C)**
C = Sales – Variable cost (S - V)
Or (C) = Fixed cost + Profit (F + P)
Or (C) = Fixed cost – Loss (F - L)

2. **Contribution/Sales ratio or Profit/Volume ratio**
P/V ratio = (Contribution/Sales)* 100
Also P/V ratio = (Changes in contribution or Change in profit)/Change in sales

3. **Break-even point (BEP)**
BEP (in units) = (Total fixed cost)/(Contribuion per unit)
BEP (in units) = (Fixed Cost)/ P/V ratio
BEP = Actual sales – Margin of safety

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4. **Calculation of sales to earn a given profit**
Sales(in units) = (Fixed Cost +Profit)/ P/V ratio

5. Margin of Safety (M/S)

= Actual sales – Break-even point

M/S ratio = (Actual sales-BEP) x 100
(Actual sales)

6. Break-even sales in %

= Actual sales x Break-even point

= 100 – Margin of safety in %

PRACTICE QUESTION

Q1. Rama Ltd. is selling at present, 8,000 units of a product at a selling price of Rs.20 per unit. The variable cost is Rs.10 per unit and the fixed costs are Rs.60,000 per annum. The firm can use the BE equation to answer the questions namely:

i. What is the BE sales level for the firm?

ii. How many units the firm must sell to earn a profit of Rs.40,000.

iii. What will be the profit if the fixed costs are reduced by Rs.10,000 and the variable costs are reduced by 10%.

iv. What selling price will give a profit of Rs.40,000 at the sales of 8,000 units.

v. How much extra sales must be made to meet the extra fixed cost of Rs.5,000.

Q2. There are two firm A Ltd. and B. Ltd. The sales and cost information for these two firms are given below:

	A Ltd.	**B Ltd.**
Sales (Units)	10,000	10,000
Selling Price (per unit)	Rs.20	Rs.20
Variable Cost (per unit)	Rs.15	Rs.10
Fixed Cost	Rs.40,000	Rs.90,000

Analyse the cost information.

Q3. From the following data calculate the break-even point

Direct material per unit	Rs.3
Direct labour per unit	Rs.2
Fixed overhead (total)	Rs.10,000
Variable overhead 100% on direct labour	
Selling price per unit	Rs.10
Trade discount	5%

Also determine the net profits, if sales are 10% above the break-even point.

Q4. Zen Ltd. supplies you the following data :

Direct material cost	Rs.48,000
Direct wages	Rs.22,000
Variable overheads – Factory	Rs.13,000
- Adm. And selling	Rs.2,000
Fixed overheads – Factory	Rs.20,000
- Adm. and selling	Rs.8,000
Sales	Rs.1,25,000

Prepare an income statement under absorption costing and Marginal Costing.

Q5. The following data is given :

		Product A	**Product B**
Direct materials	Rs.	24	14
Direct labour @ Rs.3 per hour	R s.	6	9
Variable overhead @ Rs.4 per hour	R s.	8	12
Selling price	R s.	100	110
Standard time	R s.	2hrs	3hrs

State which product you would recommend to manufacture when :

(a) Labour time is the key factor

(b) Sales value is the key factor

Q6. You are given :

Margin of Safety = Rs10,000 which represent 40% of sales P/V ratio = 50%

Find out :

(a) Break-even sales

(b) Fixed cost

(c) Total sales

(d) Profit

Q7. (a) From the following particulars find out the break-even point.

Variable cost per unit	Rs.15
Fixed cost	Rs 54,000
Selling price unit	Rs.20

(b) What should be the selling price if break-even point is to be brought down to 6,000 units.

Q8. (i) Ascertain profit when sales = Rs.2,00,000 fixed cost = Rs.40,000, Break-even point = Rs.1,60,000

(ii) Ascertain sales, when fixed cost Rs.20,000 profit = Rs.10,000, Break-even point is Rs.40,000

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MCQ FOR PRACTICE

Q.1. Calculate profit volume ratio with the help of following information

Selling price per unit Rs 20

Variable cost per unit Rs 16

(a) 80% (b)20% (c) 50% (d) None of these

Q.2. Calculate variable cost ratio with the help of the following information

Profit volume ratio 0.20

(a) 0.10 (b) 0.80 (c) 0.70 (d) 0.20

Q.3.

Sales Rs 1,00,000

P/V ratio 40%

Calculate contribution

(a) Rs 30,000 (b) Rs 10,000 (c) Rs 40,000 (d) None of the above

Q.4. Selling price per unit Rs 5 per unit

P/V ratio 60%

Calculate variable cost per unit

(a) Rs 2 (b) Rs 3 (c) Rs 5 (d) Rs 6

Q.5. Selling price per unit Rs 100

Variable cost per unit Rs 80

Fixed cost Rs 12,000

Calculate Break even point

(a) 1,000 Units (b) 500 units (c) 600 units (d) None of the above

Q.6. Selling Price Per unit Rs 80

Profit volume ratio 30%

Fixed Cost Rs 300,000

Calculate Break even point (Rs)

(a) Rs 10,00,000 (b) Rs 7,00,000 (c)Rs 8,00,000 (d)Rs 9,00,000

Q.7.

	2018 (Rs.)	2019 (Rs.)
Sales	550,000	6,00,000
Variable Cost	280,000	320,000

Calculate break even point assuming fixed cost to be Rs 50,000

(a) Rs 7,00,000 (b) Rs 250,000 (c) Rs 100,000 (d) None of the above.

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Q.8.

	2018 (Rs.)	2019 (Rs.)
Sales	440,000	5,00,000
Profit	22,000	40,000

Calculate break even point assuming fixed cost to be Rs 1,50,000

(a) Rs 7,00,000 (b) Rs 5,00,000

(c) Rs 10,00,000 (d) Rs 1,00,000

Use the following information for Questions 9 to 13

Selling Price Per Unit Rs 100

Profit Volume ratio 30%

Fixed cost Rs 210,000

Calculate :

Q.9. Calculate Break even point (Units)

(a) 7,000 units (b) 700 units (c) 2,100 units (d) 3,000 units

Q.10. Calculate Break even point (Rs)

(a)Rs 70,000 (b) Rs 7,00,000 (c) Rs 1,00,000 (d) None of the above

Q.11. Calculate Sales units required to earn profit of Rs 30,000

(a) 5,000 units (b) 8,000 units (c)7,000 units (d)11,000 units

Q.12. Calculate Sales units required to incur a loss of Rs 18,000

(a) 7,000 units (b) 7,600 units (c) 6,400 units (d)2,000 units

Q.13. Calculate Sales units required to earn Rs 20 Per unit.

(a) 20,000 units (b) 21,000 units (c) 1,800 units (d) 1,000 units

Q.14. Selling price per unit Rs 1,000

Variable cost ratio Rs 80%

Fixed cost Rs 6,00,000

How many units must be sold to earn a profit of Rs 50 per unit.

(a) 5,000 units (b) 6,000 units (c) 3,000 units (d) 4,000 units

Q.15. Selling price per unit Rs 500

Contribution margin ratio 40%

Fixed cost Rs 2,25,000

How much sales is needed to earn 30% on sales?

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(a) Rs 10,00,000 (b) Rs 15,00,000
(c) Rs 30,00,000 (d) 25,00,00

Use the following information for Questions 16 to 19

Direct material cost per unit (Rs)	8
Direct labour cost per unit (Rs)	5
Fixed overheads (Rs)	24,000
Selling price per unit (Rs)	25
Trade discount (%)	4

Variable overheads @ 60% on direct labour.
If sales are 15% and 20% above the break even volume, determine the net profits

Q.16. Calculate Break even point in units
(a) 3,000 units (b) 5,000 units (c) 7,000 units (d) 9,000 units

Q.17. Calculate net sales value at break even point
(a) Rs 72,000 (b) Rs 75,000 (c) Rs 78,000 (d) Rs 81,000

Q.18. Determine net profit if sales are 15% above break even point
(a) Rs 3,600 (b) Rs 4,800 (c) Rs 3,000 (d) None of these

Q.19. Determine net profit if sales are 20% above break even point
(a) Rs 3,600 (b) Rs 4,800 (c) Rs 3,000 (d) None of the above

Use the Following information for Questions 20 to 21

ABC ltd. sell its product at Rs 15 per unit. In 2017, company produces and sells 8,000 units, and incur loss of Rs 5 per unit. In 2018, sales increased to 20,000 units and earn profit of Rs 4 per unit.

Q.20. Calculate Break even point in unit?
(A) 15,000 units (B) 10,000 units
(C) 12,000 units (D) 18,000 units

Q.21. Calculate Break in Point in Rs.?
(A) Rs 300,000 (B) Rs 200,000
(C) Rs 180,000 (D) Rs 250,000

Q.22. From the following particulars, calculate the selling price per unit, if the break even point is brought down to 10,000 units:

Selling Price Per Unit	Rs 20
Variable Cost Per unit	Rs 16
Fixed Expense	Rs 60,000

(A) Rs 25 (B) Rs 32 (C) Rs 20 (D) Rs 22

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Use the Following information for Questions 23 to 27

Selling Price Per unit	Rs 100
Variable Cost Per Unit	Rs 60
Fixed Cost	Rs 180,000

The Company wants to maintain the present profit.

Present sales 7,500 units

Q.23. Calculate P/V ratio?

(A) 60% (B) 30%

(C) 40% (D) None of the above

Q.24. Calculate Break even point in units?

(A) 1,800 units (B) 3,000 units

(C) 7,500 units (D) 4,500 units

Q.25. Calculate Break Even point in Rs?

(A) 750,000 (B) 450,000

(C) 200,000 (D) None of the above

Q.26. Calculate how many unit must be sold to maintain present profit if there is increase in variable cost by Rs 10

(A) 15,000 units (B) 10,000 units

(C) 12,000 units (D) 18,000 units

Q.27. Calculate how many unit must be sold to maintain present profit if there is increase in sale price by 20%

(A) 5,000 units (B) 10,000 units

(C) 12,000 units (D) 18,000 units

Q.28.

Actual Sales	Rs 600,000
Fixed Cost	Rs 100,000
P/V Ratio	50%

Calculate Margin of safety

(A) Rs 500,000 (B) Rs 400,000

(C) Rs 200,000 (D) Rs 600,000

Q.29.

Actual Sales	20,000 units
Selling Price per unit	Rs 50
Break Even sales	Rs 200,000

Calculate Margin of safety

(A) 80% (B) 20%

(C) 40% (D) 50%

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Q.30. Profit Rs 20,000
P/V Ratio 40%
Calculate Margin of safety
(A) Rs 50,000 (B) Rs 30,000
(C) Rs 20,000 (D) Rs 60,000

Q.31. Margin of Safety Rs 100,000
Selling Price Per unit Rs 10
P/V ratio 60%
Calculate profit
(A) Rs 50,000 (B) Rs 60,000
(C) Rs 70,000 (D) None of the above

Q.32. Margin of safety 30%
Break even sales Rs 30,000
Calculate Margin of safety
(A) Rs 16,587 (B) Rs 15,000
(C) Rs 13,857 (D) Rs 12,857

Use the Following information for Questions 33 to 37

ABC Ltd Produce a product having selling price Rs 100 each per share. The variable cost of the product is Rs 60 per unit and fixed overhead amounting to Rs 120,000

Q.33. Calculate P/V ratio?
(A) 60% (B) 30%
(C) 40% (D) None of the above

Q.34. Calculate Break even point in units?
(A) 1,800 units (B) 3,000 units
(C) 7,500 units (D) 4,500 units

Q.35. Calculate Break Even point in Rs?
(A) 750,000 (B) 450,000
(C) 300,000 (D) None of the above

Q.36.Calculate how many units must be sold to earn profit of Rs 80,000
(A) 10,000 units (B) 5,000 units
(C) 12,000 units (D) 8,000 units

Q37. Calculate Margin of Safety at above point
(A) Rs 300,000 (B) Rs 500,000
(C) Rs 200,000 (D) None of the above

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Q.38. When margin of safety is 20% and P/V ratio is 60% , the profit will be –

(a) 30% (b) 33 1/3 % (c) 12% (d) None of the above

Q39.

	Machine A	Machine B
Variable Cost per unit	Rs 10	Rs 5
Fixed Cost	Rs 20,000	Rs 30,000

Calculate how many units must be produced to be indifferent between both machines.

(A) 2,000 units (B) 3,000 units

(C) 4,000 units (D) 1,000 units

Q.40.Which product is most profitable to produce if raw material is key factor

	Product X	Product Y	Product Z
Selling Price Per Unit	Rs 100	Rs 70	Rs 50
Variable Cost per Unit	Rs 70	Rs 50	Rs 20
Raw Material used per unit	5 Kg	3 Kg	2Kg

(A) Product X (B) Product Y

(C) Product Z (D) None of the above

Q.41. Which product is most profitable to produce if Labour hour is key factor

	Product X	Product Y	Product Z
Selling Price Per Unit	Rs 100	Rs 70	Rs 50
Variable Cost per Unit	Rs 70	Rs 50	Rs 20
Labour hour per unit	10 hrs	5 hrs	3 hrs

(A) Product X (B) Product Y

(C) Product Z (D) None of the above

Q.42. Which product is most profitable to produce if Machine hour is key factor

	Product X	Product Y	Product Z
Selling Price Per Unit	Rs 100	Rs 70	Rs 50
Variable Cost per Unit	Rs 70	Rs 50	Rs 20
Machine hour used per unit	8 hrs	5 hrs	2 hrs

(A) Product X (B) Product Y

(C) Product Z (D) None of the above

Q.43. Which product is most profitable to produce if unit sold is key factor (i.e. limited number of unit can be sold)

	Product X	Product Y	Product Z
Selling Price Per Unit	Rs 100	Rs 70	Rs 50
Variable Cost per Unit	Rs 70	Rs 50	Rs 20
Raw Material used per unit	5 kg	3kg	2 kg
Labour Hours per unit	10 hrs	5 hrs	3 hrs

(A) Product X (B) Product Y

(C) Product Z (D) None of the above

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Q,44. Which product is most profitable to produce if sale value in rupee is key factor

	Product X	Product Y	Product Z
Selling Price Per Unit	Rs 100	Rs 70	Rs 50
Variable Cost per Unit	Rs 70	Rs 50	Rs 20
Raw Material used per unit	5 kg	3kg	2 kg
Labour Hours per unit	10 hrs	5 hrs	3 hrs

(A) Product X (B) Product Y
(C) Product Z (D) None of the above

Use the Following information for Questions 45 to 47

Fashion Bright Ltd is producing three product A, B and C. The data for the three product is given below:

	Product A	Product B	Product C
Selling Price Per Unit	Rs 100	Rs 50	Rs 60
Direct Material @ Rs 10 per kg	Rs 40	Rs 10	Rs 30
Other Variable Cost per Unit	Rs 36	Rs 25	Rs 10
Fixed Cost	Rs 20,000	Rs 15,000	Rs 10,000
Maximum Capacity	5,000 unit	2,000 unit	3,000 unit

Q.45. Calculate the best product mix if raw material limited to 18,000 kg
(A) A- 1750; B- 2000; C- 3000
(B) A- 3000; B- 2000; C- 3000
(C) A- 2000; B- 3000; C- 1750
(D) A- 3000; B- 2000; C- 1000

Q46. Calculate the best product mix if total production is limited to 7500 units
(A) A- 5000; B- 2500; C- Nil
(B) A- 5000; B- 1000; C- 1500
(C) A- 4000; B- 2500; C- 1000
(D) A- 5000; B- Nil; C- 2500

Q47. Calculate the best product mix if total sales value of three product cannot be exceeded Rs 650,000.
(A) A- 4000; B- 1500; C- 3700
(B) A- 3700; B- 2000; C- 3000
(C) A- 3000; B- 3700; C- 2000
(D) A- 3000; B- 2000; C- 3700

Q48. Following data is given for Gopal Ltd. which produce and sells three product X, Y and Z

Product	Unit Sold	Selling price per unit	Marginal Cost per unit
X	1000	Rs 100	Rs 60
Y	500	Rs 120	Rs 90
Z	800	Rs 50	Rs 25

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Overall P/V Ratio of the company will be:

(A) 42.5% (B) 37.5%

(C) 42.8% (D) 46.7%

Q49. A company producing three product X, Y and Z has the sales mix in the ratio of 2:1:3. The Profit volume ratio of the product of X, Y and Z are 15%, 30% and 20% respectively. The total fixed cost of the company is Rs 350,000. The overall break even point of the company will be:

(A) Rs 1750,000 (B) Rs 11,66,667

(C) Rs 16,15,390 (D) Rs 23,33,333

Q. 50 When the volume is 3,000 units , the average cost is Rs 4 per unit. When the volume is 4,000 units, the average cost is Rs. 3.50 unit. The break – even point is 5,000 units. What is the P/V ratio of the firm –

(a) 35% (b) 37.5% (c) 40% (d) 32.5%

Q.51 Cost – volume – profit analysis is based on several assumptions.
Which of the following is not one of those assumptions ----?

(a) The sales mix of the product is constant

(b) Inventory quantities change during the year

(c) The behavior of both revenue and cost is linear throughout the relevant range

(d) Factor prices, e.g. material prices and wage rates remain unchanged.

Q.52 Cost – volume – profit (CPV) analysis is based on several assumptions. Which one of the following is not relevant for such an analysis ------

(a) Inventory quantity changes in the year

(b) Sales mix of the products is constant

(c) Material price and labour rates do not change

(D) Behaviour of both sales and variable cost is linear throughout the year.

Q.53 Cost – Volume – Profit analysis is based on several assumptions. Which one of the following is not one of the assumptions ----

(a) Sales mix of the product is constant

(b) The behavior of both sales and variable cost is linear throughout the relevant range

(c) Variable cost per unit will remain constant

(d) Productivity and operational efficiency will change according to output.

Q.54 In a break – even chart, which of the following pair of lines make the angle of incidence –

(a) Sales line and variable cost line (b) Sales line and total cost line

(c) Sales line and fixed cost line (d) Fixed cost line and total cost line

Q.55 *Statement- I :*

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At the time of replacement of plant, according to marginal cost technique , the proposal which yields lowest contribution is to be selected.

Statement – II :

According to total cost technique, the proposal which involves the highest costs is to be selected.

Select the correct answer from the following ---

(a) Both statements are correct

(b) Both statement are incorrect

(c) Statement – I is correct, but Statement – II is incorrect

(d) Statement – I is incorrect, but Statement – II is correct

Q.56 Z Ltd. recorded sales of Rs 60 lakh in 2014 as compared to Rs 45 lakh in 2013. Profit for 2014 was Rs 5 lakh higher than that in 2013. If the annual fixed costs amount to Rs. 12 lakh, the profit on projected sales of Rs. 90 lakh will be ---

(a) Rs 15 lakh (b) Rs 14 lakh (c) Rs 12 lakh (d) Rs 18 lakh

Q.57 When the sales increase from Rs 45,000 to Rs 60,000, the profit increase by Rs 5,000. P/V ratio would be –

(a) 205 (b) 30% (c) 33,33 % (d) 66.67 %

Q.58 A company has annual fixed cost of Rs 1,68,000. In the year 2013-14 sales amounted to Rs 6,00,000 as compared to Rs 4,50,000 in the preceding year 2012-13 the profit in the year 2013-14 was Rs 42,000 more than that in year 2012-13 the break even sales of the company is ---

(a) Rs 6,00,000 (b) Rs 6,20,000 (c) Rs 5,60,000 (d) Rs 4,08,000

Q.59 A product is sold at Rs 1.50 per unit its variable cost is Rs. 70 per unit. The fixed expenses of the business are Rs 8,000 per year. Break – even (in units) is –

(a) 200 units (b) 50 units (c) 115 units (d) 100 units

Q.60 Selling price of a product is Rs 550 per unit variable cost Rs 50 per unit and fixed cost Rs 10,000. The number of units required to be sold to earn a profit of Rs 10,000 will be ----

(a) 400 (b) 40 (c) 36 (d) 220

Q.61 Sunny Ltd. makes product – A which sells at Rs 80 per unit. Total fixed costs are Rs 28,000 and marginal cost Rs 42 per unit. The sales level (in units) that will provide a profit of Rs 10,000 is ---

(a) 1200 units (b) 1500 units (c) 1250 units (d) 1000 units

Q.62 The sales and profit during the two periods were as follows :

	Sales (Rs)	Profit (Rs)
Period – I	20,00,000	2,00,000
Period – II	30,00,000	4,00,000

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Sales required to earn a profit of Rs 5,00,000 is –

(a) Rs30 lakh (b) Rs 40 lakh (c) Rs 35 lakh (d) Rs 28 lakh

Q.63 A company sells its product at Rs 15 per unit. In a period, it produces and sells 8,000 units and incurs a loss of Rs 5 per unit . If the sales volume were to be raised to 20,000 units, it could earn a profit of Rs 4 per unit. Breakeven point (in units) will be ---

(a) 24,000 units (b) 12,000 units

(c) 16,000 units (d) 30,000 units

Q.64 The following data is obtained from the records of Mayur Ltd. :

	First year (Rs)	Second Year (Rs)
Sales	80,000	90,000
Profit	10,000	14,000

Break – even point in rupees is ---

(a) Rs 45,000 (b) Rs 52,000 (c) Rs 55,000 (d) Rs 55,500

Q.65 The following information is given about Zac limited dealing in musical instruments:

P/V ratio	50%
Margin of Safety	40%

If the sales volume is Rs 50,000 the net profit will be –

(a) Rs 15,00,000 (b) Rs 10,00,000 (c) Rs 20,00,000 (d) Rs 5,00,000

Q.66 Which of the following formula cannot be used for calculating P/V ratio –

(a) (Sales value *minus* variable cost)/ Sales value

(b) (Fixed cost *plus* profit) / Sales value

(c) Change in profits/ Change in Sales

(d) Profit/ Sales value

Q. 67 A product is sold at a price of Rs 120 per unit and its variable cost is Rs 80 per unit. The fixed expenses of the business are Rs 8,000 per year . Break – even point is –

(a) Rs 24,000 (b) Rs 20,000 (c) Rs 16,000 (d) Rs 28,000

Q.68 Which of the following formula cannot be used for calculating contribution –

(a) Fixed cost *plus* Profit (b) Fixed cost *minus* loss

(c) Sales *minus* variable cost (d) Fixed cost *plus* loss

Q.69 A company sells its product at Rs 15 per unit. In a period , if it produces and sells 8,000 units, it Incurs a loss of Rs 5 per unit. If the volume is raised to 20,000 units, it earns a profit of Rs 4 per unit. The break – even point of the company is rupee terms will be –

(a) Rs 1,60,000 (b) Rs 2,00,000 (c) Rs 1,80,000 (d) 2,20,000

Q.70 Assertion (A) :

Profit volume ratio is considered to be the best indicator of the profitability of the business.

Reason (R) :

If profit volume ratio is improved, it will result in better profits.

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Select the correct answer from the options given below –
(a) Both A and R are true and R is the correct explanation of A.
(b) Both A and R are true and R is not the correct explanation of A.
(c) A is true, but R is false
(d) A is false , but R is true.

Q.71 Statement -I :
Margin of safety represents the difference between sales at break – even point and total sales.
Statement –II :
Margin of safety can be expressed as a percentage of total sales or in value or in terms of quantity
Select the correct answer from the options given below –
(a) Both statements are correct
(b) Both statements are incorrect
(c) Statement – I is correct , but Statement – II is incorrect.
(d) Statement – I is incorrect , but Statement – II is correct.

Q.72 Statement -I :
The contribution concept is based on the theory that the fixed expenses of a business is not a joint cost.
Statement –II :
Fixed expenses can be equitably apportioned to different segment of business.
Select the correct answer from the options given below –
(a) Both statements are correct
(b) Both statements are incorrect
(c) Statement – I is correct , but Statement – II is incorrect.
(d) Statement – I is incorrect , but Statement – II is correct.

Q.73 Match the following :

List –I	List –II
P. Excess of actual sales over breakeven sales volume	1. Contribution
Q. Sum of fixed cost and profit	2. Cost-Volume profit analysis
R. Break-even analysis	3. No profit , no loss
S. Break-even point	4. Margin of safety

Select the correct answer from the options given below –

	P	Q	R	S
(a)	4	1	2	3
(b)	4	3	2	1
(c)	4	3	1	2
(d)	3	1	4	2

Q.74 Margin of safety is Rs 8,000 which represents 40% of sales P/V ratio is 50%. Fixed cost will be .
(a) Rs 6,000 (b) Rs 5,500 (c) Rs 6,500 (d) Rs 7,000

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Q.75 Match the following :

List –I	List –II
P. Marginal cost	1. ________= contribution /Sales
Q. P/V ratio	2. Contribution = Selling price - ______
R. Profit	3. ___= Sales *(1-P/V ratio)
S. Variable cost	4. Margin of safety = ___ / (P/V ratio)

Select the correct answer from the options given below –

	P	Q	R	S
(a)	4	3	2	1
(b)	3	1	4	2
(c)	2	1	4	3
(d)	2	3	4	1

Q. 76 Aman Ltd. Sells its product at Rs 16 per unit. In a period, If it produces and sells 20,000 units, it incurs a loss of Rs 2 per unit, If the volume is doubles, it earns a profit of Rs 2.20 per unit. The amount of fixed cost and breakeven point (in units) will be –

(a0 Rs 1,68,000 and 26,250 units (b) Rs 8,000 and 53,333 units
(c) Rs 1,60,000 and 25,000 units (d) Rs 1,70,0000 and 42,500 units

Q.77 The fixed expenses are Rs 4,000 and break – even point is Rs 10,000. New breakeven point, if selling price is reduced by 20% is –

(a) Rs 14,000 (b) Rs 15,000 (c) Rs 16,000 (d) Rs 17,000

Q.78 Margin of safety can be calculated using the formula

(a) Total sales – Break even sales (b) Fixed cost – P/V ratio
(c) P/V ratio – profit (d) Fixed cost – Contribution

Q.79 Profit – Volume ratio can be improved by –

(a) Increasing selling price per unit
(b) Reducing the direct and variable costs
(c) Switching the production to products showing higher profit – volume ratio
(d) All of the above

Q.80 What is the margin of safety, if profit is equal to Rs 40,000 and P/V ratio is 25% -

(a) Rs 1,60,000 (b) Rs 1,00,000 (c) Rs 16,000 (d) Rs 10,000

Q.81 For a given product , selling price per unit is Rs 15, variable cost per unit is Rs 10, the total fixed cost is Rs 1,50,000 and units sold during the period are 35,000. The margin of safety is –

(a) Rs 25,000 (b) Rs 75,000 (c) Rs 15,000 (d) Rs 35,000

Q.82 A company which has a margin of safety of Rs 4,00,000 makes a profit of Rs 1,00,000. It its fixed cost is Rs 5,00,0000. Then break- even sales is –

(a) Rs 20 lakh (b) Rs 25 lakh (c) Rs 12.5 lakh (d) 15 lakh

Q.83 A break –even point, the contribution will be equal to ________
(a)Variables costs (b) Fixed costs (c) Sales (d) profit

Q.84 The break- even point __________ when selling price is increased.
(a) Increases (b) Decreases (c) do not change (d) None of the above

Q.85 Contribution earned after reaching break – even point is _____ of the firm .
(a)Loss (b) Fixed cost (c) Profit (d) None of the above

Q.86 Excess budgeted revenues over the break – even revenue is called _______.
(a) Desired revenue (b) Fixed Costs (c) Variable costs (d) Margin of safety

Q.87 Sales minus Break – even sales is called ____________.
(a) Fixed costs (b)Margin of safety (c) Variable costs (d) Desired revenue

Q.88 Which of the following is true at break – even point ?
(a) Total sales revenue = variable cost (b) Profit = Fixed cost
(c) Sales revenue = total cost – Variable cost (d) Contribution = Fixed cost

Q.89 A company maintains a margin of safety of 25% on its current sales and earns a profit of Rs 30 lakh per annum. Company has a profit volume (P/V) ratio of 40%. Its current sales amount to
(a) Rs 200 lakh (b) Rs 300 lakh (c) Rs 325 lakhs (d) None of the above

Q.90 Sales of two consecutive months of a company are Rs 3,80,000 and Rs 4,20,000. The company net profit for these months amounted to Rs 24,000 and 40,000 respectively. There is no change in P/V ratio or fixed costs. The P/V ratio of the company is
(a) 33.33 % (b) 40% (c) 25% (d) None of these

Q.91 Contribution earned after reaching Break Even Point is _______ of the firm.
(a) Loss (b) Profit (c) Fixed cost (d) None of the above

Q.92 Sales for two consecutive months of a company are Rs 3,80,000 and Rs 4,20,000. The company's net profits for these months amounted to Rs 24,000 and Rs 40,000 respectively. There is no change in P/V ratio or fixed costs. The P/V ratio of the company is
(a) 33 ½ % (b) 40% (c) 25% (d) None of the above

Q.93 When P/V ratio is 20% and margin of safety ratio is 30% profit is _______ % of sales.
(a) 60% (b) 6% (c) 600% (d) 0.6%

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Q.94 Selling price of a product is 5 per unit, variable cost is Rs 3 per unit and fixed cost is Rs 10,000. Then B.E. point in units will be :

(a) 10,000 (b) 5,000 (c) 7,500 (d) None of these

Q.95 A company's fixed cost amounts to Rs 120 lakhs p.a and overall P/V ratio is 0.4. The annual sales of the company should be Rs ______ lakhs to have a margin of safety of 25%.

(a) 400 (b) 500 (c) 600 (d) None of the above

Q.96 A company has fixed costs of Rs 6,00,000 per annum. It manufactures a single production which it sells for Rs 200 per units. Its contribution to sales ratio is 40 %. Its break – even in units in

(a) Rs 7,500 (b) Rs 8,000 (c) Rs 3,000 (d) Rs 1,500

Q.97 In two consecutive periods, sales and profit were Rs 1,60,000 and Rs 8,000 respectively in the first period and Rs 1,80,000 and Rs 14,000 respectively during the second period. If there is no change in fixed cost between the two periods, then what would be profit if sales are Rs 2,00,000 ?

(a) Rs 16,000 (b) Rs 18,000 (c) Rs 20,000 (d) Rs 22,000

Q.98 A company makes a single product and incurs fixed costs of Rs 30,000 per annum. Variable cost per unit is Rs 5 and each unit sells for Rs 15. Annual sales demand is 7,000 units. The breakeven point is

(a) 2,000 units (b) 3,000 units (c) 4,000 units (d) 6,000 units

Q. 99 The scarce factor of production is known as –

(a) Linking factor (b) Key factor

(c) Production factor (d) None of the above

Q.100 Product cost under marginal costing include –

(a) Prime cost only (b) Prime cost and fixed overheads

(c) Prime cost and variable overheads (d) Material cost and variable overheads

Q.101 Marginal costing is a ____ of costing.

(a) process (b) Technique (c) Process of technique (d) None of these

Q.102 Marginal costing is a very useful technique to management for –

(a) Cost control (b) Profit planning

(c) Decision making (d) None of the above

Q.103 Which of the following concept is known as cost behavior oriented approach to product costing?

(a) Standard costing (b) Marginal costing

(c) Process costing (d) Absorption costing

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Q.104 The variable cost of a product increase by 10% and the management raise the unit selling price by equal amount. The fixed costs remain unchanged. Then BEP of the firm ______

(a) Increase (b) Decrease (c) Cannot be calculated (d) Unchanged

Q.105 Which of the following costs are treated as product cost of the two machines will be indifferent.

(a) Only direct cost
(b) Only variable production costs
(c) Only material and labour costs
(d) All variable and fixed manufacturing costs

Q.106 Profit in a company can be increased by:

(1) Decreasing the selling price per unit
(2) Increasing the selling price per unit
(3) Decreasing the volume of sales
(4) Increasing the volume of sales
(5) Decreasing the fixed or variable expenses
(6) Increasing the fixed or variable expenses
(7) Giving more weightage for products having higher P/V ratio
(8) Giving less weigthage for product having higher P/V ratio

Select the correct answer form the options given below –

(a) (1), (3), (5) and (7)
(b) (2),(4), (6) and (8)
(c)(2), (4), (5) and (7)
(d) (1), (3), (6) and (8)

Q.107 Assertion (A) :

The business earns a surplus of sales revenue over variable costs, which is called contribution.

Reason (R) :

Once fixed costs are fully recovered such excess contribution is termed as profit.

Select the correct answer from the options given below –

(a) Both A and R are true and R is the correct explanation of A.
(b) Both A and R are true and R is not the correct explanation of A.
(c) A is true, but R is false
(d) A is false , but R is true.

Q.108 Which of the following are advantages of marginal costing

(1) Price decision
(2) True profit
(3) Difficulty to classify
(4) Ignores time value
(5) Break – even analysis
(6) Contribution is not final
(7) Control over expenditure

Select the correct answer form the options given below –

(a) (1), (2), (5) and (7)
(b) (1),(3), (5) and (7)
(c) (3), (4),(6) and (7)
(d) (1), (2), (6) and (7)

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Q.109 If sales revenue at 60% capacity is Rs 4,50,000 sales revenue at 70% capacity on a fall in selling price by 5% would be –

(a) Rs 4,98,750 (b) Rs 7,50,000 (c) Rs 5,25,000 (d) Rs 7,12,000

Q.110 There are two similar plants under the same management. The management desires to merge these two plants. The following particulars are available :

Details	Plant –I	Plant –II
Capacity operation	100%	60%
	Rs (In Lakh)	Rs (In Lakh)
Sales	600	240
Variable costs	440	180
Fixed costs	80	40

The capacity of the merged plant to be operated for the purpose of break – even will be –

(a) 45.14% (b) 48.12% (c) 50.76% (d) 46.16%

Q.111 Under marginal costing, unit product cost would most likely be increased by –

(a) A decrease in the number of units produced

(b) An increase in the number of units produced

(c) An increase in the commission paid to salesman for each unit sold

(d) A decrease in the commission paid to salesman for each unit sold

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ANSWERS

Marginal Costing

1. B	2. B	3. C	4. B
5. C	6. A	7. B	8. B
9. A	10. B	11. B	12. C
13. B	14. B	15. D	16. A
17. C	18. A	19. B	20. C
21. B	22. D	23. C	24. D
25. A	26. B	27. A	28. B
29. A	30. A	31. B	32. D
33. C	34. B	35. C	36. B
37. C	38. C	39. A	40. C
41. C	42. C	43. C	44. C
45. A	46. D	47. D	48. B
49. A	50. C	51. B	52. A
53. D	54. C	55. B	56. D
57. C	58. A	59. D	60. B
61. D	62. C	63. D	64. C
65. B	66. D	67. A	68. D
69. C	70. A	71. A	72. B
73. A	74. A	75. B/C	76.A
77.C	78.A	79.D	80.A
81.B	82.A	83.B	84.A
85.C	86.D	87.B	88.D
89.B	90.B	91.B	92.B
93.B	94.B	95.A	96.A
97.C	98.B	99.B	100.C
101.B	102.D	103.D	104.D
105.B	106.C	107.B	108.A
109.A	110.D	111.C	

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CHAPTER – 4
RATIO ANALYSIS

FINANCIAL STATEMENT ANALY SIS

It is defined as the process of identifying the financial strengths and weaknesses of a firm by adeptly establishing a relationship between the details of the Balance Sheet and the Profit & Loss Account of the enterprises.

OBJECTIVE OF FINANCIAL STATEMENT ANALYSIS

1. To help in preparing budgets and analyse the past results with respect to respect of earnings and
financial position of the enterprise.
2. To make interfirm comparison of two or more firms easy.
3. To study the short-term and long-term solvency of the firm with the help of financial statement analysis.
4. To enable the calculation of present earning capacity as well as future earning capacity of the enterprise.
5. To enable the management to find out the overall as well as department wise department of the firm on the basis of available financial information.
6. To provide reliable information about the available resources of the enterprise.
7. To provide financial information regarding economic resources and obligations of a business enterprise.

USERS OF FINANCIAL STATEMENTS

Following are the users of Financial Statement :

1. Shareholders

Financial Statements act as an important source for the shareholders of the company. They can help in examining efficiency and effectiveness of the management and position, progress and prospects of the company.

2. Lenders

Short-term as well as long-term solvency information is needed by the lenders of the company to accurately assess the position of the business.

Trade creditors are interested in short-term solvency, whereas debenture holders, long-term loan provider are interested in long-term solvency.

3. Management

Financial statements helps the management in acquiring accurate information regarding the progress, position and prospects of business. They help the management in finding out the relationship between the working and progress of the business; and therefore help the management in analyzing the trends in the present and future prospectus of the enterprise.

4. Public

Various groups such as financial analysts, lawyers, trade associations, researchers, financial press, labour unions are interested in the trend analysis, working and growth of a business. With the help of published financial information or statement of the enterprise, these interested groups are able to analyse and interpret, and therefore judge the working and growth of an enterprise.

5. Government

The growth of the economy is associated with the growth of the companies registered in the country. Any fraudulent activity or unscrupulous act affects the industry which perculates the growth of the economy. This can retard the economic growth of the country which would have an adverse effect on our national economy.

6. Labour and Trade Union

In India, workers are entitled to bonus under the payment of bonus act. Thus, the statement of Profit & Loss become greatly important to the workers.

Techniques/Sources of Financial Statement Analysis

- Financial statements are prepared on the basis of
  - a) Recorded facts
  - b) Accounting conventions
  - c) Postulates
  - d) Personal judgements
  - e) Accounting standards and guidance notes

- Following techniques are used for analyzing financial statements.
  - a) Comparative Statements
  - b) Common – Size Statements
  - c) Trend Analysis
  - d) Ratio Analysis
  - e) Fund Flow Analysis
  - f) Cash Flow Analysis

1. Comparative Statements

- Comparison of financial statements requires the comparative study of different items of financial statements of the same firm over two or more accounting periods are known as intra-firm comparison, and comparison with the financial data of another firm is known as inter-firm comparison.

2. Common Size Statement

- In common size financial statements, all items on the statement are expressed as a percentage of the base item.
- Common size statements are useful for seeing how significant the components of the individual items of the statements are.

3. Trend Analysis/ Ratios

- Trend ratios can be defined as index numbers of the movements of the various financial items in the financial statements for a number of periods. It is a statistical device applied to the analysis of financial statements to reveal the trend of the items with the passage of time.
- Trend ratios show the nature and rate of movements in various financial factors.

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4. Fund Flow Analysis

- Fund Flow Statement also referred to as statement of "Source and Application of Funds" presents the movement of funds and helps to understand the changes in the structure of assets, liabilities and equity capital. Whereas, the Balance Sheet provides only a summary of the assets and liabilities at a particular point of time.

5. Cash Flow Analysis

- When it is required to explain to management the sources of cash and its uses during a particular period of time, a statement known as Cash Flow is prepared.
- The statement of cash flow reports the inflows (receipts) and outflows (payments) of cash and its equivalents of an organization during a particular period.

RATIO ANALYSIS

- The relationship between two accounting figures is known as ratio. Ratio analysis is a process of comparison of one figure with another, which helps to make proper analysis about the strengths and weaknesses of the firm's operations.
- The calculation of ratios are a relatively easy and simple task, but the proper analysis and interpretation of the ratios is an important task.
- Ratio analysis is a very powerful analytical tool useful for measuring performance of an organization.

OBJECTIVES OF RATIO ANALYSIS

• To show the firm's relative strengths and weaknesses.
• To help to analyze the past performance of the firm and to make future projections.
• To allow interested parties like shareholders, investors, creditors and the government to analyze and make evaluation of certain aspects of firm's performance.
• To concentrate on inter-relationship among the figures appearing in the financial statements.
• To provide an easy way to compare present performance with the past.
• To depict the areas in which the business is competitively advantageous and disadvantageous.
• To determine the financial condition and performance of the firm.
• To help to make suitable corrective measures when the financial conditions and financial performance are unfavourable to the firm.

ADVANTAGES OF RATIO ANALYSIS

1. Simplifies Financial Statements

Ratio analysis simplifies the comprehension of financial statements. Ratios tell the whole story of
changes in the financial condition of a business.

2. Analyze Past and Forecast Future

It helps to analyze and understand the financial health and trend of a business, indicating past performance and making it possible to forecast the future trends.

3. Decision-Making and Cost Control

It serves as a useful tool in management control process for decision-making and cost control purpose.

4. Summaries Accounting Figures

It makes the accounting figures easy to understand and highlight the inter-relationship between various segments of the business.

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5. Overall Profitability
Different users of accounting information make use of specific ratios to meet or satisfy their requirements. But the management is always interested in overall profitability and efficiency of the business enterprise.

6. Liquidity Position
The short-term creditors are more interested in the liquidity position of a firm in the sense that their money would be repaid on due dates. The ability of the firm to pay short-term obligations can be found by computing liquidity ratios.

7. Long-term Solvency
T his is required by long-term creditors, security analyst and the present and potential shareholders of the company. The help of capital structure ratios kept the above in assessing the financial status of the organization.

LIMITATIONS OF RATIO ANALYSIS

The ratio analysis is not a full-proof method in financial statement analysis. It suffers from a number of limitations.
Some of the important one are :

1. Ratios ignore qualitative factors
Ratios are obtained from the figures expressed in monetary terms. In this way, qualitative factors, which may be important are ignored.

2. Trends are not the actual ratios
The different ratios calculated from the financial statements of a business enterprise for one single year are of limited value. It would be more useful to calculate the important figures in the case of income, dividends, working capital, etc., for a number of years. Such trends are more useful than absolute ratios.

3. Defective accounting information
The ratios are calculated from accounted data in the financial statements. It means if the information is defective then the calculation of ratios would be wrong.

4. Change in accounting procedures
A comparison of result of two firms becomes difficult when we find that the firms are using different procedures related to certain items, such as inventory valuation and treatment of intangible assets.

5. Variations in general operating conditions
While interpreting the results based on ratio analysis, all business enterprises have to work within given general economic conditions, state of the industry in which the firms are operating and the position of the individual companies within the industry. For example, if the firm is forced by the government to sell their products at a fixed price, its comparison with other firms would become impossible.

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MCQ FOR PRACTICE

Q1. Current ratio is also known as
(A) Debt Service ratio (B) Quick Ratio (C) Acid Test Ratio (D) Working Capital Ratio

Q2. Working capital ratio is also known as:
(A) Quick Ratio (B) Debit -equity ratio (C) Current ratio (D) Liquid ratio

Q3. Quick ratio is the indicator of ____________ position of an enterprise.
(A) Long term solvency (B) Liquidity
(C) Financial Position (D) None of the above

Q4. Ideal current ratio is _____
(A)2.5:1 (B) 1:1 (C) 2:1 (D) 1.33:1

Q5. The ideal current ratio preferred by banks is ______
(A) 2.5 :1 (B) 1:1 (C) 2:1 (D) 1.33:1

Q6. Ideal Liquid Ratio is ____________
(A) 2.5:1 (B) 1:1 (C) 2:1 (D) 3:1

Q7. Current Assets Rs 200,000
Liquid assets Rs 140,000
Stock will be
(A) 50,000 (B) 40,000 (C) 60,000 (D) 70,000

Q8. Current Ratio 2.5 :1
Working Capital Rs 60,000
Calculate Current Liabilities and Current Assets.
(A) Rs 1,00,000; Rs 40,000 (B) Rs 40,000; Rs 1,00,000
(C) Rs 1,00,000; Rs 1,00,000 (D) Rs None of the above

Q9. If Stock, Current Assets and Working Capital are Rs 200,000, Rs 800,000 and Rs 400,000 respectively, then liquid ratio will be :
(A) 1:1 (B) 1.50 :1 (C) 1.83:1 (D) 2:1

Q10. If current ratio is 3:1 and Working Capital is Rs 12,00,000, then current liabilities are :
(A) Rs 400,000 (B)Rs 600,000 (C) Rs 800,000 (D) None of the above

Q11. The current ratio of is 2:1, while quick ratio is 1.8:1. If the current liabilities are Rs 40,000, value of Inventory will be-
(A) Rs 12,000 (B) Rs 6,500 (C) Rs 8,000 (D)Rs 10,000

Q12. The current ratio is 2.5, Liquid ratio 1.5, prepaid expenses nil and stock Rs 4,000. The amount of current liabilities is –
(A) Rs 20,000 (B) Rs 40,000 (C) Rs 80,000 (D) Rs 4,000

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Q13. Current ratio is 2.5:1 and Liquid Ratio is 1.5:1, If inventory is Rs 960,000, then the amount of current assets will be:
(A) Rs 9.6 Lakh (B) Rs 14.40 lakh (C) Rs 24 Lakh (D) Rs 38.40 Lakh
Q14. If working Capital is Rs 50,000, Total debt is Rs 92,000 and long-term debt is Rs 70,000, then current ratio will be:
(A)1:1 (B) 1.27:1 (C) 2:1 (D)1.84:1

Q15. Working capital Rs 90,000
Current ratio 2:1
Current liabilities are
(A) 50,000 (B) 40,000 (C) 90,000 (D)None of the above

Q16. Current Ratio 3:1
Quick Ratio 1:1
Stock Rs 200,000
Current liabilities of the firm will be
(A) Rs 3,00,000 (B) Rs 2,00,000 (C) Rs 1,00,000 (D) None of the above

Q17. Current liabilities of a firm are Rs 50,000
Its current ratio is 2:1 and liquid ratio is 1:1. The value of stock will be :
(A) Rs 100,000 (B) Rs 50,000 (C) Rs 25,000 (D) Rs 1,50,000

Q18. Current Assets Rs 7,00,000
Current Liabilities Rs 4,00,000
The company requires working capital finance from bank to augment its operations. As a matter of policy decision, the management has decided that current ratio should not go below 1:5. Calculate the amount of maximum loan which can be availed from the bank.
(A) Rs 2,00,000 (B) Rs 66,667 (C) Rs 3,00,000 (D) None of these

Q19. A current ratio is less than one implies that the working capital is _______
(A) Positive (B) Negative (C) Zero (D) None of the above

Q20. A current ratio of one implies that the working capital is _____
(A) Positive (B) Negative (C) Zero (D) None of the above

Q.21 A current ratio of more than one implies that
(A) Positive (B) Negative (C) Zero (D) None of the above

Q22. A high current ratio may be taken as adverse on account of the following reasons:
(I) The stock might be piling up because of poor sales
(II) The amount might be blocked up in debtors due to stock collection policy
(III) The cash or bank balances might be lying idle because of no proper investment
Correct answer is
(A) Only (I) (B) (I) and (II) (C) (I) , (II) and (III) (D) None of the above
Q23. Capital employed of the company is calculated as under:
(A) Total Assets+ Current liabilities (B) Fixed Assets + Current Liabilities
(C) Total Assets – Current Liabilities (D) Shareholders funds+ Current Liabilities

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Q24. Capital employed of the company is calculated as under:
(A) Shareholders funds + Long term borrowings
(B) Fixed Assets + Current Liabilities
(C) Total Assets – Current Liabilities
(D) Shareholders funds+ Current Liabilities

Q25. Proprietary Ratio (Fixed Assets / Proprietary funds) 0.80
Working capital Rs 1,00,000
Non Current Liabilities Nil
Calculate fixed Assets and Shareholders Funds.
(A) Rs 5,00,000; Rs 4,00,000 (B) Rs 1,00,000 ; Rs 4,00,000
(C) Rs 4,00,000; Rs 100,000 (D) None of the above

Q26. Reserves / Share capital -0.50
Shareholder's Funds Rs 900,000
Calculate Share capital and reserves
(A) Rs 3,75,000; Rs 3,75,000 (B) Rs450,000; Rs 450,000
(C) Rs 6,00,000; Rs 300,000 (D) None of the above

Q27. Fixed assets to capital employed 80%

Inventory	Rs 3,60,000
Trade receivable	Rs 4,00,000
Trade Payable	Rs 1,80,000
Other Current liabilities	Rs 2,00,000

Calculate Fixed Assets
(A) Rs 15,20,000 (B) Rs 19,00,000
(C) Rs 22,80,000 (D) None of the above

Q28. Debt – equity ratio is
(A) Long term debt / Shareholders funds
(B) Long term debt / Equity share holders funds
(C) Fixed income bearing funds / Equity shareholders funds
(D) None of the above

Q29. Capital gearing ratio is
(A) Long term debt / Shareholders funds
(B) Long term debt / Equity share holders funds
(C) Fixed income bearing funds / Equity shareholders funds
(D) None of the above

Q30. Proprietary ratio is
(A) Long term debt / Shareholders funds
(B) Proprietary funds / Total Assets
(C) Proprietary funds / Equity shareholders funds
(D) Proprietary funds / Long term funds

Q31.

Debentures	Rs 5,00,000
Trade payable	Rs 2,00,000
Long term loans	Rs 7,00,000
Share capital	Rs 2,00,000
Reserve fund	Rs 120,000
Capital reserve	Rs 80,000

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Calculate Debt equity ratio

(A) 3:1 (B) 4:1 (C) 5:1 (D) None of the above

Q32. Debentures Rs 4,00,000
Long term loans Rs 2,00,000
Preference Share capital Rs 2,00,000
Equity Share Capital Rs 2,00,000
Profit and Loss Account Rs 5,00,000
General reserves Rs 3,00,000

Calculate Capital Gearing ratio

(A) 0.80 (B) 0.67 (C) 0.30 (D) 0.375

Q33. Debentures Rs 4,00,000
Long term loans Rs 2,00,000
Preference Share capital Rs 2,00,000
Equity Share Capital Rs 2,00,000
Profit and Loss Account Rs 5,00,000
General reserves Rs 3,00,000

Calculate Debt Equity ratio

(A) 02:1 (B) 0.6:1 (C) 0.50:1 (D) None of the above

Q34. Fixed Assets Rs 5,00,000
Current Assets Rs 4,00,000
Share capital Rs 1,00,000
Reserves Rs 4,00,000

Calculate Proprietary ratio

(A) 0.50 (B) 0.10 (C) 0.60 (D) None of the above

Q35. Debentures Rs 5,00,000
Fixed Assets Rs 6,00,000
Current Assets Rs 4,00,000
Share Capital Rs 3,00,000
Reserves Rs 2,00,000

Calculate Fixed asset ratio

(A) 0.50 (B) 0.10 (C) 0.60 (D) None of the above

Q36. Capital gearing ratio (Preferences shares and debentures to total long term funds) 30%
Capital employed Rs 19,00,000
Preference Share capital to debentures 2:1

Calculate Equity shareholders funds

(A) Rs 17,10,000 (B) Rs 3,80,000 (C) Rs 1,90,000 (D) Rs 13,30,000

Q37. Fixed Assets Rs 100,000
Current Assets Rs 70,000
Current Liabilities Rs 40,000
Shareholder's funds Rs 80,000
Capital Gearing ratio 0.625

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What is the amount of Preferences share capital
(A) Rs 50,000 (B)Rs 130,000 (C) Rs 160,000 (D) Nil

Q38. Capital gearing ratio is _______
(A) Market test ratio
(B) Long-term solvency ratio
(C) Liquid ratio
(D) Turnover ratio

Q39. The main purpose of debt equity ratio is
(A) to determine the relative stakes of outsiders and shareholders
(B) to determine profitability of organisation
(C) to determine short term solvency of the organisation
(D) None of the above
Q40. Debt-equity ratio is
(A) Total Liabilities / Shareholders funds
(B) Long term debt / Equity share holder funds
(C) Fixed income bearing funds / Equity shareholders funds
(D) None of these

Q41. Which is ideal debt equity ratio if it is calculated as
Debt equity ratio = Total Liabilities / Shareholders funds
(A) 3:1 (B) 2:1 (C) 0.67 :1 (D) None of these

Q42. Price Earnings Ratio is
(A) $\frac{\text{Market value per equity share}}{\text{Earnings per share}}$
(B) $\frac{\text{Earnings per share}}{\text{Market value per equity share}}$
(C) $\frac{\text{Long-term Funds}}{\text{Fixed Assets}}$
(D) None of the above

Q43. Earning Per shares ratio is
(A) $\frac{\text{Net Profit Earned by company}}{\text{No of Equity Shares}}$
(B) $\frac{\text{Profit available for equity shareholders}}{\text{No of Total Shares}}$
(C) $\frac{\text{Profit available for equity shareholders}}{\text{No of Equity Shares}}$
(D) None of the above

Q44. Which of the following is a Market Test ratio ?
(A) Fixed Asset Turnover Ratio
(B) Current Ratio
(C) Earning Per share
(D) Gross Profit Ratio

Q45. Which of the following is not a Market Test ratio?
(A) Capital Gearing Ratio
(B) Dividend Yield Ratio
(C) Price Earning Ratio
(D) Pay out Ratio

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Q46. Profit after Tax Rs 200,000

10% Debentures Rs 400,000

8% Preference Share Capital Rs 500,000

Number of equity share Rs 10,000

Calculate Earnings per share

(A) Rs 15 (B) Rs 16 (C) Rs 20 (D) Rs 12

Q47. If price- earnings ratio is 0.08 and earnings per share is Rs 20, the market price of share will be—

(A) Rs 120 (B) Rs 160 (C) Rs 16 (D) Rs 1.60

Q48. The capital of Anyways Ltd. as follows:

10% Preference share of Rs 10 each:	Rs 400,000
Equity shares of Rs 100 each:	Rs 500,000
Other information:	
Profit Before tax:	Rs 350,000
Tax rate	50%
P/E ratio:	14 times

The market price of equity share will be ___________.

(A) Rs 378 (B) Rs 270 (C) Rs 140 (D) None of the above

Q49. In an Private Limited Company, profit after interest, tax and dividend on preference share is Rs 6,00,000. The number of equity share is 60,000 and dividend payout ratio is 60%. The dividend per share is –

(A) Rs 4 (B) Rs 25 (C) Rs 10 (D) Rs 6

Q50. In an company, profit after interest, tax and dividend on preference share is Rs 6,00,000. The number of equity share is 60,000 and dividend payout ratio is 60%. The retained earning per share is –

(A) Rs 4 (B) Rs 25 (C) Rs 10 (D) Rs 6

Q51. The net profit of a company is Rs 1,00,000 preference dividend Rs 35,000 and taxes paid Rs 25,000. Number of equity shares is 1,00,000. The earnings per share (EPS) is

(A) Rs 1.5 (B) Rs 0.30 (C) Rs 1 (D) Rs 0.65

Q52. 8% Preference share capital: Rs 5,00,000

Equity share capital (Rs 10 per share) Rs 6,00,000

Profit after 30% tax Rs 3,40,000

Market price of equity share : Rs 40

The earnings per share and the price earnings ratio will be –

(A) Rs 3.50 and 11.43 (B) Rs 5 and 8

(C) Rs 4.70 and 8.51 (D) Rs 3.20 and 12.50

Q53. Net income of a company after payment of preference dividend was Rs 42 lakhs. The number of equity shares was 210,000. The P/E ratio of the company was 11.50 times.

Earnings per share and market value per shares would be -------

(A) Rs 20 and Rs 230 respectively (B) Rs 20 and Rs 170 respectively

(C) Rs 25 and Rs 200 respectively (D) Rs 45 and Rs 5.29 respectively

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Q54. Equity share capital Rs 40 lakh (40,000 shares of Rs 100 each), 9% preference shares: Rs 20 lakh, profit before tax: Rs 32.46 lakh and tax rate 40%. Earnings per share will be ---

(A) Rs 76.65 (B) Rs 44.19 (C) Rs 48.60 (D) Rs 81.15

Q55. Net profit of the company Rs 3,00,000
Preference Dividend Rs 45,000
Taxes paid Rs 15,000
No of equity shares 1,00,000
The earnings per share (EPS) is

(A) Rs 3 (B) Rs 2.40 (C) Rs 2.55 (D) Rs 1.75

Q56. Average Debt Collection period – 2.5 months
Credit sales- Rs 18,00,000
Calculate average debtors.

(A) Rs 120,000 (B) Rs 375,000 (C) Rs 7,50,000 (D) None of these

Q57. Average Debt Collection period – 2 months
Total sales – Rs 20,00,000
Cash sales – Rs 800,000
Calculate average debtors

(A) Rs 3,33,333 (B) Rs 133,333 (C) Rs 2,00,000 (D) None of these

Q58. Average collections period (Assume 360 days in a year) 30 days
Sales Rs 36,00,000
Calculate debtors

(A) Rs 2,00,000 (B) Rs 3,00,000 (C) Rs 25,00,000 (D) None of these

Q59. Debit collection period 3 months
Total sales Rs 28,00,000 (out of which 30% Cash sales)
Calculate Debtors

(A) Rs 4,90,000 (B) Rs 700,000 (C) 3,50,000 (D) None of these

Q60. If average collection period is 15 days and average account receivables is 45,000, the total amount of credit sales will be (assume 360 days in a year) ---

(A) 10,80,000 (B) 16,20,000 (C) 6,75,000 (D) 1,87,500

Q61. Credit sales of jump Ltd. For the year is Rs 12,00,000 and debtors at the end of years Rs 2,40,000. Assuming 360 days in a year, average collection period will be –

(A) 60 days (B) 72 days (C) 180 days (D) 80 days

Q62. For the financial year ended 31st March 2015, the figures extracted from the balance sheet of Excel Ltd are as under:
Opening stock Rs 29,000
Closing stock Rs 31,000
Purchases Rs 2,42,000
Stock turnover ratio will be

(A) 12 times (B) 15 times (C) 9 times (D) 8 times

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Q63. Stock turnover : 6 times
Total sales : Rs 3,00,000
Gross profit ratio : 20%
Closing stock : Rs 4,000 more than opening stock
The opening stock is
(A) Rs 36,000 (B) Rs 38,000 (C) Rs 40,000 (D) Rs 42,000

Q64. From the following information finds the value of closing stock –
Stock velocity : 6 months
Gross profit ratio : 25%
Gross profit for the year ended 31st March 2014 : Rs 1,00,000
Closing stock for the period – Rs 20,000 more than it was in the beginning of the year:
(A) Rs 1,50,00 (B) Rs 1,40,000 (C) Rs 1,60,000 (D) Rs 70,000

Q65. Financial statement of X Ltd. Shows the following data -----
Opening stock : Rs 1,50,000
Total purchases (including cash purchases of Rs 1,75,000) : Rs 10,50,000
Closing stock : Rs 1,20,000
Stock turnover ratio is ----
(A) 6.70 times (B) 8 times (C) 7.2 times (D) 9 times

Q66. Which of the following pairs is correctly matched ------------
(A) Administrative expenses + Selling and distribution expenses = Opening expenses
(B) (Gross profit / Net sales) *100 = Net profit ratio
(C) Both (A) and (B) above (D) None of these

Q67. From the following information is given:

Total Sales	Rs 24,00,000
Inventory Turnover Ratio	4.80 times on the basis of COGS
Gross Profit Ratio	25% on Cost

Closing Inventory is Rs 60,000 more than opening inventory.
The amount of opening inventory and purchase will be:
(A) Rs 345,000 and Rs 18,60,000 (B) Rs 370,000 and Rs 1980,000
(C) Rs 375,000 and Rs 19,20,000 (D) None of the above

Q68. Gross profit ratio for a firm was 20 % in the year 2015 and 2016 but the net profit ratio was 15% in the year 2015 and 12% in the year 2016. The reason for such behaviour could be ----
(A) Increase in manufacturing expenses
(B) Increase in indirect expenses
(C) Increase in cost of goods sold
(D) Decrease in sales

Q69. Cost of goods sold : Rs 4,00,000
Administration and office expenses : Rs 35,000
Selling and distribution expenses : Rs 45,000
Net credit sales : Rs 4,75,000
Cash sales : Rs 1,25,000
Opening profit ratio will be -----
(A) 30% (B) 35% (C) 20% (D) 25%)

Q70. Sales Rs 10,00,000
Gross Profit 20%
Operating Expenses Rs 20,000
Calculate Operating Ratio
(A) 82% (B) 18% (C) 80% (D) None of the above

Q71. Profit after Tax Rs 500,000
Tax 30%
Depreciation Rs 100,000
Interest on debentures Rs 50,000
Capital Employed Rs 25,00,000
Current Liabilities Rs 500,000
Calculate return on assets.
(A) 25% (B) 20% (C) 16.67% (D) None of the above

Q72. The net profit margin of R Ltd. is 8%, its total assets are Rs 600,000 and the return on investment is 18%. Total assets turnover ratio will be:
(A) 2.05 (B) 3.15 (C) 2.25 (D) 2

Q73. The net profit margin of S Ltd. is 8%, its total assets are Rs 800,000 and the return on investment is 14%. Total assets turnover ratio will be:
(A) 2.05 (B) 1.75 (C) 4 (D) 2

Q74. Return on investment depends upon on two ratios –
(A) Net profit ratio and Capital Turnover ratio
(B) Gross profit ratio and Net profit ratio
(C) Earning Per share and Net profit ratio
(D) Capital Employed ratio and Asset turnover ratio
Q75. ROI is calculated to measure-
(A) Long term solvency of business
(B) Short term Liquidity of business
(C) Earning Power of net assets of business
(D) None of the above

Q76. ROI is also known as:
(A) Du-Point Chart (B) Dividend Payout Ratio
(C) Liquid Ratio (D) Market Test Ratio

Q77. Interest Coverage Ratio is calculated with the help of the following information
(A) Earnings available for equity shareholders / Dividend
(B) Profit after tax (PAT) / Dividends
(C) EBIT / Interest expenses
(D) None of the above

Q78. Debt Service Ratio is:
(A) $\frac{\text{Net Profit before Interest and Tax}}{\text{Interest Charges}}$
(B) Liquid Assets

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Current Liabilities
(C) Fixed Assets
Liquid Assets
(D) None of the above

Q79. Debt Service Ratio is calculated with the help of the following information
(A) Earnings available for equity shareholders / Dividend
(B) Profit after tax (PAT) / Dividends
(C) EBIT / Interest expenses
(D) None of the above

Q80. Interest coverage ratio is obtained by dividing EBIT by ---
(A) Interest (B) Tax (C) Income (D) Sales

Q81. Fixed Charges Coverage Ratio 8
Turnover Rs 28,00,000
EBIT/ Turnover 16%
Calculate Interest
(A) Rs 44,800 (B) Rs 56,000 (C) Rs 7,00,000 (D) None of the above

Q82. EBIT Rs 10,00,000
Debt Service Ratio 20 times
Calculate 10% Debentures
(A) Rs 50,000 (B) Rs 1,00,000 (C) Rs 5,00,000 (D) None of the above

Q83. Net Profit (Before interest) / Sales 16%
Sales Rs 28,00,000
Fixed Charges Cover 8 times
Interest on Debentures 14%
Debentures of the company are
(A) Rs 4,00,000 (B) Rs 2,00,000 (C) Rs 48,000 (D) Rs 56,000
Q84. Ideal interest coverage Ratio of ____________ is considered reasonable by financial institution
(A) 8:1 (B) 7:1 (C) 10:1 (D) None of the above

Q85. A very high interest coverage ratio indicates that the firm is ____________ is using the debt.
(A) Moderate (B) Conservative (C) Aggressive (D) None of the above
Q86. A very low interest coverage ratio indicates ____________ use of debt.
(A) Excessive (B) Negligible (C) Moderate (D) None of the above

Q87. ________ highlights the amount retained by a company for financing its future operations.
(A) Dividend Coverage Ratio (B) Interest Coverage Ratio
(C) Finance Coverage Ratio (D) None of the above

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ANSWERS

1.D	2. C	3. B	4. C
5. D	6. B	7. C	8. B
9. B	10. C	11. C	12. D
13. C	14. B	15. C	16. C
17. B	18. B	19. B	20. C
21. A	22. C	23. C	24. C
25. D	26. C	27. A	28. A
29. C	30. B	31. A	32. A
33. C	34. D	35. C	36. D
37. D	38. B	39. A	40. A
41. C	42. A	43. C	44. C
45. A	46. B	47. D	48. A
49. D	50. A	51. D	52. B
53. A	54. B	55. C	56. B
57. C	58. B	59. A	60. A
61. B	62. D	63. B	64. C
65. B	66. A	67. B	68. B
69. C	70. A	71. B	72. C
73. B	74. A	75. C	76. A
77. C	78. A	79. C	80. A
81. B	82.C	83. A	84. B
85. B	86.A	87. A	

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CHAPTER – 5
COST AUDIT AND RECORD

The Companies Act, 2013 empowers the Central Government to make the rules so that companies engaged
in specified industries, manufacturing, providing goods and rendering services are compelled to maintain their cost records by getting then audited, vide Section 148.

COST RECORD AND AUDIT RULES, 2014

RULE 1: SHORT TITLE AND COMMEN CEMEN T
(1) These rules may be called the Companies (Cost Records and Audit) Rules, 2014.
(2) They shall come into force from the date of their publication in the Official Gazette issued on 30.06.2014.

RULE 2: DEFINITIONS
In these rules, unless the context otherwise requires -
(a) "Act" means the Companies Act, 2013 (18 of 2013);

(b) "Cost Accountant in practice" means a cost accountant as defined in clause (b) of sub-section (1) of Section 2 of the Cost and Works Accountants Act, 1959 (23 of 1959), who holds a valid certificate of practice under Sub-section (1) of Section 6 of that Act and who is deemed to be in practice under Sub-Section (2) of Section 2 thereof, and includes a firm or limited liability partnership of cost accountants;

(c) "Cost Auditor" means a Cost Accountant in practice, as defined in clause (b), who is appointed by the
Board;

(d) "Cost Audit Report" means the duly signed Cost Auditor's report on the cost records examined and cost
statements which are prepared as per these rules, including attachment, annexure, qualifications or observations attached with or included in such report;

(e) "Cost Records" means books of account relating to utilization of materials, labour and other items of
cost as applicable to the production of goods or provision of services as provided in Section 148 of the Act and these rules;

COST RECORD

- As per Rule 2(e) the Companies (Cost Records and Audit) Rules, 2014, "Cost Records" means books of account relating to utilization of materials, labor and other items of cost as applicable to the production of goods or provision of services under the provisions of Section 148 of the Act.

- It is **mandatory** to keep the cost records for proper supervision and control.

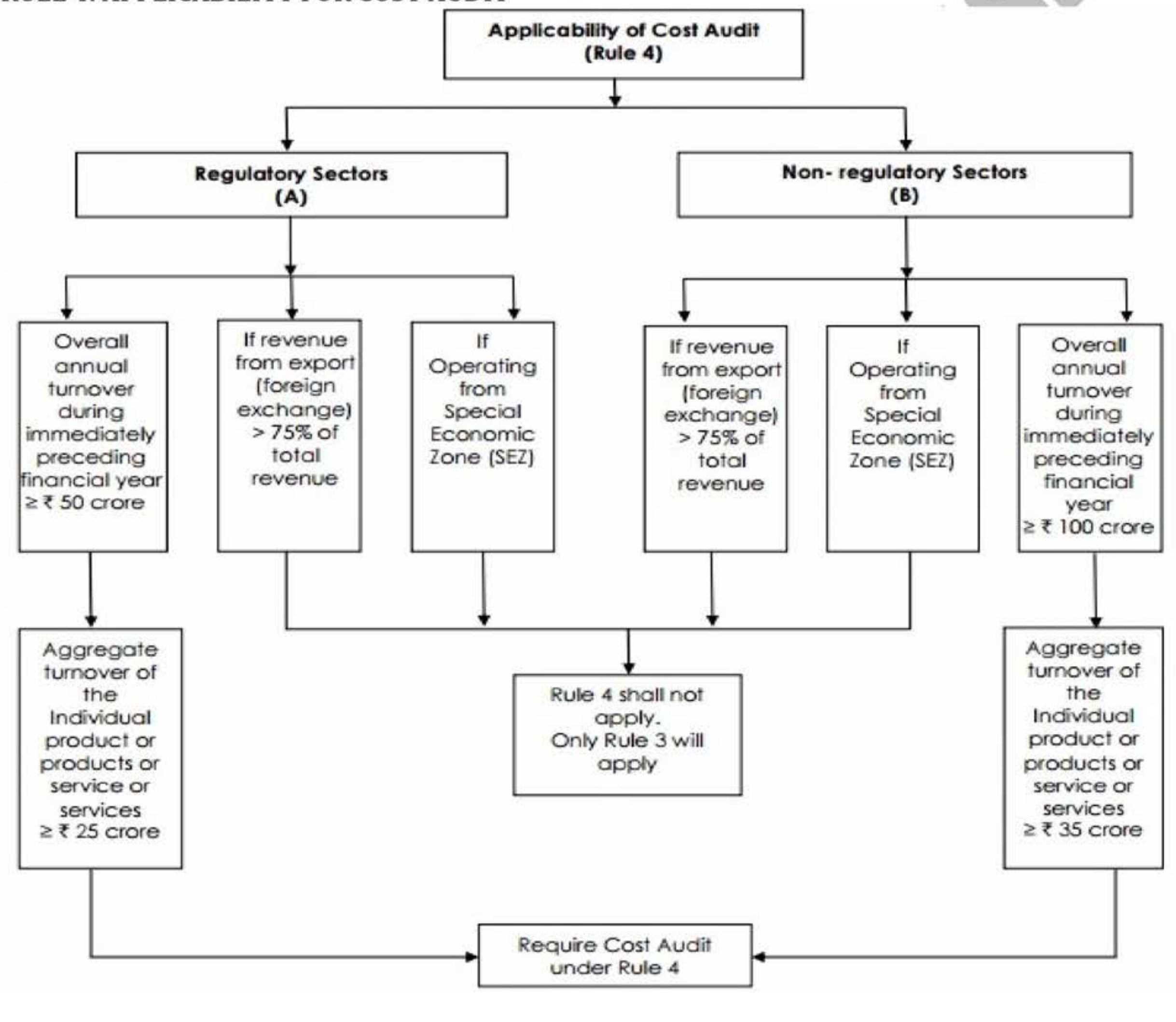
- ➢ Every company specified in item (A) of rule 3 shall get its cost records **audited** in accordance with these rules if the **overall annual turnover of the company** from all its products and services during the immediately **preceding financial year** is rupees **fifty crore (50) or more** as the aggregate turnover of the individual.

RULE 3: APPLICATION OF COST RE CORDS

For the purposes of Sub-Section (1) of Section 148 of the Companies Act 2013,

- the class of companies, including foreign companies, engaged in the production of the goods or in rendering services,
- having an overall turnover from all its products and services of
- rupees **35 crore or more** during the immediately preceding financial year,
- shall include cost records for such products or services in their books of account.

RULE 4: APPLICABILITY FOR COST AUDIT

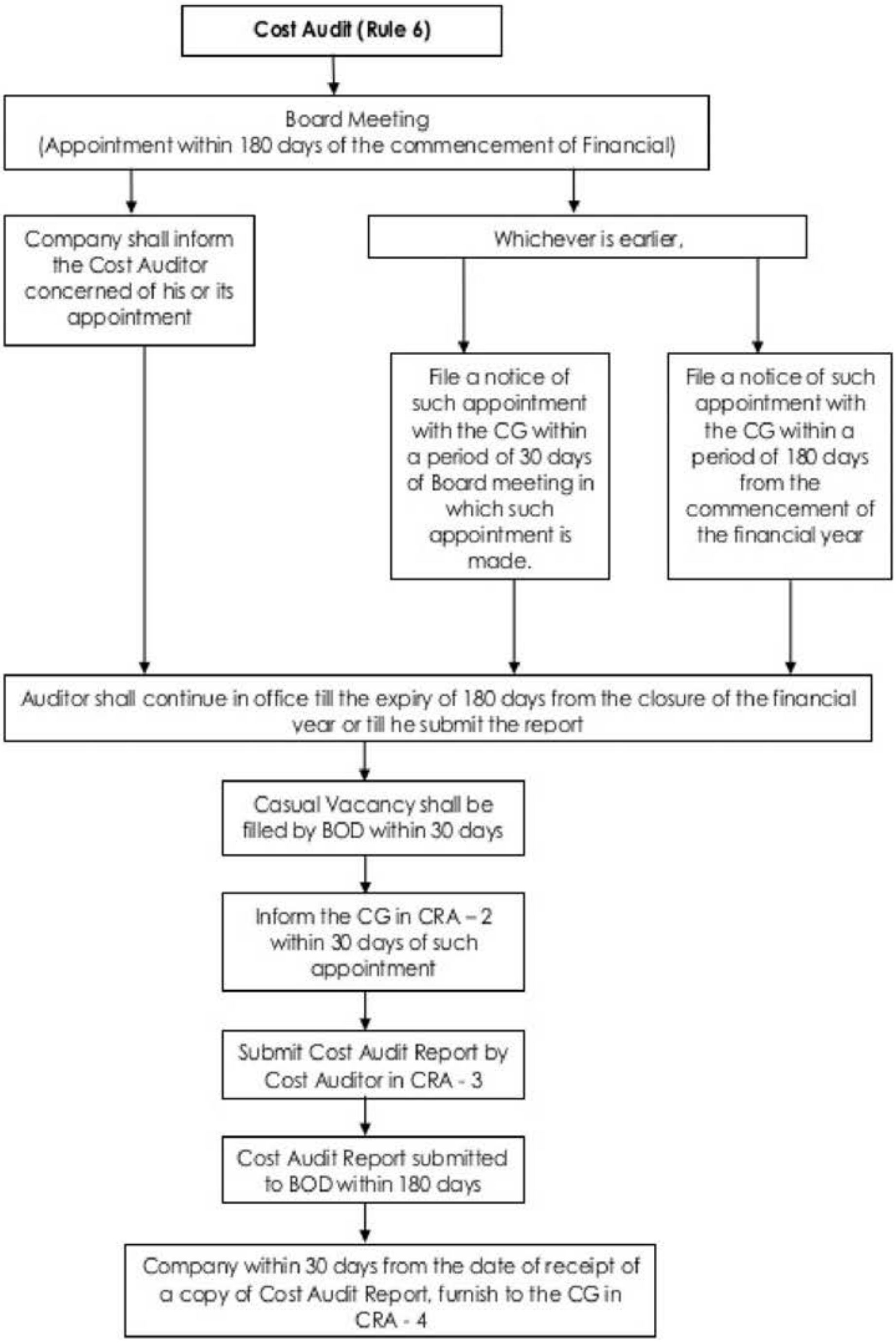


RULE 5: MAINTEN ANCE OF COST RE CORDS

(1) Every company under these rules including all units and branches thereof, shall in respect of each of its
financial year commencing on or after the 1st day of April, 2014, will maintain cost records in form CRA-1.

(2) The cost records referred to in the sub-rule (1) shall be maintained on regular basis in such a manner as to facilitate calculation of per unit cost of production or cost of operations, cost of sales and margin for each of its products and activities for every financial year on monthly or quarterly or half yearly or annual basis.

RULE 6: COST AUDIT



PURPOSE OF COST AUDIT

The general objectives can be described to include the following:

(1) Verification of cost accounts with a view to ascertaining that these have been properly maintained and compiled according to the cost accounting system followed by the enterprise.

(2) Ensuring that the prescribed procedures of cost accounting records rules are duly adhered to.

(3) Detection of errors and fraud.

(4) Verification of the cost of each "cost unit" and "cost centre" to ensure that these have been properly ascertained.

(5) Determination of inventory valuation.

(6) Facilitating the fixation of prices of goods and services.

(7) Periodical reconciliation between cost accounts and financial accounts.

(8) Ensuring optimum utilization of human, physical and financial resources of the enterprise.

(9) Detection and correction of abnormal loss.

(10) Inculcation of cost consciousness.

(11) Advising management, on the basis of interfirm comparison of cost records, as regards the areas where performance calls for improvement.

(12) Promoting corporate governance through various operational disclosures.

Social Purposes of Cost Audit

The following deserve special mention:

1. Facilitate in fixation of reasonable prices of goods and services produced by the enterprise.
2. Improvement in productivity of human, physical and financial resources of the enterprise.
3. Channelize enterprise resources to most optimum, productive and profitable areas.
4. Availability of audited cost data as regards contracts containing escalation clauses.
5. Facilitate in settlement of bills in the case of cost-plus contracts entered into by the Government.
6. Pinpointing areas of inefficiency and mismanagement, if any for the benefit of shareholders, consumers, etc., such that necessary corrective action could be taken in time.

FORMS UNDER COST AUDIT

- **CRA-1: FORMS IN WHICH COST RECORDS SHALL BE MAINTAINE D**
- **CRA-2: FORM OF INTIMATION OF APPOINTMEN T OF COST AUDITOR BY THE COMPANY TO CENTRAL GOVERNMENT**
- **CRA-3: FORM OF COST AUDIT RE PORT**
- **CRA-4: FORM FOR FILING COST AUDIT RE PORT WITH THE CEN TRAL GOVERN MEN T**

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MCQ FOR PRACTICE

Q1. Which section of the companies Act, 2013 deals with the audit of cost accounting records:
(A) Section 149 (B) Section 143
(C) Section 148 (D) Section 145

Q2. Which of the following is the social purpose of cost audit:
(A) Detection of Error and Fraud
(B) Facilitating the fixation of prices of goods and services
(C) Pinpointing areas of inefficiency and mismanagement for the benefit of shareholders and consumers.
(D) Both of B and C

Q3. Which is not social purpose of Cost audit:
(A) Promoting the corporate governance
(B) Facilitating the fixation of prices of goods and services
(C) Improvement of human productivity
(D) Pinpointing the area of inefficiency

Q4. Section 148 of the companies Act, 2013 gives:
(A) Same power to the cost auditor as the financial auditor has u/s 143 of the companies Act 2013
(B) More power to the cost auditor as the financial auditor has u/s 143 of the companies Act 2013
(C) Less power to the cost auditor as the financial auditor has u/s 143 of the companies Act 2013
(D) No power to the cost auditor as the financial auditor has u/s 143 of the companies Act 2013

Q5. Remuneration of cost auditor is to be determined in accordance with the provision of:
(A)Section 148(3) of the companies Act, 2013
(B)Section 147(3) of the companies Act, 2013
(C)Section 149(3) of the companies Act, 2013
(D)Section 148(5) of the companies Act, 2013

Q6. Cost audit who conducts an audit of the cost records of a company shall submit his report along with:
(A) Form CRA-1 (B) Form CRA -2
(C) Form CRA -3 (D) Form CRA -4

Q7. Match the following statements with prescribed forms:

Statements	Forms
(I) Cost audit Report to CG by Company	(A) CRA 3
(II) Cost Auditor to Submit report to BOD	(B) CRA 2
(III) Intimation of Appointment of Cost Auditor to MCA by the company	(C) CRA 4

	(I)	(II)	(III)
(A)	A	B	C
(B)	B	A	C
(C)	C	A	B
(D)	C	B	A

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Q8. Every Cost auditor, shall submit the cost audit report along with his reservation, qualification or suggestion, if any, in form:

(A) Form CAR-1
(B) Form CAR -2
(C) Form CAR -3
(D) Form CAR -4

Q9. Every cost auditor shall forward his duly signed cost audit report to the board of directors of the company within a period of ____________ from the closure of the financial year to which the cost audit report relates.

(A) 180 Days
(B) 90 days
(C) 150 days
(D) 45 days

Q10. Every PSU company, within a period of 30 days from the date of receipt of cost audit report, furnish to ________________ with full explanation on every reservation or qualification contained in the report.

(A) Board of Director
(B) Shareholders
(C) Central Government
(D) MCA

Q11. Every PSU company, within a period of 30 days from the date of receipt of cost audit report, furnish to Central government with full explanation on every reservation or qualification contained in the report in form of:

(A) Form CRA 3
(B) Form CRA 4
(C) Form CRA 5
(D) Form CRA 6

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ANSWERS

1. C	2. D	3. A	4. A
5. A	6. C	7. B	8. C
9.A	10. C	11. B	

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PRACTICE PAPER

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EXECUTIVE PROGRAMME

CORPORATE AND MANAGEMENT ACCOUNTING

PRACTICE TEST PAPER 1

(*This test paper is for practice and self study only and not to be sent to the Institute*)

Time allowed: 3 hours Maximum Mark: 100

1. A person who owes money to the business is a ____________.

(a) Debtor (b) Creditor

(c) Investor (d) Promoter

2. The amount set apart from profit for future is known as________.

(a) Capital account (b) Reserve

(c) Depreciation account (d) Cash at bank

3. Which accounting concept treats a business separately from its owner?

(a) Going concern concept

(b) Money measurement concept

(c) Accounting period concept

(d) Accounting entity concept

4. Assets held for a short period are called __________.

(a) Fixed assets (b) Current assets

(c) Contingent assets (d) None of the above

5. __________ is an activity concerned with recording and classifying financial data related to business operation in order of its occurrence.

(a) Book-keeping (b) Budgeting

(c) Costing (d) Management accounting

6. The following is not an advantage of Double entry system:

(a) It prevents and minimizes frauds.

(b) The trial error prepared doesn't disclose certain types of errors

(c) helps in decision making

(d) Easy for Government to calculate tax.

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7. Wages account is an example of:

(a) Personal account
(b) Real account
(c) Nominal account
(d) None of the above

8. Following is not a method of preparation of Trial balance:

(a) Compound method

(b) Balance method

(c) Total method

(d) Fair value method

9. Contingent Liabilities must be shown under________.

(a) Current Liabilities & Provisions

(b) By way of foot note only

(c) Miscellaneous Expenditure

(d) not shown

10. "Substance of any transaction should be considered while recording them & not only the legal form," is the statement which holds true for :

(a) Disclosure of accounting policies

(b) Substance over form

(c) Both of the above

(d) None of the above

11. Different organisations from same industry should select accounting policies __________.

(a) As per the provisions of the Companies Act

(b) As per the Auditing & Assurance Standards

(c) On a uniform basis from one concern to another and from one accounting period to another

(d) On non-uniform basis from one concern to another and from one accounting period to another

12. The Companies Act, 2013 provides that the Balance Sheet of a Company shall be in the prescribed form given in:

(a) Part I of Schedule III

(b) Part II of Schedule III

(c) Part III of Schedule III

(d) Part I of Schedule II

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13. The Companies Act, 2013 provides that the Profit & loss Account of a Company shall be in the prescribed form given in:

(a) Part I of Schedule III

(b) Part II of Schedule III

(c) Part III of Schedule III

(d) Part I of Schedule II

14. Section _____ of the Companies Act, 2013 governs the preparation and presentation of financial statements of a company.

(a) 140

(b) 135

(c) 129

(d) 110

15. A balance sheet has two parts to it, i.e. I. Equity and Liabilities and II.________.

(a) Shareholder's fund

(b) Trade receivables

(c) Inventories

(d) Assets

16. Reserves and Surplus is a part of :

(a) Current liabilities

(b) Shareholders Fund's

(c) Non-current assets

(d) Current assets

17. Which of the following would be considered an internal user of the financial statement?

(a) Shareholder

(b) Creditor

(c) Debtor

(d) Finance Manager

18. A fixed rate of dividend is paid on _______.

(a) Equity shares

(b) preference shares

(c) debentures

(d) Term loans

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19. Who has a right to vote in the meeting of shareholders?

(a) Equity shareholders

(b) Preference share holders

(c) Debenture holders

(d) Creditors

20. The maximum amount of capital a company can issue is called__________.

(a) Issued capital

(b) Paid up capital

(c) Authorized capital

(d) Called up capital

21. Shares of a company can be issued:

(a) at par

(b) at premium

(c) at discount

(d) any of the above

22. On allotment of shares, the following entry is passed in the books of accounts:

(a) Bank a/c Dr.

To Share application a/c

(b) Share application a/c Dr.

To Share Capital a/c

(c) Share application a/c Dr.

To Bank a/c

(d) Bank a/c Dr.

To Call-in-advance a/c

23. The securities Premium accounts must be shown as "Securities premium reserve" separately on the liability side of the balance sheet under the head__________.

(a) Current assets

(b) Non-current assets

(c) Reserves and Surplus

(d) Current liabilities

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24. The Journal entry passed when shares are issued to promoters of the company in lieu of the services provided by them during the incorporation of company is:

(a) Share application account Dr.

To share capital a/c

(b) Goodwill a/c Dr.

To Share capital a/c

(c) Sundry asset a/c Dr.

To Promoters a/c

(d) Profit and loss a/c Dr.

To Interest on calls in advance

25. Preliminary expense is a _______asset.

(a) Current

(b) Fixed

(c) Tangible

(d) Fictitious

26. A Ltd. purchased a building worth Rs. 99,00,000 and issued 12% Debentures of Rs. 100 each at a premium of 10%. What will be the amount of premium?

(a) Rs. 8,00,000

(b) Rs. 9,90,000

(c) Rs. 9,00,000

(d) Rs. 10,00,000

27. Forfeited shares can be issued at:

(a) par

(b) premium

(c) discount

(d) any of the above

28. According to section 68(1) of the Companies Act, 2013, a company may purchase its own shares or other specified securities out of –

(a) its free reserves

(b) the securities premium account

(c) the proceeds of the issue of any shares or same kind of other specified securities

(d) Any of the above

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29. When a company purchases its own shares out of the free reserves or securities premium account, a sum equal to the nominal value of the shares so purchase shall be transferred to the ___________.

(a) Debenture redemption reserve account

(b) Capital redemption reserve account

(c) Profit and loss account

(d) Contingent liability

30. The company shall maintain a register of shares or other securities which have been bought back in form No.__________.

(a) CRA 3

(b) SH 10

(c) SH 8

(d) PR 5

31. No issue of bonus shares shall be made by-

(a) Its free reserves

(b) the securities premium account

(c) capitalizing reserves created by revaluation of assets

(d) the capital redemption reserve account

32. Issue of debentures can be for:

(a) for cash

(b) for consideration other than cash

(c) as collateral security

(d) all of the above

33. A Ltd. issued 10,000, 10% Debentures of Rs. 100 each at a discount of 10%. The entire amount is payable on application. Applications were received for 12,000 debentures. The amount which should be credited to debenture account will be_______.

(a) 12,00,000

(b) 10,00,000

(c) 9,00,000

(d) 10,80,000

34. On 01.01.2017, Arav Ltd. had outstanding in its books 1,000, 12% debentures of Rs.100 each. The interest is payable on 30th June and 31st December. In accordance with the deed, the directors acquired in the open market debentures for immediate cancellation as follows: 1st March 2017- Rs. 10,000 debentures @ Rs. 98 (Cum–interest)

1st August 2017- Rs. 20,000 debentures @ Rs. 100.25 (Cum-interest)

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1st November 2017- Rs. 5,000 debentures @ Rs. 98.50 (Ex–interest)

On the basis of above information calculate the amount transferred to Capital Reserve as on 31.12.2017?

(a) 600

(b) 725

(c) 700

(d) 625

35. R Ltd. purchased a machinery worth Rs. 1,20,000 and building worth Rs. 2,00,000 from D Ltd. for an agreed purchase consideration of Rs. 3,00,000 to be satisfied by the issue of 3,000, 10% debentures of Rs. 100 each. Calculate the amount to be transferred to Capital reserve a/c.

(a) 10,000

(b) 20,000

(c) 30,000

(d) 40,000

36. When is Debenture interest payable?

(a) Is payable only in case of profit

(b) Accumulates in case of losses

(c) Is payable after the payment of dividend

(d) Is payable before the payment of dividend on shares

37. Own debentures purchased in open market can used for the following:

(a) for immediate cancellation

(b) for investment in the form of own debentures

(c) Both of the above

(d) None of the above

38. A special resolution passed at general meeting of the company authorizing buy back of shares is not required when:

(a) The buy back is 10% or less of the total paid up equity capital and free reserves of the company.

(b) Buy back has been authorized by the board by means of a resolution passed at its meeting.

(c) Both of the above

(d) None of the above

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39. A company may buy back its shares or other specifies securities by the following method(s):

(a) From the existing shareholders or other specified security holders on a proportionate basis through the tender offer

(b) From open market through book-building process or stock exchange

(c) From odd lot holders, provided no offer of buy back for 15% or more of the paid up capital and free reserves of the company shall be made from the open market

(d) Any of the above

40. The Escrow account under Regulation 9(xi) of SEBI (Buy back of Securities) Regulations, 2018 does not includes:

(a) Cash deposited with a scheduled commercial bank

(b) bank guarantee in favour of the merchant banker

(c) Deposit of acceptable securities with appropriate margin, with the merchant banker

(d) Deposits of acceptable securities with appropriate margin, with the company

41. For unlisted companies issuing debentures on private placement basis, the DRR will be ____of the value of outstanding debentures.

(a) 25%

(b) 30%

(c) 40%

(d) 50%

42. Following is not a method of redemption of debentures:

(a) By payment in lumpsum

(b) By payment in Instalments

(c) By purchase in open market

(d) By conversion into short term loans

43. The following information pertains to X Ltd. : Equity share capital called up Rs.5,00,000; Calls in arrear Rs. 40,000 ; Calls in advance Rs. 25,000 ; Proposed dividend 12%. The amount of dividend payable will be:

(a) Rs.50,000

(b) Rs.55,200

(c) Rs.46,000

(d) Rs.43,500

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44. Financial Statements are used by:

(a) Investors

(b) Creditors

(c) Regulators

(d) All of the above

45. Financial statements that are issues for the time periods smaller than one year are called:

(a) Annual statements

(b) Interim statements

(c) Both of the above

(d) None of the above

46. ________prescribes the basis for presentation of general purpose financial statement to ensure comparability both with the entity's financial statements of previous periods and with the financial statements of other entities.

(a) Ind AS 1

(b) Ind AS 2

(c) Ind AS 3

(d) Ind AS 4

47. According to Section 197 of the Companies Act, 2013, the total managerial remuneration payable by a public company to its directors, including managing director and whole time director, and its manager in respect of any financial year shall not exceed _____ of the net profits of that company for that financial year except that the remuneration of the directors shall not be deducted from the gross profits.

(a) 10% (b) 11%

(c) 12% (d) 14%

48. A company may pay a sitting fee to a director for attending meetings of the Boards or Committees thereof, such sum as may be decided by the Board of Directors thereof which shall not exceed Rs.___________ per meeting of the board.

(a) One lakh (b) Two lakh

(c) Five lakh (d) Ten lakh

49. Every company having net worth of Rs.________ shall constitute a Corporate social responsibility committee of the Board.

(a) Rs. 100 crore or more

(b) Rs. 200 crore or more

(c) Rs. 500 crore or more

(d) Rs. 1000 crore or more

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50. The Corporate social Responsibility committee shall consist of _________directors, out of which atleast ______ director(s) shall be independent director(s).

(a) three or more; two

(b) two or more; one

(c) four or more; two

(d) three or more; one

51. The Board of Directors of the company, who has to form a Corporate Social Responsibility Committee, shall make sure that the company spends in every financial year, minimum ______% of the average net profits made during the 3 immediately preceding financial years as per the CSR policy.

(a) 1 (b) 2 (c) 5 (d) 10

52. With respect to CSR Reporting, The board's report referring to any financial year initiating on or after the 1st day of April 2014 shall include_______________.

(a) Monthly report on CSR

(b) Annual report on CSR

(c) Quarterly report on CSR

(d) Bi-monthly report on CSR

53. As per section 2(76) of the Companies Act, 2013 the term Related party w.r.t public company means: A public company in which a director or manager is a director or holds along with his relative more than ___% of his paid up share capital.

(a) 5% (b) 3% (c) 2% (d) 10%

54. Financial Statements are prepared by transferring the account balances on the adjusted _____________ to a set of financial statement templates.

(a) Income Statement

(b) Statement of Shareholder's Equity

(c) Trial Balance

(d) Statement of Cash flow

55. If any person contravenes the provisions of the section 197 of the Companies Act, 2013, he shall be punishable with fine. What is the minimum fine that people have to pay?

(a) Ten Thousand Rupees

(b) One Lakh Rupees

(c) Five Lakh Rupees

(d) Two Lakh rupees

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56. A/An_________ is an explanation that is required by the audit team on certain points that they may have identified during an audit.

(a) Audit query

(b) Related party

(c) Segment reporting

(d) Economic value added

57. Financial Analysis is one of the important tool for investor for analysis. Which of the following statement/s does not support above statement?

(a) Past performance analysis is a good indicator of future performance

(b) Future Trends can always be correctly predicted

(c) Investor read financial statement either to study the current situation or to forecast the future performance.

(d) None of the above

58. Which section of the Companies Act, 2013 covers definition of Holding Company?

(a) Section 2 (47)

(b) Section 2 (46)

(c) Section 2 (48)

(d) Section 2 (49)

59. A company in which only the majority of shares (more than 50%) are owned by the holding company, it is said to be ___________

(a) Wholly owned subsidiary company

(b) Partly owned subsidiary

(c) Joint venture company

(d) Minority company

60. Subsidiary can be member of its Holding Company if : (i) When subsidiary is a legal representative of deceased member of holding Company; (ii) When subsidiary is concerned in shares as trustee.

(a) Only (i)

(b) Only (ii)

(c) Both of the above

(d) None of the above

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61. If Total capital of subsidiary is Rs.3,00,000 and out of this Rs.2,40,000 is owned by Holding. What is the amount of minority interest if outside shareholder % is 20%.

(a) Rs. 2,40,000

(b) Rs. 60,000

(c) Rs. 48,000

(d) None of the above

62. Profit on revaluation of Assets to be shown as_________in the Consolidated Balance Sheet.

(a) General Reserve

(b) Capital Reserve

(c) Goodwill

(d) None of the above

63. On 30 June 2017, two-third of the shares of S Ltd. (with a total capital of Rs.48,00,000) was acquired by H Ltd. the Balance Sheet of S Ltd. showed a debit balance of Rs.24,00,000 on 1st January 2017 and a credit balance of Rs.14,40,000 on 31 December 2017. The investment by H Ltd. in shares of S Ltd. is Rs.36,00,000. Calculate the cost of control or capital reserve.

(a) Rs.7,20,000

(b) Rs. 6,20,000

(c) Rs.3,60,000

(d) Rs.1,80,000

64. What is the full form of CARO?

(a) Company Account's Repository Order

(b) Company Account's Reports Order

(c) Company Auditor's Report Order

(d) Company Assets Revaluation Order

65. A simplified financial statement that shows how much wealth has been created by a company is called__________.

(a) Economic value added

(b) Value added statement

(c) Profit and loss statement

(d) Income statement

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66. SVA stands for:
(a) Shareholder Value Arrear
(b) Shareholder Value Added
(c) Security Value Added
(d) None of the above

67. Requirements of Auditor's report is covered under which section of Companies Act, 2013?
(a) Section 144
(b) Section 143
(c) Section 142
(d) Section 145

68. Cash payments to and on behalf of employees is an example of:
(a) Cash flow from Operating activities
(b) Cash flow from Investing activities
(c) Cash flow from Financing activities
(d) None of the above

69. Which of the following is NOT a cash outflow for a firm-
(a) Dividends
(b) Proceeds from issuance of share capital
(c) Amortisation of preliminary expenses
(d) Interest payments

70. In case of a Financial enterprise, Interest received on Debentures held as Investment is:
(a) Operating activity
(b) Investing activity
(c) Financing activity
(d) None of the above
71. Which of the following results into increase in working capital-
(a) Decrease in current liabilities
(b) Decrease in current assets
(c) Goods sold on credit
(d) Tax paid

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72. AS 7 issued by ICAI deals with:

(a) Disclosure of accounting policies

(b) Revenue recognition

(c) Construction contracts

(d) Government grants

73. GAAP stands for:

(a) Generally accepted accounting principles

(b) Generally accumulated adherence policy

(c) Generally accounting adherence policy

(d) Generally assisted accounting principles

74. __________ are set of accounting standards notified by the Ministry of Corporate affairs which are converged with International Financial Reporting Standards.

(a) International Accounting Standards

(b) Indian Accounting Standard

(c) Indian Auditing Standard

(d) International Auditing Standards

75. IASB stands for:

(a) Indian Accounting Standard Board

(b) International Auditing Standard Board

(c) International Accounting Standard Board

(d) International Assurance Service Board

76. Financial Reporting Council is an organisation of which country?

(a) The USA

(b) The UK

(c) Australia

(d) Canada

77. Under Phase IV of adoption of Ind AS, all NBFCs whose net worth is more than or equal to _________but less than______ shall have Ind AS mandatorily applicable to them from April 1, 2019.

(a) Rs. 250 crore; Rs. 500 crore

(b) Rs. 300 crore; Rs. 600 crore

(c) Rs. 100 crore; Rs. 500 crore

(d) Rs. 400 crore; Rs. 800 crore

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78. Ind AS 113 deals with:

(a) Fair value Measurement

(b) Joint arrangements

(c) Financial Instruments

(d) Insurance Contract

79. __________ is regarded as a specialized branch of accounting which involves classification, accumulation, assignment and control of costs.

(a) Costing

(b) Cost Accounting

(c) Cost Accountancy

(d) Cost

80. Primary packaging material is an example of:

(a) Direct material

(b) Indirect material

(c) Direct expenses

(d) Indirect expenses

81. Which of the following is the social purpose of Cost Audit ?

(a) Detection and correction of abnormal losses

(b) Detection of errors and frauds

(c) Determination of inventory valuation

(d) Pinpointing areas of inefficiency and mismanagement for the benefit of shareholders and consumers

82. Which section of me Companies Act, 2013 deals with audit of cost accounting records?

(a) Section 158

(b) Section 148

(c) Section 168

(d) Section 139

83. What is the General information attached in the Annexure to Cost Audit Report ?

(a) Distribution of Earnings

(b) Cost Accounting Policy

(c) Details of Industry Specific Operating Expenses

(d) Reconciliation of Indirect taxes

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84. From the following calculate production for the 4th quarter

Units sold

Q1 12000

Q2 15000

Q3 16500

Q4 18000

Opening units 10,000 and closing units 12500. Production is 2/3 of current requirement and 1/3 of next month requirement.

(a) 12000 units

(b) 20500 units

(c) 18500 units

(d) 18000 units

85. A _____ is a booklet specifying the objectives of an organisation in relation to its spending strategy.

(a) Budgetary control

(b) Budget manual

(c) Key factor

(d) Budget Controller

86. Monsoon is an example of key factor in which of the following industry?

(a) Motor car

(b) Aluminium

(c) Electro-optics

(d) Hydro power generation

87. Which of the following is also known as Working capital ratio:

(a) Current ratio

(b) Liquid ratio

(c) Debtor turnover ratio

(d) Cash reserve ratio

88. Current ratio is 2.5:1 and Liquid ratio is 1:1. Stock is Rs. 60,000. Calculate Current liability

(a) Rs. 40,000

(b) Rs. 60,000

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(c) Rs. 1,00,000

(d) Cannot be determined

89. From the following information calculate Net profit ratio:

Gross profit is 1/4th of cost and sales is Rs. 2,00,000

Indirect expenses is Rs. 12,000

(a) 19%

(b) 20%

(c) 14%

(d) 25%

90. Selling price of a product is Rs.32/ unit. Variable Cost ratio is 50%. Fixed Cost is Rs.96,000. Units Sold are 10,000. Calculate Margin of safety in percentage.

(a) 40%

(b) 60%

(c) 50%

(d) cannot be determined

91. If sales in an organisation is Rs. 1,00,000. Fixed cost is Rs. 12,000 and profit is Rs. 8000, thus PV ratio is:

(a) 80%

(b) 8%

(c) 20%

(d) 12%

92. Selling price of a product X is Rs. 40

Variable cost is Rs. 8

Fixed Production cost Rs. 2

Fixed selling cost Rs. 2

Budget production and sales units are 12,000. Calculate break even units for product X.

(a) 2222 units

(b) 1875 units

(c) 1500 units

(d) 4615 units

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93. Following is NOT an objective of Activity based costing (ABC):

(a) Activity based costing is a two stage product costing method.

(b) The cost pools in the two-stage approach now accumulate product related cost.

(c) It is based on the concept that products consume activities and activities consume resources.

(d) None of the above

94. Activity based costing assigns costs to products by tracing expenses to ____________.

(a) products

(b) sales

(c) activities

(d) profits

95. Following is NOT an advantage of effective Management reporting system:

(a) Improves decision making

(b) improves responsiveness to issue

(c) Improves efficiency of resources

(d) None of the above

96. Ind AS 33 deals with

(a) Earning per share

(b) Financial Instrument Presentation

(c) Fair value measurement

(d) None of the above

97. With reference to Ind AS 102, what does SBP stands for?

(a) Share based payment

(b) Share based proportion

(c) Sum based payment

(d) Shareholder based pricing

98. The relationship between risk and return established by the security market line is called ______.

(a) Earning based model

(b) Arbitrage pricing theory

(c) Economic value added

(d) Capital asset pricing model

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99. Value of share based on earning basis method is calculated as:

(a) (Possible rate of dividend/Normal rate of dividend)* paid up value per share

(b) (Normal rate of dividend/Possible rate of dividend)* paid up value per share

(c) (Normal rate of dividend/Dividend per share)* paid up value per share

(d) None of the above

100. X purchased business from Y on 30th June, 2017. Profit earned by Y for the preceding years ending on 31st December every year were- 2014 – Rs. 41,000 , 2015-Rs. 40,000 and 2016 – Rs. 42,000.

It was ascertained that profits of 2015 included a non- recurring item of Rs. 1500 and profit of 2016 was reduced by Rs. 2000 due to an extraordinary loss on account of theft. The annual premium was Rs. 200 per annum. X at the time of purchasing the business, was employed with Rama Bros and was getting Rs. 500 p.m. he intends to replace the manager who at the present is getting Rs. 350 p.m. the goodwill is calculated at 2 years purchase of the average profits. Calculate the goodwill of the business.

(a) Rs. 84,000

(b) Rs. 78,334

(c) Rs. 75,455

(d) Rs. 85,445

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Answer Key

1	a	36	d	71	b
2	b	37	c	72	c
3	d	38	c	73	a
4	b	39	d	74	b
5	a	40	d	75	c
6	b	41	a	76	b
7	c	42	d	77	a
8	d	43	b	78	a
9	b	44	d	79	b
10	b	45	b	80	a
11	c	46	a	81	d
12	a	47	b	82	b
13	b	48	a	83	b
14	c	49	c	84	c
15	d	50	d	85	b
16	b	51	b	86	d
17	d	52	b	87	a
18	b	53	c	88	a
19	a	54	c	89	c
20	c	55	b	90	a
21	d	56	a	91	c
22	b	57	b	92	c
23	c	58	b	93	b
24	b	59	b	94	c
25	d	60	c	95	d
26	c	61	b	96	a
27	d	62	b	97	a
28	d	63	a	98	d
29	b	64	c	99	a
30	b	65	b	100	b

31	C	66	b
32	D	67	b
33	B	68	a
34	D	69	c
35	B	70	a

NITESH KR. JAISWAL CS CLASES

EXECUTIVE PROGRAMME

CORPORATE AND MANAGEMENT ACCOUNTING

PRACTICE TEST PAPER 2

Time allowed: 3 hours Maximum Mark: 100

Q1. The long term assets that have no physical existence but are rights that have value is known as
(A) Current assets
(B) Fixed assets
(C) Intangible assets
(D) Investments

Q2.The following is not a type of liability
(A) Short term
(B) Current
(C) Fixed
(D) Contingent

Q3. The accounts that records expenses, gains and losses are
(A) Personal accounts
(B) Real accounts
(C) Nominal accounts
(D) None of the above

Q4. Real accounts records
(A) Dealings with creditors or debtors
(B) Dealings in commodities
(C) Gains and losses
(D) All of the above

Q5. The assets that can be converted into cash within a short period (i.e. 1 year or less) are known as
(A) Current assets
(B) Fixed assets
(C) Intangible assets
(D) Investments

Q6. The process of entering all transactions from the journal to ledger is called
(A) Posting
(B) Entry
(C) Accounting
(D) None of the above

Q7. The following is a statement showing the financial status of the company at any given time
(A) Trading account
(B) Profit and Loss statements
(C) Balance sheet
(D) Cash book

Q8. The portion of authorised capital which can be called up only on the liquidation of the company is called:

(A) Authorised Share Capital
(B) Reserve Capital
(C) Issued Share Capital
(D) Called up Capital

Q9. Which of the following statements is true?
A) A debenture holder is an owner of the company
B) A debenture holder can get his money back only on the liquidation of the company
C) A debenture issued at a discount can be redeemed at a premium
D) A debenture holder receives interest only in the event of profits

Q10. Which of the following cannot be utilized for the redemption of preference-shares of a company?
a) Proceeds of fresh issue of shares
b) General Reserve
c) Dividend equalization reserve
d) Securities premium on fresh issue of shares

Q11. Schedule III Part II of the Companies Act, 2013 deals with:
a) Format of Balance Sheet
b) Format of Profit and Loss
c) Format of Cash Flow
d) Format of Trading Account

Q12. The amount of capital that a company can issue at par value is called
(A) Authorised capital
(B) Share premium
(C) Issued capital
(D) Fixed capital

Q13. Gross Profit ratio is also termed as
a) Gross Profit Margin
b) Gross Margin to net sales
c) Both a and b
d) All of the above

Q14. What will be the Gross Profit if, total sales is Rs 2,60,000 Cost of net goods sold is Rs 2,00,000 and Sales return is Rs 10,000?

a) 13%
b) 28%
c) 26%
d) 20%

Q15. If selling price is fixed 25% above the cost, the Gross Profit ratio is
a) 13%
b) 28%
c) 26%
d) 20%

Q16. If net sales is Rs 10,00,000, sales returns is Rs 50,000, Profit Before Tax is Rs 2,00,000, Income tax is 40%, Net profit ratio is
a) 12.63%
b) 12%
c) 10%
d) 50%

Q17. Determine Operating ratio, if operating expenses is Rs 60,000, Sales is Rs 9,40,000, Sales Return is Rs 40,000 and Cost of net goods sold is Rs 6,60,000.
a) 80%
b) 15%
c) 25%
d) 11%

Q18. Return on Proprietors' funds is also known as:
a) Return on net worth
b) Return on Shareholders' fund
c) Return on Shareholders' Investment
d) All of the above

Q19. Return on equity capital is calculated on basis of:
a) Funds of equity shareholders
b) Equity capital only
c) Either a or b
d) None of the above

Q20. As per section 78 of the companies act, amount collected as premium on securities cannot be utilised for:

a) Issuing fully paid bonus shares to the members
b) Purchase of fixed assets
c) Writing off preliminary expenses
d) Buy back of its own shares

Q21. Preference share can be redeemed out of:
a) Capital reserve
b) Fresh issue of debentures
c) Fresh issue of equity shares
d) Revaluation of fixed assets

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Q22. XYZ Ltd. provide you the following information

Balance sheet

Particulars	31.03.12	31.03.13
(II) Assets		
Plant	1,00,000	3,00,000
Accumulated Depreciation	50,000	80,000

Adjustment

Plant costing Rs 20,000 was sold for Rs 6,000 (accumulated depreciation – Rs 12,000). Calculate the amount of plant purchased during the year and also state depreciation charged during the year

(a) Rs 2,20,000; Nil
(b)Nil; Rs 30,000
(c) Rs 2,20,000; Rs 42,000
(d) Rs 2,00,000; Rs 62,000

Q.23 From the following data, find the value of building sold during the year

Particulars	31.03.2013	31.03.2014
Land and building	2,00,000	1,70,000
Capital reserve	Nil	20,000

A piece of land has been sold during the year and the profit on sale has been credited to capital reserve. Depreciation charged on building during the year is Rs 5,000; no addition have been made under this head during the year.

(a) Rs 30,000 (b) Rs 50,000 (c) Rs 40,000 (d) Rs 45,000

Q24. Royalty, fees, Commission will be classified:

(a) Operating Activities
(b) Financing Activities
(c) Investing Activity
(d) None of these

Q25. Loan advance to employee will be classified:

(a) Operating Activities
(b) Financing Activities
(c) Investing Activity
(d) None of these

Q.26 In cash flow statement, dividend received in case of non-financing company is classified as –

(A) Operating activities
(b) Cash and cash equivalents
(c) Investing activities
(d) Financing activities

Q.27 In cash flow statement, dividend paid in case of non-financing company is classified as –

(A) Operating activities
(b) Cash and cash equivalents
(c) Investing activities
(d) Financing activities

Q28. X ltd. propsed to purchase the business carried on by B and Co. Goodwill for the purpose is to be valued at three year purchase of the weighted average profits for the past four years. The appropriate weights and profits for the past four years are as follows:

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	Weight	Profits (Rs in Lakhs)
1997-98	1	110
1998-99	2	115
1999-00	3	145
2000-01	4	180

On scrutiny of the accounts, the following information is gathered:

I. On 1st December 1999, a major repairs were carried out on building incurring Rs. 30 lakhs which amount was charged to revenues. The said sum is agreed to be capitalised for goodwill calculation subject to adjustment of depreciation of 10% p.a. on written down value method.
II. The closing stock for the year 1999-00 was undervalued by Rs 10 lakhs.
III. To cover management cost an annual charge of Rs 20 lakhs should be made for the purpose of goodwill valuation.

Compute the value of goodwill of the business of firm.

(A) Rs 500 lakhs
(B) Rs 450 lakhs
(C) Rs 408.12 lakhs
(D) None of the above

Q29. The profits for the last 5 years are Rs 180,000; Rs 140,000; Rs 80,000, Rs 90,000 and Rs 120,000. Capital Employed of the firm Rs 900,000 and normal rate of return of similar business is 10% p.a. Find out the value of goodwill, if it is calculated on super profits on the basis of 3 years of purchase.

(A) Rs 32,000
(B) Rs 78,000
(C) Rs 96,000
(D) None of the above

Q30. Compute the amount of goodwill based on 3 year's purchase of super profit from the following:

Future maintainable Profit after Tax	Rs 1500,000
Normal pre-tax rate of return	20%
Capital Employed	Rs 60,00,000
Tax Rate	30%

(A) Rs 10,80,000
(B) Rs 19,80,000
(C) Rs 960,000
(D) None of the above

Dell International Ltd. is developing a new production process. During the financial Year 31st March, 2016, the total expenditure incurred on this process was Rs. 40 lakhs. The production process met the criteria for recognition as an intangible asset on 1st December 2015. Expenditure incurred till this date was Rs.16 lakhs.

Further expenditure incurred on the process for the financial year ending 31st March 2017 was Rs.70 lakhs. On 31-03-2017, the recoverable amount of know-how embodied in the process is estimated to be Rs. 62 lakhs. (Ignore depreciation for this purpose)

Q31. What is the expenditure to be charged to the Profit and Loss Account for the financial year ended 31st March 2016?

(A) Rs 40 lakhs
(B) Rs 24 lakhs
(C) Rs 16 lakhs
(D) None of the above

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Q32. What is the carrying amount of the intangible asset as at 31st March 2016?

(A) Rs 40 lakhs (B) Rs 24 lakhs

(C) Rs 16 lakhs (D) None of the above

Q33. What is the expenditure to be charged to the Profit and Loss Account for the financial year ended 31st March 2017?

(A) Rs 50 lakhs (B) Rs 32 lakhs

(C) Rs 94 lakhs (D) None of the above

Q34. Which of the following Ind AS deals with share based payments?

(A) Ind AS 101 (B) Ind AS 102

(C) Ind 103 (D) Ind AS 104

Q35. On 1st January, 2016, Tulip Ltd. Offered 100 shares of Rs. 10 each to each of its 500 employees at Rs. 30 per share. The employees were given time upto 31st March , 2016 to accept the offer. The shares issued under ESOP shall be subject to lock-in-period of two years from the grant date. Other details provided are as under:

i. The market price of shares of the company on the grant date is Rs. 50 per share.

ii. Due to post vesting restriction on transfer of shares, the fair market value of share is estimated at Rs. 40 per share.

iii. On 31st March, 2016, 400 employees accepted the offer and paid Rs. 30 per share .

Employee compensation expense will be debited by

(A) Rs. 8,00,000 (B) Rs. 10,00,000

(C) Rs. 5,00,000 (D) Rs. 4,00,000

Q36. The subscribed share capital of S Ltd. is Rs 80,00,000 of Rs 100 each. There were no calls in arrear till the final call was made. The final call made was paid on 77,500 shares. The calls in arrear amounted to Rs 62,500.The final call per share =?

(A)Rs 25 (B) Rs 7.80 (C) Rs 20 (D)Rs 62.50

Q37. A Company grants 500 options on 1/4/1999 at Rs. 40 when the market price is Rs 160, the vesting
period is two and a half years, the maximum exercise period is one year. Also suppose that 150 unvested options lapse on 1/5/2001. 350 options are exercised on 30/6/2002. How much amount be transferred to General reserve in the year ended on 31st march 2002.

(A)Rs. 16,000 (B) Rs. 24,000

(C) Rs. 8,000 (D) Rs. 6,000

Q38. XYZ Ltd. grants 100 stock options to each of its 500 employees . The law governing the company requires approval of the board/ shareholders on any such grant.
The award is communicated to the individual employees, but when it goes to the shareholders/board for approval, the shareholders/board change the original award from how it was initially communicated to employees. The entity then communicates the new terms to employees.

(A) Date of original communication to the employees
(B) Board's/shareholder approval date
(C) Date of subsequent communications to employees
(D) None of the above

Q39. If sale price of a product if Rs 85,800 and the profit margin on cost is 10%, the amount of profit will be:
(A) Rs 7,800 (B) Rs 8,580
(C) Rs 7,200 (D) Rs 9,533

Q40. Units produced – 10,000
Selling expenses (Fixed) – Rs 20 per unit
Calculate Selling Cost for 8,000 units and 12,000 units.
(a) Rs 2,40,000; Rs 3,60,000 (b) Rs 3,00,000; Rs 3,60,000
(c) Rs 2,00,000; Rs 2,00,000 (d) None of the above

Q.41 PQR Ltd. has prepared the budget for the production of one lakh units of the only commodity manufactured by them for a costing period as follows:

Cost elements	Rs. (in Lakh)
Raw material	252
Direct Labour	75
Direct expenses	10
Works overheads (60% fixed)	225
Administration overheads (80% fixed)	40
Selling overheads (50% Fixed)	20

If the actual production during the period was 60,000 units, the revised budget cost per unit will be –
(a) Rs 740 (b) Rs 800 (c) Rs 700 (d) Rs 840

Q.42 Crown Ltd. has forecast its sales for the next three month as follows:
April : 12,000 units,
may : 15,000 units,
June : 17,000 units.
Opening stock as on 1st April is expected to be 3500 units. Closing stock should be equal to 20% of the coming month's sales needs. The number of units required to be produced is May is –
(a) 14,600 units (b) 11,500 units (c) 15,400 units (d) 13,600 units

Q43. Activity ratio of the company is 80% and its capacity ratio is 120%. Find out its efficiency ratio.
(A) 66.67% (B) 150% (C) 96% (D) None of the above

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Q.44 In an organization, cash sales is 25% and credit sales is 75%. Sales is October' 2013 is Rs 12,00,000, November'2013 Rs 14,00,000, December'2013 Rs 16,00,000, January'2014 Rs 6,00,000 and February' 2014 Rs 8,00,000. 60% of credit sales collected in the next month after sales, 30% in the second month and 10% in the third month. No bad debts are anticipated.
The cash collected in the month of February'2014 from debtors is –
(a) Rs 15,00,000 (b) Rs 9,80,000 (c) Rs 7,35,000 (d) Rs 80,000

Q.45 A document which set out the responsibility of the persons engaged in the routine of and the procedures, forums and records required for budgetary control is called –
(a) Budget centre (b) Budget report
(c) Budget controller (d) Budget material

Q46. A company producing three product X, Y and Z has the sales mix in the ratio of 2:1:3. The Profit volume ratio of the product of X, Y and Z are 15%, 30% and 20% respectively. The total fixed cost of the company is Rs 350,000. The overall break even point of the company will be:
(A) Rs 1750,000 (B) Rs 11,66,667
(C) Rs 16,15,390 (D) Rs 23,33,333

Q.47 Match the following :

List –I	List –II
P. Excess of actual sales over breakeven sales volume	1. Contribution
Q. Sum of fixed cost and profit	2. Cost-Volume profit analysis
R. Break-even analysis	3. No profit , no loss
S. Break-even point	4. Margin of safety

Select the correct answer from the options given below –

	P	Q	R	S
(a)	4	1	2	3
(b)	4	3	2	1
(c)	4	3	1	2
(d)	3	1	4	2

Q.48 For a given product , selling price per unit is Rs 15, variable cost per unit is Rs 10, the total fixed cost is Rs 1,50,000 and units sold during the period are 35,000. The margin of safety is –
(a) Rs 25,000 (b) Rs 75,000 (c) Rs 15,000 (d) Rs 35,000

Q.49 In two consecutive periods, sales and profit were Rs 1,60,000 and Rs 8,000 respectively in the first period and Rs 1,80,000 and Rs 14,000 respectively during the second period. If there is no change in fixed cost between the two periods, then what would be profit if sales are Rs 2,00,000 ?
(a) Rs 16,000 (b) Rs 18,000 (c) Rs 20,000 (d) Rs 22,000

Q.50 The variable cost of a product increase by 10% and the management raise the unit selling price by equal amount. The fixed costs remain unchanged. Then BEP of the firm ______
(a) Increase (b) Decrease (c) Cannot be calculated (d) Unchanged

Q51. Which product is most profitable to produce if Machine hour is key factor

	Product X	Product Y	Product Z
Selling Price Per Unit	Rs 100	Rs 70	Rs 50
Variable Cost per Unit	Rs 70	Rs 50	Rs 20
Machine hour used per unit	8 hrs	5 hrs	2 hrs

(A) Product X (B) Product Y
(C) Product Z (D) None of the above

Q.52 Z Ltd. recorded sales of Rs 60 lakh in 2014 as compared to Rs 45 lakh in 2013. Profit for 2014 was Rs 5 lakh higher than that in 2013. If the annual fixed costs amount to Rs. 12 lakh, the profit on projected sales of Rs. 90 lakh will be ---
(a) Rs 15 lakh (b) Rs 14 lakh (c) Rs 12 lakh (d) Rs 18 lakh

Q.53 A company sells its product at Rs 15 per unit. In a period, it produces and sells 8,000 units and incurs a loss of Rs 5 per unit . If the sales volume were to be raised to 20,000 units, it could earn a profit of Rs 4 per unit. Breakeven point (in units) will be ---
(a) 24,000 units (b) 12,000 units
(c) 16,000 units (d) 30,000 units

Q54. Margin of safety is Rs 8,000 which represents 40% of sales P/V ratio is 50%. Fixed cost will be .
(a) Rs 6,000 (b) Rs 5,500 (c) Rs 6,500 (d) Rs 7,000

Q55. Cost of goods sold : Rs 4,00,000
Administration and office expenses : Rs 35,000
Selling and distribution expenses : Rs 45,000
Net credit sales : Rs 4,75,000
Cash sales : Rs 1,25,000
Opening profit ratio will be -----
(A) 30% (B) 35% (C) 20% (D) 25%)

Q56. If current ratio is 3:1 and Working Capital is Rs 12,00,000, then current liabilities are :
(A) Rs 400,000 (B)Rs 600,000 (C) Rs 800,000 (D) None of the above

Q57. Which is ideal debt equity ratio if it is calculated as
Debt equity ratio = Total Liabilities / Shareholders funds
(A) 3:1 (B) 2:1 (C) 0.67 :1 (D) None of these

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Q58. Net income of a company after payment of preference dividend was Rs 42 lakhs. The number of equity shares was 210,000. The P/E ratio of the company was 11.50 times. Earnings per share and market value per shares would be -------

(A) Rs 20 and Rs 230 respectively (B) Rs 20 and Rs 170 respectively

(C) Rs 25 and Rs 200 respectively (D) Rs 45 and Rs 5.29 respectively

Q59. Debit collection period 3 months

Total sales Rs 28,00,000 (out of which 30% Cash sales)

Calculate Debtors

(A) Rs 4,90,000 (B) Rs 700,000 (C) 3,50,000 (D) None of these

Q60. From the following information finds the value of closing stock –

Stock velocity : 6 months

Gross profit ratio : 25%

Gross profit for the year ended 31st March 2014 : Rs 1,00,000

Closing stock for the period – Rs 20,000 more than it was in the beginning of the year:

(A) Rs 1,50,00 (B) Rs 1,40,000

(C) Rs 1,60,000 (D) Rs 70,000

Q61. Debt Service Ratio is:

(A) $\frac{\text{Net Profit before Interest and Tax}}{\text{Interest Charges}}$

(B) $\frac{\text{Liquid Assets}}{\text{Current Liabilities}}$

(C) $\frac{\text{Fixed Assets}}{\text{Liquid Assets}}$

(D) None of the above

Q62. Net Profit (Before interest) / Sales 16%

Sales Rs 28,00,000

Fixed Charges Cover 8 times

Interest on Debentures 14%

Debentures of the company are

(A) Rs 4,00,000 (B) Rs 2,00,000 (C) Rs 48,000 (D) Rs 56,000

Q.63 Sales for two consecutive months of a company are Rs 3,80,000 and Rs 4,20,000. The company's net profits for these months amounted to Rs 24,000 and Rs 40,000 respectively. There is no change in P/V ratio or fixed costs. The P/V ratio of the company is

(a) 33 ½ % (b) 40% (c) 25% (d) None of the above

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Q64. Which of the following is the social purpose of cost audit:
(A) Detection of Error and Fraud
(B) Facilitating the fixation of prices of goods and services
(C) Pinpointing areas of inefficiency and mismanagement for the benefit of shareholders and consumers.
(D) Both of B and C

Q65. Every PSU company, within a period of 30 days from the date of receipt of cost audit report, furnish to ________________ with full explanation on every reservation or qualification contained in the report.
(A) Board of Director (B) Shareholders
(C) Central Government (D) MCA

Q66. Every PSU company, within a period of 30 days from the date of receipt of cost audit report, furnish to Central government with full explanation on every reservation or qualification contained in the report in form of:
(A) Form CRA 3 (B) Form CRA 4
(C) Form CRA 5 (D) Form CRA 6

Q67. Cash Flow Statement is also known as

a) Statement of Changes in Financial Position on Cash basis
b) Statement accounting for variation in cash
c) Both a and b
d) None of the above.

Q68. Cash Flow Statement is based upon

a) Cash basis of accounting
b) Accrual basis of accounting
c) Credit basis of accounting
d) None of the above

Q69. Which of the following are cash flow from operating activities?

A) Cash Receipts from customers
B) Cash Paid to Supplier and Employees
C) Purchase of fixed assets
D) Sale of fixed assets

a) Both A and B
b) Both A and C
c) Both B and C
d) Both C and D

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Q70. While preparing Cash Flow Statement, non-cash items and non-operating items are not required to be adjusted under________

a) Indirect method
b) Direct method
c) Both a & b
d) None of the above

Q71. Given salary expenses Rs 40,000, Outstanding in the beginning of the year: Rs 5,000 and outstanding at the end of the year Rs 10,000. Cash outflow on salary will be:

a) Rs 45,000
b) Rs 35000
c) Rs 55,000
d) Rs 15,000

Q72. Which of the following are added to net profit after tax and extraordinary items to reach to net profit before tax and extraordinary items?

A) Provision for tax made during the year
B) Proposed dividend made during the year
C) Interim dividend
D) Transfer to General reserves and other reserves

a) Both A and B
b) Both A and C
c) Both B and C
d) A, B, C and D

Q73. ABC Ltd had investment of Rs 68,000 as on 31.3.2013 and investment of Rs 56,000 as on 31.3.2014. During the year ABC Ltd sold 40% of its investments being held in the beginning of period at a profit of Rs 16,800. Determine cash flow from investing activities.

a) Rs 59,200
b) Rs 28,800
c) Rs 72,800
d) None of the above

Q74. For year 2013 Equity Share Capital is Rs 3,00,000 Preference Share Capital is 1,00,000 10% debentures is 2,00,000 and Share premium is 30,000. For year 2014 Equity Share Capital is Rs 4,00,000 Preference Share Capital is 60,000 10% debentures is 1,00,000 and Share premium is 40,000. Also given, Dividend paid on shares Rs 15,000 and Interest paid on debentures RS 20,000. Determine net cash flow from financing activities.

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a) Cash inflow of Rs 65,000
b) Cash outflow of Rs 65,000
c) Cash inflow of Rs 56,000
d) Cash outflow of Rs 56,000

Q75. Which of the following statements is false

a) Redeemable preference share can be issued, if authorized by the articles of association

b) The bonus issue can be made out of securities premium collected only in cash.

c) Redeemable preference share can be redeemed only when they are fully paid.

d) Redeemable preference shares can be redeemed only out of profits of the company.

Q76 : The Balance sheet of A Ltd. as on March 31,2006 is as under:

Liabilities	Rs.	Assets	Rs.
Share Capital:		Land and building	4,00,000
Equity shares of Rs.100 each	5,00,000	Plant and machinery	3,00,000
12% Preference shares of Rs. 10 each	3,00,000	Furniture and Fixtures	2,50,000
Reserves and surplus:		Investments	2,25,000
General reserve	1,50,000	Sundry debtors	1,00,000
Profit and Loss Account	2,50,000	Inventories	1,50,000
18% Debentures	2,00,000	Cash	50,000
Sundry creditors	50,000		
Bank overdraft	25,000		
	1475000		1475000

The 12% preference shares are redeemable at a premium of 10%. The company wishes to maintain the cash balance at Rs. 25,000. For the purpose of redemption of preference shares, it proposed to sell the investments for Rs. 2,00,000. The company proposes to issue sufficient number of equity shares of Rs. 100 each at a premium of 5% to raise required cash resources. Number of equity shares to be issued is _________.

A) 1500
B) 1000
C) 950
D) 1500

Q.77: Which of the following statement is true?

A) Only fully paid up preference shares can be redeemed.
B) Partly paid up preference shares can be redeemed by company.
C) A company can issue preference shares with voting rights.
D) A company cannot redeem its preference shares at a premium.

Q.78: Preference shares amounting to Rs. 2,00,000 are redeemed at a premium of 5%, by issue of shares amounting to Rs. 1,00,000 at a premium of 10%. The amount to be transferred to capital redemption reserve =?

A) Rs. 1,05,000 B) Rs. 1,00,000

C) Rs. 2,00,000 D) Rs. 1,11,000

Q.79: A company cannot issue redeemable preference shares for a period exceeding _________.

A) 6 years B) 7 Years

C) 8 years D) 20 years

Q.80: The balance appearing in books of a company at the end of year were: CRR A/c Rs. 50,000, Security Premium Rs. 5,000 Revaluation Reserve Rs. 20,000, P & L A/c (Dr.) Rs. 10,000. Maximum amount available distribution of Bonus shares will be:

A) Rs. 50,000

B) Rs. 55,000

C) Rs. 45,000

D) Rs. 57,000

Q81 : Premium on redemption of debentures account appearing in the balance sheet is ______________.

A) A real account

B) A nominal account-income

C) A personal account

D) A nominal account – expenditure

Q.82: T Ltd. has issued 14% Debentures of Rs. 20,00,000 at a discount of 10% on April 01,2004 and the company pays interest half-yearly on June 30 and December 31 every year. On March 31, 2006, the amount shown as “interest accrued but not due” in the Balance sheet will be

A) Rs. 70,000

B) Rs. 2,10,000

C) Rs. 1,40,000

D) Rs. 2,80,000

Q83 : The underwriting commission in case of issue of debentures can’t exceed:

A) 2.5%

B) 3%

C) 3%

D) 5%

Q84 : Deep Ltd. issued 1,00,000 7% Debentures of Rs. 100 each at a discount of 4% redeemable after 5 years at a premium of 6%. Loss on issue of debentures is :

A) Rs. 10,00,000 B) Rs. 6,00,000

C) Rs. 16,00,000 D) Rs. 4,00,000

Q85 : In the balance sheet of a Company, Debentures are shown under the head:

A) Secured Loans

B) Unsecured Loans

C) Reserves and Surplus

D) Current liabilities

Q86 : When debentures are issued as collateral security, the final entry for recording the collateral debentures in the books is _________.

A) Credit Debentures A/c. and debit cash A/c.

B) Debit Debenture suspense A/c and credit cash A/c

C) Debit Debenture suspense A/c and credit debentures A/c

D) Debit cash A/c and credit the loan A/c for which security is given

Q87 : F Ltd. purchased Machinery from G Company for a book value of Rs. 4,00,000. The consideration was paid by issue of 10% debentures of Rs. 100 each at a discount of 20%. The debenture account was credited with _______.

A) Rs. 4,00,000 B) Rs. 5,00,000

C) Rs. 3,20,000 D) Rs. 4,80,000

Q.88 : Which of the following statements is false?

A) A company can issue convertible debentures

B) Debentures cannot be secured

C) A company can issue redeemable debentures

D) Debentures have no right to participate in profits over and above their fixed interest

Q89. The profits of last five years are 1,70,000; 1,80,000; 1,40,000; 2,00,000 and 1,60,000. Find the value of goodwill, if it is calculated on average profits of last five year on the basis of three year's purchase.

(a) 1,70,000 (b) 5,10,000

(c) 5,30,000 (d) 5,70,000

Q90. The profits for the last three years are 40,000; 2003-04 Profits 60,000 & 2004-05 Profits 66,500. The total liabilities of the firm are 10,00,000 of which outsiders liabilities is 5,42,500. The rate of interest expected from capital invested is 10%. The value of goodwill on capitalization basis of super profit:

(a) 97,000 (b) 97,250

(c) 97,500 (d) 97,750

Q91. AS 22 issued by ICAI deals with:
(A) Disclosure of accounting Policies (B) Intangible Assets
(C) Accounting for Income Tax (D) Government grants

Q92. AS 12 issued by ICAI deals with:
(A) Disclosure of accounting Policies (B) Intangible Assets
(C) Accounting for Income Tax (D) Government grants

Q93. AS 20 issued by ICAI deals with:
(A) Earning Per share (B) Intangible Assets
(C) Accounting for Income Tax (D) Government grants

Q94. Ind AS 2 is related with the following
(A) Impairment of Asset (B) Operating Segment
(C) Inventories (D) None of the above

Q95. Ind AS 108 is related with the following
(A) Leases (B) Operating Segment
(C) Inventories (D) None of the above

Q96. Which section of companies Act, 2013 deals with auditors report:
(a) 143 (b) 147 (c) 148 (d) 154

Q.97 Which of the following is not a managerial person for the purpose of Section 197?
(a) Managing Director (b) Manager
(c) Part Time Director (d) None of the above

Q.98 What is the maximum remuneration payable if the company has one Managing Director ?
(a) 6% (b) 10% (c) 11% (d) 5%

Q99. The part of share capital which can be called up only on the winding up of a company is called:
(A) Authorised Capital (B) Called Up Capital
(C) Reserve Capital (D) Capital Reserve

Q100. "Unpaid Dividend" is shown in the balance sheet of a company under the head:
(A) Reserve and Surplus (B) Provision
(C) Current Liability (D) Non Current liabilities

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EXECUTIVE PROGRAMME

CORPORATE AND MANAGEMENT ACCOUNTING

PRACTICE TEST PAPER 2

Time allowed: 3 hours Maximum Mark: 100

Q1. Trade Receivable is a:
(A) Real Account (B) Personal Account
(C) Nominal Account (D) None of these

Q2. Accrued Interest is a:
(A) Real Account (B) Personal Account
(C) Nominal Account (D) None of these

Q3. Unearned Commission is a:
(A) Real Account (B) Personal Account
(C) Nominal Account (D) None of these

Q4. Balance of Petty Cash Book is an:
(A) Income (B) Expense
(C) Asset (D) Liability

Q5. Ledger Book is also known as:
(A) Original Book (B) Subsidiary Book
(C) Principal Book (D) None of the above

Q6. Which accounting concept state that Closing stock should be valued at cost or market value, whichever is lower:
(A) Going Concern Concept (B) Accounting Entity Concept
(C) Money Measurement Concept (D) Conservatism Concept

Q7. Which of the following would be considered an internal user of the financial statement?
(a) Shareholder
(b) Creditor
(c) Debtor
(d) Finance Manager

Q8. Dividend is to be paid is calculated as a percentages of:
(A) Authorised Capital (B) Called Up Capital
(C) Paid up Share Capital (D) Issued Share Capital

Q.9 How much remuneration will be payable if there are two whole-time directors, a part-time director and a manger.
(a) 5% (b) 10% (c) 11% (d) 3%

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Q.10 If effective capital of the company is 250 crores and above, it may pay remuneration to the managerial person not exceeding:

(a) Rs 120 lakhs plus 0.08% of the effective capital in excess of Rs 250 crore
(b) Rs 160 lakhs plus 0.01% of the effective capital in excess of Rs 250 crore
(c) Rs 190 lakhs plus 0.05% of the effective capital in excess of Rs 250 crore
(d) Rs 120 lakhs plus 0.01% of the effective capital in excess of Rs 250 crore

Q11. CARO, 2016 is applicable over a private limited company, having paid up capital and reserves and surplus is Rs. 1crore or more as on the balance sheet date. For this purpose,

(a)Paid- up share capital would include equity share capital only.

(b)Amount of calls unpaid should be added to the figure of paid- up capital.

(c) Amount originally paid-up on forfeited shares should be added to the figure of paid-up capital.

(d) Share application money received should be considered as part of the paid-up capital.

Q.12 Reporting under CARO, 2016 will be required in case of which companies:
(a) X Pvt Ltd. which is a subsidiary of ABC Ltd. a listed company
(b) X Pvt Ltd. which is One-person company, having paid up capital of Rs 105 lacs.
(c) X Pvt Ltd. which is a Small Company, having outstanding borrowings form banks in excess of Rs 1 Cr.
(d) All of the above.

Q13. AS 26 issued by ICAI deals with:
(A) Disclosure of accounting Policies (B) Intangible Assets
(C) Cash Flow Statements (D) Government grants

Q14. International Accounting Standards are issued by ________________________.
(A) International Accounting Standard Board
(B) Accounting Standard Board
(C) Accounting Standard Committee
(D) None of the above

Q15. To determine whether an intangible assets is impaired, an enterprise applies:
(A) AS 25 (B) AS 28
(C) AS 26 (D) AS 29

Q16. Ind AS 104 deals with
(A) Share based Payment (B) Insurance Contract
(C) Evaluation of mineral resources (D) None of the above

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Q.17 AS-8 on Accounting for Research and Development:
(a) Is replaced by AS -26
(b)Is applicable only to listed companies
(c) Is mandatory for Research institutions
(d) Is still in use

Q.18 The purpose of Accounting Standards is to :
(a) Harmonise accounting policies
(b) Eliminate the non comparability of financial statements
(c) Improve reliability of financial statements
(d) All of the above
Q.19 FASB Stands for:-
(a) Financial Accounting Standard Board
(b) Financial Accounting System Board
(c) Financial Accounting Securities Board
(d) None of the above

Q.20 APB stands for:
(a) Auditing Professional Board
(b) Auditing Practices Board
(c) Auditing Professional Body
(d) None of the above
Q21. Ind AS 19 is related with the following
(A) Leases (B) Employee Benefit
(C) Income Tax (D) None of the above

Q22. The securities Premium accounts must be shown as "Securities premium reserve" separately on the liability side of the balance sheet under the head ____________________.
(A) Current Assets (B) Non-current assets
(C) Reserve & Surplus (D) Current liabilities

Q23. The maximum amount beyond which a company is not allowed to raise funds, by issue of shares is known as __________.
(A)Issued capital (B) Reserve capital (C) Nominal capital (D) Subscribed capital

Q24. The subscribed share capital of Sun Ltd. is Rs 90,00,000 of Rs 100 each. There were no calls in arrears till the final call made. The final call made was paid on 80,000 shares and the total amount of calls in arrears amounted to Rs 250,000. The amount of final call per share made was:
(A) Rs 20 (B) Rs 25
(C) Rs 100 (D) Rs 50

Q25. The director of X Ltd. made a final call of Rs 40 per share on 1st Oct 2017 indicating the last date of payment of call money to be 31st Oct 2017.
Mr. Mohit holding 6,000 shares paid the call money on 15th Jan 2018. If the company adopts Table F, the amount of interest on calls in arrears to be paid:
(A) Rs 6,000 (B) Rs. 8,000
(C) Rs 5,000 (D) Rs 7,000

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Q26. The following information pertains to X ltd.

Equity Share capital (Called up)	Rs 500,000
Calls in arrears	Rs 40,000
Calls in advance	Rs 25,000
Dividend Payable	15%

The amount of dividend payable:

(A) 69,000
(B) 72,750
(C) 75,000
(D) None of the above

Q27. John Ltd. acquired business of Star Ltd at an agreed price of Rs 18,00,000. In consideration, received sundry assets worth Rs 35,00,000 and Sundry liabilities worth of Rs 14,00,000. It was further decided to settle Rs 300,000 through a draft and for balance, issue equity shares of Rs 100 each at premium of 25%. Calculate the amount of capital reserve and no. of share issued.

(A) Rs 300,000 and 12,000 share
(B) Rs 300,000 and 14,400 share
(C) Rs Nil and 14,400 share
(D) None of the above

Q28. X was issued 100 shares of Rs 10 each at premium of Rs 1 per share, he paid application money and allotment money which is in total to Rs 5 (excluding premium) and failed to pay the balance final call of Rs 5 per share. Find the maximum discount that can be given at the time reissue of shares:

(A) Rs 4 per shares
(B) Rs 5 per shares
(C) Rs 2 per shares
(D) Rs 6 per shares

Q29. Lilies Ltd. issued 100,000 equity shares, where the issue was underwritten by 3 underwriters as follows: A 40%; B 30%; C 30%

Applications for 60,000 shares were received in all, out of which applications for 20,000 shares had the stamp of A; those for 10,000 shares that of B and those for 20,000 shares that of C. The remaining applications for 10,000 shares did not bear any stamp. Determine the net liability of the A and B.

(A) 20,000 shares & 20,000 shares
(B) 16,000 shares and 7,000 shares
(C) 16,000 shares & 17,000 shares
(D) None of the above

Q30.In case of underwriting of equity or preference shares, the maximum rate of companies payable to the underwriters as per companies Act 2013:

(A) 2.5%
(B) 5%
(C) 7.5%
(D) 4%

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Q31. Sections ___________ of the companies Act 2013, provides that a company may pay commission to underwriters.

(A) 40(6)
(B) 76(6)
(C) 41(6)
(D) 43(6)

Q32. X Ltd. issued to public 150,000 10% Debentures of Rs 100 each issued at Rs 96 per share. The entire issue is underwritten by M Ltd. Marked Applications received by the company are 120,000 debentures. The underwriters discharged liability and were paid commission at the rate of 2% on the nominal value of debentures. What is the underwriting commission payable to M Ltd.

(A) Rs 300,000
(B) Rs 288,000
(C) Rs 360,000
(D) Rs 750,000

Q33. Royal Ltd. came up with a public issue of 200,000 equity share of Rs 10 each at Rs 20 per share. A, B and C took underwriting of the issue in the ratio of 3:2:1 with the provisions of firm underwriting of 10,000, 4,000 and 5,000 shares respectively.

Applications were received for 150,000 shares excluding firm underwriting. The marked applications from the public were received as under:

A – 70,000 shares, B – 40,000 shares; C – 40,000 shares

Compute the net liability of A, B and C as regards the number of shares to be taken up assuming that the benefit of firm underwriting is not given to individual underwriters.

(A) 14,600, 16,400 and NIL
(B) 20,500, 20,334 and Nil
(C) 13,000, 18000 and NIL
(D) None of the above

Q34. Doon Ltd. issued 20,000 equity shares of Rs 100 each at Rs 160. 30% of the issue is reserved for promoters. 60% of the public issue is underwritten by Mr. A for a commission permitted by Companies Act. Calculate commission payable to Mr. A

(A) Rs 160,000
(B) Rs 67,200
(C) Rs 96,000
(D) None of the above

Q35. Which of the following reserves can be used for issuing fully paid up bonus shares.
(A) Capital Redemption Reserve (B) Investment Allowance Reserve

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(C) Development Rebate Reserve (D) Debenture Redemption Reserve

Q36. Which of the following reserves cannot be used for issuing bonus call?

(A)General Reserve (B) Surplus

(C) Capital reserve (Realized in cash) (D) Capital Redemption Reserve

Q37. Which of the following reserves can be used if partly paid up shares are converted in fully paid up by way of bonus call.

(A) Plant revaluation reserve (B) Surplus

(C) Investment Allowance Reserve (D) Development Rebate Reserve

Q38. When Preference shares are redeemed out of profits otherwise available for dividend, a sum equal to the nominal value of the shares redeemed must be transferred to ______________________.

(A) Debenture Redemption Reserve
(B) Security Premium Reserve
(C) Dividend Equalisation Reserve
(D) Capital Redemption Reserve

Q39. Capital Redemption Reserve can be utilised for the

(A) Write off Preliminary Expenses
(B) Issue of Fully Paid Bonus Shares
(C) Write off the premium on redemption of shares or debentures
(D) All of the above

Q40. Security Premium Reserve can be utilised:

(A) To write off preliminary expenses
(B) To write off premium on redemption of preference shares or debentures
(C) To write off underwriting commission
(D) All of the above

Q41. 10% Preference Shares of Rs 200,000 are redeemed at 10% premium.

Security Premium – Rs 50,000

Profit & Loss Account – Rs 300,000

Issue 5,000 equity shares of Rs 10 each at premium of 10% for the purpose of redemption.

Calculate CRR to be created.

(A) Rs 200,000 (B) Rs 170,000
(C) Rs 150,000 (D) Rs 175,000

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Q42. Preference shares amounting to Rs 300,000 are redeemed at a premium of 5%, by issue of equity shares amounting to Rs 200,000 at a premium of 10%. How much amount is to be transferred to CRR?

(A) Rs 300,000
(B) Rs 200,000
(C) Rs 100,000
(D) Rs 210,000

Q43. Preference Shares of Rs 200,000 are redeemed at 10% premium.
Security Premium – Rs 50,000
General Reserve – Rs 30,000
Profit & Loss Account – Rs 10,000
Workmen Compensation Reserve – Rs 20,000 (out of which workmen compensation claim Rs 10,000)
Revaluation Reserve – Rs 10,000
Capital Reserve – Rs 25,000
Issue Sufficient equity shares of Rs 10 each at premium of 10%.
Calculate number of shares to be issued.

(A) 20,000 shares
(B) 14,000 shares
(C) 15,000 shares
(D) 13,000 shares

Q44. The board of directors of a company decided to issue minimum number of equity shares of Rs 8 each to redeem 45,000 preference shares of Rs 10 each. The maximum amount of distributable profit is Rs 250,550. Number of shares required to be issued by a company to ensure that provision of section 55 are not violated. Also determine the number of shares, if the company decided to issue shares in multiple of Rs 50 only.

(A) 24,931 and 24950
(B) 24,931 and 24900
(C) 24,932 and 24,950
(D) 24,932 and 24,900

Q45. Following are the relevant extract of the Balance sheet of Bright Ltd.

10% Preference share capital	Rs 10,00,000
General Reserve	Rs 15,00,000
Investment	Rs 520,000
Cash at Bank	Rs 250,000

In order to facilitate the redemption of preference shares at a premium of 10%, the company decided:

I. To sell all the investment for Rs 500,000
II. To finance part of redemption from company funds, subject to, leaving a bank balance of Rs 50,000.
III. To Issue minimum equity shares of Rs 10 each at a premium of Rs 10 per share to raise the balance of funds required.

Calculate number of equity shares to be issued and CRR to be created.

(A) 20,000 shares and Rs 800,000
(B) 40,000 shares and Rs 600,000
(C) 10,000 shares and Rs 900,000
(D) None of the above

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Q46. Following are the relevant extracts from the balance sheet of the RED Ltd.

20,000 Preference shares of Rs 100 each, fully paid up	Rs 20,00,000
8,000 Preference shares of Rs 100 each, Rs 80 paid up	Rs 640,000
General Reserve	Rs 24,00,000

The Board of directors decided to redeem preference shares at 10% premium out of divisible profits. How much CRR is required to be created?

(A) Rs 26,40,000 (B) Rs 20,00,000
(C)Rs 24,00,000 (D) Rs 640,000

Q47. A company may issue preference shares for a period exceeding 20 years but not beyond 30 years for____________________.

(A) Hospitality Project (B)Consumer Project
(B) Educational Project (D) Infrastructure Project

Q48. A special resolution passed at general meeting of the company authorizing buy back of shares is not required when:

(a) The buy back is 10% or less of the total paid up equity capital and free reserves of the company.
(b) Buy back has been authorized by the board by means of a resolution passed at its meeting.
(c) Both of the above
(d) None of the above

Q49. Zen Ltd. Issued 10,000, 7% debentures of Rs. 100 each at a discount of 4% redeemable after 5 years at a premium of 6%. Loss on issue on debentures is:

(a) Rs. 100,000 (B) Rs. 60,000
(C) Rs. 160,000 (D) Rs. 40,000

Q50. Josh Ltd. Issued 2,000, 10% debentures of Rs. 100 each at a discount of 10%. The debentures are redeemable at a premium of 10% after 8 years. You are required to compute the loss on issue of debentures to be written off each year.

(a) Rs. 8,000 (b) Rs. 5,000
(c) Rs. 40,000 (d) Rs. None of the above

Q51. X Ltd. Took over the assets of Rs. 6,00,000 and liabilities of Rs. 80,000 of C Ltd. for an agreed purchase consideration of Rs. 5,40,000 to be satisfied by the issue of 10% debentures of Rs. 1,000 each. The difference between Net Assets taken over and purchase consideration will be transferred to

(a) Goodwill A/C (b) Capital reserve A/C
(c) Securities premium A/C (d) Discount on issue A/C

NITESH KR. JAISWAL CS CLASSES

Q52. New Ltd. purchased a Machinery from Blue Ltd. for book value of Rs. 5,40,000. The consideration was paid by issue of 15% debentures of Rs. 100 each at a discount of 10%. The debentures account will be credited by

(a) Rs. 6,00,000 (b) Rs. 4,80,000
(c) Rs.5,40,000 (d) Rs. 5,00,000

Q53. Interest accrued and due (outstanding interest) will be shown in Balance sheet as

(a) None current liability (b) Current Liability
(c) None current assets (d) None of the above

Q54. On 1st April, 2010, Rosy Ltd. Issued 20,000, 13% debentures of Rs 100 each at 5% discount Debenture holders have an option to convert their holdings in 14% preference shares of Rs 100 each at a premium of Rs 25 per share. A holder of 100 debentures notified his intention to convert his holdings in 14% preference shares. How many preference shares will be issued to them?

(a) 200 preference shares (b) 50 preference shares
(c) 80 preference shares (d) 76 preference shares

Q55. __________ means the new debentures are issued in place of old debentures.

(a) Conversion (b) Rollover
(c) Renewal (d) None of the above

Q56. On 01.01.2017, Arav Ltd. Had outstanding in its books, 1000, 12% debentures of Rs 100 each. The interest is payable on 30th June and 31st December. In accordance with the deed, the directors acquired open market debentures for immediate cancellation as follows:

1st March 2017 – Rs 10,000 debentures @ Rs 98 (Cum-interest)
1st August 2017 – Rs 20,000 debentures @ Rs 100.25 (Cum –interest)
1st November 2017 – Rs 5,000 debentures @ Rs 98.50 (Ex-interest)

On the basis of above information calculate the amount transferred to Capital Reserve as on 31.12.2017?

(a) 600 (b) 725
(c) 700 (d) 625

Q 57. According t SEBI guidelines by what percentages of amount of debentures the debenture redemption fund will be raised before redemption?

(A) 40% (B) 50%
(C) 60% (D) 100%

Q58. If Total capital of subsidiary is Rs.3,00,000 and out of this Rs.2,40,000 is owned by Holding. What is the amount of minority interest if outside shareholder % is 20%.

(A) Rs. 2,40,000 (B) Rs. 60,000
(C) Rs. 48,000 (D) None of the above

NITESH KR. JAISWAL CS CLASSES

Q59. Statement 1: Contingent liability relating to outsiders must be shown on the liability side of the consolidated balance sheet.
Statement 2: Contingent liability relating to outsiders must be shown by way of footnote of the consolidated balance sheet.
(A) Both the statement are correct
(B) Both the statements are incorrect
(C) Statement 1 is correct; Statement 2 is incorrect
(D) Statement 2 is correct; Statement 1 is incorrect

Q.60 Investment normally qualifies as a cash equivalent only when it has a short maturity of any ______ or less.
(a) 5 months (b) 6 months (c) 4 months (d) 3 months

Q.61 As per accounting standard 3 cash equivalent includes –
(a) Treasury bills (b) Commercial papers
(c) Monthly market funds (d) All of the above

Q62.Surplus from Balance sheet Rs 200,000
Transfer to General Reserve Rs 30,000
Interim Dividend Rs 20,000
Provision for Taxation Rs 30,000
Tax Paid Rs 25,000
Cash Flow from Operating activities:
(A) Rs 170,000 (B) Rs 220,000
(C) Rs 255,000 (D) None of the above

Q63. Company provides the following information:

	31/3/2017	31/3/2018
Provision for Tax	Rs 40,000	Rs 30,000
Tax made during the year	Rs 70,000	
Profit after tax for the current year	Rs 200,000	

Cash Flow from Operating Activity will be:
(A) Rs 260,000 (B) Rs 190,000
Q64. If sale price of a product if Rs 85,800 and the profit margin on cost is 10%, the amount of profit will be:
(A) Rs 7,800 (B) Rs 8,580
(C) Rs 7,200 (D) Rs 9,533

Q65. Cost of Production plus opening stock less closing stock of finished goods is equal to:
(A) Prime Cost (B) Works/ Factory Cost
(C) Cost of good sold (D) Cost of sales

Q66. Direct Material Cost — Rs 45,000
Direct Labour Cost — 40% of direct Material Cost
Royalties on Production — Rs 4,000
Other Direct Expense — 20% of Prime Cost
Prime Cost will be:
(A) Rs 80,400
(B) Rs 90,000
(C) Rs 83,750
(D) None of the above

Q67. Cost of Production for 10,000 units — Rs 160,000
Opening Stock of FG(1,000 units) — Rs 18,000
Closing Stock of FG (FIFO) — 2,000 units
Selling and Distribution Expenses — Rs 2 per unit
Profit mark up on Selling price — 20%
The amount of Profit will be:
(A) Rs 39,000
(B) Rs 41,000
(C) Rs 40,000
(D) None of the above

Q68. Item(s) excluded from the cost sheet are:
(A) Direct Material
(B) Administration Overhead
(C) Provision for Taxation
(D) All of the above

Q69. Item(s) excluded from the cost sheet are:
(A) Debenture interest
(B) interest paid on bank deposit
(C) Dividend paid on share capital
(D) All of the above

Q70. Which of the following does not form part of prime cost:
(A) Cost of packing
(B) Cost of transportation paid to bring raw material to factory
(C) GST paid on purchase of raw material
(D) Overtime premium paid to workers.

Q71. A company pays royalty to state government on the basis of production, it is treated as:
(A) Direct expenses
(B) Factory Overhead
(C) Direct Material Cost
(D) Administration Overhead

Q.72 Unit produced – 1,00,000
Inspection cost – Rs 5,00,000 (80% Variable)
Calculate Inspection cost of 2,00,000 units
(a) Rs 9,00,000
(b) Rs 8,00,000
(c) Rs 10,00,000
(d) None of the above

Q.73 Cost maintenance of an equipment for 12,000 hours of running is Rs 1,70,000 and for 18,500 hours of running. It is Rs 2,09,000. The cost of maintenance for 14,000 hours will be –
(a) Rs 1,81,500
(b) Rs 1,80,000
(c) Rs 1,82,000
(d) Rs 1,90,000

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Q.74 Following information is related to Product- A:
In 2015, variable cost was Rs 200 per unit and fixed cost Rs 40 per unit. Production was 1,20,000 units. It is expected that production in 2016 will increase to 1,60,000 units. The variable cost will increase by 25% and fixed cost by 10% in 2016.
The amount of fixed cost in 2016 will be –
(a) Rs 52,80,000 (b) Rs 70,04,000 (c) Rs 64,00,000 (d) Rs 48,00,000

Q.75 A budget designed to remain unchanged irrespective of the level of activity actually attained is called
(a) Master budget (b) Fixed budget
(c) Current budget (d) Flexible budget

Q.76 To produce one unit of 'A' , two ingredients, i.e., 2 Kg of X and 3 Kg of Y are required :

Stick Levels	Opening	Closing
A (Units)	5,000	8,000
X (Kg)	11,000	14,000
Y (Kg)	18,000	21,000

What will be the quantity of consumption of ingredients X and Y, if 20,000 units of A are sold
(a) 46,000 Kg and 69,000 kg (b) 49,000 Kg and 72,000 Kg
(c) 40,000 Kg and 60,000 Kg (d) 43,000 Kg and 63,000 Kg
Q.77 ABC Ltd. produces and sells a single product. Sales budget to the calendar year 2015 for each quarter is as under:
No of units to be sold :

Quarter –I	:	12,000
Quarter –II	:	15,000
Quarter –III	:	16,500
Quarter – IV	:	18,000

The year 2015 is expected to open with an inventory of 4,000 units of finished product and close with an inventory of 6,500 units. Production is customarily scheduled to provide for two – thirds of the current quarter's demand plus one –third of the following quarter's demand . Production for Quarter –IV would be –
(a) 13,500 units (b) 15,500 units (c) 17,700 units (d) 18,500 units

Q.78 Traditional budgeting is accounting oriented whereas zero base budgeting is –
(a) Activity oriented (b) Decision budgeting
(c) Event oriented (d) None of the above

Q79. Budgeted standard hours of a factory are 15,000. The capacity utilization ratio for May, 2016 is 85% and efficiency ratio for the month is 120%. The standard hours for actual production in the month will be –
(a) 12,750 (b) 18,000 (c) 15,300 (d) 17,000

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Q.80 Budgeted sales of Product –X for March, 2016 are 25,500 units. At the end of production process, 10% of net production units are scrapped as defective. Opening stock of Product –X for March is budgeted to be 15,000 units and closing stock will be 12,000 units. All stock of finished goods must have successfully passed the quality control check. The production budget of Product – X for March,2016 is –

(a) 25,000 units (b) 25,500 units (c) 25,900 units (d) 20250 units

Q.81 The following information is available :

Wages for January : Rs 20,000

Wages for February : Rs 22,000

Delay in payment of wages : ½ month

The amount of wages paid during the month of February is –

(a) Rs 11,000 (b) Rs 22,000 (c) Rs 20,000 (d) Rs 21,000

Q.82 Which of the following formula is used to calculate Activity ratio –

(a) $\frac{\text{Actual hours}}{\text{Budgeted Hours}} * 100$

(b) $\frac{\text{Standard hours for actual production}}{\text{Actual hours}} * 100$

(c) $\frac{\text{Standard hours for actual Production}}{\text{Budgeted Standard hours}} * 100$

(d) $\frac{\text{Actual Hours}}{\text{Standard hours for actual production}} * 100$

Q. 83 A _____is a booklet specifying the objective of an organization in relation to its spending strategy.

(a) Budgetary control (b) Budget manual

(c) Key factor (d) Budget controller

Q84.

	2018 (Rs.)	2019 (Rs.)
Sales	550,000	6,00,000
Variable Cost	280,000	320,000

Calculate break even point assuming fixed cost to be Rs 50,000

(a) Rs 7,00,000 (b) Rs 250,000 (c) Rs 100,000 (d) None of the above.

Q.85. Selling price per unit Rs 500

Contribution margin ratio 40%

Fixed cost Rs 2,25,000

How much sales is needed to earn 30% on sales?

(a) Rs 10,00,000 (b) Rs 15,00,000

(c) Rs 30,00,000 (d) 25,00,00

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Q.86. Actual Sales 20,000 units

Selling Price per unit Rs 50

Break Even sales Rs 200,000

Calculate Margin of safety

(A) 80% (B) 20%

(C) 40% (D) 50%

Q87.	Machine A	Machine B
Variable Cost per unit	Rs 10	Rs 5
Fixed Cost	Rs 20,000	Rs 30,000

Calculate how many units must be produced to be indifferent between both machines.

(A) 2,000 units (B) 3,000 units

(C) 4,000 units (D) 1,000 units

Q88. Current ratio is 2.5:1 and Liquid Ratio is 1.5:1, If inventory is Rs 960,000, then the amount of current assets will be:

(A) Rs 9.6 Lakh (B) Rs 14.40 lakh (C) Rs 24 Lakh (D) Rs 38.40 Lakh

Q89. Debentures Rs 4,00,000

Long term loans Rs 2,00,000

Preference Share capital Rs 2,00,000

Equity Share Capital Rs 2,00,000

Profit and Loss Account Rs 5,00,000

General reserves Rs 3,00,000

Calculate Capital Gearing ratio

(A) 0.80 (B) 0.67 (C) 0.30 (D) 0.375

Q90. Profit after Tax Rs 200,000

10% Debentures Rs 400,000

8% Preference Share Capital Rs 500,000

Number of equity share Rs 10,000

Calculate Earnings per share

(A) Rs 15 (B) Rs 16 (C) Rs 20 (D) Rs 12

Q91. In an company, profit after interest, tax and dividend on preference share is Rs 6,00,000. The number of equity share is 60,000 and dividend payout ratio is 60%. The retained earning per share is –

(A) Rs 4 (B) Rs 25 (C) Rs 10 (D) Rs 6

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Q92. Average Debt Collection period – 2 months
Total sales – Rs 20,00,000
Cash sales – Rs 800,000
Calculate average debtors
(A) Rs 3,33,333 (B) Rs 133,333 (C) Rs 2,00,000 (D) None of these

Q93. Stock turnover : 6 times
Total sales : Rs 3,00,000
Gross profit ratio : 20%
Closing stock : Rs 4,000 more than opening stock
The opening stock is
(A) Rs 36,000 (B) Rs 38,000 (C) Rs 40,000 (D) Rs 42,000

Q94. From the following information is given:

Total Sales	Rs 24,00,000
Inventory Turnover Ratio	4.80 times on the basis of COGS
Gross Profit Ratio	25% on Cost

Closing Inventory is Rs 60,000 more than opening inventory.
The amount of opening inventory and purchase will be:
(A) Rs 345,000 and Rs 18,60,000 (B) Rs 370,000 and Rs 1980,000
(C) Rs 375,000 and Rs 19,20,000 (D) None of the above

Q95. The net profit margin of S Ltd. is 8%, its total assets are Rs 800,000 and the return on investment is 14%. Total assets turnover ratio will be:
(A) 2.05 (B) 1.75 (C) 4 (D) 2

Q96. ROI is also known as:
(A) Du-Point Chart (B) Dividend Payout Ratio
(C) Liquid Ratio (D) Market Test Ratio

Q97. Which is not social purpose of Cost audit:
(A) Promoting the corporate governance
(B) Facilitating the fixation of prices of goods and services
(C) Improvement of human productivity
(D) Pinpointing the area of inefficiency

Q98. Section 148 of the companies Act, 2013 gives:
(A) Same power to the cost auditor as the financial auditor has u/s 143 of the companies Act 2013
(B) More power to the cost auditor as the financial auditor has u/s 143 of the companies Act 2013
(C) Less power to the cost auditor as the financial auditor has u/s 143 of the companies Act 2013
(D) No power to the cost auditor as the financial auditor has u/s 143 of the companies Act 2013

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Q99. Every Cost auditor, shall submit the cost audit report along with his reservation, qualification or suggestion, if any, in form:

(A) Form CAR-1
(B) Form CAR -2
(C) Form CAR -3
(D) Form CAR -4

Q100. Every cost auditor shall forward his duly signed cost audit report to the board of directors of the company within a period of ______________ from the closure of the financial year to which the cost audit report relates.

(A) 180 Days
(B) 90 days
(C) 150 days
(D) 45 days

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1. Mines as asset is an example of :
   (A) Current Asset
   (B) Vesting Asset
   (C) Fictitious Asset
   (D) Intangible Asset

2. At the time of preparation of Balance Sheet, Capital Work-in-progress is shown in the head of :
   (A) Share Capital
   (B) Non-current Liabilities
   (C) Current Assets
   (D) Non-current Assets.

3. As per ICAI Guidance Note, at the end of the year, balance of Share Options Outstanding Account should be shown under the :
   (A) Current Liabilities
   (B) Reserve and Surplus
   (C) Current Assets
   (D) Non-current Liabilities

4. Shiva Ltd. forfeited 4,500 equity shares of ₹ 10 each (which are issued on 40% pro-rata (basis) for non-payment of allotment @ ₹ 6 (including premium of ₹ 2.50) and first and final call ₹ 3 per share. If the excess money received on application is used for receiving the amount due as securities premium, what amount should be credited to 'Shares Forfeited Account'?
   (A) ₹ 15,750
   (B) ₹ 28,125
   (C) ₹ 39,375
   (D) ₹ 13,500

5. P Ltd. forfeited 5,000 equity shares of ₹ 10 each for non-payment of first and final call of ₹ 2.50 per share which were issued at a premium of ₹ 3 per share receivable at allotment. Out of these, 3,200 shares are re-issued at ₹ 8 per share as fully paid up. The amount transferred to Capital Reserve will be :
   (A) ₹ 37,500 (B) 31,100
   (C) 24,400 (D) 17,600

6. C Ltd. invited applications for the issue of 20 Lakh equity shares of ₹ 10 each payable ₹ 3 on application and ₹ 7 on allotment. Applications were received for 35 Lakh equity shares. Applications for 7 Lakh shares were rejected and pro-rata allotment was made to remaining applicants. Excess application money was adjusted on the sums due on allotment. Ravi could not pay allotment money on his 2500 allotted shares. The amount received on allotment will be:
   (A) Rs 139,92,500 (B) Rs 115,92,500
   (C) Rs 104,86,800 (D) Rs 115, 85,500

7.

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8. Rule 17 of the Companies (Share Capital and Debenture) Rule, 2014, is related to :

(A) Issue of right shares
(B) Buy-back of shares or other securities
(C) Issue of sweat equity shares
(D) Employee stock option plan

9. In case of buy-back of shares, passing of the special resolution is not required if :

(A) the buy-back is 10% or less of the total paid-up equity capital of the company
(B) the buy-back is 25% or less of the total paid-up equity capital of the company
(C) the buy-back is 10% or less of the total paid-up equity capital and free reserves of the company
(D) the buy-back is 25% or less of the total paid-up equity capital and free reserves of the company

10. For the companies whose financial statements comply with the accounting standards as prescribed in Section 133 of the Companies Act, 2013, the premium payable on redemption of preference shares shall be provided out of :

(A) the profits of the company only
(B) the securities premium only
(C) any of either profits of the company or securities premium
(D) none of the above

11. The Capital Redemption ReserveAccount may be used by the company :

(A) In the issue of fully paid-up bonus shares
(B) In conversion of partly paid-up shares into fully paid-up
(C) In writing off the preliminary expenses of the company
(D) In distribution of dividend among shareholders

12. A company offered 2,50,000 equity shares to public for subscription. 70% of public issue was underwritten by G. Her firm underwritten was for 40,000 shares. Public subscribed for 1,30,000 shares. What is the net liabilities of G if as per underwriting agreement no credit is given to underwriter G for her firm underwritten shares ?

(A) 4,000 Shares
(B) 85,000 Shares
(C) 96,000 Shares
(D) 56,000 Shares

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13. The entry—"Debentures Suspense A/c Dr., To Debentures A/c" can be passed/ done :

(A) On the issue of debentures for the consideration other than cash.

(B) On the issue of debentures as collateral security.

(C) For rectification of the error relating to balance of debentures account.

(D) On the issue of debentures at discount but redeemable at premium.

14. C Limited issued 8% Debentures of ₹ 65,00,000 at 5% discount which are redeemable at a premium of 10%. On recording the transaction "Loss on Issue of Debentures Account" will be :
(A) Debited by ₹ 3,25,000
(B) Debited by ₹ 6,50,000
(C) Debited by ₹ 9,75,000
(D) Credited by ₹ 3,25,000

15. M Ltd. issued 8% Debentures of ₹ 60 Lakh on 1st January, 2019 at a discount of 10%. The debentures are redeemable in threeequal instalments of ₹ 20 Lakh each payable on 31st December every year. The amount of discount to be written at the end of the year on 31st March, 2021, will be :

(A) ₹ 2,00,000

(B) ₹ 1,00,000

(C) ₹ 1,50,000

(D) ₹ 1,75,000

16. S Ltd. had issued 80,000, 8% Debentures of ₹ 100 each redeemable on 31st December, 2019 at a premium of 20%. The company offered three options to debentureholders, out of which one is to convert their holdings into equity shares of ₹ 10 each at a premium of ₹ 3.50 per share. This offer was accepted by the holders of 49,275 debentures. For this, number of equity shares issued will be :

(A) 4,38,000
(B) 5,91,300
(C) 3,65,000
(D) 7,98,255

17. G Ltd. has 8,00,000, 12% Debentures of ₹ 100 each. During the year 2018-2019 the company purchased its own debenturesfrom the open market for immediate cancellation are as follows :
(i) Aug. 1, 2018 : 15000 Debentures @ ₹ 95.50 (ex-interest)
(ii) Jan. 1, 2019 : 25000 Debentures @ ₹ 101.50 (cum-interest)

If debenture interest is payable on 30th September and 31st March every year, then the amount of profit or loss on cancellation of debentures will be :

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(A) ₹ 30,000 (Profit)
(B) ₹ 70,000 (Profit)
(C) ₹ 67,500 (Profit)
(D) ₹1,05,000 (Profit)

18. The profit on cancellation of debentures should be transferred to :
(A) Securities Premium A/c
(B) Statement of profit and Loss
(C) General Reserve A/c
(D) Capital Reserve A/c

19. Every buy-back shall be completed within a period of .... from the date of the resolution or special resolution, as the case may be, passed by the Board.
(A) One month
(B) Three months
(C) Six months
(D) One year

20. Written down value of a machine as on 31st March 2019 is ₹ 6,65,558. Rate of depreciation on the basis of written down value method is 15%. What will be the cost of this machine purchased on 1^{st} April, 2014?
(A) ₹ 15,00,000
(B) ₹ 12,00,000
(C) ₹ 10,00,000
(D) ₹ 8,00,000

21. In G Ltd., there is one whole-time director and three part-time directors. The maximum rate of remuneration payable to all directors will be :
(A) 11%
(B) 8%
(C) 6%
(D) 10%

22. When the effective capital of a company is₹ 100 crore and above but less than ₹ 250 crore, the maximum remuneration payable as per Part-II of Schedule V of the Companies Act, 2013, by the company to its managerial personnel when the company has no profits or inadequate profits, will be :
(A) ₹ 42 Lakh
(B) ₹ 84 Lakh
(C) ₹ 120 Lakh
(D) ₹120 Lakh plus 0.01% of the effective capital in excess of ₹ 150 Lakh

23. Every company having turnover of ₹ .... during the immediately preceding financial year shall constitute a Corporate Social Responsibility Committee.
(A) 500 crore and more
(B) 1,000 crore and more
(C) 250 crore and more
(D) 100 crore and more

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24. Which of the following is not a type of segment as per AS-17 ?

(A) Geographical segment
(B) Business segment
(C) Industrial segment
(D) Reportable segment

25. Equity holder of a company who does not have the voting control of the company, by virtue of his or her below fifty percent ownership of the company's equity capital, termed as :

(A) Small shareholder
(B) Minority shareholder
(C) (A) or (B) Both
(D) None of these options

26. H Ltd. is a holding company of S Ltd. During the year 2018-19, Bills Receivable amounted to ₹ 4,00,000, out of total bills receivable of ₹ 5,00,000 received from S Ltd., were discounted by H Ltd. and S Ltd. had endorsed to its creditors all the bills received from H Ltd. amounting to ₹ 3,00,000. At the end of the year the amount of mutual debtors will be :

(A) Rs 800,000 (B) Rs 300,000
(C) Rs 200,000 (D) Rs 100,000

27. On 1st April, 2019, H Ltd. purchased 16,00,000 equity shares out of 20,00,000 equity shares of S Ltd. Following information is provided as on 31st March, 2019, by S Ltd. :

	₹
Equity Share Capital	2,00,00,000
General Reserve	45,00,000
Statement of Profit & Loss	32,00,000

On 1st April, 2019, a machine of S Ltd. revalued by H Ltd. 25% above its book value of ₹ 12,50,000. The amount of minority interest will be :

(A) ₹ 8,00,000
(B) ₹ 3,00,000
(C) ₹ 2,00,000
(D) ₹ 1,00,000

28. Holding of H Ltd. was 75% in S Ltd. Other information obtained from the books of S Ltd. were as under :

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	31st March, 2019 (₹ in Lakh)
Share Capital	150
General Reserve	25
Surplus:Statement of Profit and Loss	35
Capital Reserve	10

If the cost of investment in shares of S Ltd., for H Ltd. was ₹ 162 Lakh, the amount of cost of control would be :

(A) ₹12 Lakh (Goodwill)
(B) ₹3 Lakh (Goodwill)
(C) ₹ 3 Lakh (Capital Reserve)
(D) ₹ 4.50 Lakh (Goodwill)

29. The main purpose of the preparation of consolidate statements is :

(A) the compliance of AS-21
(B) to satisfy the legal provision of the Companies Act, 2013
(C) to reflect a true and fair view of the position and the profit or loss of the holding company 'group'
(D) All the above

30. Company Auditor's Report Order, 2016, was issued by the :

(A) Institute of Chartered Accountants of India
(B) Ministry of Corporate Affairs of Government of India
(C) Comptroller and Auditor General of India
(D) Ministry of Finance of Governmentof India

31. Company Auditor's Report Order (CARO), 2016 is not applicable to :

(A) Insurance Company
(B) Company registered for charitable purpose
(C) One person company
(D) All of the above

32. As per Section 149(1) of the Companies Act, 2013, the paid-up share capital requirement for non-listed company, having at least one woman director is :

(A) Rs 10 cr or more
(B) Rs 100 or more
(C) Rs 1000 crore or more
(d) Rs 500 crore or more

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33. As per the concept of value added statement, "Gross value Added" is :

(A) Distributed to employees in the form of salaries and wages, to government in the form of taxes and duties, to financer in the form of interest.

(B) Distributed to government in the form of taxes and duties, to financer in the form of interest, to shareholders in the form of dividend.

(C) Distributed to employees in the form of salaries and wages, to government in the form of taxes and duties, to financer in the form of interest.

(D) Distributed to employees in the form of salaries and wages, to government in the form of taxes and duties, to financer in the form of interest, to shareholders in the form of dividend and the remaining balance in the form of retained earning.

34. The term 'Calls in Arrears' is shown in the company's balance sheet :

(A) Under current liabilities
(B) Under current assets, loans and advances
(C) As deducted from called up capital
(D) Non-current liabilities

35. At the time of forfeiture of shares the share capital account will be :

(A) Debited with paid up value of share forfeited
(B) Debited with called up value of shares forfeited
(C) Debited with face value of shares forfeited
(D) Debited with issue price of shares forfeited

36. The loss/discount on re-issue of forfeited shares may be:

(A) Equal or exceed the forfeited amount
(B) Not exceed the forfeited amount
(C) Equal to amount of premium which were received at the time of original issue
(D) Not exceed the called up value of shares

37. When the forfeited shares were originally issued at premium, the maximum permissible discount on re-issue shall be :

(A) The amount of premium at time of original issue
(B) The amount credited to forfeited shares account
(C) The face value of forfeited shares
(D) The called up value of forfeited shares

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38. Z Ltd. issued 5,000 equity shares of ₹ 10 each at 10% premium which is payable on allotment. The company received application money @ ₹ 3 per share and allotment money received on only 4,500 shares @ ₹ 4 per share. The company forfeited 500 shares for non-payment of allotment money. At the time of forfeiture, the EquityShares Capital a/c will be :

(A) Debited with ₹ 5,000
(B) Debited with ₹ 3,500
(C) Debited with ₹ 3,000
(D) Credited with ₹ 3,500

39. The capital structure of KC Ltd. is :

Eqauity Share Capital	₹ 250 lakh
Long-term Debit	₹ 110 lakh
Bank Overdraft	₹ 40 lakh

The average rate of return on similar types of companies is 20%, while risk-free return is 10%.

Rate of interest charged by bank is 18%. Weighted Average Cost of Capital (WACC) will be :

(A) 16% (B) 13.55% (C) 16.25% (D) 17.05%

40. The difference between the Company's total market value and Capital invested is a :

(A) Economic Value Added (EVA)
(B) Shareholder Value Added
(C) Market Value Added
(D) Gross Value Added

41. Pooja Ltd. had the investment of ₹68 lakh as on 31st March, 2018 and that of ₹ 81 lakh as on 31st March, 2019. During the year the company had sold 30% of its original investment at a profit of ₹ 9,60,000. The cash inflow and outflow from investment will be :

(A) ₹ 20.40 lakh and ₹ 33.40 lakh
(B) ₹ 33.40 lakh and ₹ 30 lakh
(C) ₹ 30 lakh and ₹ 43 lakh
(D) ₹ 30 lakh and ₹ 33.40 lakh

42. During the year 2018-19, a company redeemed its 10% debenture of ₹ 8,00,000 at 10% premium and after some time a fresh issue was made of new 10% debenture of ₹ 7,50,000 at a premium of 25%. The net cash flow from debenture would be :

(A) Net cash outflow of ₹ 50,000
(B) Net cash inflow of ₹ 50,000
(C) Net cash inflow of ₹ 57,500
(D) Net cash outflow ₹ 57,500

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43. In the case of financial enterprises, cash flows arises from interest paid should be classified as cash flow from:

(A) Operating Activities (B) Investing Activities
(C) Financing Activities (D) Either (B) or (C)

44. Balance of Provision for Taxation as on 1-4-2018 and 31-3-2019 were ₹ 13,72,000 and ₹ 14,55,000 respectively. During the year ₹ 12,05,000 were paid towards income tax. The amount of provision made for taxation will be :

(A) Rs 1205,000 (B) Rs 12,88,000
(C) Rs 11,22,000 (D) Rs 250,000

45. Plant Orig,inal Costing ₹ 1,35,500 (accu- mulated depreciation ₹ 72,800) was sold at a profit of ₹ 15,900 during the year 2018-19. The amount of cash flow from the transaction would be :

(A) Rs 151,400 (B) Rs 62,700
(C) Rs 224,200 (D) Rs 78,600

46. Mithu Ltd. had the investment as on 31-3-18 and 31-3-19 were ₹ 10,95,000 and ₹ 10,82,000 respectively. During the year interest on investment received ₹ 77,000 which was used in writing down the book value of investments. If there were some purchases of investment, then the cash flow from investment and from interest would be :

(A) Cash inflow ₹ 1,300 only
(B) Cash inflow ₹ 9,000 only
(C) Cash inflow ₹ 77,000 and Cash outflow ₹ 64,000
(D) Cash inflow 9,000 and Cash outflow 77,000

47. Following information were provided by a trading company to you :
Cash flow from Operating Activities would be :

	₹
Net profit after tax for the year 2018-19	18,35,000
During the year 2018-19	
Depreciation written off Goodwill	1,08,000
Written off Provision made for taxation Income tax paid	50,000
Interest on Investment credited to Profit and Loss Account	0
Interim dividend paid	25,000
Total	2,10,000

Cash flow from operating activities will be:

(A) Rs 22,73,000 (B) Rs 20,38,000
(C) Rs 17,23,000 (D) Rs 20,63,000

48. The Accounting Standards Board was constituted by the Institute of Chartered Accountants of India in the year :

(A) 1975 (B) 1977
(C) 1976 (D) 1978

48. Which of following Section of Companies Act, 2013, is required that the auditor has to report whether in his opinion the financial statements comply with the Accounting Standards referred in Section 133 of the Companies Act, 2013 :

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(A) Section 141(3)(e)
(B) Section 145(3)(b)
(C) Section 143(3)(e)
(D) Section 144(3)(e)

49. Which of the following is not included in the conditions satisfied bythe small and medium companies (SMCS) with reference to applicability of Accounting Standards?

a. Company is not a holding company or subsidiary of a non-SMC.

b. Company is not a bank or financial institution or insurance company.

c. Company's turnover does not exceed ₹ 10 crores in the immediately preceding accounting year.

d. Equity and debt securities of the company are not listed or are not in the process of listing in any stock exchange, whether in India or outside India.

50. Which of the following International Accounting Standard (IAS) is related to Earning per share?
a. IAS-20
b. IAS-24
c. IAS-33
d. IAS-38

51. Which of the following institute formerly was established as a registered company under the Companies Act ?
a. The Institute of Chartered Accountants of India (ICAI)
b. The Institute of Company Secretaries of India (ICSI)
c. The Institute of Cost and Works Accountants of India (ICWAI) {now it, The Institute of Cost Accountants of India
d. None of the above

52. The Institute of Chartered Accounts of India is the...... professional body of Chartered Accountants in the world.
a. Largest
b. Second Largest
c. Third Largest
d. Fifth Largest

53. "The Association of International Certified Professional Accountants" launched by the :
a. American Association of Public Accountants (AAPA)
b. American Association of Chartered Public Accountants (AICPA)
c. Chartered Institute of Management Accountants (CIMA)
d. Both AICPA and CIMA

54. Mandatory applicability of Ind AS to all Banks, NBFCS (Non-Banking Finance Companies), and Insurance Companies is from :

a. 1st April, 2015
b. 1st April, 2016
c. 1st April, 2017
d. 1st April, 2018

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55. Which of the following Ind AS is related to Consolidated Financial Statements ?

a. Ind AS-108
b. Ind AS-110
c. Ind AS-115
d. Ind AS-7

56. A simplified financial statement that shows how much wealth has been created by a company is called ....

a. Income statement
b. Statement of profit and loss
c. Value added statement
d. Economic value added

57. The following is not an advantage of Double entry system :

a. It prevents and minimizes frauds.
b. Helps in decision making
c. The trial balance doesn't disclose certain types of errors
d. It becomes easy for the Government to calculate the tax.

58. As per Companies Act, 2013, the prescribed form of Balance Sheet of a Company is given in :

a. Part II of Schedule III
b. Part I of Schedule III
c. Part I of Schedule II
d. Part I of Schedule V

59. The Corporate Social Responsibility Committee shall consist of directors, out of which at least director(s) shall be independent director(s).

a. two or more; one
b. four or more; two
c. three or more; two
d. three or more; one

60. Financial Reporting Council is an organisation of which country ?

a. United States of America (USA)
b. Canada
c. UK
d. Japan

61. Companies (Cost Records and Audit) Rules, 2014, came into force on :

(A) 1-04-2014
(B) 30-04-2014
(C) 30-06-2014
(D) 30-09-2014

62. Which of the following Form is used for filing Cost Audit Report with the Central Government ?

a. CRA-1
b. CRA-2
c. CRA-3
d. CRA-4

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63. Which of the following steps are required for Budgetary Control ?

a. Organisation for Budgeting; Budget Manual; Responsibility for Budgeting; and Budget Standard

b. Organisation for Budgeting; Budget Manual; Responsibility for Budgeting; and Budget Procedure

c. Objective for Budgeting; Budget Manual; Responsibility for Budgeting; and Budget Standard

d. Organisation for Budgeting; Budget Objective; Responsibility for Budgeting; and Budget Standard

64. A factor which will limit the activities of an undertaking and which is taken into account in preparing budgets, is termed as :

a. Limiting factor
b. Governing factor
c. Key factor
d. All the above

65. Which of the following is/are purpose(s) of "Time Recording" ?

a. Payroll
b. Time-keeping
c. Time-booking
d. Time-keeping and Time-booking

66. If the Capacity Ratio and Efficiency Ratio of a factory are 95% and 125% respectively, then Activity Ratio will be :

(A) 131.58% (B) 76%
(C) 118.75% (D) 152%

67. Following information estimated for the year 2020-21 :

- Normal loss in production will be5% of input.
- Sales (in units) as per Sales Budget 38,350 units.
- Closing stock will be 6600 units which has been estimated 10% more than previous year's quantity.

The input for required production will be :

a. 39,737 units
b. 41,000 units
c. 40,898 units
d. 39,638 units

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68. Puri Ltd. provides the following information for the quarter ending 31st March, 2020 :

Expected Sales: January, 2020	₹ 25 lakh
February, 2020	₹ 28 lakh
March, 2020	₹ 30 lakh

Roughly 40% of the sales are for cash, 80% of credit sales are collected in the month following the month of sales and the balance of credit sales one month after that. The amount collected from debtors in the month of March, 2020, will be :

(A) ₹ 10.96 Lakh

(B) ₹ 28.44 Lakh

(C) ₹ 22.96 Lakh

(D) ₹ 16.44 Lakh

69. ______________ is a method of budgeting whereby all activities are re-evaluated each time a budget is set. Discrete levels of each activity are valued and a combination is chosen to match funds available.

a. Master Budget
b. Zero-Based Budgeting
c. Performance Budgeting
d. Flexible Budget

70. N Ltd. has Net working capital of ₹ 119 Lakh, Total Liabilities ₹ 225 Lakh and Non- current liabilities are ₹ 140 Lakh. The Current Ratio will be :

(A) 2.4 : 1
(B) 1.85 : 1
(C) 2.46 : 1
(D) 1.15 : 1

71. A company's purchases are ₹ 385 Lakh, Sales ₹ 510 Lakh and closing stock ₹ 58 Lakh. If the rate of gross profit is 25% on cost, then Stock Turnover Ratio will be :

a. 5.32 times
b. 7.34 times
c. 5.54 times
d. 5.87 times

72. Mahi Ltd. has closing stock ₹ 648 Lakh and prepaid expenses ₹ 32 Lakh. Total liquid assets were ₹ 1,830 Lakh. If the liquid ratio is 1.5 : 1, then working capital will be :

(A) ₹ 836.67 Lakh
(B) ₹ 1,290 Lakh
(C) ₹ 1,258 Lakh
(D) ₹ 1,150 Lakh

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73. Which of the following is not included in the activity ratios ?

a. Sales to Capital Employed
b. Debtors Turnover Ratio
c. Proprietary Ratio
d. Working CapitalTurnover Ratio

74. The ideal norm preferred by Banks for current ratio is :

(A) 2 : 1 (B) 2.2 : 1 (C) 1.5 : 1 (D) 1.33 : 1

75. Which of the following set of report is classified according to their contents ?

a. Descriptive reporting; tabular reports and Graphic reports

b. Routine reports and Special reports

c. Production reports; Sales reports; Cost reports and Finance reports

d. Graphic presentation; Routine reports and Finance reports

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76. Which of the following is not a step taken towards implementing an effective management reporting programme ?

a. Discovery
b. Access point
c. Finance
d. Feedback

77. A low margin of safety usually indicates :

a. High profit
b. High fixed overheads
c. Low fixed overheads
d. Operation on high level of activity

78. Which of the following is not a method of transfer pricing considered in normal course ?

a. Full cost transfer pricing
b. Negotiated transfer pricing
c. Opportunity cost transfer pricing
d. Standard cost transfer pricing

79. Following data provided by M Ltd. :

	First Six Months	**Last Six Month**
Profit	10,00,000	14,00,000
Costof Sales	70,00,000	76,00,000

Fixed cost for the year will be:

a. ₹ 22 Lakh
b. ₹ 34.40 Lakh
c. ₹ 73.33 Lakh
d. ₹ 44 Lakh

80. Which of the following are examples of key factors ?

(1) Sales value/quantity
(2) Raw material quantity
(3) Raw material quality
(4) Labour hours availability
(5) Plant capacity
(6) No. of plants used in manufacturing process
(7) Cost of production

Select the correct answer from the options given below :

81. Match the following List-I with List-II :

List-I

(P) Profit earned
(Q) Classification of costs into fixedand variable costs
(R) Both fixed and variable costs are charged to product
(S) Sum of fixed cost and profit

List-II

(1) Contribution
(2) Margin of Safety × P/V Ratio
(3) Marginal Costing
(4) Absorption Costing

Select the correct answer from the options given below :

(A) (P)—(2), (Q)—(4), (R)—(1),(S)—(3)
(B) (P)—(2), (Q)—(3), (R)—(4),(S)—(1)
(C) (P)—(1), (Q)—(4), (R)—(3),(S)—(2)
(D) (P)—(1), (Q)—(3), (R)—(4),(S)—(2)

82. Information provided by S Ltd. are given below :

Fixed Cost	₹ 24 lakh
Profit	₹ 12lakh
Break-even point	₹ 60lakh

When sales are ₹ 120 Lakh, then calculate the profit :

a. ₹ 66 Lakh
b. ₹ 30 Lakh
c. ₹ 24 Lakh
d. ₹ 21 Lakh

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83. In an Activity Based Costing System, the allocation basis that are used for applying costs to services or procedures are called :

a. Profit centers
b. Cost centers
c. Cost units
d. Cost drivers

84. Inspection of products is an example of :
a. Unit level activities
b. Batch level activities
c. Product level activities
d. Facility level activities

85. Which of the following is not a valuation approach ?

a. Assets Approach
b. Income Approach
c. Expenditure Approach
d. Market Approach

86. A deposit to be made on 1st January, 2020, into bank that will earn an interest of 7% compound annually. It is desired to withdraw ₹ 60,000 on 31st December, 2023 and ₹ 1,00,000, on 31st December, 2025. The amount to be deposited on 1st January, 2020, will be ($PVF_{7\%}$ for 4 years = 0.7629; $PVF_{7\%}$ for 6 years = 0.6663) :

87. Cost of Sales – Selling and Distribution Overhead + Closing Stock of Finished Goods – Opening Stock of Finished Goods = ...

a. Cost of Goods Sold
b. Works Cost
c. Cost of Production
d. Conversion Cost

88. Following information provided by B Ltd. :

- Last Earning Per Share (EPS) of the company = ₹ 75 per share
- Company's dividend pay-out ratio = 40%
- Required rate of return from equity investment = 18%

By using capitalization earning method, the value of equity will be (if dividend are expected to grow at a constant rate of 10% per annum) :

89. P Ltd. has 12% Debentures of ₹ 40 Lakh and 13% Debentures of ₹ 60 Lakh. If the corporate tax rate is 30%, then combined cost of debt after tax will be :
(A) 12.60%
(B) 8.75%
(C) 8.82%
(D) 12.50%

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90. Which of the following Ind AS deals with "Financial Instruments : Presentation" ?

91. Following information is provided by A Ltd. :

	₹ inlakh
2,00,000, 8% Preference Sharesof ₹ 100eachfully paid-up	200
60,00,000 Equity Shares of ₹10 eachfullypaid-up	600
Reserves andSurplus	270
External Liabilities	480
Average profit after tax, earned every year by the company	169

The normal return earned on the market value of fully paid-up equity shares of the same type of the company is 15%. Assume that 2% of total assets are worthless. The intrinsic value per equity share will be:

(A) Rs. 14.50 (B) Rs 13.98

(C) Rs 17.32 (D) Rs 17.83

92. Which of the following is not a method used for valuation of shares ?

a. Net assets method
b. Based on rate of dividend method
c. Based on rate of earnings method
d. Net realizable value method

93. Which of the following method ofvaluation of shares is/are suitable for ascertaining the market value of shares which are quoted on a recognized stock exchange ?

a. Based on rate of dividend method
b. Based on rate of earnings method
c. Based on price earnings ratio method
d. All the above

94. Average profit, Superprofit and Capital employed of a firm are ₹ 15,60,000; ₹ 4,80,000; and ₹ 90,00,000 respectively. Normal rate of return is 12%. The value of goodwill on the basis of capitalization of 'Average Profit' and of 'Superprofit' will be :

a. ₹ 130 Lakh and ₹ 40 Lakh
b. ₹ 1,87,200 and ₹57,600
(C) ₹ 130 Lakh and ₹ 11,37,600
(D) ₹ 40 Lakh and ₹ 40 Lakh

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95. As per Section 247 of the Companies Act, 2013, the Registered Valuer shall be appointed by the

a. Company's Board of Directors
b. Central Government
c. Registrar of Companies
d. Company's Audit Committee

96. The risk free rate is 8%, return on a broad market index is 15%. The actual return provided by the security is 18%. What must be its beta, by using CAPM if the security is correctly priced in the market ?

(A) 1.43
(B) 0.70
(C) 2.00
(D) 1.2

97. The relationship between risk and return established by the security market line is called :

a. Earning Based Model
b. Capital Assets Pricing Model
c. Discounted Cash Flow Model
d. Arbitrage Pricing Theory

98. Following are the details of Beta Limited :

	₹ inlakh
Equity ShareCapital (Shares of ₹ 10)	1500
8% Prefernece Share Capital	
12% Debentures Profit before interest and tax	400
Dividend Payout Ratio = 70%	250
Price-Earning (P/E) Ratio = 25	
Corporatetax rate=30%	590

Earnings Per Share (EPS) will be :

(A) Rs 3.52
(B) Rs 2.464
(C) Rs 2.06
(D) Rs 2.40

99. Match the following—I with II :

I

(a) Direct Cost
(b) Indirect Cost

II

(i) Raw material
(ii) Showroom expenses
(iii) Drawing Office Expenses
(iv) Carriage inwards
(v) Carriage outwards

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(vi) Plimary packing
(vii) Productive wages
(viii) Oil and grease
Select the correct answer from the options given below :
(A) (*a*)—(*i*)(*iv*)(*vi*)(*vii*); (*b*)—(*ii*)(*iii*)(*v*)(*viii*)
(B) (*a*)—(*i*)(*v*)(*vii*); (*b*)—(*ii*)(*iii*)(*iv*)(*v*)(*viii*)
(C) (*a*)—(*i*)(*iii*)(*iv*)(*vi*); (*b*)—(*ii*)(*v*)(*vii*)(*viii*)
(D) (*a*)—(*i*)(*iii*)(*v*)(*vii*); (*b*)—(*ii*)(*iv*)(*vi*)(*viii*)

100. According to Behavioural Analysis, the overheads may be classified as :
a. Factory overhead, administration overhead, selling and distribution overhead
b. Fixed overhead, variable overhead, semi-variable overhead
c. Indirect material, indirect labourand indirect expenses
d. Normal overhead & Abnormal overhead

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