black N White

BLACK N WHITE

Learn Today Lead Tomorrow

NAME	
ROLL NUMBER	
SEMESTER	4th
COURSE CODE	DCA2204
COURSE NAME	PRINCIPLES OF FINANCIAL ACCOUNTING AND MANAGEMENT

Q.1.a) Who are the users of Accounting Information.

Answer .:-

Accounting information is used by various groups of people and organizations to make informed decisions. These users are classified into internal and external users based on their relationship with the organization.

1. **Internal Users**:
   - **Management**: The primary users of accounting information are the managers of an organization. They use this data to plan, control, and evaluate business operations. For example, they rely on financial statements to make decisions about budgeting, pricing, and investments.
   - **Employees**: Employees use accounting information to gauge the financial health of their employer. They may be concerned with the company's ability to pay wages, offer bonuses, and provide long-term job security.
   - **Owners/Shareholders**: The owners or shareholders of a company use accounting information to assess the profitability and financial stability 1qof the business. This helps them decide on reinvestment or whether to sell their shares.
2. **External Users**:
   - **Investors**: Investors use accounting information to decide whether to invest in a business or not. They examine the company's financial performance to predict its future growth and returns.
   - **Creditors**: Banks, suppliers, and other creditors analyze accounting data to assess a company's ability to repay debts. This helps them make lending decisions.
   - **Government Agencies**: Regulatory bodies such as tax authorities require accounting information for taxation purposes and to ensure the organization complies with laws and regulations.
   - **Consumers**: Consumers may use accounting information to understand the pricing strategies of a company. A company's profitability and pricing can affect its product or service costs.

Q.1.b) Explain any 2 accounting concepts.

Answer .:-

1. **Accrual Concept**:

   The accrual concept states that revenues and expenses should be recognized when they are earned or incurred, not when cash is received or paid. According to this concept, a business must record revenue when it is earned, regardless of when payment is actually received. Similarly, expenses should be recorded when they are incurred, even if they are paid later. This concept ensures that financial statements reflect the true financial position of the business, rather than just cash flow. For example, if a company provides services in December but receives payment in January, the revenue is recorded in December when the service was provided, in line with the accrual concept.

2. **Consistency Concept**:

The consistency concept requires that once an accounting method is adopted, it should be consistently followed in future accounting periods unless a change is warranted and disclosed. This ensures comparability of financial statements over time. For instance, if a company chooses to use the straight-line method of depreciation for its assets, it should continue using this method in subsequent periods. Any change in accounting methods must be clearly stated, and its impact on the financial statements must be disclosed. This concept helps in ensuring that financial statements remain reliable and users can make consistent comparisons over time.

Q.2) Pass journal entries for the following transactions.

1) Ramesh Sharma started business with cash ₹ 50,000.
2) Purchased goods from Virat on credit ₹ 20,000.
3) Sold goods to Rahul on credit ₹ 30,000.
4) Received Dividend₹ 500 from Reliance Industries.

Paid for Advertisement ₹1500 to Times of India

Answer .:-

1) Ramesh Sharma started business with cash ₹50,000

Date	**Account**	**Debit (₹)**	**Credit (₹)**	**Description**
2025	Cash	50,000		Being the business started with cash by Ramesh Sharma
2025	Capital Account		50,000	

2) Purchased goods from Virat on credit ₹20,000

Date	**Account**	**Debit (₹)**	**Credit (₹)**	**Description**
2025	Purchases	20,000		Being goods purchased on credit from Virat
2025	Accounts Payable		20,000	

3) Sold goods to Rahul on credit ₹30,000

Date	**Account**	**Debit (₹)**	**Credit (₹)**	**Description**

2025	Accounts Receivable	30,000		Being goods sold on credit to Rahul
2025	Sales		30,000	

4) Received Dividend ₹500 from Reliance Industries

Date	Account	Debit (₹)	Credit (₹)	Description
2025	Cash	500		Being dividend received from Reliance Industries
2025	Dividend Income		500	

5) Paid for Advertisement ₹1,500 to Times of India

Date	Account	Debit (₹)	Credit (₹)	Description
2025	Advertisement Expense	1,500		Being advertisement payment made to Times of India
2025	Cash		1,500	

Q.3) Explain the concept of liquidity decision.
Explain factors affecting the composition of working capital.

Answer . :-

- **Liquidity Decision:**

  Liquidity decision refers to a company's ability to manage its short-term obligations by maintaining an appropriate balance between current assets and current liabilities. It is a crucial part of financial management that ensures the business has enough liquid assets—like cash, bank balance, and receivables—to meet immediate operational and financial needs.

  Liquidity decisions involve determining how much cash or near-cash assets the company should hold to maintain smooth operations without holding excess funds that could otherwise be invested. A poor liquidity decision may result in either a cash shortage, affecting daily operations, or excess idle funds, reducing profitability.

  Maintaining optimal liquidity is important to:

  - Pay wages, suppliers, and overheads on time.
  - Handle unexpected expenses or emergencies.
  - Maintain good credit standing with suppliers and creditors.

Thus, liquidity decisions are directly linked to **working capital management**, where a business ensures that current assets exceed current liabilities to avoid financial distress.

- **Factors Affecting the Composition of Working Capital:**

  Working capital is the difference between current assets and current liabilities. Its composition—what kind of current assets and liabilities a business holds—depends on several internal and external factors:

  1. **Nature of Business:**
     - A manufacturing business requires more inventory and raw materials, hence higher working capital.
     - A service-based business may need less inventory, so the working capital composition will be more cash-focused.
  2. **Business Cycle:**
     - During a boom, businesses may need more stock and receivables, increasing current assets.
     - During a recession, they reduce inventory and credit sales, impacting working capital composition.
  3. **Production Cycle:**
     - A longer production cycle requires more investment in raw materials, work-in-progress, and finished goods.
     - A shorter cycle reduces the need for large inventories.
  4. **Credit Policy:**
     - Companies offering generous credit terms to customers will have more receivables, thus increasing the proportion of current assets.
     - Strict credit terms reduce receivables but may affect sales.
  5. **Operating Efficiency:**
     - Efficient companies collect dues faster and manage inventory well, resulting in optimized working capital.
     - Inefficiencies can tie up capital in uncollected debts or excess stock.
  6. **Availability of Credit from Suppliers:**
     - If suppliers provide goods on credit, the company can operate with less working capital.
     - Limited credit forces the company to rely more on cash or bank finance.
  7. **Seasonal Requirements:**
     - Some businesses (e.g., garments or ice cream) have seasonal demand. They need more working capital before the peak season and less after.
  8. **Inflation:**
     - Higher prices increase the cost of maintaining inventory and receivables, thus increasing working capital needs.

SET-II

Q.4) Selling price per unit Rs. 20
Variable cost per unit Rs. 15
Fixed overheads Rs. 20000
From the above given data calculate:

a. **The breakeven sales in Rupees will be.**
b. **If sales are 20% above BEP, determine the net profit**

Answer .:-

Given:

- **Selling price per unit (SP)** = ₹20
- **Variable cost per unit (VC)** = ₹15
- **Fixed overheads (F)** = ₹20,000

a. Breakeven Sales in Rupees

Step 1: Calculate Contribution per unit

Contribution per unit=Selling Price−Variable Cost=₹20−₹15=₹5\text{Contribution per unit} = \text{Selling Price} - \text{Variable Cost} = ₹20 - ₹15 = ₹5

Step 2: Calculate Breakeven Point (BEP) in Units

BEP (units)=Fixed OverheadsContribution per unit=₹20,000₹5=4,000 units\text{BEP (units)} = \frac{\text{Fixed Overheads}}{\text{Contribution per unit}} = \frac{₹20,000}{₹5} = 4,000 \text{ units}

Step 3: Calculate Breakeven Sales in Rupees

BEP (₹)=BEP (units)×Selling Price per unit=4,000×₹20=₹80,000\text{BEP (₹)} = \text{BEP (units)} \times \text{Selling Price per unit} = 4,000 \times ₹20 = ₹80,000

Answer (a): Breakeven Sales = ₹80,000

b. Net Profit if Sales are 20% above BEP

Step 1: Calculate Sales above BEP

Increased Sales (₹)=₹80,000+(20% of ₹80,000)=₹80,000+₹16,000=₹96,000\text{Increased Sales (₹)} = ₹80,000 + (20\% \text{ of } ₹80,000) = ₹80,000 + ₹16,000 = ₹96,000

Step 2: Calculate Units Sold at ₹96,000

Units Sold=₹96,000₹20=4,800 units\text{Units Sold} = \frac{₹96,000}{₹20} = 4,800 \text{ units}

Step 3: Calculate Total Contribution

Total Contribution=4,800×₹5=₹24,000\text{Total Contribution} = 4,800 \times ₹5 = ₹24,000

Step 4: Calculate Net Profit

Net Profit=Total Contribution−Fixed Overheads=₹24,000−₹20,000=₹4,00 0\text{Net Profit} = \text{Total Contribution} - \text{Fixed Overheads} = ₹24,000 - ₹20,000 = ₹4,000

Answer (b): Net Profit = ₹4,000

Final Answers:

- **(a) Breakeven Sales** = ₹80,000
- **(b) Net Profit @ 20% above BEP** = ₹4,000

Let me know if you'd like this explained in table or chart form!

Q.5.a) Explain the importance of cost accounting.

Answer .:-

Cost accounting plays a crucial role in the efficient management of a business. It involves recording, analyzing, and reporting costs related to the production and operations of an organization. By focusing on cost control and reduction, it helps businesses enhance profitability and make informed decisions.

One of the key benefits of cost accounting is that it provides detailed information about the cost of each product, service, or activity. This helps management in setting the right selling price, avoiding underpricing or overpricing. It also supports budgeting and forecasting by estimating future expenses based on past trends and current performance.

Cost accounting is essential for **cost control**. By comparing actual costs with standard or budgeted costs, businesses can identify areas of wastage or inefficiency. Managers can then take corrective actions to minimize unnecessary expenditures and improve operational efficiency.

Another important aspect is **decision-making**. Cost data helps managers evaluate different options like make-or-buy decisions, choosing the most cost-effective product mix, or selecting among investment alternatives. It ensures that decisions are based on facts rather than assumptions.

Furthermore, cost accounting aids in **inventory valuation**, helping businesses determine the value of raw materials, work-in-progress, and finished goods. This ensures accurate financial reporting and compliance with accounting standards.

For manufacturing and large-scale industries, cost accounting supports **internal reporting** and enables departmental accountability. Departments can be compared based on their cost performance, encouraging cost consciousness throughout the organization.

Q.5.b) Discuss the functional classification of cost .

Answer .:-

The **functional classification of cost** refers to grouping costs based on the major business activities or functions where they are incurred. This approach helps in analyzing and controlling expenses function-wise and is crucial for internal decision-making and cost control. The primary functional classifications of cost are:

1. Manufacturing or Production Cost:

These are costs directly related to the production of goods or services. They include:

- **Direct materials** (raw materials used in production)
- **Direct labor** (wages of workers directly involved in production)
- **Factory overheads** (indirect materials, labor, and factory expenses)

Manufacturing costs help in determining the cost of goods produced.

2. Administration Cost:

These are the expenses incurred for the general management and administration of the organization. They are not directly linked to production or sales. Examples include:

- Salaries of administrative staff
- Office rent
- Legal and audit fees

These costs are generally fixed and are necessary for the smooth functioning of the business.

3. Selling and Distribution Cost:

These are costs related to creating demand and delivering the product to the customer. It is further divided into:

- **Selling costs**: Advertising, sales commission, promotional activities.
- **Distribution costs**: Packing, shipping, warehousing, delivery expenses.

These costs help in market expansion and customer satisfaction.

4. Research and Development Cost:

These are incurred for innovating new products or improving existing processes. Examples include:

- Cost of research staff
- Equipment used for R&D
- Trial production costs

These are essential for long-term growth and competitiveness.

Q.6.a) Explain the advantages and limitations of Ratio analysis.

Answer .:-

Ratio analysis is a key tool used in financial analysis to evaluate the performance and financial health of a business. It involves the use of numerical relationships between financial statement items to gain insights into various aspects of a company's operations.

Advantages of Ratio Analysis:

1. **Helps in Financial Performance Evaluation:**
   Ratios allow stakeholders to assess a company's profitability, liquidity, efficiency, and solvency using meaningful comparisons over time or against industry standards.
2. **Facilitates Decision Making:**
   Management can make informed decisions regarding pricing, cost control, investment, and financing based on ratio trends.
3. **Simplifies Complex Data:**
   Large volumes of financial data are condensed into simple, understandable metrics, making analysis quicker and clearer.
4. **Useful for Comparison:**
   Ratios help compare performance between companies in the same industry or across different time periods for the same company.
5. **Helps in Budgeting and Forecasting:**
   Past ratio trends help in predicting future financial outcomes and setting realistic targets.

Limitations of Ratio Analysis:

1. **Based on Historical Data:**
   Ratios rely on past financial statements, which may not always reflect current or future conditions.
2. **Ignores Qualitative Factors:**
   Factors like management quality, market conditions, and employee skills cannot be measured by ratios.
3. **Accounting Policy Differences:**
   Variations in accounting methods (e.g., depreciation, inventory valuation) across companies can distort comparisons.
4. **Window Dressing:**
   Companies may manipulate financial statements to present a better picture, affecting the accuracy of ratios.
5. **Not Always Industry-Standard:**
   The ideal ratio varies from industry to industry, so using general benchmarks can be misleading.

Q.6.b) Explain the steps in financial planning.

Answer .:-

Steps in Financial Planning

Financial planning is the process of setting, planning, achieving, and reviewing financial goals to ensure financial security and success. It helps individuals and businesses manage income, expenses, investments, and risks. Below are the key steps involved in financial planning:

1. Set Financial Goals:

The first step is to define clear short-term, medium-term, and long-term financial objectives. These could include saving for education, buying a home, retirement, or business expansion.

2. Gather Financial Information:

Next, collect all relevant financial data such as income, expenses, debts, savings, insurance policies, and investments. This provides a complete view of the current financial situation.

3. Analyze Current Financial Position:

Evaluate the collected data to assess cash flow, net worth, liabilities, risk exposure, and investment performance. This helps identify financial strengths and weaknesses.

4. Develop a Financial Plan:

Based on goals and financial analysis, a plan is created. It includes strategies for budgeting, saving, investing, insurance, tax planning, and risk management to achieve financial goals.

5. Implement the Plan:

Put the financial plan into action. This involves making investments, purchasing insurance, adjusting budgets, or changing spending habits as required.

6. Monitor and Review:

Regularly track the progress of the financial plan. Market conditions, income, or life events may change, so it's important to review and update the plan to stay on course.