

Descriptive Question paper

Financial and Management Accounting

MB0041

Marks(140) Time (3 hrs)

1Mark *50= 50 Marks

1. The book in which the transactions are first recorded is called a _____.
 - a. Ledger
 - b. Balance sheet
 - c. Journal
 - d. Posting

2. Accounting measures the _____ performance of an enterprise.
 - a. Financial
 - b. Annual
 - c. Functional
 - d. Growth

3. _____ facilitates more disclosure of financial information that is beyond the statutory limits.
 - a. Change in accounting policies
 - b. Accounting conventions
 - c. Accounting concepts
 - d. Accounting standards**

4. In a double entry book keeping system, an account which is the receiver of benefit, is also called as _____.
 - a. Outgoing aspect
 - b. Incoming aspect
 - c. Profits
 - d. Giving aspect

5. The bill of exchange drawn by the creditor becomes a valid document after it is signed by the _____.
 - a. Owner
 - b. Partners of the firm

- c. Debtor
- d. Bank

6. If the trial balance does not tally, the accountant has to proceed with spotting errors. For this purpose a temporary account called _____ is opened.

- a. Subsidiary Account
- b. Profit & Loss Account
- c. Suspense account
- d. Ledger Account

7. _____ is also called outstanding income.

- a. Outstanding expenses
- b. Prepaid expenses
- c. Income received in advance
- d. Accrued income

8. The future of a company is a result of the _____ today by the management.

- a. Decisions taken
- b. Goals planned
- c. Strategies made
- d. Roles defined

9. _____ is the ability of a firm to satisfy its short-term obligations as they become due for payment.

- a. Liquidity
- b. Solvency
- c. Activity
- d. Currency

10. Which of the following is a cash outflow for the firm?

- a. Repaying of mortgage loans.
- b. Loss on sale of fixed assets.
- c. Creation of reserves for bad debts.
- d. Amortisation of goodwill.

11. A location, an equipment, a person or a group of these, for which costs can be charged are known as _____.

- a. Cost centre
- b. Profit centre
- c. Resources
- d. Liabilities

12. What is the significance when we say that the C/S ratio may also be used for determining the desired volume of output for a specified amount of profit?

- a. Measure of profitability
- b. Product mix decision
- c. Profit planning
- d. Intra-firm comparison

13. In which method of budgeting all activities are revaluated each time a budget is set?

- a. Flexible Budgeting
- b. Zero Based Budgeting
- c. Short-term Budgeting
- d. Medium-term Budgeting

14. _____ a system which seeks to control the cost of each unit or batch by determining the cost in advance.

- a. Marginal costing
- b. Uniform costing
- c. Standard costing
- d. Full costing

15. What do you call the reduction granted by a supplier to a customer on the amount of bill due, considering payment within the credit period?

- a. Trade discount
- b. Amount
- c. Cash discount
- d. Goodwill

16.

_____ is a resource legally owned by the enterprise as a result of past events and from which future economic benefits are expected to flow to the enterprise.

- a. Capital

b. Share

c. Asset

d. Fixed asset

17. Which step explains the importance of all the data in a manner that the end users of financial statements can make a meaningful judgment about the financial position and profitability of the business?

- a. Identification
- b. Summarising
- c. Analysing
- d. Interpreting

18. _____ is required to help comparison of financial data from one period to another.

- a. Materiality
- b. Double aspect
- c. Consistency
- d. Conservatism

19. IFRS apply to _____ and consolidated financial statements.

- a. Conglomerate
- b. Private firms
- c. Individual company
- d. Public sector units

20. _____ can be measured in terms of money, goodwill or patent rights.

- a. Intangible accounts
- b. Assets
- b. Income
- d. Tangible accounts

21.

According to traditional approach, which of these falls under personal account?

- a. Capital account
- b. Cash
- c. Purchases
- d. Interest received

22. Which amongst the following form a part of the format of a sales book?

- a. Purchase invoice number
- b. Name of the supplier
- c. Credit period
- d. Ledger folio

23. The subsidiary books are maintained for transactions that occur most repeatedly and are _____.

- a. Most voluminous
- b. High in value
- c. Not recorded in final accounts
- d. Rarely noticed

24. Rectification entries are recorded in _____. If the errors such as wrong posting, wrong casting, wrong calculation etc., are committed in the books of original entry or ledger.

- a. General journal
- b. Suspense account
- c. Trading Account
- d. Trial balance

25. The accounts of _____ will not be closed because they continue to exist further.

- a. Assets and liabilities
- b. Salaries Expenses
- c. Revenue from Services
- d. Telephone Expenses

26. Which amongst the following is recorded as credit to the trading account?

- a. Depreciation
- b. Bad debts
- c. Reserves for discount on debtors

d. Closing stock

27. The excess of direct incomes over direct expenses is called _____.

- a. Net profit
- b. Profit
- c. Gross profit
- d. Balance

28. Which function of management accounting needs various departments to be consulted and is responsible for policy decisions?

- a. Forecasting
- b. Planning
- c. Co-ordination
- d. Controlling

29. Who amongst the following are the primary users of management accounting?

- a. Shareholders
- b. Lower level managers
- c. Creditors
- d. Government authorities

30. Horizontal analysis is also referred to as _____.

- a. Common size statements
- b. Trend analysis
- c. Comparative statements
- d. Income statements

31. In which analysis, the sales are converted into 100 and the components are proportionately converted?

- a. Vertical analysis
- b. Trend analysis
- c. Ratio analysis
- d. Horizontal analysis

32. As per The Institute of Chartered Accountants of India (ICWAI), preparation of cash flow statement every year and presenting it along with financial statements is mandatory for the companies listed on a stock exchange with a turnover of _____.

- a. Rs.10 crore or more
- b. Rs.25 crore or more
- c. Rs.50 crore or more
- d. Rs.100 crore or more

33. Which of the following is a source of funds?

- a. A decreased in account payable.
- b. A decreased in account receivable.
- c. Cash dividends paid in the period.
- d. Investment in new plant.

34. What do you define the the cost of indirect materials, indirect labour, and indirect expenses?

- a. Factory overhead
- b. Distribution overhead cost
- c. Fixed cost
- d. Variable cost

35. _____ is the cost that has already been incurred and it is generally unavoidable because this cost cannot be changed once incurred.

- a. Relevant cost
- b. Sunk cost
- c. Opportunity cost
- d. Period cost

36. The change in costs and revenues is _____ to the change in volume (number of units sold).

- a. Indirectly proportional
- b. Equal
- c. Proportionate
- d. Not related

37. Functional budget is also known as _____.

- a. Subsidiary budget
- b. Fixed budget
- c. Flexible budget
- d. Cash budget

38. Cash budget is a _____.

- a. Short-term budget
- b. Medium-term budget
- c. Long-term budget
- d. Weekly budget

39.

Standard costing may be used as a basis for price fixing and _____.

- a. Cost control
- b. Cost revision
- c. Evaluating cost
- d. Decision making

40. The difference between the standard cost and actual cost is called as _____.

- a. Margin
- b. Variance
- c. Differential cost
- d. Deviation

41. The claims on assets will always be equal to the _____.

- a. Assets
- b. Liabilities
- c. Equity
- d. Capital

42. Which account deals with the amount charged for goods sold or services rendered?

- a. Capital account
- b. Liabilities account
- c. Revenue account
- d. Expenses account

43. For preparation of which book, do we need to know about the bill of exchange?

- a. Sales return book
- b. Bills receivable book
- c. Purchases return book
- d. Sales book

44. Treating income as liabilities is _____.

- a. An error of omission
- b. An error of commission
- c. An error of principle
- d. Compensating Error

45. For preparation of which book, do we need to know about the bill of exchange?

- a. Sales return book
- b. Bills receivable book
- c. Purchases return book
- d. Sales book

46. Which process responds to divergences from the plan?

- a. Planning process
- b. Control process
- c. Leading process
- d. Organising process

47. Which ratio is also known as acid test ratio?

- a. Current ratio
- b. Quick ratio
- c. Cash ratio
- d. leverage ratio

48. Which of the following is a cash outflow for the firm?

- a. Repaying of mortgage loans.
- b. Loss on sale of fixed assets.
- c. Creation of reserves for bad debts.
- d. Amortisation of goodwill.

49. Which costing method is used to accumulate costs for different components of the product and then combine them?

- a. Batch costing
- b. Contract costing
- c. Composite costing
- d. Unit costing

50. Costs are classified according to the _____ of the cost, in case of marginal costing.

- a. Functional basis
- b. Administrative cost
- c. Behaviour
- d. Operational basis

2 Marks: 2*25=50 marks

1. Consider the following statements:

- A/An _____ in a company is one of the units into which the total capital of the company is divided.
- 2. In _____ transactions, there is no cash inflow or outflow, but adjustment is made only in the records.

- a. 1- Sole trader, 2- Partnership
- b. 1- Asset 2- Paper
- c. 1- Entity, 2- Capital
- d. 1- Share, 2- Paper

2. Consider the following statements:

- 1. In case of any changes in the accounting policies, if the change has a material effect in current period and the effect of change is ascertainable, the amount of change should be disclosed.
- 2. In convention of double aspect, the claims of owners are called Equity or Capital, the claims of outsiders are called materiality.

State True or False:

- a. 1- False, 2- False
- b. 1- False, 2- True
- c. 1- True, 2- True
- d. 1- True, 2- False

3. _____ and _____ are the two basic words in accounting.

- a. Debit, expenses
- b. Credit, liability
- c. Asset, capital
- d. Debit, credit

4. Consider the following statements:

- 1. Purchases returns refer to goods returned to the supplier out of purchases made from him.
- 2. Cash discount may vary with the quantity purchased.

State True or False:

- a. 1- True, 2- False
- b. 1- False, 2- True
- c. 1- True, 2- True

d. 1- False, 2- False

5. If the errors _____ and _____ are committed in the books of original entry or ledger, it is said to be error commission.

a. Wrong posting, wrong calculation

b. Wrong casting, omission

c. Inadequate depreciation, insufficient provision for bad and doubtful debts

d. Wrong calculation, omission

6. 1. The other name for provision for doubtful debts is _____.

2. The provision for bad debts is a charge against profit it must be debited to the _____ account.

a. 1- Reserve for bad debts, 2- profit and loss

b. 1- Provision for bad debts, 2- profit and loss

c. 1- Reserve for bad debts, 2- trading

d. 1- Provision for bad debts, 2- trading

7. Consider the following statements:

1. It may be done with a balance sheet (comparative balance sheet) as well as with profit and loss a/c or income statement (Comparative Profit and Loss a/c / Income Statement.)

2. One of the advantage of ratio analysis is that it helps in assessing firm's progress and performance and inter-firm comparison with industry average.

State True or False:

a. 1- True, 2- True

b. 1- False, 2- False

c. 1- False, 2- True

d. 1- True, 2- False

8. _____ and _____ are the examples of operating activities.

a. Cash receipts from royalties, Cash receipts from sale of goods

b. Cash receipts from royalties, Cash receipts from disposal of fixed assets

c. Cash receipts from disposal of fixed assets, Cash proceeds from issuing shares

d. Cash payments to employees, Cash proceeds from issuing shares

9. Consider the following statements:

1. _____ is the volume of activity or sales when the organisation's revenues and expenses are equal.
2. _____ analysis provides the management with a comprehensive overview of the effects on revenue and costs of all types of short run financial changes.

- a. 1- Marginal Costing, 2- Break-Even Chart
- b. 1- Margin of Safety (MOS), 2- Break-Even Analysis
- c. 1- Target Profit, 2- Profit Volume Ratio (MCSR or C/S ratio)
- d. 1- Break-Even Point, 2- Cost Volume Profit (CVP)

10.1. The aggregate of indirect materials, indirect labour, and indirect expenses is called _____.

2. The standard fixed overhead rate is computed by dividing the budgeted fixed overheads with _____.

- a. 1- Administrative cost, 2- sales output.
- b. 1- Factory overhead, 2- budgeted output.
- c. 1- Mixed cost, 2- standard output.
- d. 1- Costing elements, 2- actual output.

11.1. A/An _____ creditor is a person to whom the business owes money for goods purchased from him or her on credit.

2. A _____ is the financial statement, which shows the amount and nature of business assets, liabilities and owner's equity at a specific point in time.

- a. 1- Expenses, 2- Opening stock
- b. 1- Creditor for asset purchased, 2- Bill of exchange
- c. 1- Trade, 2- Balance sheet
- d. 1- Loan, 2- Trial balance

12. Consider the following statements:

1. Income earned for an accounting period must be _____ in that accounting period regardless of whether it is actually received in that accounting period or not.

2. Apart from the mandatory disclosures, the company may give additional disclosures. These are called _____ disclosures.

- a. 1- Revised, 2- Materiality
- b. 1- Shared 2- Prudence
- c. 1- Deleted, 2- Involuntary
- d. 1- Recorded, 2- Voluntary

13. Consider the following statements:

1. Events happen as a result of internal policies or external needs.

2. In credit transaction cash flows immediately.

State True or False:

- a. 1- True, 2- False
- b. 1- False, 2- True
- c. 1- True, 2- True
- d. 1- False, 2- False

14. Consider the below mentioned statements:

1. An error in a trial balance is an unintentionally committed mistake.

2. Errors of casting, posting to wrong side of an account or posting a wrong amount can be detected by trial balance.

State True or False:

- a. 1-False, 2-False
- b. 1-True, 2-True
- c. 1-False, 2-True
- d. 1-True, 2-False

15. The reasons for depreciation could be permanent fall of market price, _____ and _____.

- a. Wear and tear, devaluation
- b. Sensex downfall, heavy usage
- c. Wear and tear, outdated technology
- d. Heavy usage, devaluation

16. Consider the following statements:

- 1. A process of comparing the ratios to industry averages to show how the company can be compared with firms of the same size in its industry is known as _____.
- 2. _____ ratio/s are concerned with measuring the efficiency in asset management.

- a. 1- Trend analysis, 2- Assets turnover
- b. 1- Horizontal Analysis, 2- Creditor's turnover
- c. 1- Vertical Analysis, 2- Stock turnover
- d. 1- Cross-sectional analysis, 2- Turnover

17. Cost of goods sold = Cost of production + _____ - _____.

- a. Closing WIP, opening WIP
- b. Opening WIP, Closing finished goods
- c. Closing finished goods, Opening WIP
- d. Opening finished goods, Closing finished goods

18.

Consider the following statements with respect to Profit Volume Ratio (MCSR or C/S ratio):

- 1. Products having low C/S ratio can be continued and the products having high C/S ratio can be improved to catch up in the market to increase the profitability.
- 2. The C/S ratio may be computed using the following formulae.:

$$\begin{aligned} \text{Profit volume ratio} &= \frac{\text{Total contribution} \times 100}{\text{Sales}} \\ \text{(MCSR)} &= \frac{\text{Total sales} - \text{Total variable costs}}{\text{Total sales}} \times 100 \end{aligned}$$

State True or False:

- a. 1- False, 2- True
- b. 1- True, 2- False
- c. 1- True, 2- True
- d. 1- False, 2- False

19. Consider the below mentioned statements with respect to the objectives of budgetary control.

1. To decentralise management control.
2. To help in controlling cash.

State True or False:

- a. 1-True, 2-True
- b. 1-False, 2- False
- c. 1-False, 2-True
- d. 1-True, 2-False

20.1. Variance analysis is the process of analysing variances by sub-dividing the total variance in such a way that the management can assign responsibility for _____ performance.

2. When the actual cost is less than the standard cost, the difference is termed as _____ variance.

- a. 1- Average, 2- adverse.
- b. 1- Expected, 2- debit.
- c. 1- Unacceptable, 2- unfavourable.
- d. 1- Off-standard, 2- credit.

21. "Consider the following statements:

1. The earliest attempt towards harmonisation of accounting practices at the international level was made by the International Accounting Standards Committee (IASC).

2. In India, the Institute of Chartered Accountants of India (ICAI) established Accounting Standards Board (ASB) in 1977."

State True or False:

- a. 1- True, 2- True
- b. 1- False, 2- False
- c. 1- False, 2- True
- d. 1- True, 2- False

22.

1. _____ book is meant for recording purchases.

2. _____ does not appear in the books of accounts.

- a. 1- Bills payable, 2- Credit period
- b. 1- Purchases returns, 2- Debit account
- c. 1- Purchases, 2- Trade discount
- d. 1- Sales, 2- Cash discount

23. 1. One of the objectives of cost management system is to provide cost information for _____ control.

2. Cost management system is used to identify and evaluate new activities that can improve the future _____ of an organisation."

- a. 1- Management, 2- strategies
- b. 1- Operational, 2- performance
- c. 1- Directional, 2- profits
- d. 1- Functional, 2- goals

24. Consider the following statements:

1. Marginal cost per unit remains unchanged irrespective of the level of activity or output. It is also known as variable cost.

2. The marginal cost of producing a unit declines as output increases."

State True or False:

- a. 1- True, 2- True
- b. 1- False, 2- False
- c. 1- False, 2- True
- d. 1- True, 2- False

25. As per the needs of the management, only _____ may be prepared.
 2. Budgetary control compares the actual cost with _____."
 a. 1- Operational budget, 2- planned cost.
 b. 1- Functional budget, 2- pre-determined standards.
 c. 1- Quarterly budget, 2- historical data.
 d. 1- Annual budget, 2- marginal cost.

Part C

Descriptive questions: (10*2= 20marks)

1. List the roles of management accounting. How does it help in decision making?
2. What do you understand by 'adjustments' in financial accounting? Discuss the types of adjustments seen in a trading account.

20 marks (Case study)

Case study:

Amit Behki is an automobile engineer. After graduating from the IIT-Delhi, he is planning to set up an automobile service station in Noida. The Amit Automobile Service Station (AASS) would carry out three activities:

- (i) Free service for new vehicles under warranty
- (ii) Paid services including changing of parts
- (iii) Denting and painting of cars or vehicles

The land on which the AASS would be set up and the estimated cost of Rs. 44, 00,000 is owned by his family. A feasibility analysis conducted by Amit has revealed that the initial fixed cost of setting up the AASS would be as detailed in Exhibit 1.

Exhibit 1: Initial Fixed Cost Estimates

<i>Item/Description</i>	<i>Amount Rs.</i>
Salary and wages	1,57,776
Staff welfare	6,858
Repair and maintenance	32,166
Conveyance	11,184
Printing/Stationery	2,816
General expenses	1,539
Consumable stores (Lubes)	3,656
Postage/Telephone	8,948
Professional fee	15,000
Electricity	18,000
Local taxes	10,000
Total	2,67,937

The feasibility analysis also estimates the revenues and operating cost associated with the three workshop activities as detailed below:

Free service for new vehicles

The service charges would be reimbursed by the vehicle dealer. The average reimbursements for the first, second, and third services would be Rs. 233 per vehicle. The variable costs related to the various service jobs performed by the cleaner or washer in servicing the vehicles are estimated as shown below.

Details	Rs.
Detergents	20
Diesel	18
Cloth	20
Polish	20
Grease	30
Stationery	5
Customer hospitality (cold drink)	20
	133

Paid services

The variable costs would be the same as in the case of free servicing. An additional cost on the parts changed would average Rs.1,000 per vehicle. The average revenue per vehicle would be Rs.275. There would also be a 10% margin on the parts changed.

Denting and painting

The lump sum charged for complete painting averages Rs. 8,000 per vehicle. The variable costs per vehicle are also shown below:

Labour (painter) cost		1,500
Material costs:	104	
Cleanser (4 litres x Rs.26)	1,008	
Additive solvent (8 litres x Rs.126)	450	
Putty	110	
Paint (4 litres x Rs.350)	100	
Sheet metal	350	
Sand paper	256	
M-seal	60	
Carbide for welding gas (8 x Rs. 32)	150	
Welding rod	200	
	150	
	100	4,438

Files (2 x Rs. 375)		
Rubbing and polish		
Rubber seal compound		
Nut bolts		
		5,938

Discussion Questions:

- 1) If Amit wants the AASS to break-even in the first year, compute the break-even:
 - (i) In units (number of cars)
 - (ii) In amount for all the three services offered
- 2) If Amit wants to earn a monthly surplus of Rs.10,000, what would be the answer to (i) and (ii)?

Source: *Khan and Jain, Management Accounting 4/e, TMH*

