BCA 4TH SEMSESTER

Principles of Financial Accounting and Management/ DCA2201

SET.:- 1

1.)(A) Who are the users of Accounting Information.

Answer.:- - Individuals, companies, organizations, and other entities that rely on financial data to make educated decisions about various areas of their operations are the users of accounting information. The following are some of the major consumers of accounting data:

- Owners/Shareholders: The owners of a firm are interested in financial data to evaluate the financial performance of the business, the profitability of their investment, and to make educated decisions regarding future investments.
- Management: Managers use accounting data to make decisions about strategic planning, forecasts, investments, and budgeting.
- Investors/Creditors: Prior to making investment or lending choices, investors and creditors evaluate the financial stability of the company using financial information.
- Employees: Accounting data pertaining to employee pay, benefits, and retirement plans may be of interest to employees.
- Government organizations: Government organizations rely on financial data to uphold tax rules and regulations, keep an eye on the financial markets, and make sure that businesses adhere to various reporting obligations.
- Customers: To evaluate the financial health and reputation of the company, customers may be interested in financial information relating to pricing policies and product/service quality.

1.) (B) Explain any 2 accounting concepts.

Answer.:- - - **Accrual accounting:** Regardless of when the cash is collected or paid, revenues and costs must be recognized when they are earned or incurred under the fundamental accounting principle known as accrual accounting. This

approach recognizes revenue when it is earned, which means that the customer has received the goods or service and payment is anticipated in the future. Similar to revenue, expenses are recorded when they are incurred, indicating that the supplier has been contacted and the goods or service has been obtained, with payment to follow. Cash accounting, which only records transactions when cash is received or given, gives a less accurate picture of a company's financial situation and performance over time than accrual accounting does.

Materiality: The term "materiality" in accounting refers to the prominence or significance of a certain item or transaction in the financial statements. A transaction or item is deemed substantial under this theory if its omission or misstatement would impair the decision-making of a reasonable person relying on the financial statements. Materiality is a relative concept that is dependent on the size, nature, and context of the item or transaction. The concept of materiality is crucial to accounting since it helps to prioritize resources and efforts for accounting and auditing tasks as well as to establish the level of information needed for financial reporting and auditing.

2.) 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.:-

A). The breakeven sales in Rupees can be calculated using the following formula:
Breakeven Sales (in Rupees) = Fixed Overheads / Contribution Margin Ratio
Where Contribution Margin Ratio = (Selling Price per unit - Variable Cost per unit) / Selling Price per unit In this case, the contribution margin per unit can be calculated as follows: Contribution Margin per unit = Selling Price per unit - Variable Cost per unit
Contribution Margin per unit = Rs. 20 - Rs. 15 = Rs. 5

The Contribution Margin Ratio can be calculated as follows:-
Contribution Margin Ratio = (Selling Price per unit - Variable Cost per unit) / Selling Price per unit .
Contribution Margin Ratio = (Rs. 20 - Rs. 15) / Rs. 20 = 0.25 or 25% Now, using the formula above, we can calculate the breakeven sales in Rupees as follows: Breakeven Sales (in Rupees) = Fixed Overheads / Contribution Margin Ratio Breakeven Sales (in Rupees) = Rs. 20,000 / 0.25 Breakeven Sales (in Rupees) = Rs. 80,000 Therefore, the breakeven sales in Rupees will be Rs. 80,000.
B). If sales are 20% above BEP, the net profit can be calculated as follows:
Step 1: Calculate the total sales at 20% above the breakeven point:
Total Sales = Breakeven Sales x (1 + % Increase in Sales)
Total Sales = Rs. 80,000 x (1 + 0.20)
Total Sales = Rs. 96,000

Step 2: Calculate the total contribution margin:
Total Contribution Margin = Total Sales x Contribution Margin Ratio
Total Contribution Margin = Rs. 96,000 x 0.25
Total Contribution Margin = Rs. 24,000

Step 3: Calculate the total fixed costs:
Total Fixed Costs = Fixed Overheads
Total Fixed Costs = Rs. 20,000

Step 4: Calculate the net profit: Net Profit = Total Contribution Margin - Total Fixed Costs
Net Profit = Rs. 24,000 - Rs. 20,000
Net Profit = Rs. 4,000
Therefore, if sales are 20% above the breakeven point, the net profit will be Rs. 4,000.

3.) (A) Explain the advantages and limitations of Ratio analysis.

Answer.:- ***Advantages of Ratio analysis.:-***

- Simplification and Interpretation: Ratio analysis condenses the information into useful ratios, which makes the financial statements easier to understand. These ratios make it simple to understand the financial data and give a fast snapshot of the company's financial status.
- Helps in Decision-making: Ratio analysis is useful for making well-informed decisions on loans, investments, and other financial decisions. It gives decision-making a quantitative foundation and aids in pinpointing the company's advantages, disadvantages, opportunities, and dangers.
- Comparison: Ratios make it simple to compare the company's financial performance over time and with that of other businesses in the same sector. This aids in trend identification and competitive benchmarking.
- Finding opportunities for improvement: Ratio analysis aids in locating areas where the performance of the company can be enhanced. A remedial measure may be made to address the situation, for instance, if the current ratio is low and the company is likely to experience future liquidity issues.

Limitations of Ration analysis.:-

- Ratio analysis is based on historical data, which may not be an accurate representation of the present or the future. It's possible that future results won't always be predicted by past results.
- Restricted Comparability: Given the variations in accounting practices, financial structures, and business models, comparing ratios between organizations isn't always meaningful.
- Ratios are dependent on accounting information, which isn't always dependable or precise and must be used with caution. The ratios can be considerably impacted by accounting policies and estimations and become misleading as a result.
- Ratio analysis excludes non-financial factors, which can have a considerable impact on a company's performance. Examples of such non-financial factors include the calibre of management, brand reputation, and market share.

3.) (B) Explain the steps in financial planning.

Answer.:- - Financial planning is the process of determining a person's or an organization's financial objectives, creating a strategy to accomplish those objectives, and tracking the results.

The steps involved in financial planning are as follows:

- Establish Financial Goals: Setting financial objectives is the first stage in financial planning. This entails deciding on both short- and long-term objectives, such as home ownership, retirement planning, or business startup.
- Assess Current Financial Situation: Analyze Income, Expenses, Assets, and Liabilities to Determine Current Financial Situation: The next stage is to determine the current financial status. This establishes a foundation for creating a financial strategy and aids in identifying the financial strengths and limitations.
- Create a Plan: A financial plan is created based on the financial objectives and an analysis of the present financial status. The strategy should outline the steps necessary to reach the financial objectives, including budgeting, investing, and debt management.
- Execute the Plan: Following development, the financial strategy must be put into action. This entails taking steps like creating a budget, opening investment accounts, and repaying debt.
- Follow the Plan: Since financial planning is an ongoing process, it's important to keep track of how well you're doing in terms of reaching your financial objectives. This entails examining the financial holdings, keeping tabs on expenses, and modifying the strategy as appropriate.
- . Evaluate and Adjust: A periodic examination of the financial plan is essential to see whether the objectives are being met and whether any adjustments are necessary. Changes in the financial environment or changes in the individual's circumstances may need adjustments.

In summary, financial planning is a crucial step in accomplishing financial objectives. These stages can assist people and organisations in creating thorough financial plans and tracking their progress towards reaching their financial goals.

SET.:- 2

1.) The following information is in respect of Material.

Re-order quantity = 1500 units
Re-order period = 4 – 6 weeks
Maximum Consumption = 400 units per week
Normal consumption = 300 units per week
Minimum consumption = 250 units per week
Emergency Re- order period = 2 weeks

Calculate: (A).Re-order level (B) Minimum Level (C) Maximum Level (D) Average stock level (E) Danger Level

Answer.:- ***- (A) Re-order Level :-*** The re-order level is the inventory level at which the purchase order for the material should be placed to ensure that the stock does not fall below the minimum level before the new stock arrives. It is calculated as follows:
Re-order Level = Maximum Consumption x Re-order Period
Re-order Level = 400 units/week x 6 weeks = 2400 units
Therefore, the re-order level is 2400 units.
(B) Minimum Level:- The minimum level is the inventory level below which the stock should not fall to ensure that there is no stockout situation. It is calculated as follows:
Minimum Level = Emergency Re-order Period x Minimum Consumption
Minimum Level = 2 weeks x 250 units/week = 500 units
Therefore, the minimum level is 500 units.
(C) Maximum Level:- The maximum level is the inventory level above which the stock should not be maintained to avoid unnecessary holding costs. It is calculated as follows:

Maximum Level = 2400 units + 1500 units - (350 units/week x 6 weeks) = 3900 units
Therefore, the maximum level is 3900 units.

(D) Average Stock Level:- The average stock level is the average inventory level maintained over the re-order period. It is calculated as follows:
Average Stock Level = (Re-order Quantity / 2) + (Average Consumption x Re-order Period)
Average Stock Level = (1500 units / 2) + (350 units/week x 6 weeks) = 2550 units
Therefore, the average stock level is 2550 units.

(E) Danger Level:- The danger level is the inventory level at which the stock is so low that it poses a risk to the production process. It is calculated as follows:-
Danger Level = Minimum Level + (Average Consumption x Emergency Re-order Period)
Danger Level = 500 units + (300 units/week x 2 weeks) = 1100 units
Therefore, the danger level is 1100 units.

2.) (A) Explain the importance of cost accounting.

Answer.:- A type of accounting known as cost accounting is used to quantify, track, and analyze the expenses related to the creation of goods and services. You can sum up the significance of cost accounting as follows:-

- Cost accounting gives information on the cost of production, which includes direct and indirect costs. This information is helpful in calculating the cost of production. This data aids management in setting a fair price for the good or service, which is crucial for both profitability and pricing strategy.
- Cost accounting assists with cost management by pointing out areas where expenses can be cut or eliminated. This may contribute to the company's efficiency improvement and profit growth.
- Budgeting is made easier by the use of cost accounting, which makes it easier to predict the expenses of upcoming projects, goods, and services. Making judgements about which initiatives to pursue and creating realistic budgets are both aided by this information.

- Making judgements is made easier with the aid of cost accounting, which offers information and analysis that can be used to decide whether to outsource manufacturing, spend money on new machinery, or boost output.
- Information for financial reporting: The data required to create financial statements like the income statement and balance sheet are provided by cost accounting. For management to assess the organization's financial health, this information is crucial.

2.)(B) Discuss the functional classification of cost.

Answer.:- Based on how they are used, costs can be categorized into a number of different groups. The following is a functional classification of cost:-

- Production Costs: Expenses directly associated with the creation of goods or services are referred to as production costs. Direct and indirect costs are further separated from these charges. Raw materials and labor costs are examples of direct production costs, which are expenses directly associated with the production process. Utility bills and rent are examples of indirect production costs because they are not directly tied to the production process but are nevertheless required for it to take place.
- Administration expenses: Administrative expenses are outlays related to an organization's overall management. These expenses consist of lawyer fees, office expenses, and administrative staff pay.
- Selling and Distribution Costs: The costs related to marketing and distributing the generated goods or services are referred to as selling and distribution costs. These expenses consist of commission from sales, advertising fees, and travel costs.
- Research and development costs: Research and development costs are the fees associated with creating new items or enhancing ones that already exist. These expenses cover the cost of supplies, equipment, and the wages of the research and development team.
- Financial Costs: Expenses related to raising and managing funds are referred to as financial costs. These expenses consist of loan interest, bank fees, and other financing gradated costs.

3.)Pass journal entries for the following transactions.

i.) **Ramesh Sharma started business with cash ₹ 50,000.**

ii.) **Purchased goods from Virat on credit ₹ 20,000.**

iii.) **Sold goods to Rahulon credit ₹ 30,000.**

iv.) **Received Dividend₹ 500 from Reliance Industries.**

v.) **Paid for Advertisement ₹1500 to Times of India**

Answer.:-

i) Ramesh Sharma started business with cash ₹ 50,000.

Cash A/c Dr. 50,000
To Capital A/c 50,000
(Being cash introduced in business)

ii) Purchased goods from Virat on credit ₹ 20,000.

Purchase A/c Dr. 20,000
To Virat A/c 20,000
(Being goods purchased from Virat on credit)

iii) Sold goods to Rahul on credit ₹ 30,000.

Rahul A/c Dr. 30,000
To Sales A/c 30,000
(Being goods sold to Rahul on credit)

iv) Received Dividend₹ 500 from Reliance Industries.
Bank A/c Dr. 500
To Dividend Received A/c 500
(Being dividend received from Reliance Industries)

v) Paid for Advertisement ₹1500 to Times of India.
Advertisement A/c Dr. 1,500
To Bank A/c 1,500
(Being paid for advertisement to Times of India)