

## Company Formation

Date: .....  
Page: .....

1. What do you mean by Company?

Ans: A company is an association of persons having common economic objectives. It has separate legal existence and a common seal. It collects capital by issuing transferable shares.

2. Explain the features of Company/ Jointstock company.

Ans: A company is an association of persons having common economic objectives. It has separate legal existence and a common seal. It collects capital by issuing transferable shares.

The features of Company/ Jointstock company are as follows:-

i) Artificial person:

Company is an artificial person created by law. It can be put to an end only through the legal process. It enjoys the facility of the natural person in certain aspects. It can buy, hold and sell the property on its own.

ii) Separate legal existence:

Company has a separate legal entity independent from its shareholders. It can borrow debts, carry on business, and enter into a contract in its name. It can sue others and can be sued by others.

### iii) Perpetual existence:

Company is a corporate body. It acquires a separate legal entity distinct from its members with a common seal. It is not affected by the death, retirement, or insolvency of its shareholder's. Similarly, it performs business without any interruption.

### i) Limited liability:

Company is an artificial person and as such its members are not liable for the entire debts of the company. The liability of shareholders of the company is limited up to their capital investment. The company can borrow a loan for expansion of business.

### v) Formation:

For the formation of a company, promoters group of shareholders have played a major role, and later on its membership increase by the sale of shares. The formation of a company requires more time and capital.

### vi) Management of representatives:

All the shareholders are the real owners of the company. But in practice, not all the shareholders may involve in the management of the company. The management of the company is done by the representative of shareholder, known as the members of the board of directors.

Date: \_\_\_\_\_  
Page: \_\_\_\_\_

### vii) Transferability of shares:

The shares of the join-stock company, especially of a public limited company, are easily transferable from one person to another without prior permission from company management. The shareholders may come and shareholders may go, but the company remains as it is.

### viii) Common Seal:

As an artificial person, a company cannot act or sign itself in official documents. Thus, it has a common seal which is the engraved name emblem of the company. It is affixed on all important documents of their official validity.

### 3. What do you mean by Private Company?

Ans:- Private company is one of the registered company incorporated according to the company act.

According to the company Act 2063 (Amended, 2074), the minimum number of a shareholder may be one and maximum shareholders should not be exceeded one hundred and one.

### 4. What do you mean by Public Company?

Ans:- Company other than Private Ltd. comes under Public Ltd. company. According to section 2 of the company act 2063 (Amended, 2074), a public company means any company incorporated according to this act. The minimum number of shareholders are

seven(7) and the maximum is unlimited.

5. What are the advantages of Public Limited Company?

Ans:- According to section 2 of the company act

2063 (Amended, 2074), a public company means any company incorporated according to this act.

The advantages of Public limited Company are as follows:-

i) Limited Liability:

The liability of the shareholders of the company is limited up to their capital investment. The company can borrow loans for expansion and diversification of business or purchase goods on credit during the regular business but in its own name.

ii) Adequate Capital:

Comparatively, capital investment in a company is more than that of a partnership firm, sole training concern, and private company because it can collect capital required by issuing shares or debentures among unlimited people's for a sop subscription.

iii) Perpetual existence:

Company is an artificial person created by a law. As a corporate body, its existence is perpetual. The death, retirement, lunacy of shareholders or promoters do not affect in regular function of the company.

#### iv) Transferability of shares:

Shares of a public limited company are easily transferable from one person to another. Such transfer of shares do not affect the regular function of the company and prior permission from management is not required to transfer shares.

#### v) Effective Management :-

We know that management is the backbone of an institution and its success depends upon its management system. In a company for the function of management, members of the board of directors are elected.

### 6. Differentiate between Private and Public Company.

The differences between Private and Public company are as follows:-

	Private Limited Company	Public Limited Company
ii)	According to company act i) In company act 2063 (Amended, 2074), in the private limited company, the minimum number of members is one(1) and the maximum is not exceeded hundred one (101)	In company act 2063 (Amended, 2074), for the public limited company, the minimum number of members is fixed to Seven(7) and maximum members are unlimited.

- |  |   |
|--|---|
| <p>ii) A private limited company can start its business immediately after getting the certificate of incorporation from the concerned department of the government of Nepal.</p> | <p>ii) A public limited company can start its business only after getting the certificate of commencement from the concerned department of the government of Nepal.</p> |
| <p>iii) In it, the minimum number of directors should be two(2) and their terms of office will be as prescribed in articles of association of company.</p>                       | <p>iii) In it, the minimum number of directors should be three(3) and the maximum not exceeded to eleven(11).</p>   |
| <p>iv) It is not bound to publish prospectus at the time of issue of shares at the time of for a subscription.</p>   | <p>iv) It is bounded to publish its prospectus at the time of issue of shares for but public subscription.</p>  |
| <p>v) It cannot issue shares and debentures to the general public for the collection of capital. It can issue shares among a limited number of members.</p>                      | <p>v) It can issue shares and debentures to the unlimited general public for the collection of capital and another fund.</p>  |

7. What do you mean by Memorandum of Association (MOA)?

Ans: Memorandum of Association (MOA) is the charter or constitution of the company. It contains all the contents necessary for company formation and operation. It is the foundation of company structure.

8. What do you mean by Articles of Association (AOA)?

Ans: Articles of Association (AOA) are the document of internal management of the company. It contains rules, regulations, and by-laws of the company which is essential to maintain hierarchy in the management system.

9. What do you mean by Prospectus?

Ans: Prospectus is any document, including any notice, circular, advertisement, or other document, inviting offers from the public to subscribe for or purchase any shares or debentures of a body corporate.

10. What are the content of MOA?

S: MOA is the charter or constitution of the company. It contains all the contents necessary for company formation and operation.

The content of MOA are as follows:-

i) Name of the company

ii) The address of the registered office of the company.

## 11. What are the content of AOA?

Ans: AOA are the document of internal management of the company. It contains rules, regulations, and bye-laws of the company which is essential to maintain hierarchy in the management system. The content of AOA are as follows:-

- i) Procedures of convening the general meeting of the company and notice to be given for such meeting,
- ii) Proceedings of general meeting,

## 12. What are the content of Prospectus?

Ans: Prospectus is any document, including any notice, circular, advertisement, or other document, inviting offers from the public to subscribe for or purchase any shares or debentures of a body.

The content of Prospectus are as follows:-

- i) Arrangement relating to bonus shares.
- ii) A biographical introduction of directors.

## 13. What do you mean by registered Company?

Ans: A company registered according to the provision of the company act is known as registered company. The procedures of establishment, right, duties, working area, etc. of such company are specified at the time of incorporation.

## UNIT 13 Accounting For Materials

(1)

1. What do you mean by Material? What are different types of Materials.

Ans: Material is the crude which is used in the production process. In other words, material is the primary part of the factor of production and covers near about 50 to 80 percentage of cost of finished product.

There are two types of materials i.e. direct Material and indirect materials!

i) Direct Material:

It can easily be identified and charged to product in terms of quality and quantity.

ii) Indirect Materials:

It is subordinate part of product and can not identify in finished prod.

2. Differentiate between direct and indirect Materials.

Ans: The differences between direct and indirect materials are as follows:-

	Direct Materials	Indirect Materials.
i)	It remains as a part of product.	It does not remain as a part of product.
ii)	It can be easily identified with final product.	It cannot be easily identified with final product.

i)	Direct Material is a part of prime cost.	Indirect material is a part of overhead.
ii)	It needs effective control.	It does not need any effective control.

3. What are the objectives of Materials and Material control?

Ans: Material control is the process of procuring, storing and supplying material to production unit.

The objectives of Material and Material control are as follows:-

i) Continuous supply of Materials:

The primary function of material control is to supply material uniformly to production units. It should ensure that no production activity is continue without proper materials. It should be noted that both direct and indirect materials have equal importance to maintain continuity in the production process.

ii) Appropriate investment in materials:

In general, the material covers nearly more than 50 percentage of the total cost of the product and hence it needs comparatively more investment. The procurement of a huge quantity of material at a time may bring uniform

*Date.....  
Page.....*

in the production process.

iii) Favourable in Price:

In a competitive market price of a material is the most important matter of consideration because it has a direct impact on the per-unit cost of production. Therefore, the purchase of materials should be made at the most favourable price under the best possible terms without considering needed quality.

iv) Minimize handling cost:

The location of a store should be managed in such a way that it will minimize handling cost and time of materials. As far as possible the distance of production plant and store house should be less so that materials can be delivered within a short period of time.

4. What are the essential of Material Control? (4)

Ans: Material control is the process of procuring, storing and supplying material to production unit.

The essential of Material Control are as follows:-

i) Proper coordination:

There should be proper coordination in all departments of the enterprise for management and use of materials viz. production, purchase, receiving, inspections, storage and accounting.

## ii) Determining purchase procedures:

The determination of purchase procedures is essential to develop a formal system of materials purchase. It is necessary to see that purchase are made after making probable enquires, at the most favourable terms to the organization.

## iii) Preparation of budget:

The preparation of budgets concerning materials, supplies and equipment is another requirement of materials control. It is helpful to ensure the economy in purchasing and use of materials.

## iv) Development of internal check:

It is helpful to maintain cross-check of the functions of one employee by other employees of the firm. The implementation of proper approval and checking of materials, supplies, and equipment by the concerned authority ensures effective use of materials.

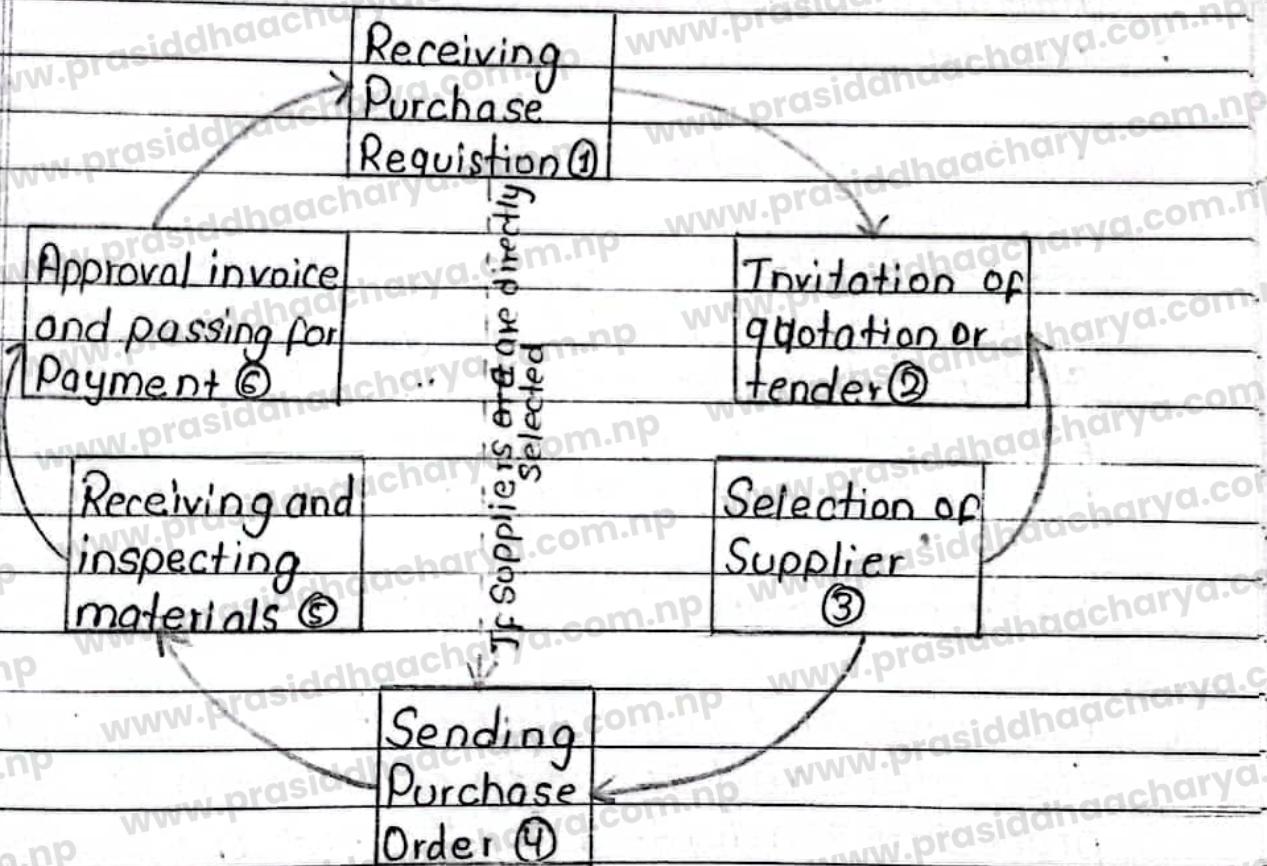
## 5. Explain the procedure of purchasing and receiving material.

Ans: Material is the crude which is used in the production process. In other word, material is the primary part of the factor of production and covers near about 50 to 80 percentage of cost of finished product.

The materials purchase procedures may vary from one organization to another. Every organization may adopt its own standard procedures to purchase materials from suppliers. It depends upon nature and size of business and management policy.

The generally accepted procedures followed by the purchasing department are as follows:-

### Procedures of Purchasing



#### i) Receiving Purchase Requisition:

The request for

purchasing requisition is the first step in the purchase procedure. In general, the purchasing department initiates the action for purchase on

a) request made either by the storekeeper or by the production department for specific materials.

ii) Invitation of Quotation or Tender and selection of Supplier:

In normal terms of business, when the purchasing department has sufficient information about quality, quantity, price, suppliers and terms; materials orders can be placed without further inquiry.

iii) Sending Purchase Order:

The purchase order is issued to the supplier whose quotation is appropriate as provided by the comparative statement of quotations. A purchase order is a formal written document forwarded to the supplier for the supply of materials under terms agreed in quotation.

iv) Receiving and Inspecting Materials:

The process of receiving and inspecting materials depend upon the nature and quantity of materials and procedures adopted by the enterprise. Generally in a large organization, a separate department for receiving and inspecting is set up whereas in a small organization this work is entrusted to the storekeeping department.

## v) Approval Invoice and Passing for Payment:

This is the final step of purchase procedures. When the original invoice of the supplier is received it will be checked with reference to the purchase order form and materials received a report for its authenticity.

6. What do you mean by Purchase department?

Ans: The purchase department involves purchasing materials in accordance with the purchase policy of the management.

7. What do you mean by Centralized Purchasing?

Ans: In centralized purchasing, all the materials required of an organization are purchased by the central purchase department in one place.

8. What are the advantages of Centralized Purchasing?

In centralized purchasing, all the materials required of an organization are purchased by the central purchase department in one place.

The advantages of Centralized Purchasing are as follows:-

i) Better control of materials:

In centralized purchasing, it is possible to have a scientific system of inspection, testing, and checking of materials on receiving. A better layout of the store will be

helpful to maintain control of materials in the store.

ii) Purchase on most favourable terms:

In centralized purchase, the organization can employ specialized, experienced and professional purchase executives who can study the trends of the market and gain purchase in the most favourable terms.

iii) Minimize delivery cost:

In centralized purchasing delivery system may be planned and maintained in a better and effective way. Besides, delivery of a huge quantity of goods at a time also gets concession in per-unit cost delivery.

9. What are the advantages and disadvantages of centralized purchasing?

Ans: In centralized purchasing, all the materials required of an organization are purchased by the central purchase department in one place. The disadvantages of centralized purchasing are as follows:

i) Needs more investment in working capital:

The purchase of huge quantity materials at a time needs more investment of money in working capital. It may create the drawback of the capital block only on materials storing.

ii) Not practicable located far off branches:

The centralized purchasing is not practicable in an organization where branches are located far off from the central store. In one way it needs more delivery expenses and another way it may create the problem of scarcity of materials.

iii) Maximize delivery expenses:

The centralized purchasing needs to bear delivery expenses two times, firstly for receiving a delivery from suppliers and again for providing delivery from suppliers to branches. This will maximize delivery expenses especially when branches are located in different places far from a central store.

10. ~~iii)~~ What do you mean by decentralized Purchasing?

Ans: In decentralized purchasing, materials purchase will be made at the various authorized branches or sub-units of organization. In this system of purchase, the authority of purchase of materials or stores has been delegated to a responsible employee of the branches.

11. What are the advantages and disadvantages of decentralized purchasing?

Ans: In decentralized purchasing, materials purchase will be made at the various authorized branches or sub-units of organization.

## Disadvantages

i) Lack of benefit of bulk purchase:

In decentralized purchase, materials are purchased in small quantities from the local market. It does not provide the benefit of bulk purchases like trade discounts, cash discounts, quantity discounts, etc.

ii) May not be possible for material control:

Since the purchasing authority is delegated to different branches or production units, it may not possible to maintain effective control over the proper use of material.

iii) Possibility of over-under purchase:

In decentralized purchase, there is a possibility of over or under the purchase of materials. It is possible because of a lack of efficient and professional purchase executives.

12. What do you mean by Store Keeping?

Ans: Store Keeping is one of the most important functions of material control. It consists of systematic preservation of materials in proper place which is known as storeroom or warehouse.

13. What are the objectives of store keeping?

Ans: Store Keeping is one of the most important functions of material control. It consists of systematic prevention of materials in proper place which is known as storeroom or warehouse. The objectives of store keeping are as follows:-

i) To collect material and verify them in reference to materials received note and purchase order in regard to quality, quantity and price.

ii) To receive materials and enter those into goods receive notes and store them in the proper place.

14. What are the types of store keeping?

Ans: Store Keeping is one of the most important function of material control. It consists of systematic preservation of materials in proper place which is known as storeroom or warehouse.

The types of store keeping are as follows:-

i) Centralized stores

ii) Decentralized stores

iii) Centralized stores with sub-stores.

15. What do you mean by Centralized store?

Ans: In centralized stores, a single store house is set up for the whole organization and all materials purchased are preserved in that store. In this type of store, any materials purchased would receive by a single store and would provide issues to different branches situated in different places.

i) To receive materials formally:

It is the duty of the store keeper to receive material formally by making necessary verification materials received concerning purchase order, inspection note and receive note.

ii) Regular review of materials:

It is the responsibility of the store-keeper to review materials regularly. It is essential to maintain a perpetual inventory position.

iii) Systematization of store function:

As a technical professional, it is the duty of the store keeper to develop all kinds of documents, books and systems required in store keeping handling.

20. What do you mean by codification of Materials?

Codification of materials are a process of the systematic layout of materials in store in the proper place. Generally, classification and codification go together and their main motive is to know about the basic nature and features of all materials used in the organization.

21. What are the methods of codification?

Ans: Codification of methods materials are the process of the systematic layout of materials in store in the proper place.

The methods of codification are as follows:-

i) Alphabetical method

ii) Numerical method

iii) Combination of alphabetical and Numerical method.

22. What do you mean by Bin Card?

Bin card is a card of certain size which shows the quantity of materials received, issued and balances of materials in stores.

What do you mean by Store ledger?

Store ledger is a register used to record materials turnover in stores. It is maintained by cost department in support of evidential document like goods received note, store requisition note.

## Concept of Cost Accounting

Date: .....

Page: .....

1. What do you mean by Financial Accounting?

Ans: Financial accounting is the branch of accounting that makes it easier to file financial statements by maintaining systematic records of financial transactions or economic activities that occur in the business.

2. What do you mean by Cost Accounting?

Ans: Cost accounting deals with the accumulation, classification, analysis, recording, allocation, summarization, interpretation, reporting and control of current and future prospective of costs.

3. Explain the limitation of Financial Accounting.

Ans: Financial accounting is the branch of accounting that makes it easier to file financial statements by maintaining systematic records of financial transactions or economic activities that occur in the business.

The limitation of financial accounting are as follows:-

i) Based on historical information:

Financial accounting only includes historical details based on transactions that have been registered. It may not be appropriate for indicating future plans.

ii) Fails to help in planning and decision making.

Fails to provide appropriate data to management for making different business decisions and future plans, such as replacing labour with machines, making or buying, choosing the most efficient product mix, operating or shutting down and so on.

iii) Difficulty in price determination:

Financial accounting fails to provide managers with the details required to set the price of a good or service. Since the costs are not distributed individually according to manufacturing goods, services, or work orders.

iv) No use of standard:

Financial accounting does not provide any standard costing to measure efficiency in the use of materials, labour, and expenses, making it difficult to measure performance efficiency because no standards have been established in financial accounts.

v) No assistance in control on cost:

While cash control is given, Financial Accounting lacks a proper system for managing various cost elements such as supplies, labour, and indirect costs or overheads.

4. Explain the objectives of Cost Accounting.

Ans: Cost accounting deals with the accumulation, classification, analysis, recording, allocation, summarization, interpretation, reporting and control of current and future prospective of costs.

The objectives of Cost accounting are as follows:-

i) Estimation of cost of product or service:

Cost estimation for future performance is an important objective of cost accounting. Cost estimation is concerned with pre-determination of cost of product and service before actual operation takes place.

ii) Determine Selling Price:

Another part of objective of cost accounting is to determine selling Price of product or service. Cost accounting facilities to accumulate all elements of cost like materials, labour, and overheads to produce a product or to derive service.

iii) Assist in managerial decisions:

One of the important parts of managerial functions is to take right decision at the right time. Cost accounting techniques like cost-volume-profit analysis, Capital budgeting, standard costing, etc. are crucial to take important decisions.

ii) Helps to control and reduce costs:

Cost accounting helps to maintain minimum level of standard in actual cost. It provides useful data not only about product costs but also about production efficiency. This helps to estimate standard cost of product before involving in actual production activities.

iii) Assist to measure efficiency:

Cost accounting helps to measure the efficiency of different processes or departments after some time intervals. The provision of measurement of actual performance achieved with standard fixed helps to take corrective among the responsible personnel.

iv) Provides cost information to bid:

Cost accounting is advantageous to the management for bidding tenders and quotations. Business organizations involved in manufacturing and developmental works need to file a bid for tender or quotation for supply of materials or to complete work.

v) Helps to establish standard of performance:

Cost accounting is the basis of standard costing and budgetary control. It communicates cost information and data to the management which is necessary

#### iv) Determining the value of stock and income reporting:

One of the objectives of cost accounting is to provide information about cost per unit of output by accumulating all elements of cost like materials, labour, and overheads. Cost accounting helps to determine value of closing stock by gathering manufacturing cost of output.

#### v) Planning and control of costs:

Cost accounting is an important planning instrument which facilitates to prepare day to day operational as well as long term plans of an enterprise. In general, information provided by a cost accounting system is combined with other data.

### 5. What are the importance of Cost Accounting?

Ans: Cost accounting deals with the accumulation, classification, analysis, recording, allocation, summarization, interpretation, reporting and control of current and future prospective of cost. The importance of Cost accounting are as follows.

#### i) Identify profitable and unprofitable operation:

Cost accounting helps to identify profitable and non-profitable projects from economic point of view. It assists to provide information regarding production cost of a product or service by gathering all element of cost like material, labour and overheads.

to set standard of performance in terms of quality and quantity.

## 6. Explain the limitations of Cost Accounting.

Ans: Cost accounting deals with the accumulation, classification, analysis, recording, allocation, summarization, interpretation, reporting and control of current and future prospective of costs.

The limitations of Cost Accounting are as follows:-

### i) Lack of uniformity:

The cost accounting is not an exact science and therefore there is lack of uniformity in costing procedures and practices. The cost accountants may compute costs on different basis.

### ii) Does not consider price level change situation:

It is matter of fact that cost accounting is source of cost information and the basis of cost estimation. However, it needs many formalities and estimations and does not consider to the ~~income~~ inflationary situation of the future prospect.

### iii) Costly System:

The development of cost accounting system needs technical personnel, many procedure and other resources required to the business. The accumulation of above resources require

Date: .....  
Page: .....

investment of extra capital which is possible  
only to large organization.

iv) Does not match with financial results:

In some extent, cost accounting facilitates to determine actual profit or loss from business operation but it ignores to pure financial transactions. Therefore, the results obtained through cost accounting does not match with profit or loss obtained through financial accounting.

v) Only the basis of cost Control:

Although cost accounting provides data and information to the management to take necessary steps to control cost but it by itself cannot control cost. Cost accountants and other technical authorities of the enterprise must have familiar with products, processes, material, labour, overhead and expenses related with machines.

7. Differentiate between Financial accounting and Cost accounting.

Ans. The differences between financial accounting and cost accounting are as follows:-

## Financial Accounting

i) Financial accounting is to keep record of monetary transactions, provide information of operational results and overall financial position of business.

ii) Financial accounting communicates its financial information to external parties of the firm like investors, creditors, government agencies, taxation authorities.

iii) Financial accounting records the monetary transactions which have taken place in past.

iv) Financial accounting is governed by Companies Act, Income Tax Act, Finance Act and other rules of the country.

v) Financial accounting provides importance to maintain record of financial transactions which are incurred in business operation.

## Cost Accounting

i) Cost accounting is the study and analysis of cost needed to produce a product or render a service.

ii) Cost accounting communicates its costing information for internal consumption mainly to the various levels of management.

iii) Cost accounting records both monetary transactions of past and projected costs figure of future.

iv) Cost accounting is informed and internal in nature and therefore no acts of the country govern for its preparation.

v) Cost accounting provides emphasis for cost estimation and cost determination of products or services.

8. Explain the method of Costing.

Ans: The method of costing are as follows:-

### i) Job-order Costing:

Job-order costing method is used to assign direct costs to the specific order, contract, and also to specific batch of production. Each job or order is specific and absorb different operations which need costs both direct and overheads.

### ii) Batch Costing:

This costing is used for a batch or group of orders of tiny nature. In manufacturing enterprises where small components of the same kind are manufactured in large quantities the batch costing method is used.

### iii) Contract Costing:

The contract costing method is used where a job is very huge and takes a long time like one year or more to complete. The work is undertaken in accordance to the special requirement of customers which is one to also large enough in terms of expenditure.

### iv) Multiple costing:

It is also known as composite costing where costs of many component units are accumulated. This costing is used by the enterprises where varieties of components are produced at different plants of the same organization.

or different organization and afterward assemble in a final product.

#### i) Process Costing:

Process costing is used in industry where a continuous process of production is carried out and the product is uniform. In other words, process costing is used in industries where certain steps to be completed to convert raw materials into finished product.

#### ii) Single Costing:

It is also known as output costing and is used in enterprise which produces only a single product. The product might also be two or three types in grades but of similar nature. The product should be on mass scale and continuous in process.

#### vii) Service Costing:

It is also known as operating costing. It is suitable in enterprise which provides service to the customers like transport company, hospitals, electro-electricity, telecommunication, hotels, educational institutions, etc.

### Q. What do you mean by Cost?

Ans: Cost is the amount of expenditure incurred for the payment of items like materials, labour, overheads and capital expenditure.

Explain the cost on the basis of elements.  
Cost is the amount of expenditure incurred for the payment of items like materials, labour, overheads and capital expenditures. On the basis of elements or nature costs are classified into three types viz. materials, labour and expenses.

### i) Materials:

It is fact that minimum part of product cost, near about 50 to 80 percent, is covered by material cost. Therefore, material has been taken as one of significant element of products. Material cost is again sub-divided into two viz. direct material and indirect material.

### ii) Labour cost:

The amount paid to workers involved in production process or in subordinate function is labour cost. Labour cost is a must in every organization to incur expenditure in manpower in terms of wages, allowance, provident fund, bonus, commission, gratuity, pension, etc.

### iii) Expenses:

All the expenses incurred other than material cost and labour cost are expenses. They are stable in nature. Expenses are also sub-divided into two types viz. direct expenses and indirect expenses.

11. Explain cost on the basis of Production and function.

Ans: Cost is the amount of expenditure incurred for the payment of items like materials, labour, overheads and capital expenditure. The explanation of cost on the basis of production and function areas follows:-

### On the Basis of Production and Process

When we study costs by focusing to a production and process, we can get two types of expenses viz. direct cost and indirect cost.

#### i) Direct Costs:

Direct Costs are those, which can be physically identical and traced to the cost of object because there is a direct causal link between them. Example: cost of paint in the paint department of an automobile assembly plant.

#### ii) Indirect Costs:

Indirect cost cannot be traced to each cost object and they must be allocated in order to be assigned to a product or department. In order to be assigned to a product or department Example: cost of national advertising for an airline is indirect to a particular flight.

### On the Basis of Functions

According to the classification, cost are divided on the basis of the three important functions of a business which are work cost, administration, selling and distribution cost.

### i) Work/factory cost:

In simple sense, all the expenditure incurred in an organization for production process is factory cost. Factory cost may also be sub-classified into two viz. direct cost and indirect cost.

### ii) Administrative Cost:

The expenditure incurred for the regular operation for the office is administration cost. It represents those indirect expenses, which relate to the performance of management functions like planning, organizing, directing, and controlling the operation.

### iii) Selling and distribution cost:

Such costs in one angle and incurred for the promotion of business operation and in another way they are needed to provide delivery of goods to customers.

Q. Explain the cost on the basis of variability or behaviour.

A: Cost accounting is the amount of expenditure incurred for the payments of items like materials, labour, overheads and capital expenditure.

The explanation of cost on the basis of variability or behaviour are as follows:-

### i) Fixed costs:

Fixed costs which are also known as periodic costs do not differentiate due to change in quantity or number of output. These

Date: \_\_\_\_\_  
Page: \_\_\_\_\_

costs depend mainly on the effluxion of time and do not vary directly with the volume of units of output.

### ii) Variable Costs:

The costs that are very directly and proportionately in accordance of volume of output are variable costs. These costs are also known as direct or marginal costs. There is a constant relation between change in volume of output and change in variable costs.

### iii) Semi-variable cost / mixed costs:

These costs represent both some part of variable costs and some part of fixed costs. In other words, they are the combination of both semi-variable costs and semi-fixed costs. They increase or decrease in accordance of varied in volume of output but not directly in proportion to output.

### iv) Step fixed costs:

This is the stepped cost function. A fixed cost applies from zero activity up to a specific level at which point an additional fixed increment is incurred. This fixed increment then remains constant up to certain level and then again further fixed cost increment is required at a higher activity level.

## Use of Software in Accounting (Tally)

1. What do you mean by Accounting Software?

Ans: Accounting software is a fundamental application that allows an organization to manage the business financial transactions with the use of a computer. It is a computer software used by professionals to carry out the function of recording, arranging and summarizing the financial data of business.

2. Write down the features of Accounting Software.

Ans: Accounting software is a fundamental application that allows an organization to manage the business financial transactions with the use of a computer.

The features of Accounting Software are as follows:-

i) It leads to quick preparation of accounts and makes available the accounting statements and records on time.

ii) It ensures control over accounting work and records.

3. Explain the importance of Accounting software.

Ans: Accounting software is a fundamental application that allows an organization to manage the business financial transactions with the use of a computer.

The importance of accounting software are as follows:-

### i) Accuracy in accounting:

Accounting software improves accuracy by decreasing or removing human calculation of errors. Manual book keeping technique necessitate a great deal of mathematical computation. Computer, on the other hand, are essentially immune to such mistakes.

### ii) Cost Savings:

Accounting and finance solutions automate fundamental calculations and administrative procedures, allowing you to take control of your revenue framework without having to hire a third party expert.

### iii) Increase in Speed:

Accounting software allows business to process their accounts faster than they could if they did it manually. Accounting software also allows business to boost productivity by automating process.

### iv) Cost reduction:

Due to the use of accounting software, accounting jobs became faster, economical and easier, which decreases the cost of the organization. Payroll and administration costs in the accounting department can be reduced with accounting software.

## v) Accuracy in forecasting:

One of the most significant benefit of accounting software is this without a robust framework, translating the patterns and trends in financial performance would take a long time.

### i. Explain the use of accounting Software.

i: Accounting software is a fundamental application that allows an organization to manage the business financial transactions with the use of a computer.

The use of accounting software are as follows:-

#### i) For financial control:

Accounting software enables business to automatically manage their accounts, even if they are not accounting specialists. They can manage all accounting activities using their computers or mobile devices with a simple knowledge of accounting and training.

#### ii) For increase in efficiency:

Accounting software handles accounts receivables, payables and the general ledger, as well as creates financial statement and other reports. Accounting calculation are difficult and time-consuming.

## Accounting for Overhead

1. What do you mean by Overhead?

Ans: Overheads are the indirect costs which cannot be directly allocated to any particular job and production activity or process as they are not capable of being specifically identified to any particular activity.

2. Explain different types of overhead under different basis.

Ans: Overheads are the indirect costs which cannot be directly allocated to any particular job and production activity or process as they are not capable of being specifically identified to any particular activity. The different types of overhead under different basis are as follows:-

### On the basis of element

i) Indirect materials:

These materials are supplementary of direct materials and support in production process. Generally, these materials do not form the part of finished product as it is more difficult to allocate to a particular unit of product.

ii) Indirect labour:

Wage paid to the workers who are involved other than on production is indirect labour cost. Such labour cost cannot be allocated but it is essential to apportion such cost to find out correct cost of product or service.

### iii) Indirect expenses:

Overhead expenses other than indirect materials and indirect labour are come under indirect expenses. These expenses are not directly related to production process and therefore, it cannot be allocated to a particular production unit or job but can be apportioned to production unit or cost centre.

#### On the basis of function

##### i) Manufacturing overhead:

These overheads are also known by production overheads, factory overheads or work on cost. All the expenses, except prime costs, incurred in the factory are come under manufacturing overheads. These expenses are required in the factory to convert input into output.

##### ii) Administrative Overheads:

All the expenses needed to accomplish managerial and official work and are come under administrative overheads. These expenses are incurred for formulating of planning, organizing, directing and controlling the operation of the organization.

##### iii) Selling and distribution overheads:

These expenses are needed to operate, expand and deliver diversify markets for the product or service. Selling overheads are needed to retain existing customers, and to create demand for new customers. Distribu-

overheads are incurred starting from packaging of products to final distribution those products to customers.

### On the basis of behaviour

#### i) Fixed Overheads:

Fixed overheads are periodical cost and related with policy. Generally, these costs remain constant for a fixed period of time like for a month, six months or for a year. The change in volume of output does not affect in total amount of fixed overheads.

#### ii) Variable overheads:

Variable cost have direct and proportionate relation with volume of output. These overheads fluctuate on the basis of change in the volume of output. It means the amount of variable overhead expenses increases as volume of output have been increased and viceversa.

#### iii) Semi-variable or Semi-fixed overheads:

These costs involve both variable and fixed nature. These are mixed costs, partly variable and partly fixed. These costs change with the change in volume of output but not direct proportion to change in volume of output.

## On the basis of Control

### i) Controllable overheads:

These overheads are, in some extent, controllable by the management. An efficient manager can influence over such overheads. An effective plan and supervision system of the management helps to minimize such overhead expenses.

### ii) Uncontrollable overheads:

These overheads are beyond the control of the management. The management action does not effect on such overhead expenses. There is no scope to minimize such overheads once such facilities are provided by the management. Management needs to adjust such expenses at the calculation of cost of product or service.

### 3. What do you mean by allocation of overhead?

Ans: Allocation of overheads is the process of identification of overhead expenses to a particular cost centre, job or department. Allocation of overhead expenses to the department concerned is a must to find out correct cost of product or service.

### 4. Differentiate between allocation and apportionment of overhead.

Ans: The differences between allocation and apportionment of overhead are as follows:-

## Allocation of overheads

i) Allocation is the process of identification of overhead expenses to a particular cost center or department.

ii) In allocation overhead expenses is shared only to a particular department.

iii) It is relevant only when overhead expenses are related only to a particular department.

iv) It is the basis of distribution of overheads directly to concerned department or cost centre.

## Apportionment of overheads

i) Apportionment is the process of distribution of overhead expenses to different departments or cost centers.

ii) In apportionment overhead expenses is shared to two or more departments on equitable basis.

iii) It is relevant when overhead expenses are related to two or more departments.

iv) It is the basis of distribution of overheads to two or more cost centres or units on most equitable basis.

## ii) Software:

Software is a collection of programs that work with hardware. Software is the term used to describe the instruction that tells the hardware how to complete a task. Operating system, utility programs, application software, system software and so on.

## iii) People:

People are the most crucial component of any computer system. They make interactions with the computer. They are also known as computer system live-ware. They give the instruction to display the result in the computer.

## iv) Procedure:

Computer procedures are a set of processes performed in a specific order or way to accomplish a specific result. It is a series of coded instructions that instruct a computer how to run a program or execute a computation in computer programming.

## v) Data:

The facts and numbers that are obtained and entered into a computer system are referred to as a data. It could be made up of a number, text, charts, diagrams and other elements. The computer system saves, retrieves, classifies, organize, process, and mixes data to generate information in accordance with a set of specified instructions.

## vi) Connectivity:

Connectivity is the ability to connect to or communicate with another computer or computer system. It refers to how a computer system is linked to others by various means such as telephone lines, satellite links and so on. Therefore, connectivity refers to the extensive process of connecting various elements of a network to one another.

## 4. What are the features of computerized accounting system?

Ans:- Computerized accounting system is the use of computers to perform accounting process or function. It involves recording and analyzing financial transactions electronically over the accounting software. The features of computerized accounting system are as follows:-

### i) Speed:

A computer performs mathematical calculation with high speed and accuracy. Millions of instructions can be processed every second by computer. Microseconds and nanoseconds are the length of time.

### ii) Versatility:

Versatility refers to the capability of a computer to perform different kinds of works with same accuracy and efficiency.

iii) Accuracy:

Computers perform calculations with 100% accuracy. Errors may occur due to data consistency or inaccuracy or human causes. Otherwise, it always give accurate results after day entry.

iv) Reliability:

When an operator give the same set of input at any time in the computer, it gives the same results. So, the result calculated using a computer is reliable.

v) Diligence:

The memory of computers makes it superior to that of human beings. It can perform millions of tasks or calculations with the same consistency, accuracy and speed.

5. What are the importance/advantages of computerized accounting system?

Ans: A Computerized accounting System is the use of computers to perform accounting process or function. It involves recording and analyzing financial transactions electronically over the accounting software.

i) High speed:

The computer can perform complex tasks in a short period of time. It requires far less time than human beings in performing task.

### ii) Reliability:

The computer never gets tired, computers are more reliable than human beings.

### iii) Accuracy:

The most critical aspect of the business is accuracy in accounting statement and book of accounts. In ge It generates findings that are 100% correct.

### iv) Versatility:

It refers to the computer's ability to perform a variety of tasks. It is capable of being used in area: business, industry, communication statistics.

### v) Storage:

A company's ability is to store data is critical. Data can be stored fast in a computerized system. The information is stored indefinitely once it is submitted into the system.

## Q. What are the limitations of computerized accounting system?

Ans: Without any doubt, the computer system is quite important. Even it has several benefits; the following are the limitations of computerized accounting system:-

ii) F

ii) It takes a lot of time to record and prepare report manually.

iii) Errors in calculations, carrying forward balance can exist.

ii) This system will save a lot of time. After preparing the journal entries or subsidiary book will give all the information.

iii) If the input data are correct, the result will always be correct in this system.

8. Explain the application of computer in accounting.

Ans:- The applications of computer in accounting are as follows:-

i) Maintaining accounting records:

Computers make it simple and efficient to keep accounting records for a long time. It does not require a lot of physical space.

ii) Inventory management:

The computer aids in the efficient management of inventory system, allowing for the identification of fast-moving, slow-moving and obsolete material.

i) High cost of installation:

The cost of implementation of accounting software is high and not everyone can afford it. The cost for regular operation, annual maintenance charge, and backup are also fairly high.

ii) Cost of training:

Complex computerized accounting software usually necessitates the use of a skilled operator. To ensure efficient and effective use of the software.

iii) Only aid to decision making:

The computer merely aids the decision making by providing information relevant to it. It cannot take decisions on its own.

7. Differentiate between Manual and computerized accounting system.

Ans: The differences between Manual and computerized accounting system are as follows:-

Manual accounting system	Computerized accounting system
i) All transactions are recorded manually in this system of accounting	i) All the transactions are recorded by using computers.

### iii) Payroll accounting:

Payroll accounting entails a set of basic calculations to establish each employee's base salary, as well as state and federal tax deductions and employee contributions to retirement account.

### iv) Report generation:

The computer helps to generate various routine and different financial statements and reports as well. Financial statements are automatically generated by computer.

### v) Data import/export:

Accounting data and information can be imported from and exported to other users both within and outside the organization.

## 9. Explain the process of computerized accounting.

Computerized accounting is the use of computers to perform accounting process or function. It involves recording and analyzing financial transactions electronically over the accounting software. The process of computerized accounting are as follows:-

### i) Input:

Input refers to any information or data sent to a computer for processing. An input device is used to send input or user input to a computer. The figure depicts the distinction between

Output and input.

ii) Storage:

Before data and instruction entered into a computer can be processed, they must first be stored in the computer. Similarly, the results of the computer's processing are saved before being sent to the output units.

iii) Information process:

A process is an instance of a computer program that is being run by one or more threads in computing. It includes the program code as well as its activity. It refers to a set of instructions currently being processed by the computer processor.

iv) Output:

The results of the computer are presented to the users as output. The output of the computer system is in the form of electrical impulses, which are then transformed into a human-readable format.

b) What are the source document of information in computer system?

The major function of accounting are to accurately identify and record financial transactions of individual, business and other entities in the book of accounts.

The source document of information in computer system are as follows:-

i) Invoices:

An invoice is a bill that is received from a supplier.

ii) Purchase Order:

A purchase order is a commercial document prepared and sent by the buyer to a supplier that shows the orders of goods.

iii) Receipts:

A receipts is one of the source documents of accounting information that confirms that a person has received money or property in exchange for product or service.

Q. What do you mean by information analysis?

Ans:- Information analysis is the act of identifying and isolating the most important information transmitted by a particular information source, as well as breaking the information source into its constituent elements using specific evaluation criteria.

Q. What do you mean by processor of information?

Ans: Information processing is the change of information in any manner detectable by an observer. It is a process that encompasses everything that occurs in the entire cosmos, from a rock falling to a digital

*(Date: 2024)*  
computer system producing a text file. The processor of information is a part of an accounting system that interprets, converts and summarizes financial data in the form of financial statements and reports.

13. Explain the method of information storage.

Ans: Information Storage is the place where different files and documents of accounting information are digitally recorded and kept using a computer, in a storage system for future use. The methods of information storage are as follows:-

i) Private data storage:

Private data storage is referred to as on-premise storage. It is a practical approach to retain information on hand inside the premises of the company.

ii) Public data storage:

Public cloud storage does not have on-premises storage equipment that performance and security can greatly vary between service providers. In addition, unlike private cloud storage, reliability is dependent on internet connectivity and service provider availability.

iii) Hybrid data storage:

Hybrid cloud storage is a type of cloud storage model that devices and

*Date: \_\_\_\_\_  
Page: \_\_\_\_\_*

combines the functionality of public and private  
cloud storage models to provide data storage  
service.