

Table of Contents

<i>Preface</i>	<i>iii</i>
<i>Introduction</i>	<i>xvii</i>
Chapter 1: Basic Concepts of Accounting	1
1.1 Introduction.....	2
1.2 Concept of Accounting	2
1.2.1 Objectives of Accounting.....	3
1.2.2 Functions of Accounting.....	4
1.2.3 Bookkeeping and Accounting.....	4
1.2.4 Advantages of Accounting.....	4
1.2.5 Limitations of Accounting.....	5
1.3 Nature of Accounting	5
1.4 Role of Accounting	6
1.5 Users of Accounting Information.....	7
1.5.1 Internal Users.....	7
1.5.2 External Users	8
1.6 Branches of Accounting	8
1.6.1 Financial Accounting.....	8
1.6.2 Cost Accounting	9
1.6.3 Management Accounting.....	9
1.7 Basic Accounting Terms.....	10
1.8 Summary.....	12
1.9 Key Terms	12
1.10 Exercise.....	13
Multiple Choice Questions	13
Short Answer Type Questions	15
Long Answer Type Questions.....	17
Chapter 2: Accounting Concepts, Conventions, Principles, and Standards	19
2.1 Introduction.....	20
2.2 Basic Accounting Concepts	20
2.2.1 Business Entity Concept.....	21
2.2.2 Dual Aspect Concept.....	21
2.2.3 Going Concern Concept.....	21
2.2.4 Accounting Period Concept.....	21
2.2.5 Money Measurement Concept	21
2.2.6 Cost Concept.....	22

2.2.7	Periodic Matching of Cost and Revenue Concept	22
2.2.8	Verifiable Objective Evidence Concept.....	22
2.2.9	Realization Concept	22
2.2.10	Accrual Concept	23
2.3	Accounting Conventions	23
2.3.1	Disclosure Convention	23
2.3.2	Materiality Convention.....	23
2.3.3	Consistency Convention	23
2.3.4	Conservatism Convention.....	23
2.4	Defining Accounting Principles.....	24
2.4.1	Features of Accounting Principles	24
2.4.2	Generally Accepted Accounting Principles (GAAP).....	25
2.5	Accounting Standards	27
2.5.1	Significance of Accounting Standards	27
2.5.2	Functions of Accounting Standards.....	27
2.5.3	Process of Setting Accounting Standards.....	27
2.5.4	Accounting Standards in India.....	28
2.5.5	International Financial Reporting Standards (IFRS).....	29
2.6	Summary.....	31
2.7	Key Terms	31
2.8	Exercise.....	32
	Multiple Choice Questions	32
	Short Answer Type Questions	34
	Long Answer Type Questions.....	36
Chapter 3: Accounting Process: Recording of Transactions		41
3.1	Introduction.....	42
3.2	Process of Accounting.....	42
3.3	Accounting Equation	44
3.4	Classification of Accounts	47
3.5	Double Entry Bookkeeping System.....	49
3.5.1	Significance of Double Entry Bookkeeping System.....	49
3.5.2	Rules for Debit and Credit.....	50
3.6	Journal Entry	53
3.6.1	Steps in Journalizing	53
3.6.2	Compound Journal Entry	53
3.7	Ledger Books.....	59
3.7.1	Difference between Journal and Ledger	60
3.7.2	Ledger Posting	60
3.7.3	Balancing the Ledger.....	61
3.8	Subsidiary Books.....	68
3.9	Summary.....	73
3.10	Key Terms	73
3.11	Exercise.....	73
	Multiple Choice Questions	73
	Short Answer Type Questions	75
	Long Answer Type Questions.....	78
	Numerical Problems	79
	Numerical Exercises	81

Chapter 4: Trial Balance and Rectification of Errors	83
4.1 Introduction.....	84
4.2 Concept of Trial balance	84
4.2.1 Objectives of Trial Balance	85
4.2.2 Methods of Preparing a Trial Balance.....	85
4.2.3 Limitations of Trial Balance.....	89
4.3 Rectification of Errors.....	89
4.3.1 Errors of Omission	89
4.3.2 Errors of Commission	90
4.3.3 Errors of Principle	91
4.3.4 Compensating Errors	91
4.3.5 Locating the Errors	92
4.4 Suspense Account	93
4.5 Summary.....	96
4.6 Key Terms	96
4.7 Exercise.....	96
Multiple Choice Questions	96
Short Answer Type Questions	98
Long Answer Type Questions.....	100
Numerical Problems	102
Numerical Exercises	109
Chapter 5: Preparation of Financial Statements	111
5.1 Introduction.....	112
5.2 Financial Statements.....	112
5.2.1 Objectives of Financial Statements	112
5.2.2 Concept of Capital and Revenue Expenditure.....	113
5.3 Classification of Financial Statements.....	113
5.3.1 Trading Account and Manufacturing Account.....	113
5.3.2 Profit and Loss Account	118
5.3.3 Balance Sheet	122
5.4 Adjustments in the Preparation of Financial Statements.....	127
5.4.1 Closing Stock	127
5.4.2 Outstanding Expenses.....	128
5.4.3 Prepaid Expenses.....	128
5.4.4 Accrued Income.....	128
5.4.5 Income Received in Advance.....	129
5.4.6 Depreciation.....	129
5.4.7 Bad Debts and Provision for Doubtful Debts.....	129
5.4.8 Provision for Discount on Debtors	129
5.4.9 Manager's Commission	130
5.5 Summary.....	132
5.6 Key Terms	132
5.7 Exercise.....	133
Multiple Choice Questions	133
Short Answer Type Questions	134
Long Answer Type Questions.....	137
Numerical Problems	141

Chapter 6: Depreciation	149
6.1 Introduction.....	150
6.2 Definition of Depreciation.....	150
6.3 Need for Charging Depreciation.....	150
6.4 Factors Affecting the Computation of Depreciation.....	151
6.5 Methods of Calculating Depreciation	152
6.5.1 Straight Line Method.....	152
6.5.2 Written Down Value Method.....	153
6.5.3 Sum of Years' Digits Method.....	157
6.5.4 Inventory Method	158
6.5.5 Annuity Method.....	159
6.5.6 Depreciation Fund Method.....	159
6.5.7 Insurance Policy Method.....	161
6.5.8 Depletion Method of Depreciation of Natural Resources	161
6.5.9 Machine Hour Rate Method	161
6.6 Criteria for Selecting the Depreciation Method.....	162
6.7 Summary.....	163
6.8 Key Terms	163
6.9 Exercise.....	164
Multiple Choice Questions	164
Short Answer Type Questions	166
Long Answer Type Questions.....	169
Numerical Problems	170
Numerical Exercises	174
Chapter 7: Bank Reconciliation Statement.....	175
7.1 Introduction.....	176
7.2 Definition of Bank Reconciliation Statement.....	176
7.3 Need for Bank Reconciliation Statement	176
7.4 Bank Passbook/ Bank Statement	177
7.5 Causes of Difference between Cash Book and Passbook Balances	177
7.6 Procedure of Preparing a Bank Reconciliation Statement	178
7.7 Summary.....	188
7.8 Key Terms	188
7.9 Exercise.....	188
Multiple Choice Questions	188
Short Answer Type Questions	190
Long Answer Type Questions.....	192
Numerical Problems	194
Numerical Exercises	196
Chapter 8: Budget: Concept and Types.....	199
8.1 Introduction.....	200
8.2 Concept of Budget.....	200
8.3 Types of Budget	201
8.3.1 Performance Budget	202
8.3.2 Fixed Budget	203
8.3.3 Flexible Budget.....	204
8.3.4 Incremental Budget.....	204
8.3.5 Zero-Based Budgeting (ZBB)	205

8.3.6	Rolling Budget.....	205
8.3.7	Cash Budget.....	206
8.4	Solved Illustrations.....	206
8.5	Summary.....	212
8.6	Key Terms.....	212
8.7	Exercise.....	212
	Multiple Choice Questions.....	212
	Short Answer Type Questions.....	214
	Long Answer Type Questions.....	217
	Numerical Problems.....	219
	Numerical Exercises.....	224
Chapter 9: Cash Flow and Funds Flow Statements.....		227
9.1	Introduction.....	228
9.2	Cash Flow Statement.....	228
9.2.1	Methods for Preparing Cash Flow Statement.....	229
9.2.2	Advantages and Disadvantages of Cash Flow Statement.....	232
9.2.3	Solved Illustrations.....	232
9.3	Concept of Fund.....	234
9.3.1	Sources of Funds.....	234
9.3.2	Application of Funds.....	235
9.4	Funds Flow Statement.....	236
9.4.1	Method of Preparing Funds Flow Statement.....	236
9.4.2	Importance and Limitations of Funds Flow Statement.....	241
9.5	Difference between the Cash Flow and Funds Flow Statements.....	248
9.6	Summary.....	250
9.7	Key Terms.....	250
9.8	Exercise.....	250
	Multiple Choice Questions.....	250
	Short Answer Type Questions.....	252
	Long Answer Type Questions.....	255
	Numerical Problems.....	259
	Numerical Exercises.....	264
Chapter 10: Concepts of Organizational Health and Financial Analysis.....		267
10.1	Introduction.....	268
10.2	Parameters for Determining Organizational Health.....	268
10.2.1	Profitability.....	269
10.2.2	Liquidity.....	270
10.2.3	Solvency and Efficiency.....	272
10.3	Tools of Financial Analysis.....	273
10.3.1	Percentile Financial Planning.....	274
10.3.2	Common Size Statement.....	274
10.3.3	Comparative Statement.....	275
10.3.4	Ratio Analysis.....	277
10.3.5	Du Pont Analysis.....	281
10.4	Solved Illustrations.....	281
10.5	Summary.....	294
10.6	Recapitulation of Formulae.....	294
10.7	Key Terms.....	296
10.8	Exercise.....	296

Multiple Choice Questions	296
Short Answer Type Questions	298
Long Answer Type Questions	300
Numerical Problems	305
Numerical Exercises	310
Chapter 11: Financial Business Decisions and Breakeven Analysis.....	313
11.1 Introduction.....	314
11.2 Analyzing Financial Business Decisions.....	314
11.2.1 Cost-Volume-Profit Analysis.....	314
11.2.2 Break-Even Analysis.....	316
11.2.3 Marginal Costing	320
11.2.4 Margin of Safety.....	320
11.3 Solved Illustrations	324
11.4 Summary.....	332
11.5 Recapitulation of Formulae	332
11.6 Key Terms	333
11.7 Exercise.....	333
Multiple Choice Questions	333
Short Answer Type Questions	335
Long Answer Type Questions.....	337
Numerical Problems	339
Numerical Exercises	341
Chapter 12: Cost Accounting.....	345
12.1 Introduction.....	346
12.2 Concept of Cost Accounting.....	346
12.2.1 Objectives of Cost Accounting	346
12.2.2 Difference between Cost Accounting and Financial Accounting.....	347
12.2.3 Advantages of Cost Accounting.....	347
12.3 Concept of Cost	348
12.3.1 Elements of Cost.....	348
12.3.2 Classification of Cost	350
12.4 Methods of Cost Accounting	353
12.5 Cost Control and Cost Reduction	354
12.6 Techniques of Costing	355
12.7 Cost Sheet	355
12.8 Cost Units and Cost Centers	362
12.9 Summary.....	366
12.10 Key Terms.....	366
12.11 Exercise	366
Multiple Choice Questions	366
Short Answer Type Questions	368
Long Answer Type Questions.....	371
Numerical Problems	373
Numerical Exercises	378
Chapter 13: Material Control and Inventory Control.....	383
13.1 Introduction.....	384
13.2 Materials Control	384
13.3 Organizing Materials Control.....	384

13.3.1	Purchase of Materials.....	385
13.3.2	Receiving of Materials.....	386
13.3.3	Inspection of Materials.....	386
13.3.4	Storage and Issuing of Materials.....	387
13.4	Concept of Inventory Control.....	388
13.4.1	Objectives of Inventory Control.....	388
13.4.2	Cost of Holding Inventory.....	388
13.4.3	Benefits of Holding Inventory.....	389
13.4.4	Inventory Control Tools and Techniques.....	389
13.5	Accounting System for Materials or Inventory Control.....	394
13.5.1	Periodic Inventory System.....	394
13.5.2	Perpetual Inventory System.....	394
13.6	Inventory Costing Methods.....	396
13.6.1	First In First Out (FIFO) Method.....	396
13.6.2	Average Cost Method.....	397
13.6.3	Last in First out Method (LIFO) Method.....	397
13.6.4	Actual Price Method.....	397
13.6.5	Base Stock Price Method.....	398
13.6.6	Standard Price Method.....	398
13.6.7	Market Price Method.....	398
13.7	Summary.....	402
13.8	Key Terms.....	402
13.9	Exercise.....	402
	Multiple Choice Questions.....	402
	Short Answer Type Questions.....	404
	Long Answer Type Questions.....	407
	Numerical Problems.....	413
	Numerical Exercises.....	416
Chapter 14:	Labor Costing and Control.....	417
14.1	Introduction.....	418
14.2	Direct and Indirect Labor.....	418
14.3	Control over Labor Cost.....	418
14.4	Cost Accounting for Labor.....	419
14.4.1	Time-Keeping.....	420
14.4.2	Computation of Total Payroll.....	420
14.4.3	Allocation of Payroll Costs.....	421
14.5	Problems Relating to Accounting for Labor.....	421
14.5.1	Idle Time.....	421
14.5.2	Overtime Premium.....	422
14.5.3	Labor Fringe Benefits.....	422
14.5.4	Incentive Plans.....	423
14.6	Labor Turnover.....	424
14.6.1	Measurement of Labor Turnover.....	425
14.6.2	Equivalent Annual Rate of Labor Turnover.....	425
14.6.3	Measures to Minimize Labor Turnover.....	426
14.6.4	Cost of Labor Turnover.....	426
14.7	Efficiency Rating Procedures.....	426
14.7.1	Job Evaluation.....	427
14.7.2	Merit Rating.....	428

14.8	Summary.....	431
14.9	Key Terms	431
14.10	Exercise.....	432
	Multiple Choice Questions	432
	Short Answer Type Questions	434
	Long Answer Questions	437
	Numerical Problems	439
Chapter 15: Factory Overheads: Costing, Control and Distribution.....		441
15.1	Introduction.....	442
15.2	Meaning and Definition of Overheads.....	442
	15.2.1 Classification of Overheads.....	442
	15.2.2 Collection of Overhead Costs.....	443
	15.2.3 Codification of Overhead Costs.....	444
	15.2.4 Allocation, Apportionment, and Absorption of Overhead Costs.....	445
15.3	Factory Overheads Costs.....	446
15.4	Distribution of Factory Overhead Costs	446
	15.4.1 Collection and Codification of Factory Overheads	446
	15.4.2 Departmentalization of Factory Overheads	447
	15.4.3 Absorption of Factory Overheads	448
15.5	Under-Absorption and Over-Absorption of Factory Overheads	451
15.6	Summary.....	458
15.7	Key Terms	458
15.8	Exercise.....	459
	Multiple Choice Questions	459
	Short Answer Type Questions	461
	Long Answer Type Questions.....	464
	Numerical Problems	467
Chapter 16: Costing and Controlling Administrative, Selling, and Distribution Overheads		469
16.1	Introduction.....	470
16.2	Meaning and Nature of Administrative Overheads	470
	16.2.1 Cost Items of Administrative Overheads	470
	16.2.2 Accounting for Administrative Overheads	471
	16.2.3 Control of Administrative Overheads.....	471
16.3	Selling and Distribution Overheads.....	472
	16.3.1 Accounting for Selling and Distribution Overheads	472
	16.3.2 Control of Selling and Distribution Overheads	473
16.4	Treatment of Some Items and Expenses.....	473
16.5	Summary.....	477
16.6	Key Terms	478
16.7	Exercise.....	478
	Multiple Choice Questions	478
	Short Answer Type Questions	480
	Long Answer Type Questions.....	483
	Numerical Problems	484
Chapter 17: Job-Order, Batch, Contract, and Service Costing.....		487
17.1	Introduction.....	488
17.2	Meaning and Nature of Job-Order Costing.....	488
	17.2.1 Procedure of Job Costing.....	488

17.2.2	Advantages and Disadvantages of Job-Order Costing.....	490
17.2.3	Job Cost Sheet and Job Ledger.....	491
17.2.4	Recording Job Costs in Accounts	492
17.3	Batch Costing.....	493
17.4	Contract Costing.....	493
17.4.1	Difference between Contract Costing and Job Costing.....	494
17.4.2	Procedure of Contract Costing.....	494
17.4.3	Types of Contracts.....	495
17.4.4	Value and Profit of a Contract	496
17.5	Service Costing	498
17.5.1	Standing Charges	498
17.5.2	Running Costs.....	498
17.5.3	Transport Charges	499
17.6	Summary.....	505
17.7	Key Terms	505
17.8	Exercise.....	505
	Multiple Choice Questions	505
	Short Answer Type Questions	507
	Long Answer Type Questions.....	510
	Numerical Problems	512
	Numerical Exercises	515
Chapter 18: Standard Costing.....		519
18.1	Introduction.....	520
18.2	Concept of Standard Costing	520
18.2.1	Determination of Standard Costs.....	520
18.2.2	Revision of Cost Standards.....	521
18.2.3	Standard Costing and Budgetary Control	521
18.2.4	Advantages of Standard Costing	522
18.2.5	Limitations of Standard Costing	523
18.3	Components of Standard Cost.....	523
18.3.1	Standard Direct Materials Cost.....	523
18.3.2	Standard Direct Labor Cost.....	524
18.3.3	Overheads Standards	524
18.4	Quality Costs	525
18.4.1	Classification of Quality Cost.....	525
18.4.2	Determining Quality Cost.....	525
18.4.3	Non-Financial Measures of Quality and Customer Satisfaction	526
18.5	Summary.....	527
18.6	Key Terms	527
18.7	Exercise.....	528
	Multiple Choice Questions	528
	Short Answer Type Questions	530
	Long Answer Type Question	533
Chapter 19: Variance Analysis.....		535
19.1	Introduction	536
19.2	Concept of Variance Analysis	536
19.2.1	Usage of Variance Analysis.....	537
19.2.2	Classification of Variance Analysis.....	537
19.3	Material Variance	538

19.3.1	Material Price Variance	538
19.3.2	Material Usage Variance.....	538
19.4	Labor Variance.....	540
19.4.1	Labor Rate Variance	541
19.4.2	Labor Time/Efficiency Variance.....	541
19.5	Overhead Variance	543
19.5.1	Variable Overhead Variance.....	544
19.5.2	Fixed Overhead Variance.....	544
19.6	Summary.....	548
19.7	Key Terms	548
19.8	Exercise.....	548
	Multiple Choice Questions	548
	Short Answer Type Questions	550
	Long Answers Type Questions	553
	Numerical Problems	555
	Numerical Exercises	558
Chapter 20: Concepts of Management Accounting	561	
20.1	Introduction.....	562
20.2	Concept of Management Accounting	562
20.2.1	Nature of Management Accounting.....	563
20.2.2	Scope of Management Accounting	563
20.2.3	Objectives of Management Accounting	564
20.2.4	Functions of Management Accounting.....	565
20.2.5	Advantages of Management Accounting.....	565
20.2.6	Disadvantages of Management Accounting	566
20.3	Management Accountant	566
20.3.1	Role of a Management Accountant.....	566
20.3.2	Functions of a Management Accountant.....	567
20.3.3	Qualities of a Management Accountant.....	567
20.4	Principles of Management Accounting	568
20.5	Process of Management Accounting.....	568
20.6	Installation of Management Accounting	569
20.7	Tools and Techniques of Management Accounting	570
20.8	Organization of Management Accounting.....	570
20.9	Relationship between Management Accounting and Financial Accounting.....	571
20.10	Relationship between Management Accounting and Cost Accounting.....	572
20.11	Changing Role of Management Accounting in a Dynamic Business Environment.....	573
20.12	Summary.....	575
20.13	Key Terms	575
20.14	Exercise.....	576
	Multiple Choice Questions	576
	Short Answer Type Questions	578
	Long Answer Type Questions.....	582
Chapter 21: Responsibility Accounting and Process Costing.....	585	
21.1	Introduction.....	586
21.2	Concept of Responsibility Accounting	586
21.2.1	Meaning of Responsibility Accounting	586
21.2.1	Objectives of Responsibility Accounting.....	587
21.3	Responsibility Centers.....	587

21.3.1	Cost Centers.....	588
21.3.2	Profit Centers	588
21.3.3	Investment Centers	588
21.4	Responsibility Performance Reporting.....	589
21.5	Transfer Pricing	590
21.6	Concept of Process Costing.....	590
21.6.1	Nature of Process Costing	591
21.6.2	Features of Process Costing.....	591
21.6.3	Advantages of Process Costing.....	591
21.6.4	Disadvantages of Process Costing.....	591
21.7	Difference between Job Costing and Process Costing	592
21.8	Equivalent Units of Production.....	592
21.9	Procedure of Process Costing.....	592
21.10	Joint Product and By-Product.....	594
21.11	Summary.....	596
21.12	Key Terms	596
21.13	Exercise.....	597
	Multiple Choice Questions	597
	Short Answers Type Question	599
	Long Answer Type Questions.....	601
	Numerical Problems	604
	Numerical Exercises	605
Chapter 22:	Working with Tally.....	609
22.1	Introduction.....	610
22.2	Features of Tally.....	610
22.3	Enhancements of Tally.....	611
22.4	Installation Process of Tally.ERP 9	611
22.5	Opening Tally.ERP 9.....	614
22.6	Components of the Tally.ERP 9 Window.....	615
22.6.1	The Horizontal Button Bar	615
22.6.2	The Gateway of Tally Page	616
22.6.3	The Button Bar.....	617
22.6.4	The Product Information Bar.....	618
22.6.5	The Status Bar.....	618
22.7	Creating a Company.....	619
22.8	Defining Stock Groups	623
22.8.1	Creating Stock Groups.....	623
22.8.2	Displaying a Stock Group	624
22.8.3	Altering the Stock Group.....	625
22.8.4	Creating Multiple Stock Groups	625
22.8.5	Displaying Multiple Stock Groups.....	626
22.8.6	Altering Multiple Stock Groups	627
22.9	Defining Stock Categories.....	628
22.9.1	Creating Single Stock Category	629
22.9.2	Displaying Single Stock Category	629
22.9.3	Altering a Stock Category.....	630
22.9.4	Creating Multiple Stock Categories.....	630
22.9.5	Displaying Multiple Stock Categories	631
22.9.6	Altering Multiple Stock Categories.....	631

22.10	Defining Stock Items	632
22.10.1	Creating a Single Stock Item	632
22.10.2	Displaying Single Stock Item	634
22.10.3	Altering Single Stock Item	635
22.10.4	Creating Multiple Stock Items	635
22.10.5	Displaying Multiple Stock Items	636
22.10.6	Altering Multiple Stock Items	637
22.11	Units of Measurement	637
22.11.1	Creating a Simple Unit	637
22.11.2	Creating a Compound Unit	638
22.11.3	Displaying a Unit	638
22.11.4	Altering a Unit	639
22.12	Defining Godowns	639
22.12.1	Creating Single Godown	640
22.12.2	Displaying a Godown	642
22.12.3	Altering a Single Godown	642
22.12.4	Creating Multiple Godowns	643
22.12.5	Displaying Multiple Godowns	643
22.12.6	Altering Multiple Godowns	644
22.13	Summary	645
22.14	Key Terms	645
22.15	Exercise	645
	Multiple Choice Questions	645
	Short Answer Type Questions	647
	Long Answer Type Questions	648
Case Studies		651
	Case Study-1: Bank Reconciliation Statement	651
	Case Study-2: BSL Company Ltd	652
	Case Study-3: Muskaan Pvt. Ltd	655
	Case Study-4: Dreamland Steel	656
	Case Study-5: JKL Power Ltd	658
	Case Study-6: Riverside Leisure Center	659
	Case Study-7: Greenwich plc	662
	Case Study-8: Newcastle Division	663
	Case Study-9: A London Borough	664
	Case Study-10: Customer Profitability at Stoke plc	666
Additional Questions		668
Glossery		673
Index		681
What's on the CD-ROM		688