AMC Group of Educational Institutions, Manissery

Department of Commerce

e- resources for students

M.Com First Semester

(Question Bank with Answers)

Advanced Management Accounting

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Short Questions

1) Define Marginal Costing ?

Ans: Marginal costing is the ascertainment, by differentiating between fixed costs and variable costs , of marginal cost and of the effect on profit of changes in volume or type of output.marginal costing is the technique of presenting cost data wherein variable costs and fixed costs are shown separately for managerial decision making.The separation of variable cost from fixed cost helps in decision making.marginal costing is also called variable costing.

2) what is CVP analysis ?

Ans: C-V-P analysis is an extension of marginal costing.It is used to evaluate how costs and profits are affected by changes in the volume of the production.When volume of production changes ,cost also changes.Consequently profit changes.Thus three factors,namely cost,volume and profit are interconnected.An analysis of three different factors - Cost,Volume and profit is known as Cost Volume Profit Analysis.

3) what is a Break - Even chart ?

Ans: Break even chart is a graphical presentation of Break Even Analysis.It is used for studying the cost - volume - profit relationship.It indicates BEP and also shows the estimate profit or loss at different levels of productions.BEP is the point at which total sales line cuts the total cost line. It shows BEP and also the estimated profit or loss at varying levels of activity and it presents the information in an easily understandable manner.

4) What is Contribution ?

Ans: Contribution is a very important concept in marginal costing.it is the basic of decision making and control. It is the profit in marginal costing. It refers to excess of sales over variable cost. It is not the final profit. It is the marginal profit. Contribution is also known on ' contribution margin ' or ' gross margin '. Contribution covers fixed cost and profit. If contribution is

more than the fixed cost,there is a profit. If contribution is less than the fixed cost,there is a loss.

5) What is P/V ratio ?

Ans: As already stated P/Vratio (Contribution Margin Analysis) is a technique of Cost Volume Profit Analysis.It is the ratio of contribution to sales.It shows the relationship between contribution and sales.The term 'P' represents Profit that is equivalent to contribution when calculating BEP (rupees).The term 'V' refers to volume of sales.

6) What is Break Even Point ?

Ans: The Calculation of B.E.P is the foundation stone of break even analysis.Break even point is the point or level of activity at which the total cost is equal to total revenue. It is the point of no profit no loss. Thus it is an equilibrium or balancing point. It is the point at which losses cease and profits begin. If sales go up beyond the BEP, firm makes a profit. If sales come down, firm incurs a loss.

7) What is Angle of incidence ?

Ans: Angle of incidence is the angle formed at BEP.It is the angle between sales line and total cost line at the BEP.It is also known as theta.It indicates the rate at which profits are being made.Large angle indicates higher rate of profit and lower BEP.A lower BEP is an indication that the firm can withstand even if the sales fall.Firm does not go into loss immediately and remains ,at least,with a small amount of profit.Small angle indicates a lower rate of profit and higher BEP.To improve this angle,contribution should be increased either by raising the selling price and /or by reducing variable cost.

8) What is Margin of Safety ?

Ans: Margin Of Safety is the excess of actual or present sales over the BEP sales.It refers to the amount by which sales revenue can fall before a loss is incurred.It is the volume of sales beyond the break even sales.It indicates the strength or weakness of an enterprise .A large margin of safety indicates

the soundness of the business.It may be expressed in unit,sales revenue or as a percentage of sales.

9)What is Cash Break Even Point ?

Ans: Cash break even point is the level of output or same at which the cash inflows will be equal to cash total cost.It is the level of output where there is no cash profit and no cash loss.For this purpose fixed costs are divided into Cash fixed costs (rent,rates,wages and salaries,insurance etc...) and non cash fixed costs (depreciation,advertisement,research and development cost etc...).All variable costs are assumed to be in terms of Cash.

10) What is Cost Break Even Point ?

Ans: Cost Break Even Point is calculated when two or more alternative plans or methods of production are considered.It is a point where the costs of operating two alternatives is equal.Cost break even point helps in identifying which alternative is more profitable to operate or at a given level of output.

11 . What is the meaning of standard costing?

(Ans) . Standards costing

costing is a pre- determined cost for evaluating the actual performance. It is a planned cost for a unit of products or services rendered. A standard cost is a target cost which should be attained. The costing terminology of CIMA, london , defined standards cost as " predetermined cost based on a technical estimate for material, labour and overhead for a selected period of time and for a prescribed set of working conditions". standard cost may be described as 'commonsense cost'. In short, standard cost is a pre- determined cost.

12 . Define Historical approach?

(Ans) . Historical approach

In setting standard, past records have a role. In the historical approach, the standards are based on average past performance for the same or similar operation. Use of historical past data to set up standards is based on the fact that recent past information can provide valuable insight into what is expected in expected in features. The level of efficiency, normal waste, normal idle time, machine breakdown etc.can be assessed from past records.

13 . What are the features of standard costing?

(Ans) . Features of standard costings

- It is used in addition to other methods of costing.
- It is a technique of costing based on the preparation and use of standard costs.
- Standard costs are set for various elements of total cost.
- It makes a comparison of actual cost with standard cost.
- The main purpose of standard costing is controlling costs by analysing the causes of variance.
- Variance are reported to the Management for the purpose of taking remedial action.

14 . What is Standards for direct labour cost

(Ans) . Standards for direct labour cost

Determination of direct labour cost standards involves determination of standard time and standard rate.in fixing the standard labour time, the following step may be taken :

- Standardization and classification of products.
- Time and motion studies.
- Work and methods analysis.
- Preparation of estimates or trial runs

The standard labour rate is usually determined by the cost accountant after consulting the personal manager .whil fixing the standard labour rate, the following factors may be considered :

- Existing labour rates.
- Rates paid by similar firms.
- Labour laws.
- Influence of trade union.
- Skill required for the job.

15 . What is Standards manual?

(Ans) . Standard manual :

A detailed manual should be prepared for the guidance of the staff. This manual is called standard manual . This document gives details regarding the constitution of standard committee, duties and responsibilities of the standards committee, periodicity of mettings, forms and records required for setting standards, guidelines regarding setting of standards, performance for reporting about standards as well as variances.

16 . What are the benefits of variance analysis?

(Ans) . Benefits of variance analysis

- It indicates the areas where variance arises. This facilitates Management by exception.
- It identifies the causes for variances. This helps to assign the responsibility for the variance to a particular department.in others wards ,it helps to pinpoint responsibilities for the variance.
- It can be used as an effective tool of cost control .in other words, it helps to ensure cost contt.
- It helps to compare the performance of different departments.
- It help in feature planning and in formulating policies.
- It helps in developing team spirit among the managerial personnel.

17 . What are the differences between standard costing and historical costing?

(Ans) . Differences between standard costing and historical costing

Historical costing	Standard costing
• Actual costs • Past costs • Always recorded in accounts • Aims at ascertaining actual cost • Not much useful for managerial decision- making	• Predetermined costs • Future costs • May or many not be recorded in accounts • Aims at cost control • More useful in managerial decision making

18 . What are the advantages of standard costing? Write the five advantage of standard costing.

(Ans) . Advantages of standard costing

- Valuable aid to Management : standard costing is a valuable aid to management in formulating price and product policies. It also helps in discharging managerial functions .
- Management by exception : standard costing facilitates the application of management by excepting . By studying the variance, management can pay more attention to weak areas that require control.
- Quick reporting : standard costing facilitates timely presentation of cost report to management for the purpose of decision making.

- Economy : standard costing reduced clearical labour.it does not require the maintenance of detailed cost record.
- Cost control : standard costing is an effective tool of cost control. Cost control can be achieved by comparing actual cost with standard cost and taking corrective action through analysis of variance.

19 . What is basic standards ?

(Ans) . Basic standards

Those standards which undergo.period revisions. CIMA terminology defines current standard as " a standard established for use over a short period of time related to current condition". In short, current standards are prepared for current period.

20. What is expected standards?

(Ans) . Expected standards

This is the standard which is actually expected during a specified budget period. In setting this standard, a reasonable allowence is made fore, more realistic than Ideal standard.

Short Essay Questions

1. **What are the different types of risk?**

Ans:

A. Systematic risk: Every enterprise is a part of the economy, We know that society is dynamic. Hence, change occur in the economic, political and social systems constantly. These changes affect all companies and all securities but in varying degrees For example , economic and political instability adversely affects all industries and companies.

1. Market risk: market risk is an important type of risk. Market prices of investments or securities fluctuate widely within a short span of time . Change in market price causes change in return from investment.

a) Equity risk: The market price of shares varies due to changes in demand and supply. Equity risk is the risk of loss because of fall in the market price of shares.

b) Interest rate risk: It is the risk of losing money because of a change in the interest rate.

C) currency risk: It is the risk of losing money because of a movement in exchange rate

2. Purchasing power risk:when an investor purchases a security , he foregoes the opportunity to buy some goods or services. It means that he postpones his consumption. Meanwhile, if there is inflation in the economy,the prices of goods and services would increases.

B. Unsystematic risk: The returns from securities may vary because of certain factors affecting only the company issuing such securities.This risk is known as unsystematic risk.it arises from managerial inefficiency, technological change in production process, changes in consumer preference, labour trouble etc.

1. Business risk: Every company operates within a particular operating environment. This operating environment is classified into two- internal environment and external environment.internal environment refers to the conditions within the company.

2. Financial risk: this refers to the variability of profit to equity shareholders due to the debt capital. It is associated with the capital structure of the company.

C. Other type of risk: in addition to the above types, there are some other types of risks. It is the risk of not getting back the amount that is lent. It is also known as credit risk.

1. Default risk: The borrower main fail to pay the interest and principal amount within the stipulated time.

2. Liquidity risk: this refers to a situation wherein it may not be e possible to sell the asset or stock.

2. What are the merits and demerits of risk adjusted discount rate method?

Ans: An estimation of the present value of cash for high risk investments is known as risk-adjusted discount rate. A very common example of risky investment is the real estate. Risk adjusted discount rate is representing required periodical returns by investors for pulling funds to the specific property. It is generally calculated as a sum of risk free rate and risk premium. The variation of risk premium is depending on the risk aversion of investor and the perception of investor about the size of property's investment risk.

Merits;

- It is simple to understand and easy to calculate
- It provides compensation for the risk factor
- It can be used along with both the NPV and IRR
- It takes into account the risk averse attitude of investor

Demerits

- There is no scientific way of determining the risk premium.
- This method is subjective and Controversial. How match weight should be assigned to risk premium depends upon personal judgement
- It is the future cash flow of a project which is subject to risk. Therefore, adjustment should be made in the cash flows and not in the discount rate. Hence this technique is not scientific.
- Assume that risk increases with time at a canstant rate. This is not valid

3 : What are the merits and demerits of sensitivity analysis

Ans: Sensitivity analysis is the study of how the uncertainty in the output of a mathematical model or system (numerical or otherwise) can be divided and allocated to different sources of uncertainty in its inputs.A related practice is uncertainty analysis, which has a greater focus on uncertainty quantification and propagation of uncertainty; ideally, uncertainty and sensitivity analysis should be run in tandem.

In case cash inflow are very sensitive in various cases, cash inflow estimates are made under three difference assumptions or situations.

1. Pessimistic

2 Most -likely

3. Optimistic

Pessimistic cash flows are estimated under negative conditions of the future.

Merits:

- It tells about the sensitivity of a project to changes in different factors
- it is helpful to locate and assess the impact of risk on a project's profitability
- It indicates which variables and assumptions are most critical
- it helps identify areas on which a managerial attention should be focused

Demerits:

- It is difficulty to identify key factors and the change in their values
- This is not a precise technique
- it does not consider the effect of a combination of changes on various factors on the profitability of the project

4. Explain Simulation Technique? Advantages and disadvantages.

Ans: as already stated, capital expenditure decision involve large investments and time. They are irreversible decision. Thus capital expenditure decisions involved greater risks. By applying simulation technique, it is possible to to minimise total risks. It enables to ascertain deep probable outcomes before implementing the project.

Monte Carlo simulation s a risk analysis technique. In this technique, probable future events are simulated in order to generate estimated rates of return and risk indices. It can be done manually but mostly done on computers. In this process, random values for each variables such as number of units to be sold, selling price, picture and variable costs etc..Are identified. These values are proposed to compute the NPV. This process of identifying the random values and calculating NPV is repeated many times.

Advantages

- Simulation can be used to investigate the behaviour of problems which are too complex
- The basic principles of the simulation technique are fairly simple. Therefore, it is more attractive to people who are not expert in quantitative techniques.
- It is a micro analysis of big and complicated system by braking into each sub-system and studying the the interface of the various sub-system
- Time will be saved in computer simulation
- Simulation allows us to study the interactive effect of individual components aur variable in order to determine which are important.

Disadvantages

- Simulation is not an optimising technique. It simply allows us to select the best of the alternative systems examined
- Reliable results are possible only if the simulation is continued for a long period.
- A computer is essential to cope with the amount of calculation is simulation modelling

- To develop a simulation model means consumption of voluminous data. This may be very costly
- The simulation model does not produce answers by itself.manager must generate all of the conditions and constraints for solutions they want to examine

5. What is merits and demerits of decision tree analysis?

Ans:A Decision Tree Analysis is a graphic representation of various alternative solutions that are available to solve a problem. The manner of illustrating often proves to be decisive when making a choice. A Decision Tree Analysis is created by answering a number of questions that are continued after each affirmative or negative answer until a final choice can be made.

Merits

- It shows a bird's eye view of all the possibilities associated with a proposed project.
- ETA tells the management about the future adverse possibilities in advance
- It brings into light the degree of risk and uncertainty involved in the investment decisions.
- It introduces precision in decision- making by expressing all outcomes or events in quantitative terms

  Demerits
  - When there are too many alternatives,the construction of decision tree becomes difficult. It will be just like a bush with many branch forks
  - It is a time consuming technique. It should be applied only in case of major investment decisions
  - It is difficult to make assumptions and Assign probabilities to various events active various levels in a decision tree. There may be inconsistency in assigning probabilities to various events

6. What is Standard Deviations Method?

Ans:

The standard deviation of a random variable, sample, statistical population, data set, or probability distribution is the square root of its variance. It is algebraically simpler, though in practice, less robust than the average

absolute deviation.A useful property of the standard deviation is that unlike the variance, it is expressed in the same unit as the data.

standard deviation of a population or sample and the standard error of a statistic (e.g., of the sample mean) are quite different, but related. The sample mean's standard error is the standard deviation of the set of means that would be found by drawing an infinite number of repeated samples from the population and computing a mean for each sample. The mean's standard error turns out to equal the population standard deviation divided by the square root of the sample size, and is estimated by using the sample standard deviation divided by the square root of the sample size. For example, a poll's standard error (what is reported as the margin of error of the poll), is the expected standard deviation of the estimated mean if the same poll were to be conducted multiple times. Thus, the standard error estimates the standard deviation of an estimate, which itself measures how much the estimate depends on the particular sample that was taken from the population.

7.What is Co-efficient of Variation Method?

Ans: What Is the Coefficient of Variation (CV)?

The coefficient of variation (CV) is a statistical measure of the dispersion of data points in a data series around the mean. The coefficient of variation represents the ratio of the standard deviation to the mean, and it is a useful statistic for comparing the degree of variation from one data series to another, even if the means are drastically different from one another.CORPORATE FINANCE & ACCOUNTING FINANCIAL ANALYSIS

The coefficient of variation (CV) is a statistical measure of the dispersion of data points in a data series around the mean. The coefficient of variation represents the ratio of the standard deviation to the mean, and it is a useful statistic for comparing the degree of variation from one data series to another, even if the means are drastically different from one another.Understanding the Coefficient of Variation. The coefficient of variation shows the extent of variability of data in a sample in relation to the mean of the population. In finance, the coefficient of variation allows investors to determine how much volatility, or risk, is assumed in comparison to the amount of return expected from investments. Ideally, if the coefficient of variation formula should result in a lower ratio of the standard deviation to mean return, then the better the risk-return trade-off. Note that if the expected return in the denominator is negative or zero, the coefficient of variation could be misleading.

coefficient of variation is helpful when using the risk/reward ratio to select investments. For example, an investor who is risk-averse may want to consider assets with a historically low degree of volatility relative to the return, in relation to the overall market or its industry. Conversely, risk-seeking investors may look to invest in assets with a historically high degree of volatility.

8) Define Marginal Costing and what are it's Characteristics and Assumptions?

Ans) Meaning and Definition of Marginal Cost

Marginal cost is the additional cost of producing an additional units. The institute of cost and management accounts, London defines marginal cost as "the amount at any given volume of output by which aggregate costs are changed if the volume of output is increased or decreased by one unit".Thus marginal cost is the amount by which total cost changes when there is a change in output by one unit. In short marginal cost is the change in total cost due to change in quantity of output by one unit. Marginal Cost is also known as variable cost because an increase of one unit in production will cause an increase in variable cost only. Thus,

Marginal cost= Direct Material Cost + Direct Labour Cost + Direct Expenses + variableOverheads

In short marginal cost is equal to prime cost plus variable Overheads.

Meaning and Definition of Marginal Costing

Marginal Costing is a technique of Costing in which variable cost of product is given more importance as compared to fixed cost of the product According to institute of costs and Management Accountants, London, Marginal Costing is " the ascertainment, by differentiating between fixed costs and variable costs, of Marginal cost and of the effect on profit of changes in volume or type of output ". Thus, Marginal Costing is the technique of presenting cost data wherein variable cost and fixed Costs are shown separately for managerial decision making. Marginal Costing is also known as variable Costing.

Characteristics of Marginal Costing

1.Marginal Costing is not a method of Costing. It is a technique for managerial decision making.

2.All costs are classified into fixed and variable. Only variable costs are charged to products.

3.Fixed costs are charged against profits of the period in which they are incurred.

4.The stocks of finished product and work-in-progress are valued at marginal cost or variable cost.

5.selling price is equal to variable cost plus contribution. Contribution is the difference between sales revenue and variable cost.

6.The profitability of product or department is based on contribution made by each production department.

Assumptions of Marginal Costing

1.All costs can be divided into two categories - fixed and variable.

2.Fixed costs remain constant at all levels of activity.

3.The total variable costs vary but variable cost per unit does not vary.

4.Selling price remains constant at different levels of activity.

5.Prices of material, rates of labour etc. remain unchanged.

6.volume of production is the only factor which influences the costs.

7.There is no stock.

9) Explain Advantages and Disadvantages of Marginal Costing?

Ans) **Advantages**

Easy and simple : Marginal Costing technique is simple to understand and easy to operate. There is no problem of apportionment of fixed Costs.

Simple valuation of stock : stock can be valued easily. This is because stock is valued on the basis of Marginal cost.

Better cost control : it is possible to control cost more effectively when it is classified into fixed and variable components.

No problem of under or over absorption of overhead : As fixed Costs are completely ignored, the problem of under or over absorption of overhead does not arise.

Ascertainment of profitability : it can show the comparative profitability of various products.

Profit planning : The technique marginal costing provides data relating to cost -- volume - profit relationship.

Decision - making : It helps the management in taking various decision such as make or buy, sales mix, export, capacity utilization, shut down decision etc.

Pricing policy : Marginal Costing is very helpful in fixing selling prices under different situation like recession, depression, introduction of new product etc.

Disadvantages

Difficulty in separating costs : it is difficult to classify all costs into fixed and variable elements.

Difficulty in application : it is difficult to apply the technique of Marginal Costing in contracts ship building etc.

Under valuation of stock : Under marginal costing, stock is valued at marginal cost value of stock does not include fixed cost.

Short run analysis : Fixed cost may remain constant in the short run. But it tends to vary in the long run.

Time factor ignored : Marginal Costing ignores the time factor completely.

Wrong basis for pricing: In marginal costing selling prices are determined on the basis of contribution alone.

More emphasis on sales : Marginal Costing gives more importance to selling function. Production function is also equally important.

10) Explain Cost - Volume - profit analysis.

Ans) **Cost - Volume - Profit Analysis**

The profit of a firms depends upon many factors. The important factors determining profit are selling price, sales volume, variable cost per unit, fixed cost, sales mix etc.

Meaning

C-V-P analysis is an extension of Marginal Costing. It is used to evaluate how costs and profits are affected by changes in the volume of production. When volume of production changes, cost also changes. Consequently profit

changes. Thus the three factors, namely cost, volume and profit are interconnected. An analysis of three different factors - cost, volume and profit is known as cost volume profit analysis. As per the CIMA Official Terminology, C-V-P analysis is defined as " the study of the effects on future profit of changes in fixed cost, variable cost, sales price, quantity and mix ". In short, C- V-P analysis is an analysis of three factors, namely cost, volume and profit. Volume affects costs and in turn costa affect the profit. Hence the name C-V-P analysis.

OBJECTIVE AND USED OF C-V-P ANALYSIS

* To forecast the profit accurately

* To help management in determining the pricing policies.

* To evaluate the performance of the business.

* To facilitate the preparation of flexible budgets.

* To achieve cost control and cost reduction.

* To determine break even point.

Techniques of C-V-P analysis

a) Contribution margin analysis

b) Break even analysis

c) Profit volume analysis

d) Margin of safety analysis

Elements of CVP Analysis

1. Marginal cost equation

2. Contribution

3. Break even analysis

4. Margin of safety

5. Profit volume ratio

6. Break even chart

7. Angle of incidents

11) State the importance of contribution?

Ans) **contribution**

Contribution is a very important concept in Marginal Costing. It is the basis of decision making and control. It is the profit in Marginal Costing. It refers to excess of sales over variable cost. It is not the final profit. It is the Marginal profit. Contribution is also known on 'Contribution margin' or ' gross margin '. Contribution covers fixed cost and profit. If contribution is more than the fixed cost, there is a profit. If contribution is less than the fixed cost, there is a loss. Contribution can be expressed either as 'per unit' or in 'total'.

Importance or uses of contribution

1. It helps in fixing the selling price.

2. It enables to determine break even point.

3. It helps to find out the probability of various products, department etc.

4. It help to determine key factor.

5. It indicates the profit potential of a business enterprise.

6. It highlights the relationship among cost, sales and profit.

7. It guides the management in selecting the profitable product mix or method of production.

8. It helps the management in taking 'making or buy' decision.

9. It enables the management decided whether to introduce a new product in the market.

12) Explain Break Even Analysis?

Ans) Break even analysis is the most widely used technique of cost volume profit analysis. Break even analysis establishes the relationship between revenues and costs with respect to volume. It indicates the level of sales at which total cost are equal to total revenues. The terms break even analysis is interpreted in narrow as well as in broad sense. In it's narrow sense, it is concerned with finding out the break even point (BEP). BEP is the point at

which total sales revenue is equal to total cost. It is the point of no profit no loss. In it's broad sense, it means a system of analysis which is used to determine the probable profit at different levels of activity. It shows the behaviour of cost and profit at varying levels of activity. Many people think that cvp analysis and break even analysis are one and the same. It is not so. The scope of CVP Analysis is quite wide. Break even analysis is only a part of CVP Analysis.

Assumptions

1. All costs can be separate into fixed and variable elements.

2. Variable costs vary in direct proportion to volume of output.

3. Fixed cost will remains constant at all volume of output.

4. Selling price per unit remains constant.

5. The general price level does not change

6. The firm is able to sell all the units produced.

7. The only factor that affects costs and revenues is volume.

Advantages

* It is useful in forecasting sales and profit.

* it helps in the inter-firm comparison of profitability.

* it is used in profit planning

* it is used to determine margin of safety

* it assist in the formulation of price policies

* it is applied in make or buy decision

Disadvantages

* it is very difficult or impossible to separate costs into fixed and variable.

* semi - variable costs are completely ignored

* it has limited application in the long range planning

13) Explain Break Even Chart?

Ans)Break even chart is a graphical presentation of break even analysis. It is used for studying the cost-volume-profit relationship. It indicates BEP and show the estimated profit or loss at different levels of production. BEP is the point at which total sales line cuts the total cost line.

Assumptions

1. Cost can be classified into fixed and variable cost.

2. Fixed costs remain fixed at all levels of activity.

3. Selling price per unit remains constant.

4. No change in sales mix.

5.Entire units produced are sold.

Advantages

* it is used to study the cost volume profit relationship.

* it indicates profitability of products.

* it serves as a tool of cost control.

Disadvantages

* The assumption that fixed Costs remain constant will not hold good in the long run.

* it does not consider the capital employed, market conditions, govt. Policy etc.

* The assumption that product mix remains same may not hold good in the long run.

14) Explain Marginal Costing and Decision - Making (Applications of Marginal Costing or CVP Analysis)?

Ans) **Marginal Costing and Decision - Making**

One of the basic functions of management is to make decision. Decision - making process involves selection of a course of action or alternative from among various alternatives. There are many techniques which help

management in the process of decision - making. One of the important technique is marginal costing. Some of the important areas where Marginal Costing technique will be applied are as follows:

1. Make or Buy Decision :

The Marginal Costing technique can be used to decide whether to make a particular product/component or buy it from outside. Such a decision can be arrived at only by comparing the marginal or variable cost of manufacturer and the outside price.

2. Alternative Method of Production:

Sometimes a manufacturer is faced with the problem of comparing alternative methods of manufacturer and choosing the best method. Here also Marginal Costing can be applied. The alternative giving the greatest contribution per unit will be more profitable.

3. Buy or Lease:

Some of the assets are costly. Companies may find it difficult to buy such costly machines or equipments. Sometimes it is profitable to take the asset on lease instead of buying it.

4. Shut Down Decision:

Sometimes a plant is forced to be closed down temporarily. The decision whether to shut down or not is to be taken when the nature of business is seasonal, cut-throat competition is there and other unfavorable condition exist in the market.

5. Replace or Retain Decision:

The decision to replace or retain plant and equipment is a capital investment or long-term decision and should be taken very carefully.

6. Accepting Bulk Orders, Additional Orders, Export Orders and Exporting in New Markets:

Sometimes a company may accept bulk orders, additional orders and orders from foreign or new market with a view to utilize the idle capacity or to explore new market.

7. Pricing Under Different Situations:

Fixation of selling prices is one of the important function of management. Generally prices are determined by market conditions and other economic factors. However in actual practice, prices are fixed according to situations.

a) Pricing under normal conditions

b) Selling price below the Marginal cost

c) Pricing under stiff competition and trade depression

8) Selection of a suitable sales mix:

When a firm manufacturers more than one products a problem arises as to which product mix will yield the maximum profit. Marginal Costing helps the management in selecting the best sales mix.

9) Problem of key factor:

Sometimes the firm may not be able to sell all the products manufactured. In some cases, it may not be able to produce to the extent of sales potential. This is due to the scarcity of some factors of production such as raw materials, skilled labour, power, finance etc.

15. Define Standard Costing. Differentiate between standard costing and historical costing.

Ans :- When standard costs are used for the purpose of cost control, the technique is known as standard costing. Thus, standard costing is technique of cost ascertainment and cost control. It is the preparation of standard costs and applying them to measure variations from standard costs and analysing causes of variations with a view to maintain maximum efficiency.

HISTORICAL COSTING	STANDARD COSTING
1. Actual costs	1. Predetermined costs
2. Past costs	2. Future costs
3. Always recorded in accounts	3. May or may not be recorded in accounts
4. Aims at ascertaining actual cost	4. Aims at cost control
5. Not much useful for managerial decision making	5. More useful in managerial decision making

16. What is meant by interpretation of ariance? What are the various causes of variance?

Ans :- Interpretation of variance simply refers to analysing the possible causes of Variance and making them understandable.

There are many possible reasons for cost variances arising due to efficiencies and inefficiencies of operations, errors in standard setting, changes in exchange rates etc. The possible causes of cost variances are listed below:

Variance	Favourable	Unfavorable
a) Material price	Paying a lower price than expected for direct materials.	Paying a higher price than expected for direct materials.
b) Material usage	Using less direct materials than expected.	Using more direct materials than expected
c) Labour rate	Paying a lower rate than expected for direct labour.	Paying a higher rate than expected for direct labour.
d) Idle time	Producing a unit in less time than expected .	Producing a unit more time than expected.
e) Labour efficiency	Output produced more quickly than expected.	Lost time in excess of standard allowed.
f) Overhead exp.	Saving in cost . More economical use of services.	Increase in cost of services used. Excess use or change in type of services used.
g) Overhead volume	Excess of actual time worked over budget.	Excessive idle time. Shortage of plant capacity.

17. What are the advantages of standard costing?

Ans :- **1.Cost control**: Standard costing is an effective tool of cost control. Cost control can be achieved by comparing actual cost with standard cost and taking corrective action through analysis of variance.

2.**Valuable aid to management**: Standard costing is a valuable aid to management in formulating price and product policies.

3.**Measurement of performance**: Standard costing provides a yardstick against which actual cost can be compared to measure efficiency.

4.**Management by exception**: Standard costing facilitates the application of management by exception

5.**Quick reporting**: Standard costing facilitates timely presentation of cost reports to management for the purpose of decision making.

6.**Economy**: Standard costing reduces clerical labour . It does not require the maintenance of detailed cost records.

7.**Utilisation of resources**: Standard costing ensures the effective utilisation of resources and by machine by eliminating wastes.

8.**Fixation of price**: Standard costing helps in fixing selling price in advance if production.

18. Explain Labour variance?

Ans :- The labour variance or wage variance is similar to material varia5. When standard cost of labour differs from actual wage cost, the labour variance arises. The following are the important labour variances:

a) **Labour cost variance**: Labour cost variance is also called wage variance. It is the difference between standard cost of labour allowed for actual output achieved and the actual cost of labour.

b) **Labour rate variance** (Labour rate of variance): This is similar to material price variance. It is that part of the labour cost variance, which arises due to the difference between standard rate specified and the actual rate paid.

c) **Labour efficiency variance**: It is also called labour usage or quantity variance. It is that portion of labour cost variance which arises due to difference between standard hours specified for the actual output and the actual hours spent.

d) **Idle time variance**: Idle time variance is that portion of labour cost variance which arises due to the abnormal idle time of workers on account of sickness, power failure, machine breakdown etc.

e) **Labour mix variance**: Labour mix variance is a part of labour efficiency variance. It arises when there is a change in the composition of labour force.

f) **Labour yield variance**: This is like material yield variance. It is the difference between standard labour output and actual output or yield.

19. What is meant by investigation of variances? What are the different techniques of investigation variance?

Ans :- A cost benefit analysis is necessary to decide whether or not an item should be taken up for investigation. There are certain techniques to decide whether variances should be investigated or not. Following techniques are generally used in investigation of variances:

a) Simple rule of thumb model: The simple rule of thumb investigation method Managers use simple models based on arbitrary criteria such as investigating if the absolute size of the variance is greater than a certain amount or if the variance exceeds the standard costs by some predetermined percentage.

b) Trend analysis: Where the trend of a variance is consistent, it may be concluded that the process is under control. If a variance is significant but following a trend, it implies that the standard is not consistent with current circumstance.

c) Statistical control chart: It can be used to monitor variance. Past observations of an operation when it is under control are used to determine the mean usage and standard deviation.

d) Decision tree approach: Probabilities of the effectiveness of investigation can be applied to the decision tree inorder to determine whether an economic advantage would arise.

e) Game theory approach: This technique helps in recognising that the process may be under control even though a variance is reported.

20. What is the difference between standard costing and budgetary control?

Ans :-

Basis for comparison	**Standard costing**	**Budgetary control**
Meaning	The costing method in which evaluation of performance and activity is done by making a comparison between actual and standard costs, is Standard Costing.	Budgetary Control is the system in which budgets are prepared and continuous comparisons are made between the actual and budgeted figures to achieve the desired result.
Basis	Determined on the basis of	Budgets are prepared on

	data related to production	the basis of management's plans.
Range	It is limited to cost details	It includes cost and financial data
Concept	Unit concept	Total concept
Scope	Narrow	Wide
Reporting of variance	Yes	No
Effect of temporary changes in conditions	The short term changes will not influence the standard costs.	The short term changes will be shown in the budgeted costs.
Comparison	Actual costs and standard cost of actual output	Actual figures and budgeted figures
Applicability	Manufacturing concerns	All business concerns

21. What are the limitations of Standard Costing?

Ans :- Standard costing suffers from the following limitations:

a) **Difficulty in fixing Standards**: It is difficult to establish accurate cost standards. This is requires high technical skill.

b) **Frequent revisions**: As business conditions always change, it becomes essential to revise the standards. Revision of standards is costly and some firms may ignore it.

c) **Unsuitable:** Standard costing is not suitable for job order industries and industries producing non standardized products.

d) **Failure**: Standard costing would be a failure if management doesn't have interest and faith in it

e) **Labour problems**: If the standards set are not accurate and are unreliable, it may lead to psychological effects.

f) **Requires co-operation at all levels**: Standard costing can be effective only if employees at all levels co-operate in the operation of the system.

22) Define Performance Measurement? What are the characteristics and purposes of Performance measurement?

A) Performance measurement

According to Moulin, "Performance measurement is the process of evaluating how well organizations are managed and the value they deliver for customers and other stakeholders".

Characteristics of Performance measurement

- Measures should evaluate progress towards goals and objectives of the organization.
- They should be reasonably objective and easily ascertainable.
- There should balance long term and short term considerations.
- They should reflect key activities of the management.
- The employees should be aware of the performance measurements.
- The measures should be understandable to the employees.
- All persons or divisions whose performance would be measured should be provided with information relating to the result in time and on regular basis.

8. The measures should be used consistently and on regular basis.

Purposes of Performance measurement

- To evaluate how well the organization is performing.
- To help managers ensure that their subordinates are doing the right thing.
- To help in budgeting.
- To motivate the people in accomplishing the goals.
- To celebrate the achievement of goals.
- To help in promoting the competence and value of government in general.
- To learn reasons behind poor or good performance.
- To improve performance.

23. What is Return on Investment? What are the merits and demerits?

A) ROI is widely used to measure divisional as well as overall corporate performance. It considers the level of investment along with the income generated from that investment.

When a firm invests money in a business,it naturally expects adequate return on its investment. Therefore the firm wants to know how much profit is earning on its investment.It is for knowing this,ROI is computed.ROI measures the overall profitability.It establishes the relationship between profit or return and investment.It is also called accounting rate of return,It is computed follows:

ROI= Profit before interest and Tax / Capital Employed × 100

Merits of ROI

- It measures overall profitability.

2. It measures success of business.

3. It helps to compare the performance of different divisions of a firm.

4. It helps in investment decisions.

5. It is useful for planning the capital structure.

6. It can be used for determining the price of a product.

7. It serves as foundation for optimum utilization of the assets of a firm.

Demerits of ROI

- The concept of profit as used in ROI is not clear.
- It is effective for comparison of divisional performance only when different divisions follow the same accounting policies regarding valuation of stock, charging depreciation etc .
- It may lead divisional managers to reject new investments or projects that could be profitable for the company as a whole.
- The divisional managers tries to maximize ROI of his own division without considering the overall value (or net worth) of the organization.
- It encourages managers to focus on the short run at the expense of the long run.
- When assets become fully depreciated, the measures of investment become very low. This makes comparison difficult.

24. What is Performance Budgeting? Explain the features and steps?

A) Performance Budgeting

Performance Budgeting refers to a budget in terms of functions, programmes and performance units (Functions, activities and projects) reflecting the revenues and expenditures of an Organization or Government.

Features of Performance Budgeting

- It is based on functions, programmes and activities.
- The total operations are subdivided into functions or tasks or activities.
- For each task or activity the objective is determined.
- For measuring the work or task, suitable methods or normsare established.
- Targets are set for each programme or activity both in terms of money value and Physical quantities.
- It introduces a system approach to budgeting.
- It is widely used in public sector enterprises and in Government departments

Steps in Performance budgeting

- Establishing responsibility centres.
- Classifing the total work in terms of various functions, programmes and activities.
- Fixing targets (Monitory and Physical)for each responsibility centre.
- Measuring actual performance.
- Evaluating performance by comparing actual results with the targets.
- Reporting of performance and taking corrective actions.

25. What are the defferences between Traditional Budgeting and Zero Based Budgeting?

A) Differences between Traditional Budgeting and Zero Based Budgeting

Traditional Budgeting	**ZBB**
Begins with previous year's actuals.	Begins with zero as base.
Focuses on money.	Focuses on goals and objectives.
Accounting oriented.	Desicion oriented.
Resources are allocated not on the basis of cost benefit analysis.	Resources are allocated on the basis of cost benefit analysis.
Routine approach.	Straight forward approach.
Not priority based.	Priority based.
Prepared annually.	Prepared once in five years.

26. What is Activity Based Budgeting?What are the advantages of ABB?

A) Activity Based Budgeting

It is a method of budgeting where activities that incur costs are recorded, analyzed and researched. It is more rigorous than traditional budgeting processes, which tend to merely adjust previous budgets to account for inflation or business development.

Advantages of ABB

1. Evaluation

Activity based budgeting method evaluates each and every cost driver. It takes into consideration all the steps involved in an activity. The irrelevant activities are eliminated and only the necessary activities form a part of the business.

2. Competitive edge

Activity based budgeting system eliminates all sort of unnecessary activities. This helps the business to see its cost. The saved cost results in the production of goods and services at lower cost than that of competitors. It also helps the organization to gain a competitive edge in the market.

3. Business as a unit

This budgeting techniques helps in viewing the business as a single unit and not in the form of departments. The managers or the top management prepare the budget for the business unit as a whole and not keeping in mind any single department as done in the case of other methods of budgeting.

4. Elimination of bottlenecks

Budgets under activity based budgeting are prepared after deep research and analysis. This study removes all the unnecessary activities of the business. By doing so, the business eliminates all sorts of bottlenecks associated with an activity and business functions are carried out more smoothly.

5. Improves relationship

Activity based budgeting system helps in improving the relationship between the organization and its customers. The main aim of this budgeting method is to eliminate unnecessary activities and serve with the customers with the best quality at best price. The enforces the employees of the

company to serve the customers in the best way possible and ensure customer satisfaction.

27. What is Total Quality Management? What are the principles of TQM?

A) Total Quality Management describes a management approach to long term success through customer satisfaction. In a Total Quality Management effort, all members of an organization participate in improving processes, products, services, and the culture in which they work.

Total : It means everybody in the organization is involved.

Quality : It means meeting customer requirements.

Management : It means top management leads the drive to achieve quality.

In short, TQM means quality can and must be managed.

Principles of TQM

- Quality can and must be managed.
- Everyone has a customer and is a supplier.
- Processes, not people are the problem.
- Every employee is responsible for quality.
- Problems must be prevented, not just fixed.
- Quality must be measured.
- Quality improvements must be continuous.
- The quality standard is defect free.
- Goals are based on requirements, not negotiated.
- Management must be involved and must lead.
- Plan and organize for quality improvement.

28. What is Responsibility Accounting? Explain the features.

Responsibility Accounting is a system of control where responsibility is assigned for the control of costs. The persons are made responsible for the control of costs. Proper authority is given to the persons so that they are able to keep up their performance.

Features of Responsibility Accounting System

- Fixation of responsibility : Under this system responsibility of various executives are fixed in accordance with the objectives of the organization.
- Assignment of cost : The costs are assigned to responsibility centers and area of each center is well defined. Under it costs are accumulated, recorded and reported in such a way that they can be associated with the person who is heading that center.
- Division of costs : The cost of eating responsibility center has to be divided according to the nature of expenses into fixed and variable expenses. Such division of costs facilitates comparison of standards with that of actual expenditure.
- Performance report : Responsibility Accounting is a control device. A control system to be effective should be each that deviation from the plans must be reported at the earliest. Then only corrective action can be taken in time. The deviations can be known only when performance is reported.
- Controllable and uncontrollable costs : A distinction is made between controllable and uncontrollable costs and for each responsibility center, the extend of responsibility is defined.
- Accounting function : The emphasis is given on the accounting function, which constitutes the basic framework for the information system.
- Human aspect : Goals and objectives are achieved through people. Hence, responsibility accounting system should motivate people. It should be used in positive sense. Its aim is not to place blame. Instead, it is to evaluate the performance of the individuals and provide feedback so that future performance can be improved.
- Participative management : The responsibility accounting system becomes more effective if participative or democratic style of management is followed. The plans are laid or budgets are formulated after consulting the subordinates. This will motivate the workers.

Essay Questions

1) What is Break even analysis?Discuss its assumptions and uses.

Ans Break even analysis is the most widely used technique of cost volume profit analysis. Break even analysis establishes the relationship between revenue and cost with respect to volume. It indicates the level of sales at which total costs are equal to total revenues.

The term break even analysis is interpreted in narrow as well in broad sense. In its narrow sense, it is concerned with finding out the break even point. BEP is the point at which total sales revenue is equal to total cost. It is the point of no profit no loss.

In its broad sense,it means a system of analysis which is used to determine the probable profit at different levels of activity. It shows the behavior of cost and profit at varying levels of activity.

The break even analysis may be expressed in graph such as break even chart or profit graph or in a statement form as follows:

Marginal cost statement

Sales		xxx
Less :Marginal cost		
Direct material	xxx	
Direct labour	xxx	
Variable overhead	xxx	xxx
Contribution		xxx
Less: Fixed co		xxx
Profit / Loss		xxx

ASSUMPTIONS

1.All costs can be separated into fixed and variable elements

2.variable costs vary in direct proportion to volume of output

3. Fixed cost will remain constant at all volume of output

4.selling price per unit remains constant

5.In case of multiple products, sales mix remains constant

6. Productivity per worker and efficiency of plant etc remain unchanged

7.The general price level does not change

8. The firm is able to sell all the units produced

ADVANTAGES

1.It is useful in forecasting sales and profits

2.It helps in the inter firm comparison of profitability

3.It brings out the effect of increase or decrease in fixed and variable costs on profit

4. It helps to find out the volume of sales which gives a desired return on capital employed

5. It is used in profit planning

6.It is used to determine margin of safety.

7.It helps to determine the selling pricprices which gives a desired profit.

2) What is CVP analysis and explain the techniques of CVP analysis.

Ans Cost Volume Profit analysis is an extension of marginal costing. It is used to evaluate how costs and profits are affected by changes in the volume of production. When volume of production changes,cost also changes. Consequently profit changes.

Thus the three factors, namely, cost ,volume and profit are interconnected.An analysis of three different factors - cost,volume and profit is known as CVP analysis.

As per the CIMA official terminal, cvp analysis is defined as "study of the effects on future profit of changes in fixed cost,variable cost,sales price, quantity and mix"

In short CVP analysis is an analysis of three factors namely cost ,volume and profit.

The main objectives and uses of CVP analysis are

- To forecast the profit accurately
- To help management in determining the pricing policies
- To evaluate the performance of the business
- To facilitate the preparation of flexible budgets
- To achieve cost control and cost reduction
- To determine break even point

TECHNIQUES OF CVP ANALYSIS

There are two basic techniques of CVP analysis. They are

a) contribution margin analysis

b)Break even analysis

The other two techniques are profit volume analysis and margin of safety analysis.

CONTRIBUTION MARGIN ANALYSIS

By analyzing the contribution margin, it is possible to study the relationship among cost,volume and profit. For this profit volume ratio is to be computed.

Contribution is a very important concept in marginal costing. It is the basis of decision making and control. It is the profit in marginal costing. It refers to excess of sales over variable cost.

Contribution is also known as contribution margin or gross margin.

Contribution = sales- variable cost

BREAK EVEN ANALYSIS

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Margin of safety =present sales or actual sales- BEP sales

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$$\frac{\text{Actual sales - BEP sales}}{\text{Actual sales}} \times 100$$

OR

$$\frac{\text{Profit}}{\text{Total contribution}} \text{x} 100$$

Margin of safety can be increased or improved by

- Increasing the selling price
- Reducing the variables cost
- Increasing production and sales
- Reducing the fixed cost
- Switching the production to more profitable products.

3) What do you mean by Marginal costing? State its assumptions, advantages and disadvantages.

Ans Marginal cost is the additional cost of producing an additional unit. It is also known as variable cos because an increase of one unit in production will cause an increase in variable cost only.

According to Institute of Costs and Management Accountants, London, Marginal costing is the ascetainment by differentiating between fixed costs and variable costs, of marginal cost and of the effect on profit of changes in volume or type of output.

Marginal costing is the technique of presenting cost data wherein variable costs and fixed costs are show mm separately for managerial decisions making.

ASSUMPTIONS

- All cost can be divided into two categories fixed and variable
- Fixed cost remain constant at all levels of activity
- The total variable costs vary but variable cost per unit does not vary
- Selling price remains constant at different levels of activity
- Price of material,rate of labour etc remain unchanged
- Volume of production is the only factor which influences the cost
- There is no stock

ADVANTAGES

- Marginal costing technique is simple to understand and easy to operate. There is no problem of apportionment of fixed cost
- Stock can be valued easily.
- It is possible to control cost more effectively when it is classified into fixed and variable components
- As fixed costs are completely ignored the problem of under or over absorption of overhead doesnot arise
- The technique of marginal costing provides data relating to cost volume profit relationship.

- It helps the management in taking various decisions.

DISADVANTAGES

- It is very difficult to classify all costs into fixed and variable elements
- It is difficult to apply the technique of marginal costing in all contracts. It is not applicable in capital intensive industries where fixed costs are very high.
- It ignore the time factor completely.
- It give more importance to selling function.production function is also equally important.

4. Discuss various methods of measuring the performance of a company?

Ans) Techniques of Performance Measurement

The techniques have been divided into 2 categories, they are :

1. Traditional Methods

The traditional methods are based on earnings. Managers have been using these traditional methods to measure the financial performance. Some of the main traditional measures used in performance measurement are ;

1.1. Ratio Analysis

It is aa quantitative method of gaining insight into a company's liquidity, operational efficiency, profitability by studying its financial statements such as the balance sheet and income statement.

a. Return on assets

b. Return on liquidity

c. Earnings per share

1.2. Net Income

Net income also called Net earnings, is calculated as sales_ cost of goods sold. It appears on a company's statement and is also an indicator of a company's profitability.

1.3. Market Value Added

It's the difference between current market value of the company's stock and the initial capital that was invested in the company by both bondholders and stockholders.

1.4. Cash Flow Statement

It is a financial statement that shows how changeschanges in balance sheet accounts and income affect cash and cash equivalents, and breaks the analysis down to operating, financing and investing.

1.5. Funds Flow Statement

It is prepared to analyse the reasons for changes in the financial position of a company between two balance sheets.

1.6. Financial Statement Analysis

It is the process of reviewing and analysing a company's financial statements to make better economic decisions to earn income in future.

a. Comparative statements

b. Common size statements

1.7.Marginal Costing

It is the accounting system in which variable costs are charged to charge units and fixed costs of the period are written off in full against the aggregate contribution.

1.8. Break Even Analysis

It is based on categorising production costs between those which are "variable" and those that are "fixed".

1.9. Standard Costing

Variances are recorded to show the difference between the expected and actual cost.

1.10. Budgetory Control

It means regularly comparing actual income or expenditure to identify whether or not corrective action is required.

2. Modern Techniques

a. The Balanced Scorecard

b. TPM process

c. 7- step TPM process

d. Total Measurement Development Method (TMDM)

e. Activity_Based Costing and Management

f. Economic Value Added (EVA)

g. Quality Management

h. Customer Value Analysis

5. What is ROI. What are its advantages and disadvantages?

Ans) **Return On Investment (ROI)**

ROI is a performance measure used to evaluate efficiency of an investment or compare the efficiency of a number of different investments. ROI tries to directly measure the amount of return on a particular investment, relative to the investment's cost.

Advantages of ROI

- Easy comparability with internal and external benchmarks and other divisions who use ROI.
- Controls for size and deference across plants and divisions
- Reduces tendency to overinvest in project by managers
- Motivates managers to increase sales, decrease costs and minimize asset investment
- Better measure of profitability
- Achieving goal congruence
- Comparative analysis
- Performance of investment division
- ROI as indicator of other performance ingredients
- Matching with accounting measurements

Disadvantages Of ROI

- Satisfactory definition of profit and investment are difficult to find
- ROI may influence a divisional manager to select only investments with high rates of return
- Discourages managers from investing in projects that reduce a division's ROI
- Does not incorporate measures of risk

- Financial accounting causes investment in assets should be understated
- A good or satisfactory return is defined as an ROI in excess of some minimum desired rate of return, usually based on the firm's cost of capital.

6 What is EVA. What are its objectives? What are the merits and limitations?

Ans) **Economic Value Added (EVA)**

Economic value added (EVA) is a measure of a company's financial performance based on the residual wealth calculated by deducting it's cost of capital from its operating profit, adjusted for taxes on a cash basis. EVA is the incremental difference in the rate of return over a company's cost of capital.

Objectives Of EVA

- The foremost objective of the EVA is the true performance measurement of an organization after taking into consideration the stakeholders' perspective.
- The main objective of the EVA is to determine which business units' best utilize their assets to generate returns and maximize shareholder value; it can be used to access a
- company, a business unit, a single plant, office, or even an assembly line.
- EVA aims at determining a company's true profit, once taxes and cost of supporting capital have been taken into account.
- EVA aims to ascertain the financial health of the organization and it's capacity to generate shareholder 'value' respectively.
- EVA aims at the financial assessment of an organization which is important for the company's long range success and planning.
- EVA help the managers in setting organizational goals on the basis of financial assessment and keeping into consideration the main motive of shareholders wealth maximization.

Advantages Of EVA

- The adjustments made avoid the distortion of results by the accounting policies in place and should therefore result in goal congruent decisions.
- The cost of financing a division is bought home to the division's manager.

Limitations of EVA

- Requires numerous adjustments to profit and capital employed figures.
- Does not facilitate comparisons between divisions since EVA is an absolute measure.
- There are many assumptions made when calculating the WACC.
- Based on historical data where as shareholders are interested in future performance.

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10.what is corporate governance.? **Enumerate various features and objectives of corporate governance.**

<u>Corporate governance</u>

ANS; J. Wolfenson, president of the world bank defined 'corporate governance is about promoting corporate fairness transeperancy and accountability.'

- **<u>Features.</u>**

1. **systamatic. :**corporate governance is very systematic. It is based on laws procedure, practices, rules etc.

2. **Universal application :**it is used by the companies all over the world.

3.management ;Good corporate governance ensure a company is managed in the interest of its stakeholders, not just for the benefit of few top mangers.

4 . Power and influence : Good corporate governance prevents any single individual from having too much power in an organisation.

5. Transparency : Transparency means that the board of directors must disclose all relevant information to the managers.

6. Protection to the managers right : The bord of directors must protect the rights of the stakeholders.

7. Accountability : The CEO & the bord of directors must be made accountable for their actions to the stakeholders and the entire society.

8. Based on ethics : It is based on ethics,morel principles and values.

OBJECTIVES

- **Transparency and full disclosure. :** one of the most important objectives in the organisation is ensure higher degree of transparency and full disclosure of transactions in the company accounts.

***Accountability :** corporate governance is to encourage accountability of the management to the company directors and the accountability of the directors to the shareholders.

***Equitable treatment of shareholders :** The structure of corporate governance must be designed to treat all shareholders equally.

* **self evaluation** : corporate governance allows firms to evaluate their behaviour before they are scrutinised by regulatory bodies.

* **increasing shareholders wealth ;** The main aim of corporate governance is to protect the long term interest of the shareholders.

11. Explain the role of shareholders in corporate governance.

Investors are the proprietors of the company. They have certain rights in the company. Investors differ according to the type of stock and the relevant law in the country.

1*.VOTING RIGHT : shareholders have right to vote on variety of corporate matters including voting in officers, companies acquisition and mergers or liquidation of companies assets. Voting power includes electing directors and proposals.

2*. RIGHT TO TRANSFER OWNERSHIP : The right to transfer of ownership means shareholders are allowed to trade their stock on exchange. The right to transfer of ownership provides liquidity for investment.

3*. RIGHT TO INSPECT : All share holders shall be allowed to inspect the corporate books and records of the company,including minutes of board meetings and stock registries.

4*.RIGHT TO INFORMATION : The shareholders shall be provided periodic reports which disclose personal and professional information about the directors and officers of the company.

5*. RIGHT TO DIVIDENT : All shareholders have the right to receive dividends. Divident amt determined by the corporate officers and not by the ownership interest of the shareholders. The amt can fluctuate yearly

6*.RIGHT TO SUE : Shareholders also have the right to sue for the wrong doing of corporation.

7*. APPOINTMENT OF AUDITORS : Shareholders also have the right to appoint the company auditors. The appointment is generally done for 5 years and further can be ratified passing resolution in the annual general meeting.

8*.APPOINTMENT OF DIRECTORS : Shareholders play important role in the appointment of directors. They have right to appoint various type of directors such as additional directors, alternative directors, and nominee directors.

9*. RIGHT TO GET COPIES OF FINANCIAL STATEMENTS. : Share holders have the right to get copies of financial statements. It is the duty of the company to send the financial statements of the company to all shareholders eighter in a quarterly or annual statements.

12. State the important principles of corporate governance.

CORPORATE GOVERNANCE IS ABOUT PROMOTING CORPORATE FAIRNESS, TRANSPARENCY, AND ACCOUNTABILITY.

PRINCIPLES

1*.PRINCIPLES OF ACCOUNTABILITY : Corporate accountability refers to the obligations and responsibilities to give an explanation for the companies actions and conduct. This principle say that management is acceptable to the board ;& board is accountable to the shareholders.

2*PRINCIPLES OF FAIRNESS : This principle tells about impartiality or lack of bias. The corporate should ensure fair treatment to all stakeholders including minority shareholders and foreighn shareholders.

3*.PRINCIPLES OF EQUITY :The corporate governance framework should be protect shareholders right and ensure editable treatment of all shareholders including minority and foreign shareholders. All shareholders have the opportunity to obtain effective redress.

4*.PRINCIPLES OF TRANSPERANCY: Transparency means openness, a willingness by the company to provide clear information to shareholders and other stakeholders. It ensures that stakeholders can have confidence in the decision making.

5*.FIDUCIARY PRINCIPLES :This is the another principle of CG. The board of directors are given authority to act on behalf of the company. They should therefore accept full responsibility. Bord members should act on a fully informed basis,in good faith.

6*. PRINCIPLES OF INDEPENDENCE : It requires independence of the part of the top management of the corporation. Board directors must be strong. Without top management of the company being independent, good corporate governance is only a dream.

7*.PRINCIPLES OF CONFIDENTIALITY : Corporate governance requires that the discussion between the management and the supervisory body. It is very important that full and comprehensive confidentiality be maintained.

8*. PRINCIPLES OF DECIPLINE : Corporate principles is a commitment by a company's senior management to comply the rules and regulations that is usually recognised and accepted to be correct and proper.

9*. PRINCIPLES OF RESPONSIBILITY : Responsible management would be able to lead the company in the right direction. It allows the organisation to take corrective action and for penalising mismanagement.

10*. PRINCIPLE OF SOCIAL RESPONSIBILITY : A well managed company aware of, and respond to social issues, a placing a high priority on ethical standereds.

12. What is MDP? Explain the step involved in management development programme?

MANAGEMENT DEVELOPMENT PROGRAM

MDP is a course designed to strengthen the relationship between managers at all levels. This enables employees at a managerial level gain the ability to motivate other there by allowing them to effective manage their teams.

Characteristics of management development are;

1.Growth oriented : Management development is growth oriented. It focuses it's activities responsibilities. After management development, employees get opportunity of higher responsibility which assist for personal growth.

2.Future oriented: The main objective of management development is to develop the human competencies for the future job responsibilities.

3.Focus on managerial employees : management development focus only to the managerial level employees. It prepares the educational programs to enhance inter personal skills, and technical skills to the managerial employees.

4.Educational process : beyond training management development is a educational program which stands in learning process. It focusses on overall personality development for business communication, environmental and industry analysis, business planning maintaining human and business relation etc.

5. Proactive : management development is advance thinking. This aims to prepare human resources ready for any type of emergencies. It is not conducted only after realizing the need.

6.Self motivation : management development is basis of personal growth. So each manager wants to participate in such type of management development programs. External motivation is not necessary for management development as in training.

7.Continuous process : management development is not spontaneous learning process. It starts with analysis of organizational objective s, future scopes, stratego and succession planning. As manager require involving in

many managerial activitiee, they need to acquire different skills which are not possible in single program. So managerial development must be arranged as continuous learning process.

The steps involved in management development programs are;

1.looking organisational objective:

The first step in management development program is to identify the organization objective. The objective tell where we are going and will develop a framework from which the executive needs can determined.

2.Ascertaining development needs:

Next step is ascertaining development needs which requires forecasts it's needs for present and future growth. This is based up on a comprehensive job analysis with particular reference to the kind o management work performedperformed, the kind of executives needed and the kind of education, experience training, special knowledge, skills, personal tracits etc required for such work

3.Appraisal of presey management work:

Appraisal of present management talent is made with a view to determining qualitatively the type of personnel available with in an organization it self. The performance of a management individual is compared with the standard expected of him. His personal tracits are also analysed. So that a value judgement may be made of his potential for advancement.

4.Management power inventory:

Now a management power inventory is prepared for the purpose of getting complete information about each management individuals bio-data and educational qualifications the results of tests, and performance appraisal from these it can be known that several capable executive are available for training for higher position.

5.management power inventory:

A analysis of the information will bring to the attentionattention of the management potential obsolescence of some of the present executive the inexperience or shortage of managers in certain functions and skill deficiencies relative to the future needs of the organizations.

6.Individual development program:

The planning of individual development programmes in undertaken to meet the needs of different individuals, keeping in view the differences in the attitudes and behavior and in their physical intellectual and emotional quality.

7.Estabilishment of training and development programmes:

The job down by the personnel department. A comprehensive and well conceived programme is prepared containing concentrated brief course in difference field viz.

8.Evaluating development programmes:

Evaluation of training is any attempt to obtain information on the effects of a training programme and assess the value of training.

13.what for you mean by organization behaviour? Discuss the nature and scope of organisation behaviour?

ORGANISATIONAL BEHAVIOUR

What needs emphasis here is that people occupy pride of place everywhere, be it management, organisation or management functions, people generally possess physical strength, skills of some kind, administration or executive skills and organising abilities. These qualities must be harnessed and used if managerial tasks, were to be accomplished and organisations goals were to be realised. It is here that orgnisational behaviour become relvance.

According to Fred luthans, "organisational behaviour is understanding, predicting and controlling human behaviour at work".

According to Baron and Greenberg, "organisational behaviour covers a wide range of topics, such as human behaviour, change, leadership, teams, etc. "

Nature and scope of organisational behaviour are;

Organisational behaviour as mentioned earlier, is the study of human behaviour in organisation. The subject ecompasses the study of individual behaviour, inter individual behaviour and the behaviour of organisations themselves.

Nature and Scope of Organisational Behaviour;

1.Interdisciplinary Approach:

Organisational behaviour integrates knowledge from various related discipline such as psychology, sociology, anthropology, political science and economics. Organisation behaviour is not discipline but a separate field of study. It integrates behavioural sciences like psychology, sociology, anthropology, social psychology etc. So it is a part of science.

2.Action Oriented:

Organisational behaviour involves rational thinking and not an emotional feeling about people. The major objective of organisation behaviour is to explain and predict human behaviour in organisations. In that sense it is action oriented.

3.Balance Human and Technical Values:

Organisation behaviour tried to balance between human and technical values at work. It seeks to achieve productivity by building and maintaining employees divinity, growth and satisfaction rather than at the expense of these values.

4.Science and Art:

Organisation behaviour is both science and art. The knowledge about human behaviour in organisations indicates it as a science. The skill is required to apply that knowledge to recognize the individual differences in managerial style shows it as an art. Thus OB is both science and art.

5.An Applied Science:

Organisational Behaviour is an applied science because it oriented towards understanding the force that affect behaviour so that their affects may be predicted and guided towards effective functioning of organisation.

6.Inexact Science:

organisation behaviour is an inexact science because it is an new field of enquiry. Little progress has been made to provide specific answers to

specific organisational problems. It is possible to predict relationship between variables on a board scale but it is difficult to apply predictive models on an individual basis. Hence exact results cannot be expected. Thus becomes an inexact science.

7.Behavioural Approch to Management:

Organisational behaviour is directly connected with the human side of management, but it is not the whole of management. Organisational behaviour is related with the conceptual and human dimensions of management.

8.Contingency Approach:

There are very few absolutes in organisational behaviour. The approach is directed towards developing managerial actions that are most appropriate for a specific situation.

9.A Systems Approach:

Organisational behaviour is a systematic vision as it takes in to account the variables affecting organisational functioning.

10.Existence at Multiple Levels:

Behaviour occurs at different levels such as individual, organisation a nd in groups. These three levels interacts each other. In other words, the behaviour of individuals are affected by the group behaviour, group behay is affected by organisation behaviour and so on.

11.Scientific Method:

Organisational behaviour follows the scientific method and makes use of logical theory in its investigation and in answering the research questions. It is empirical, interpretive, critical and creative science.

12.Concern With Environment:

Organisational behaviour is concerned with issues like compatibility with environmental. Eg: person-culture fit, gross culture management etc.

13.Nomative Science:

OB is normative science. A normative science suggests only the cause and effect relationshi.

14.Intra personal behaviour covers such aspects as personality, attitude, perception, learning opinion, motive, job satisfaction.satisfaction

14.what is benchmarking? Explain different type of bench marking?

BENCHMARKING

In business, bench marking is aprocess in which a company compares it's products and methods with those of the most successful companies in its field, in order to try to improve its own performance. Benchmarking is systamatic and continuous measuremrnt improvement process.

Advantage of Benchmarking are;

- Dril down in to performance gaps to identify areas for improvement.
- Develop a standardized set of process and metrics.
- Enable a mindset and culture and continuous improvement.
- Set performance expectations.
- Moniter co.performance and manage change.

Types of Benchmarking;

There are 7 type of Benchmarking;

1.Strategic benchmarking:

Want to boost the overall performance of your business;well this is the kind of benchmarking you should use; Strategic benchmarking analysis general approaches and long term strategies that have facilitated high performance to be successful. It entails considering high level facets such as developing new products or service, core compentencies and boosting capabilities for handling the changes in the external setting.

2.Performance or competitive benchmarking:

This kind of benchmarking is used when business considered their position for performance characteristics of critical service/ products. Benchmarking partners are sought from the same market segment. For performance or competitive benchmarking is often carried out through 3rd parties or trade associations to protect confidentiality.

3.Functional Benchmarking:

Functional benchmarking entail business looking to benchmark with partners sought from various areas of activity or business sectors to determine ways of refining similar work processes or functions. This in turn, can result in novelty and dramatic improvements.

4.process benchmarking:

In this kind of benchmarking, the benchmarking partners are drawn from the best practice organisation that carried out similar nature or work or deliver similar services. Process of benchmarking entails creating process maps to assist analysis and comparison. It however, often resuy in temporary benefits.

5.External benchmarking:

External benchmarking entails analysing factors outside the business that are recognised as the finest in class. It provides learning opportunities from business at the leading edge. It can however, consume a significant amount of time and resources to ascertain the Comparability of information and data, the development of the comprehensive recommend it and the authenticity of findings.

6.Interal benchmarking:

The kind of benchmarking entails benchmarking operations or business from the same organisations for instance, on company having business units in various regions or countries.

7. International benchmarking:

Best experts are identified and examined elsewhere in the world. This is probably because they are very few benchmarking partners within the same region or count to generate reliable results.

Disadvantage of benchmarking:

- It is a time taking technique.
- Increase dependency: The companies tend to depend on other companies strategies to become successful.
- Lack of information:Sometimes the company is unable to gather adequate information for benchmarking.