# Contents

# Chapter 1 Overview of Cost and Management Accounting

Overview of Cost Accounting 1

Important Terminology 2

Cost, Costing, Cost Accounting, Cost Accountancy

Scope, Objectives and Limitations of Cost Accounting 2

Scope of Cost Accounting, Objectives of Cost Accounting, Limitations of Cost Accounting, Art, Science and Practice

Cost Accounting System 3

Necessity for Cost Accounting System, Essentials of Good Cost Accounting System, Essential Factors for Good Cost Accounting System, Reports Provided by Cost Accounting Department, Practical Difficulties in Installation of Costing System, Suggestions to Overcome Practical Difficulties

Comparison of Cost Accounting with Other Subjects 7

Cost Accounting and Financial Accounting: Distinction, Ost Accounting and Management Accounting: Distinction

Performance Measurement in Cost Accounting 8

Cost Unit, Composite Cost Unit, Cost Object, Cost Centre, Profit Centre, Investment Centre

Costing Methods 11

Specific Order Costing, Continuous Operation Costing, Specific Order Costing and Continuous Order Costing: Distinction

Cost Systems 12

Cost Management 13

Need for Cost Management, Levels of Variability of Costs, Strategic Cost Management (SCM)

Overview of Management Accounting 15

**Evolution of Management Accounting** 

Scope of Management Accounting 17

Functions of Management Accounting 18

Role of Management Accountant 19

Comparison with Other Subjects 20

Comparison with Cost Accounting, Comparison with Financial Accounting, Comparison with Financial Management

Inadequacies in Management Accounting Systems 23

Criticism on Management Accounting Systems, Suggestions for Improvement

Theoretical Review Questions 25

# Chapter 2 Cost Classification and Cost Behaviour

Classification of Costs 28

Important Classifications of Cost

Cost Classification by Nature 29

Cost Classification in Relation to Cost Centre 29

Cost Classification by Time 30



#### C-12 Cost and Management Accounting

Cost Classification for Decision-making 31

Cost Classification by Nature of Production Process 33

Classification of Costs based on Behaviour 34

Importance of Behaviour wise Cost Classification

Segregation of Semi-variable Costs 36

Industrial Engineering Method, Account Inspection Method, Scatter Gaph Method, High and Low Method, Regression Analysis – Assumptions in Regression Analysis

Classification and Codification of Costs 40

Meaning of Cost Codification, Objectives of Codification, Requirements of Efficient Coding System, Methods of Codification of Osts

Theoretical Review Questions 42

Practical Problems 43

# Chapter 3 Direct Material: Procurement Procedures

Components in Direct Material Cost 47

Documentation of Material Procurement 48

Bill of Materials, Purchase Requisition, Purchase Order, Materialnspection Note, Goods Received Note (GRN), Stores Requisition Note, Material Transfer Note, Material Return Note, Bin Card, Stores Ledger

Methods of Pricing Material Issues 53

First-In First-Out (FIFO) Method, Last-In First-Out (LIFO) Method, Weighted Average Cost Method, Standard Cost Method, Replacement Cost Method

Selection of Pricing Method 55

Factors Effecting Selection of Pricing Method, Suitability of Pricing Method in Rising Prices

Treatment of Stock Discrepancies and Material Shortages 57

Reasons for Stock Discrepancies, Steps to Avoid Stock Discrepancies, Accounting Procedure for Material Shortages

Material Control 61

Material Control System, Perpetual Inventory System, Continuous Stock Taking System

Theoretical Review Questions 62

Practical Problems 63

# Chapter 4 Direct Material: Inventory Control

Inventory Policy and Stock Control 75

Features of Ideal Inventory Policy, Requirements of Stock Control, Impact of Inflation on Inventory Holding

Input-Output Ratio and Stock Turnover Ratio 77

Economic Order Quantity (EOQ) 78

Basic Concept of EOQ, Categories of Inventory Costs, Assumptions of EOQ, Graphical Determination of EOQ, EOQ with Discounts, PU System in Inventory Control

Fixation of Inventory Levels 81

Techniques of Inventory Control 82

VED Analysis, FNSD Analysis, ABC Analysis, Just in Time Inventory Management

Theoretical Review Questions 85



# Chapter 5 Direct Labour : Remuneration Methods

#### Scientific Studies at Work Place 96

Time and Motion Study, Method study, Work Study, Activity Sampling, Work Simplification, Job Evaluation, Job Evaluation Methods Merit Rating

#### Time Rate Remuneration Plans 99

Suitability of Time Rate Remuneration Plans, Advantages and Disadvantages of Time Rate Remuneration Plans, Flat Time Rate Plan, High Day Rate Plan, Plan with Different Time Rates, Halsey Premium Bonus Plan, Rowan Premium Bonus Plan, Comparison of Halsey and Rowan Plans, Halsey-Wair Plan, Accelerated Premium Bonus Plan, Emerson's Efficiency Bonus Plan, Barth Variable Bonus Plan, Bedaux Points Plan, Gnatt's Task Bonus Plan

#### Piece Rate Remuneration Plans 107

Merits and Demerits of Piece Rate Plans, Straight Piece Rate Plan, Piece Rate with Guaranteed Time Rate Plan, Differential Pieœ Rate Plan, Taylor's Differential Piece Rate Plan, Merrick's Differential Piece Rate Plan

#### Group Bonus Plans 110

Applicability of Group Bonus Plans, Advantages and Disadvantages of Group Bonus Plans, Profit Sharing Plan, Co-partnership Plan

## Requisites of Good Wage Incentive Plan 112

Theoretical Review Questions 112

Practical Problems 113

# Chapter 6 Direct Labour : Accounting and Control

#### Documentation of Labour Cost 123

Labour Cost Records, Payroll Accounting, LabourCost Accounting, Time keeping, Time Booking

## Labour Turnover 126

Causes of Labour Turnover - Awidable Causes, Unavoidable Causes; Measures to Reduce Labour Turnover, Measurement of Labour Turnover; Costs of Labour Turnover - Preventive Costs, Replacement Costs; Total Cost of Labour Turnover, Treatment of Cost of Labour Turnover

#### Idle Time and Its Treatment 131

Idle Time, Causes of Idle Time, Accounting Treatment of Idle Time

## Overtime Premium 132

Accounting Treatment of Overtime Premium, Measures to Control Overtime Premium, Disadvantages of Overtime Working

## Treatment of Special Labour Costs 133

# Incentive Schemes 134

Incentive to Indirect workers and Indirect Incentive to Direct workers: Distinction, Casual Worker and Out Worker

## Theoretical Review Questions 134

Practical Problems 135

# Chapter 7 Overheads: Allocation and Apportionment

## Meaning of Direct Expenses and Overheads 144

Definition and Meaning of Direct Expense - Treatment in Accounts; Definition and Meaning of Overheads, High Overhead Costs and Test of Efficiency, Standing Order Number vs. Cost Account Number

## Steps in Accounting of Overheads 145

Classification and Codification of Overheads, Collection of Overheads, Cost Allocation, Departmentalization of Overheads, Allocation of Overheads, Apportionment of Overheads, Distinction between Allocation and Apportionment

## Production Overhead 147

Examples of Production Overhead, Types of Production Overhead and Basis of Apportionment



#### C-14 Cost and Management Accounting

## Re-apportionment of Service Centre Costs 148

Rationale for Allocating Service Departments Costs to Production Departments

## Re-allocation of Service Department Overheads 149

Direct Method, Step-down Method, Repeated Distribution Method, Simultaneous Linear Equation (Matrix) Method

#### Administrative Overhead 156

Examples of Administration Overhead, Types of Administration Overhead and Basis of Apportionment, Treatment of Administrative Overheads in Cost Accounting

#### Selling and Distribution Overheads 157

Selling Overhead, Distribution Overhead, Basis of Apportionment of Selling and Distribution Overhead, Accounting of Selling and Distribution Overheads, Problems in Controlling Selling and Distribution Overheads

Theoretical Review Questions 160

Practical Problems 160

# Chapter 8 Overheads: Absorption and Accounting

#### Methods of Production Overhead Absorption 173

Production Unit Method, Percentage of Direct Material Cost Method, Percentage of Direct Labour Cost Method, Percentage of Prime Cost Method, Direct Labour Hour Rate Method, Machine Hour Rate Method

Single and Departmental Overhead Absorption Rates 179

#### Over and Under Absorption of Overheads 180

Predetermined Overhead Absorption Rates, Over and Under Absorption of Overheads, Reasons for Over or Under Recovery, Treatment of Under/Over Absorption of Overheads

Theoretical Review Questions 182

Practical Problems 183

# Chapter 9 Special Items of Cost: Treatment, Accounting and Control

Idle Capacity Costs 196

Treatment of Idle Capacity Costs in Cost Accounts

Interest on Capital 197

Arguments in Favour of Inclusion, Arguments Against Inclusion

Depreciation and Obsolescence 197

Depreciation, Obsolescence, Depreciation and Obsolescence: Distinction, Importance of Sound Depreciation Policy, Plant and Other Fixed Assets Registers, Using of Asset After Fully Depreciated

## Treatment of Special Items of Cost 199

Material Handling Expenses, Market Research Expenses, Subscriptions and Donations, After Sales Service Costs, Royalties and Patent Fees, Training Costs, Taxation, Financing Charges, Major Repairs to Equipment, Cost of Tools, Bad Debts, Notional Rent, Packing Expenses, Data Processing Cost, Stores Overhead, Erection and Dismantling of Plant and Machinery, Transport Cost, Insurance Cost

#### Research and Development Costs 203

Treatment of Research Cost, Treatment of Development Cost

Waste, Scrap, Spoilage and Defectives 204

Theoretical Review Questions 206



# Chapter 10 Activity Based Cost Systems

#### Traditional Cost System 211

Classification of Manufacturing Costs, Dangers of Incorrect Cost Information, Inadequacies of Traditional Cost Systems, Reasons for Emergence of Activity Based Costing System, Features of Cost System in World-class Company

#### Definition and Meaning of Activity Based Costing (ABC) 214

Objectives of ABC

## Steps in ABC System 215

Process Specification, Identify Main Activities, Identify Non-value Adding Activity, Identification of Activity Cost Pools, Seection of Activity Cost Drivers, Tracing of Costs with Cost Objects, Staff Training, Review and Follow-up; Distinction between Value-adde and Non-Value-added Activities

## Cost Pools and its Cost Drivers 218

Difficulties in adoption of ABC in Service Organization

Advantages and Limitations of ABC 222

# ABC System and Corporate Strategy 223

Activity Based Information and Decision Making

Activity Based Budgeting 224

Activity Based Management 225

Activity Based Accounting 225

Theoretical Review Questions 226

Practical Problems 227

# Chapter 11 Financial and Cost Accounts: Reconciliation

#### Reasons for Reconciliation 237

Need for Reconciliation, Important Reasons Causing Reconciliation, Reasons for Disagreement in Profit or Loss

Memorandum Reconciliation Account 239

Reconciliation Statement 241

Integrated Accounting System - Elimination of Reconciliation

Theoretical Review Questions 246

Practical Problems 246

Truction From East

# Chapter 12 Integration of Cost and Financial Accounts

# Non-integrated Accounting 255

Inter-Locking of Accounts, Principal Ledgers and Control Accounts

## Integrated Accounting System 264

Benefits of Integrated Accounting System, Prerequisites for Integration of Accounts

Accounting Entries under Both Methods 265

Pre-requisites for Computerization of Accounts 275

Theoretical Review Questions 275



# Chapter 13 Output Costing and Cost Sheet Preparation

Meaning of Output Costing 291

Ascertainment of Cost and Profit under Output Costing 292

Simple Cost Sheet 292

Advantages of Cost Sheet, Divisions of Cost and Cost Sheet

Materials Consumed 293

Detailed Cost Sheet 293

Treatment of Stock 295

Treatment of Special Items of Cost and Non-cost Expenses 295

Estimated Cost Sheet 298

Production Account 302

Specimen of Production Account, Distinction between Production Account and Cost Sheet

Multiple Costing 304

Theoretical Review Questions 304

Practical Problems 304

# Chapter 14 Job Costing

Meaning of Job Costing 315

Features of Job Costing 315

Procedures in Job Order Costing 315

Advantages of Job Costing 316

Theoretical Review Questions 317

Practical Problems 318

# Chapter 15 Batch Costing and Economic Batch Production

Meaning of Batch Costing 326

Ascertainment of Batch Cost 326

Economic Batch Quantity 328

Job Costing and Batch Costing: Distinction 329

Theoretical Review Questions 329

Practical Problems 329

Chapter 16 Contract Costing

Basics of Contract Costing 335

Features of Contracts, Job Costing and Contract Costing: Distinction, Accounting Procedure, Accounting Treatment of Costs, Sureyor's Certificate and Retention Money, Ascertainment of Work-in-Progress

Costing of Running Contracts 337

Principles for Calculation of Profit to be Transferred to Profit and Loss Account

Costing of Contracts Nearing Completion 338



Cost Plus Contracts 340

Principles Guiding Cost Plus Contracts, Merits and Demerits of Cost plus Contracts, Fixed Price Contract with Escalation Clause

Theoretical Review Questions 342

Practical Problems 343

# Chapter 17 Process Costing and Operation Costing

Meaning of Process Costing 362

Job Costing and Process Costing: Distinction 362

Features of Process Costing 363

Process Losses and Gains 363

Normal Loss, Abnormal Loss, Abnormal Gain

Operation Costing 367

Theoretical Review Questions 368

Practical Problems 369

# Chapter 18 Process Costing: Equivalent Units

Equivalent Units: Meaning 385

Valuation of Work-In-Process 386

Valuation of WIP when only closing WIP exists, Valuation of WIP when Opening and Closing WIP exists, Steps in Valuation of Equivalent Units

Theoretical Review Questions 390

Practical Problems 390

# Chapter 19 Service Costing

Service Costing and Service Cost Units 408

Ascertainment of Service Cost per Unit, Application of Service Costing, Cost Units in Service Organizations, Service Costing and Output Costing: Distinction

Transport Costing 410

Absolute and Commercial Ton-kms.

Hotel Costing 413

Canteen Costing 415

Power House Costing 416

Hospital Costing 418

Customer Costing and Customer Profitability Analysis 420

Customer Costing in Service Sector, Customer Profitability Analysis, Pricing by Service Sector

Theoretical Review Questions 421

Practical Problems 422

# Chapter 20 Profitability of Joint Products and By-Products

Costing of Products arising from Common Process 443

Joint Products and Joint Costs, Examples of Joint Products, Meaning of Common Costs, Meaning of Co-products



## Methods of Accounting for Joint Products 445

Physical Units Method, Market Value Method, Contribution Margin Method, Average Unit Cost Method, Survey Method, Standard Cost Method, Direct Allocation Method

### Costing of By-Products 446

Examples of By-Products, Scrap and By-Product: Distinction, Meaning of Waste; Methods of Accounting for By-Products - Cost Methods, Non-Cost or Sales Value Method; Selection of Appropriate Accounting Method, Joint Product and By-Product: Distinction, Objectives for Allocation of Joint Costs

Theoretical Review Questions 448

Practical Problems 449

# Chapter 21 Uniform Costing and Interfirm Comparisons

## Uniform Costing 463

Objectives of Uniform Costing, Requisites for Installation of Uniform Costing, Uniform Cost Manual and Its Contents, Benefits of Uniform Costing, Limitations of Uniform Costing

#### Interfirm Comparisons 465

Prerequisites for Interfirm Comparisons, Uniform Costing, Membership of Trade Associations, Information to be Collected, Procedre in Making Interfirm Comparisons, Problems in Interfirm Comparisons, Adequacy of Profit, Efficiency in Selling, Production Efficiency, Advantages of Interfirm Comparison, Limitations of Interfirm Comparison

Theoretical Review Questions 468

Practical Problems 468

Chapter 22 Cost Audit and Management Audit

#### Cost Audit 472

Definition and Meaning of Cost Audit, Objectives of Cost Audit, Cost Audit and Financial Audit: Distinction, Companies Act Provisions as to Cost Audit; Important Provisions of Cost Audit Rules - Applicability (Rule 1), Definitions (Rule 2), Application of Cost Records (Rule 3), Applicability for Cost Audit (Rule 4), Maintenance of Records (Rule 5), Cost Audit (Rule 6), Rules not to apply in certain cases (Rule 7); Information to be given CRA Forms - CRA-1: Forms in which Cost Records shall be maintained (pursuant to rule 5(1), RA-2: Form of Intimation of Appointment of Cost Auditor by the Companyto Central Government (pursuant to rule 5(1), CRA-3: Form of Cost Audit Report [pursuant to rule 6(4)], Annexure to Cost Audit Report, CRA-4: Form for filing Cost Audit Report to Central Government [pursuant to rule 6(6)]; Advantages of Cost Audit; Cost Audit Program - Areas of Cost Audit Program, Disadvantages of Cost Audit Program

#### Management Audit 480

Objective of Management Audit, Scope of Management Audit, Weaknesses Revealed by Management Audit

Efficiency Audit 481

Propriety Audit 482

Theoretical Review Questions 482

# Chapter 23 Marginal Costing

Absorption Costing 483

Advantages and Limitations

Direct Costing 484

Marginal Costing 484

Marginal Cost, Marginal Costing, Direct Costing and Absorption Costing: Distinction, Features of Marginal Costing, Formulas used in Marginal Costing, Meaning of Contribution, Contribution and Profit: Distinction, Arguments in favour of Marginal Costing, Critism Against Marginal Costing, Absorption Costing and Marginal Costing: Distinction



## Absorption Costing and Marginal Costing: Impact on Profit 487

Impact of Inflation on Holding of Large Inventories, Behavioural Considerations in Absorption Costing

#### Practical Applications of Marginal Costing 488

Key or Limiting Factor Analysis, Profit planning, Selection of Profitable Product Mix; Make or buy decisions - Considerations in Make or Buy Decisions; Introduction of a New Product, Discontinuance of a Product or Closure of a Department, Accept or Reject Special Offer and Sub-contracting, Planning of Activity Level, Market Expansion, Temporary Cessation of Operations

Theoretical Review Questions 492

Practical Problems 493

# Chapter 24 Break-even and CVP Analysis

#### Break-even Analysis 540

Assumptions and Limitations in BEP Analysis, Formulas used in Break-even Analysis, Cash Break-even

Profit-Volume Ratio 542

How to Improve P.V. Ratio?, Limitations in using P.V. Ratio

Margin of Safety 542

Ways to Improve MOS

Angle of Incidence 543

#### Relationship of BEP, MOS and Angle of Incidence 543

Impact of Selling Price, Fixed Cost and Variable Cost on BEP

Cost-Volume-Profit (CVP) Analysis 544

Procedure in CVP Analysis, Construction of Profit-Volume (P.V.) Chart, P.V. Chart in Multi-product Situations, Benefits of CWhalysis, Assumptions in CVP Analysis

Curvilinear Break-even Analysis 546

Theoretical Review Questions 547

Practical Problems 548

# Chapter 25 Budgeting and Budgetary Control

#### Budget, Budgeting and Budgetary Control 578

Budget, Budgeting, Budgetary Control, Sound Budgeting System, Forecast and Budget: Distinction

Advantages and Problems of Budgeting 579

Budgeting Process 579

Specification and Communication of Organizational Objectives, Determination of Principal Budget Factor, Establishment of Clear Lines of Authority and Responsibility, Establishment of Budget Centres, Determination of Budget Period, Establishment of Budget Committee, Appointment of Budget Controller, Preparation of Budget Manual, Other Requirements

Kinds of Budgets 582

Sales or Revenue Budget, Production Budget, Plant Utilization Budget, Direct Materials Budget, Direct Labour Budget, Manufactuing Expenses Budget, Administrative Expenses Budget, Selling and Distribution Expense Budget, Research and Development Budget, Capital Expenditure Budget, Manpower Budget, Marketing Expenditure Budget, Capital Budget, Master Budget, Dangers of Single Budget System, Formulas used in Calculation of Budget Ratios

Analysis of Cost Variances 584

Behavioural Aspects of Budgeting 585

Flexible Budgeting 585

Proforma of Flexible Budget, Fixed Budget and Flexible Budget: Distinction, Advantages of Flexible Budget, Disadvantages of Flexible Budget

Edited with the demo version of Infix Pro PDF Editor

To remove this notice, visit: www.pdfediting.com

#### C-20 Cost and Management Accounting

## Zero Base Budgeting (ZBB) 587

Requisites for Implementation of ZBB, Benefits of ZBB, Criticism of ZBB, Traditional Budgeting and ZBB: Distinction

#### Cash Budget 589

Points to be Considered in Preparation of Cash Budget, Methods of Cash Budgeting, Cash Flow Statement and Cash Budget: Distinction, Cash Budget and Profit and Loss Account: Distinction

#### Rolling Budget 592

Advantages of Rolling Budgets, Disadvantages of Rolling Budgets

#### Planning and Control Budgets 592

Planning Budget and Control Budget: Distinction

## Critical Planning Variables 593

Responsibility Budgeting 593

#### Program Budgeting 594

Constituent Parts of Program Budgeting, Program Budgeting and Conventional Budgeting: Distinction; Procedure for Developing Program Budgeting - Program Accounting, Multi-year Costing, Description and Measurement of Activities, Zero Base Budgeting, Cosb Benefit Analysis; Advantages and Disadvantages of Program Budgeting

#### Performance Budgeting 596

Requisites of Performance Budget, Performance Budgeting and Traditional Budgeting: Distinction, Performance Budgeting and Program Budgeting: Distinction, Purposes of Performance Budgeting

#### Theoretical Review Questions 597

Practical Problems 599

Truction Truction 377

# Chapter 26 Standard Costing and Variance Analysis

## Meaning and Objectives of Standard Costing 631

#### Types of Standards 631

Setting of Standards, Standard Costing System During Inflation

# Compatibility of Standard Costing with Activity Based Costing 632

Standard Costing and Advanced Manufacturing Technology (AMT)

# Setting of Standards 633

Responsibility for Setting Standards, Setting up Production Standards and Establishment of Standard Costs, Problems in Setting Standard Costs, Advantages of Standard Costing, Criticism on Standard Costing, Standard Costing and Budgetary Control: Distinction, Standard Cost and Estimated Cost: Distinction, Behavioural Consideration in Standard Costing

#### Variance Analysis 636

Material Variances 637

#### Labour Variances 638

Journal Entries in Single Plan

# Variable Production Overhead Variances 640

#### Fixed Production Overhead Variances 641

Interdependence of Overhead Variances

## Sales Variances 643

Sales Variances Based on Profit, Sales Variances Based on Turnover

#### Profit Variances 645

Disposal of Variances 646



#### Revision of Standards and Revision Variance 646

Revision of Standards

#### Planning and Operational Variances 647

Benefits of Planning and Operating Variances, Problems of Planning and Operating Variances

#### Interpretation of Variances 647

Reasons for Cost Variances, Causes of Variance, Interdependence Between Variances

#### Investigation of Variances 649

Techniques of Investigation of Variances - Heuristics, Trend Analysis, Statistical Control Charts, Decision Theory Approach (Gae Theory), Decision Tree Approach; Economics of Control of Variances

Theoretical Review Questions 651

Practical Problems 652

# Chapter 27 Financial Statement and Ratio Analysis

#### Financial Statements 702

Objectives of Financial Statements, Objectives of Financial Statements Analysis, Types of Financial Statement Analysis, Methodsof Analyzing Financial Statements

#### Comparative Financial Statements 704

Common-size Financial Statements 707

Trend Ratios 709

Ratio Analysis 711

Liquidity Ratios 712

Current Ratio, Quick/Liquid/Acid Test Ratio, Absolute Liquid/Super Quick Ratio, Defensive-Interval Ratio

## Leverage Ratios 714

Debt-Equity Ratio, Shareholders Equity Ratio, Long-term Debt to Shareholders Net worth Ratio, Capital Gearing Ratio, Fixed Assesto Long-Term Funds Ratio, Proprietary Ratio, Interest Cover, Debt Service Coverage Ratio (DSCR), Dividend Cover

## Asset Management Ratios 717

Inventory Turnover Ratio, Inventory Ratio, Debtors Turnover Ratio, Debtors Collection Period, Bad Debts to Sales Ratio, Creditors Turnover Ratio, Creditors Payment Period, Fixed Assets Turnover Ratio, Total Assets Turnover Ratio, Working Capital Turnover Ratio, Sales to Capital Employed Ratio

## Profitability Ratios 720

Gross Profit Margin, Net Profit Margin, Cash Profit Ratio Return on Total Assets, Return on Shareholders Funds or Return on Net Worth, Return on Equity (ROE), Return on Capital Employed (ROCE)

## Operating Ratios 723

## Market Based Ratios 724

Earnings Per Share (EPS), Cash Earnings Per Share, Dividend Payout Ratio, Dividend Yield, Book Value, Price Earnings Ratio (P/E Ratio), Price to Book Value Ratio (P/BV Ratio)

# Du Pont Analysis 726

#### Importance and Limitations of Ratio Analysis 728

Importance of Ratio Analysis, Factors Affecting Efficacy of Ratios

#### Non-financial Performance Measures 729

Theoretical Review Questions 730



# Chapter 28 Funds Flow Analysis

Identification of Fund and Flow 757

Meaning of 'Fund' and 'Flow', Identification of Flow of Funds

Statement of Sources and Application of Funds 759

Sources of Funds, Funds Generated from Operations, Funds Raised from Shares, Debentures and Long-term Loans, Sale of Fixed Assets and Long-term Investments, Application of Funds

Statement of Changes in Working Capital 761

Comparison with Financial Statements 763

Funds Flow Statement and Balance Sheet: Distinction, Funds Flow Statement and Income Statement: Distinction

Benefits and Drawbacks of Funds Flow Analysis 764

Theoretical Review Questions 771

Practical Problems 771

## Chapter 29 Cash Flow Analysis

Meaning of Cash Flow Statements 791

Meaning of Cash and Cash Equivalents, Uses of Cash Flow Statement, Limitations of Cash Flow Statement

Comparison with Funds Flow Statement and Cash Budget 793

Funds Flow and Cash Flow: Distinction, Cash Flow and Cash Budget: Distinction

Classification of Cash Flows 793

Cash Flows from Operating Activities, Cash Flows from Investing Activities, Cash Flows from Financing Activities

Treatment of Special Items 794

Foreign Currency Cash Flows, Extraordinary Items, Interest and Dividends, Taxes on Income, Investments in Subsidiaries, Associaes and Joint Ventures, Acquisition and Disposal of Subsidiaries and Other Business Units, Non-cash Transactions

Preparation of Cash Flow Statement 796

Data Required In Preparation of a Cash Flow Statement, Procedure In Preparation of Cash Flow Statement, Reporting of Cash Flows from Operating Activities

Direct Method 797

Indirect Method 800

Theoretical Review Questions 808

Practical Problems 808

# Chapter 30 Capital Budgeting Methods

Capital Budgeting 831

Payback Period Method 832

Accounting Rate of Return Method 834

Net Present Value Method 835

Internal Rate of Return Method 837

NPV and IRR: Reasons for Conflict 840

Profitability Index Method 841

Discounted Payback Period Method 842

Adjusted Present Value Method 842



# Assumptions in Use of DCF Techniques 843

# Capital Rationing 846

Meaning of Capital Rationing, Factors Leading to Capital Rationing, External Factors, Internal Factors; Situations of Capital Rationing - Situation | : Projects are Divisible and Constraint is a Single Period One, Situation | | : Projects are Indivisible and Constraint is a Single Period One, Situation | | : Projects are Divisible and Constraint is Multi-period one

Impact of Inflation on Capital Budgeting 848

Meaning of Inflation, Synchronized and Differential Inflation, Money Cash Flows and Real Cash Flows

Impact of Corporate Taxation on Capital Budgeting 850

Impact of Investment Incentives on Capital Budgeting 851

Impact of Non-financial Factors In Capital Investment Decisions 852

Theoretical Review Questions 852

Practical Problems 853

ital Flubrens 623

Mathematical Tables 881