

Questions & Answers

Commerce & Management

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Ans1. Accounting is the language of business. In the absence of a systematic approach, account may use their own language and whatever they will be writing, will not be understood in the will be writing, will not be understood in the same sense by other concerned. Generally Accepted Accounting principles means to make the language more meaningful to the users the professional accounts all over the world have developed certain principles concepts convention which represent a consensus view of those accounts these principles are not static and are bound to change with the passage of time in response to the changing needs to the business.

Ans2. There are basically two system of accounting:

1. Cash System of Accounting.
2. Accrual System of Accounting.

Cash system of accounting:

It is a system in which accounting entries are made only when cash is received or paid. No entry is made when a payment or receipt is merely due. Under cash basis, rent expenses for the month of December will not be recorded as payment has not been made. Government system of accounting is mostly on the cash system.

Accrual System of Accounting:

It is a system in which accounting entries are made on the basis of amount having become due for payment or receipt. This system recognizes the fact that if a transaction or an event occurred, its consequences cannot be avoid and therefore, should be brought into book in order to present a meaningful picture of profit earned or loss suffered.

Ans3. Financial accounting preserves business operations in ledgers as financial transactions. A series of these transactions shows business owners, company owners, and investors how a company is doing financially. Financial records facilitate the use of financial ratios to get more details on a business' operations and standing. If any information on these statements or accounting books doesn't match a cash and inventory count, the business or company is forced to scrutinize its operation to resolve the differences.

Ans4. Cost accounting focuses on internal costs of a business and it can be quite challenging, requiring specific procedures to decrease errors and misunderstandings. Manufacturing firms and businesses receiving government funds often use cost accounting along with procedures to guide accounting in the process. Common cost accounting issues are expense controls, allocations, budgets, reports, analysis and planning.

Ans5. Management accounting is a business function that uses financial information from inside a business to support executive decision-making, forecasting, budgeting and internal controls. Management accounting attempts to enhance a business's economic value form an internal perspective. While you can take accounting classes to learn the basic principles of management accounting, learning how to apply the information through analysis and strategy formulation requires experience, business understanding and a dedication to constantly increase knowledge.

Ans6. Total assets are an accounting term that refers to the sum of all assets that a company has at a given point in time. Assets include cash, accounts receivable, inventory, investments, property, plant, equipment and intangible assets such as contracts and goodwill. Determining average total assets for a specified period of time is easy to do with access to a company's financial statement.

Ans7. Trial balance is a list of the closing balances of all the ledger accounts which is usually prepared at the end of an accounting period to check the arithmetical accuracy in ledger accounts.

Ans8. Accounts payable shows what money is owed and to whom. Every invoice that comes into the office, such as for office supplies, is recorded, whether the system is manual or computerized. It is important to keep track of what is owed so bills get paid on time, which aids in the company's financial standing. Accounts payable is considered a liability.

Ans9. Bills of Exchange for which a firm has for the time being the right to receive payment are known as Bills Receivable. Thus, it shows what money is owed to the company by its clients. Bills Receivable Account is considered an Asset.

Ans10. Capital refers to the amount invested in an enterprise by its owners. It also includes the interest of owners in the assets of an enterprise.

Ans11. Persons from whom amounts are due for goods sold or services rendered or in respect of contractual obligations.

Ans12. A drawings account helpful to business owners in tracking their businesses separately from their personal finance. It is particularly relevant in partnerships, where partners may wish to monitor withdrawals to ensure that a partner is not taking too much money out of the business. A drawing account is closed to the owners' equity account each year, and is not recorded as a business expense.

Ans13. In a bookkeeping system, the journals are the first place to find complete information about a transaction. The general journal, used by many businesses that employ a double-entry accounting system, records the debit and credit amounts for each account as transactions occur. It may also list a short description of the transaction.

Ans14. A ledger is the principal book or computer file for recording and totaling monetary transaction by account, with debits and credits in separate columns and a beginning amount entered in supporting journals which list individual transactions by date. Every transaction flows from a journal to one or more ledgers. A company's financial statements are generated from summary totals in the ledgers.

Ans15. One to whom a debt is owed. It also includes the collective feature of any form of economic organization of society which permits future payments of cash

Ans16. Liabilities are the amounts you owe to creditors or the people and organization that lend you money.

Ans17. Long term liabilities are items that a company intends to keep on their financial balance sheet for longer than a one year period of time. In both investing and personal finance, a long-term liabilities often is a loan with a long payback period.

Ans18. Current liabilities are considered short term debt for a company. Current liabilities are amounts that can be paid off within one year.

Ans19. It is the remark or explanation put below each entry in the journal. The journal is a book of original entry and all possible details have to record in connection with each and every transaction entered there. The details are laid out in the form of a remark at the end of each journal entry, which is called narration.

Ans20. Trade discounts exist to encourage large orders, which they may reduce profit margin, increase revenue and therefore profit. They also tend to increase the reseller's profit margin, which may encourage repeat business with the supplier.

Ans21. Payments made in cash or cash equivalents over a period of more than one year. Capital expenditures are used to acquire assets or improve the useful life of existing assets.

Ans22. All the expenditures which are incurred in the day to day conduct and administration of a business and the effect-o which is completely exhausted within the current accounting year are known as "revenue expenditures".

Ans23. Deferred Revenue Expenditures are those expenditures which have been incurred in an accounting period and they do not create any assets but their benefit is spread in more than one accounting period. Ex. Advertisement Cost.

Ans24. At the end of an accounting period the company may decide to transfer part of the profits to a reserve and retain the balance in the profit and loss account. The reserve created out of profits and loss account is called a surplus and will be shown under this head in the balance sheet. The company can use the general reserve for various purpose including issue of bonus share to shareholders and payment of dividend when profits are insufficient. The premium received when shares are issued at a premium to the face value is shown under the head reserves and surplus.

Ans25. It measures both a company's efficiency and its short- term financial health. The working capital ratio is calculated as:

Working Capital = Current Assets – Current Liabilities

Positive working capital means that the company is able to pay off its short-term liabilities.

Negative working capital means that a company is unable to meet its short-term liabilities with its current assets (cash, accounts receivable and inventory).

Ans26. A trading account is an account which contains, “in summarized form, all the transactions, occurring, throughout the trading period, in commodities in which he deals” and which gives the gross trading result. In short, trading account is the account which is prepared to determine the gross profit or the gross loss of a trader. Investments in stocks or bonds are recorded in this account.

Ans27. A financial statement that summarizes the revenues, costs and expenses incurred during a specific period of time – usually a fiscal quarter or year. These records provide information that shows the ability of a company to generate profit by increasing revenue and reducing costs. The P & L statement is also known as a “statement of profit and loss”, an “income statement” or an “income and expense statement”.

Ans28. It is the summary of income and expenditure for the accounting year. It is just like a profit and loss account prepared on accrual basis in case of the business organizations. It includes only revenue items and the balance at the end represents surplus or deficit. The Income and Expenditure Account serves the same purpose as the profit and loss account of a business organization does.

Ans29. It is financial statement that summarizes a company’s assets, liabilities and shareholders’ equity at a specific point in time. These three balance sheet segments give investors an idea as to what the company owns and owes, as well as the amount invested by the shareholders.

Ans30. A long-term tangible piece of property that a firm owns and uses in the production of its income and is not expected to be consumed or converted into cash any sooner than at least one year’s time.

Ans31. In finance, the purchase of a financial product or other item of value with an expectation of favorable future returns. In general terms, investment means the use money in the hope of making more money.

Ans32. A balance sheet account represents the value of all assets that are reasonably expected to be converted into cash within one year in the normal course of business. Current assets include cash, accounts receivable, inventory, marketable securities, prepaid expenses and other liquid assets that can be readily converted to cash.

Ans33. The ratio is mainly used to give idea of the company’s ability to pay back its short-term liabilities (debt and payables) with its short-term assets (cash, inventory, receivables). The higher the current ratio, the more capable the company is of paying its obligations.

Ans34. A stringent indicator determines whether a firm has enough short-term assets to cover its immediate liabilities without selling inventory. The acid-test ratio is far more strenuous than the working capital ratio, primarily because the working capital ratio allows for the inclusion of inventory assets.

Ans35. The debt-to-equity ratio is a measure of the relationship between the capital contributed by creditors and the capital contributed by shareholders. It also shows the extent to which shareholder's equity can fulfill a company's obligations to creditors in the event of liquidation.

Ans36. A ratio showing how many times a company's inventory is sold and replaced over a period.

Generally calculated as:

$$= \frac{\text{Sales}}{\text{Inventory}}$$

However, it may also be calculated as:

$$= \frac{\text{Cost of goods sold}}{\text{Average Inventory}}$$

The days in the period can then be divided by the inventory turnover formula to calculate the days it takes to sell the inventory on hand or "inventory turnover days."

Ans37. The amount of net income returned as a percentage of shareholders equity. Return on equity measures a corporation's profitability by revealing how much profit a company generates with the money shareholders have invested.

Ans38. The length of time required to recover the cost of an investment. The payback period of a given investment or project is an important determinant of whether to undertake the position or project, as longer payback period are typically not desirable for investment position.

Ans39. The difference between the present value of cash inflows and the present value of cash outflows. NPV is used in capital budgeting to analyze the profitability of an investment or project. NPV analysis is sensitive to the reliability of future cash inflows that an investment or project will yield. Formula:

$$NPV = \sum_{t=1}^T \frac{C_t}{(1+r)^t} - C_0$$

In addition to the formula, net present value can often be calculated using tables, and spreadsheets such as Microsoft Excel.

Ans40. An analysis to determine the point at which revenue received equals the costs associated with receiving the revenue. Break-even analysis calculates what is known as a margin of safety, the amount that revenues exceed the break-even point. This is the amount that revenues can fall while still staying above the break-even point.

Ans41. Funds raised by issuing shares in return for cash or other considerations. The amount of share capital a company has can change over time because each time a business sells new shares to the public in exchange for cash, the amount of share capital will increase. Share capital can be composed of both equity and preferred shares.

Ans42. The maximum number of shares that a corporation is legally permitted to issue, as specified in its articles of incorporation. This figure is usually listed in the capital accounts section of the balance sheet. Also known as “authorized shares” or “authorized capital stock.”

Ans43. Issued (share) capital is the amount of nominal value of share held by the shareholders. It is the face value of the shares that have been issued to the shareholders. Issued share capital and share premium represent the amount invested by the shareholders in the company. It is also known as the subscribed capital or subscribed share capital.

Ans44. This is a type of account on municipality's or company's balance sheet that is reserved for long-term capital investment projects or any other large and anticipated expense (s) that will be incurred in the future. This type of reserve fund is set aside to ensure that the company or municipality has adequate funding to at least partially finance the project.

Ans45. Article of Association contains the rules and regulations relating to the management of companies internal affairs. It is similar to as a partnership deed in a partnership.

Ans46. Secured loans are loans that rely on an asset as collateral for the loan. In the event of loan default, the lender can take possession of the asset and use it to cover the loan. Interest rates for secured loans may be lower than those for unsecured loans. The asset may need to be appraised before you can borrow a secured loan. Secured loans are loans that are backed piece of property is collateral for the loan. Secured loans also allow borrows to get approved for higher loan limits.

Unsecured loans don't have asset for collateral. These loans may be more difficult to get and have higher interest rates. Unsecured loans rely solely on your credit history and your income to qualify you for the loan. If you default on an unsecured loan, the lender has to exhaust collection option including debt collectors and lawsuit to recover the loan.

Ans47. This is a price that can be completely attributed to the production of specific goods or services. Direct costs refer to materials, labor and expenses related to the production of a product. Other costs, such as depreciation or administrative expenses, are more difficult to assign to a specific product, and therefore are considered indirect costs.

The indirect costs of operating a business that fluctuate somewhat with the level of business activity, but are incurred even if business activity is minimal. While most overhead costs such as rent, salaries and insurance are typically fixed, overhead costs that increase with higher business activity and decrease with lower business activity are termed as variable overhead. These usually consist of indirect material, indirect labor and other costs that cannot be directly allocated to a specific product, such as expenses for utilities and equipment maintenance.

Ans48. A cost that does not change with an increase or decrease in the amount of goods or services produced. Fixed costs are expenses that have to be paid by a company, independent of any business activity. It is one of two components of the total cost of a good or service, along with variable cost.

It is a cost that varies with production output. Variable costs are those costs that vary depending on a company's production volume; they rise as production increase and fall as production decreases. Variable costs differ from fixed costs such as rent, advertising, insurance and office supplies, which tend to remain the same regardless of production output. Fixed costs and variable costs comprise total cost.

A cost composed of a mixture of fixed and variable components. Costs are fixed for a set level of production or consumption, becoming variable after the level is exceeded. It is also known as a "semi-fixed cost."

Ans49. In manufacturing, when a company makes a product from scratch, the company purchases raw materials to make the product, raw materials make up direct material cost. Ancillary costs associated with raw materials are also included in this category, Raw materials are not taxable items when used to make a product.

The allocation of labor is a classic economic theory that attempts to determine how much manpower is needed to effectively produce a certain amount of goods or services. Companies use this economic theory along with traditional management accounting process to determine the amount of labor needed for their production processes.

Ans50. It is a legal document that provides for the creation of a corporate entity. A corporation's charter is issued by either a federal or a regional government and effectively creates a legal entity out of the business, which existed only as a partnership, sole proprietorship or similar business before incorporating.

Ans51. A business organization in which two or more individuals manage and operate the business, it is called partnership. Both owners are equally and personally liable for the debts from the business.

Difference between Company & Partnership Firms.

A business organization, such as a corporation, limited liability company or partnership.

Firms are typically associated with business organizations that practice law, but the term can be used for a wide variety of business operation units.

Ans52. Institutions within the nonprofit or independent sector are often referred to as nongovernment organization (NGOs). NGOs are committed to addressing social needs and improving the human condition. In addition to this broad mandate, many NGOs share a number of other characteristics. They recruit and engage volunteers for many of their activities and are usually led by volunteer boards; they place mission before profits; and they engage in activities, such as grassroots advocacy campaigns that would be difficult or impossible for other organizations. By focusing on a specific mission and drawing on the passionate support of local communities and loyal volunteers, NGOs are able to address issues that organizations in other sectors cannot or will not. Perhaps most important, NGOs enjoy a unique independence in their service to the public.

Ans53. Two or more partners united to conduct a business jointly, and in which one or more of the partners is liable only to the extent of the amount of money that partner has invested. Limited partner do not receive dividends, but enjoy direct access to the flow of income and expenses. This term is also referred to as a “limited liability partnership” (LLP).

Ans54. This is a type of business model, or segment of a larger business model, that enables a firm or individual to conduct business over an electronic network, typically the internet. Electronic commerce operates in all four of the major market segments: business to business, business to consumer, consumer to consumer and consumer to business.

Ans55. If a small change in price is accompanied by a large change in quantity demanded, the product is said to be elastic (or responsive to price changes). The opposite also applies; a product is inelastic if a large change in price is accompanied by a small amount of change in demand.

Ans56. Net income is calculated by taking revenues and adjusting for the cost of doing business, depreciation, interest, taxes and other expenses. This number is found on a company’s income statement and is an important measure of how profitable the company is over a period of time. The measure is also used to calculate earnings per share.

Ans57. Stress management refers to a wide spectrum of techniques and psychotherapies aimed at controlling a person’s levels of stress, especially chronic stress, usually for the purpose of improving everyday functioning.

Ans58. Motivation is the psychological feature that arouses an organism to action toward a desired goal and elicits, controls, and sustains certain goal directed behaviors. For instance: An individual has not eaten, he or she feels hungry, and as a response he or she eats and diminishes feelings of hunger. There are many approaches to motivation: physiological, behavioral, cognitive, and social.

Ans59. Advertisement a notice, picture or film/movie telling people about a product, job or service; an example of something that shows its good qualities; the act of advertisement something and making it public: Put an advertisement in the local paper to sell your car.

Marketing is the process of communicating the value of a product or service to customers. Marketing might sometimes be interpreted as the art of selling products, but selling is only a small fraction of marketing. As the term “Marketing” may replace “Advertising” it is the overall strategy and function of promoting a product or service to the customer.

Ans60. Marketing as stated above is a macro term whereas selling is only one part of marketing.

Ans61. Product, Price, Promotion and Place.

Ans62. Recruitment refers to the process of attracting, screening, and selecting a qualified person for a job. At the strategic level it may involve the development of an employer brand which includes an ‘employee offering.’

Once the potential applications are identified, the next step is to evaluate their qualification, qualities, experiences, capabilities, etc, & make the selection. It is the process of offering jobs to the desired applications.

Selection means choosing a few from those who apply, It is picking up of applicants or candidates with requisite qualifications and qualities to fill jobs in the organization.

Ans63. Theory X and Theory Y are theories of human motivation created and developed by Douglas McGregor at the MIT Sloan School of Management in the 1960s that have been used in human resource management, organizational behavior, organizational workforce motivation. Theory X and Theory Y have to do with the perceptions managers hold on their employees, not the way they generally behave. It is attitude not attributes.

Ans64. Theory Z was first identified as a unique management approach by William Ouchi. Theory Z is an approach to management based upon a combination of American and Japanese management philosophies and characterized by, among other things, long-term job security, consensual decision making, slow evaluation and promotion procedures, and individual responsibility within a group context.

Ans65. Maslow theory is theory of hierarchy of needs in psychology proposed by Abraham Maslow in his 1943 paper “A Theory of Human Motivation.” Maslow subsequently extended the idea to include his observations of humans’ innate curiosity. His theories parallel many other theories of human developmental psychology, some of which focus on describing the stages of growth in humans. Maslow used the terms Physiological, Safety, Belongingness and Love, Esteem, and Self-Actualization needs to describe the pattern that human motivations generally move through.

Ans66. There are four forms of Financial Statement :-

1. Income Statement
2. Balance Sheet
3. Statement of Cash Flows
4. Statement of changes in equity

Ans67. Depreciation is a measure of the wearing out, consumption, or other loss of value of a depreciation asset arising from use, efflux ion of time, or obsolescence through technology and market changes.

Ans68. Account to double entry system, entry transaction has two aspects – one account is debited and the other account is credited. Thus, for every debit, there must be a corresponding credit & vice- versa.

Ans69. There are 32 Accounting Standards.

Ans70. 1. Personal Accounts- Accounts of individuals, firms, or companies are known as personal Accounts.

2. Real Account – All the Account of assets whether tangible or intangible are known as Real Accounts. For e.g. Land, Building, Goodwill, Patent.

3. Nominal Accounts – Accounts relating to items of Income or Expenses, gain or loss are Nominal Accounts. For e.g. Salaries, Discount, Interest, Commission, etc.

Ans71. An account is a record in the general ledger that is used to collect and store the debit & credit amounts of a transaction.

Ans72. A Contingent liability is a potential liability that may occur, depending on the outcome of an uncertain future event. A contingent liability is recorded in the accounting records if the contingency is probable and the amount of the liability can be reasonably estimated.

Ans73. Memorandum of Association (MOA) is a legal document prepared in the formation and registration process of a limited liabilities company to define its relationship with shareholders.