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FUNDAMENTALS OF FINANCIAL AND COST ACCOUNTING

CMA Foundation

2nd Edition

Publisher:

VIVITSU
STRIVING TOWARDS KNOWLEDGE

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Reviewer®

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To the one who's not just dreaming CMA —
but becoming it

CMA

Write your name here

What Matters in CMA?

1 CONCEPTUAL CLARITY

Accounting isn't about memorising formats — it's about *understanding the logic* of debit, credit, and costing principles. When the "why" behind each entry or treatment is clear.

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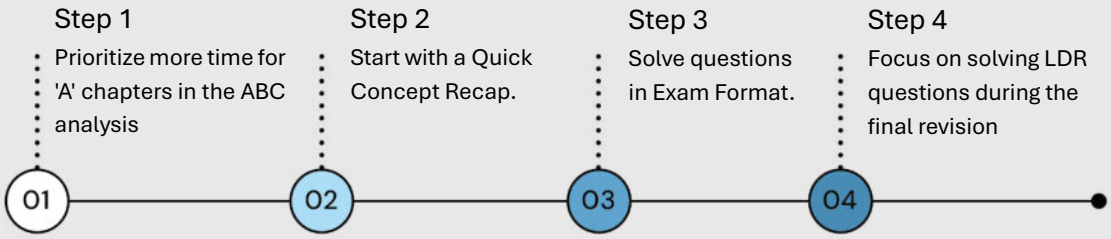
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Don't just study—study smart. Watch renowned professors solve the Vivitsu Reviewer with you on YouTube, breaking down every concept, question, and answer for better understanding and stronger retention.

STRATEGY TO SCORE

60+ in Financial and Cost Accounting



Step 1: Prioritize your chapters

Topics in the index are categorized as A, B, or C based on their importance. Focus more on 'A' chapters, as they carry the most weight, and give adequate attention to 'B' chapters. While all chapters must be covered, this approach helps manage time efficiently for better results.

Step 2: Start with a Quick Concept Recap

Use this powerful summary for a quick brush-up on key concepts before you attempt the chapter. This helps you identify and understand the core principles. If a question gives you trouble, return to this section / main study material to solidify the concept, then come back and solve it again.

Step 3: Practice in Exam Format

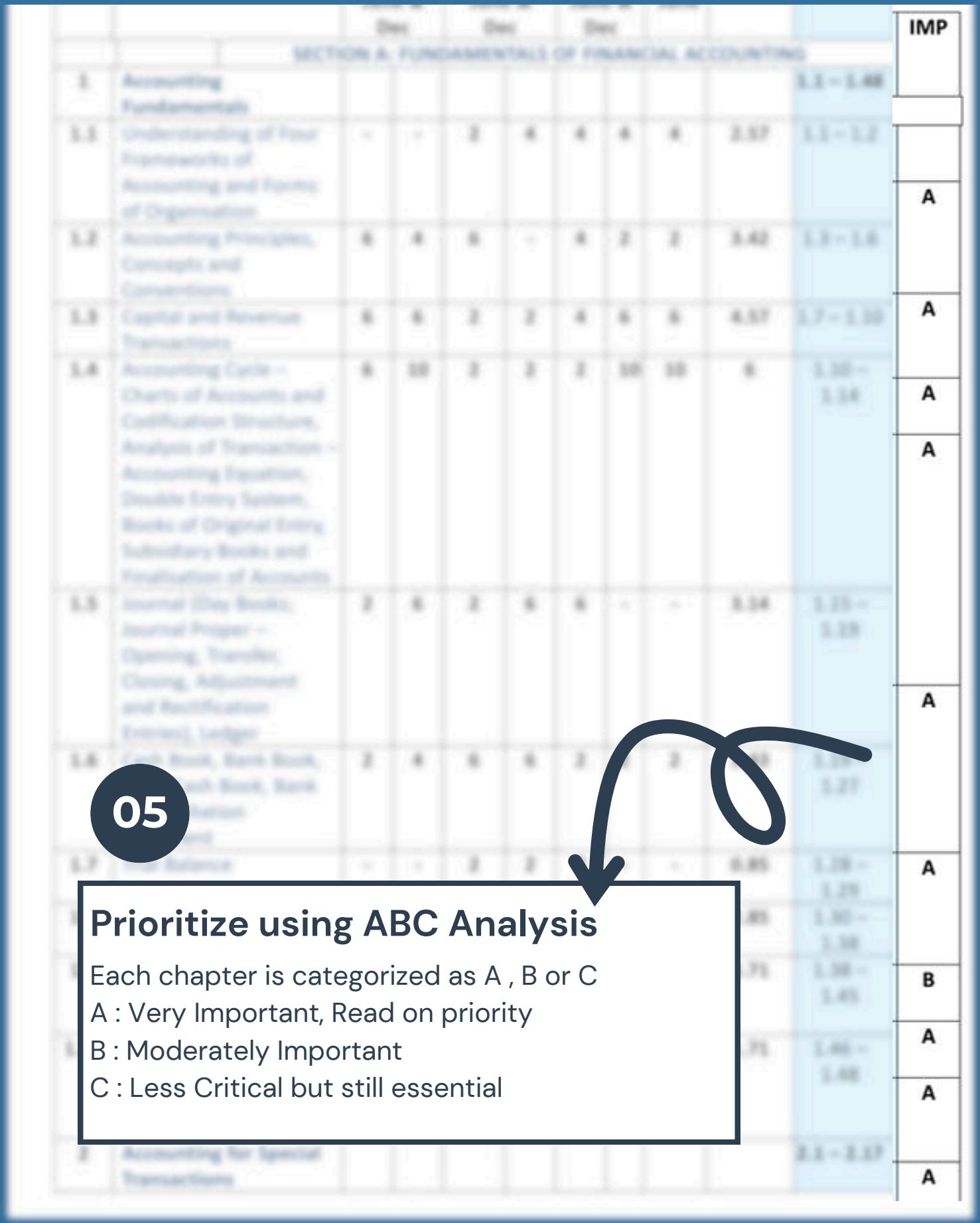
Always solve the question on your own before looking at the answer. If you get confused in MCQs and options or make a conceptual mistake, be sure to mark it to review during your next revision.

Step 4: Last Day Revision (LDR)

Focus on solving LDR questions during the final revision. On the day before your exam, prioritize these questions as they cover the most critical concepts from each chapter. You'll find a quick summary of LDR question numbers listed right before each chapter for easy reference.

5 Ways Vivitsu Reviewer will help you

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05

Prioritize using ABC Analysis

Each chapter is categorized as A , B or C

A : Very Important, Read on priority

B : Moderately Important

C : Less Critical but still essential

04

Topic-wise Break up

Includes 100% coverage of SM + MCQ Bank + MQP + PYP

03

(SM, MCQ Bank) (MQP 2 Marks-June'24 and MQP (2) June'25, June'26) (PYP 1 Mark-June'15)

Quick Review of Important Concepts

Definition:
A business owned, controlled, and operated by a single person who bears all profits, losses, and risks.

Features:

- Single owner forms and manages the business.
- Minimal legal formalities.
- Owner has unlimited liability.
- Full control rests with the proprietor.
- Accounting treats owner and business as separate entities.

02

Concept Summary

Sharpen your memory with lightning-fast concepts recap before you hit the questions. Also perfect for the final 1.5-day revision!

CHAPTER 1: ACCOUNTING FUNDAMENTALS

LDR Questions	Q 1, Q 12, Q 20, Q 60, Q 63, Q 76, Q 97, Q 138, Q 140, Q 164, Q 165, Q 166, Q 167, Q 195, Q 196, Q 203, Q 229, Q 262, Q 264, Q 278, Q 321, Q 322, Q 323, Q 324, Q 325, Q 326, Q 327, Q 371, Q 429, Q 452, Q 454, Q 458

01

Quick Review of Important Concepts

Last Day Revision Questions

- Business and Accounting
  - Business: Economic activity involving exchange of goods/services for money or resources (materials, labour, machinery, services).
  - Need for Accounting: To track profit/loss and financial position (assets, liabilities, sources of funds).

Definition of Accounting: Art of recording, classifying, summarizing and interpreting financial transactions.

- Objectives of Accounting
  1. Provide information for decision making to stakeholders.
  2. Systematic recording of all transactions.
  3. Ascertain results (Profit/Loss A/c).
  4. Ascertain financial position (Balance Sheet).

- Functions of Accounting
  - Identify and analyse monetary transactions.
  - Record, classify and summarise.
  - Show profit/loss and financial state.
  - Analyse, interpret and communicate to users.

- Book-keeping vs Accounting vs Accountancy
  - Book-keeping: Narrow – recording and classifying transactions.
  - Accounting: Broader – includes analysis, interpretation, reporting.
  - Accountancy: Widest – principles, rules, and overall theory of accounting.

- Frameworks of Accounting
  1. Conceptual – Objectives and concepts guiding recognition, measurement and reporting.
  2. Legal – Laws (Partnership Act, Companies Act, Banking Regulation Act, Insurance Act, etc.).
  3. Institutional – Standards issued by ICAI (AS, Ind AS), CASB.
  4. Regulatory – RBI, SEBI, IRDAI, TRAI, CERC, etc. affect reporting.

- Forms of Organisations and Accounting Impact
  - Sole Proprietorship – least regulated, governed mainly by Income Tax Act.
  - Partnership Firm – governed by Partnership Act, 1932 and Contract Act, 1872.
  - LLP – regulated by LLP Act, 2008.
  - Company – highly regulated by Companies Act, 2013 (disclosures, financial statements, CSR, etc.).

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ABC Analysis

A Very Important, Read on priority

B Moderately Important

C Less critical but still essential

Ensure you thoroughly read all chapters without skipping any. The ABC analysis is designed to help you prioritize based on past trends, but it should not replace comprehensive preparation.

CHAPTER 1: ACCOUNTING FUNDAMENTALS

LDR Questions	Q 1, Q 12, Q 20, Q 60, Q 63, Q 76, Q 97, Q 138, Q 140, Q 164, Q 165, Q 166, Q 167, Q 195, Q 196, Q 203, Q 229, Q 262, Q 264, Q 278, Q 321, Q 322, Q 323, Q 324, Q 325, Q 326, Q 327, Q 371, Q 429, Q 452, Q 454, Q 458

1.1 UNDERSTANDING OF FOUR FRAMEWORKS OF ACCOUNTING AND FORMS OF ORGANISATION

Quick Review of Important Concepts

➢ Business and Accounting Basics

- Business: Economic activity to earn profit and maximize owners' wealth; uses limited resources (materials, labour, machinery, services).
- Need for Accounting: To track profit/loss and financial position (assets, liabilities, sources of funds).

Definition of Accounting: Art of recording, classifying, summarizing and interpreting financial transactions.

➢ Objectives of Accounting

1. Provide information for decision-making to stakeholders.
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➢ Book-keeping vs Accounting vs Accountancy

- Book-keeping: Narrow – recording and classifying transactions.
- Accounting: Broader – includes analysis, interpretation, reporting.
- Accountancy: Widest – principles, rules, and overall theory of accounting.

➢ Frameworks of Accounting

1. Conceptual – Objectives and concepts guiding recognition, measurement and reporting.
2. Legal – Laws (Partnership Act, Companies Act, Banking Regulation Act, Insurance Act, etc.).
3. Institutional – Standards issued by ICAI (AS, Ind-AS), CASB.
4. Regulatory – RBI, SEBI, IRDAI, TRAI, CERC, etc. affect reporting.

➢ Forms of Organizations and Accounting Impact

- Sole Proprietorship – least regulated, governed mainly by Income Tax Act.
- Partnership Firm – governed by Partnership Act, 1932 and Contract Act, 1872.
- LLP – regulated by LLP Act, 2008.
- Company – highly regulated by Companies Act, 2013 (disclosures, financial statements, CSR, etc.).

Multiple Choice Questions (MCQ)

1. **The main Purpose of Financial Accounting is?** ***(SM, MCQ Bank) (MQP 2 Marks- June'23 and Dec'23 and June'24, MQP(1) June'25)***
   (a) To Provide financial information to shareholders
   (b) To maintain Balance Sheet
   (c) To minimize taxes
   (d) To keep track of liabilities

Ans: (a)

2. **Accounting provides information on :** ***(SM, MCQ Bank) (MQP 2 Marks-June'24, MQP(1) June'25, MQP (2) 2 Marks June'26)***
   (a) Cost and income for managers
   (b) Company's tax liability for a particular year
   (c) Financial conditions of an institution
   (d) All of the above

Ans: (d)

3. **Accounting is a/an:** ***(PYP 1 Mark June'16)***
   (a) Science
   (b) Art
   (c) Subject matter of sociology
   (d) Subject matter of philosophy

Ans: (b)

4. **Which one of the following characteristics is not related to Financial Accounting?** ***(PYP 1 Mark Dec'17)***
   (a) Evaluates the financial strength of the whole business.
   (b) Based on monetary transactions of the enterprise
   (c) Reports are always subject to statutory audit.
   (d) Reports are as per requirement of management.

Ans: (d)

5. **_____is not an objective of accounting.** ***(PYP 1 Mark Dec'18)***
   (a) Giving accurate information
   (b) Keeps records in systematic manner
   (c) Analyses recorded data
   (d) Ascertain financial position of business

Ans: (a)

6. **Which one of the following is not a framework of accounting?** ***(PYP 2 Mark June'24)***
   (a) Conceptual (b) Legal
   (c) Social (d) Institutional

Ans: (c)

7. **_____ is an activity which is concerned with recording and classifying financial data related to business operations in order of its occurrence.** ***(PYP 2 Marks Dec'25)***
   (a) Book-keeping (b) Accounting
   (c) Posting (d) Journalizing

Ans: (a)

8. **Which of the following is not a framework of accounting?** ***(PYP 2 Marks Dec'25)***
   (a) Legal Framework
   (b) Business Framework
   (c) Institutional Framework
   (d) Regulatory Framework

Ans: (b)

9. **_____ is used by accountants for recording transactions chronologically in the first place.** ***(PYP 2 Marks Jun'26)***
   (a) Invoice (b) Challan
   (c) Journal (d) Ledger

Ans: (c)

10. **Identify the correct sequential order of the stages of accounting cycle:**
    I. Recording in Journal
    II. Posting in Ledger
    III. Passing of adjustment entries
    IV. Drafting of Adjusted Trial Balance
    V. Identification of transactions ***(PYP 2 Marks Jun'26)***
    (a) I, V, II, III, IV (b) V, I, II, IV, III
    (c) I, III, V, II, IV (d) V, I, II, III, IV

Ans: (d)

11. **Consider the following data and identify the amount which will be deducted from sundry debtors in Balance Sheet.**
    Bad debts (from trial balance) – ₹1,600
    Provision for doubtful debts (old) – ₹2,000
    Current year's provision (new) – ₹800
    (MQP [1 & 2] 2 Marks Dec'25)
    (a) ₹400 (b) ₹800
    (c) ₹2,000 (d) ₹2,400

Ans: (b)

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Quick Review of Important Concepts

➢ Accounting Principles (GAAP)

- GAAP = set of rules, conventions, standards and procedures ensuring **uniformity and comparability** in accounting.
- In India: financial statements prepared as per **ICAI Accounting Standards** and **Companies Act, 2013**.

➢ Accounting Concepts (Assumptions/Foundations)

1. **Entity Concept** – Business ≠ Owner; transactions kept separate.
2. **Going Concern Concept** – Business will continue in future.
3. **Periodicity Concept** – Infinite life split into periods (quarter, year).
4. **Money Measurement Concept** – Record only items measurable in money.
5. **Accrual Concept** – Record transactions when due, not when cash received/paid.
6. **Dual Aspect Concept** – Every transaction has two effects: basis of **Assets = Liabilities + Capital**.
7. **Matching Concept** – Match revenues with related expenses in same period.
8. **Realisation Concept** – Record revenue only when earned/realised.
9. **Cost Concept** – Record assets at purchase (historical) cost, not market value.

➢ Accounting Conventions (Practices/Customs)

1. **Conservatism** – Anticipate losses, not profits. Show minimum profit.
2. **Consistency** – Same accounting methods should be used year after year for comparability.
3. **Materiality** – Report only significant (material) information that affects decisions.
4. **Full Disclosure** – All relevant info must be disclosed fully, fairly and adequately.

Multiple Choice Questions (MCQ)

12. The determination of expenses for an accounting period is based on the concept of *(SM, MCQ Bank) (MQP 2 Marks-June'24 and MQP(1) Dec'24, June'26, PYP 1 Mark-June'17, Dec'15, Dec'19 and Dec'22)*

(a) Objectivity (b) Materiality
(c) Matching (d) Periodicity

Ans: (c)

13. Accounting does not record non-financial transactions because of *(SM, MCQ Bank) (MQP 2 Marks-June'24 and MQP(2) June'25, June'26) (PYP 1 Mark-June'17 and June'18 and Dec'16 and Dec'23)*

(a) Entity Concept
(b) Accrual Concept
(c) Cost Concept
(d) Money Measurement Concept

Ans: (d)

14. Provision for bad debt is made as per the *(SM, MCQ Bank) (MQP 2 Marks-June'24) (PYP 1 Mark-June'19 and Dec'22, MQP (2) 2 Marks June'26)*

(a) Entity Concept
(b) Conservatism Convention
(c) Cost Concept
(d) Going Concern Concept

Ans: (b)

15. Fixed Assets and Current Assets are categorized as per concept of *(SM, MCQ Bank) (MQP 2 Marks-June'24 and MQP(1) Dec'24, June'26)(PYP 1 Mark-June'17 and June'23)*

(a) Separate Entity (b) Going Concern
(c) Consistency (d) Time period

Ans: (b)

16. Omission of paise and showing the round figures in Financial Statements is based on *(SM, MCQ Bank) (MQP 2 Marks-June'24 and MQP (2) June'25, June'26) (PYP 1 Mark-June'15)*

(a) Conservatism Concept
(b) Consistency Concept
(c) Materiality Concept
(d) Realization Concept

Ans: (c)

17.P and L Account is prepared for an period of one year by following *(SM, MCQ Bank) (MQP 2 Marks-June'24 and MQP(2) Dec'24, June'26, PYP 1 Mark-Dec'18 and June'23)*

(a) Consistency Concept
(b) Conservatism Concept
(c) Accounting Period Concept
(d) Cost Concept

Ans: (c)

18.Bad Debts are recorded on which accounting principle: *(SM, MQP (1) 2 Marks Dec'25)*

(a) Going Concern
(b) Substance Over Form
(c) Prudence
(d) None of the above

Ans: (c)

19.If a concern proposes to discontinue its business from March 2023 and decides to dispose of all its plants within a period of 4 months, the Balance Sheet as on March 31, 2023, should indicate the plants at them. *(SM)*

(a) Historical cost
(b) Net realizable value
(c) Cost less depreciation
(d) Salvage value

Ans: (b)

20.Which financial statement represents the accounting equation Assets = Liabilities + Owner's equity: *(SM, MCQ Bank) (MQP (2) 2 Marks-Dec'24, Dec'25) (PYP 1 Mark-June'19,June'18 and 2 Marks June'24, Dec'22, MQP (1) 2 Marks June'26)*

(a) Income Statement
(b) Statement of Cash flows
(c) Balance Sheet
(d) None

Ans: (c)

21.Which of the following concepts, if violated, would make comparison of financial statements over a period of time difficult? (PYP 1 Mark-Sept' 14)

(a) Cost concept
(b) Consistency concept
(c) Accounting period. concept
(d) Accrual concept

Ans: (b)

22.Conservatism concept does not require: (PYP 1 Mark-Sept' 14)

(a) Making provision for doubtful debts
(b) Valuing stock at lower of cost or net realisable value
(c) Creating provision for discount on creditors
(d) Making provision for an unfavourable legal suit

Ans: (c)

23.As per duality concept or accounting equivalence concept, which of the following is correct? (PYP 1 Mark-Sept' 14)

(a) All increase in liabilities and increase in assets represent sources of funds
(b) All decrease in liabilities and decrease in assets represent sources of funds
(c) All increase in liabilities and decrease in assets represent sources of funds
(d) All increase in liabilities and increase in assets represent uses of funds

Ans: (c)

24.The _____ concept means similar items in a set of accounts should be given similar accounting treatment and it should be applied from one period to another.(PYP 1 Mark-March'15)

(a) Going Concern (b) Prudence
(c) Consistency (d) Materiality

Ans: (c)

25.'A Limited' purchased goods of ₹10,00,000 and sold 90% of goods and remaining goods market value is ₹ 90,000, and closing stock is 10%, but he recorded follows: 90,000 and not ₹ 1,00,000. Which concept does he follow? (PYP 1 Mark-March'15)

(a) Materiality concept
(b) Cost concept
(c) Entity concept
(d) Conservatism concept

Ans: (d)

26.Assets are held in the business for the purpose of: (PYP 1 Mark-Sept'15)

(a) Resale
(b) Conversion into cash
(c) Earning revenue
(d) None of the above

Ans: (c)

27.It is essential to standardize the accounting principles and policies in order to ensure: (PYP 1 Mark-Sept'15)

(a) Transparency (b) Consistency
(c) Comparability (d) All of the above

Ans: (d)

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CHAPTER 3: PREPARATION OF FINAL ACCOUNTS

LDR Questions	Q 2, Q 5, Q 6, Q 8, Q 10, Q 53, Q 107, Q 108, Q 109, Q 112, Q 122, Q 143, Q 144, Q 145, Q 146, Q 147, Q 148

3.1 PREPARATION OF FINANCIAL STATEMENTS OF SOLE PROPRIETORSHIP

Quick Review of Important Concepts

Definition:
A business owned, controlled, and operated by a single person who bears all profits, losses, and risks.

Features:
- Single owner forms and manages the business.
- Minimal legal formalities.
- Owner has unlimited liability.
- Full control rests with the proprietor.
- Accounting treats owner and business as separate entities.

Financial Statements:

1. Manufacturing Account (for manufacturers)

Manufacturing Account

To Opening WIP	By Closing WIP
To Raw Materials	By Trading A/C (COGM)
To Direct Labour	
To Direct Expenses	
To Factory Overhead	

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2. Trading Account

Trading Account

To Opening Stock	By Sales
To Purchases	Less: Sales Returns
To Direct Expenses	By Closing Stock
To Gross Loss (if any)	By Gross Profit (if any)

3. Profit & Loss Account

Profit & Loss Account

To Administrative Expenses	By Gross Profit b/d
To Selling & Distribution Expenses	By Other Income
To Financial Expenses	
To Depreciation & Amortisation	
To Net Loss (if any)	By Net Profit b/d

4. Capital Account

Capital Account

To Drawings	By Capital Introduced
	By Net Profit from P&L A/C
	By Other Adjustments (if any)

Balance Sheet (T-Account Structure)

Liabilities (Credit)	Assets (Debit)
Capital Account	Fixed Assets (Net of Depreciation)
Long-term Liabilities	Non-current Investments
Short-term Liabilities	Current Assets
- Sundry Creditors	- Stock/Inventory
- Bills Payable	- Sundry Debtors
- Advances from Customers	- Bills Receivable
- Outstanding Expenses	- Cash at Bank
	- Cash in Hand
	- Prepaid Expenses
	- Advances to Suppliers

Multiple Choice Questions (MCQ)

1. The purpose of preparing final accounts is to ascertain: *(SM,MCQ Bank) (MQP (1) 2 Marks-June'24, June'26)*

(a) Profit & Loss A/c
(b) Capital
(c) The value of assets
(d) Profit or loss and financial position

Ans: (d)

2. If the manager is entitled to a commission of 5% on profits before deduction this commission, he will get a commission of ₹____ on a profit of ₹ 8,400 *(SM,MCQ Bank) (MQP 2 Marks-June'24 & MQP(1) June'25 & MQP(2) Dec'24, Dec'25)*

(a) ₹ 400 (b) ₹ 442.11
(c) ₹ 420 (d) None of these

Ans: (c)

3. Fixed assets are : *(SM,MCQ Bank) (MQP 2 Marks-June'23 & Dec'23 & June'24 & MQP(1) June'25)*

(a) Kept in the business for use over a long time for earning income
(b) Meant for resale
(c) Meant for conversion into cash as quickly as possible
(d) All of the above

Ans: (a)

4. The manufacturing account is prepared: *(SM,MCQ Bank) (MQP 2 Marks-June'24 & MQP (1) Dec'24, PYP 1 Mark June'17, Dec'18, June'19, 2 Marks June'23, June'24)*

(a) To ascertain the profit or loss on the goods produced
(b) To ascertain the cost of the manufactured goods
(c) To show the sale proceeds from the goods produced during the year
(d) both (b) and(c)

Ans: (b)

5. A company wishes to earn a 20% profit margin on selling price. Which of the following is the profit mark upon cost, which will achieve the required profit margin? *(SM,MCQ Bank) (MQP 2 Marks-June'24 & MQP(2) June'25, PYP 1 Mark Sept'14)*

(a) 33% (b) 25%
(c) 20% (d) None of these

Ans: (b)

6. At the time of preparation of financial accounts, bad debts recovered account will be transferred to *(SM,MCQ Bank) (MQP (1) 2 Marks-June'24, June'26, & MQP(2) June'25 & Dec'24)*

(a) Debtors A/c
(b) Profit & Loss A/c
(c) Profit & loss Adjustment A/c
(d) Profit & loss Appropriation A/c

Ans: (b)

7. Depreciation appearing in the Trial Balance should be *(SM, MCQ Bank) (MQP 2 Marks-June'24 & MQP(1) Dec'24)*

(a) Debited to P & L A/c
(b) Shown as liability in balance sheet
(c) reduced from related asset in balance sheet
(d) both (a) and (c) above

Ans: (a)

8. Gross profit is equal to *(SM,MCQ Bank) (MQP 2 Marks-June'23 & Dec'23 & June'24 & MQP (2) Dec'24, June'26, PYP 1 Mark June'16)*

(a) sales – cost of goods sold
(b) sales – closing stock + purchase
(c) opening stock + purchases – closing stock
(d) none of the above

Ans: (a)

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9. **Which of the following is not a part of financial statement? *(SM,MCQ Bank) (MQP (1) 2 Marks-June'24, Dec'25, PYP 1 Mark June'18, Dec'18)***
   (a) Profit and loss account
   (b) Balance sheet
   (c) Cash flow statement
   (d) Trial balance

Ans: (d)

10. **Based on which of the following concepts, is share capital account shown on the liabilities side of a balance sheet? *(SM,MCQ Bank) (MQP 2 Marks-June'24 & MQP(2) June'25 & MQP (1) Dec'24)***
   (a) Business entity concept
   (b) Money measurement concept
   (c) Going concern concept
   (d) Matching concept

Ans: (a)

11. **Closing stock appearing in the trial balance is shown in – *(SM,MCQ Bank, MQP (1) 2 Marks-Dec'24, Dc'25, June'26, PYP 1 Mark June'17, June'18 & June'23, Dec'23)***
   (a) Trading A/c and Balance Sheet
   (b) Profit and Loss A/c
   (c) Balance Sheet only
   (d) Trading A/c only

Ans: (c)

12. **Consider the following data and identify the amount which will be deducted from sundry debtors in Balance sheet.**

Particulars	₹
Bad debts (from trial balance)	1,600
Provision for doubtful debts (old)	2,000
Current year's provision (new)	800

(SM,MCQ Bank) (MQP(1) 2 Marks-June'25 & MQP(1) Dec'24, June'26)
   (a) ₹ 400 (b) ₹ 800
   (c) ₹ 2,000 (d) ₹ 2,400

Ans: (b)

13. **Inventory is : *(SM,MCQ Bank) (MQP (2) 2 Marks-Dec'24, June'26)***
   (a) Included in the category of fixed assets
   (b) An investment
   (c) A part of current assets
   (d) An intangible fixed asset

Ans: (c)

14. **By Profit & Loss Account we get _____. *(MQP(1) 2 Marks-Dec'23 & June'23)***
   (a) Net Profit (b) Capital
   (c) Gross Profit (d) Gross Loss

Ans: (a)

15. **If sales are ₹2,000 and the rate of G.P on cost of goods sold is 25%, then the cost of goods sold will be _____. *(MQP(1) 2 Marks-Dec'23 & June'23)***
   (a) ₹1,600 (b) ₹2,000
   (c) ₹400 (d) ₹500

Ans: (a)

16. **Expenses due but not yet paid are known as ___ *(MQP(1) 2 Marks-June'25)***
   (a) Real Expenses
   (b) Paid Expenses
   (c) Outstanding Expenses
   (d) None of the above

Ans: (c)

17. **Gross Profit + Direct Expenses + Purchases + Opening Stock –Closing Stock *(MQP(1) 2 Marks-June'25)***
   (a) Net Profit (b) Sales
   (c) Cost of Goods Sold (d) None of the above

Ans: (b)

18. **In sole trade, income tax is recorded as ____ *(MQP(1) 2 Marks-June'25)***
   (a) Revenue Income (b) Revenue Expense
   (c) Capital Expense (d) Drawings

Ans: (d)

19. **Opening stock ₹ 50,000 closing stocks ₹ 40,000, purchases ₹ 1,90,000, profit margin is 16.67% on the sales, then sales are_____ *(MQP(2) 2 Marks-June'25, PYP 1 Mark Dec'19)***
   (a) ₹2,20,000 (b) ₹2,50,000
   (c) ₹2,40,000 (d) ₹2,30,000

Ans: (c)

20. **Given old provision for bad & doubtful debt is ₹4, 000 sundry debtors ₹ 50,000, new PBD required = 10% on sundry debtors then the amount of additional provision to be credited is ₹ ____ *(MQP(2) 2 Marks-June'25)***
   (a) ₹ 1,000 (b) ₹ 2,000
   (c) ₹ 3,000 (d) ₹ 4,000

Ans: (a)

21. **___ contains closing balances of Real and Personal Account *(MQP(2) 2 Marks-June'25)***
   (a) Trading Account
   (b) Profit and Loss Account
   (c) Income and Expenditure Account
   (d) Balance Sheet

Ans: (d)

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22. **A profit and loss appropriation account is used to _____. *(MQP(1) 2 Marks-Dec'24)***
    (a) To divide the profit and loss between the owners of the company
    (b) To show an ideal profit and loss situation of the company according to the market.
    (c) To compare the profit and loss of the company with other companies
    (d) None of the above

Ans: (a)

23. **A profit and loss sheet is prepared *(MQP(2) 2 Marks-Dec'24)***
    (a) With the trading account
    (b) In succession to the trading account
    (c) Before the trading account
    (d) It can be prepared anytime

Ans: (b)

24. **The accounts receivable are shown in the balance sheet at*: (PYP 1 Mark Sept'14)***
    (a) Current market value
    (b) Estimated net realizable value
    (c) Original cost when the asset is recorded in the books of account
    (d) Sales value

Ans: (b)

25. **Which one of the following balance will not be carried to the next accounting period? *(PYP 1 Mark Sept'14)***
    (a) Rent paid in advance
    (b) Closing cash balance
    (c) Salary 'outstanding
    (d) Consultancy fees paid

Ans: (d)

26. **The basic objective of preparing Profit and Loss Account is: *(PYP 1 Mark Sept'14)***
    (a) To know the financial position of the organization on a particular period
    (b) To know the financial results of the organization for a particular Period.
    (c) To know the financial results of the organization on a particular date
    (d) To calculate the cost of goods sold during a particular period.

Ans: (b)

27. **Prepaid expenses will not be reflected in*: (PYP 1 Mark Sept'14)***
    (a) Profit & Loss Account
    (b) Cash Book
    (c) Balance Sheet
    (d) Cash Flow Statement

Ans: (d)

28. **Net worth is excess of: : *(PYP 1 Mark Sept'14)***
    (a) Fixed Assets over Current Liabilities
    (b) Total Assets over Total Liabilities
    (c) Fixed Assets over Current Assets
    (d) Long-Term Loan over Short-Term Loan

Ans: (b)

29. **As per the Companies Act, which of these are allowed to create secret reserves in their books of account: *(PYP 1 Mark Dec'14)***
    (a) Banking Companies
    (b) Insurance Companies
    (c) Electricity Companies
    (d) All the three

Ans: (d)

30. **Which of the following is not true with regard to preparation of Profit & Loss Account? *(PYP 1 Mark Dec'14)***
    (a) Profit & Loss Account is prepared for a certain period and hence it is an interim statement.
    (b) Profit & Loss Account does not disclose the effect of non-financial items.
    (c) Net Profits are ascertained on the basis of current costs.
    (d) Net Profits as disclosed by P&L Account is not absolute.

Ans: (a)

31. **On the debit side of a Sales A/c entry can be for which of these reasons: *(PYP 1 Mark Dec'14)***
    (a) Sales returns
    (b) Discount allowed
    (c) Both
    (d) Additional sales

Ans: (c)

32. **Interest payable on debentures is _____ *(PYP 1 Mark March'15)***
    (a) An appropriation of profit
    (b) A Charge against profit
    (c) Transferred to sinking fund
    (d) Treated as miscellaneous expenses to be shown in balance sheet

Ans: (b)

33. **Financial statements do not consider: *(PYP 1 Mark Sept'15)***
    (a) Assets expressed in monetary terms.
    (b) Liabilities expressed in monetary terms.
    (c) Only assets expressed in non-monetary terms.
    (d) Assets and liabilities expressed in non-monetary terms.

Ans: (d)

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34. Prepaid expenses are valued on the balance sheet at: *(PYP 1 Mark March'16)*

(a) Replacement Cost
(b) Current Cost
(c) Cost less expired portion
(d) Cost to acquire less accumulated amortization

Ans: (c)

35. When a fixed asset is obtained as a gift, the account to be credited is: *(PYP 1 Mark March'16)*

(a) Goodwill A/c
(b) Capital Reserve A/c
(c) Donor's A/c
(d) General Reserve A/c

Ans: (b)

36. Closing balance of Work in Process (WIP) is part of *(PYP 1 Mark march'16)*

(a) Assets A/c
(b) Expenses A/c
(c) Liability A/c
(d) Owner's equity A/c

Ans: (a)

37. Which of the following is/are Fixed Assets? *(PYP 1 Mark June'16)*

(a) Closing inventory
(b) Fixed Deposits in a Bank
(c) Patents
(d) Prepaid expenses

Ans: (c)

38. Cash received from debtors would be deemed as ____ of funds *(PYP 1 Mark June'16)*

(a) No flow (b) Sources
(c) Uses (d) Gain

Ans: (a)

39. Tax deducted at source A/c appears in *(PYP 1 Mark June'16)*

(a) Asset side
(b) Liability side
(c) Profit and loss A/c
(d) Debited to capital A/c

Ans: (a)

40. Insurance prepaid is shown as *(PYP 1 Mark June'16)*

(a) Current asset
(b) Current liability
(c) Fixed asset
(d) Income

Ans: (a)

41. Which of the following are current assets of a business? *(PYP 1 Mark June'16)*

(i) Income received in advance
(ii) Stock
(iii) Prepaid expenses
(iv) Accrued income
(v) Debtors

(a) Both (i) and (iv) above
(b) Both (ii) and (iii) above
(c) (i), (ii) and (iii) above
(d) (ii), (iii), (iv) and (v) above

Ans: (d)

42. Which of this is not operating income? *(PYP 1 Mark June'16)*

(a) Income for sales of trading goods
(b) Bad debts recovered
(c) Interest on FDs
(d) None of the above

Ans: (c)

43. Research and Development Cost A/c appearing in Balance Sheet is a _____ *(PYP 1 Mark June'16)*

(a) Real A/c
(b) Intangible assets
(c) Tangible assets
(d) Personal A/c

Ans: (b)

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44. _____ is a financial expense. *(PYP 1 Mark Dec'16)*

(a) Foreman salary
(b) Office building rent
(c) Interest on debt
(d) Warehouse charges

Ans: (c)

45. Claims against company pending in court case. It is a: *(PYP 1 Mark Dec'17)*

(a) Current Liability
(b) Current Asset
(c) Contingent Liabilities
(d) Unsecured Loan

Ans: (c)

46. Till the discounted bill is paid by the acceptor, it remains as: *(PYP 1 Mark Dec'18)*

(a) A contingent liability
(b) A current liability
(c) An asset
(d) An expense

Ans: (a)

CHAPTER 4: FUNDAMENTALS OF COST ACCOUNTING

LDR Questions	Q 1, Q 4, Q 31, Q 45, Q 56, Q 74, Q 87, Q 89, Q 90, Q 114, Q 148, Q 150, Q 154, Q 160, Q 242, Q 243, Q 244, Q 245, Q 246, Q 247

4.1 MEANING, DEFINITION, SIGNIFICANCE OF COST ACCOUNTING, ITS RELATIONSHIP WITH FINANCIAL ACCOUNTING

Quick Review of Important Concepts

Need: Financial accounts lack detail → Cost accounting helps in control, pricing, efficiency & decisions.

Evolution
- Small firms (old) → no costing.
- Industrial Revolution → need for cost control.
- 1880–1925 → scientific management, standard costing.
- World Wars → cost-plus contracts.
- India → ICMAI (1959), Cost Audit (1968, now Sec. 148).

Scope
1. Cost ascertainment
2. Cost records
3. Cost control
4. Cost reporting

Objectives
- Fix cost/unit & prices
- Detect waste & improve profit
- Control materials, labour, overheads
- Aid in budgeting & decisions

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Methods of Costing (based on type of industry/product)
- **Job Costing** – For specific customer orders; each job treated separately (e.g., printing press, repair work).
- **Batch Costing** – Costs accumulated by batches; cost/unit = Total Batch Cost ÷ Units (e.g., biscuits, medicines, toys).
- **Process Costing** – Continuous production; cost collected per process; cost/unit = Total Cost ÷ Units (e.g., chemicals, sugar, oil).
- **Operating Costing** – For service industries; cost/unit of service (e.g., hospitals, transport)
- **Contract Costing** – For long-term construction contracts (e.g., highways, bridges).

Systems of Cost Accounting (based on cost accumulation & reporting
- **Historical Costing** – Costs recorded after incurred; useful for post-mortem analysis, but less control.
- **Standard Costing** – Predetermined costs set; actual vs standard → Variance analysis for control.
- **Absorption Costing** – Both fixed and variable costs absorbed into cost/unit → Inventory valuation includes fixed overheads.
- **Direct/Variable (Marginal) Costing** – Only variable costs charged to cost/unit; fixed costs written off to P&L. Useful for decision-making.
- **Uniform Costing** – Same costing principles used across firms in an industry → facilitates comparison.
- **Marginal Costing** – Analyses the effect of output changes on profit by separating fixed & variable costs (contribution margin analysis).

Cost vs Financial Accounting:
- **Financial Accounting**: For external reporting, statutory, historical, overall profit/loss.
- **Cost Accounting**: For management use, control, planning, unit cost, efficiency, and decision-making.

1. ***The* main purpose of cost accounting is to: *(SM,MCQ Bank, MQP (1) 2 Marks-June'24, Dec'25 & MQP(1)(2) June'25, PYP 1 Mark June'18, Dec'19, 2 Mark Dec'22, Dec'23, Jun'26)***
   (a) maximize profits,
   (b) help in inventory valuation
   (c) provide information to management for decision making
   (d) Aid in the fixation of selling price

Ans: (c)

2. **The main objective of cost accounting is: *(MQP(1) 2 Marks-Dec'24)***
   (a) To record day-to-day business transactions
   (b) To measure managerial efficiency
   (c) To ascertain the true cost of products and services
   (d) To determine tender price

Ans: (c)

3. **What items aren't part of cost accounting? *(MQP(1) 2 Marks-Dec'24)***
   (a) Cost of the product
   (b) Controlling
   (c) Planning
   (d) Profit sharing

Ans: (d)

4. **Process cost is very much applicable in: *(SM,MCQ Bank, MQP 2 Marks-June'24 & MQP(1) Dec'24, PYP 1 Mark Dec'19, MQP (2) 2 Marks June'26)***
   (a) construction industry
   (b) pharmaceutical industry
   (c) Airline company
   (d) none of these

Ans: (b)

5. **The technique & process of ascertaining cost is *(PYP 1 Mark* March'15, *Dec'18)***
   (a) Cost accounting
   (b) Management accounting
   (c) Costing
   (d) Management accountancy

Ans: (c)

6. **Which of the following method of costing is suitable for printing press? *(MCQ Bank) (MQP 2 Marks-June'24 & MQP(2) June'25 & MQP(1) Dec'24, Dec'25, PYP 1 Mark march'15, Dec'17, June'18)***
   (a) Job costing
   (b) Process costing
   (c) Contract costing
   (d) Batch costing

Ans: (a)

7. **One of most important tools in cost planning is: *(PYP 1 Mark Sept'15)***
   (a) Direct tax (b) Cost Sheet
   (c) Budget (d) Marginal Costing

Ans: (c)

8. **Which one of the following is the traditional approach for costing? *(PYP 1 Mark Sept'15)***
   (a) Contribution approach
   (b) Absorption costing approach
   (c) Decision making approach
   (d) Marginal costing approach

Ans: (b)

9. **Which or the following is a cost behaviour oriented approach production costing? *(PYP 1 Mark Sept'15)***
   (a) Absorption Costing
   (b) Marginal Costing
   (c) Process Costing
   (d) Job order Costing

Ans: (b)

10. **Under which of the following, all cost of the production is considered as product cost regardless of whether they are variable or fixed in nature? *(PYP 1 Mark Dec'15)***
    (a) Absorption Costing
    (b) Direct Costing
    (c) Marginal Costing
    (d) Variable Costing

Ans: (a)

11. **A Cost is: *(PYP 1* Mark *June'16)***
    (a) A sacrifice
    (b) Release of something
    (c) Measure of consumption of resources
    (d) All of the above

Ans: (d)

12. **Costing is a technique of: *(PYP 1 Mark June'17)***
    (a) Recording of Cost transactions
    (b) Ascertaining Cost
    (c) Preparation of final accounts
    (d) Decision' making

Ans: (b)

13. **Which of the following is a Cost' Control Technique*? (PYP 1* Mark *Dec'17)***
    (a) Marginal Costing
    (b) Uniform Costing

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(c) Standard Costing
(d) Absorption Costing

Ans: (c)

14. The branch of the accounting dealing with the classification, recording, allocation, summarizing and reporting of current and prospective costs, is known as: *(PYP 1 Mark June'18)*

(a) Financial Accounting
(b) Management Accounting
(c) Cost Accounting
(d) Cost Accountancy

Ans: (c)

15. Which of the following is not a function of Cost Accountancy? *(PYP 1 Mark June'18)*

(a) Cost Control
(b) Cost Ascertainment
(c) Cost Analysis
(d) Cost Accounting

Ans: (c)

16. Which of the following costing ~method is suitable for Toy Making Industry? (*PYP 1 Mark Dec'18, Jun'26)*

(a) Contract Costing
(b) Process Costing
(c) Job Costing
(d) Batch Costing

Ans: (d)

17. Which of the following is not a technique of costing? *(PYP 1 Mark Dec'18)*

(a) Marginal Costing
(b) Process Costing
(c) Standard Costing
(d) Budgetary Costing

Ans: (c)

18. Which of the following is not a method of costing? *(PYP 1 Mark June'19)*

(a) Process Costing
(b) Batch Costing
(c) Direct Costing
(d) Operating Costing

Ans: (c)

19. Which of the following is a suitable cost unit for the BPO Services/ Call Centres? *(PYP 1 Mark June'19)*

(a) Cost per item
(b) Cost per hour
(c) Cost per account handled
(d) Cost per minute

Ans: (c)

20. The costs are differentiated between fixed and variable costs under: *(PYP 1 Mark Dec'17, June'19)*

(a) Marginal Costing
(b) Direct Costing
(c) Standard Costing
(d) Absorption Costing

Ans: (a)

21. Which one of the following is not a cost unit? *(PYP 1 Mark Dec'19)*

(a) Kilo watt hour
(b) Credit division
(c) Patient day
(d) Tonne-mile

Ans: (b)

22. Which costing method is used by Spare parts manufacturing industry? *(PYP 2 Marks June'23, Dec'23)*

(a) Process Costing
(b) Job Costing
(c) Batch Costing
(d) Absorption Costing

Ans: (c)

23. A cost unit *(PYP 2 Marks Dec'23)*

(a) Measure of work output in a standard hour.
(b) A unit of production or service in relation to which costs are ascertained.
(c) Cost per labour hour.
(d) Cost per machine hour

Ans: (b)

24. Which of the following is not a cost unit applicable for the services sector? *(PYP 2 Marks June'24)*

(a) Passenger-Km
(b) Tonne-Km
(c) Room-Day
(d) Cubic-feet

Ans: (d)

25. Which method of costing is for appropriate readymade garments industry? *(PYP 2 Marks June'24)*

(a) Process Costing
(b) Batch Costing
(c) Multiple Costing
(d) Contract Costing

Ans: (b)

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26. In India, which of the following formulates the Cost Accounting Standards (CAS)? *(PYP 2 Marks Dec'25)*

(a) The Institute of Cost Accountants of India.
(b) Cost Accounting Standards Board
(c) The Institute of Chartered Accountants of India
(d) Council of Cost Accounting Standards

Ans:(b)

27. Which method of costing is appropriate for colleges? *(PYP 2 Marks Dec'25)*

(a) Operating Costing
(b) Job Costing
(c) Multiple Costing
(d) Contract Costing

Ans:(a)

28. In which year was cost audit introduced under the Indian Companies Act? *(PYP 2 Marks Dec'25)*

(a) 1958 (b) 1968
(c) 1978 (d) 1988

Ans:(b)

29. Costs are classified into Materials cost, Employee cost and Expenses under the classification by *(PYP 2 Marks Jun'26)*

(a) Nature of expense
(b) Behavioural
(c) Functional
(d) Controllability-wise

Ans: (a)

30. Which of the following is/are example(s) of Operating Cost Centres? *(PYP 2 Marks Jun'26)*

(a) Machine shop
(b) Welding shop
(c) Assembly shop
(d) All of the above

Ans: (d)

4.2 APPLICATION OF COST ACCOUNTING FOR BUSINESS DECISIONS

Quick Review of Important Concepts

Applications of Cost Accounting in Business Decisions

1. **Classification & Sub-division of Costs**: Helps measure efficiency, control costs, and assess profitability of each activity.
2. **Control of Material, Labour & Overheads**: Uses techniques like EOQ, stock levels, labour & machine planning, and classification of overheads (fixed/variable, controllable/uncontrollable).
3. **Business Policy Decisions**: Guides on new product launch, product mix, asset replacement, use of spare capacity, etc.
4. **Budgeting & Performance Reports**: Prepares budgets and compares with actuals (management by exception) to track variances.
5. **Standards for Efficiency**: Compares standard costs vs actuals to measure operating efficiency.
6. **Best Use of Resources**: Provides data to reduce waste, improve efficiency, and minimize costs.
7. **Price Determination**: Helps set remunerative selling prices, especially during recession/depression, by distinguishing fixed vs variable costs.

Key Decision Areas Supported by Cost Accounting

- Reduce or revise selling price
- Change in production method
- Operate at full or partial capacity
- Decide most profitable production level
- Make or buy spare parts
- Launch new product or export
- Enter or exit a market
- Discontinue loss-making products
- Evaluate new investments

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31. Which cost system description applies to the manufacture of 20 engraved doors for the new club house at a golf course? *(SM, MCQ Bank) (MQP 2 Marks- June'23 & Dec'23 & MQP(1) Dec'24, Dec'25, MQP (2) 2 Marks June'26)*

(a) contract (b) Process
(c) Batch (d) service

Ans: (c)

32. The guidance and regulation by executive action of the cost of operating an undertaking is said to be : *(SM, MCQ Bank) (MQP (1) 2 Marks-Dec'24)*

(a) Budgetary control (b) cost control
(c) cost analysis (d) None

Ans: (b)

33. Cost reduction is : *(SM, MCQ Bank) (MQP (1) Dec'24, Dec'25, PYP 1 Mark Dec'19, MQP (2) 2 Marks June'26)*

(a) Long term phenomena
(b) It challenges the standards
(c) It is carried out without compromising the quality
(d) All of the above

Ans: (d)

34. _____ costing is applied in Canteens. *(MQP(1) 2 Marks-Dec'23 & June'23)*

(a) Contract (b) Operating
(c) Process (d) Batch

Ans: (b)

35. In case of _____ Costing, costs are ascertained only after they have been incurred. *(MQP(1) 2 Marks-Dec'23 & June'23)*

(a) Absorption (b) Standard
(c) Historical (d) Marginal

Ans: (c)

36. The cost of a group of products is ascertained. *(MQP(1) 2 Marks-June'25)*

(a) Job Costing (b) Contract costing
(c) Batch Costing (d) ABC Costing

Ans: (c)

37. Historical costs are _____ costs for decision making *(MQP(1) 2 Marks-June'25)*

(a) Relevant (b) Not Relevant
(c) Variable (d) Fixed

Ans: (b)

38. Which method of costing is most commonly used in the Soft Drinks industry? *(MQP(2) 2 Marks-June'25)*

(a) Job Costing
(b) Process Costing
(c) Batch Costing
(d) Multiple Costing

Ans: (b)

39. Marginal costing is concerned with: *(MQP(2) 2 Marks-Dec'24)*

(a) Fixed costs (b) Variable costs
(c) Semi-fixed costs (d) None of the above

Ans: (b)

40. Batch costing is useful to determine _____. *(MQP(1) 2 Marks-Dec'24)*

(a) Maximum quantity of output
(b) Minimum quantity of output
(c) Economic batch quantity
(d) Profit of batches

Ans: (c)

41. Consider the following statements:
Statement I: Budgets are financial and/ or quantitative statements prepared and approved prior to a defined period of time.
Statement II: Budgets are formal quantifications of the plans of management. *(PYP 2 Marks Dec'25)*

(a) Only Statement I is true.
(b) Only Statement II is true.
(c) Both statements are true.
(d) Both statements are false.

Ans:(c)

42. _____ costing differentiates between fixed cost and variable cost. *(PYP 2 Marks Dec'25)*

(a) Marginal (b) Uniform
(c) Absorption (d) Standard

Ans:(a)

43. In general, Costing is a technique and process of — *(PYP 2 Marks Jun'26)*

(a) Recording of Cost transactions
(b) Ascertaining Cost
(c) Preparation of final accounts
(d) Decision making

Ans: (b)

VIVITSU STRIVING TOWARDS KNOWLEDGE