

## Company formation, Capital of Company, Forfeiture and Debenture

### 1. What do you mean by a company?

Company is an artificial person created by law to carry on a business for the profit with distinct legal existence. The company has transferable shares, limited liabilities, perpetual succession & a common seal. In other words, "company is a voluntary association of individuals for profit having capital divided into transferable shares"

### Features of a company

The main features of a company are as follows;

- i. **Legal personality:** A company is an artificial person which is created by law. It exists only in contemplation of law and, therefore, has no physical shape or form. Although invisible and intangible, as a legal person, it enjoys almost all the rights of a natural person.
- ii. **Perpetual existence:** Being an independent body, the life of the company is not connected with the life of its shareholders. The law creates the company and the law brings it to an end.
- iii. **limited liability.**
- iv. **Democratic management.**
- v. **Transferability of shares.**

### What does a private company mean? Write features of a private company?

Ans. A private limited company can be formed with the one member but the maximum number of shareholders cannot exceed 101 and restricts the transfer of share from one shareholder to another. It is not necessary to issue prospectus to collect share capital. The private company must use the words "Pvt.Ltd" at the end of its name.

Features of Private company are as follows;

Private company can be established by a single person.

It does not need to publish a prospectus at the time of the issue of its share.

The private company must use the words "Pvt.Ltd" at the end of its name.

It restricts the transfer of shares from one person to another person.

It need not to obtain the certificate of the business before the commencement of the business.

### 5.What does a public company mean? Mention its Features

A Public company is a company the membership of which is open to the general public under the provisions of its Articles. The minimum number required for the formation is seven, but there is no upper limit. It offers its share to public through a Prospectus and any person can apply for its share. Features/ Advantages of public company are as given below;

- i. Share are transferable
- ii. Limited Liabilities
- iii. Large capital
- iv. Free to invite people to subscribe to its share and debenture
- v. Effective and efficient management is possible.

### 6.Differentiate between a private company and a public limited company.

Public limited company	Private limited company
A public limited company requires at least 7 members for its incorporation. Its maximum number is unlimited.	A private limited company can be established by a single member. Its minimum 1 and maximum number is limited to 101
it requires the 'certificate of incorporation' and the 'certificate of commencement of business' to start its business.	It requires only the 'certificate of incorporation' to start its business.
It does not restrict the transfer of its shares.	It restricts the transfer of its shares.
It has to publish its annual financial statements.	It is not required to publish its annual financial statements.
It uses the word 'Ltd' after its name.	It uses the words 'Pvt.Ltd' after its name

Main document required for private companies and public limited companies.  
In case of private limited company:

- i)Memorandum of Association
- ii)Article of Association



**In case of public limited company:**

- i) Memorandum of Association
- ii) Article of Association
- iii) Prospectus

**Article of Association**

Ans.. It relates with the internal rules and regulations of the company. It contains rules, regulations and by laws for the internal management of the company. Matters related in the Article of Association should not be against the Memorandum of Association.

**Memorandum of Association?**

Ans. Memorandum of Association is the first document in which the main objective and external rules and regulations of the company will be stated. It is the constitution of a company. The company should operate as per the terms and conditions mentioned in the MOA. If the company does not operate as per the MOA, it will be considered as illegal.

**Prospectus**

Ans. Prospectus is an invitation to the general public to participate or purchase the shares of the company. We know that public limited company will manage the capital from the general public by issuing the shares.

**Meaning of Share:**

The capital of a company is divided into a number of units of fixed value which is called a share.

**Types of Share**

- I. Preference Share
- II. Equity Share

**Differentiate between equity shares and preference shares.(Meaning and Features)**

Equity share	Preference share
<b>Meaning :</b> Dividend on equity share is paid after the payment of preference dividend.	<b>Meaning :</b> Dividend on preference share is paid before the payment of equity share.
Rate of dividend on equity share may vary from year to year.	Rate of dividend on preference share is fixed.
Arrears of dividend cannot be accumulated in any case.	Arrears of dividend may be accumulated in case of cumulative preference share.
In case of dissolution of the company, equity share capital is refunded after the repayment of preference share capital.	In case of dissolution of the company, preference share is refunded before the repayment of equity share capital.
It cannot be convertible.	It may be convertible.
Equity shareholder enjoys voting rights.	Preference shareholders do not have voting rights.

**Cumulative preference share:**

Cumulative preference shares are those shares on which the amount of unpaid dividends is accumulated and is carried forward as a liability.

**Non-cumulative preference share:**

They are those shares on which the arrears of dividend do not accumulate.

**Redeemable preference share:**

They are those shares that can be redeemed within a specific period of time. The terms and conditions for redemption of preference shares need to be specified at the time of the issue of shares

**Irredeemable preference share:** They are those, which can be redeemed only at the time of liquidation of the company.

**Convertible preference share:** they are those shares, which can be converted into equity shares. The conversion becomes possible when the company provides such option.

**Non-convertible preference share:** They are those shares, which can not be converted into equity shares. Preference share are non-convertible unless otherwise stated.

**Share capital.**

Total amount of all the shares is called share capital. It is an amount invested by the shareholders towards the nominal value of shares. In other word "share capital is the ownership capital of a company raised by the issue of its shares. It is an amount invested by the shareholders towards the nominal value of shares.

**Types of Share capital.**



### **Authorized or registered capital:**

The capital which is mentioned in the Memorandum of Association as the maximum amount of share capital is called authorized or registered capital. It is the maximum amount of capital which a company can raise.

### **Issued capital:**

It is the part of the authorized capital, which is actually offered to the public for subscription.

### **Subscribed capital:**

It is that part of the issued capital, which is actually taken up by the investors

### **Called-up capital:**

The amount of share capital due on shares is normally collected from the shareholders in instalments at different intervals. The called-up capital is that part of the nominal values of shares subscribed by shareholders, which is requested by the company for payment.

### **Paid-up capital:**

It is the part of called-up capital, which has been actually received from the company's shareholders.

**Write the procedure of issue of shares.**

Ans. A company issues its shares to the general public through an invitation called prospectus. It issues shares to the public through the prospectus to meet present requirement of the fund. The prospectus of the company includes details about the company indicating authorized capital, the number of shares issued and the face value of share.

### **What is meant by calls in arrears?**

Ans. When shareholder fails to pay the due amount of share allotment or calls, the unpaid amount of share is called 'calls in arrears'.

### **What do you understand by calls in advance?**

The amount of instalments, which have not been called up but received, is known as calls in advance. Calls in advance are liability and it is shown in liability and it is shown in liability side of balance sheet.

### **Over-subscription of shares and how is it different from under subscription**

Ans. The condition where the share application received is more than the number of shares offered by the company then it is called over subscription of shares.

### **What do you understand by pro-rata allotment?**

Ans. Under this alternative, the company allots the shares to all the applicants proportionately. The excess application money is utilized towards the amount due on allotment and subsequent. It is a process of allotment of shares on proportionate basis.

### **What do you understand by forfeiture of shares?**

Ans. The term "forfeiture of shares" indicates to the cancellation of shares. This happens when a shareholder fails to pay allotment or call or both within the specified date. Forfeiture of shares is a process of withdrawing the shares allotted and seizing the amount already paid by the defaulters.

### **What is meant by debentures? Explain.**

Ans. A debenture is a certificate issued by a company acknowledging debt of public borrowing. It is a portion of loan capital. The owners of debentures are called debenture holders

### **Types of debentures:**

#### **Secured debenture :**

A debenture which is issued against a specific fixed asset as security is called secured debenture. Upon default of such debenture on due date, the debenture holder can realize their sum out of the sale realized from such fixed asset. Secured debenture are also called mortgaged debenture.

#### **Unsecured debenture:**

Debentures issued without any security are called unsecured debentures. The holders of such debentures are not given any security for the issue of such debentures. The holders of such debentures are treated as the general creditors of the company.

#### **Redeemable debenture:**

The debentures which are to be repaid within a specified date as per the terms of their issue are called redeemable debentures. The company is bound to pay the principal to debenture holders after the expiry of the period specified at the time of issue.

#### **Convertible debenture:**

A debenture which is issued with an option to convert it into common share, preference share or a new debenture within a specified period at a conversion ratio is called convertible debenture.

#### **Non-convertible debenture:**

The debentures, which have no option of being converted into equity or preference shares or new debentures, are called non-convertible debenture.



## Financial Statement Analysis

### 1. What are financial statements? Why is financial statement analysis necessary?

Ans. The process of interpreting financial statement with specific tool and purpose is known as financial statement analysis. In other words, it can be defined as the process of knowing the strength and weakness of an organization through the meaningful search of figures contained in the financial statement.

### 2. What is the importance of analysis of financial statements from the viewpoint of management, investors, and financial institutions?

Ans. The following points are the importance of analysis of financial statements from the viewpoint of management, investors and financial institutions:

i) **For decision of holding share:** Financial statement provides the information about profitability in terms of share and investment. It also provides the information about earning per share, dividend per share etc. on the basis of which, an investor takes decision whether continue to hold or sale out the share.

ii) **For future decision and planning:** Financial statement shows the past performance of an organization and past performance is the good indicator of future. Therefore, management makes planning and takes decision for the future on the basis of past performance.

iii) **For investment decision:** Financial statement makes the comparative analysis of profitability, solvency and activities of the organization. On the basis of these comparative analyses an investor may take decision whether to invest or not.

### 3. Write any three objectives of financial statements.

Ans. Three objectives of financial statements are given below;

- i) To provide the operating result of the company.
- ii) To provide the financial position of the company, for the specified period of time.
- iii) To provide financial information to the external as well as internal users.

### 4. Discuss the limitations of financial statements analysis.

Ans. The limitations of financial statements analysis are;

**Not free from bias:** Financial statement analysis is made as per the personal judgment of analyst. Therefore, the analysis is not free from the biasness of the analyst.

**No possibility to adjust the effect of the price level change:** Financial statement analysis is done on the basis of historical data contained by the financial statement. Therefore, there will not be any adjustment of inflation and deflation and it cannot represent the current value of the business.

**No solution but identification of problems only:** Financial statement analysis shows the strength and weakness of the organization or it identifies the problem only but it does not provide any guidelines for the solution of the identified problems.

**Chance of wrong analysis:** The accuracy of financial statement analysis mostly depends upon the accuracy of the figures contained in the financial statement. If these figures are manipulated, the analysis also will be the wrong. The decision made on the basis of such wrong analysis may mislead the users in making their decision.

### 5. Parties Interested in Financial Analysis:

The following parties are interested in the analysis of financial statements:

- (1) Investors or potential investors. (2) Management. (3) Creditors or suppliers. (4) Bankers and financial institutions. (5) Employees. (6) Government. (7) Trade associations.

## COST ACCOUNTING

### 1. Concept of cost accounting

Cost accounting concentrates with accumulation, classification, analysis, recording, allocation, summarization, interpretation, reporting and control of current and future prospective of costs. **Cost accounting** is the branch of accounting that deals in the classification, allocation, recording, summarization and reporting of costs.

### Objectives of cost accounting

There can be several objectives of cost accounting. However, the following are its important objectives:



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- **To ascertain cost:**

The important objective of cost accounting is to ascertain cost of a product or services or jobs. Ascertainment of cost is process of determining cost after they have been incurred. Generally, there are two methods of determining the cost i.e job costing and process costing. Due to the different in the nature of activity of industry, different methods of cost may be applied.

- **To control cost:**

The objectives of cost accounting is to control over the cost by using various techniques such as standard costing, inventory control, marginal costing etc.

- **To provide information for decision making:**

Cost accounting is the formal system of accounting and provides information for various managerial decisions like

- **To fix the selling price:**

Cost accounting can be provide the detailed information about the cost of a product or service to determine the selling price.

- **To ascertain costing profit or loss:**

Cost accounting ascertains total cost and total revenue of every product or services or job and calculates profit or loss by comparing with revenue and cost.

- **To provide information in preparation of financial statements:**

Inventory should be valued for preparation of financial statements by comparing cost price and market price.

### Importance and advantages of cost accounting

Cost accounting provides immense advantages to a firm. It also can be explained in terms of importance.

- **Helping in ascertaining of cost:**

Cost accounting uses different methods of costing such as job costing, process costing etc. applying this costing method cost of each product, process or job is ascertained.

- **Helps in inventory control:**

It helps in inventory control using various techniques like ABC analysis, economic order quantity, stock level etc.

- **Helps in measurement of efficiency:**

It helps in measurement of efficiency of operations through establishment if standards and various analysis.

- **Helps in preparation of budget:**

It helps in preparation of various budgets such as sales budget, production budget, material purchase budget, flexible budget etc.

### LIMITATIONS OF COST ACCOUNTING

Cost accounting also suffers from a number of limitations such as follows:

- **Unnecessary:** It is unnecessary because it involves duplication of work, many good enterprise are functioning without any costing system.
- **Expensive:** It is expensive because the installation of cost accounting system involves additional cost.
- **Inapplicable to many industries:** It is inapplicable to many industries. A single costing system may not be applicable to all industries because the costing system may be specially designed to meet the need of a specific industry.
- **Lack of uniform procedure:** it is possible that two equally competent cost accounts may arrive at different result from the same information.
- **Result shown by cost and financial accounting may not be equal to each other:** In cost accounting certain incomes such as interest, dividend, share transfer fee etc. are not recorded and certain expenses such interest paid, dividend, loss on sale of fixed assets are not shown but these items are shown in financial accounting.

### Limitations of financial accounting

Financial accounting also suffers from limitations. Some notable ones are as follows:

- **No detailed cost information:** Financial accounting does not provide detailed cost information for different department, processes, product, job, different services and functions. But, financial accounting does not make evaluation performances of units, departments, and processes.
- **No classification and analysis of cost:** Segregation of costs by nature and behaviour are essential for controlling cost and identifying responsibilities. Financial accounting does not segregate cost in terms of behaviour such as variable or fixed costs, nor does it classify in terms of nature such as direct and indirect costs.
- **No price determination:** Every firm must determine prices of its outputs in order to sell them. But, financial accounting does not determine the selling prices of the firms output.
- **No use of standards:** It does not provide any standard costing to measure the efficiency in the use of material, labour and expenses.
- **No control over cost:**



## Difference between cost accounting and financial accounting

### COST ACCOUNTING

The main objective of cost accounting is to record and report costs of output.

Cost accounting segregates cost into fixed and variable portion.

Its user are mainly managers who use the cost data for their decision making purpose.

It is voluntarily required for the firm to keep cost accounts.

It is primarily applied in manufacturing concerns.

### FINANCIAL ACCOUNTING

The main objectives of financial accounting are to report financial results in terms of profit or loss and financial position of a firm.

Financial accounting does not segregate costs into fixed and variable portion.

Its users are owners, managers, creditors, employees, workers, consumers and government.

It is legally required for the firm to maintain financial accounts.

It is generally applied in all types of business concerns.

### METHODS OF Costing

Methods of costing are the procedures of ascertaining costs of output, process or operation. Since the nature of industry differs from one another, the methods of costing also differ. Important methods of costing are as follows:

- **Job order costing:** A method of cost accounting used to determine the cost of producing unique or customized products or services. Example designing software program
- **Process costing:** A method of cost accounting used to determine the cost of producing same products through continuous processes. Example cost of producing unit of biscuit.
- **Service costing:** The method of costing which is used for ascertaining the costs of service rendered is known as service costing. Under this method, the cost of per unit of service rendered such as cost per passenger kilometre, cost per ton kilometre, cost per kilo-watt, or cost per patient day is determined. Therefore, this method is popular in industries and institutions that provide services instead of manufacturing products.
- **Contract costing:** This costing refers to the form of specific order costing, which applies, where work is undertaken to customer requirements and each order is long duration as compared to job order costing. A job, which is big and spreads over long periods of time is known as a contract. The method of costing which is used in a contract is called contract costing. This method is used by builders, civil engineering contractors and construction firms.
- **Batch costing:** A method of cost accounting used to determine the cost of producing a specific batch or group of products. The costing method used to determine cost of products produced on lot wise basis is called batch costing.
- **Multiple costing:** An ascertainment of cost of product by using more than one costing method is defined as multiple costing. It is also called composite costing. It is adopted in those industries where several components are used to produce a final product.

### CONCEPT OF COSTING

The process of fixing costs of activity is defined as costing. So, costing comprises of collection, classification and analysis of cost for ascertaining unit cost of product and services. Manufacturing and service industries follow costing to ascertain cost of products or

#### Elements/ Nature

Cost of product of an industry comprises of material cost, labour cost and expenses. Therefore, cost appears into material cost, labour cost, expenses under the classification of costs based on physical characteristics. Cost has three main elements such as raw materials, labour and other expenses. It can be classified into materials, labour and expenses based on physical characteristics.

#### • Material cost

Material cost represents the total of costs of main raw materials, components, consumable stores and packing materials. Materials cost also includes import duties, dock charges, transport cost, storing cost receiving and inspection cost, and other costs associated with the materials purchased.



**Indirect materials:** Indirect materials cost refers to the material costs, which cannot be allocated but can be apportioned to or absorbed by cost centres or cost units. Cost of materials incurred for repair or a machine used for printing of text is defined as indirect materials cost. Fuel, lubricating oil, materials used for repair, coal, maintenance work etc. are few examples of indirect materials.

### **Material control**

The systematic and regular control over purchasing, storing and consumption of materials is material control. In other words, it is a system, which helps to provide the right quality of materials in the right quantity at the right time and right place with the right amount of investment and timely supply of materials by avoiding over and under stocking.

### **Essentials of Materials Control**

- There should be up to date record of materials
- There should be centralized purchasing
- There should be proper co-ordination between sales, production, purchase, receiving, inspection and storage departments.
- All items in stores should be codified, classified and standardised.

Issue of materials should be in the basis of requisition.

### **Objective of materials control**

Materials control basically aims at efficient purchase, storage and consumption of materials. The following are the objectives of material control,

- To purchase materials at a reasonable price.
- To maintain the cost of materials at the minimum level.
- To protect materials against loss by fire, theft, and leakage.

### **Purchase control**

Purchase control refers to the purchase of materials of right quality in right quantity at a reasonable price and at a right time. It requires a good amount of attention to the purchasing procedures of materials relating to cost, quality, volume, time and delivery of materials.

### **Centralized purchasing**

Centralized purchasing refers to the purchase of materials by a single purchase department. Under this system, the purchasing department purchases the required materials for all the departments and branches of the company.

#### **Advantages**

- It uses the specialized knowledge and skill by appointing specialized and expert purchasing staff.
- It brings about economics of bulk purchase.
- It facilitates the standardization of materials.
- It facilitates effective control over purchases, by maintaining an efficient system of ordering, receiving inspection.

#### **Disadvantages**

- It is expensive due to increase in administration cost of a separate purchase department.
- It is not suitable when plants of departments are located far away from one another or are using different materials.

### **Decentralized purchasing**

Decentralized purchasing refers to purchasing materials by all departments and branches independently to fulfil their needs. The defects of centralized purchasing can be overcome by the decentralized purchasing system. It helps to purchase the materials immediately in case of an urgent situation.

#### **Advantages:**

- It avoids unnecessary cost of setting up a purchasing department.
- It avoids delay in purchasing because the required material can be easily purchase as and when required.

#### **Disadvantages:**

- There is chance of overstocking and blocks the capital of the company.
- The benefits of a bulk purchase cannot be obtained.

### **Store-keeping**

Store keeping refers to the act of storing materials for their safe custody till these are issued to the production and other departments. It involves receiving, storing and issuing of materials. The term 'stores' has wide meaning and includes raw materials used in production, consumable store such as oil, grease etc, tools, patterns, maintenance materials etc, stock of work in progress and stock of finished goods.

### **Objectives of storekeeping**

- All of proper place for every item of store
- Keep every item of store in fixed place
- Maintain proper and upto date records

### **Types of stores**

#### **1. Centralized stores**

A centralized stores is that store which receives materials for and issue them to all departments divisions and production floors of the company. Such a store is only one in the company which receives materials for and issues them to all who need them. The materials required for all the departments and branches are stored and issued by only one store.

#### **Advantages:**

- a. Economy in cost
- b. Better supervision of store
- c. Better layout and control of stores
- d. Minimum investment in store
- e. Less space is occupied

#### **Disadvantages:**

- a. Delay in sending materials to the department and branch.
- B. increase in the material handling cost
- C. Greater risk

#### **2. Decentralized Stores**

Decentralized stores is that type of store which receives materials for and issues them to only one department and not to the whole company. The decentralized store may be many in the company, as each department has its own such store. Purchasing and handling of materials are undertaken by each and every department separately. Each and every branch has their own store for operation of production activities.



- **Labour cost**

Labour cost is the total of wages incurred for the effort or services made by labours in the productions of goods and services. Therefore wages paid to the workers are termed as labour costs.

- **Expenses**

Expenses are the total of costs incurred for production, administration and selling and distributing operations royalties, rent, lighting and welfare expenses. All the three elements of cost can further be divided or grouped into two types based on their nature such as direct and indirect costs.

- **Direct costs**

Direct costs are those materials, labour and other expenses which can easily be attributed or identified with a unit of product, process or operation. raw materials, productive labour, and carriage of materials paid are the examples of direct cost.

- **Indirect costs**

Indirect costs are those types of cost, which cannot easily be attributed to or identified with a unit of product, process or operation. Therefore, the total of costs of indirect materials, indirect labour and indirect expenses is referred to as indirect costs. repair charges, salaries, rent, telephone and water.

- **Direct materials cost:** The cost of materials having physical identity with the end product is defined as direct materials cost. Main raw materials and necessary components are a few examples of direct materials.
- **Indirect materials cost:** Materials are not used as inputs of product are called indirect materials. Cost of materials incurred for repair of a machine used for printing of textbook is defined as indirect materials cost.
- **Direct labour cost:** Labour or wages incurred for the operative workers engaged in production process are categorized as direct labour cost. Wages paid to the workers involved in production and handling materials, workers engaged in productive operation by way of supervision and maintenance etc is direct labour costs.
- **Indirect labour cost:** Smooth operation of an organization needs operation of account department, marketing department, and internal transport also besides production department. Indirect labour cost mean salary paid to staff.
- **Direct expenses:** Direct expenses are charged directly to finished product like direct materials cost. It is also called designed chargeable expenses. These include special layout cost, drawing and designed charges, royalties and so on.
- **Indirect expenses:**

The cost which is not directly connected with finished product but occur on account of operation are termed as indirect expenses. Indirect expenses are also more frequently called on cost or overheads and include expenses such as canteen expenses, lighting, heating charge, rent, insurance and so on.

### **Variability or Behaviour**

#### **Variable Cost**

Cost which change proportionality with volume of output or services are called variable costs. They increase or decrease in total amount with the increase or decrease in volume of output. It include direct material, direct labour and fluctuating indirect materials, labour and manufacturing overheads.

#### **Fixed Cost**

Cost that does not change with output is cost. It remains fixed for a stipulated period and for a specific capacity output. Fixed cost is called constant or capacity cost. For example: depreciation, rent and salaries.

#### **Semi-variable cost**

Those cost which do not change proportionately like variable costs but their increase will be less than proportionate unlike the variable costs is termed as semi-variable cost. The examples of semi-variable costs are salary of supervisors, travelling salesman salary, repair and maintenance costs etc.

### **Controllability**

**Controllable cost:** The cost subject to control or substantial influence of a particular manager or individual is called controllable cost. Example; direct materials, direct labour, other overheads such as indirect labour, factory supplies, cutting tools, power costs, repair and maintenance etc are controllable costs.

**Uncontrollable costs:** Costs that are not subject to influence by the action of manager is called uncontrollable costs. These costs remain unchanged or unaltered. Example: managerial salaries, staff salaries, depreciation after purchase of equipment, rent. Some costs may be controllable in the short run but not in the long run.

## **Accounting for Material**

### **Direct materials:**

Direct materials cost means the cost of materials that can be identified with and allocated to cost centre or cost units. Cost of paper used to print textbook is direct cost since it is main input of textbook. Thus, main raw materials, and necessary components are a few examples of direct materials.



**What are the main differences between piece rate and time rate systems of wage payment?**  
**Ans. Differences between piece rate and time rate system**

Piece rate system	Time rate system
Piece rate system is a method of wage payment to workers based in the quantity of output they have produced.	Time rate system is a method of wage payment to workers based on time spent by them for the production of output.
It pays the workers according to the units of output produced.	It pays the work according to the time spent in the factory.
It does not pay for idle time.	It pays for idle time.

## Accounting for Overhead

### Types of overhead

On the basis of function	On the basis of elements	On the basis of Behavior	On the basis of control
<ul style="list-style-type: none"> <li>- Factory overhead</li> <li>- Office/Administrative overhead</li> <li>- Selling/Distribution overhead</li> </ul>	<ul style="list-style-type: none"> <li>- Indirect material</li> <li>- Indirect labour</li> <li>- Indirect expenses</li> </ul>	<ul style="list-style-type: none"> <li>- Fixed overhead</li> <li>- Variable overhead</li> <li>- Semi variable overhead</li> </ul>	<ul style="list-style-type: none"> <li>- Controllable</li> <li>- Uncontrollable</li> </ul>

**What is overhead cost?**

Ans. Overhead cost is the aggregated of indirect of indirect material cost, indirect labour costs and indirect expenses which cannot be easily identified with and directly allocated to particular cost centre or cost object. It is known as indirect cost or on cost.

**3. What are administrative overhead? Mention any three examples.**

Ans. These are indirect expenses that are incurred in connection with the general administration of the whole concern.. Example: office salaries, rent, printing and stationary, telephone and electricity, depreciation and repair and maintenance of office building, furniture and other office expenses.

**What are selling and distribution overheads? Mention any three examples of it.**

Ans. All the indirect expenses incurred for selling and distribution of finished goods are known as selling and distribution overheads. Examples: free gift, advertisement, showroom expenses, and so on.

**What is meant by controllable overhead? State any three examples of controllable overhead.**

Ans. These are the indirect expenses that the management of a manufacturing concern can keep under its control, as they are influenced by its decisions. Examples: indirect materials, power expenses and lighting expenses.

**Why is allocation of overhead important?**

Ans. It is the allotment or assignment of an overhead cost to a particular cost unit. If the overhead cost is associated with a single department or cost centre, the whole amount is charged or distributed among the units of output of that particular department

**What is apportionment of overheads?**

It is the process of charging or apportioning costs to a number of cost centers or cost units. If a given cost is common to two or more departments or cost centers, such cost should be apportioned or divided among these departments on an equitable basis. For examples, the amount of factory rent should be apportioned to all the departments.

**Differences between allocation and apportionment of overheads**

Allocation	Apportionment
It involves a particular department or cost centre.	It involves two or more department of= cost centres.
The process of charging the costs to a particular department or cost centre is allocation of overheads.	The process of charging the costs to a number of departments or cost centres is apportionment of overheads.



- . Saving in material handling cost
- Prompt issue of material is possible
- Storing and control will be easy and effective
- Disadvantages:**
- Higher cost of supervision.
- More space is required for individual departments.
- Higher amount of investment is required.

#### Storekeeper

A manufacturing company appoints a person for careful storing and safeguarding materials in a store who is called storekeeper. A storekeeper is a person who is the chief of the stores and who is given the responsibility of store management

**The main duties/ responsibilities and functions of storekeeper** are as follows;

1. To maintain a proper record of materials relating to the receipt and issue of materials.
2. Checking the physical quantity of materials and verify with a bin card.
4. To maintain the stock registers, entering therein all receipts, issues and balance of materials.

### CLASSIFICATION AND CODIFICATION OF MATERIALS

The process of grouping of materials on the basis of their nature or usage is known as classification. The process of giving distinct names and symbols for each item is called codification. Such as materials are classified as construction materials, consumable stores, spare parts, lubricating oils etc.

#### 1. BIN CARD

Bin card is a card of certain size which shows the quantity of materials received, issued and balances of materials in a store. A document used in the stores department to show receipt, issue and balance of each item of materials is called bin card. Store ledger is a register used to record materials turnover in stores.

#### PERPETUAL INVENTORY SYSTEM

Perpetual inventory system is the maintenance of regular and up to date records of materials handling in stores.. The terms "Perpetual inventory" refer to the system of record-keeping and a continue physical verification of the stocks, with reference to store-records.

#### Advantages of perpetual Inventory System

- Helps to control material internal check
- 2. Facilitates to keep minimum stock
- 3. Helps to bring uniformity in production
- 4. Operates as

### Labour cost

Labour is human resources and participates in the process of production. It is an essential factor of production. The amount, which is paid the labour, is known as labour cost and it is a significant element of cost of a product.. In other words, labour cost is the amount remuneration paid to a worker or an employee for his work or service in producing goods and services.

#### Direct cost

Direct cost is that labours, which can be easily identified with specified product, job or work order.. For example: carpenter in furniture house, tailors in garments industry, washer in dry clinic etc. Remuneration paid to direct labour is termed as direct labour cost. It is treated as part of prime cost.

#### Indirect cost

It is that labour which cannot be easily identified with a specific product or job. It includes all labour indirectly involved in converting raw materials into finished goods or in altering the construction, consumption or condition of the product. Payments made to the sweepers, watchmen, cleaners, supervisors and accounting personnel are the examples of indirect cost.

### System of Wage payment

**What is the piece rate system of wage payment? How is wage calculated under it ?**

Ans. The piece is that system of wages payment in which the workers are paid on the basis of the units of output produced. It does not consider the time spent by the workers. It pays wages at a fixed piece rate for each unit of output produced.

Total wages earned = output \* Piece rate

**What is the time rate system of wage payment? How is wage calculated under it?**

Ans. The time rate is that system of wages payment in which the workers are paid on the basis of time spent by them in the factory. Under this system, the workers and employees are paid wages on the basis of the time they have worked rather than the volume of output they have produced. Wages earned = hours spent \* wages rate per hour

**What are the disadvantages of a time rate system?**

Ans. The disadvantages of a time rate system are

- It does not help in increasing output and improving as there is no correlation between effort and reward.
- It is not justifiable to differentiate between efficient and inefficient workers and skilled and unskilled workers.
- It pays for idle time, which increase the cost of production.



(11)

Write in brief the meaning of allocation of overhead.

Ans. It is the allotment or assignment of an overhead cost to a particular cost unit. If the overhead cost is associated with a single department or cost centre, the whole amount is charged or distributed among the units of output of that particular department.

Write about the controllable and uncontrollable cost with examples.

Ans. **Controllable overhead:** These are the indirect expenses, which the management of a manufacturing concern can keep under its control, as they are influenced by its decisions. Therefore, those overheads, which vary due to the management decisions, are called controllable overheads. Examples: indirect materials, power expenses and lighting expenses.

**Uncontrollable overhead:** On the other hand, those indirect expenses that are beyond the control of the management are known as uncontrollable overheads. Examples: factory rent, office salaries, depreciation and legal expenses.

### Computerized System in accounting

**Computer:** The computer is an electronic device, which is used to perform substantial computations, including numerous arithmetic and logic operations. It is the most powerful and reliable device that man has ever made.

### What is Computerized Accounting System?

Computerized accounting system refers to the processing of accounting transaction through the use of computer in order to produce accounting records and reports.

A computerized accounting system is an accounting information system that processes the financial transactions and events to produce reports as per user requirements. It is a software program which collects, stores and analyzes the accounting data. It is based on the concept of database and has two basic requirements: (a) Accounting framework and (b) Operating Procedure

### Elements of Computerized system

- I. **Hardware:** It is the physical part or component of the computer or the components that can be seen or touched are called hardware of the computer. The four types of hardware: Input hardware, Output hardware, Processing hardware, Memory hardware
- II. **Software:** Software is the core of a computerized accounting system. It is the set of programs which is required to operate the hardware. The hardware has no use without software. Different types of software are: System software, Application software, Utility software
- III. Procedures      iv. People      v. Data      vi. Internal controls

### Importance/Advantages of Computerized Accounting System:

- I. Faster processing      II. Accurate information      III. Reliability      IV. Up-to-date      v. Security      vi. Efficiency      VII. Automated document production      VIII. Cost effective      IX. Quality reports

### Limitations of Computerized Accounting System

- Cost of training      • Staff Opposition      • Disruption      • System failure      • Fear of unemployment
- effects on health      • Inability to check unanticipated errors      • Heavy cost of Installation

### Uses of computer in Accounting

- I. Ease of communication      ii. Spreadsheet Software      III. Data Storage
- iv. Programmed Transactions      v. Financial information

### Application of Software in Accounting

Accounting software is an important part of computerized accounting system. It is implemented to perform the accounting activity and generate reports as per the requirements of the user. Accounting software describes a type of application software that records and processes accounting transactions within functional modules such as accounts payable, accounts receivable, journal, ledger, payroll, profit and loss account and balance sheet.

### Use of Accounting Software

- I. Improve accounting accuracy
- II. Speed up the accounting calculations
- III. Reduce overall cost by reducing payroll and administrative cost
- IV. Improve data security
- V. Generate accurate reports
- VI. Increase accounting transparency
- VII. Enhance productivity
- VIII. Maintain better relationships with the customers

### Language of Software Processor

- I. **Assembler:** The assembler is used to translate the software written in assembly language into machine code.
- II. **Compiler:** It is a software that translates the instructions of higher level languages into machine language.
- III. **Interpreter:** It is another type of software translator used to translating higher level language instructions into machine language instructions.

### Need and Features of Accounting Software

- I. Flexibility
- II. Cost of maintenance
- III. Size of organization
- IV. Increase efficiency
- V. Reduced overall cost
- VI. Security and protection
- VII. Transfer of data