

FOUNDATION COURSE EXAMINATION
(SYLLABUS 2008)

SUGGESTED ANSWERS TO QUESTIONS
DECEMBER 2012

Paper-3 : ECONOMICS AND BUSINESS FUNDAMENTALS

Time Allowed : 3 Hours

Full Marks : 100

The figures in the margin on the right side indicate full marks.

SECTION - I (60 Marks)

Answer Question No. 1, which is compulsory and any two from the rest of Section I.

Q. 1. (a) Answer any nine of the following :

[1×9=9]

- (i) Regressive tax is one the burden of which falls more on the
 - (A) Rich class
 - (B) Poor class
 - (C) Middle class
 - (D) Corporate sector

- (ii) Scarcity of resources leads to
 - (A) Dissatisfaction of human wants
 - (B) Evaluation of alternative uses of scarce resources
 - (C) Both (A) and (B)
 - (D) None

- (iii) Elasticity of demand is greater if goods are
 - (A) Essential
 - (B) Luxury
 - (C) Inferior goods
 - (D) Normal goods

2 ♦ *Suggested Answers to Question — EBF*

- (iv) Definition of Economics given by Robbins deals with
 - (A) Human behaviour
 - (B) Utilisation of resources
 - (C) Scarcity of resources
 - (D) All of the above
- (v) Dumping refers to
 - (A) Selling goods in two different markets
 - (B) Selling goods in two different countries with different market situations
 - (C) Exporting goods in two different countries to get maximum sales revenue
 - (D) Predatory pricing in international trade
- (vi) Disposable income is
 - (A) Income minus tax liability
 - (B) Income minus expenditure
 - (C) Excess of expenses over income
 - (D) Excess of income over expenditure
- (vii) The constituents of money supply are
 - (A) Rupee notes and coins with the public
 - (B) Credit cards
 - (C) Traveller's Cheques
 - (D) All of the above
- (viii) Determinants of demand are
 - (A) Price of the commodity
 - (B) Income of the consumer
 - (C) Price of related goods
 - (D) All of the above
- (ix) Under perfect competition the demand curve of a firm is
 - (A) Horizontal
 - (B) Vertical
 - (C) Diagonal
 - (D) Sloping downward from left to the right
- (x) Average cost during short period comprises of
 - (A) Average fixed cost
 - (B) Average variable cost
 - (C) Both (A) and (B)
 - (D) None of the above

- (xi) Saving is defined as
- (A) Consumption minus income
 - (B) Consumption plus income
 - (C) Income minus consumption
 - (D) Balance in the bank

(b) Fill in the blanks :

[1×12=12]

- (i) Deflation is an _____ phenomenon.
- (ii) By _____, we mean satisfaction of wants.
- (iii) Creation of utility is called _____.
- (iv) No close substitute is the feature of _____.
- (v) Interdependence is the feature of _____.
- (vi) Under perfect competition all firms sell _____ goods.
- (vii) When more persons are engaged in an occupation than required is called _____.
- (viii) Demand for money for precautionary motive is _____.
- (ix) Higher the Cash Reserve Ratio _____ is the credit created.
- (x) The demographic transition theory of population was developed by _____.
- (xi) Demand for cars leading to demand for tyres is an example of _____ demand.
- (xii) Consumers' surplus and price are _____ related.

(c) State which of the following statements is 'True' and which is 'False' :

[1×9=9]

- (i) When 'too much money chases too few goods', it is called inflation.
- (ii) Balance of payments give the total picture of a country's transactions with the rest of the world.
- (iii) Impact and incidence of an indirect tax fall on the same person.
- (iv) Fiscal policy is formulated and implemented by the Central Bank.
- (v) Deficit financing denotes more spending by government through created money.
- (vi) Money is created by the Commercial Banks.
- (vii) Want satisfying power of a commodity is called its utility.
- (viii) Bad money drives good money out of circulation.
- (ix) Economics is to economise.

(d) Define the following terms in not more than two lines :

[1×6=6]

- (i) Disguised unemployment;
- (ii) Investment;
- (iii) Deflation;
- (iv) Income Elasticity of Demand;
- (v) Demand pull inflation;
- (vi) Gross National Product.

Answer 1. (a)

- (i) — (B) Poor class
- (ii) — (C) Both (A) and (B)
- (iii) — (B) Luxury
- (iv) — (D) All the above
- (v) — (D) Predatory Pricing in international market
- (vi) — (A) Income minus tax liability
- (vii) — (D) All the above
- (viii) — (D) All the above
- (ix) — (A) Horizontal
- (x) — (C) Both (A) and (B)
- (xi) — (C) Income minus consumption

Answer 1. (b)

- (i) Economic
- (ii) Consumption
- (iii) Production
- (iv) Monopoly
- (v) Oligopoly
- (vi) Homogenous
- (vii) Disguised unemployment
- (viii) Inelastic
- (ix) Lessor/lower
- (x) Coale & Hoover
- (xi) Derived
- (xii) Inversely

Answer 1. (c)

- (i) **True.**
- (ii) **True.**
- (iii) **False.**
- (iv) **False.**
- (v) **True.**
- (vi) **False.**
- (vii) **True.**
- (viii) **True.**
- (ix) **True.**

Answer 1. (d)

- (i) **Disguised unemployment** : Disguised unemployment exists where part of the labour force is left without work and Marginal Productivity is essentially zero or negative. Disguised unemployment is demonstrated when number of workers employed for a single job is more than the number of workers required for it, so that if few of them are taken away the aggregate output is not affected.
- (ii) **Investment** : Investment means the net additions to the economy's capital stock which comprises of goods and services that are employed in the production of other goods and services. Investment in this sense involves the information of new and productive capital in the form of inventories, new constructions, Plant & Machinery etc. which generate physical assets.
- (iii) **Deflation** : is an economic phenomenon. It is a situation when the price level in an economy goes on falling continuously.
- (iv) **Income Elasticity of Demand** : It expresses the responsiveness of consumer demand of any commodity due to a change in the income of the consumer. It is also defined as a percentage change in quantity demanded in response to percentage change in money income of the consumers.
- (v) **Demand pull inflation** : It is a situation when in an economy aggregate demand for goods & services exceed aggregate supply.
- (vi) **Gross National Product** : The GNP of a country in a particular year is defined as the market value of all final goods and services produced by domestic factors in the country in that year. It can be measured as :
$$\text{GNP} = (\text{GDP} + \text{NRCNE} + \text{Income Receipts or net income inflow from assets abroad}) - \text{NP (Net payment out flow to foreign assets)}$$

Q. 2. (a) Discuss the functions of Central Bank. [6]

(b) Give the definition of 'Economics' as per 'Prof. Robbins' and also discuss the main points of the definition given by him. [6]

Answer 2. (a)

Central Bank may be defined as an institution charged with the responsibility of managing the expansion and contraction of the volume of money for general economic welfare. The Central Bank is the apex institution in the banking and financial structure of the country.

Functions of Central Bank :

1. Monopoly over Note Issue :

The Central Bank enjoys the exclusive power of note issue. In India the RBI issues all notes except Re 1 notes and coins. Re 1 notes are issued by the Government of India under the guidance of RBI.

2. Banker, agent, advisor to the Government :

The Banking Account of the government both central and state are maintained by the Central Bank as the commercial bank does for its customers.

As an advisor to the government the Central Bank advises on monetary and Economic matters.

3. Banker's Bank :

All commercial banks keep part of their cash balances as deposits with the Central Bank of the country. This is either because of convention or legal compulsion. The commercial banks regularly draw currency during the busy season and paying in surplus during the slack season.

4. Clearing House Facility :

By virtue of its unique position in dealing with domestic and foreign funds the Central Bank has a special position for conducting

- (a) clearing house Operation;
- (b) Inter-bank Transfer of funds;
- (c) Settlement of accounts.

5. Custodian of Foreign Exchange Reserves :

Under this system the RBI controls both receipts and payments of foreign exchange. As custodian of Foreign Exchange Central Bank keeps a constant watch on the same so that the value of the home currency does not rise or fall adversely in relation to foreign currency.

6. Credit Control :

In order to ensure price stability and Economic growth of a country, the Central Bank undertakes the responsibility of controlling credit. The Central Bank ensures price stability and avoids inflationary and deflationary tendencies by several monetary methods such as regulation of Bank rate, open market operation, change in variable reserve ratio, etc.

Answer 2. (b)

Robbins Definition of Economics :

Prof. Lionel Robbins gave his definition of economics in his book "Nature and significance of Economic Science" in the year 1932 .He defined economics as, "Economics is the science that studies human behavior as a relationship between wants and scarce resources which have alternative uses."

Robbins definition is based on :

- 1. Multiplicity of wants.
- 2. Scarcity of resources.

In other words, Robbins definition says that :

- 1. The wants are unlimited,
- 2. The means to achieve those wants are limited, and
- 3. The means are capable of alternative uses.

Attributes of the definition :

Followings are some of the attributes of Robbins definition :

1. Multiplicity of Ends

As a matter of fact, never come to an end. They are always unlimited. As soon as one want is satisfied, another comes forward. Thus it is the unlimitedness of a person wants that never stops him from working and keeps him engaged in the work of earning money for the satisfaction of his wants.

2. Scarcity of Means

It refers to the limited resources due to which economic problems arise. But if the resources were unlimited, then consequently there would have no economic problems and all the wants would have been satisfied. But it should be noted that the means are scarce with respect to their demand.

3. Selection / Urgency of Wants

It is obvious that some of the wants are more urgent for us as compared to others. Naturally, we go to satisfy our urgent needs / wants first and then the remaining ones. If all the wants are same there would be no urgency to fulfill them and hence no economic problem would arise.

4. Alternative Uses

According to the Robbins definition all the scarce means are capable of alternative uses i.e. they can be put to a number of uses e.g. water can be used for drinking as well as for cooking. The main problem arises that where the utilization should be made first.

5. Human Science

Robbins in his definition has broadened the scope of economics. According to him economics is the study of human behavior as a whole both within and outside the society. It does not restrict the subject matter within specific limits.

Q. 3. Explain the law of Variable Proportions.

[12]

Answer 3.

The law of variable Proportion :

The law of variable proportion has an important place in economic theory. This law exhibits the short-run production functions in which one factor is variable and others are fixed. The extra output obtained by applying extra unit of a variable factor can be greater than, equal to or less than the output obtained by its previous unit. It is this phenomenon which is expressed in the form of law of variable proportions.

In short, we can say, the law of variable proportions states that with increase in variable factor, keeping other factors constant, total product increases at an increasing rate, then increase at diminishing rate and finally starts declining.

The law of variable proportions can be explained in two separate ways :

- (i) in terms of total physical product and
- (ii) in terms of marginal physical product. It is explained as under:

(i) Law of Variable Proportions in terms in TPP

The law of variable proportions shows the relationship between units of a variable factor and total physical product. According to this law, keeping other factors constant, when we increase the units of a variable factor, the TPP first increases at an increasing rate, then at a diminishing rate, and in the last, it declines. Thus the law has following three stages :

Stage I : TPP increases at an increasing rate

Stage II : TPP increases at a diminishing rate

Stage III : TPP declines.

(ii) Law of Variable Proportions in terms of MPP

The law of variable proportions states that with the increase in the units of a variable factor, keeping all other factors constant, the marginal physical product increases, then decreases and finally becomes negative. Thus this law has three following stages :

Stage I : MPP increases

Stage II : MPP decreases but remains positive

Stage III : MPP continues to decrease and becomes negative.

8 ♦ Suggested Answers to Question — EBF

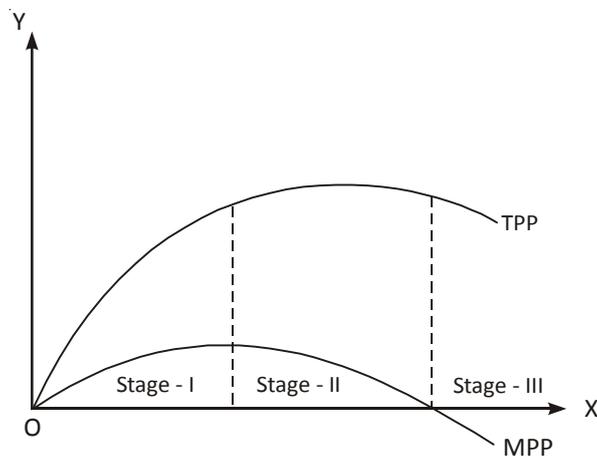
The law of variable proportions is also named as Returns to a variable factors. The law of variable proportions can be illustrated with the help of the following example and diagram :-

Example :

Fixed Factors - Land (Acres)	Variable Factors - Labour (Units)	TPP (Qty.)	MPP (Qty.)	
1	0	0	—	Stage-I
1	1	2	2	
1	2	6	4	
1	3	12	6	
1	4	16	4	Stage-II
1	5	18	2	
1	6	18	0	Stage-II
1	7	14	-4	
1	8	8	-6	

Here, TPP = Total Physical Product & MPP = Marginal Physical Product

In this example, we assume that land is the fixed factor and labour is the variable factor. The table shows that different amounts of output obtained by applying different units of labour to 1 acre of land which continues to be fixed.



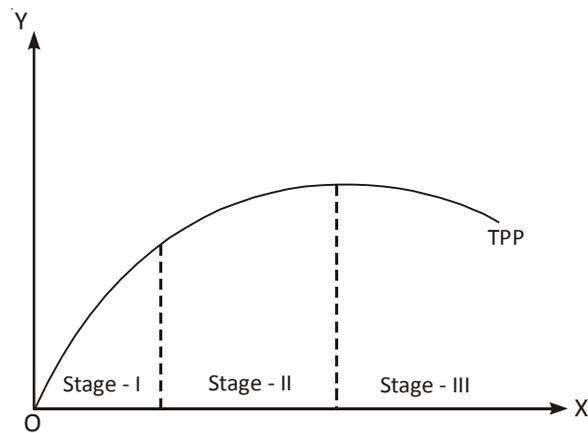
The relation between variable factor and physical output has three stages which are shown in example and diagram.

Tutorial Note :

This is shown with the help of following example and diagram.

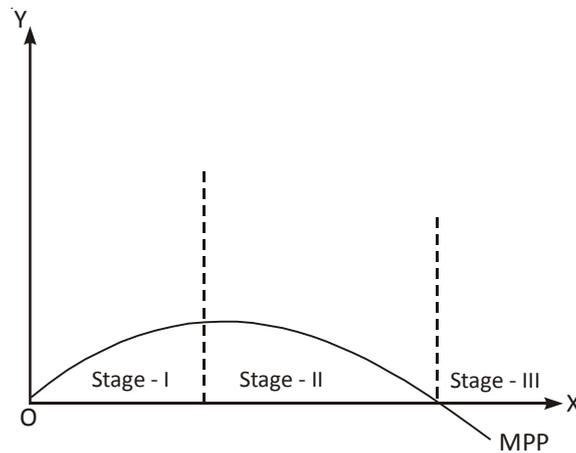
Example :

Units of Labour (Units)	TPP (Qty.)	
0	0] Stage-I
1	2	
2	6	
3	12] Stage-II
4	16	
5	18	
6	18] Stage-III
7	14	
8	8	



This is shown with the help of following example and diagram below :

Units of Labour (Units)	TPP (Qty.)	
1	2] Stage-I
2	4	
3	6	
4	4] Stage-II
5	2	
6	0	
7	-4] Stage-III
8	-6	



Significance of the Three Stages of the Law

What should be the stage of operation for a rational producer? With the knowledge of the three stages of the law, a producer can choose the appropriate stage of its operation. A rational producer would not like to operate in Stage III. It is because in this stage total product declines and marginal product becomes negative. Hence a producer can always increase his output by reducing 'the amount of variable factor. If he operates in stage III, he incurs higher costs on the one hand, and gets less revenues on the other. Thus, it reduces his profits. Similarly a producer does not operate in stage I. In this stage marginal product increase with the increase in a variable factor. It indicates that there is a scope for more efficient utilization of fixed factors by employing more units of a variable factor. A rational producer would not therefore, like to stop in stage I but will expand further.

It is by now very clear that a rational producer never chooses first and third stages for production. He, therefore, likes to operate in the stage II, i.e, the stage of operate in the stage II, i.e. the stage of diminishing returns. In this way stage II of the law of variable proportions is the most relevant stage of operation for a producer.

Q. 4. 'Inflation is unjust, deflation is inexpient but of the two perhaps deflation is worse.' Discuss. [12]

Answer 4.

The statement is true. It has been given by J. M. Keynes.

Meaning of Inflation: Generally when price level of an economy goes on rising continuously it is known as inflation. So the symptom of inflation is rising price level. Inflationary forces are being repressed by policy measures.

Why Inflation is unjust : In a period of inflation Employment, output and income go on rising but the working class suffers because their real wages fall. Now they will have smaller quantity of wage goods in view of high prices and fixed income. It is a legalised decoity.

Meaning of Deflation : Deflation is an economic phenomenon. It is a situation when the price level of an economy goes on falling continuously. Thus it is the reverse of inflation.

Why Deflation is inexpedient : In a period deflation the country suffers from all round depression. There is large-scale unemployment, unused productive capacity and a fall in National Income. In a period of Deflation workers are not likely to suffer from such consequences. Yet in a period of deflation the workers suffer because as production decreases workers are thrown out of employment. Thus both inflation and deflation are harmful for the working class.

Deflation is worst : In a period of demand pull inflation, an economy enjoys prosperity. In a period of inflation the income of the industrialist, businessmen, traders go on rising and these classes of people have a higher propensity to save. This is helpful for capital formation. But in a period of depression these classes of people suffer most. Their income falls leading to a fall in investment, production and employment. If in inflation the bread becomes half, it is wholly lost in deflation due to widespread unemployment.

SECTION - II (40 Marks)

Answer Question No. 5, which is compulsory and any two from the rest of the Section II.

Q. 5. (a) Answer the following :

[1×6=6]

- (i) True test of partnership is
 - (A) Sharing of profit
 - (B) Sharing of loss
 - (C) Active participation in business
 - (D) Mutual agency

- (ii) A bear is
 - (A) A speculator who expects prices to fall
 - (B) A speculator who expects prices to rise
 - (C) An animal
 - (D) An investor

- (iii) Industry and a firm are the same under
 - (A) Perfect completion
 - (B) Monopoly
 - (C) Duopoly
 - (D) Sole-proprietorship

- (iv) A partnership firm carrying on trading business will become an illegal association if the number of members exceed
 - (A) 10
 - (B) 20
 - (C) 7
 - (D) 50

- (v) A private limited company can have debenture holders
 - (A) Without any limit
 - (B) Not exceeding 50
 - (C) Not less than 50
 - (D) Not exceeding 20

- (vi) A shareholder is the
 - (A) Co-owner of the company
 - (B) Co-owner of the assets of the company
 - (C) Co-owner of the shares of the company
 - (D) None of the above

(b) Fill in the blanks : [1×6=6]

- (i) There can be gap a of more than _____ months between two Board Meetings.
- (ii) A _____ limited company need not hold Statutory Meeting.
- (iii) The gap between two Annual General Meetings should not exceed _____ months.
- (iv) Section _____ of the Companies Act deals with resolutions requiring special notice.
- (v) The shares of _____ companies cannot be listed on stock exchange.
- (vi) If a bear is unable to strike the bargain immediately he is set to be struggling like a _____ .

(c) State which of the following statements is 'True' and which is 'False' : [1×6=6]

- (i) Arbitrage is not the business of buying the securities in one stock exchange for selling in another.
- (ii) Grapevine is synonymous of formal communication.
- (iii) Insider trading means trading in the stock exchange on the basis of price sensitive published information.
- (iv) Quorum is the minimum number of members required to hold a general meeting.
- (v) Only listed securities can be traded on a stock exchange.
- (iv) Any meeting of members which is held between two Annual General Meetings is called a board meeting.

(d) Define the following terms in not more than two lines : [1×6=6]

- (i) Semantic barrier to communication;
- (ii) Social responsibility;
- (iii) Sleeping partner;
- (iv) Primary market for securities;
- (v) Debenture;
- (vi) Capital structure.

Answer 5. (a)

- (i) (D) Mutual agency
- (ii) (A) A speculator who expects prices to fall
- (iii) (B) Monopoly
- (iv) (B) 20
- (v) (A) Without any limit
- (vi) (A) Co-owner of the company

Answer 5. (b)

- (i) Three
- (ii) Private
- (iii) Fifteen
- (iv) 190
- (v) Private Limited
- (vi) Lame Duck

Answer 5. (c)

- (i) **True.**
- (ii) **False.**
- (iii) **False.**
- (iv) **True.**
- (v) **True.**
- (vi) **False.**

Answer 5. (d)

- (i) **Semantic barrier to communication** : The difficulty in communication which arise because the same word or symbol means different things to different individuals is called semantic barrier to communication.
- (ii) **Social responsibility** : Responsibility of a business that its activity should not adversely affect the economic welfare of the people. The principle that companies should contribute to the welfare of society and not be devoted to maximizing profits.
- (iii) **Sleeping partner** : A partner who does not take active part in the management of the business is called a sleeping partner. A sleeping partner only contributes his capital to the business and shares in the profits or losses of the firm.
- (iv) **Primary market for securities** : when the securities are offered/issued to public first time it is called the primary market for these securities.
- (v) **Debenture** : Debentures constitute a valid instrument by which long term and medium term financial needs are met by raising loans from the public. Debentures represent loan capital and the debentures are transferable securities as in the case of shares through stock exchanges.
- (vi) **Capital Structure** : Capital Structure refers to the way a company finance its assets through a combination of equity, debt and long-term loan. Hence, the capital structure is how a firm finances its overall operations and growth by using different sources of funds.

- Q. 6. (a)** State the salient features of Limited Liability Partnership. [4]
(b) Write short note on 'Sweat Equity Shares'. [4]

Answer 6. (a)

Salient features of a Limited Liability Partnership (LLP) :

1. There must be at least one partner with unlimited liability. The liability of the remaining partners is limited to their capitals in the firm. Thus, a limited partnership consists of two types of partners, general partner and limited partner.
2. The limited partner cannot take part in the management of the firm. He has not implied authority to represent and bind the firm. However, he is allowed to inspect the books of accounts of the firm.
3. The limited or special partner cannot assign his share to an outsider without the consent of the general partner.
4. The limited partner cannot withdraw any part of his capital.
5. A limited partnership must be registered.

Answer 6. (b)

Sweat equity shares mean equity shares issued at a discount or for consideration other than cash for providing know-how or making available rights in the nature of intellectual property rights or value additions, by whatever name called.

A company may issue sweat equity shares of a class of shares already issue if the following conditions are fulfilled :-

- (a) the issue of sweat equity shares is authorized by a resolution passed by the company in the general meeting;
- (b) the resolution specifies the number of shares the value and the classes of directors or employees to whom such equity shares are to be issued;
- (c) not less than one year has at the date of issue elapsed since the date on which the company was entitled to commence business;
- (d) the sweat equity shares are issued in accordance with the regulations made by the securities and Exchange Board of India in this behalf.

Every holder of shares in a company may at any time nominate in the prescribed manner of shares upon the production of such evidence as may required by the Board may :

- (a) register himself as holder of the share, or
- (b) transfer of the share as the deceased share holder could have been made.

- Q. 7.** What is a Stock Exchange? Discuss the main functions of a Stock Exchange. [8]

Answer 7.

The Securities Contracts Regulation Act, 1956 defines stock exchanges as 'an association, organization or body of individuals whether incorporated or not, established for the purpose of assisting, regulating and controlling business in buying, selling, and dealing in securities'. A close review of the well-known definition brings out the following features of the stock market.

Features :

1. Stock market is an organized market where securities of government and semi-government bodies and corporate enterprises are bought and sold.
2. Stock market deals in second hand or existing securities.
3. Individuals alone can buy and sell securities. The stock market does not provide this facility to corporations and partnership firms.
4. In the Stock market only those securities which are listed in the stock market are transacted. Unlisted securities are not permitted to be dealt in the market.
5. Stock market may be a registered or unregistered body. It is not always necessary for a stock exchange to incorporate it under the Companies Act.
6. Transactions in the stock market must adhere to the rules and byelaws framed by the stock exchange to regulate its day-to-day operations.

Stock exchange performs the following economic functions :

1. Provides ready and continuous market.
2. Facilitates regular valuation of securities.
3. Encourages capital formation.
4. Provides proper direction to invest capital.
5. Ensures wide ownership of securities.
6. Facilitates distribution of new securities.
7. Ensures safety of funds.
8. Regulates company management and performance.
9. Disseminates information.
10. Mirror of business cycle.
11. Facilitates for speculation in the securities.

The above account of the various functions performed by a stock exchange shows that it is really an important institution of a country. In short, capital formation, investment, industrial growth, economic developments are interrelated of benefits that emerged from the efficient working of stock exchanges in a country.

Q. 8. (a) What is a special resolution? Give any four matters for which special resolution is required.

[4]

(b) Discuss the role of a CMA in a manufacturing concern.

[4]

Answer 8. (a)

A resolution shall be a special resolution when the votes cast in favour of the resolution by members present in person or, where proxies are allowed, by proxy, are not less than three times the number of votes, if any, cast against the resolution and the has been duly specified in the notice calling the meeting

[See 189(2)]. In other words, this is a resolution passed by a majority of at least 75 per cent of votes of members present in person or by proxy and a mention of the fact that the resolution shall be passed as a special resolution must have already been made in the notice of the meeting and the notice should have been duly given at least 21 days before the date of the meeting.

The Companies Act has also specified certain matters, for which a special resolution must be passed such as :

- (i) to alter the memorandum of the company (Sec. 17),
- (ii) to alter the articles of the company (Sec. 31),
- (iii) to issue further shares with pre-emptive rights (Sec. 81),
- (iv) for creation of Reserve Capital (Sec. 99),
- (v) to reduce the share capital (Sec. 100),
- (vi) to pay interest out of capital to members (Sec. 208),
- (vii) authorizing a director to hold an office or place of profit (Sec. 314),
- (viii) voluntary winding up of a company (Sec. 484).

Answer 8. (b)

A Cost and Management Accountant (CMA) in a manufacturing organisation plays several important roles :

- (i) He establishes a cost accounting department in his concern.
- (ii) He ascertains the requirement of cost information which may be useful to organisational managers at different levels of the hierarchy.
- (iii) He develops a manual, which specifies the functions to be performed by the cost accounting department. The manual also contains the format of various forms which would be utilised by the concern for procuring and providing information to the concerned officers. It also specifies the frequency at which the cost information would be supplied to a concerned executive.

Usually, the functions performed by a cost accounting department includes cost ascertainment, cost comparison, cost reduction, cost control and cost reporting.

- a. **Cost ascertainment** : It requires the classification of costs into direct and indirect. Further it requires classification of indirect costs (known as overheads) into three classes viz., factory overheads; administration overheads and selling and distribution overheads. Cost accountant suggests the basis which may be used by his subordinates for carrying out the necessary classifications as suggested above.
- b. **Cost comparison** : It is the task carried out by Cost Accountant for controlling the cost of the products manufactured by the concern. Cost Accountant of the concern establishes standards for all the elements of cost and thus a standard cost of the finished product. The standard cost so determined may be compared with the actual cost to determine the variances. Cost accountant ascertains the reasons for the occurrence of these variances for taking suitable action.
- c. **Cost analysis** : It may also be made by Cost Accountant for taking decisions like make or buy and for reviewing the current performance.
- d. **Preparation of Cost Reports** : Cost accountant also plays a key role in the preparation of cost reports. These reports help the executives of a business concern in reviewing their own performance and in identifying the weak areas, where enough control measures may be taken in future.