

Biyani's Think Tank

Concept based notes

Management Accounting I

MBA

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Preface

I am glad to present this book, especially designed to serve the needs of the students. The book has been written keeping in mind the general weakness in understanding the fundamental concepts of the topics. The book is self-explanatory and adopts the “Teach Yourself” style. It is based on question-answer pattern. The language of book is quite easy and understandable based on scientific approach.

Any further improvement in the contents of the book by making corrections, omission and inclusion is keen to be achieved based on suggestions from the readers for which the author shall be obliged.

I acknowledge special thanks to Mr. Rajeev Biyani, *Chairman* & Dr. Sanjay Biyani, *Director (Acad.)* Biyani Group of Colleges, who are the backbones and main concept provider and also have been constant source of motivation throughout this endeavour. They played an active role in coordinating the various stages of this endeavour and spearheaded the publishing work.

I look forward to receiving valuable suggestions from professors of various educational institutions, other faculty members and students for improvement of the quality of the book. The reader may feel free to send in their comments and suggestions to the under mentioned address.

Varsha

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Chapter-1

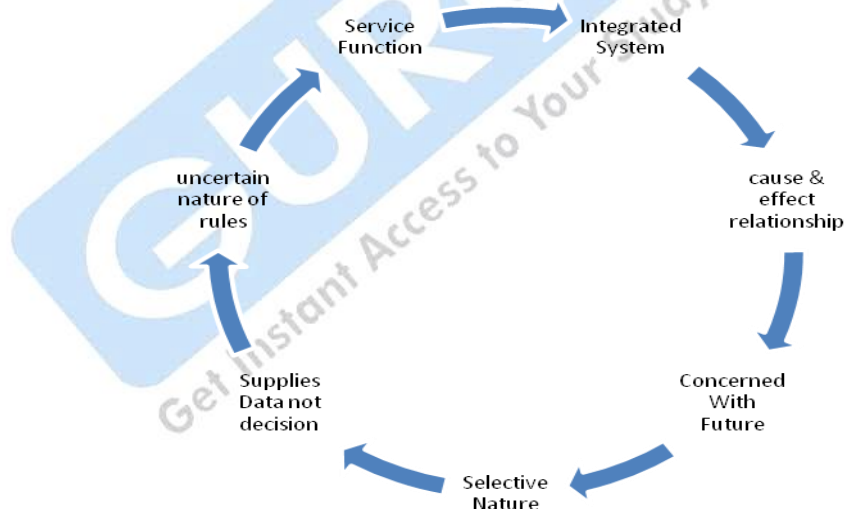
Introduction of Management Accounting

Q.1 Explain the meaning of 'Management Accounting'? State its main characteristics and Nature.

Ans. Management accounting is a systematic approach to planning and control functions of management. It generates information for establishing plans & controls and provide information for a systems of setting standards plans or targets and reporting variances between plans and actual performance for corrective actions. In this way that part of accounting system which facilities the Management process of decision making is called Management Accounting.

Management Accounting includes every accounting technique which may be useful to management in discharging its function Planning Organizing directing coordinating communicating & controlling thus Management Accounting is the accounting Services to management is of accounting of management point of view that why is called Management oriented accounting or Accounting for Management.

Nature Or Characteristics of management Accounting



Q.2 Distinguish between the Financial Accounting & the Management accounting?

Comparison between Financial Accounting & Management Accounting.

Ans.

Comparison Basis	Financial Accounting	Management Accounting
Nature	Concerned with the Historical Records	Its deals in projection of data
Accounting Principals	Governed by generally accepted accounting principles & conventions	Not bound to follow such accounting principles & conventions
Subject Matter	Prepared for the business whole	Prepared for the each unit/department/ division.
Period	Usually for a period of 12 Months	Regular Intervals
Compulsion	Compulsory Or Statutory	Voluntary Basis
Reporting	Provides information regarding the financial soundness & earning capacity of the firm	Provides information to the management for efficient operation of business.
Scope	Not vast	More wide
Publication & Audit	Financial Statement like profit & Loss and balance Sheet are published for the use of general public. They are audited by CA	The publication and audit of management accounting reports is neither feasible nor mandatory.
Objective	Financial accounting is Recording business transaction in a systematic way & assess the business result and financial position of a concern	Is to provide necessary information to the management for the efficient execution of its function

Q.3 What are the tools and techniques used in management Accounting?

Ans. Following tools and techniques are used in management accounting:-

- Financial planning
- Analysis of Financial Statement
- Historical Cost Accounting.
- Responsibility Accounting.
- Control Accounting
- Revaluation Accounting
- Decision Accounting
- Statistical Methods

- Management Information System
- Mathematical Techniques
- Taxation



Chapter-2

Introduction of Management Accounting: Basic Financial Accounting

Q.1 What is the meaning of accounting and discuss its objective & functions in light of Morden business world?

Ans. Accounting is the art of recording, Classifying and Summarizing in a significant manner and in terms of money, transaction and events in which are, in part or least of a financial character and interpretation the result thereof Accounting may be described as an art of recording presenting interpretation and communicating the business transaction of financial nature in a systematic and orderly manner.

Objectives of Accounting

- a. To maintain the systematic Records of the organisation
- b. To Analysis the profit & Loss
- c. To Examine the financial position of the business
- d. To Provide the Decision making
- e. To provide information to other groups for example (Management , owners , Investors, creditors, banks)

Activities or Function of Accounting



Q.2 Discuss the management accounting concepts?

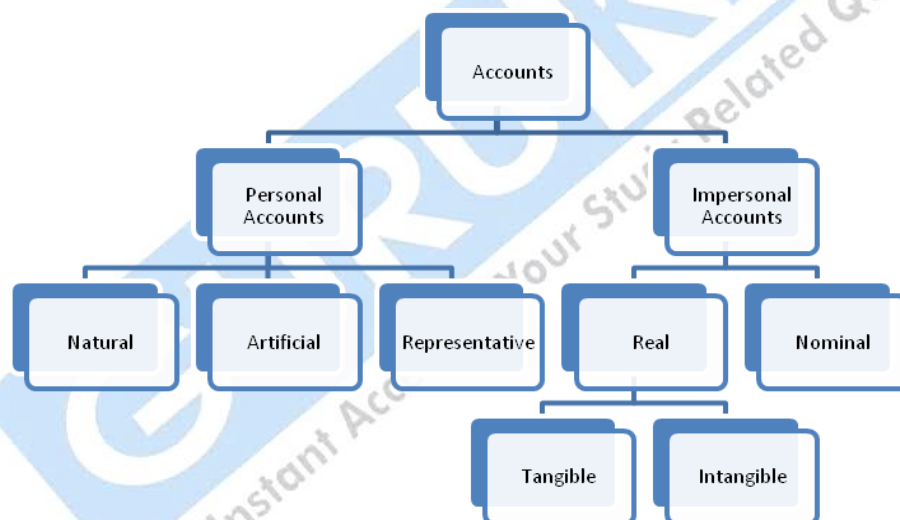
Ans. **Accounting Concept:**

- (1) **Entity Concept:** according to this concept business is treated as a Separate Entity it is different from its owners, creditors, managers. Owners are also treated as creditors of the organization.
- (2) **Dual Aspect Concept:** Every Transaction has a two sides (a) Debit side (B) Credit side
- (3) **Going Concern Concept:** this concept assumes that business will continue to exist for the long run.
- (4) **Accounting Period Concept:** Financial year (1 April to 31 March)

- (5) **Money Measurement Concept:** In Management Accounting only those transaction & events are included which are capable of being expressed in the terms of money.
- (6) **Cost Concept:** value of assets is calculated on the basis of acquisition cost.
- (7) **Matching Concept:** the determination of profit of a particular accounting period is essentially a process of matching the revenue recognised during the period and the cost to be allocated to the period to obtain the revenue.
- (8) **Accrual Concept:** this concept is concerned with the period in which the revenues and expenses are to be related.
- (9) **Verifiable & objective:** this concept means all the transaction that are recorded in the books of accounts should be proved true or genuine.

Q.3 “Every business transaction has two fold aspects”. Explain this statement and discuss the principle on which these aspects are recorded in the books of accounts?

Ans. Classification of Accounts



Personal Accounts: Related to individual, Firm, Company, or an institution. (Ram, Mohan, Capital a/c, Debtors, creditors a/c)

(A) Natural personal a/c : means Accounts of human being

(B) Artificial a/c: these do not have physical existence but they work as personal account.

(C) Representative a/c : when account represent a particular person or group of person .

Real Account: These account related to those entire thing whose value can be measured in the terms of money and those are the properties of the business. These account also divided into the two parts (tangible) & (intangible)

(Cash a/c, furniture account, goodwill a/c)

Nominal Account: These accounts related to income and expenses. (rent paid,

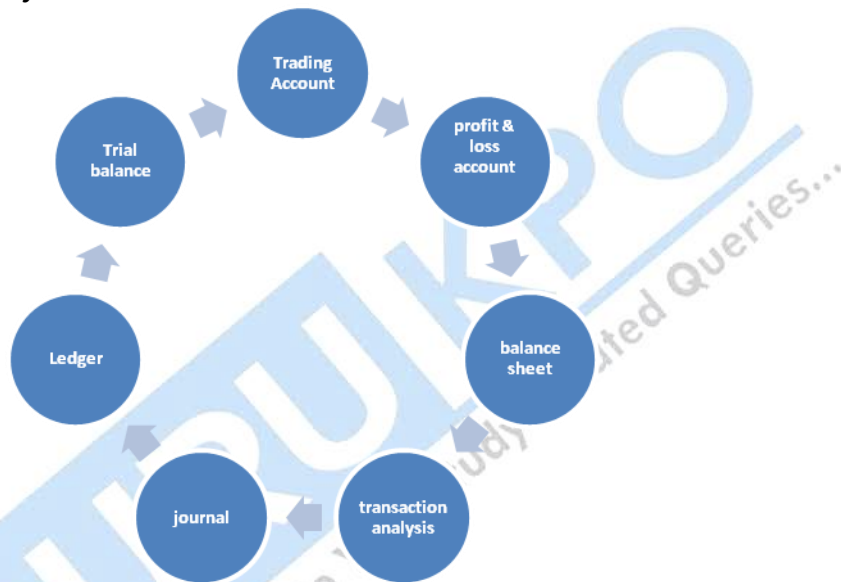
salary paid , bad debts)

EBIT & CREDIT RULES

<u>Account name</u>	<u>Debit</u>	<u>Credit</u>
Personal Account	receiver	giver
Real Account	What comes in	What goes out
Nominal Account	The expenses & losses	Incomes & gains

Q4 Discuss the accounting cycle and name the important books of original entry?

Ans. Accounting Cycle



Journal : It is a book of original entry and all transactions are listed in the chronological order day to day.

Journal Performa

Date	Particulars	L.F.	Debit amount	Credit Amount

Types and sub Division of journal

Cash Book	It records cash receipt and Payments
Purchase day book	It records credit purchase of goods
Sales Day Book	It records credit sales of goods
Return out ward book	It records goods return to the supplier
Return inward book	It records goods return by the customer
Bills receivable book	It records bills accepted by the customer
Bills payable book	It records bills raised by the suppliers
Journal Proper	It records all residual transaction

Ledger:

ledger is a summary statement of all the transaction related to the particular person ,assets, expenses ,income or gain.

Ledger Performa:

Dr.

Cr.

Date	Particulars	J.F	Rs.	Date	Particulars	J.F	Rs.

Trial Balance:

A trial Balance may be defined as a statement of debit and credit tools or balances extracted from the various accounts in the ledger with a view to testing the arithmetic accuracy of the books.

Trial Balance

S.No	Particulars	L.F	Amount (DR)	Amount (CR)

Final Account:

After recording all the transaction in the books of journal, Ledger, and the trial balance the proprietor prepare the income statement or Trading and profit & loss account to show the net the result of the business. and Balance sheet shows the actual Financial position of the business. all these accounts are called the final accounts.

Multiple Choice Questions

- Q1**is a summary statement of all the transaction related to the particular person, assets, expenses, income or gain.
(A) Ledger (B) trial balance (C) Journal (D) Final Accounts
- Q2** Book of original entry is known as
(A) Ledger (B) trial balance (C) Journal (D) Final Accounts
- Q3** Which account is related to income and expenses?
(A) Personal (B) real (C) Nominal (D) all of the above
- Q4** Which account do not have physical existence but they work as personal account.
(A) Natural account (B) artificial account (C) representative account
(d) none of the above
- Q5** Which concept assumes that business will continue to exist for the long run.
(A) Dual concept (B) going concern (C) business entity concept
(D) Matching concept
- Q6** Goodwill is the example of
(A) Personal (B) real (C) Nominal (D) all of the above
- Q7** Rent paid is the example of
(A) Personal (B) real (C) Nominal (D) all of the above
- Q8** When account represents a particular person or group of person is called
(A) Natural account (B) artificial account (C) representative account
(d) none of the above
- Q9** Which book carries the record goods return to the supplier?
(A) Cash book (b) Purchase return book (C) Sales return book
(D) none of the above
- Q10** concept is concerned with the period in which the revenues and expenses are to be related.
(A) Accrual concept (B) going concern (C) business entity concept
(D) Matching concept

Case Study

Enter the following transaction in various subsidiary books and post them into the ledger accounts and prepare a trial balance as at 31.8.2010

2010		
Aug 1	Mr Pankaj started business with cash	65000
Aug 3	Bought furniture from Modi furniture Mart	6000
	Bought goods for cash	9000
	Purchased goods from Baby & Co for the trade discount @20%	15000
	Deposited into the bank	21000
	Sold goods for cash	600
	Purchased stationery from Bhagat stationery Mart	12000
	Sold goods to Amir	2000
	Goods returned by Amir payment to baby & company by cheque	5000
	Goods purchased on credit from Veera & co	10000
	Goods returned to veera &co	1000
	Paid electricity Charges	
	Cash Sales	
	Withdraw from bank for private purpose	

Chapter-3

Preparation of Final Account

Q1 What do you mean by final account?

Ans. After recording all the transaction in the books of journal, Ledger, and the trial balance the proprietor prepare the income statement or Trading and profit & loss account to show the net the result of the business. and Balance sheet shows the actual Financial position of the business. all these accounts are called the final accounts.



Q2 Which adjustment entries are required to made at the time of preparing the final account?

Ans Adjustments:

S.No.	Items Of Adjustment	Adjustment entry	Treatment in trading & P&L Account	Treatment in balance Sheet
1	Closing Stock	Closing Stock To Trading	Shown in the Credit Side of the Trading A/c	Shown on the Assets side as A current assets
2	Outstanding Expenses	Respective Expenses a/c To Outstanding expenses	Added to the respective expenses on the debit side	Shown on the liability side as a current liability
3	Prepaid Expenses	Prepaid Expenses To Respective Expenses	Deducted From the respective expenses on the debit side	Shown on the assets side as a current assets
4	Accrued Income	Accrued income To Respective Income	Added to the respective income in the credit side	Shown on the assets side as a current assets
5	Unearned Income	Respective account To unearned	Deducted from the respective income on the	Shown on the liability side as current

		Income	credit side	liability
6	Depreciation	Depreciation To Respective income	Shown on the debit side as a separate item	Shown on the assets side by way of deduction on the value concerned
7	Additional bad Debts	Bad Debts A/c TO Sundry Debtors	Shown in Dr. of the P&L account	Shown on the assets side by way of deduction from the amount of sundry debtors.
8	Provision of Doubt full debts	P&L A/c TO Provision of doubtful debts	Shown on the debit side as a separate item	Shown on the assets side by way of deduction from the amount of sundry debtors(net of additional bad debts
9	Provision of discount on debtors	P&L To provision for discount on Debtors	Shown on the debit side as separate item	Shown on the assets side by way of deduction from the amount of Sundry debtors
10	Reserve for Discount on the Creditors	Reserve for Discount on Creditors To P&L A/c	Shown on the credit side as Separate Item	Shown on the liability side by way of deduction from the amount of sundry creditors
11	Interest on capital	Interest on capital/c To capital	Shown on the Debit side as a separate item	Shown on the liability side by way of addition to the Capital

12	Interest on Drawing	Capital A/c To Interest on Drawing	Shown on the Credit Side as a spate item	Shown on the liability side by way of deduction from the capital
13	Manager Commission on profit	Manager Commission To Out Standing Commission	Shown on the Debit side as a separate item	Shown on the liability side as a current liability

Q3 What are the components of the final account?

Ans After recording all the transaction in the books of journal, Ledger, and the trial balance the proprietor prepare the income statement or Trading and profit & loss account to show the net the result of the business. And Balance sheet shows the actual financial position of the business. All these accounts are called the final accounts.

Trading Account

Trading account is shows the result of buying and selling of goods during the given period of time and its prepared for calculating the gross profit and gross losses.

Trading Account

For the year ended.....

Particulars	Amount	Particulars	Amount
To opening Stock		By Sales	
To Purchase		Less: Sales Return	
Less: Purchase return		By closing Stock	
Less goods otherwise given away		By Gross Loss c/d	
To Direct Expenses			
To wages			
To carriage inward			
To wages			
To manufacturing Expenses			
To power			
TO Factory Lighting			
To coal water & Gas			
To Fuel & power			

To Import Duty To Factory Rent To Productive Expenses To Excise Duty To warehousing Expenses To Wages & Salary TO Octroi To Custom Duty TO Dock Charges To Royalty To Consumables Stores To Railway Freight To Gross Profit C/d			
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Profit & Loss Account

P&L account calculate the net profit or net loss of an undertaking of a certain period .In the beginning gross profit is recorded in the Cr. Side

and Gross losses in the Dr. of the P&L account. Then all the income and expenses are recorded

Profit and losses account

Particulars	Amount	Particulars	Amount
TO Gross losses b/d		By Gross Profit	
To Management Expenses		By Other income	
To rent & Taxes		By Discount received	
To lighting Charges		By Commission Received	
To printing & Stationary		By Non Trading Income	
To Postage and Telephone charges		By Interest Received	
To Legal Expenses		By Rent Received	
To general Expenses		Dividend	
To Insurance Premium		By Interest on Debenture Received	
To Maintenance Expenses		By Apprentice Premium	
To Depreciation		By Abnormal gain	
		By Profit on sale of assets	
		By Net Losses	

To repairs & Renewals To Selling & Distribution Expenses To travelling Expenses To bad debts To Export Houses To carriage outwards To agent commission paid To Samples To Financial Expenses To Discount allowed TO Bank Charges Interest on Capital Interest on loan Discount on Bills To Abnormal Losses Loss by Fire Cash Defalcation Loss on sale of Assets To Net profit			
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Balance Sheet

Balance Sheet Shows the Financial Position of the business on the last day of the accounting year and discloses the all the assets and liability of the business.

Balance sheet

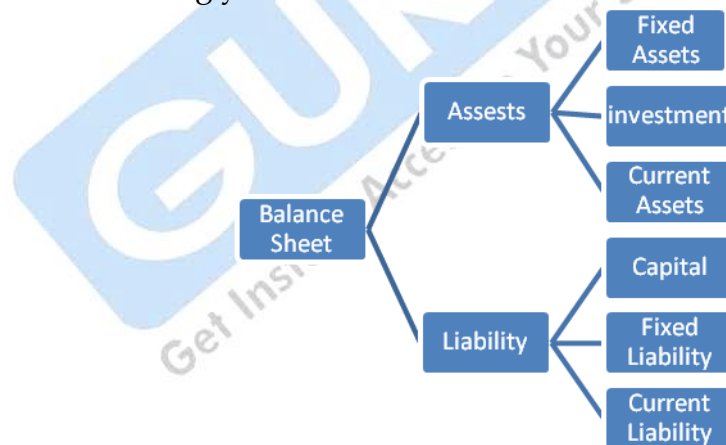
Balance sheet of.....as at.....

Liability	Amount	Assets	Amount
Capital		Fixed Assets	
Opening balance		Goodwill	
Add: Net Profit		Land	
(Less: Net losses)		Building	
Less: Drawing		Plant & Machinery	
		Furniture & Fixtures	
Long Term Capital Loan		Investment	
Current liabilities		Current assets	
Income in Advances		Closing Stock	
Sundry creditors		Accrued Income	
Outstanding Expenses		Prepaid Expenses	
Bills Payable		Sundry debtors	
Bank overdraft		Bills Receivable	
		Cash at bank	
		Cash in hand	

Q3 Explain the classification of assets & Liabilities?

Ans Balance Sheet

Balance Sheet Shows the Financial Position of the business on the last day of the accounting year and discloses the all the assets and liability of the business.



Balance sheet

Balance sheet of.....as at.....

Liability	Amount	Assets	Amount
Capital		Fixed Assets	
Opening balance		Goodwill	
Add: Net Profit		Land	
(Less: Net losses)		Building	
Less: Drawing		Plant & Machinery	
		Furniture & Fixtures	

Long Term Capital Loan Current liabilities Income in Advances Sundry creditors Outstanding Expenses Bills Payable Bank overdraft		Investment Current assets Closing Stock Accrued Income Prepaid Expenses Sundry debtors Bills Receivable Cash at bank Cash in hand	
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Case study

- Q1 With the help of imaginary figures prepare the final accounts. The following is the trial balance of Mr Shyam as on 31st March 2007 you are required to prepare the final accounts

Particulars	DR. (amount)	CR.(amount)
Capital account		100000
furniture	20000	
Purchase	150000	
Debtors	200000	
Interest earned		4000
Salaries	30000	
Sales		321000
Purchase return		5000
Wages	20000	
Rent	15000	
Sales Return	10000	
Bad debts written off	7000	
creditors		120000
Drawing	24000	
Provision for bad debts		8000

Printing & Stationary	8000	
Insurance	12000	
Opening Stock	50000	
Office Expenses	12000	
<p>Additional information</p> <p>Depreciation on furniture by 10%.</p> <p>Provision of doubtful debts created to the extent of 5% on debtors.</p> <p>Salary for the month March, 2007 amounting to Rs. 3000 was unpaid which may be provided for. However salaries included Rs, 2000 paid in advance.</p> <p>Insurance amounting rs,2000 is prepaid</p> <p>Outstanding office expenses Rs.8000.</p> <p>Stock used for the private purpose Rs.6000</p> <p>Closing stock is Rs.6000</p>		

Multiple Choice Questions

- Q1** is shows the result of buying and selling of goods during the given period of time and its prepared for calculating the gross profit and gross losses.
 Trading account (B) P&L Account (C) Balance sheet
 (D) None of the Above
- Q2** **Financial Position of the business shows by the**
 Trading account (B) P&L Account (C) Balance sheet
 (D) None of the Above
- Q3** **Opening stock comes in**
 (A) Trading account (B) P&L Account (C) Balance sheet
 (D) None of the Above
- Q4.** **If the Sold goods are return by the customer then it is known as**
 (A) Purchase return (B) sales return (C) Drawing (D) none of the above
- Q5** **Those assets which are held in the form of cash is called**
 (a) Current assets (B) Fixed assets (c) Investment
 (D) Current liability

- Q6 Productive Expenses comes in.....**
(A) Trading account (B) P&L Account (C) Balance sheet
(D) None of the Above
- Q7 Sample is the example of...**
(A) Management expenses (B) Selling & distribution expenses
(C) Financial Expense (D) None of the above
- Q8 Interest received is related to**
(A) Trading account (B) P&L Account (C) Balance sheet
(D) none of the above
- Q9 Amount invested by the owner in his business.**
(A) Capital (B) Liability (C) Assets (D) none of the above
- Q10 Sales return is related to**
(A) Trading account (B) P&L Account (C) Balance sheet
(D) None of the Above

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Chapter-4

Ratio Analysis

Q1 Explain the meaning of ratio analysis? Give significance or objective of Ratio Analysis?

Ans. Ratio Analysis

Ratio Shows the Arithmetic relationship between figures drawn from the financial Statements. the relationship has two types

- (1) Associate Relationship (cost of goods Sold & cost of Raw Material)
- (2) Cause & Effect Relationship (Sales & Profit)

Expression of ratios.

(A) Ratio As Proportion : (Current assets are RS. 6000 and current liability 2000 the ratio between current assets and current liability is 3:1)

(B) Ratio As turnover: (ratio of turnover written in times) sales of the year are 16000 and fixed assets are 4000. It indicates that sales are 4 times of the fixed assets.

(C) Ratio As Percentage: (expressed in terms of percentage) Sales are 80000 and gross profit is 20000, the gross profit is 25 % of Sales.

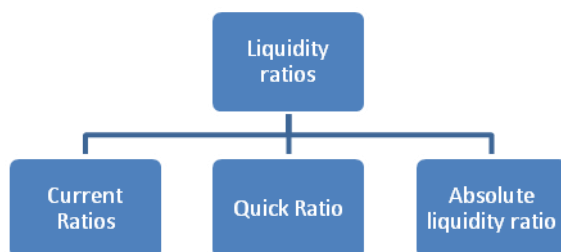
Objectives of ratio Analysis

- Determine the Liquidity position
- Easy to calculate accounting Figures
- Measure long Term efficiency
- Determine Operational Efficiency
- Calculate profitability
- Helpful in inter firm & Intra Firm Comparison
- Helpful in Planning & Control
- Helpful in Decision Making

Q2 “Ratio Analysis plays an important role in the process of decision making”.

Examine this statement and explain the liquidity & Activity Ratio?

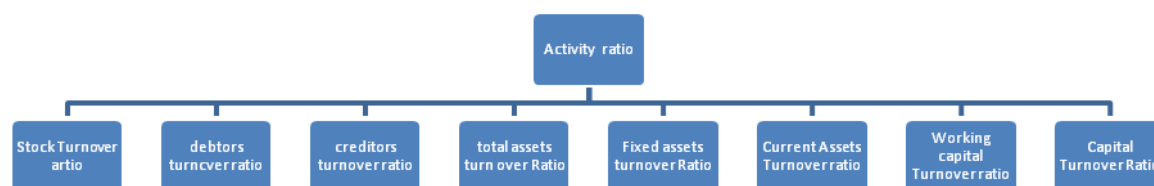
Ans. Liquidity ratios: liquidity ratio measure the ability of the firm to meet its short term obligation out of its short term resources



Ratio name	Formula	Ideal Ratio	Interpretation
Current ratio	Current assets/ Current liability	2:1	High: <ul style="list-style-type: none"> • Good for the creditor's point of view. Low: <ul style="list-style-type: none"> • Not good for the management point of view. • Funds Employed in unproductive uses. • Poor credit management • Indicates poor investment policy.
Quick Ratio/acid test ratio	Current assets- (Stock+ Prepaid Expenses)/ current liabilities	1:1	High: Financial position & instant paying capacity of the firm is sound Low: : Financial position & instant paying capacity of the firm is not sound
Absolute liquidity ratio	Absolute liquid assets/ Quick & liquid Liability Absolute Liquid assets: (cash bank & marketable security) Quick & liquid Liability: (include all current liability except bank Overdraft.	0.5:1	

Activity or Efficiency ratio

Funds of the organization are invested in various assets to generate the sales and profit. The better the management of these assets, the larger the amount of sales. This ratio is able to know how these assets are efficiently employed by it. This ratio shows the speed with which assets are being converted into sales.



Ratio Name	formula	Computation	Interpretation
Inventory Turnover Ratio	Cost of Goods sold / Average Inventory at cost	Cost of goods sold = Opening Stock + Purchase + Direct Expenses - Closing Stock Average Stock = Opening Stock + Closing Stock / 2	This ratio explains the no. of times finished stock is turned over during a given accounting period in relation to sales. Also Shows investment in inventory in proper limit or not.
Debtors or Receivable Turnover Ratio	$\frac{\text{Net Sales}}{\text{Average Receivables} \left(\frac{\text{Drs} + \text{B/R}}{2} \right)}$	Average receivables = $\frac{\text{opening debtors and B/R} + \text{Closing Debtors and B/R}}{2}$ Credit Sales = All Credit sales - Sales Return	Ratio shows the no of times the receivables are turned over in a year relation to sales. How fast debtors converted into the cash High : Shows the efficiency in collection Low : denotes inefficiency in collection of debtors.
Average Collection period	$\frac{\text{Total or average receivables} \left(\frac{\text{Drs} + \text{B/R}}{2} \right)}{\text{Credit sales per day}}$	$\frac{\text{Credit sales per day}}{\text{Net credit} / 365}$	It calculate the number of days over which the debtors and bills receivables uncollected Shorter time denotes the prompt payment & longer time shows delays in payment.

<p>Total assets turnover ratios</p> <p>Fixed assets turnover ratio</p> <p>Current turnover ratio</p>	<p>Net sales or cost of goods sold/total assets</p> <p>Net sales or cost of goods sold/fixed assets</p> <p>Net sales or cost of goods sold/current assets</p>	<p>All fixed assets+ current assets but adjusted depreciation.</p>	<p>High ratio indicates of effective utilization investment in assets, low ratio shows assets are not properly utilized in comparison to sales</p>
<p>Working capital turnover ratio</p>	<p>Net sales or cost of goods sold/net working capital</p>	<p>Net working Capital = Current assets- Current liability</p>	<p>High: indicates the efficient management of working capital or over trading (low investment in working capital and high profits)</p> <p>Low: indicate funds are not utilized efficiently.</p>
<p>Capital turnover ratio</p>	<p>Net sales or cost of goods sold/capital employed</p>	<p>Capital employed is calculate either b deducting current liabilities from the total assets or by adding the long term loans in shareholder funds(share capital + reserve & surplus) Fictitious Assets and non trading assets are excluded from the assets.</p>	<p>Higher the ratio the Quicker the rotation of capital to generate the higher the sales which leads to higher profitability.</p> <p>Lower ratio indicate that either the capital is lying idle or the capital is not being used indefinite to generate enough sales</p>

Q.3 How would you analysis the financial position of the company with the help of leverage ratios.

Ans. Leverage ratios or capital structure ratio are calculated to judge the long-term solvency or financial position of the firm. These ratios show how much amount in introduced by the owner in business and generally these ratios beneficial to the long-term creditors.

The important capital structure ratios are

Debt-Equity Ratio: -This ratio indicates the relationship between internal and external sources of funds, which measures the relative proportion of debt and equity in financing the assets of the firm.

Total Debts/ Shareholders fund or Net worth

Proprietary ratio: This ratio establishes a relationship between shareholder's fund and total assets of the business.

Proprietary fund /total Assets.

Solvency ratio: Solvency or Debt to total Assets Ratio: - This ratio is calculated to measure the long-term solvency of business. This ratio shows the relationship between total asset and outside liabilities.

Total liability/ total assets

Fixed Assets Ratio: This ratio is also called 'Capital Employed to fixed Assets Ratio'. It shows the relationship between long-term funds and fixed assets.

Fixed Assets/ Capital Employed

Capital Gearing Ratio :- This ratio shows the relationship between fixed cost bearing capital and variable cost bearing capital. It is mainly used to analyze the capital structure of the company.

Capital Gearing Ratio= (Fixed cost bearing capital/ Variable cost bearing Capital)

Q.4 What is the meaning of profitability ratio and explain any two profitability ratios.

Profitability ratio: the ability of the firm to earn the maximum profit by the best utilization of the resources is known as profitability. Profitability depends on the many factors example sales, cost of production, and use of financial resources.

There are two types of profitability ratios

- (1) Ratio Based on sales
- (2) Ratio based on capital or assets.

Ratio Name	formula	Computation	Interpretation
Gross profit ratio	$(\text{Gross profit/ Net sales}) \times 100$		Higher the ratio: Greater will be the margin.
Operating ratio	$(\text{Operating cost/Net sales}) \times 100$ $(\text{cost of goods sold} + \text{operating Expenses}) / \text{Net Sales} \times 100$	Cost of goods sold= Opening Stock +Purchase +Direct Expenses-Closing Stock Operating Expense=	It shows the operational efficiency and profit earning capacity of the business. Lower the ratio higher the profit to

		(administrative Expenses+ selling & distribution expenses)	recover non operating expenses such as interest dividend etc. and vice versa.
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Case study

Q.1 With the help of this ratios prepare the projected balance sheet,

Estimated sales	450000
Sales to net worth	2.5 times
Total debt to net worth	65%
Current liability to net worth	25%
Current ratio	3.6
Sales to inventory	5 times
Average collection period	36 days in a year (360 days)
Fixed assets to net worth	75%

Multiple Choice Questions

- Q.1 Cost of Goods Sold means:**
(A) Opening Stock+ Purchase+ Direct Expenses-Closing Stock
(B) Opening Stock- Purchase+ Direct Expenses-Closing Stock
(C) Opening Stock+ Purchase -Direct Expenses-Closing Stock
(D) none of the above
- Q.2 Ratio establishes a relationship between shareholder's fund and total assets of the business.**
(A) Proprietor ratio (B) turnover ratio (C) Solvency ratio
(D) no one of the above
- Q.3 Ratio is calculated to measure the long-term solvency of business.**
(A) Proprietor ratio (B) turnover ratio (C) Solvency ratio
(D) no one of the above
- Q.4 Quick Ratio/acid test ratio is**
(A) Current assets- (Stock+ Prepaid Expenses)/ current liabilities
(B) Current assets/current liability
(C) Current liability/ current assets
(D) None of the above
- Q.5 Credit sales per day =**
(A) Net credit /365 (B) total purchase/365 (C) all of the above
(D) none of the above
- Q.6 Ideal Absolute liquidity ratio**
(A) 2:1 (B) 1:1 (C) 05:1 (D) none of the above
- Q.7 Ratio indicates the relationship between internal and external sources of funds,**
(A) Debt Equity ratio (B) turnover ratio (C) Solvency ratio
(D) no one of the above
- Q.8 Gross profit ratio**
(A) Gross profit/ Net sales
(B) (gross profit sales / net sales)*100
(C) Net profit/ net sales
(D) None of the above
- Q.9 Ratio is also called 'Capital Employed to fixed Assets Ratio'**
(A) Fixed assets ratio (B) Proprietor ratio (c) turnover ratio

(d) Solvency ratio

Q.10 Net working Capital

- (A) Current assets- Current liability
- (B) Current liability- Current assets
- (C) Gross profit - net profit
- (D) none of the above



Chapter-5

Fund Flow Analysis

Q.1 Explain the meaning of fund flow statement. Discuss its uses and limitation?

Ans. The effectiveness of the financial management depends on the procuring the funds from various sources and using them effectively for generating income. Fund Flow analysis provide the information about the different source of funds and their various uses or sources of inflows and outflows of the funds
As per accounting standard issued by ICAI, "A statement which summarizes for the period covered by it the changes in financial position including the sources from which the funds were obtained by the enterprises and the specific uses to which funds were applied.

Uses of the fund flow Statements

- Helpful in Financial Planning & Financial Analysis
- Helpful to give the knowledge of managerial policies
- Useful in comparative analysis
- Helpful to know the business problems
- Economic Analysis.

Limitation of fund flow statement

- Ignores non fund items
- Historical Analysis
- Lack of information
- Misleading Conclusion

Q.2 What are the various sources or uses of the fund?

Sources and the uses of the funds

<u>Sources</u>	<u>Uses</u>
<ul style="list-style-type: none">• Profit from operation• Increase in the long term liability• Increase in the share capital• Sale of fixed assets• Non trading receipts	<ul style="list-style-type: none">• Loss from operation• Decrease in long term liability• Decrease in capital fund• Purchase of fixed assets• Non trading payments

Distinguish between the following

- (A) Fund flow statement & balance Sheet
 (B) Fund flow statement and the income statement

Ans.

Difference between the fund flow statement & balance Sheet

	<u>Fund flow Statement</u>	<u>Balance sheet</u>
Nature	Dynamic in nature	Static in nature
Subject matter	It included the items causing changes in the working capital	It includes the balances of real personal accounts of ledger assets and liabilities and shows the total resources of the firm full life period
Utility	Useful in decision making	Examine the soundness of the firm
users	Internal management	External parties
preparation	It is the exercise of post balance sheet	End product of all accounting period

Objective	Funds raised are matched with the uses	Expenses are matched with the income
Dependency	Not helpful in preparing income statement	Helpful in preparing the fund flow statement
utility	It is related to the movement of cash and all other items affecting the working capital	Highlights the operating result of an accounting period and changes in the financial position

Q.3 Explain the meaning of fund flow statement. How fund flow statement is prepared.

Ans. As per accounting standard issued by ICAI, "A statement which summarizes for the period covered by it the changes in financial position including the sources from which the funds were obtained by the enterprises and the specific uses to which funds were applied.

Techniques of preparation of fund flow Statement

- Schedule of statement of changes in working capital
- Statement of source and uses of fund or funds flow from operation

Schedule of change in working capital

Working capital will increase when there is increase in current assets and decrease in current liability & working capital will decrease when there is decrease in the current assets and increase in current liability.

Net increase in the working capital is treated as a uses of funds and the net decrease in working capital is treated as source of funds

Statement of change in Working capital

Item	Previous year	Current year	Effect on the working capital	
Current assets <ul style="list-style-type: none"> • Cash at bank • Cash in hand • Stock • Debtors • Bills receivables' • Advance payment • Short term investment • Prepaid expenses • Accrued income Total (A)				
Current liabilities <ul style="list-style-type: none"> • Short term loans • Bank overdraft • Creditors • Bills payable • Outstanding expenses • unclaimed dividend Total (B)				

Funds or Profit & loss from operation

Items to added in the net profit: then on fund items which d not affect the current assets or current liability and non trading expenses and losses are added in the profit disclosed by the profit & loss account at the end of the year
Depreciation & depletion

Amortization of fictious and immortal Assets

(A) goodwill

- (B) patent
- (C) trademark
- (D) preliminary Expenses
- (E) Discount on issue of shares and debenture

Loss on sale of Non current Assets

- (A) Loss on sale of land & building
- (B) Loss on Sale of machinery
- (C) Loss on sale of long term investment
- (D) Loss on sale of furniture

Appropriation of Profits

- (A) Transfer to general Reserve
- (B) Dividend equalization fund
- (C) Transfer to redemption fund
- (D) Contingency Reserve

Dividend

- (A) Interim Dividend
- (B) Proposed dividend

Provision for tax (if assumed as noncurrent) other non fund / non operation items

Items to be deducted from the net profit

Such items which do not affect current assets or current liabilities and non trading incomes and gains will be deducted from the net profit to arrive at funds from operation. These items

Profit on not current (fixed) assets on

- (A) Profit on sale of land and building
- (B) Profit on sale of plant & machinery
- (C) Profit on sale of long term investment

Increase in the value of fixed assets on revaluation

Dividend received

Transfer of excess reserve to profit & loss account again

Other non operating item

Fund Flow Statement

Fund Flow Statement

Sources of Fund	RS.
<ul style="list-style-type: none"> • From operation • Issue of shares 	<p>.....</p> <p>.....</p>

<ul style="list-style-type: none"> • Issue of debenture • Raising long term loans • Sale of Fixed assets/investment • Non trading receipt/ Dividend receipt, donation, gifts 	<p>.....</p> <p>.....</p> <p>.....</p> <p>.....</p>
TOATL (A)	
Application of funds <ul style="list-style-type: none"> • Trading losses • Redemption of preference shares • Redemption of debenture • Repayment of long term loans • Purchase of fixed assets • Payment of tax • Non trading payment compensation 	<p>.....</p> <p>.....</p> <p>.....</p> <p>.....</p> <p>.....</p> <p>.....</p> <p>.....</p>
(TOTAL B)	
Increase & decrease in working capital (A)-(B)	
(as per the schedule change in working capital)	

CASE STUDY

From the following balance sheet of Mahindra Ltd. Prepare the Statement of change in working capital & Fund Flow Statement.

Liabilities	31.03.2009	31.03.2010	Assets	31.03.2009	31.03.2010
Share capital	200000	250000	Goodwill	-	5000
General reserve	50000	60000	Land & building	200000	190000
P&L a/c	30500	30600	Plant & machinery	150000	169000
Bank loan	70000	-	Stock	100000	74000
Sundry creditors	150000	135200	Sundry Debtors	80000	64000
Provision for taxes	30000	35000	Cash	500	800
			Bank	-	8000
	530500	510800		530500	510800

During the year ended 31 March 2010

- Dividend of Rs.23000 was paid
- Assets of another company were for consideration of Rs. 50000 payable in shares the following assets are purchased : Stock 20000, Machinery 25000
- Machinery was purchased for Rs. 8000.
- Depreciation
Building 10000
Machinery 14000
- Provision for taxation of Rs. 33000 was charged to P&L account.

Multiple Questions

- Q.1 Which one is the source of fund.**
 (A) Loss from operation (B) Decrease in long term liability
 (C) Decrease in capital fund (D) Sale of fixed assets
- Q.2 Select the uses of fund**
 (A) Profit from operation (B) Increase in the long term liability
 (C) Loss from operation (D) none of the above
- Q.3 Item to be added in the net profit**
 (A) Depreciation & depletion
 (B) Loss on sale of land & building
 (C) Amortization of fictitious and immortal Assets
 (D) All of the above
- Q.4 Issue of share is**
 (A) Uses of funds (B) Source of funds (C) none of the above
 (D) all of the above
- Q.5 Redemption of debenture is**
 (A) Uses of funds (B) Source of funds (C) none of the above
 (D) all of the above
- Q.6 Items to be deducted from the net profit**
 (A) Profit on sale of land and building (B) Depreciation & depletion

(C) Loss on sale of land & building (D) all of the above

Q.7 Current assets are

(A) Cash at bank (B) Cash in hand (C) Stock (D) all of the above



Chapter-6

Cash Flow Analysis

Q.1 Explain the meaning of Cash Flow Analysis? Discuss its uses?

Ans. Cash flow Analysis

Cash flow is related to the cash inflows & cash outflows of cash and cash equivalents in enterprises during a specified period of time. It summarizes the reasons of changes in cash position of a business enterprises.

Cash includes cash & bank deposit.

Cash equivalents mean short term highly liquid assets.

Classification of cash flows

- Cash Flow From operating activities
- Cash flow from financing activity
- Cash flow from investing activities

Uses of Cash Flow Analysis

- Reflects the movement of cash
- Helpful in Internal financial Management
- Helpful in controlling
- Helpful in short - term financial decisions
- Helpful in forecasting

Q.2 Explain the Classification of Cash Flows?

Ans. Classification of cash flows

- Cash Flow From operating activities
- Cash flow from financing activity
- Cash flow from investing activities

Cash Flow from operating activity

Operating activity are the revenue producing activities of the enterprises.

Cash Flow from operating activity
<ul style="list-style-type: none">● Cash receipts from the sale of goods and the rendering of services● Cash receipt from royalties fees commission and other revenue● Cash payment to suppliers of goods & services● Cash payment to and behalf of suppliers● Cash receipts and cash payment of an enterprises for premium and claims

annuities and other policy benefit

- Cash payments or refunds of income tax unless they can be specifically identified with the financing and investing activity.
- Cash receipt and payments relating to future contract forward contract option contract and swap contract when the contract are held for dealing or trading purpose.

Cash from investing Activity

- Cash from investing Activity
- Cash payments to acquire fixed assets
- Cash receipts from the disposal of fixed assets
- Cash payment to acquire share warrants or debt instrument of other enterprises and interest in joint venture
- Cash receipts from of disposal of share warrants or debt instrument of other enterprises and interest in joint venture
- Cash advances and loans made to third Party..
- Cash receipts from the repayment of advances and loans made to third parties
- Cash payment for future contract forward contract option contract swap contract and the swap contract are held for dealing or trading purpose or the payments are classified as financing activity.
- Cash receipt for future contract forward contract option contract swap contract and the swap contract are held for dealing or trading purpose or the receipts are classified as financing activity.

Cash Flow from financing Activity

- | |
|--|
| • Cash proceeds from issuing shares or other similar instrument |
| • Cash proceeds from issuing debenture loans notes bonds and other short or long term borrowings |
| • Cash repayment of amounts borrowed such as redemption of debenture bonds preference share. |

Q.3 Discuss Difference between cash flow and fund Flow state?

Basis	Cash Flow Statement	Funds Flow statement
1. Meaning of fund	Funds mean only cash which is a component of net current assets.	Fund means net working capital.
2. Objective	Objective of cash flow statement is to know about the changes occurred in cash position between two balance sheet dates.	The objective of funds flow statement is to know about the changes occurred in net working capital between two balance sheet dates.
3. Basis of Preparation	Increase in current liability or decrease in current assets (except cash) results in cash or vice-versa	Increase in current liability or decrease in current asset results in a decrease in net working capital or vice-versa
4. Effect of Transaction	Effect of a transaction on cash is considered	Effect of a transaction on net working capital is considered
5. Utility	Cash Flow statement is useful fore short -term analysis.	Funds Flow statement is more useful for long-term analysis.
6. Statement of changes in working capital	No such statement is prepared repeatedly in cash flow statement.	A separate statement for changes in working capital is prepared.
7. Cash balance	Opening and closing balance of cash are shown in cash flow statement	Such balances of cash are shown in statement of working capital.

Multiple choice Questions

Q.1 Cash payment to suppliers of goods & services

- (A) Operating activity (B) Investing activity (C) Financing Activity
(D) none of the above

Q.2 Cash payments to acquire fixed assets

- (A) Operating activity (B) Investing activity (C) Financing Activity

- (D) none of the above
- Q.3 Cash proceeds from issuing shares or other similar instrument is related to**
(A) Operating activity (B) Investing activity (C) Financing Activity (D) none of the above
- Q.4 primary objective of the Cash flow analysis is**
(A) Provide the information about the cash flow & cash receipt
(B) Disclose information about the operating activity
(C) Disclose information about the investing activity
(D) All of the above
- Q.5 limitation of the cash flow is**
(A) Misleading comparison
(B) Incomplete substitute
(C) Influenced by changes in management policies
(D) All of the above
- Q.6 Cash means**
(A) Cash in hand (B) Cash at bank (C) both of the above
(D) none of the above
- Q.7 Sale of property is Example of**
(A) Cash outflows
(B) Cash inflows
(C) Both of the above
(D) None of the above
- Q.8 Receipt from other long term investment is**
(A) Operating activity (B) Investing activity (C) Financing Activity
(D) none of the above
- Q.9 Unrealised gain & losses arising from changes in foreign exchange are**
(A) Cash out flows (B) Cash inflows (C) none of the above
(D) both of the above
- Q.10 Cash flow statement technique is based on**
(A) Past Analysis (B) Future analysis (C) Future Financial Forecasting
(D) all of the above

Case Study

The Financial position of Panasonic company as on 31 March 2012 and 2013.

Liabilities	31.3.2012	31.3.2013	Assets	31.3.2012	31.3.2013
Share Capital	900000	900000	Fixed assets	800000	640000
General Reserve	600000	620000	Investment	100000	120000
P&L a/c	112000	136000	Stock	480000	420000
Creditors	336000	268000	Debtors	420000	910000
Provision for taxation	150000	20000	Bank	298000	394000
Mortgagee Loan	-	540000			
	2098000	2484000		2098000	2484000

Additional Information

- (A) Investment Costing 16000 were sold during the year for Rs. 17000
- (B) Provision for tax made during the year was Rs.18000
- (C) During the year part of the fixed assets costing Rs. 20000 were sold For Rs 24000 the profit was included in the P&L account.
- (D) Dividend paid during the year amounted Rs.80000
- (E) You are required to prepare a Cash Flow Statement.

Chapter-7

Basic Cost Concepts

Q.1 Explain the fully concept of cost? Discuss the classification of Cost?

Ans. In general terms cost means the amount of expenditure (actual or notional) incurred on, or attributable to a given thing and the amount of resources given up in exchange for some goods and services.

Actual cost: amount spent on the purchase of raw material

Notional expenditure. This expense does not involve the any cash outlays.
(Rent of the owned factory, interested on capital)

Cost classification

- On the Basis of Function
- On the basis of Traceability
- On the basis of the variability
- On the basis of time
- On the basis other cost concept of decision making

On the basis of function

S.NO.	Cost Name	Example
1	Production cost	Related to material labour or other expenses
2	Administration cost	Office Expense, legal expenses ,remuneration paid to managers
3	Selling cost	Advertisement, sales promotion cost
4	Distribution cost	Warehouse rent sales office expenses sales promotion expenses
5	Research & development cost	It is the cost of discovering new ideas process products, by experiment

Basis of traceability

S.NO.	Cost Name	Example
1	Direct Cost	Cost which can be conveniently and wholly identified with the cost unit product process, job, contract etc is direct cost
2	Indirect Cost	

On the basis of variability

S.NO.	Cost name	Example
1	Fixed Cost : Remain constant for all the level	Rent , Insurance Cost

	of outputs	
2	Variable Cost: variable cost varies in proportion to the output	Direct material, Direct labor
3	Semi variable Cost: this cost is partly fixed & partly variable	

On the basis of controllability

S.NO.	Cost name	Example
<u>1</u>	Controllable Cost	Cost due to efficiency in the use of material, labour, and factory expenses are controlled by the foreman and factory supervisor.
<u>2</u>	Uncontrollable Cost	A foreman has no control on price paid for material so we can say he has no control on the cost due to material price

On the basis of time

1	Historical Cost	This cost is calculated after they are occurred .this costs are available after the production of a particular thing is over.
2	Predetermined cost	Costs are computed in advance of production on the basis of all specification of all factors influencing cost. Example: <ul style="list-style-type: none"> • Estimated Cost • Standard Cost

On the basis of Decision making

Classified into two parts

(A) Relevant Cost : All those cost which influence by the particular decision

- Avoidable fixed cost and variable cost are relevant for make or by decision.

(B) Irrelevant Cost

1	Marginal Cost	Cost is deriving from the one extra unit. It is the cost of one unit of product or services.
2	Differential cost	Change in the total cost resulting from a proposed change. It is increase and decrease in the total cost due to an alternative course of action.
3	Opportunity cost	The value of benefit scarified or forgone for the second alternative.
4	Out of pocket cost	This cost is related to the present and future cash expenditure connected with the specific decision and which varies according to nature of the decision made.

Irrelevant cost: this cost is not relevant to the decision or not influenced by the decision.

Sunk Cost	Sunk cost is related to the past decision so it is not altered or changed by the any decision in the future.
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Q.2 How to determine the total cost? And give the specimen of a simple cost sheet?

Ans. **Determination of total cost**

S.NO	Cost name	Determination of cost
1	Prime Cost	Direct Material Cost+ Direct Labour Cost+ Direct Expense
2	Works at Factory Cost	Prime Cost + Work or factory overheads
3	Cost of production	Work or factory cost+ administrative overheads
4	Total cost	Cost of production + selling & Distribution overheads
5	Selling Prices	Cost of sales + profits

Format of Cost Sheet

	Particulars	Total Rs.	Per unit Rs.
A	Direct Material	.....	.....
B	Direct Labour Cost	.....	.....
C	Direct Expense	.....	.....
D	Prime Cost (A+B+C)	.....	.....
E	Work or Factory overheads	.....	.....
F	Work or Factory cost(D+E)	.....	.....
G	Office or administrative overheads	.....	.....
H	Cost of Production(F+G)	.....	.....
I	Selling & Distribution overheads	.....	.....
J	Cost of Sales(H+I)	.....	.....
K	Profits	.....	.....
L	Sales(J+K)	.....	.....

Multiple Choice Questions

- Q.1** Cost is deriving from the one extra unit is known as
(A) Marginal Cost (B) Sunk Cost (C) Opportunity cost
(D) none of the above
- Q.2** The value of benefit scarified or forgone for the second alternative.
(A) Marginal Cost (B) Sunk Cost (C) Opportunity cost
(D) none of the above
- Q.3** Remain constant for all the level of outputs.
(A) Marginal Cost (B) Sunk Cost (C) Opportunity cost (D) Fixed cost
- Q.4** is related to the past decision so it is not altered or changed by the any decision in the future.
(A) Marginal Cost (B) Sunk Cost (C) Opportunity cost (D) Fixed cost
- Q.5** Works at Factory Cost
(A) Prime Cost + Work or factory overheads
(B) Direct Material Cost + Direct labour Cost + Direct Expense
(C) Cost of sales + profits
(D) None of the above
- Q.6** Cost is partly fixed & partly variable is known as
(A) Semi variable (B) Fixed cost (C) variable cost (D) others
- Q.7** Legal expenses is the example of
(A) Administration cost (B) Selling Cost (C) Distribution cost
(D) none of the above
- Q.8**cost is calculated after they are occurred.
(A) Historical Cost (B)) Selling Cost (C) Distribution cost
(D) none of the above
- Q.9** It is the cost of discovering new ideas process products, by experiment.
(A) Historical Cost (B) Research & development Cost
(B) Distribution cost (D) none of the above
- Q.10** Amount spent on the purchase of raw material is
(A) Actual Cost (B) Notional expenditure (C) none of the above
(D) all of the above

Case study

Suppose that you are the head of the Costing Department of Raymond's Textile Company. The government of a friendly country has invited quotation for the establishing new Institute for which your government has granted the necessary permission. Your company wants to submit the quotations and the managing Director has instructed you to estimate the cost per ton by preparing a proper cost analysis sheet with imaginary Figures.



Chapter-8

Marginal Costing, Cost volume profit analysis & profit planning

Q.1 Define the term marginal costing and explain its characteristics, advantage and limitation?

Ans. Marginal Cost

The Cost of producing one additional unit is the marginal cost. In Economics terms marginal cost is increases and decrease in the total cost from the increase and decrease in the production of one unit of output but in the accounting term marginal cost means variable cost that per unit remains constant at various levels of output. variable cost includes all those cost which are directly related to the production such as direct material, direct expense, direct labour.

Characteristics of Marginal costing

- (A) Analysis of cost volume profit
- (B) Valuation of inventories
- (C) Differentiated between Fixed and variable Cost
- (D) Determination of inventories
- (E) Only Variable Cost applied to product

Advantage of the Marginal Costing

- (A) Simple & Easy to understand
- (B) Uniform & realistic comparison of Cost
- (C) Evaluate the changes in the Cost
- (D) Helpful to formulate the future profit plans
- (E) Helpful to the cost
- (F) Useful in managerial decision making

Limitation of Marginal Costing

- (A) Classification of cost is difficult
- (B) Limited use
- (C) Valuation of inventory
- (D) lack of comparability
- (E) When price increases it difficult to take decision.

Q.2 What do you understand by cost volume profit analysis. What the methods are of calculate the CVP & BEP Analysis?

Ans. Cost volume Profit analysis and profit planning

It shows the relationship between the cost volume and profit. It is the study of behaviour of profit in response to change in volume, cost and sales and prices.

It is also termed as breakeven analysis. , as there is one such level of production where total revenue is equal to total cost.

Methods of CVP or Breakeven analysis



A	Contribution	Contribution is the difference between the sales and variable Cost.	$C = S - V$ $C = F + P$
B	Marginal Cost Equation		$S - V = F + P$
C	Profit volume ratio	Express the relationship between contribution and sales volume.	$= (C/S) * 100$ $= \{(S - VC)S\} * 100$ $= \{(FC + Profit)/S\} * 100$ $= \{(1 - V/S) * 100$
D	Break Even point	BEP is that value of activity at which total sales revenue exactly equals total cost of the output produced or sold.	BEP in units = Fixed Cost / Contribution per unit BEP in RS. = Fixed cost / PV ratio
E	Margin of Safety	The margin of safety is the excess of budgeted or actual sales over the brake even sales volume.	$= \text{Actual or total sales} - \text{BEP sales}$ $= \text{Profit} / \text{PV ratio}$ Margin of safety also calculate as percentage $= (\text{Actual sales} - \text{BEP sales}) / \text{Actual sales} * 100$

Multiple Choice Questions

- Q.1** is the difference between the sales and variable Cost
(A) Contribution (B) Margin of safety (C) BEP (D) PV Ratio
- Q.2** Express the relationship between contribution and sales volume.
(A) Contribution (B) Margin of safety (C) BEP (D) PV Ratio
- Q.3** is that value of activity at which total sales revenue exactly equals total cost of the output produced or sold.
(A) Contribution (B) Margin of safety (C) BEP (D) PV Ratio
- Q.4** The excess of budgeted or actual sales over the break even sales volume is called
(A) Contribution (B) Margin of safety (C) BEP (D) PV Ratio
- Q.5** Fixed cost + Profit =
(A) Contribution (B) Margin of safety (C) BEP (D) PV Ratio
- Q.6** Breakeven point calculate
(A) Fixed Cost / Contribution per unit (B) Fixed cost / PV ratio
(C) none of the above (D) Both of the above
- Q.7** Profit/PV ratio is formula of
(A) Contribution (B) Margin of safety (C) BEP (D) PV Ratio
- Q.8** One such level of production where total revenue is equal to total cost is known as
(A) Contribution (B) Margin of safety (C) BEP (D) PV Ratio

Q.9 (Sales - Variable cost) = (fixed Cost + Profit) Is Known as

Ans.

Q.10 Cost is deriving from the one extra unit is known as

- (A) Marginal Cost (B) Sunk Cost (C) Opportunity cost
(D) none of the above

Case study

A Company has a maximum capacity of producing 201000 units per year. Normal capacity is regarded as 180000 units per year. Variable manufacturing cost is 11 Rs Per unit. And fixed manufacturing cost is 540000 Rs. Variable selling cost are Rs. 3 per Unit, while fixed selling cost Rs.252000 per year. Selling price per unit is 20 Rs.

Additional information

Calculate the BEP in Units

Calculate the sales volume in rupees to earn a target net income 60000 Rs. Per year.

How many units must be sold to earn a net income of 10% in Sales.

What should be the selling price per unit if the breakeven point is to be brought to 80000 units

Margin of safety at a profit of Rs.90000

Chapter-9

Corporate Governance

Q.1 Explain the meaning of corporate governance?

Ans. The Cadbury committee “ the system by which companies are directed and control.”

According to ICAI “ A corporate governance system is its imbedded configuration of values ethics and appropriate and expected behaviour which provide the coordinates for the organisation performance of its role as societal entity in all its aspect . A code of corporate governance makes explicit both the auditable and the desire aspect of such a configuration.

Q.2 What are the objectives of corporate governance?

Ans. Helpful to fulfil long term goal of the owners
Consider the interest of employees
Maintain good relationship with consumer or supplier
Fulfil or the legal & regulatory requirements
Economic & Cultural interaction with the local population

Q.3 Explains the needs & Significance of corporate governance and what are the essential for the good corporate governance?

Ans. For the changing ownership structure
Social Responsibility
Need of globalisation
Protection from the scams
Essence for good corporate governance
Integrity
Accountability & Responsibility
True & Fairness

Chapter-10

Budgetary Control

Q1 What do you understand by the budgetary control?

Ans. In term of budgetary control has two words (1) budget (2) control. Budget means expected numerical statement that is shows plan policies goals of the organisation for a particular time period. Control means regulation of business affairs in accordance with the plan designed to achieve the pre determined objective. Thus the budgetary control comparing the budgeted figures with actual figures and reported the variances for taking appropriate action is termed as the budgetary control.

Q2 Explain the steps in setting up the budgetary control?

Ans. In term of budgetary control has two words (1) budget (2) control. Budget means expected numerical statement that is shows plan policies goals of the organisation for a particular time period. Control means regulation of business affairs in accordance with the plan designed to achieve the pre determined objective. Thus the budgetary control comparing the budgeted figures with actual figures and reported the variances for taking appropriate action is termed as the budgetary control.

Process of budgetary control

- Determination of objective & Management policy
- Establishment of budget centres
- Maintenance of the accounting records
- Preparation of the organisation chart
- Establishment of budget committee
- Preparation of budget manual
- Determination of key manual
- Determination of the level of activity
- Fixation of the budgeted period
- Preparation of the estimates
- Comparison with actual performance
- Preparation with actual of budget reports
- Budget revision

Q3 “Budgetary control ratio helps in Planning Coordination and helps in having comprehensive control”. Discuss the Budgetary control ratio.

Ans. In term of budgetary control has two words (1) budget (2) control. Budget means expected numerical statement that is shows plan policies goals of the

organisation for a particular time period. Control means regulation of business affairs in accordance with the plan designed to achieve the pre determined objective. Thus the budgetary control comparing the budgeted figures with actual figures and reported the variances for taking appropriate action is termed as the budgetary control.

Budgetary Control Ratios

Activity ratio: it measure the level of activity attained over the time. its shows the relationship number of standard hours equivalent to the work produced as a percentage of the budgeted hours.

$$= (\text{Std hours for actual production} / \text{budgeted standard hours}) * 100$$

Capacity Ratio: this ratio shows whether or to what extent the budgeted hours of activity are actually utilised. .it shows the relationship actual hours worked or budgeted hours

$$= (\text{actual hours worked} / \text{budgeted hours}) * 100$$

Efficiency ratio

It measures the degree of efficiency achieved in production. it shows the relationship between std hours for actual production and actual hours worked.

$$= (\text{Std hours for actual production} / \text{Actual hours worked}) * 100$$

Case Study

Q.1 Calculate the Efficiency & Activity ratio from the Following Figure:

Ans.

- | | |
|------------------------|----------|
| • Budgeted Production | 95 units |
| • Std hours per unit | 10 |
| • Actual Production | 85 units |
| • Actual Working Hours | 650 |

Q.2 A radio manufacturing company produce two type of sets janta & Deluxe Radio .janta takes 10 hours to make deluxe require 20 hours . In a month (25 days of 8 hour each) 500 units of janta and 300 units of deluxe are produced the budgeted hours are 8500 per month the manufacturing houses employs 60 men in the department concerned compute

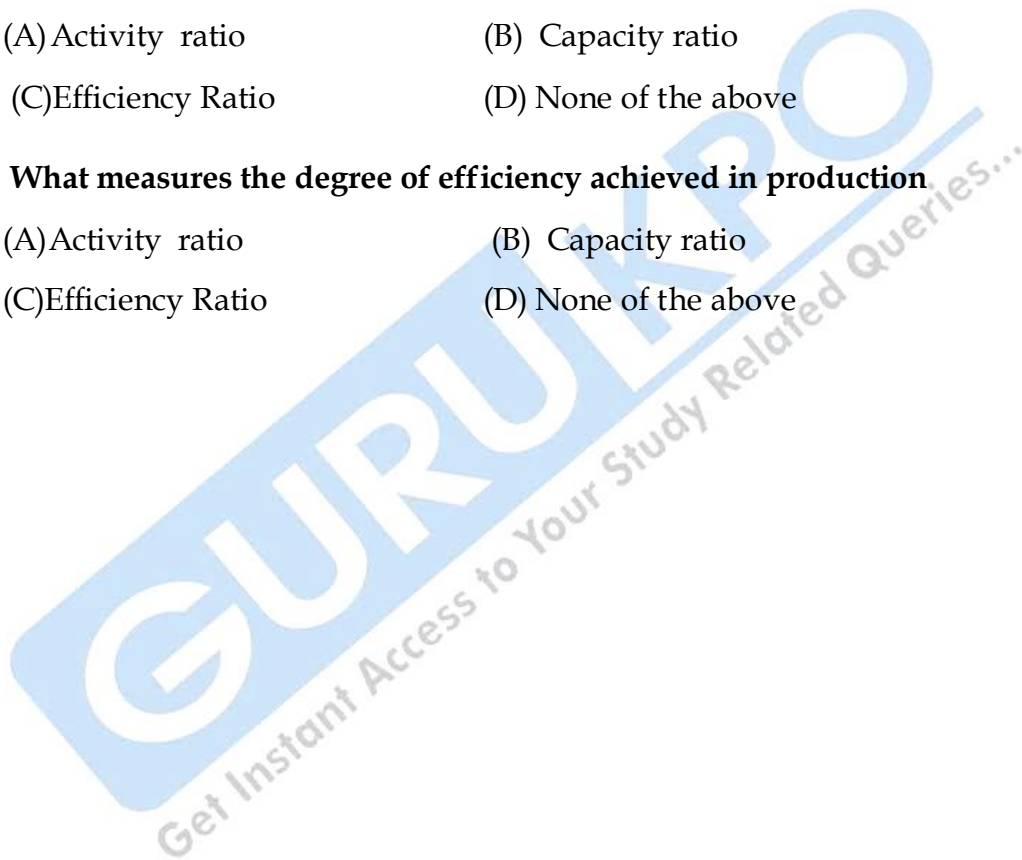
- Activity ratio

- Capacity ratio
- Efficiency Ratio



Multiple Choice Questions

- Q1** measure the level of activity attained over the time
- (A) Activity ratio (B) Capacity ratio
(C)Efficiency Ratio (D) None of the above
- Q2** The relationship actual hours worked or budgeted hours is known as
- (A) Activity ratio (B) Capacity ratio
(C)Efficiency Ratio (D) None of the above
- Q3** What measures the degree of efficiency achieved in production
- (A) Activity ratio (B) Capacity ratio
(C)Efficiency Ratio (D) None of the above



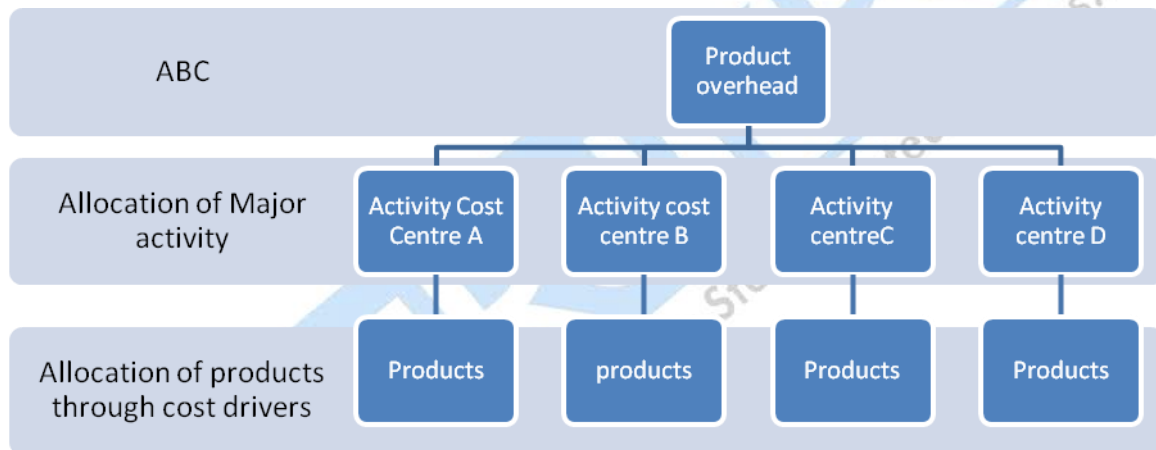
Chapter-11

Activity Based Costing

Q1 Explain the concept of activity based costing? Give its Elements and advantage?

Ans ABC is latest term developed for finding out the cost. It uses activities as the basis for calculating the costs of products and services. These activity cost are absorbed in product through appropriate cost drivers. This information is helpful to take decisions about the pricing outsourcing capital structure and operational efficiency.

Activity Based Costing System



Elements of Activity based costing Resource

- Activity
- Activity Cost pool
- Cost drivers
- Process
- Cost object

Non Value adding Activity

Advantage

- Easy to Determine the cost
- Determination of product service cost
- Improve performance
- Easy to take Make or Buy decision
- Helpful in Strategic decision
- Transfer Pricing

Q.2 List the stages in the activity based costing?

Ans.

- Identification of the activities
- Creation of cost of pool for each activity
- Identification of cost drivers
- Determine cost of each activity
- Assigning activity cost to products or outputs

Case Study

A company manufactures two type of products BETA & GAMMA using the same equipment and similar process An extract of the production data for product in

Particulars	Beta	gamma
Quantity produced	5000	7000
Direct labours per hour	1	2
Machine hours per unit	3	1
Set ups in the period	10	40
Orders handled in the period	15	60
Overhead cost		
Relating to the machine activity	220000	
Relating to production run set-ups	20000	
Relating to handling of orders	45000	
	285000	

You are required to calculate the production overheads to be absorbed by one unit of each of the products using the following costing methods:

A Traditional costing approach using a direct labour rate to absorb overheads.

An activity based costing approach using suitable cost drivers to trace overheads to product.

Multiple choice Questions

Q.1 Which is the element of ABC

(A)Resource (B) Cost driver (C) process(D) all of the above

Q.2 Cost driver of quality control

(A)No.of orders (B) No of Inspection (C) No of Material Moves
(D) none of the above

Q.3 Cost pool of No of orders

(A)Material Procurement (B) Material handling (C) Quality Control
(D)all of the above

Q.4 Cost driver of Material Handling is

(A)No.of orders (B) No of Inspection (C) No of Material Moves
(D) none of the above

Q.5 Related Activities of Material Management

(A) Issuing tenders
(B) Receiving of indents
(C) Issue of purchase orders
(D) All of the above

Q.6 Which one is the related activity of quality control Management

(A)Receipts of sample
(B)Issuing tenders
(C)Receiving of indents
(D)Issue of purchase orders

- Q.7 a unit of work**
- (A)Resource
 - (B)Activity
 - (C)Process
 - (D)All of the above
- Q.8 Main cost driver of customer order processing**
- (A)Order value
 - (B)Order source (new /old customer)
 - (C)Order source(customer location)
 - (D)All of the above
- Q.9 Which one is not the advantage of ABC**
- (A)Easy to Determine the cost
 - (B)Determination of product service cost
 - (C)Performance not improved
 - (D)Helpful in Strategic decision
- Q.10 Main activities of inspection**
- (A)Inspection plans
 - (B)No of product suppliers
 - (C)Lack of good quality
 - (D)All of the above

Key Words

- **Business:** Any work which is legal and done with the intention of earning profit is called business.
- **Capital:** Amount invested by the owner in his business. it is divided into two parts (1) equity share capital (2) preference share capital.
- **Good:** goods means trader purchase for resale it.
- **Purchase:** the goods which are purchased in the business for the purpose for reselling them are known as purchase. Purchase can be Cash Or Credit.
- **Sales:** Trader Sale the Goods into the market for earning a profit is known as sales.
- **Purchase return:** when the purchased goods are return due to any reason () to the supplier is known as Purchase return.
- **Sales Return:** If the Sold goods are return by the customer then it is known as Sales Return.
- **Stock:** on the particular date in the financial year, the good remain unsold with the trader is known as Stock.
- **Transaction:** It is business dealing and there are two parties in every transaction (1) Trader (2) customer.
- **Entry:** Entry means Recording of a business transaction in the books of Accounts.
- **Creditors:** when the purchase are made on the credit , the person who supply the goods is known as creditors.
- **Debtors:** A person who takes the goods on credit is known as debtors.
- **Opening Stock:** it is that amount of goods which is in hand at the beginning of the period. Opening stock includes the raw material, WI, Finished goods.

- **Closing Stock:** it is that amount of goods which is in hand at the end of the period. Closing stock includes the raw material, WI, Finished goods.
- **Fixed Assets:** Main aim of fixed assets is providing or producing the goods & Services and those which are not held for resale in the normal course of business.
- **Intangible Assets:** fixed assets which can be seen & touched (Plant, Furniture)
- **Tangible assets:** those fixed assets which can be neither seen nor touched.(Good will Patents)
- **Investment:** Investment means expenditure on assets to earn the return in terms of interest, dividend, and income.

Current assets: those assets which are held in the form of cash.

- **Liability:** refers to the financial obligation of enterprises other than owners funds.
- **Long term liability:** Liability related to the long period more than one year.
- **Current liability:** Refers to that liability which fall a due for payment in a relatively short period.
- **Accounting:** art of recording presenting interpretation and communicating the business transaction of financial nature in a systematic and orderly manner.
- **Fixed Cost:** Remain constant for all the level of outputs
- **Variable Cost:** variable cost varies in proportion to the output
- **Semi variable Cost:** this cost is partly fixed & partly variable
- **Depreciation:** value reduction in fixed assets.
- **Amortization:** value reduction in Intangible assets.

- **Bad Debts:** non recoverable goods & debtors
- **Marginal Cost:** Cost is deriving from the one extra unit
- **Cash:** cash at hand & cash at Bank.
- **Cash equivalents:** mean short term highly liquid assets
- **Goodwill:** Market Reputation of the company
- **Journal:** It is a book of original entry and all transaction are listed in the chronological order day to day.
- **Ledger:** ledger is a summary statement of all the transaction related to the particular person ,assets, expenses ,income or gain.
- **A trial Balance** may be defined as a statement of debit and credit tools or balances extracted from the various accounts in the ledger with a view to testing the arithmetic accuracy of the books.
- **Personal Accounts:** Related to individual, Firm, Company, or an institution.
- **Real Account:** these account related to those entire thing whose value can be measured in the terms of money and those are the properties of the business
- **Nominal Account:** these accounts related to income and expenses
- **Trading account:** is shows the result of buying and selling of goods during the given period of time and its prepared for calculating the gross profit and gross losses.
- **P&L account:** calculate the net profit or net loss of an undertaking of a certain period .In the beginning gross profit is recorded in the Cr. Side and Gross losses in the Dr. of the P&L account. Then all the income and expenses are recorded
- **Balance Sheet:** Shows the Financial Position of the business on the last day of the accounting year and discloses the all the assets and liability of the business.

Roll No. _____

Total printed Pages :

4

M.B.A. (Sem. I) (Main/Back) Examination, January-2011
M-105 Management Accounting-I

1M 6105

Time : 3 Hours

Total Marks : 70

Min. Passing Marks : 28

The question paper is divided into **two** sections. Section A, contains 6 questions out of which the candidate is required to attempt any Four questions. Section B contains short cased study/application based. One question which is compulsory. All question carry equal marks.

Use of following supporting material is permitted during examination.
(Mentioned in form No. 205).

1. _____ Nil

2. _____ Nil

SECTION-A

1. (a) Management Accounting has passed through different phases since its inception. Various developments have taken place in the field of management accounting. What are the recent developments that have taken place in the field of management accounting? Explain.
 - (b) "The Analysis of flow of funds through an organization can be every useful to the management." Elucidate this statement.

2. There are four groups of financial ratios: liquidity, leverage, activity and profitability. Financial analysis is conducted by four types of analysis: management, equity investors. Long term creditors and short term creditors. You are required.
 - (a) To explain each type of ratio.
 - (b) To explain the emphasis of each type of analyst, and
 - (c) To state if the same basic approach to financial analysis should be taken by each group of analyst.

3. Prepare the Balance Sheet of SKY Ltd.

Stock Velocity6

Capital turnover ratio2

Fixed assets turnover ratio4

Gross Profit ratio20%

Debt Collection Period 2 months

Creditors Payment Period 73 days

The Gross profit was Rs. 60,000 Closing Stock was Rs. 10,000 in excess of opening stock.

4. From the following balance sheets of Star Ltd. as on 31 March, 2005 and 31 December, 2006 prepare a fund flow statement for the year 2006 :

Liabilities	2005	2006	Assets	2005	2006
Share Capital	50,000	60,000	Plant and	30,000	25,000
General reserve	8,000	10,000	Machinery	20,000	40,000
P & L A/c	6,000	10,000	Building	26,000	20,000
Bank Loan (Long	10,000	4,000	Stock	13,000	20,000
Term)	4,000	16,000	Debtors	5,000	6,000
Sundry Creditors			Cash		
	<u>94,000</u>	<u>1,11,000</u>		<u>94,000</u>	<u>1,11,000</u>

Additional Information :

- (i) Interest paid on bank loan amounted to Rs. 1,000
 - (ii) Income Tax paid for the year 2006 amounted to Rs.4,400
 - (iii) Assets of another company were purchased for a consideration of Rs. 10,000 paid in shares. Assets consisted of land and building Rs. 4,000 and stock Rs. 6,000.
 - (iv) A machinery costing Rs. 5,000 (W.D.V. Rs. 3,000) was sold for Rs. 1,000, the loss being written off against general reserve.
 - (v) Closing Stock of 2006 was over valued by Rs. 5,000.
 - (vi) Out standing expenses paid during the year were Rs. 4,500
5. Following Information has been made available from the cost records of Nelson Automotives Ltd. Manufacturing Automotive Components :
- | | |
|-----------------|----------|
| Direct Material | per unit |
| X | Rs. 8 |
| Y | Rs. 6 |
| Direct Wages | |

X	24 hours @ 25 paise per hour
Y	16 hours @ 25 paise per hour

Variable Overheads 150% of direct wages

Fixed Overheads (total) Rs. 750

Selling Price

X Rs. 25

Y Rs. 20

The Directors want to be acquainted with the desirability of adopting anyone of the following alternative sales mixes in the budget for the next period ;

-	Product A (Rs.)	Product B (Rs.)	
Sales per unit	32		26
Direct Material per unit	16		14
Direct wages per unit		5	5
Variable expenses	5		4
Cost per unit			
Marginal	26		22
Contribution per unit		6	4
(a) 250 units of X and 250 units of Y			
(b) 400 units of Y only			
(c) 400 units of X and 100 units of Y			
(d) 150 units of X and 350 units of Y			

State which of the alternative sales mixes would you recommend to the management.

6. Explain :

- Activity Based Costing
- Target Costing
- Life Cycle Costing
- Kaizen Costing

SECTION-B

7. The following is a balance sheet of a partnership firm RAJ and SONS

Liabilities	March 04	March 05	Assets	March 04	March 05
Creditors	40,000	44,000	Cash	10,000	7,000

Partners's	25,000	-	Debtors	30,000	50,000
Loan	40,000	50,000	Stock	35,000	25,000
Bank Loan	1,35,000	1,53,000	Machinery	80,000	55,000
Capital			Land	40,000	50,000
			Buildingq	45,000	60,000
	2,40,000	2,47,000		2,40,000	2,47,000

During the year, a machine costing Rs. 10,000 (accumulated depreciation Rs. 3000) was sold for Rs. 5,000. The provisions for deprecciation against machinery, as on March 04 was Rs. 25,000 and on March 05 it was Rs. 40,000. Net profit for the year 2005 amounted to Rs. 45,000. On this basis , prepare a cash flow statement.

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M.B.A. (Sem. I) (Main/Back) Examination, January-2010
M-105 Management Accounting-I

1M 6105*Time : 3 Hours**Max. Marks.:70**Min. Passing Marks :28***Instruction to candidates:**

The question paper is divided into two sections. Section A, contains 6 questions out of which the candidates is required to attempt any four questions. Section B contains short case study/application based one question which is compulsory. All questions carry **equal** marks.

Section-A

1. (a) State the nature of management accounting and describe its importance.
- (b) Explain with the help of a suitable example the "Going concern concept" and matching concept of financial accounting.

2. (a) The extracts of Trial Balance as on 31.12.2009 :

Particulars	Debit (Rs.)	Credit (Rs.)
Sundry Debtors	12,00,000	
Bad-debts	32,000	
Provision for Bad & Doubtful debts (01.01.2009)		75,000
Provision for Discount on Debtors (01.01.2009)		10,000

Adjustments:

- (i) Write off further Bad-debts Rs. 18000,
- (ii) Provision for Doubtful Debts is to be maintained at 2% on Sundry Debtors.
- (iii) Create Provision for discount on Sundry Debtors at 1% Show effect on P & L A/c and Balance Sheet.

(b) State some of recent development in the field of Management Accounting.

3. Write short notes on:

- (a) Corporate Governance
- (b) Fixed cost and variable cost
- (c) Activity Based Costing.

4. Prepare funds flow statement from the following information:

	2008 (Rs.)	2009 (Rs.)
Net Plant	63,500	1,42,5000
Investment	1,32,000	2,90,000
Bonds Payable	2,50,000	70,000
Capital Stock	4,00,000	4,00,000
Retained earning	2,38,000	4,10,500

Additional Information:

- (i) Dividend of Rs. 37,500 were paid
- (ii) The retained earning includes Rs.13,000 as profit on sale of equipment (Plant).
There has been an increase of Rs. 1,22,000 in the value of gross plant asset but equipment worth Rs. 29,000 with book value of Rs.19,000 was disposed off.

5. (a) Prepare proprietary fund statement from the following information.
Current Ratio 2.50
Liquidity Ratio 1.50 (Quick Assets to Quick Liab.)
Fixed Assets to Proprietary Fund 0.75

Working capital Rs. 60,000

Reserve and surplus Rs. 40,000

Bank overdraft Rs.10,000

There is no long term loan and Fictations Assets

(b) What are Budgetary Control Ratios? How are they computed?

6. (a) From the following summary cash account of X Ltd. prepare cash flow statement for the year ended 31 Dec. 2009 in accordance with AS-3 (Revised) using the direct method.

Cash Account for the year ended 31.12.2009

Particulars	Rs.	Particulars	Rs.
Balance (01.01.2009)	50,000	Payment of creditors	20,00,000
Issue of equity shares	3,00,000	Purchase of Fixed Assets	2,00,000
Receipts from Debtors	28,00,000	Overhead expenses Wages & Salaries	2,00,000
Sale of fixed Assets	1,00,000	Income Tax	1,00,000
		Dividend	2,50,000
		Repayment of Bank Loan	50,000
		Balance (31.12.2009)	3,00,000
	32,50,000		1,50,000
			32,50,000

- (b) A factory produces 1,80,000 units per annum at 60% capacity. The selling price is Rs.300 per unit and the total costs are as under
- Variable cost per unit Rs. 90
 - Semi Variable Cost at 60% capacity utilization (including variable element of Rs. 10 per unit) Rs. 42,60,000
 - Fixed cost of Rs.4,00,000 will remain constant up to 75% capacity and beyond this level an additional amount of Rs. 50,000 will be required. Management has to take decision whether to increase upto 75% capacity or to 90% capacity to meet the market demand recommend price reduction if management is ready to earn present profit at the reduced price.

Section-B

7. Hindustan radiations manufactures and sells a product, the selling price and raw material cost of which have remained unchanged during the post two years. The following are the relevant data.

During year 2009 direct wages rates increase by 50% but there was a saving of Rs. 300 in fixed factory overheads. What quantity (in kgs) the company should

have produced and sold in year 2009 in order to maintain the same amount of net profit Per kg. as it earns during the year 2008.



Roll No. : _____

**M.B.A. (Sem. I) (Main/Back) Examination, February-2009
(M-105)
Management Accounting -I**

1M6105

*The question Paper is divided in two Sections.
Section A contains 6 questions out of which the candidate is
required to attempt any 4 questions. Section B contains short
case study/application based one question which is compulsory.
All questions are carrying equal marks.*

Use of following supporting material is permitted during examination.
(Mentioned in form No. 205)

1. _____ Nil _____ 2.
_____ Nil _____

SECTION - A

- 1 (a) "The structure of Management accounting is created by adopting concepts and techniques from a number from disciplines." Explain.
7
- (b) Explain Money measurement, separate entity and matching concept of Financial Accounting.
7
- 2 (a) What are the guiding principles of Corporate Governance?
4
- (b) Following balances have been extracted from the books of Shri Gagan Shivani on 31st March 2008 :
Opening Stock Rs. 15,000, Purchases Rs. 50,000, Sales Rs. 80,000, Return Inward Rs. 300, Return outward Rs. 2,000, Debtors Rs. 40,500, Fixed deposit in Bank Rs. 10,000, Creditors Rs. 25,000, R/R Rs. 11,400. B/P Rs. 8,000, Interest received on fixed deposit Rs. 900, Drawing Rs. 6,300, Cash Rs. 1,000, Capital Rs. 37,300, Discount (Dr.) Rs. 600, Commission (Cr.) 2,200, Repairs Rs. 800, Wages Rs. 2,400, Salaries for 11 months Rs.

5,500, Advertisements Rs. 1,200, Trademark Rs. 1,500, Building Rs. 10,000, Bad-debts Rs. 800. Provision for Bad-debts Rs. 1,900.

Prepare Final Account for the year ending 31st March 2008 after taking in to consideration of following adjustments:

- 1) Closing Stock on 31st March 2008 Rs. 28,400
- 2) Interest accrued on fixed deposits in Bank for 3 months, commission received in advance Rs. 400.
- 3) Further Bad-debts Rs. 500 and maintain provision for bad-debts at 5% on debtors.
- 4) Depreciate Building by 5%
- 5) Goods worth Rs.300 were donated for which no entry was made in the books.
- 6) Provide for Manager's commission 5% on net profit after charging this commission.

10

- 3 (a) From the Balance Sheets and information given below, prepare a statement of sources and uses for the year 2008:

Liabilities	2007 Rs.	2008 Rs.	Assets	2007 Rs.	2008 Rs.
Creditors	40,000	44,000	Cash	10,000	7,000
Loan from A	25,000	--	Debtors	30,000	50,000
Loan from Bank	40,000	50,000	Stock	35,000	25,000
Capital	1,25,000	1,53,000	Machinery	80,000	55,000
			Building	35,000	60,000
			Land	40,000	50,000
	2,30,000	2,47,000		2,30,000	2,47,000

10

- (b) Write notes on :
- I. Recent developments in management accounting
 - II. Comparative financial statement.

4

- 4 (a) Following information's are obtained from the books of Varun Textiles Limited and you are required to ascertain cash from operation there from for the year 2007-08:

	31.3.2007 Rs.	31.3.2008 Rs.
Profit and Loss Accounts	3,20,000	4,80,000
Sundry Creditors	80,000	84,000

Sundry Debtors	1,07,000	1,31,400
Prepaid Expenses	4,800	3,900
Accrued Interest	3,600	3,300
Provision for depreciation	90,000	1,15,000
Fixed assets (at cost)	4,50,000	5,60,000
Income tax payable	26,000	19,000

Additional information for the year 2007-08:

- (i) Interest on debenture paid and debited to profit and loss account for the year was Rs. 36,000 and interest received credited to profit and loss account was Rs. 7,800.
- (ii) A machine costing Rs. 18,000 (accumulated depreciation Rs. 11,000) was sold for Rs. 13,500.
- (iii) Furniture costing Rs. 10,000 (Net Book value Rs. 3,800) was sold at book value.
- (iv) Interim dividend paid Rs. 16,000 and Income tax paid Rs. 76,000.

8

(b) Write short notes on:

- (i) Controllable costs and uncontrollable costs
- (ii) Opportunity cost and sunk cost.

6

- 5 (a) In a factory three products are produced using same inputs. The particulars related to these products are as under:

Particulars	Product		
	X Rs.	Y Rs.	Z Rs.
Per unit selling price	250	200	100
Per unit variable cost			
Material @ Rs. 20 Per kg.	60	50	40
Skilled labour @ Rs. 10 Per hour	40	30	15
Variable overhead @ Rs. 5 Per machine hour	10	5	5

Fixed cost Rs. 16,000

State which product is better to be produced and sold if:

- (a) There are normal business conditions
- (b) There is restricted demand of products
- (c) There is restricted on total sales in amount.
- (d) There is shortage of material

- (e) There is shortage of skilled labour hours.
- (f) There is limited availability of machine hours. 10
- (b) Explain different stages of activity based costing. 4
- 6 (a) "Budgetary control helps in business progress." Critically examine this statement. 4
- (b) Calculate:
- Activity ratio
 - Capacity ratio
 - Efficiency ratio and
 - Calendar ratio from the following information.

	Budget for July 2008	Actual for July 2008
No. of working days	25	27
Output (in units)	600	640
Hours per unit of output	3	3.25

- (c) A toy manufacture currently earns an average profit of Rs. 3 per toy by selling at Rs. 15 per toy, producing 6000 toys. Computation of current cost of sales per toy is as under:
Direct material Rs. 4, Direct wages Re. 1, Work overhead (50% fixed) Rs. 6, and selling overhead (25% varying) Re. 1.
During the coming year following increases are anticipated:
- Fixed cost will go up by 10%
 - Rates of direct labour will increase by 20%
 - Rates of direct material will increase by 10%
 - Selling price cannot be increased if sales in units will be maintained at current level of sales.

Under the circumstances he obtains an unexpected order for 2000 toys. What Minimum price will you recommend for accepting the order to ensure the overall profits of Rs. 18,050 to the toy manufacture?

6

SECTION - B

- 7 From the information given below prepare estimate of working capital requirement at the end of the year 2008:

Budgeted sales for the year 2008	Rs. 9,00,000
Estimated cash sales and credit sales ratio	1 : 4
Debtors velocity.....	2 months
Estimated gross profit	20% of sales
Operating ratio	90%
Stock velocity	8
Proprietary funds to fixed asset	0.80
Time lag in payment of operating expenses	1 month
Liquidity ratio	1.8
Net profit on proprietary funds	15%

Closing stock level is expected to increase by 40% over opening stock

14

