Management Accounting

March 2007

Time: 3 Hours
Marks: 100
NB:

1. Questions No. 1 is compulsory and carries 20 marks.
2. Attempt any five questions, each carrying 16 marks from remaining questions.
3. Working notes should form part of your answer.
4. Proper presentation and neatness is essential.

Q.1 Amruta Enterprises (having Installed capacity of 2, 00,000 units p.a.) produced 1,00,000 units in the financial year2006-2007. The cost - structure in 2006 - 2007 was as under: 20

(a) Raw Materials		40%
(b) Wages		15%
(c) Factory Overheads		10%
(d) Administrative and Selling Overheads		15%
	Total cost	80%
		20%
(e) Profit		100

The selling price, which was Rs. 500 per unit in 2006-2007, is estimated to be fixed as at Rs. 600 per unit forthe year 2007-2008; and production and sale expected to increase by 40,000 units. It is, further, anticipated that raw materials cost per unit would increase by 10% due to price rise, whereas wage rate per unit would decrease by 20% due to automation, 56% of all the overheads are fixed and balance are variable.

As a Management Accountant you are required to prepare:-
(a) Cost statement for the year 2007-2008 and
(b) Statement showing estimated working capital required for the year 2007-2008 after considering the following additional information:
(a) Raw materials stock equivalent to two and half monthâ€™s consumption would be stored.
(b) Production time is one month. Raw materials are introduced at the beginning of the process, whereas wages and factory overheads accrue evenly during the production period.

(c) Two months stock of finished goods (valued at factory cost) would be carried in stock.
(d) 20% of raw materials would be imported from China and advance payment of two months would be made there against. 15% of indigenous raw materials requirement would be procured locally against immediate cash payment. Suppliers of balance of indigenous raw materials, allow a credit of one month.
(e) 50% of customers would enjoy a credit of one month, whereas balance 50% of customers would accept a bill of exchange payable after three months. These bills of exchange are immediately hypothecated with the bank against which overdraft facility would be available equal to 70% of amount of bills of exchange.
(f) Time - lag in payment of wages would be one month and for all overheads, it would be half month.
(g) The company would carry cash balance of Rs. 40,000 in its currency chest. Debtors are to be estimated at selling price.
(h) The activities are spread evenly throughout the year. Degree of completion of work-in-progress is 50%.
Q 2. The Mismanagement Ltd. always finds that it is hard pressed for funds. In spite of borrowing funds at a high rate from Banks, they are not able to make payments to suppliers in time. The financial position of the company as reflected from the Balance Sheet for the last two years is as under: 16

	2005		**2006**	
	Rs. Lakhs	**Rs. Lakhs**	**Rs. Lakhs**	**Rs. Lakhs**
Share Capital				
(Rs. 10 each fully paid)	10.00		10.00	
Profit and Loss A/c	1.65	11.65	0.45	10.45
Bank Overdraft		1.55		5.95
Sundry Creditors		1.00		6.00
		14.20		22.40
Land and Buildings		3.00		5.00
Plant and Machinery	5.00		6.00	
Less: Depreciation	1.20	3.80	1.80	4.20
Motor Cars	1.00		1.30	
Less: Depreciation	0.40	0.60	0.60	0.70
Stock		2.20		7.20
Debtors		4.60		5.30
		14.20		22.40

The following further information is available:
(a) Dividend was paid in 2006 at the rate of 10%.
(b) The company sold a motor car during 2006 for Rs. 8,000. This was purchased for Rs. 10,000 and its written down value in the books on 1-1-2006 was Rs. 5,000.
Prepare cash flow statement as per AS-3 by indirect method.

Q 3. From the following particulars prepare a statement of sources and application of funds for the year ended 31-3-2006of M/s. Rimzim Ltd: 16

(a) Rimzim Ltd. issued 1,000 shares of Rs. 120 each and all shares are subscribed and fully paid up.
(b) The company has redeemed preference shares for Rs. 1,00,000 at 10% premium. Premium was adjusted against securities premium.
(c) Investments are sold for Rs. 50,000 (resulting in profit of Rs. 10,000).
(d) Sale of machinery during the year Rs. 30,000 (resulting in loss of 5,000).
(e) Purchase of Fixed assets Rs. 1,20,000.
(f) Dividend paid Rs. 40,000 and income tax paid Rs. 35,000.
(g) Working capital of the company was Rs. 1,20,000 on 1-4-2005 and Rs. 1,80,000 on 31-3-2006.
(i) Depreciation provided for the year was Rs. 50,000 and preliminary expenses written off was Rs. 10,000.

Q 4. Following balances from the books of Account CHETAN Ltd. for the year ended 31-12-2006 you are required to prepare vertical income statement and vertical Balance sheet: 16

Particulars	**Amount Rs.**	**Particulars**	**Amount Rs.**
Advertising	25,000	Sales Return	10,000
Interest Received	6,000	Bills Payable	43,000
Sales	12,00,000	10% Pref. Share Capital	1,50,000
Equity Share Capital	9,00,000	Debenture Interest	24,000
Salaries	1,80,000	Wages	1,85,000
Furniture and Fixture	2,00,000	Cash and Bank Balance	80,000
Outstanding Expenses	25,000	Debtors	2,00,000
P/L A/c (Credit. Balance)	1,30,000	Opening Stock	50,000
Bad Debts	5,000	General Reserve	75,000
Purchases	6,00,000	Creditors	1,00,000
Machinery	7,50,000	8% Debenture	4,00,000
		Preliminary Expenses	10,000
		Income Tax	10,000
		Land and Building	7,00,000

Closing Stock on 31-12-2006 is Rs. 1,50 000.

Q. 5 Financial Position 16

Liabilities	**2005 Rs.**	**2006 Rs.**
Equity Share Capital	2,00,000	2,50,000
10% Pref. Share Capital	2,00,000	1,50,000
Reserve Fund	80,000	1,00,000
Profit and Loss Account	1,00,000	1,50,000
12% Debentures	2,00,000	3,00,000
Creditors	1,00,000	1,20,000
Bank Overdraft	50,000	20,000
Assets		
Building	3,00,000	3,20,000
Machinery	1,50,000	1,80,000
Furniture	40,000	35,000
Investment	1,00,000	1,50,000
Stock	1,50,000	2,00,000
Debtors	1,00,000	1,20,000
Bank Balance	90,000	85,000

From the above information of Santhan Ltd. as at 31st March, 2005 and 2006 you are required to comment with the help of comparative statement, after rearranging in suitable form for analysis.

Q.6 Following is the Profit and Loss A/c and Balance Sheet of Adhiraj Ltd. 16

Profit and Loss A/c for the Year ended 31st December, 2006

Particulars	**Rs.**	**Particulars**	**Rs.**
To Opening Stock	20,000	By Sales	4,50,000
To Purchases	2,00,000	By Closing Stock	80,000
To Wages	50,000		
To Factory Expenses	70,000		
To G. P. c/d	1,90,000		
	5,30,000		**5,30,000**
To Administrative Expenses	60,000	By Gross Profit b/d	1,90,000
To Selling Expenses	40,000	By Interest Received	5,000
To Interest on Loan	5,000		
To Debenture Interest	8,000		

To Net Profit	82,000		
	1,95,000		**1,95,000**
To Tax Provision	20,000	By Net Profit	82,000
To Proposed Dividend	20,000		
To Balance Profit	42,000		
	82,000		**82,000**

Balance Sheet as on 31st December, 2006

Liabilities	**Amount Rs.**	**Assets**	**Amount Rs.**
Equity Share Capital (Rs. 10)	2,00,000	Land and Building	1,75,000
9% Preference Share Capital	1,50,000	Machinery	1,50,000
8% Debenture	1,00,000	Furniture	1,00,000
Reserve	50,000	Goodwill	50,000
P/L A/c	30,000	Patents	50,000
Short Term Loan	1,00,000	Vehicles	1,40,000
(Repaid within one year)		Investment	50,000
Bank Overdraft	75,000	Stock	80,000
Sundry Creditors	1,40,000	Debtors	90,000
Bills Payable	30,000	Bills Receivable	30,000
Provision for Tax	20,000		
Proposed Divided	20.000		
	9,15,000		**9,15,000**

Market price of equity share is Rs 7. Calculate the following ratios:
(a) Acid Test Ratio.
(b) Capital Gearing Ratio.
(c) Stock Turnover Ratio.
(d) Debtors Turnover Ratio.
(e) Creditors Turnover Ratio.
(f) Return on Capital Employed Ratio.
(g) Stock Working Capital Ratio.
(h) Operating Ratio.
Note: Vertical final accounts need not be prepared.
Q.7 The following information are available for a firm for the year ended 31-12-2006: 16

(a) Gross Profit Ratio	25%
(b) Net Profit Ratio	20%
(c) Stock Turnover Ratio	10 times
(d) Net Profit/Capital	1/5
(e) Capital/Other Liabilities	1/2
(f) Fixed Assets/Capital	5/4

(g)Fixed Assets/Current Assets	5/7
(h)Fixed Assets	Rs. 5, 00,000

(i) Stock at the end Rs. 40,000 more than the stock, in the beginning.
Find Out:
(a) Cost of Goods Sold
(b) Gross Profit
(c) Net Profit
(d) Current Assets
(e) Capital
(f) Total Liabilities
(g) Closing Stock
(h) Total Assets
Q.8 Calculate trend percentage from the following information extracted from financial statements of Perfect Ltd. afterarranging in vertical form and give your comments: 16
(RS. '000)

Particular	**2003 Rs.**	**2004 Rs.**	**2005 Rs.**	**2006 Rs.**
Sales	50,000	60,000	70,000	90,000
Cost of Goods Sold	30,000	36,000	42,000	54,000
Operating Expenses	10,00	11,000	12,000	13,000
Income Tax	50%	50%	50%	50%
Fixed Assets	10,000	?	15,000	?
Net Worth	?	12,000	?	16,000
Working Capital	5,000	5,500	6,000	6,500
Long Term Loans	5,000	6,000	7,000	8,000

Q.9(a) What is the impact of conversion of part of Debentures into equity shares on Debt-Equity Ratio which wasbefore conversion 1:1? **(2)**
(b) State the impact of cash sales Rs. 40,000 (Cost Rs. 25,000) on Quick Ratio and Current Ratio. **(2)**
(c) What is the impact of making adjustment of Interest Accrued on Debentures on Return on Capital Employed?**(2)**
(d) Write short notes on any two: (10)
(i) MIS Report.
(ii) Manipulation of Accounts.
(iii) Uses of Ratio Analysis.
(iv) Flow of Funds.