Management Accounting

April 2009

(1) Tata Manufacturing Co. started for production of NANO cars at Calcutta in March 2008 and purchased land for Rs. 10, 00,000 and incurred Rs. 5, 00, 00,000 on its factory construction. However before production was started due to labour problems company has shifted its factory to Maharashtra, where it had benefit of low overheads, overheads are 50% of labour expenses in Maharashtra. **(16)**

Following is cost structure per Car in Maharashtra for the year 2009-10

Steel	50kgs. @ Rs. 1000 per kg.
Spare Parts	10 kgs. @ Rs. 200 per kg.
Engine	1 Engine @ Rs. 20,000 per engine
Labour Charges	100 Hrs. @ Rs. 20 per hour.

From the following additional information calculate Working Capital requirement for the company to be started in Maharashtra for the year 2009-1-.

(1) Steel remains in stock for 2 months, Spare Parts remain in stock for 1 month and Engine for 6 months.

(2) Suppliers of Steel allow credit for 1 month, suppliers of Spare Parts allow credit for 15 days and suppliers of Engine allow credit for 3 months.

(3) Time lag for payment of Labour and Overhead is 1 month.

(4) Cars will be in Stock for 15 days after production.

(5) Production Cycle is for 1 month.

(6) Estimated Production during year 2009-10 will be 5,000 NANO cars.

(2) Following are Balance Sheets of Z Ltd. As on 31st March 2007 and 31st March 2008 **(16)**

Liabilities	31/03/2007	31/03/2008	Assets	31/03/2007	31/03/2008
Share Capital	10,00,000	10,00,000	Land and Building	10,00,000	9,50,000
General Reserves	3,00,000	3,00,000	Plant and Machinery	8,00,000	7,00,000
Profit and Loss Account	1,52,000	1,00,000	Sundry Debtors	3,08,000	5,14,000
Bank Loan	3,00,000	3,50,000	Equipments	80,000	70,000
Provision for Tax	1,00,000	1,00,000	Stock	1,40,000	2,00,000
Proposed Dividend	50,000	40,000	Cash	20,000	6,000
Sundry Creditors	4,60,000	5,50,000	Goodwill	14,000	-
Total	23,62,000	24,40,000		23,62,000	24,40,000

Additional Information:

(1) Dividend of Rs. 50,000 was paid during the year ended 31st March 2008.

(2) Depreciation was provided on Land and Building, Plant and Machinery & Equipments for the year ended 31st March 2008.

(3) Machinery of Rs. 50,000 and equipment of Rs. 20,000 were acquired during the year ended 31st March 2008.

(4) Income Tax provision was made for the year ended 31st March 2008 of Rs. 1, 30,000

Prepare Cash Flow statement by Indirect Method as per AS-3 for the year ended 31st March 2008.

(3) The following information of Diamond Ltd. Related to the year ended 31st December 2008 is given to you. **(16)**

Fixed assets/Sales	1/3
Fixed assets/Current assets	12/11
Current ratio	2
Reserves and Surplus is 1/4th of the share Capital	
There are no Investments and Fictitious Assets	
Gross Profit	20% of Sales
Net Profit	5% of Sales
Raw material consumed	20% of Cost of sales
Direct wages	10% of Cost of sales
Closing stock of raw Material	3 Months Consumption
Debt Collection Period	75 Days (360 days in a year)

Value of Fixed Assets as on 31st December 2008 amounted to Rs. 30,00,000. All sales are on Credit. Prepare a Balance Sheet and Trading and Profit and Loss Account of the company for the year ended 31st December 2008 in vertical form suitable for analysis.

(4) Pawan Ltd. Has the following trading and Profit and Loss account for the year ended 31st December 2008 and Balance Sheet as at that date. **(16)**

Trading and Profit and Loss account for the year ended 31st December 2008

Particulars	Rs.	Rs.	Particulars	Rs.	Rs.
To Opening Stock		3,50,000	By Sales		
To Purchases- Credit		16,50,000	Cash	6.00.000	
To Carriage- Inward		5,00,000	Credit	24,00,000	30,00,000
To Gross Profit c/d.		8,00,000	By Closing Stock		3,00,000
Total		**33,00,000**	**Total**		**33,00,000**
To Administrative		1,92,000	By Gross Profit B/d.		8,00,000
Expenses		50,000	By Other Income		18,000
To Selling Expenses		1,00,000			
To Depreciation		94,000			
To Interest		1,30,000			
To Income Tax		2,52,000			
To Net Profit C/d.					
Total		**8,18,000**			**8,18,000**

Balance Sheet ass on 31st December 2008

Liabilities	Rs.	Assets	Rs.	Rs.
Equity Share Capital (Rs. 10)		Plant and Machinery	20,00,000 5,00,000	

10% Preference		**Less:** Depreciation		15,00,000
share capital				2,80,000
Reserves and		Goodwill		3,00,000
Surplus		Stock		2,00,000
Long term Loan		Debtors		50,000
Debentures		Prepaid Expenses		1,50,000
Creditors		Marketable		50,000
Bills Payable		Securities		
Accrued Expenses		Cash		
Provision for tax				
Total	**25,30,000**	**Total**		**25,30,000**

The Market Price of the Share of the Company on 31st December 2008 was Rs.9.25

	Rs.	**Rs.**
Reserves at beginning	2,93,000	
Net Profit during the year	2,52,000	5,45,000
Interim Dividend		1,45,000
Reserves at the close of the year		4,00,000

Calculate the following Ratios:

(a) Return on Proprietors Fund

(b) Acid test Ratio

(c) Inventory Net Current Asset Ratio

(d) Capital gearing Ratio.

(e) Debt Service Ratio

(f) Creditors Turnover Ratio.

(g) Operation Ratio

(h) Stock Turnover Ratio.

Note: No need to convert the statements into vertical form.

(5) The following figures are relating to the Sohan Ltd. For the year ended 31st December, 2008

Particulars	**Rs.**	**Particulars**	**Rs.**
Sales	24,00,000	Staff Salaries	40,000
Net Block	10,00,000	Advertisement Expenses	60,000
Bills Receivable	4,00,000	Wearhouse rent	30,000
Bills Payable	2,00,000	Depreciation on Plant	50,000
Cash balance	85,000	Interest on Overdraft	30,000
Bank Overdraft	2,00,000	Share Capital	8,00,000
Purchases	18,00,000	Reserves (01/01/2008)	3,65,000
Other Administrative	40,000	Stock(01/01/2008)	3,60,000
Expenses	30,000	Lap Top repair	25,000
Legal Charges (paid)		Direct Expenses	15,000

Other Information:

(1) Make a provision for Income Tax of Rs. 2,40,000

(2) Provide Final divided Rs. 80,000

(3) Closing stock on 31/12/2008 is Rs. 4, 00,000

You are required to prepare Balance Sheet and Income Statement in vertical form suitable for analysis for the year ended 31st December, 2008.

(6) Lehman Brothers Income Statement for last four years ending 31st March 2005, 2006, 2007 and 2008 shows following position, prepare Trend Revenue statement in vertical form suitable (taking 31/03/2005 as the base year) for analysis and comment on administrative expenses and non-operating income. **(16)**

Particulars	**Ending on 31 March (Rupees in Crores)**			
	2005	**2006**	**2008**	**2009**
Sale	70	60	50	30
Material Consumed	21	18	15	9
Wages	7	6	2	1
Gross Profit	?	?	?	?
Office Rent	?	7	7	7
Office Salary	14	14	14	3.50
Other Administrative expenses	17.50	15	12.50	7.50
Sales Promotion expenses	3.50	3	2.50	1.50
Interest of debentures	10	10	10	10
Dividend Received	0.50	0.40	0.30	0.20

(7) From the following Income statement of M/s Shritej Ltd. Prepare the communize Revenue statement with amount and percentage in vertical form suitable for analysis. **(16)**

Income Statement for the year ended on 31st March, 2008.

Particulars	**Rs.**	**Particulars**	**Rs.**
To Opening Stock of finished goods	2,00,000	By Sales of finished goods	10,00,000
To Material consumed	6,00,000	By Closing stock of finished goods	45,000
To Wages	1,25,000	By Goods distributed as free sample	5,000
To Factory overhead	1,25,000		
To Gross Profit	-		
	10,50,000		**10,50,000**
To Staff salaries	17,500	By gross profit	-
To Telephone charges	10,000	By Commission	2,65,000
To Directors fees	10,000		
To Depreciation on office furniture	32,500		
To Advertisement expenses	12,000		
To Free samples	5,000		
To Publicity expenses	80,000		
To Interest on Debentures	5,000		
To Interest on loan	5,000		
To Net Profit	88,000		
To Proposed Dividend	**2,65,000**		**2,65,000**
To Balance Tfd. To Balance sheet	70,000	By Balance c/d.	1,00,000
	1,18,000	By Net profit	88,000
	1,88,000		**1,88,000**

(8) (a) State the effect on Operating Activities in Cash Flow Statement in respect of each of the following transactions separately. **(5)**

- **(i)** An increase in Debtors
- **(ii)** Decrease in Accounts Receivable
- **(iii)** Goodwill written off
- **(iv)** Decrease in Accounts Payable
- **(v)** An increase in Creditors

(b) Complete the following Income Statement for the year ended 31st March 2008. **(3)**

Particulars	**Rs.**
Net Sales	?
Less: Cost of goods sold	?
Gross Profit (25% of Sales)	2,00,000
Less: Operating Expenses	?
Operating Net Profit'	?
Add: Non-Operating Income	NIL
Less: Non-Operating Expenses	40,000
Net Profit before Tax	40,000
Less: Income tax (50% on NPBT)	?
Net Profit After Tax	?

(c) **Write short notes: (any two):** **(8)**

(i) Funds from Operation

(ii) Steps in designing MIS

(iii) Calculation of Work in Progress for forecasting working capital

(iv) Cash and Cash equivalent as per AS-3.