

MAY, 2011

FC-89

**FELLOWSHIP EXAMINATION
MANAGEMENT ACCOUNTING**

Time: 3 Hours]

[Total Marks : 100

Question **ONE** is compulsory. Total questions to be attempted are **FIVE**. All questions carry 20 equal marks.

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| | Marks |
| 1. a) What are the prudential norms for Investment by Insurance Companies in various Asset Classes. | 5 each |
| b) Define Life Insurance business as per Insurance Act 1938. | |
| c) Why adjustments to trial balance becomes essential while preparing Final Accounts ? | |
| d) Explain the cost audit. How it is useful to the Management. | |
| 2. Write short notes on : | 5 each |
| a) Reporting segment in Life Insurance business | |
| b) Net Lapse Ratio in Life Insurance business | |
| c) Safety margin | |
| d) I B N R Claims. | |
| 3. a) Explain Pay back method for Capital appraisal. | 5 |
| b) A Company is considering 2 mutually exclusive projects , Project I and Project II. Project I costs Rs. 30,000 and Project II Rs. 36,000. Net present value probability distribution for each project is given below. | 15 |

Project I		Project II	
N P V Estimate	Probability	N P V Estimate	Probability
3000	0.1	3000	0.2
6000	0.4	6000	0.3
12000	0.4	12000	0.3
15000	0.1	15000	0.2

- i) Compute the expected N P V of Project I and Project II
- ii) Compute risk i.e. Standard deviation for each project.
- iii) Which Project is risky and Why ?

4. a) What are the guidelines for recognising non performing assets in insurance industry by IRDA. 10 each
 b) What do you understand by Double Entry Accounting System ? Elaborate books of accounts maintained as per double entry accounting system.

5. New Age Shirts manufactures readymade Shirts for export customers. Standard Cost per Dozen shirts are. 20

	Rs.
Material (Cloth) 24 mtrs @ Rs. 11	264
Labour 3 hrs. @ Rs. 49	147
Other expenses 3 hrs. @ Rs. 40	120
Standard Cost per Dozen shirts	531.

During Dec. 2010 Company worked on 3 orders.

Cost records are as below:

		Cloth	Hrs. worked
U. K.	1700 Dozens	40440 mtrs.	5130
U S	1200 Dozens	28825 mtrs.	2890
Canada	1000 Dozens	24100 mtrs.	2980

- i) Company bought 95,000 mtrs. cloth @ Rs. 10,64,000
 ii) Labour cost in Dec. 2010 is Rs. 5,50,000, labour paid at Rs. 50 per hour.
 iii) Overheads Rs. 456000 40% fixed and 60% variable. Overheads are applied on the basis of direct labour hours.
 iv) Rs. 57,60,000 are budgeted overheads for 2010. Assuming normal production capacity of 48,000 dozen shirts p. a.
 v) During Dec. 2010 U. K. and Canada orders completed . For U S 80% job completed.
- a) Compute Standard Cost per Dozen Shirts and for U. K., U. S. and Canada orders separately.
 b) Calculate Material Price Variance, Labour Rate Variance, Fixed Overhead Volume Variance and variable overhead variance.
6. i) Tallied Trial Balance does not mean Accurate Accounting. - Discuss. 20
 ii) Comparative Balance Sheets and Profit and Loss Account of Saraswati Corporation are given below. Prepare Cash Flow Statement by using Direct Method.

(Rs. in Lakhs)					
Liabilities	31.03.09	31.03.10	Assets	31.03.09	31.03.10
Share Capital	50	50	Fixed Assets	180	190
Reserves	60	70	Inventories	70	60
Long term Debt	95	80	Sundry Debtors	60	70
Short term -					
Bank Borrowings	70	80	Bank Balance	20	15
Creditors	50	60	Furniture,		
Provisions	20	15	I. T. Hardware	15	20
	345	355		345	355

7. Explain Income Tax provisions for Life Insurance Business from relevant sections of Income Tax Act. 1961. 20
8. From the Trial Balance of Vidhyachal Life Insurance as at 31.03.10 and additional information prepare Revenue A/c for the year ending and Balance Sheet as on date. 20

(Rs. in Lakhs)			
		Debit	Credit
Claims less Reinsurance :			Premium
	Death	64	Interest, Dividends and Rent
	Maturity	87	Sundry Creditors
Bank Balance		33	Share Capital
Management Expenses		16	Life Fund
House Property		42	
Policy loans		13	
Investments		58	
Advance Tax Paid		11	
Commission		22	
Furniture Fixtures		15	
		361	361

- i) Market value of investment is Rs. 77
- ii) Outstanding Claims to be provided Rs 26 for Death and Rs. 19 for Maturity.
- iii) Calculate Depreciation @10% on Furniture & Fixture @ 5% on House Property.
- iv) Provide for Income Tax Rs. 16
- v) Dividend Declared Rs. 6 but not received by Company.

OR

8. From the Trial Balance of Fortune Insurance Co. Ltd. prepare Revenue Accounts, Profit and Loss Account, Profit and Loss Appropriation Account for the year ending 31.03.10 and Balance Sheet as on date.

(Rs. in Lakhs)

Claims Paid :		Share Capital	25
Fire	49	Catastrophic Reserve	7
Marine	22	Premium Net :	
Misc.	18	Fire	188
Commission Paid :		Marine	144
Fire	22	Misc.	74
Marine	24	Interest, Dividend and Rent	21
Misc.	41	Balance Fund :	
Management Expenses :		Fire	47
Fire	13	Marine	39
Marine	12	Misc.	29
Misc.	8		
Investments	283		
Building	16		
Bank Balance	66		
	<u>574</u>		<u>574</u>

(Rs. in Lakhs)

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|---|---------|
| i) Provision for taxation | Rs. 24 |
| ii) Unexpired risk 50% for Fire and Misc. and 100% for marine insurance | |
| iii) Prepaid Management expenses | Rs. 42 |
| iv) Market value of Investments | Rs. 312 |
| v) Outstanding Claims | |
| Marine | Rs. 16 |
| Misc. | Rs. 8 |

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