MAY, 2010

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.

Marks

1. From the following Trial Balance as on 31.3.2009, of Sun Life Insurance Co. Ltd., prepare the Revenue Account for the year and Balance Sheet as on that date. 20

(Rs. in Lakhs)

Particulars	**Debit Rs.**	**Credit Rs.**
Annutites	5	
Advance Payment of Income Tax	1	
Agent Balance	2	
Building Dep. Account		3
Claims less Reinsurance Paid :		
By Death	20	
By Maturity	14	
Cash with Banks on Current A/cs	5	
Commission	3	
Claims outstanding at the beginning of the year :-		
By Death		8
By Maturity		6
Contingency Reserve		2
Expenses of Management	25	
Furniture & Office Equipments	5	
House Property	50	
Income Tax	5	
Investments	20	
Interest, Dividend & Rent		15
Loan on Mortgages	10	
Loan on Policies	10	
Life Assurance Fund at the beginning of the year		70
Printed Stationery	5	

(Rs. in Lakhs)

Particulars	Debit Rs.	Credit Rs.
Sundry Debtors	10	
Sundry Deposits	12	
Share Capital		10
Taxation Reserve		10
Premium less Re-insurance		78
	202	202

Following are the adjustments to be made :

a) Claims less reinsurance outstanding at the end of the year :
   i) By Death 5 Lakhs
   ii) By Maturity 10 Lakhs

b) Expenses outstanding Rs. 2 Lakhs and prepaid Rs. 1 Lakh

c) Premium outstanding Rs. 10 Lakhs and Commission there on Rs. 1 Lakh

d) The Company holds Rs. 2 Lakhs Central Govt. Securities (not included in the above balances) deposited by Contractors as security.

OR

1. The following is the Trial Balance of Star General Insurance Co. Ltd. as on 31.03.2009. You are required to prepare the related Revenue Accounts, Profit and loss Account, Profit and Loss Appropriation Account for the year ending 31st March 2009 and the Balance Sheet as on that date. 20

(Rs. in Lakhs)

Particulars	Debit Rs.	Credit Rs.
Share Capital		10
Balance of funds at the begining of the year :		
Fire Insurance		10
Marine Insurance		5
Miscellaneous Insurance		10
General Reserve		10
Claims Paid :-		
Fire	68	
Marine	32	
Misc.	20	

(Rs. in Lakhs)

Particulars	**Debit Rs.**	**Credit Rs.**
Premium Less Insurance Ceded:-		
Fire		200
Marine		50
Misc.		125
Commission Paid :-		
Fire	20	
Marine	15	
Misc.	15	
Expenses of Management :		
Fire	30	
Marine	18	
Misc.	12	
Claims Outstanding (as on 01.04.2008) :-		
Fire		12
Marine		18
Misc.		10
Audit fees	1	
Investments	50	
Interest outstanding	2	
Amount due from Insurers	50	
Buildings	50	
Cash at Bank	77	
	460	**460**

Other information :- (Rs. in Lakhs)

i) Claims outstanding as on (31.03.2009) :-
   a) Fire 10
   b) Marine 12
   c) Misc. 8

ii) Accrued Interest 5

iii) Provide for unexpired risk reserve at 50% for Fire and Miscellaneous Insurance and at 100% in Marine Insurance.

iv) Market value of Investments 70

2. a) Mention the various applications of Marginal Costing Technique. 6

b) i) ABC Ltd. produces electronic components with a selling price per unit of Rs. 100. 14

ii) Fixed cost amount to Rs. 2,00,000.

iii) 5,000 units are produced and sold each year.

iv) Annual profits amount to Rs. 50,000.

v) The company's all equity financial assets are Rs. 5,00,000

The company proposes to change its production process adding Rs. 4,00,000 to investment and Rs. 50,000 to fixed operational cost.

The consequences of such a proposal are :

i) Reduction in variable cost per unit by Rs. 10

ii) Increase in output by 2000 units.

iii) Reduction of selling price per unit to Rs. 95.

Assuming an average cost of capital 10%, examine the above proposal and advise whether or not the company should make the change. Also measure the degree of operating leverage and break even point.

3. The monthly budgets for manufacturing overhead of a concern for two levels of activity were as follows :

Capacity	**60%** **Rs.**	**100%** **Rs.**
Budgeted production (**units**)	600	1000
Wages	1,200	2,000
Consumable stores	900	1,500
Maintenance	1,100	1,500
Power and Fuel	1,600	2,000
Depreciation	4,000	4,000
Insurance	1,000	1,000

You are required to :

i) indicate which of the items are fixed, variable and semi-variable. 5

ii) prepare a budget for 80% Capacity. 15

4. a) Even if Trial Balance totals agree, some errors may still remain undetected. - Discuss 6

b) Z Ltd. uses standard costing system in manufacturing of its product 'P'. The standard cost per unit of 'P' is as follows : 14

				Rs.
Direct Material	-	3 kgs	@ Rs. 8 per kg.	24
Direct Labour	-	1 hour	@ Rs. 5 per hour	5
Variable Overhead	-	1 hour	@ Rs. 4 per hour	4
				33

During January 2010, 8000 units of 'P' were produced and the related data are as under :

Direct Material acquired	-	@ Rs. 7 per kg.	28000 kgs.
Material consumed	-		25200 kgs.
Direct labour	-	? hours @ Rs. ? per hour	Rs. 39,840
Variable overhead incurred			Rs. 32,800

The variable overhead efficiency variance is Rs. 1,200 adverse. Variable overheads are based on direct labour hours. There was no stock of raw material in the beginning.

You are required to compute the missing figures (Direct Labour hour and the rate per hour) and work out all the relevant variances.

5. A Company is considering which of two mutually exclusive projects it should undertake. 20

The Finance Director thinks that the project with higher NPV should be chosen where as the M. D. thinks that the one with higher IRR should be undertaken as both projects have same initial outlay and length of life.

The company anticipates a cost of Capital of 10% and the net after tax cash flows of the projects are as follows :

(Rs. '000)

Year	0	1	2	3	4	5
<u>Cash Flows</u>						
Project A	(200)	35	80	90	75	20
Project B	(200)	218	10	10	4	3

Required :

a) Calculate the N P V and I R R of each project.

b) State, with reasons, which project you would recommend.

c) Explain the inconsistency in the ranking of the two projects.

The discount factors are as follows :-

(Rs. '000)

Year	0	1	2	3	4	5
Discount Factors						
(10%)	1	0.91	0.83	0.75	0.68	0.62
(20%)	1	0.83	0.69	0.58	0.48	0.41

6. You are given the following data for the year ended 31st March, 2008 of XYZ Ltd. 20

	(Rs.)	(%)
Varible Cost	6,00,000	60
Fixed Cost	3,00,000	30
Net Profit	1,00,000	10
Total :-	**10,00,000**	**100**

Find out Break-even point, P.V. ratio and margin of safety.

7. Write short notes on the following :- 4 each
   a) Capital Reserve/Revenue Reserve
   b) Leverage Ratio
   c) Renewal Expenses Ratio (R E R)
   d) Reserve for unexpired risks
   e) Reserve for claims incurred but not reported (I B N R)

8. a) Discuss the following :-
      i) Budget and Budgetary Control System 5
      ii) Merits and limitations of budgeting. 5
   b) Mention the different types of budgets based on different basis of classification of budgets. 10

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