NOVEMBER, 2008

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 31.03.2007 of Navajeevan 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.
Claims Paid:		
By Death	250	
By Maturity	400	
Annuities	120	
Cash at Bank	100	
Cash on Hand	25	
Agents Balances	200	
Loans on Polices	125	
Investment (at cost)	5000	
Buildings (at cost)	1200	
Income Tax	25	
Share Capital		2000
Life insurance Fund (01.04.2006)		2500
Net Premium		1800
Claims Outstanding : (01.04.2006)		
By death		50
By Maturity		125
Premium Deposits		300
Consideration for Annuities		100
Management Expenses	180	
Interest Rates and Dividends		1200

Particulars	Debit Rs.	Credit Rs.
Commission	250	
Ragistration and other fees		150
Sundry Creditors		275
Furniture	50	
Advance Payment of Income Tax	75	
Mortgage Loan	500	
	8500	**8500**

Other adjustments to be made are :

All figures are Rs. in Lakhs.

a) Claims outstanding as at 31.03.2007 :
   i) By Death — 70
   ii) By Maturity — 100

b) Depreciation to be provided :
   on furniture — @10%
   on buildings. — @5%

c) Market Value of investments — Rs. 7500/-

d) Outstanding expenses — Rs. 70/-

e) Commission prepaid — Rs. 25/-

OR

The following is the Trial Balance of Premier General Insurance Company Ltd. as on 31.03.2007. You are required to prepare the related Revenue Accounts, Profit & Loss account and Profit and Loss Appropriation account for the year ending 31.03.2007 and the Balance Sheet as on that date. 20

(Rs. In Lakhs)

Particulars	Debit	Credit
Share Capital		12,000
Balance of funds (01.04.2006):		
Fire Insurance		250
Marine Insurance		120
Miscellaneous Insurance		200
General Reserve		700
Claims Paid :		
Fire Insurance	1,000	
Marine Insurance	275	
Miscellaneous Insurance	1325	

Particulars	Debit Rs.	Credit Rs.
Premium Less insurance Ceded :		
Fire		3100
Marine		250
Miscellaneous		1000
Commission Paid :		
Fire	300	
Marine	25	
Miscellaneous	100	
Expenses of Management :		
Fire	150	
Marine	10	
Miscellaneous	225	
Claim Outstanding (01.04.2006) :		
Fire		500
Marine		100
Miscellaneous		680
Audit Fees	5	
Interest, Rent and Dividends		150
Investments	8000	
Amount due from insurers	2200	
Amount due to insurers		635
Outstanding Premium	1000	
Agents balances	225	
Furniture & fixtures	145	
Buildings	1200	
Interest outstanding	100	
Sundry Debtors	1400	
Cash in hand	800	
Cash at bank	1200	
	19,685	**19,685**

(All figures in Rs. in lakhs)

Other information :-

1) Claims outstanding (31.03.2007) :
   a) Fire — 1200
   b) Marine — 125
   c) Miscellaneous — 1000
2) Accrued interest Rs.150
3) Provide for unexpired risk reserve at 50% for fire and miscellaneous insurance and at 100% in Marine Insurance.
4) Provide 5% depreciation on building and 20% on furniture and fixtures.
5) Market Value of investments Rs. 10,000/-

2. From the following ratios of United chemical Industries Limited, you are required to find out :- 20

a) Sales
b) Sundry Debtors
c) Sundry Creditors and
d) Closing Stock

i)	Debtors Velocity	= 3 months
ii)	Stock Velocity	= 8 months
iii)	Creditors Velocity	= 2 months
iv)	Gross Profit ratio	= 20%
v)	Gross profit for the year	= 6,00,000/-
vi)	Closing Stock	= Opening stock + Rs. 1,00,000/-
vii)	Bills Receivable	Rs. 25,000/-
viii)	Bills Payable	Rs. 20,000/-

3. a) List out the circumstances under which a firm may be forced to fix the price below total cost. 5

b) Two business A Ltd and B Ltd sell the same type of product in a market. Their budget for the year 2001 are as follows: 15

		A Ltd.		B Ltd.
		Rs.		Rs.
Sales		2,00,000		2,00,000
Less : Variable Cost	1,50,000		1,20,000	
Fixed Cost	15,000	1,65,000	45,000	1,65,000
Net Budgeted Profit		**35,000**		**35,000**

You are required to :-

i) Calculate the breakeven point of each business and
ii) State which business is likely to earn greater profits in conditions of heavy demand of the product and in condition of low demand.

4. a) Explain the importance of inventory management and the tools used in such management. 5

b) Royal Industries Ltd. uses about 75,000 valves per year and the usage is fairly constant at 6250 per month. The valve cost is Rs. 3/- per unit while the carrying cost is estimated to be 20% of average inventory investment on an annual basis. The cost of placing the order is Rs. 18/-. Safety stock is 3250 valves and the delivery will take 45 days. 15

You are required to calculate:

i) The most economical order quantity and frequency of orders

ii) The order point

iii) The most economical order quantity if the valves cost Rs. 6/- each instead of Rs. 3/-

5. a) What is variance analysis? Explain the various types of variances. 6

b) The standard labour complement and the actual labour complement engaged in a week for a particular job are as follows : 14

		Workers		
		Skilled	**Semi Skilled**	**Unskilled**
i)	Standard number of workers in the team	32	12	6
ii)	Standard wage rate per hour.	6	2	1
iii)	Actual number employed	28	18	4
iv)	Actual wage rate per hour	4	3	2

During the 40 hour working week, the group produced 1800 standard hours of work.

Calculate:

1) Labour efficiency variance
2) Rate of wages variance.
3) Labour mix variance and
4) Total labour cost variance

6. Nutan enterprises Ltd. is considering the purchase of a new computer system costing Rs. 35 lakh. The operation and maintenance costs (Excluding depreciation) are expected to be Rs. 7 lakhs per annum. The useful life of the system is 6 years and expected to get a scrap value of Rs. 1 lakh. 20

The system will reduce the design and draftsmanship costs by Rs. 12 lakhs per annum. The disposal of the used furniture and other equipments, in the beginning is expected to bring in a cash flow of Rs. 9 lakhs. The cost of capital for the Co. is 12% and ignore depreciation and income tax.

As financial consultant to the company, you are requested to examine the proposal and give your recommendation.

Note: PV factor of annuity for 6 years @ 0.12 = 4.111
PV factor for 1 year 0.50%

7. Write short notes : 5 each
   a) Accounting concepts.
   b) Types of Budgets
   c) Costing System
   d) Need for cash flow statements.

8. Enumerate the various disclosures required to be made along with the financial statements under the IRDA Regulations. 20

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