NOVEMBER, 2007

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 31.3.2005, of Santosh Life Insurance Co. Ltd., prepare its Revenue Account and Balance Sheet on that date. 20

Particulars	Debit Rs.	Credit Rs.
Annuities	17,000	
Advance Payment of Income Tax	20,000	
Agent Balance	80,000	
Paid Claims less Reinsurance :		
By Death	20,00,000	
By Maturity	18,00,000	
Cash :-		
with Bank	7,00,000	
at hand	48,000	
Commission	3,00,000	
Consideration for Annuities granted		20,000
Claims at the beginning :-		
By Death		5,00,000
By Maturity		75,000
Expenses of Management	25,00,000	
House Property (Building)	50,00,000	
Furniture & Fixtures	5,00,000	
Income Tax	1,20,000	
Interest, Dividend & Rent		20,00,000
Investments	4,25,00,000	
Loan on Policies	22,00,000	
Loan on Mortgages	20,00,000	
Life Insurance Fund on 01.04.2004		2,75,00,000
Premium I year		40,00,000
Premium Deposit		10,00,000

Particulars	Debit Rs.	Credit Rs.
Premium Renewal		1,12,00,000
Surrenders	25,00,000	
Sundry Debtors	1,00,000	
Sundry Creditors		6,30,000
Sundry Deposits		3,70,000
Share Capital		1,50,00,000
Registration & Other fees		90,000
	6,23,85,000	6,23,85,000

Other adjustments required are :

1) Claims outstanding as at 31.3.2005
   a) By Death Rs. 4,00,000
   b) By Maturity Rs. 1,00,000
2) Depreciation to be Provided
   a) At 5% on Building and
   b) At 15% on Furniture & Fixtures.
3) Surrenders have been wrongly debited for an amount of Rs. 3,00,000/- which should have been treated as loan on Policies.
4) Outstanding commission : Rs. 30,000/-
5) TDS on interest income has been shown as Advance payment of income tax.

OR

1. The following balances appear in New Era General Insurance Co. Ltd. as at 31st March 2000. You are advised to prepare the necessary Revenue Accounts, Profit and loss Account, Profit and Loss Appropriation Account for the year ending 31st March 2000 and Balance Sheet as at 31.03.2000. 20

Sr. No.	Head of Account	Balance (Rs.)
1.	Share Capital	40,00,00,000
2.	General Reserve.	3,85,00,000
3.	Amount Due to insurers	17,50,000
4.	Management Expenses	10,25,00,000
5.	Commission Paid :-	
	a) Fire	5,25,000
	b) Marine	3,00,000
	c) Misc.	10,75,000
6.	Claims Paid :-	
	a) Fire	6,50,00,000
	b) Marine	1,00,00,000
	c) Misc.	14,25,00,000

Sr. No.	Head of Account	Balance (Rs.)
7.	Claims Outstanding 01.04.1999 :-	
	a) Fire	2,00,00,000
	b) Marine	20,00,000
	c) Misc.	4,80,00,000
8.	Amount due from other insurers	70,00,000
9.	Profit & Loss Appropriation A/c (Cr)	8,00,000
10.	Reserve for unexpired risk (01.04.1999) :-	
	a) Fire	50,00,000
	b) Marine	1,00,00,000
	c) Misc.	48,00,000
11.	Interest, Dividend, Rent etc.	12,00,00,000
12.	Buildings	75,00,000
13.	Computers, Furniture & fixtures	25,00,000
14.	Cash at bank and on hand	44,50,000
15.	Investments	91,00,00,000
16.	Net Premium :-	
	a) Fire	18,00,00,000
	b) Marine	3,00,00,000
	c) Misc.	50,00,00,000
17.	Agents Balances (Dr)	50,00,000
18.	Sundry Debtors	50,00,000
19.	Sundry Creditor	75,00,000
20.	Outstanding Premium	10,00,00,000
21.	Interest accrued but not due	50,00,000

The following further information may also be noted.

a) Claims outstanding (31.03.2000) :- **Rs.**
   a) Fire 5,00,00,000
   b) Marine 3,00,00,000
   c) Misc. 12,00,00,000

b) Management Expenses include survey fees of Rs. 1,00,000/- and Legal fees of Rs. 5,00,000/- incurred towards fire claims.

c) Create a provision for income tax @40% (incl. Surcharge)

d) Provide depreciation on Buildings at 5%.

e) Market Value of Investments as on 31.03.2000 is Rs. 120,00,00,000/-

f) Reserve for unexpired risk may be created at 50% of the net premium for fire and misc. business and at 100% for marine.

g) Management expenses are to be apportioned on the basis of net premium among the 3 departments.

2. a) What are the reasons for differences in the profits shown by Financial Accounts and by Cost Accounting System? 5

b) Mumbai Distributors Ltd. maintains both financial accounts and cost accounts. Their profit as per cost books was Rs. 1,24,250/- while the audited final accounts showed a net profit of Rs. 1,10,000/- . Please prepare a reconciliation Statement and explain to the Board that there is nothing wrong with either of the accounts. 15

Mumbai Distributors Ltd.

Profit and Loss Account for the year ended 31st March

	Rs.		Rs.
Opening Stock	1,85,000	By Sales	8,25,000
Purchases	4,25,000		
Closing Stock	40,000		
Gross Profit Transferred	1,75,000		
	8,25,000		8,25,000
Depreciation on Computers	25,000	Gross Profit	1,75,000
Commission on sales	40,000		
Net Profit	1,10,000		
	1,75,000		1,75,000

The costing records showed that :

a) the value of closing stock was Rs. 48,000/-

b) Depreciation was Rs. 27,250/- and

c) Commission on Sales was Rs. 31,500/-

3. a) Explain the term ratio. Discuss advantages and limitations of ratio analysis. 8

b) The following are the ratio of ABC Ltd. 12

i) Total debts to net worth : 0.50 to 1

ii) Turnover of total assets : 2 times

iii) Gross Profit : 30%

iv) Average Collection Period (Based on 360 days a year) – 40 days.

v) Inventory Turn over (Based on Cost of Goods Sold and Closing Stock) : 3 times

vi) Acid/Quick Test Ratio : 0.75:1

vii) Share Capital : Rs. 2,50,000

viii) Retained Earnings : Rs. 3,50,000

ix) Outside liabilities in the Company is notes & accounts payable only.

Draw up the Balance Sheet of ABC Ltd.

4. a) Discuss briefly about the concept of Standard Costing. 7
   b) What are the prerequisites of Effective Budgeting? 7
   c) Enumerate briefly various errors which may go undetected even both sides of Trial Balance agree. 6

5. a) Following is the Balance sheets of ABC Ltd. for Two years. Figures are given in rupees in lssakhs. 15

Balance Sheet as at 31st March.

	Current Year	Previous Year		Current Year	Previous Year
Current Liabilities	85	40	Cash	5	10
Long term debt	85	-	Net Receivables	65	25
Stock holders' equity	200	120	Inventories	80	25
			Plant & Machinery (After depreciation)	220	100
	370	160		370	160

Net income before taxes was Rs. 65 lakhs and taxes paid was Rs. 20 lakhs. Cash dividend paid Rs. 5 lakhs.

Prepare a Statement showing the cash flow of ABC Ltd. as per AS - 3.

   b) What are the guidelines of IRDA with regard to preparation of cash flow statements. 5

6. Write short notes on the following :- 5 each
   i) Margin of Safety
   ii) ABC Analysis
   iii) Internal Audit and Statutory Audit
   iv) Working Capital Management.

7. Structural Engineers have a machine which has been in use for 6 years. There is a proposal to replace it with a new improved model. Based on the following data you are required to advise them whether they should go for the new machine or not. Give justification for your suggestion. 20

Amount in Rs.

	Particulars	Old Machine	New Machine
a)	Purchase Price	60,000	1,20,000
b)	Expenditure (p.a.)		
	i) Power Consumption	7,000	10,000
	ii) Consumable Stores	4,000	6,000
	iii) Repairs and Maintenance	5,000	4,000

	Particulars	Old Machine	New Machine
c)	Labour cost per hour	2	2.25
d)	*Units of output per hour*	*40*	*60*
e)	Machine running hours p.a.	2,000	2,000
f)	Material cost per unit	0.40	0.40
g)	Selling price per unit	1.00	1.00
h)	Estimated Life	10 years	10 years

8. a) Discuss briefly about the concept of Marginal Costing. 6

b) The following details are available from M/s Rahul & Co. for a Calendar Year. 14

i)	Present Production and sales	:	10,000 units
ii)	Selling price per unit	:	Rs. 20
iii)	Direct Material	:	Rs. 6.00 per unit.
iv)	Direct Labour	:	Rs. 4.00 per unit.
v)	Variable Overhead	:	50% of direct labour Cost.
vi)	Fixed Cost	:	Rs.60,000

(A) Calculate P/V Ratio, Break Even Point and Margin of Safety.

(B) Calculate the effect on P/V Ratio, Break Even Point and Margin of Safety in each of the following cases :

i) 10% increase in selling price.
ii) 10% increase in variable cost.
iii) 10% decrease in fixed cost.
iv) 10% decrease in sales volume.

------The End------