

**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.

1. From the following balances extracted from the books of Happy Life Insurance Corporation Ltd. as on 31st Mar. 2007, and with the additional information given below, prepare the company's Balance Sheet as on that date and the Revenue Account for the year ended on that date. Marks
20

(Rs. in Lakhs)		Debit	Credit
Share capital			10,000
Life Fund (1.4.2006)			6,000
Claims Paid less Reinsurance			
Death	2,790		
Maturity	2,220		
Surrenders	300		
Annuities	1,200		
Building at Cost	1,000		
Furniture and Fixtures	130		
Cash at Bank	3,670		
Cash on Hand	280		
Premium (Net)			7,250
Consideration for Annuities			1,400
Premium Deposits			700
Management Expenses	1,000		
Commission	1,200		
Agent's Balances	560		
Investments (at Cost)	12,000		
Interest, rent and dividends			1000
Total		<u><u>26,350</u></u>	<u><u>26,350</u></u>

Additional information :- (Rs. in Lakhs)

- i) Claims outstanding
- a) Death 310
- b) Maturity 50
- ii) Provide for depreciation at 5% on building and at 10% on Furniture and Fixtures.
- iii) Market Value of investments 15,000
- iv) Premium deposits include 100 which is actually premium on policies already incepted.
- v) Provide for income tax 1,000

OR

1. The following is the Trial Balance of Prime General Insurance Company Ltd. you are required to prepare related Revenue Accounts, Profit & Loss Account, Profit and Loss appropriation Account for the year ending 31st March 2000 and the Balance Sheet as on that date. 20

	(Rs. in Lakhs)	
	Debit	Credit
Unexpired Risk Reserve A/c (1-04-1999)		
Fire		2000
Marine		700
Miscellaneous		800
Claims outstanding (1-04-1999)		
Fire		300
Marine		160
Miscellaneous		2000
Claims Paid less Reinsurances		
Fire	1000	
Marine	200	
Miscellaneous	1320	
Premium less reinsurances		
Fire		1800
Marine		100
Miscellaneous		1900
Commission Paid		
Fire	200	
Marine	10	
Miscellaneous	150	

	(Rs. in Lakhs)	
	Debit	Credit
Management Expenses	700	
Amount due to other insurers		300
Amount due from other insurers	270	
Share Capital		1000
General Reserves		800
Cash at bank	1380	
Cash on hand	280	
Investments at cost	5800	
Interest, Dividend etc.		200
Income Tax paid	150	
Building	500	
Furniture and Fixtures	100	
Total	<u>12060</u>	<u>12060</u>

Additional information given are :- (Rs. in Lakhs)

- i) Claims outstanding on 31.03.2000:

Fire	200
Marine	120
Miscellaneous	1250
 - ii) Provide depreciation @ 5% on building and 25% on Furniture and Fixtures.
 - iii) Provide for unexpired risk reserve at 100% for marine and at 50% for other departments.
 - iv) Accrued interest 100
 - v) Market Value of investments 8,000
 - vi) Apportion the management expenses 4 : 1 : 2
 - vii) Proposed dividend at 20%
2. a) Explain the term "overheads". What are the various types of overheads? 10 each
- b) In a manufacturing unit, factory overhead was recovered at a pre-determined rate of Rs. 30 per manday. The total overhead expenses incurred and the mandays actually worked were Rs. 60 lakh and Rs. 1.5 lakh respectively. Out of 50,000 units produced, 40,000 were sold.

It was found that 50% of the unabsorbed overheads were due to defective planning and the rest were attributable to increase in overhead costs. How would unabsorbed overheads be treated in cost accounts?

3. a) Why auditing is needed in an organisation? 5
 b) Highlight the various kinds of errors normally found out during various audits. 5
 c) Differentiate between Cost Audit and Management Audit. 10
4. Given below are the Balance Sheets as on March 31st of two consecutive years and a Statement of income and reconciliation of earnings for the current year of Wellknown Industries Ltd. During the year, an old machine was sold For Rs. 6,00,000 in cash. Its original purchase price was Rs. 15,00,000 and accumulated depreciation was Rs. 8,00,000. 20

	(Rs. in lakhs)	
a) Balance Sheets	Previous year	Current Year
Cash	74	37
Sundry debtors	54	47
Inventories	312	277
Prepaid expenses	6	4
Land	60	60
Patents	55	55
Plant and Machinery	420	480
Less : Accumulated Depreciation	(105)	(120)
Total Assets :-	<u>876</u>	<u>840</u>
Sundry Creditors	86	102
Provision for income tax	89	17
Debentures	220	60
Equity Capital	250	450
Retained earnings	231	211
Total Liabilities :-	<u>876</u>	<u>840</u>

b) Statement of income for the current year :	(Rs. in lakhs)
Net sales	1977
Less : Cost of goods sold	<u>1460</u>
Gross Profit	517
Less : Operating expenses including depreciation	<u>506</u>
	11
Less : Interest on debentures	<u>14</u>
	(-3)
Add : Earnings retained in earlier year	<u>231</u>
	c/fd. 228

	b/d.	228
Less : Dividend paid	16	
Loss on sale of machine	<u>1</u>	17
Retained Earning Current year		<u>211</u>

Prepare a Cash Flow Statement of Well Known Industries Ltd. for the current year.

5. a) A company manufactures 4 types of colour TVs A, B, C and D. The sales mix in value comprises 20%, 30%, 35% and 15% for A, B, C and D respectively. 100% sales is Rs. 6,00,000 per month. Variable cost as a percentage of selling price A - 50% B - 55% C - 75% and D - 40% Fixed costs Rs. 2,70,000 10 each
- Calculate the break even point for the firm on over-all basis.
- b) Find out the break even point of the above firm.:-
- if the fixed cost goes up by 10% while other things remain constant.
 - if the variable cost goes up by 10% while the fixed cost remains constant at Rs. 2,70,000 and sales at Rs. 6,00,000
6. a) Explain the term "Disposition of variances". 5
- b) Excel Industries Pvt. Ltd. has made a forecast for the next quarter as under: 15
- Rs. 20,000 for 10000 hours
 Rs. 18,500 for 9000 hours
 Rs. 17,000 for 8000 hours
- The normal volume of activity is 10000 hours. At the end of the quarter, it was found that 8750 hours were utilised for a total overhead expenditure of Rs. 28,750 of which fixed overheads totalled Rs. 15,250. Standard utilisation of labour hours should have been less by 5%. Find out the overhead variance and bifercate between the fixed overhead variance and variable overhead variance.
7. a) What are the principles governing appraisal of Capital Investments? 4
- b) Briefly describe **any three** methods of Capital Appraisal? 6
- c) Determine the average Rate of Return from the following data of two units **X and Y**. 10

	Unit 'X'	Unit 'Y'
	Rs.	Rs.
Cost	50000	50000
Estimated income after depreciation and tax :-		
Year 1	4000	8000
2	6000	8000
3	7500	7500
4	8000	6000
5	8000	4000
Total:-	<u>33500</u>	<u>33500</u>
Estimated Life	5 years	5 years
Estimated Salvage Value	5000	5000

8. Write short notes on (any four) :-

5 each

- Prudential norms under IRDA (Investment) Regulations
- ABC Analysis
- Segment Reporting
- Sources of Corporate Funds.
- Double entry System.

—THE END—