

MAY, 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.

1. From the following Trial Balance as on 31.3.2007 of Anupama Life Insurance Co. Ltd., Prepare Revenue Account and Balance Sheet on that date . Marks 20

Particulars	Debit Rs.	Credit Rs.
Annuities	5,000	-
Advance Payment of Income Tax.	47,000	-
Agent Balance	95,000	-
Building Depreciation Reserve	-	3,00,000
Claims less Reinsurance during the year :		
- By Death	16,00,000	-
- By Maturity	22,00,000	-
Cash with Bank	10,50,000	-
Cash and stamps in Hand	48,000	-
Commision	2,75,000	-
Claims less reinsurance at the beginning of the year:		
- By Death	-	4,50,000
- By Maturity	-	1,70,000
Consideration for Annuities granted	-	12,000
Contingency Reserve	-	1,30,000
Expenses of Management	32,00,000	-
Furniture and office Equipment (including Rs 30000 purchased during the year)	2,00,000	-
Furniture & office Equipment Dep.Reserve	-	30,000
House Property(including Rs. 1,00,000 added during the year)	51,00,000	-
Income Tax	4,50,000	-
Income tax on interest,Dividends & Rent	4,50,000	-

Particulars	Debit Rs.	Credit Rs.
Investment	4,82,00,000	-
Int., Divident & Rent	-	18,00,000
Loan on Mortagage	10,00,000	-
Loan on policies	27,50,000	-
Life Insurance Fund at the beginning of the year	-	3,65,00,000
Stock of stationery	52,000	-
First year Premium	-	50,00,000
Renewal Premium	-	1,10,00,000
Premium Deposit	-	10,25,000
Registration & other fees	-	5000
Surrenders	2,20,000	-
Surrender Value unclaims	-	20,000
Sundry Debtors	45,000	-
Sundry Deposits	-	95,000
Sundry Creditors	-	2,50,000
Share capital	-	1,00,00,000
Provision for Income tax	-	2,00,000
	<u>669,87,000</u>	<u>669,87,000</u>

You are required to make following adjustments :-

	Rs.
a) Claim less reinsurance outstanding at the end of the year :	
- By Death	5,00,000
- By Maturity	1,20,000
b) Expenses outstanding	35,000
Prepaid Expenses	15,000
c) Provide for :	
- depreciation of Building	51,000
- depreciation of furniture & office Equipment	10,000
Provide for taxation	90,000
d) Prefmium outstanding	17,50,000
Commission outstanding	52,000
e) Int., Divident & Rent outstanding (net)	30,000
and Int. & Rent accruing (net)	2,70,000

OR

The following is the Trial Balance of Nirmal General Insurance Co. Ltd. as on 31st Dec., 2006. You have to prepare the Balance sheet and Revenue and Profit & Loss Account & Profit & loss Appropriation A/c.

Particulars	Dr. (Rs)	Cr. (Rs)
Capital	-	12,00,000
Balance of funds as on 1.1.2006 :		
- Fire Insurance	-	2,50,400
- Marine Insurance	-	1,20,800
- Miscellaneous Insurance	-	60,500
General Reserve	-	3,00,000
Profit & Loss	-	70,000
Claim Paid :		
- Fire Insurance	2,70,000	-
- Marine Insurance	90,500	-
- Miscellaneous Insurance	27,600	-
Commission Paid :		
- Fire Insurance	1,20,500	-
- Marine Insurance	27,100	-
- Miscellaneous Insurance	9,200	-
Expenses of Management :		
- Fire Insurance	1,80,600	-
- Marine Insurance	35,700	-
- Miscellaneous Insurance	22,600	-
Premium. Less: - Reinsurance :		
- Fire Insurance	-	6,20,500
- Marine Insurance	-	1,70,200
- Miscellaneous Insurance	-	90,600
Claim outstanding as on 1.1.2006 :		
- Fire Insurance	-	4,700
- Marine Insurance	-	11,500
- Miscellaneous Insurance	-	2,700
Interest on Investments	-	75,600
Misc. Receipts - Marine	-	500
Audit Fees	5,000	-
Income tax on interest	12,600	-
Depreciation	5,700	-

Particulars	Dr. (Rs)	Cr. (Rs)
Outstanding Premia	1,20,600	-
Deposit with RBI in GP Notes	4,20,000	-
Indian Govt. Securities	11,90,000	-
Loan on Mortgage	90,000	-
Debenture of Companies in India	1,62,000	-
Shares of companies in India	1,05,000	-
Furniture & fitting	32,600	-
Amounts due by Agents	11,600	-
Interest outstanding	10,500	-
Profit on sale of Investment	-	5,200
Sundry Debtors	21,000	-
Cash in Deposit A/c	44,000	-
Outstanding Dividend	-	4,200
Amount due to Reinsurance	-	25,600
Cash in Hand	4,200	-
Sundry creditors	-	5,600
	<u>30,18,600</u>	<u>30,18,600</u>

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|--|--------|
| 1) Outstanding claim at the end : | Rs. |
| - Fire | 15,000 |
| - Marine | 5,200 |
| - Miscellaneous | 2,500 |
| 2) 5% Dividend is proposed and transferred to General Reserve. | 30,000 |
| 3) Reserve for unexpired risk as on 31.12.2006 | |
| - Fire | 50% |
| - Miscellaneous | 50% |
| - Marine | 100% |

2. a) Define Budgeting . What are the objectives of Budgeting?
 b) A firm at present operates at 60% of its capacity. At this level and at the level of 50% utilisation of capacity, the figures relating to its operations could be summarised as stated below:

	50%	60%
	Rs.	Rs.
Materials	7,00,000	8,40,000
Labour	5,00,000	6,00,000

	50%	60%
	Rs.	Rs.
Manufacturing overhead	3,00,000	3,30,000
Administrative overhead	2,50,000	2,50,000
Selling and Distribution overhead	2,25,000	2,50,000
Research and Development	1,50,000	2,00,000
	<u>21,25,000</u>	<u>24,70,000</u>
Profit	<u>3,75,000</u>	<u>5,30,000</u>
Sales	<u>25,00,000</u>	<u>30,00,000</u>

Draw up the Budget at 80% utilisation of capacity assuming that :

- i) Sales at this level can be maintained only by a flat 5% reduction in the selling price.
 - ii) Economy in purchase of material will equal to 3% of current amounts.
 - iii) Research and development expenses will be Rs. 2,20,000/-
 - iv) Administrative overhead will increase by 7%
3. a) There are two plants manufacturing the same products under one corporate management which decides to merge them. Following particulars are available regarding the two plants .

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Capacity operation	Plant I	Plant II
	100%	75%
Sales	Rs. 4,00,00,000	Rs. 2,25,00,000
Variable costs	Rs. 3,00,00,000	Rs. 1,80,00,000
Fixed costs	Rs. 60,00,000	Rs. 30,00,000

you are required to calculate for the consideration of the Board of Directors.

- i) What would be the capacity of merged plant to be operated for the purpose of Break even?
 - ii) What would be the profitability on working at 85 percent of the merged capacity?
- b) Write a short note on contribution.
4. a) What do you understand by cash flow statement ? Give four items of cash flow statement.

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- b) From the following Balance Sheets of ABC Ltd. as on 31st March 2007 and 2006, prepare cash flow statement. 15

	31.3.2006	31.3.2007
Assets -	Rs.	Rs.
Property	2,00,000	2,50,000
Plant and Machinery	4,00,000	4,50,000
Less: Dep.	<u>1,40,000</u>	<u>1,50,000</u>
Loans to subsidiary Co.	-	15,000
Share in subsidiary Co.	20,000	20,000
Trading Stock	1,40,000	1,50,000
Debtors	1,00,000	1,50,000
Bank	<u>35,000</u>	<u>1,57,000</u>
	<u>7,55,000</u>	<u>10,42,000</u>
Liabilities -		
Equity Share of Rs. 20 each	3,00,000	4,00,000
Share Premium	-	10,000
Profit & Loss(App.)A/c.	1,00,000	1,00,000
Profit for the year	-	2,00,000
6% Debenture	1,50,000	1,00,000
Profit on Redemp. of Debenture-	-	2,000
Creditors	1,40,000	1,10,000
Provision for taxation	50,000	1,00,000
Proposed Dividend	<u>15,000</u>	<u>20,000</u>
	<u>7,55,000</u>	<u>10,42,000</u>

Additional Information :-

During the year plant costing Rs. 50,000 was sold for Rs. 10,000/-;
 Accumulated depreciation on this plant was Rs. 30,000/-;
 Loss on sale of plant was charged to profit & Loss account;
 Income tax paid during the year was Rs. 60,000/-.

5. a) What do you understand by Standard Costing? What are the advantages of Standard Costing? 8
- b) The Marketing Manager of a company engaged in the manufacture and sale of 3 products M,N,Q gives you the following information for the month of Dec. 2006 12

Budgeted Sale :

Product	Unit Sold	Selling Price per unit	Std. Margin per unit
M	1000	Rs. 8	Rs. 5
N	1000	Rs. 6	Rs. 3
Q	1000	Rs. 4	Rs. 1

Actual Sales :

M	800 units	for	Rs. 5,600
N	1200 units	for	Rs. 6,000
Q	2000 units	for	Rs. 10,000

You are required to calculate the following variances on the basis of profit :

- i) Sales Price Variance
- ii) Sales Volume Variance
- iii) Sales Mix Variance
- iv) Sale Quantity Variance.

6. From the final accounts of Navneet Ltd. given below . Calculate the following : 20
- i) Gross Profit Ratio
 - ii) Current Ratio
 - iii) Liquid Ratio and
 - iv) Return on Investment Ratio

Trading, Profit and Loss Account for the year ended 30th Sept. 2006.			
Dr.	Rs.	Cr.	Rs.
To Material Consumed :		By Sales	75,000
Opening Stock	8,575	Int. on Investment	500
Purchases	42,750		
	51,325		
Less : Closing			
Stock	11,000		
	40,325		
" Carriage inward	4,675		
" Office Expenses	10,000		
" Sales Expenses	2,500		
" Financial Expenses	3,000		
" Net Profit	15,000		
	75,500		75,500

Balance Sheet as on 30th Sept. 2006

Liabilities	Rs.	Assets	Rs.
<u>Share Capital :</u>		<u>Fixed Assets :</u>	
1500 equity shares of Rs. 10 each fully paid	15,000	Buildings 12,000	
<u>General Reserve :</u>	9,000	Plant 8,000	20,000
<u>Profit & Loss A/c.</u>	6,000	<u>Current Assets :</u>	
<u>Bank overdraft</u>	2,000	Stock 12,000	
<u>Sundry Creditors :</u>		Debtors 3,000	
For expenses 2,000		Bills Receivable 1,000	
Others 6,000		<u>Bank Balance 4,000</u>	20,000
	8,000		
	<u>40,000</u>		<u>40,000</u>

7. a) What major role is played by financial institutions in the development of Indian Economy? 10 each
b) What are the major sources of Corporate Funds?
8. a) How capital Investment decisions are taken and what are the deciding factors for taking decision to incur Capital expenditure? 15
b) Write a short note on Net Present Value Method. 5

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