AM – 681

III Year B.Com. Examination, June 2008
(1997-98 Scheme)
COMMERCE (Elective – I)
Management Accounting (Paper – II)

Time : 3 Hours Max. Marks : 100

***Instruction :** Answers should be written **completely** either in **English** or in **Kannada**.*

SECTION – A

Answer **any eight** of the following sub-questions in not more than **four** lines **each**. Each sub-question carries **2** marks : **(2×8=16)**

1. a) Give the meaning of 'Management Accounting'.

b) What is Trend analysis ?

c) What is Ratio analysis ?

d) State any four components of current assets.

e) What is 'Activity Ratio' ?

f) What do you mean by 'Net Working Capital' ?

g) What is cash flow statement ?

h) What do you understand by variance ?

i) What is 'Management Reporting' ?

j) Gross profit Ratio of a firm is 25% gross profit is Rs. 1,00,000. Calculate the sales.

k) Average stock of a firm is Rs. 50,000. Its Opening Stock is Rs. 10,000 less than its closing stock. Find out the opening and closing stock.

l) Variable cost Rs. 50,000, fixed cost Rs. 30,000 and profit Rs. 10,000. Calculate the amount of sales.

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SECTION – B

Answer **any three** of the following questions. **Each** question carries **8** marks. **(3×8=24)**

2. Distinguish between 'Financial Accounting' and 'Management Accounting'.

3 "Decisions taken on the basis of financial statements may not be regarded as final and accurate". Comment.

4. State with reasons whether the following transactions result in increase or decrease of working capital or do not affect the working capital.

   a) Bills Receivable Rs. 10,000 was discounted for Rs. 9,000

   b) 10% debentures Rs. 80,000 redeemed at 5% premium.

   c) Buildings purchased for Rs. 3,00,000 by issue of equity shares of the same amount.

   d) Preliminary expenses writen off Rs. 5,000

5. The expenses for production of 10,000 units are given below :

	Per unit Rs.
Materials	80
Labour	40
Manufacturing expenses (50% fixed)	20
Selling and distribution expenses (40% fixed)	10
Administration expenses (Fixed)	10
Total cost	160
Profit	40
Selling price	200

Prepare a flexible budget for 8000 units and 12000 units indicating cost per unit also.

6. The following information is obtained from a standard cost card.

Labour rate	–	Rs. 1.80 per hour
Hours	–	4 hours per unit

Actual production data are :

Units produced	–	400 units
Labour rate	–	Rs. 1.90 per hour
Hours worked	–	1500

Calculate :

a) Labour Cost Variance

b) Labour rate Variance

c) Labour efficiency variance

SECTION – C

Answer **any four** of the following questions. **Each** question carries **15** marks : **(4×15=60)**

7. Following are the Balance Sheets of Rama Company Ltd. and Krishna Company Ltd. as on 31-12-2007

Assets	**Rama Co. Ltd. Rs.**	**Krishna Co. Ltd. Rs.**
Land and Buildings	1,60,000	2,40,000
Plant and Machinery	6,00,000	12,50,000
Investments	2,00,000	4,00,000
Stock	3,00,000	4,00,000
Sundry Debtors	2,00,000	2,40,000
Cash and Bank Balances	1,40,000	2,70,000
	16,00,000	**28,00,000**

Liabilities	Rs.	Rs.
Equity share capital	4,00,000	6,00,000
12% Debentures	2,00,000	4,00,000
10% Preference share capital	4,00,000	5,00,000
Reserves and Surplus	2,00,000	2,40,000
Dividend equalisation fund	1,00,000	1,40,000
Sundry creditors	3,00,000	8,20,000
Bank overdraft	–	1,00,000
	16,00,000	**28,00,000**

Compare the financial position of the two companies with the help of common size balance sheets and comment.

8. The following information is given to you :

1) Current Ratio	– 2.5
2) Liquidity Ratio	– 1.5
3) Net Working capital	– Rs. 3,00,000
4) Stock turn over ratio (cost of sales /closing stock)	– 6 times
5) Gross Profit Ratio	– 20%
6) Fixed Assets turn over ratio	– 2 times
7) Average debt collection period	– 2 months

8) Fixed Assets : share holders net worth 1 : 1

9) Reserves : share capital 0.5 : 1

Draw up a Balance Sheet from the above information.

9. Balance Sheets Shining India Ltd.

Assets	2006 Rs.	2007 Rs.
Cash at Bank	2,500	2,700
Sundry Debtors	87,490	73,360
Stock	1,11,040	97,370
Plant and Machinery	1,12,950	1,16,200
Land and Buildings	1,48,500	1,44,250
Goodwill	–	20,000
	4,62,480	**4,53,880**
Liabilities		
Sundry creditors	39,500	41,135
Bills payable	33,780	11,525
Bank overdraft	59,510	–
Provision for taxation	40,000	50,000
Reserves	50,000	50,000
Profit and Loss A/c	39,690	41,220
Share Capital	2,00,000	2,60,000
	4,62,480	**4,53,880**

Additional information :

a) During the year 2007, an interim dividend of Rs. 26,000 was paid.

b) The assets of another company were purchased for Rs. 60,000 payable in fully paid shares of the company. The assets consisted of stock Rs. 22,000, Machinery Rs. 18,000 and Goodwill Rs. 20,000.

c) Purchase of plant for cash Rs. 5,600 was made during the year 2007.

d) Tax paid during 2007 was Rs. 25,000

e) The Net profit for the year 2007 before tax was Rs. 62,530.

Prepare a Fund Flow Statement and a Statement showing changes in working capital.

10. The following are the summarised Balance Sheet of a company as on 31-3-2006 and 31-3-2007.

Liabilities	**31-3-2006 Rs.**	**31-3-2007 Rs.**
Share Capital	4,00,000	5,00,000
General Reserve	1,00,000	1,20,000
P/L A/c	61,000	61,200
Long term loan	1,40,000	–
Sundry creditors	3,00,000	2,70,400
Provision for taxation	60,000	70,000
	10,61,000	**10,21,600**
Assets		
Buildings	4,00,000	3,80,000
Machinery	3,00,000	3,38,000
Stock	2,00,000	1,48,000
Sundry Debtors	1,60,000	1,28,400
Cash	1,000	1,200
Bank	–	16,000
Goodwill	–	10,000
	10,61,000	**10,21,600**

Additional information :

During the year 31st March 2007:

1) Dividend of Rs. 46,000 was paid

2) Assets of another company were purchased for consideration of Rs. 1,00,000 payable in shares. Assets purchased were stock Rs. 40,000, Machinery Rs. 50,000

3) Machinery was further purchased for Rs. 16,000

4) Depreciation written off on Machinery Rs. 24,000

5) Income tax provided during the year Rs. 66,000

Prepare the Cash Flow Statement.

11. The operating results of a company for the last two years are as follows :

	31-3-2006 Rs.	31-3-2007 Rs.
Sales	2,70,000	3,00,000
Profit	6,000	15,000

Calculate :

a) P/V ratio

b) Fixed costs

c) Sales to make Rs. 1,00,000 profit

d) BEP

e) Margin of safety at a profit of Rs. 24,000

f) Profit earned at Rs. 5,00,000 sales

12. The profits of Ashwini Ltd. are declining year by year. As a Management Accountant of that company, draft a report to the management exploring reasons for declining profits and suggesting corrective measures.