

JU – 2921

**I Semester M.B.A. (Day) Degree Examination, Jan./Feb. 2006
(Updated Scheme)**

Paper 1.5 : ACCOUNTING FOR MANAGERS

Time : 3 Hours

Max. Marks : 75

SECTION – A

1. Answer **any six** of the following. **Each** question carries 2 marks : (6×2=12)
- What is business entity concept ?
 - Define Accounting Standard.
 - Define Human Resource Accounting.
 - What is value added statement ?
 - What is capital gearing ratio ?
 - What is 'key factor' ?
 - What is angle of incidence ?
 - What is Material Price Variance ?
 - What is Job Costing ?

SECTION – B

Answer **any four** of the following questions. **Each** question carries 5 marks : (4×5=20)

- What is GAAP ? Explain the need and objectives of accounting standards.
- Explain any five accounting concepts that are to be kept in view while preparing financial statements.
- What are the practical applications of marginal costing ?
- Given the following data :
Sales 25000 units @ Rs. 10 per unit, variable cost Rs. 4 per unit, fixed cost Rs. 25,000.
It has been decided to reduce the selling price by 20%.
Calculate the present and future profit volume ratios and the sales volume required to earn the present profit with reduced selling price.

P.T.O.

6. The expenses budgeted for production of 10000 units in a factory are furnished below :

	Per unit (Rs.)
Materials	60
Labour	30
Variable overheads	20
Administration over heads (80% fixed)	14
Selling over head (20% fixed)	10
Fixed overheads	5
Total	139

Prepare flexible budget for 6000 and 8000 units.

7. Varsha Ltd. acquired the following assets on Jan. 1, 2005 :

	X	Y
Cost	26,00,000	44,00,000
Scrap value	3,00,000	4,00,000
Estimated Life	6 years	5 years

Compute the amount of depreciation to be recorded for each asset for the year ending 31 December 2005 under each of the following methods.

- Sum of years digits.
- Declining balance at twice the straight line rate.

SECTION - C

Answer **any three** of the following. **Each** question carries **10** marks. **(3×10=**

8. A company having a net working capital of Rs. 2,80,000 as on 31.3.2005 indicates the following financial ratios and performance figures.

Current ratio	2.4
Liquidity Ratio	1.6
Inventory turnover (on cost of sales)	8
Gross profit on sales	20%
Credit allowed (months)	1.5

The company's fixed assets is equivalent to 90% of its net worth (share capital plus reserves) while reserves amounted to 40% of share capital.

Prepare the balance sheet of the company as on 31.3.2005 showing step by step calculations.

9. The following schedule shows the Balance Sheet in condensed form of Machinery Manufacturing Company Ltd. at the end of the year 2004 :

Liabilities	2003		2004		Assets	2003		2004	
Sundry Creditors	1,03,000	96,000	Cash and Bank balance	90,000	90,000				
Outstanding Expenses	13,000	12,000	Sundry Debtors	67,000	43,000				
8% debentures	90,000	70,000	Temporary Investments	1,10,000	74,000				
Depreciation Fund	40,000	44,000	Prepaid Expenses	1,000	2,000				
Reserve for contingencies	60,000	60,000	Stock in trade	82,000	1,06,000				
Profit and Loss A/c	16,000	23,000	Land and Buildings	1,50,000	1,50,000				
Capital	2,30,000	2,30,000	Machinery	52,000	70,000				
	5,52,000	5,35,000		5,52,000	5,35,000				

The following information is available

- a) 10% dividend was paid in cash.
 - b) New machinery for Rs. 30,000 was purchased but old machinery costing Rs. 12,000 was sold for Rs. 4,000, accumulated depreciation was Rs. 6,000.
 - c) Rs. 20,000, 8% debentures were redeemed by purchase from open market @ 96 for a debentures of Rs. 100.
 - d) Rs. 36,000 investments were sold at book value.
10. From the following data compute
- a) Material cost variance
 - b) Material price variance
 - c) Material usage variance
 - d) Material mix variance

Name of the Material	Standard		Actual	
	Qty Units	Price Rs.	Qty Units	Price Rs.
Zec	3500	10	3700	12
Wee	1500	21	1650	20
Tee	1000	33	1250	36

11. What is Financial Analysis ? State and explain the tools used for the analysis of financial statements.
12. What are the objectives of budgetary control ? Explain the type of budgets normally prepared by a big industrial concern.

SECTION – D

Case Study

13. The Deccan Ltd. manufactures three products and their particulars are given below :

Particulars	A	B	C
Units budgeted to be produced and sold	1,800	3,000	1,200
Selling price per unit	Rs. 60	55	50
Direct Material	Rs. 20	12	16
Direct Labour	4 hrs.	3 hrs.	2 hrs
Direct labour hour rate	Rs. 2	Rs. 2	Rs. 2
Variable overhead	Rs. 7	13	8
Fixed overhead	Rs. 10	10	10
Maximum possible units of sale	4,000	5,000	1,500

All the 3 products are produced from the same direct material using the same type of machines and labour. Direct labour which is the key factor is limited to 18600 hours.

You are required to prepare :

- The profit expected on the current sales.
- The profit that can be expected if the most profitable mix was produced as per your suggestion.

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I Semester M.B.A. (Day) Degree Examination, January/February 2007
(Updated Scheme)
MANAGEMENT
Paper – 1.5 : Accounting for Managers

Time : 3 Hours

Max. Marks : 75

SECTION – A

1. Answer **any six** of the following. Each question carries **two** marks : (6×2=12)
- State the major purposes of accounting information.
 - Take up any two accounting standards and mention the accounting principles behind them.
 - State the various forms of presenting a Balance Sheet. Which form of presentation is most prevalent in India ?
 - What is the main purpose of fund flow statement ?
 - What ratios are applied to find out the efficiency of performance of a firm ?
 - Define and distinguish the terms period cost and product cost.
 - What are the basic principles that are common to both standard costing and budgetary control ?
 - Define strategic cost management.
 - What is Target Costing ?

SECTION – B

Answer **any four** of the following questions. Each question carries **five** marks : (4×5=20)

- Compare any five Indian Accounting Standards with the International Accounting Standards and US GAAP.
- What do you mean by Human Resource Accounting ? What are its pros and cons ? Name any five Indian companies, which are using human resource accounting.

P.T.O.

4. How is the income summary of the last accounting period connected with the balance sheet of the future accounting periods ? Explain briefly preferably using the balance sheet and income summary equations.
5. XYZ company manufactures a variety of prestige boardroom chairs. Its job-costing system was designed using an activity-based approach. There are two direct cost categories (direct materials and direct manufacturing labour) and three indirect cost pools. These three cost pools represent three activity areas at the plant.

Manufacturing Activity Area	Budgeted costs for 2006	Cost driver used as allocation base	Cost-Allocation Rate Rs.
Materials handling	2,00,000	Parts	0.25
Cutting	21,60,000	Parts	2.50
Assembly	20,00,000	Direct-manufacturing labour-hours	25.00

Two styles of chairs were produced in March, the executive chair and the chairman chair. Their quantities, direct material costs, and other data for March 2006 are as follows :

	Units Produced	Direct Material Costs Rs.	Number of Parts	Direct manufacturing Labour-Hours
Executive Chair	5,000	6,00,000	1,00,000	7,500
Chairman Chair	100	25,000	3,500	500

The direct manufacturing labour rate is Rs. 20 per hour. Assume no beginning or ending inventory.

Compute the March 2006 total manufacturing costs and unit costs of the executive chair and chairman chair.

6. State which of the following sales-mix should be adopted by the management :

a) 250 units of A and 250 units of B

b) 400 units of B only.

You are given the following information :

	A	B
Materials per unit	160	120
Wages per unit	130	80
Variables overhead per unit	180	120
Selling price	500	400

Total fixed cost Rs. 15,000.

7. The following figures were extracted from the records of Madhu Ltd.

	2005	2006
	Rs.	Rs.
Sales	31,25,000	39,00,000
Cost of sales	23,75,000	29,55,000
Unit sold	12,500	15,000

Find out the variation in gross profit and prepare a statement accounting for such variations.

SECTION - C

Answer any three of the following. Each question carries ten marks. (3×10=30)

8. Mercury Ltd. is engaged in a particular products business that has seen a continuous rise in prices. Mercury also follows a policy of preparing monthly financial statements. The management of this company is not able to make a decision about the method to be followed for inventory valuation. Two methods that seem effective as per the market conditions are LIFO and Weighted Average Method.

Which method will you advocate if you are given the following information for the month of December 2006 ?

1-12-2006	Opening Balance 300 units	@ Rs. 1.50 per unit
2-12-2006	Purchased 200 units	@ Rs. 1.55 per unit
5-12-2006	Sold 300 units	@ Rs. 1.60 per unit
15-12-2006	Purchased 500 units	@ Rs. 1.75 per unit
25-12-2006	Sold 600 units	@ Rs. 1.90 per unit
31-12-2006	Purchased 100 units	@ Rs. 2.00 per unit

If you were finalising the financial statements and the CEO calls you to announce that all the inventory was washed out due to Tsunami - as an accountant what action will you take? Make relevant assumptions.

9. Looking at the position statement of the firm over the last two years, Little Flower was quite happy that the performance of the firm had changed for the better. Her husband, Binoy looked over the numbers and appeared unsatisfied with the performance. Binoy being a product from a premier business school, suggested that the last way to look at the performance would be to prepare a cash flow statement of the firm and evaluate it.

The balance sheet of M/S Little Flower Imports Ltd. as at March 31, 2005 and 2006 are as follows (all figures in rupees).

Assets	2005	2006	Liabilities	2005	2006
Land	12,00,000	12,00,000	Share Capital	15,00,000	15,00,000
Machine (Cost less Dep.)	8,00,000	10,00,000	Reserves	2,00,000	3,00,000
Investments	1,00,000	1,00,000	Debentures	1,50,000	1,50,000
Closing stock	1,50,000	2,00,000	Proposed Dividend	2,00,000	5,00,000
Debtors	2,00,000	3,00,000	Sundry creditors	5,00,000	5,00,000
Bills Receivable	60,000	1,00,000			
Cash at bank	40,000	50,000			
	25,50,000	29,50,000		25,50,000	29,50,000

You are also provided with the following additional information for the year.

(all figures in rupees)

Credit sales	4,00,000
Credit purchases	2,00,000
Overheads	1,00,000
Depreciation on machinery	2,00,000
Dividend for 2005 paid	2,00,000

Prepare a cash flow statement to show the cash flow from various activities of M/s Little Flower Imports Ltd. Regarding the firm cash flow position, whom would you agree with, Binoy or Little Flower ? Why ?

10. The Navyug Tools Manufacturer produces two products M and N. To manufacture the unit each of product M and product N, the standard time allowed is 20 minutes (1/3 hour) and 15 minutes (1/4 hour) respectively. During 2006 the firm will operate at a normal capacity of 1,20,000 machine hours. The budgeted fixed manufacturing overheads are Rs. 6,00,000 and variable manufacturing overheads are Rs. 2.50 per machine hour. The actual production during 2006 was 1,29,000 units of product M in 45,000 hours and 2,00,000 units of product N in 55,000 hours. Actual variable manufacturing overheads were Rs. 2,32,000 and the actual fixed manufacturing overheads were Rs. 6,50,000.

Calculate the manufacturing overheads variances.

11. Distinguish between straight line method and written-down method of depreciation. Which method is more appropriate for reporting earnings ? Why ? Illustrate your answer with suitable examples.
12. "Budgets may actually prove detrimental to effective managerial control. They provide preconceived plans as the criteria for evaluating actual operations. Thus any errors in planning process may be compounded in the control process. Critically examine.

SECTION - D

13. Television Eighteen India Limited runs the popular private television channel 'CNBC India'. The channel has its focus on business news and related events. We reproduce the balance sheet of Television Eighteen India Limited for two consecutive years (financial years 2003 and 2004). Based on the same, comment on the following questions : (1×13=13)

- a) Is the business channel in good financial health ?
- b) Also discuss the significant changes that had happened in the companies, financial position during the financial year 2004 ?
- c) What are the other factors we need to take into account while commenting on the financial health of the company ?

Television Eighteen India Limited**Balance Sheet March 31, 2004**

	As at 31-3-2004 Rs.	As at 31-3-2003 Rs.
Sources of Funds		
1. Shareholders' funds		
Share capital	149,257,100	116,420,880
Reserves and surplus	476,215,631	898,326,061
2. Loan Funds		
Secured loans	427,850,936	176,518,154
Unsecured loans	89,271,890	-
3. Deferred Tax Liability	31,750,697	-
	1,174,346,254	1,191,265,095

Application of Funds

4. Fixed Assets		
Gross block	376,266,670	272,637,663
Less : Depreciation	101,427,263	73,732,068
Net block	<u>274,839,407</u>	<u>198,905,595</u>
5. Investments	544,179,980	639,625,577
6. Current Assets, Loans and Advances		
Inventories	18,726,268	5,865,082
Sundry debtors	281,041,727	220,487,970
Cash & bank balances	47,110,547	37,629,804
Loans & advances	144,103,856	197,085,884
	<u>490,982,398</u>	<u>461,068,740</u>
7. Less : Current Liabilities and Provisions	159,884,116	144,618,168
8. Net Current Assets	<u>331,098,282</u>	<u>316,450,572</u>
9. Deferred Tax Assets	-	6,751,865
10. Miscellaneous Expenditure (To the extent not written off or adjusted)	24,228,585	29,531,486
	1,174,346,254	1,191,265,095