**Management Accounting**

**Section - A**

1. What is Management?

2. Define management accounting.

3. Write any two objectives of management accounting?

4. What is financial statement?

5. What is comparative ststement?

6. What is common size statement?

7. What is trend analysis?

8. Define Ratios.

9. What is solvency Ratios?

10. What is liquidity ratio?

11. What is operating ratio?

12.Define working capital.

13.What is excess working capital?

14.What is inadequate working capital?

15.What is fixed capital?

16. What is net working capital?

17. Define marginal cost

18. What is marginal costing?

19. What is Break-Even analysis?

20.What is Fixed Cost?

21.What is variable cost?

22.What is contribution?

23.What is margin of safety

24.What do you understand by capital budgeting?

25.What is payback period method?

26.What is cash flow method

27.What is time adjusted technique?

28.What is standard cost?

29.Define the term budget.

30.What is zero base budgeting?

31. What is break even point?

**Section - B**

1. Explain the limitations of ratio analysis?

2. How cash flow statement differ from fund flow statement?

3. Explain the procedure for the preparation of cah flow statement?

4. Explain the concepts of gross and net working capital.

5. Differentiate between permanent working capital and variable working capital.

6. Explain the need for or object of working capital.

7. Discuss the importance of working capital for a manufacturing concern.

8. Exaplain the dangers of Excess working capital and inadequate Working capital.

9. Whatt are the objectives of management accounting?

10. What are the advantages of management accounting?

11.What are the disadvantages of management accounting?

12.What are the functions of management accounting?

13.Distinguish between cost accounting and management accounting.

14.What do you understand by ratio analysis? And explain its

15.significance and utility?

16.Explain how accounting ratios are classified?

17. What are the features of marginal costing?

18.What do you understand by break-even analysis? Enumerate the Merits and demerits?

19. What the objectives of cost volume profit analysis?

20.Distinguish between absorption costing and marginal costing.

21. What are the advantages and disadvantages of standard costing?

22.How do standard costs differ from estimated costs?

23.What is variance in standard costing? Explain the type of variance used in Standard costing?

24.What are the main steps in budgetary control? State the main objectives of budgetary control.

25.What are the advantages and limitations of budgetary control?

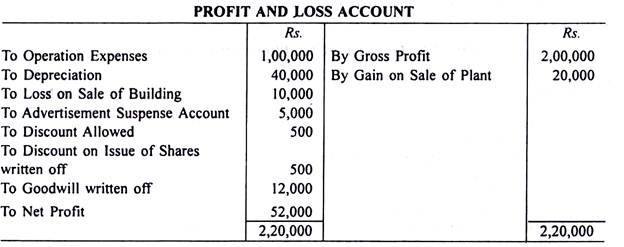
26.What are the functions of budgetary control?

27.Explain the process of ZBB and its advantages?

**QUESTION BANK**

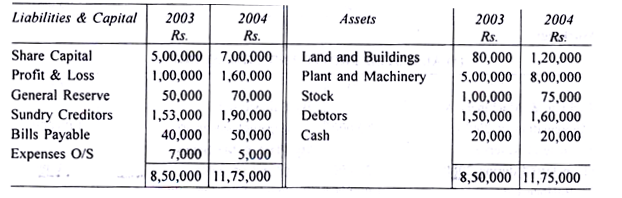
**Problem 1:**

**Ram co Cements presents the following information and you are required to calculate funds from operations:**

**[](http://cdn.accountingnotes.net/wp-content/uploads/2017/01/clip_image058_thumb2_thumb-2.jpg)**

**Problem 2:**

**The Balance Sheets of National Co. as on 31st December, 2003 and 31st December 2004 are as follows:**

**[](http://cdn.accountingnotes.net/wp-content/uploads/2017/01/clip_image106_thumb2_thumb.png)**

**Additional Information:**

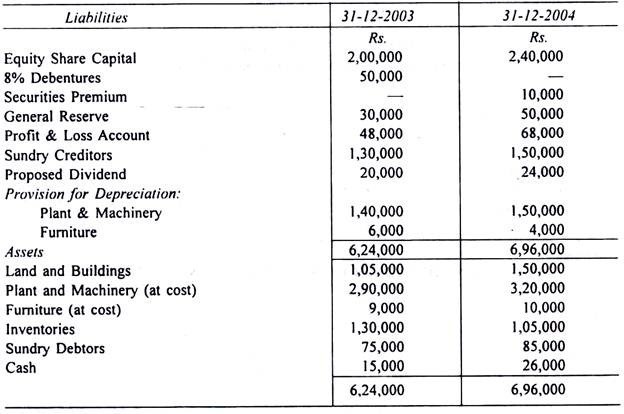
(1) Rs. 50,000 depreciation has been charged on Plant and Machinery during 2004.

(2) A piece of Machinery was sold for Rs. 8,000 during the year 2004. It had cost Rs. 12,000; depreciation of Rs. 7,000 had been provided on it.

Prepare a Schedule of changes in Working Capital and a Statement showing the Sources and Application of Funds for 2004.

**Problem 3:**

**The following are the summarised Balance Sheets of a company as on 31st December 2003 and 2004:**

**[](http://cdn.accountingnotes.net/wp-content/uploads/2017/01/clip_image124_thumb2_thumb.jpg)**

**Additional information is as follows:**

(1) Furniture which cost Rs. 5,000, written down value Rs. 1,000 was sold during the year 2004 for Rs. 2,000.

(2) Plant and Machinery which cost Rs. 20,000 and in respect of which Rs. 13,000 had been written off as depreciation was sold during the year for Rs. 3,000.

(3) The dividend of 2003 was paid during 2004.

You are required to prepare (a) a Statement of changes in working capital during 2004 and (b) Funds flow statement for the year 2004.

**Problem 4.***The following are the summarized balance sheets of M/s .Krishna Ltd. as on 31.12.1999 and 2000.*

*Liabilities*

*19999                                       20000*

*$.                                             $*

*10% preference shares                                    1,00,000                                  1,10,000*

*Equity Shares                                                  2,20,000                                 2,50,000*

*Share premium                                                    20,000                                    26,000*

*Profit*& *Loss A I c                                           1,04,000                                  1,34,000*

*12% debentures                                                   70,000                                    64,000*

*Creditors                                                              38,000                                    46,000*

*Bills Payable                                                          5,000                                      4,000*

*Provision for tax                                                  10,000                                    12,000*

*Dividend Payable                                                  7,000                                      8,000*

*5,74,000                                 6,54,000*

*Assets                                                                            1999                                     2000*

*$                                                $*

*Machinery                                                       2,00,000                                    2,30,000*

*Buildings                                                          1,50,000                                   1, 76,000*

*Land                                                                    18,000                                       18,000*

*Cash                                                                    42,000                                       32,000*

*Debtors                                                               38,000                                       38,000*

*Bills receivable                                                    42,000                                       62,000*

*Stock                                                                    84,000                                       98,000*

*5,74,000                                    6,54,000*

*You are required to prepare a statement of sources and application of funds.*

**Problem**5. *From the following balance sheets, prepare schedule of changes in working*

*capital.*

*Liabilities                     Dec 1980         Dec1981         Assets             Dec1980         Dec1981*

*$                        $                                             $                      $*

*Share capital               2,00,000          2,50,000          Cash                30,000             47,000*

*Creditors                        70,000             45,000          Debtors        1,20,000           1,15,000*

*Retained}                                                                     Land                50,000             66,000*

*Earnings                         10,000             23,000          Stock                80,000              90,000*

**--------------------------------------------------------------------------------------------------------------**

*2,80,000          3,18,000                               2,80,000          3,18,000*

*\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_*

**Problem 6.**

Calculate fund from operation from the information given below as on 31.3.2000.

1.      Net profit for the year ended 31.3.200 $ 6,50,000.

2.      Gain on sale of buildings $ 35,500.

3.      Goodwill appears in the books at $ 1,80,000 out of that 10% has been written off during the year.

4.      Old machinery worth $ 8,000 has been sold for $ 6,500 during the year.

5.      $ 1,25,000 have been transferred to reserve fund.

Depreciation has been provided during the year on machinery and furniture at 20% whose value is $ 6,50,000.

**Problem 7.**

 From the data calculate : (i) Gross Profit Ratio               (ii) Net Profit Ratio       (iii) Return on Total Assets (iv) Inventory Turnover  (v) Working Capital Turnover (vi) Net worth to Debt

Sales                            25,20,000        Other Current Assets                           7,60,000 Cost of sale                  19,20,000        Fixed Assets                                        14, 40,000 Net profit                     3,60,000          Net worth                                            15,00,000 Inventory                     8,00,000          Debt.                                                   9,00,000 Current Liabilities       6,00,000

**Problem 8.**

Perfect Ltd. gives the following Balance sheet. You are required to compute  the following ratios. (a) Liquid Ratio (b) Solvency Ratio (c) Debt­Equity Ratio (d) Stock of Working Capital Ratio Balance Sheet                                                  $                                                                      $ Equity share capital                            1500000          Fixed Assets                            1400000 Reserve fund                                        100000            Stock                                        500000 6% Debentures                                    300000            Debtors                                    200000 Overdraft                                             100000            Cash                                         100000 Creditors                                        200000

**Problem 9.**

 Calculate the following ratios from the balance sheet given below : (i) Debt – Equity Ratio                        (ii) Liquidity Ratio (iii) Fixed Assets to Current Assets    (iv) Fixed Assets Turnover Balance Sheet

Liabilities                                $                                  Assets                                      $ Equity shares of $ 10 each    1,00,000                      Goodwill                                             60000 Reserves                                  20,000                         Fixed Assets                                      140000 P.L. A/c                                   30,000                         Stock                                                   30000 Secured loan                           80,000                         Sundry Debtors                                    30000 Sundry creditors                     50,000                         Advances                                             10000 Provision for taxation             20,000                        Cash Balance                                        10000                                                                      The sales for the year were $ 5,60,000.

Problem 4. The Balance sheet of Naronath & Co. as on 31.12.2000 shows as follows: Liabilities                                $                      Assets                                                  $ Equity capital                          1,00,000          Fixed Assets                           1,80,000 15% Preference shares            50,000             Stores                                       25,000 12% Debentures                      50,000             Debtors                                    55,000 Retained Earnings                   20,000             Bills Receivable                       3,000 Creditors                                 45,000             Bank                                         2,000

2,65,000 2,65,000

  Comment on the financial position of the Company i. e.,

Debt – Equity Ratio, Fixed Assets Ratio, Current Ratio, and Liquidity.

Problem 5:

From the following particulars pertaining to Assets and Liabilities of a company

calculate :

(a) Current Ratio                     (b) Liquidity Ratio                  (c) Proprietary Ratio

(d) Debt­equity Ratio              (e) Capital Gearing Ratio

Liabilities                                $                                  Assets                                      $ 5000 equity shares $ 10 each                                                    500000                        Land & Building                     500000 8% 2000 pre shares $ 100                                                      Plant & Machinery                 600000 Each                                                    200000                        Debtors                                   200000 9% 4000 Debentures of                                                          Stock                                       240000 $ 100 each                                           400000                        Cash and Bank                        55000 Reserves                                              300000                        Prepaid expenses                     5000 Creditors                                             150000

Bank overdraft                                    50000

 1600000      1600000

**Compute the materials usage variance from the following information:**

Standard material cost per unit        Materials issued

Material A — 2 pieces @ Rs. 10=20 (Material A 2,050 pieces)

Material B — 3 pieces @ Rs. 20 =60 (Material B 2,980 pieces)

Total = 80

Units completed 1,000

Problem no :

Standard input = 100 kg, standard yield = 90 kg, standard cost per kg of output = Rs 200

Actual input 200 kg, actual yield 182 kg. Compute the yield variance.

***Problem no:***

XYZ Ltd. has obtained the following data concerning the average working capital cycle for other companies in the same industry :

            Raw material stock turnover                                       20 Days

            Credit received                                                           40 Days

            Work-in-Progress Turnover                                         15 Days

            Finished goods stock turnover                                    40 Days

            Debtors' collection period                                           60 Days

                                                                                                95 Days

Using the following data, calculate the current working capital cycle for XYZ Ltd. And briefly comment on it.

|  |  |
| --- | --- |
|  | (Rs. in '000) |
| Sales | 3,000 |
| Cost of Production | 2,100 |
| Purchase | 600 |
| Average raw material stock | 80 |
| Average work-in-progress | 85 |
| Average finished goods stock | 180 |
| Average creditors | 90 |
| Average debtors | 350 |

From the following data, compute the duration of operating cycle for each of the two years and comment on the increase/decrease:

|  |  |  |
| --- | --- | --- |
|  | **Year 1** | **Year 2** |
| Stock: |  |  |
| Raw materials | 20,000 | 27,000 |
| Work-in-progress | 14,000 | 18,000 |
| Finished goods | 21,000 | 24,000 |
| Purchases | 96,000 | 1,35,000 |
| Cost of goods sold | 1,40,000 | 1,80,000 |
| Sales | 1,60,000 | 2,00,000 |
| Debtors | 32,000 | 50,000 |
| Creditors | 16,000 | 18,000 |

Assume 350 Days per year for computational purposes

A proforma cost sheet of a company provides the following particulars:

            Elements of Cost

            Material                                                                                                    40%

            Direct Labour                                                                                          20%

            Overheads                                                                                                20%

The following further particulars are available:

(a)    It is proposed to maintain a level of activity of 2,00,000 units.

(b)   Selling price is Rs.12/- per unit.

(c)    Raw materials are expected to remain in stores for an average period of one month.

(d)   Materials will be in process, on averages half a month.

(e)    Finished goods are required to be in stock for an average period of one month.

(f)    Credit allowed to debtors is two months.

(g)   Creditor allowed by suppliers is one month.

You may assume that sales and production follow a consistent pattern.

            You are required to prepare a statement of working capital requirements, a forecast Profit and Loss Account and Balance Sheet of the company assuming that:

                                                                                                                               Rs.

            Share Capital                                                                                   15,00,000

            8% Debentures                                                                                  2,00,000

            Fixed Assets                                                                                   13,00,000

#### Break-Even Analysis: Problem 1.

**From the following particulars,**

**calculate:**

(i) Break-even point in terms of sales value and in units.

(ii) Number of units that must be sold to earn a profit of Rs. 90,000.

**[](http://cdn.accountingnotes.net/wp-content/uploads/2016/06/clip_image012_thumb2-2.jpg)**

**From the following data, you are required to calculate:**

(a) P/V ratio

(b) Break-even sales with the help of P/V ratio.

(c) Sales required to earn a profit of Rs. 4,50,000

Fixed Expenses = Rs. 90,000

Variable Cost per unit:

Direct Material = Rs. 5

Direct Labour = Rs. 2

Direct Overheads = 100% of Direct Labour

Selling Price per unit = Rs. 12.

## Example 1:

The following data relates to Noor enterprises for the Month of June 2015.

* Sales (3,500 units @ $20/unit): $70,000
* [Contribution margin](http://www.accountingformanagement.org/contribution-margin/) per unit: $12
* Total fixed expenses for the month: $15,000

There was no opening and closing finished goods inventory in stock.

**Required:** Calculate margin of safety for the Noor enterprises using above data.

The break even point of Best Inc. is $65,000 for the first quarter of the year 2016. If margin of safety is $45,000, calculate the actual sales for the first quarter.

The Fine Distributors is a trading firm. It provides you the following data:

* Actual sales: $75,000
* Margin of safety: $15,000

Calculate break-even sales of Fine Distributors.

**Prepare a flexible budget for production at 80% and 100% activity on the basis of the following information:**

Production at 50% capacity 10,000 units

Raw materials Rs.100 per unit

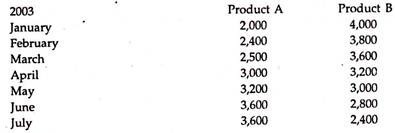
Direct labour Rs.50 per unit

Expenses Rs.20 per unit Factory expenses Rs.1,00,000 (60% fixed)

Administration expenses 60,000 (50% variable)

### **Budget and Budgetary Control**Problem 2:

**Black and White Ltd. manufactures two products A and B. An estimate of the number of units expected to be sold in the first six months of 2003 is given below:**

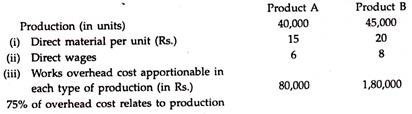
**[](http://cdn.yourarticlelibrary.com/wp-content/uploads/2016/02/clip_image026_thumb2_thumb-3.jpg)**

**It is anticipated that:**

(i) There will be no work-in-progress at the end of any month;

(ii) Finished units equal to 20% of the anticipated sales for the next month will be in stock at the end of each month including December 2002.

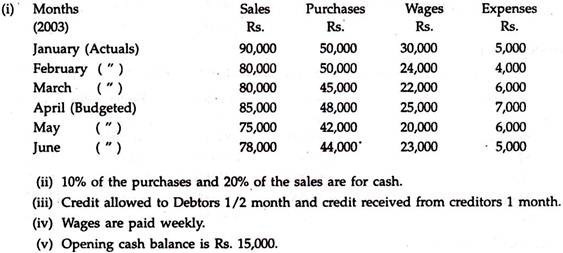
**The budgeted production and production cost for the year ending 31.12.2003 are as follows:**

**[](http://cdn.yourarticlelibrary.com/wp-content/uploads/2016/02/clip_image027_thumb2_thumb-1.jpg)**

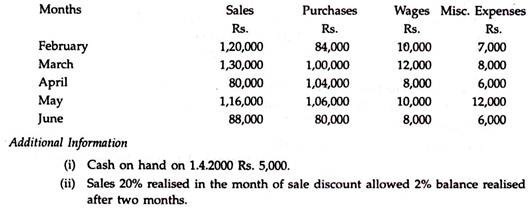
(a) A production budget showing the number of units to be manufactured each month.

(b) A summarised production cost budget for the 6 months period from January 2003 to June 2003.

**From the following information available from a company, prepare Cash Budget (monthly) for April, May and June, 2003:**

**[](http://cdn.yourarticlelibrary.com/wp-content/uploads/2016/02/clip_image038_thumb2_thumb.jpg)**

**From the following information prepare a cash budget for the quarter ending 30.6.2000:**

**[](http://cdn.yourarticlelibrary.com/wp-content/uploads/2016/02/clip_image042_thumb2_thumb.jpg)**