**SHRIMATI INDIRA GANDHI COLLEGE**

**(Nationally Re-accredited at ‘A’ Grade by NAAC)**

**DEPARTMENT OF BUSINESS ADMINISTRATION**

**MANAGEMENT ACCOUNTING**

**16CCBB14**

 **CLASS: III B.B.A SEMESTER: VI**

**SECTION-A**

**(2 MARKS QUESTIONS & ANSWERS)**

**1.what is managerial accounting ?**

 **Management accounting is a system of collection and presentation relevant economic (financial and cost ) information relating to an enterprise for planning,controlling and decision-making.**

**2.what are the functions of a management accountant ?**

 **The main function of management accountant is to collect information on various routine and non-routine matter,toanalyse and process such information and to communication the result there of the concerned management for decisions-making.**

**3.Explain the scope of managerial accounting ?**

 **The scope of managerial accounting includes cost control through standard costing,budgetaccounting,interim reporting, etc…Interpretations of financial data to management,undertaking special cost studies and estimations,reporting on cost-volume-profit relationships etc..**

**4.In what areas of cost accounting should a management accountant specialize ?**

 **A management ent accountant should specialize certain areas of accounting like preparation of cost sheet,marginalcosting,budgeting standard costing,uniformscosting,inventory control techniques,etc,..these areas are generally known as managerial cost accounting.**

**5.what are the tools and techniques of accounting for management ?**

 **Ratio accounting,funds flow statements,working capital forecast,marginalcosting,decisionaccounting,budgetaccounting,varienceaccounting,quantitative ( statistical ) techniques,etc,are the principal tools of managerial accounting..**

**6.write a note on management audit ?**

 **Management audit is management policies and procedures in all its ramifications,including performance in terms of policies and procedures.**

**7.What are the advantages derived from managerial accounting ?**

 **Management accounting provides invaluable services to management in all of its functions viz…,planning , organizing, communicating ,co ordinating, and controlling. The management accountant is considered not only a service arm to management but also a part of management.**

**8.Summarise the limitations of managerial accounting ?**

 **Management accounting being comparatively a new discipline, it suffers from certain limitations which limit its effectiveness.It relies on financial and cost accounting records;the installation of management accounting system requires heavy costs; it can therefore be adopted only by big and medium sized concerns.**

**9.Explain the meaning of the term ‘Financial statement’ ?**

 **The term ‘ Financial Statement ’ refers to profit and loss account,balancesheet,statement of retain earnings,etc. It also includes in its fold the ‘schedules’ and ‘explanatory foot notes’ connected with investment,description of counting liabilities,etc.**

**10.What are the objectives of preparing financial statements ?**

 **Financial statements are prepared for the purpose of presenting a periodical and to deal with the status of investment in the business,and results achieved during the period under review.**

**11.Explain the nature of financial statements ?**

 **Financial statements reflect a combination of recorded facts,accounting conventions and personal judgments and the judgements and conversations applied affect them materially.Such statements do not disclose facts which are not and cannot be recorded in account books.**

**12.What do you mean by analysis of financial statements ?**

 **Interpretation requires analysts.Analysis means splitting or regrouping of the total figures contained in the financial statements into the component parts.Analysis leads to a study of relationship among various financial factors in a business.**

**13.What are the objects of financial statement interpretation ?**

 **The primary objectives of interpreting financial statements are (1) to estimate profitability (2) to guage the financial position and financial performance of the concern.**

**14.Who requires interpretation of financial statements and for what purpose ?**

 **The principal parties interested in financial statements interpretation are shareholders,debentures holders, creditors including bankers ,security analysts,researches,etc..,**

**15.State the main tools of financial statement analysis?**

 **The main tools or techniques of financial statements analysis are comparative statements,commonsize statements,trendsanalysis,averageanalysis,ratioaccounting,funds -flow statements,etc..**

**16.what are comparative statements ?**

 **Comparative financial statements are those statements which have been designed in a way so as to provide time perspective to the consideration of various elements of financial position embodied in such statements.**

**17. What is a common-size statements ?**

 **Common size financial statements are those in which figures reported are converted into percentage to common base.Total assets or liabilities and total net sales are stated as 100 percent and all the figures are expressed as a percentage of this total.**

**18.Write a short note on ‘ trend ’ analysis ?**

 **Trend analysis or trend percentage involves the study of business trend over a period of time. It requires the calculation of percentage relationship that each item bears to the same item in the base year.**

**19.Why do bankers require financial statements of several years when examining a proposal for an advance ?**

 **A single balance sheet would show only static financial position from which it is very difficult to judge the overall position and working of the concern over the entire periods.A banker,therefore,requires balance sheets of past few years,say, 3 to 4 years,so that he may notice the trend of the business.**

**20.What is ratio analysis?**

 **Ratio analysis ( or ratio accounting ) is the process of determining and interpreting numerical relationships based on financial statements.It involves the comparison of existing ratio against standards established.**

**21.What is ‘vertical’ analysis ?**

**Ratio analysis ( or ratio accounting ) is the process of determining and interpreting numerical relationships based on financial statements.It involves the comparison of existing ratio against standards established.**

**22.what is horizontal analysis?**

 **When a financial statement like a balance sheet or a profit and loss account,of a certain period only is analysed the analysis is called vertical analysis.Since it measures position of the business at a point of time it is also known as static analysis.**

**23.What constitutes ‘capital employed ’ of an enterprise ?**

 **When a series of statements relating to a number of years are reviewed and analysed,thereis said to be a horizontal analysis.It is also known as a dynamic analysis because it measures the change of position or trend of the business over a number of years.**

**24.What is horizontal analysis ?**

 **The term ‘capital employed ’ refers to the sum total of capital consisting of proprietor’s capital + un distributed profit + reserves and surplus (less fictitious assets) + long -term liabilities.Simply it means networth and all borrowed funded.**

**25.What is window- dressing ?**

 **Window- dressing is an artificial practice to show cutrent ratio position favour able. That is to stay,current ratio after the process of window dressing does not show the real current financial position.Window dressing may be done by deferring purchases,manipulating the value of inventory,etc..,**

**26.What is Du pony control chart ?**

 **When various factors affecting the return on investment,eg.., net profit,capitalturnover,etc..,are put in the form of chart,it is known as the Du**

**27.What is a capital gearing ratio ?**

 **Capital – gearing ( leverage ) ratio refers to the proportion between fixed interest or dividend bearings funds ( Debenture capital and preferences share capital ), and non-fixed interest or dividend bearing funds ( equity funds ) in the total capital employed in the business.**

**28.State the purpose served by stock/Turnover ratio.**

 **Stock turnover ratio is useful 1) to indicate operation efficiency and marketing efficiency of the business,2) to aid the management in arriving at the managerial decision.A low current ratio indicates inadequacy of the working capital.**

**29. What are the uses of current ratio ?**

 **Current ratio is useful (a) to understand the financial planning (b) to test the normal liquidity ( short-term financial position ) of the business,(c) to scrutinize whether the business is doing overtraining and (d) to aid management in taking decisions. A low current ratio indicates inadequacy of the working capital.**

**30.Why is the Returns on Total Resources calculated ?**

 **Return on total resources is calculated from the financial statement of a concern in order to test the profitability of the business, to act as yardstick of industrial performance and lastly to guide management in achieving its goal.**

**31.Explain thesignificance of Du pont formula.**

 **The Du pont formula shows an important tie between the profit margin and the return on total assets. As can be seen from this formula, the ROA can be raised by increasing either the profit margin or total assets. The latter is to some extent industry dependent, with relations and the like having a greater potential for raising the assets turnover ratio than do service and utility concerns.However,the profit margin may vary greatly with in an industry since it is subject to sales, cost controls and pricing.The relationship shown in the Du pont since the area most sensitive to change can be targeted.**

**32.What are the different concepts of ‘fund’ ?**

 **The word ‘ fund ‘ may mean cash fund , working capital funds or all resources fund.Cash fund refers to the inflow and outflow of actual cash transactions. Working capital fund includes the cash fund claims against cash and near-cash items of having twelve months period. 33.Define the term ‘cash flow’:-**

**Cash flow signifies the actual movement of cash in and out of an enterprise. When the cash flow in, it is called positive cash-flow while cash flowing out is known as negative each flow. The difference between is net cash flow.**

**34.what is cash flow statement?**

**A cash flow statement is a statement depicting changes in each position from one period to another This statement is explain the reason for each inflows and cash outflow during the two balance sheet dates/periods.**

**35.what are the objects of preparing a cash-flow statement?**

**The chief object of cash flow analysis is to show the causes in cash balances, between two Balance sheet dates. It throws light in the factors contributing to the reduction of cash balance in spite of increase in profits or vice-versa.**

**36.How will you determine the cash from operation?**

**Cash flow from trading operation is calculated either under cash sales under method or under profit method. Decrease in current assets and increase in current liabilities are added net profit, increase in current assets and decrease in current liabilities are deducted from net profit.**

**37.Does the preparation of cash-flow statement bear any significance in the context of cash management?**

**Cash flow statement is an effective instrument of cash planning. It helps the management is understanding the pastbehaviourof cash cycle and in controlling the uses of cash in future. A comparison of cash flow statement with the budgeted forecast of cash for the Same periods help in comparison and control of expenditure.**

**38.State the limitations of cash flow statement.**

**The cash balance is too easily influenced by post ponding purchases and other payments. The cash flow statement is only supplementary to the final statement if accounts.**

**39.Explain the chief sources and uses of cash in a business.**

**Sources of each include cash from trading operation, sale of fixed assets, issue of shares and debentures, borrowing, etc., Cash can be applied to cash loss/loss in trading operation, acquisition of fixed assets redemption of share/debentures ,payment of dividend, tax etc.,,**

**40.what is terminal cash-flow?**

**Terminal cash flow means each cash flow associated with a projects termination which generally include the disposal value of the project plus or minus any taxable gain or losses is very similar to the method for computing the taxes on the sale of an old asset. In most cases, the disposal value at the end project useful life results in a taxable gain since its book value (or undepreciated value) is usually zero.**

**41.what is a fund flows statement?**

**A fund flow statement is a report of movement of funds explaining where from working capital ofa business enterprise originates and where in to the same goes during an accounting period, i.e., in between the opening and closing balance sheet dates.**

**42.what is the non-fund item? Give example?**

**A non-fund item is one which does not involve flow of funds.**

**Examples are depreciation, gain or loss in the disposal of fixed assets, amortization of patents,goodwill, discount,preliminary expenses, etc.,**

**43.list out four examples of the use of working capital.**

**Redemption of share/debentures, repayment of long-term loans, purchase of fixed assets, non-trading payments e.g., payment of taxes and dividends.**

**44.State the main object of fund flow statement.**

**The important objectives of funds flow statement are (I) to indicate the results of current financial management and (II) to give recognition to the fact that a business exist on flow of funds and is not a static organization.**

**45.In what way dies a statement of sources and uses differ from a statement of receipt and disbursements?**

**The fund flow statement contains a gist of the inward and outward movement of all item affecting a working capital while statement of payments and disbursements contains a list of inward and outward movement of cash which is only a part of the working capital.**

**46.Is depreciation a ‘source ‘ of fund?**

**The amount of depreciation which is charged to profit and loss account does not use any current funds. The funds generated in the business during a particular period of same weathering depreciation is charged t profit and loss account or not. Hence depreciation cannot be regarded asa source of fund.**

**47.How to arrive at funds from operation?**

**Funds from operation may be arrived at by adding back all non-cash expense to the netprofit and deducting all non-cash incomes therefrom. iftherehas been net loss, non-cash expenses have to deducted therefrom and non-cash income added thereto.**

**48.Distinguish between funds flow analysis and cash flow analysis.**

**The fund flow statement shows the causes of change in working capital wherasthe cash flow statement shows the causes for the chances in each position. Cash flow statement in appropriate for long-run planning.**

**49.Differenciatea funds flow statement from an income flow statement.**

**A fund flow statement Deals with financial resources required for running the business activity while an income statement discloses the results of the business activities, sources of funds are many besides the funds from trading operations.**

**50.what is meant by marginal costing?**

**It is special technique of ascertainment, by differentiating between fixed costs and variable costs, of marginal costs and of the effect upon profit of changes in output.**

**51.Distinguish between fixed costs and variable costs.**

**Fixed costs remain fixed at the same level regardless of chances in the volume of output and very per unit inversely with the changes in the level of output. Variable costs, on the other hand, vary directly in proportion to change in volume of output**

**52.Explain the basic difference between marginal costing and absorption costing.**

**In marginal costing, stock i9s valued at marginal costs whereas in absorption costing it is valued at cost of production which includes fixed costs. Further in marginal costing, factoryvariable overhead is taken as direct cost but in absorption costing it is not so.**

**53.what to do you understand by mathematics of marginal costing?**

**The principles involved in marginal costing technique are expressed in the form of mathematical equation as S-V=F+P where S stands for sales , V stands for variable cost, F stands for fixed cost ,+P for profit and – P for loss.**

**54.Explain theconcept of contribution.**

**The difference between selling price and variable costs is known as contribution and contribution=Fixed cost +Profit .it is affected by certain variable like variable cost, selling price, etc. When contribution is expressed as a percentage of sales, it is called P/V ratio.**

**55.what is break -even point?**

**It is specific level production /sales which breaks the revenue and costs evenly , i.e., income, just balance with expenses. This point is also known as equilibrium point or no-loss no-profit point.**

**56.what is margin of safety?**

**It is difference between the actual production/sales. It may be expressed either in volume or in percentage .It is an indicator of the strength of a business.**

**57.what is meant by angle of incidence?**

**It is a angle formed at the break-even point at which the sales line cuts the total cost line. This angle an indicator of profit earning capacity over the break even point This angle can be improved (I) by raising the selling price /and or (ii) by reducing the Variable cost.**

**58.state the non-cost factors that are considered before make or buy decision is taken.**

**The following non-cost (non-financial) factors should also been taken into account in ‘make' or ‘buy' decision, e.g., quality of the product, expected seasonal fluctuation in demand, reliability of supplier ,timeless of delivery, transport difficulties, etc.,**

**59.what is profit planning?**

**It is a planning of future operation to attain maximum profit or to maintain a specific level of profit in order to ensure an adequate returns on capital employed or financial stability. Profit planning takes into account known limiting and constraints.**

**60.what is angle of incidence?**

**Angle of incidence indicate the profit -earning capacity. The angle may be large or small, A greater angle of incidence means as that the profit are incidence together with a high margin safety indicatethe most favourable situations.**

 **SECTION – B**

**(5 MARKS QUESTIONS)**

1. **Discuss the scope and importance of management Accounting.**
2. **Differentiate between financial accounting and management accounting?**
3. **Explain the managerial uses of ratio analysis?**
4. **What is the meaning of schedule of changes in working capital?**
5. **Explain the importance and significance of working capital management?**
6. **Explain the factors determine the level of cash balance in a firm.**
7. **Explain the break-even analysis in the profit planning**
8. **Explain the characteristics of management accounting?**
9. **Write the importance of Ratio analysis?**
10. **What are the limitations of Funds flow statement?**
11. **Explain the importance of management accounting as a tool of management decision-making.**
12. **Differentiate between Financial accounting and cost accounting.**
13. **Explain the limitations of Ratio Analysis.**
14. **Explain the salient features of Marginal Costing.**
15. **Explain the importance of working Capital Management.**
16. **Describe in brief the factors determining the level of cash balance in a firm.**
17. **What is meant by cost volume profit analysis? Explain its importance.**
18. **What are the utility and limitations of management accounting?**
19. **Which of the accounting ratios serve as indication of profitability?**
20. **What are the managerial uses of fund flow statement?**
21. **Explain the limitations of financial statements.**
22. **What are the objectives of management Accounting?**
23. **Distinguish Management and cost accounting.**
24. **What are the types of Liquidity Ratios?**
25. **What are the tools and techniques used in management accounting?**
26. **Explain the special features of common-size statement.**
27. **Explain the various ways of presentation of financial statements.**
28. **Explain the various techniques of fund reporting.**
29. **Explain the advantages and limitations of management Accounting.**

 **30.Explain the objectives and nature of financial statement Analysis.**

 **PROBLEMS:**

 **1.The following information is taken from a firm:**

 **Rs.**

 **Sales 33,984**

 **Sales return and allowances 380**

 **Stock at the beginning 1,378**

 **Stock at the end 1,814**

 **Gross profit for the year 8,068**

**Calculate:**

1. **Purchase for the year**
2. **Rate of stock turnover**
3. **Percentage of gross profit to turnover**

 **2.You are required to calculate the break-even point in the following case:**

 **The fixed cost for the year is Rs. 80,000; variable cost per unit for the single product being made is Rs.4. Estimated sales for the period of valued at Rs. 2,00,000. The number of units involved coincides with the expected volume of output. Each units sells at Rs. 20. Calculate the break-even point by applying important formulae.**

**3.Calculate stock turnover ratio and stock turnover period from the following:**

 **Sales Rs. 10,00,000**

 **Gross Profit Ratio 20%**

 **Opening Stock Rs. 1,75,000**

 **Closing stock Rs. 1,45,000**

**4.Prepare a schedule of changes in working capital from the following:**

**BALANCE SHEETS**

|  |  |  |
| --- | --- | --- |
| **LIABILITIES** | **1996****(Rs.)** | **1997****(Rs.)** |
| **Share capital** | **300000** | **375000** |
| **Creditors** | **106000** | **70000** |
| **P & L A/C** | **14000** | **31000** |
| **TOTAL** | **420000** | **476000** |

|  |  |  |
| --- | --- | --- |
| **ASSETS** | **1996****(Rs.)** | **1997****(Rs.)** |
| **Machinery** | **70000** | **100000** |
| **Stock** | **121000** | **136000** |
| **Debtors** | **181000** | **170000** |
| **Cash** | **48000** | **70000** |
| **TOTAL** | **420000** | **476000** |

**5.The following are extracted from the Balance sheets of a company. Find the cash from operations if provision for tax is treated as a non-current liability.**

|  |  |  |
| --- | --- | --- |
| **Liabilities** | **As on 31.12.2002** | **As on 31.12.2003** |
| **P & L A/C** | **Rs. 50,000** | **Rs. 80,000** |
| **Provision for tax** | **Rs. 15,000** | **Rs. 25,000** |

**Depreciation on assets during the year 2003 was provided at Rs. 10,000.**

**6.From the following Balance sheets of Arvind Ltd. You are required to prepare a cash flow statement:**

|  |  |  |
| --- | --- | --- |
| **LIABILITIES** | **2000****(Rs.)** | **2001****(Rs.)** |
| **Share capital** | **400000** | **500000** |
| **Creditors** | **140000** | **90000** |
| **P & L A/C** | **20000** | **46000** |
| **TOTAL** | **560000** | **636000** |

|  |  |  |
| --- | --- | --- |
| **ASSETS** | **2000****(Rs.)** | **2001****(Rs.)** |
| **Cash** | **60000** | **94000** |
| **Debtors** | **240000** | **230000** |
| **Stock** | **160000** | **180000** |
| **Land** | **100000** | **132000** |
| **TOTAL** | **560000** | **636000** |

**7.The fixed expenses of an industrial concern amount to Rs. 1,80,000. Its variable cost per unit is Rs. 29 and selling price is Rs. 44 per unit. Calculate the break-even point.**

**8.Perfect Ltd., Gives the following Balance sheet. You are required to compute the following ratios:**

1. **Liquid Ratio**
2. **Debt-equity ratio**
3. **Solvency ratio**
4. **Stock-working capital ratio.**

**Balance sheet as on 31st December.**

|  |  |
| --- | --- |
| **Fixed assets** | **1400000** |
| **Stock** | **500000** |
| **Debtors** | **200000** |
| **Cash** | **100000** |
| **TOTAL** | **22,00,000** |

 **Rs.**

|  |  |
| --- | --- |
| **Equity share capital** | **1500000** |
| **Reserve and surplus** | **100000** |
| **6% debentures** | **300000** |
| **Over draft** | **100000** |
| **Creditors** | **200000** |
| **TOTAL** | **22,00,000** |

**9.Prepare a statement showing the changes in working capital. The following data are obtained from the records of a company:**

|  |  |  |
| --- | --- | --- |
|  | **First year****(Rs.)** |  **Second year****(Rs.)** |
| **Sales** | **80,000** | **90,000** |
| **Profit** | **10,000** | **14,000** |

 **Calculate the break-even point.**

**10.The following details are taken from the books of Arun stores;**

 **Sales Rs. 33,984, sales returns and allowances Rs. 380. Stock at the beginning of the year at cost price Rs. 1,378. Stock at the close of the year Rs. 8,068.**

 **You are require to calculate**

1. **Purchases for the year**
2. **Rate of stock turnover.**

**11.Current liabilities of a company are RS. 3,00,000.Its current ratio its 5:3 .calculate the value of stock in trade.**

**12.From the following camparitive balance sheet of shri .ram Ltd., as on june 30,1992 you are required to prepare a statement of changes in working capital:**

**LIABILITIES 1992 1993 ASSETS 1992 1993**

**Share capital 180000 200000 goodwill 24000 20000**

**Reserve fund 28000 36000 buildings 80000 72000**

**P&L A\c 39000 24000 machinery 74000 72000**

**Trade craditors 16000 10800 investments 20000 22000**

**Bank overdraft 12400 2600 inventories 60000 50800**

**Provision for tax 32000 34000 debtors 40000 44400**

**Provision for**

**doubtful debts 3800 4200 cash 3200 30400**

**TOTAL 311200 311600 TOTAL 311200 311600.**

**13.**

**13. RS.**

 **Gross profit 30,000**

 **Expenses paid 10,000**

 **Interest received 2,000**

 **RS.2,000 are outstanding on account of expenses while RS.500 has been received as interest for the next year . you are required to compute the net profit.**

**14.The fixed costs for the year are RS.40000.Variable cost per unit for the single product being made is RS.6.Estimated sales for the period are valued at RS.160000. The number of units involed coincides with the expected volume of output .Each unit sells at RS.10 each.Calculate the break-even point.**

**15.The following products are manufactured and sold by NPSV Ltd. Variable cost and prices are shown alongside**

 **PRODUCT PRICE VARIABLE COST**

 **RS RS**

 **A 100 50**

 **B 200 150**

 **C 400 250**

 **Shown the P\V Ratio for each line of product.**

**16.Total sales -------RS.350000**

 **Returns inwards-------RS.20000**

 **Stock in the beginning of the year ----RS.40000**

 **Stock at the end of the year -------RS.26000**

 **Gross profit for the year ------RS.66000**

**CALCULATE:**

 **1.Inventory turnover ratio**

 **2.Inventory conversion period.**

**17. Extracts from the balance sheet**

 **31.12.2000 31.12.2001**

**Balance sheet 100000 150000**

**Additional information :**

1. **Depriciation charged on assets-----RS.10000**
2. **Preliminary expenses written off-----RS.5000**
3. **Dividend equalization fund created ----RS.15000**
4. **A plant having a book value of RS. 6000 was sold for RS.65000**
5. **Interim dividend paid ------RS.10000**

 **Calculate funds from operation.**

**18.Calculate (1)P\Vratio (2) Profit when sales are RS. 20,000**

 **Fixed expenses RS.4000**

 **BEP RS.10000.**

 **19. The balancesheet of Kaliash Ltd., as on 31.12.2002 is as follows:**

|  |  |  |  |
| --- | --- | --- | --- |
| **Liabilities** | **Rs.** | **Assets** | **Rs.** |
| **Equity share capital****(Shares of Rs.10 each)** | **500000** | **Land & Building** | **600000** |
| **10% Preference Share****Capital****(Shares of Rs.100 each)** | **200000** | **Plant & Furniture** | **500000** |
| **Reserves and surplus** | **300000** | **Stock in trade** | **240000** |
| **12% Debentures****(Rs.100 each)** | **400000** | **Sundry Debtors** | **195000** |
| **Sundry Creditors** | **150000** | **Cash in hand** | **60000** |
| **Bank over draft** | **50000** | **Prapaid** | **5000** |
| **Total** | **1600000** | **Total** | **1600000** |

**Calculate:-**

1. **Current ratio**
2. **Liquid Ratio**
3. **Debt-equity Ratio**
4. **Capital gearing ratio**
5. **Proprietary ratio**

**20.Kailash limited presents the following information and you are required to calculate funds from operations:**

|  |
| --- |
| **Profit and loss a/c** |
| **Debt** | **Rs.** | **Credit** | **Rs.** |
| **To Expenses:** | **By Gross profit** | **100000** |
| **Operation** | **50000** | **By Gain on sale of plant** | **10000** |
| **Depreciation** | **20000** |  |  |
| **Loss on sale of Land** | **5000** |  |  |
| **Advertisement Supense A/c** | **2500** |  |  |
| **Discount** | **250** |  |  |
| **Goodwill** | **6000** |  |  |
| **Net Profit** | **26250** |  |  |
| **Total** | **110000** | **Total** | **110000** |

**21. From the following balance sheets prepare a cash flow statement:**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Liabilities** | **2003** | **2004** | **Assets** | **2003** | **2004** |
| **Capital** | **150000** | **175000** | **Landing & Building** | **110000** | **150000** |
| **Loan from bank** | **160000** | **100000** | **Machinery** | **200000** | **140000** |
| **Creditors** | **85000** | **93000** | **Stock** | **50000** | **45000** |
| **B/P** | **50000** | **40000** | **Debtors** | **70000** | **80000** |
| **Loan from IFC** | **---------** | **25000** | **Cash** | **15000** | **22000** |
| **O/s Expenses** | **5000** | **7000** | **Prepaid Expenses** | **5000** | **3000** |
| **Total** | **450000** | **440000** | **Total** | **450000** | **440000** |

**Additional information:-**

**1.Net profit for the year 2004 amounted to Rs.60,000.**

**2. During the year a machine costing Rs.25000(accumulated depreciation Rs.10000) was sold for Rs.13000**

**3.The Provision for depreciation against machinery on 31.12.2003 was Rs.50000 and 31.12.2004 was Rs.85000.**

**22. The following is the balance sheet of a firm :**

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Rs.** |  | **Rs.** |
| **Share Capital** | **30000** | **Fixed assets** | **16500** |
| **Creditors** | **8000** | **Cash** | **1000** |
| **Bills payable** | **2000** | **Books Debts** | **6000** |
| **Provision for tax** | **3500** | **Bills receivable**  | **2000** |
|  |  | **Stock** | **17500** |
|  |  | **Prepaid expense** | **500** |
| **Total** | **43500** |  | **43500** |

**Comment upon the liquidity of the firm.**

**23.You are given the following Balancesheets of a company:**

|  |  |
| --- | --- |
|  |  **31st December** |
|  | **2005** | **2006** |
| **Assets** | **Rs.** | **Rs.** |
| **Cash** | **3000** | **4700** |
| **Accounts Receivable** | **12000** | **11500** |
| **Land** | **5000** | **6600** |
| **Stock** | **8000** | **9000** |
| **Total** | **28000** | **31800** |

**24.After taking on to consideration the undermentioned items .Siva Ltd. Made a net profit of RS.1,00,000 for the year Ended31st December 2006.**

 **RS.**

**Loss on sale of machinery 10000**

**Depreciation on building 4000**

**Depreciation on machinery 5000**

**Preliminary expenses written off 10000**

**Goodwill written off 5000**

**Gain on sale of buildings 8000**

 **Find out cash from opration.**

**25.Calculate the P\V ratio and break –even point from the following particulars.**

 **RS.**

 **Sales 500000**

 **Fixed cost 100000**

 **Profit 150000**

**26.From the following information find out the amound of profit earned during the year using the marginal costing technique:**

 **Fixed cost RS.5,00,000**

**Variable cost RS.10 per unit**

**Selling price RS.15 per unit**

**Out put level 1,50,000unit**

**27.The following information is taken from a firm:**

 **Rs.**

 **Sales 33,984**

 **Sales return and allowances 380**

 **Stock at the beginning 1,378**

 **Stock at the end 1,814**

 **Gross profit for the year 8,068**

**Calculate:**

1. **Purchase for the year**
2. **Rate of stock turnover**
3. **Percentage of gross profit to turnover.**

**28.From the following information calculate the break-even point and turn over required to earn a profit of RS.30000**

 **Fixed overheads RS .21000**

 **Variable costs RS.60000**

 **Selling price RS.5 per unit**

 **If the company is earning a profit of RS. 30000, express the margin of safety acailable to it.**

**29.Find the profit from the following data:**

 **SalesRS.80000**

 **Margin cost RS.60000**

 **Break-even point 60000 sales.**

**30.You are given the following balance sheet of a company:**

 **31 ST December**

 **2005 2006**

 **RS RS**

 **ASSETS**

**CASH 3000 4700**

**ACCOUNTS RECEIVABLE 12000 11500**

**LAND 5000 6600**

**STOCK 8000 9000**

 **28000 31800**

**LIABILITIES**

**ACCOUNTS PAYABLE 7000 4500**

**CAPITAL 20000 25000**

**RETAINED EARNINGS 1000 2300**

 **28000 31800**

**Prepare a statement showing the changes in working capital.**

**SECTION – C**

**(10 MARKS QUESTIONS)**

1. **Explain the methods of financial statement analysis.**
2. **Explain the special features of comparative statements.**
3. **Explain the significance and limitations of ratio-analysis.**
4. **Explain the purpose of preparing cash flow statements.**
5. **What are the determinants of the size of investment in Receivables?**
6. **Discuss the role of financial manager in inventory control?**
7. **Explain the applications of marginal costing techniques.**
8. **What is Financial Analysis? Explain its Types?**
9. **Distinguish between management and Financial Accounting.**
10. **Explain in detail the method of ascertaining funds from operations.**
11. **Distinguish Cash flow and Analysis from Fund Flow Analysis.**
12. **Explain the applications of Marginal Costing Techniques.**
13. **Discuss the objectives of Financial Statement Analysis.**
14. **Explain the special features of common size statements.**
15. **State and explain important ratios for measuring the liquidity of a business firm.**
16. **Explain the importance and objectives of accounts Receivable management.**
17. **What do you mean by inventory control? What are the essential of a good inventory control system?**
18. **How is marginal costing useful in the decision making of a firm?**
19. **Describe briefly the major tools used in the financial statements analysis?**
20. **Explain the meaning, Objectives and importance of analysis and interpretation of financial statements.**
21. **List out the main tools of Management Accounting.**
22. **“Ratio analysis is a tool to examine the health of a business with a view to make the financial results more intelligible”. Discuss.**
23. **What are the basic objectives for compiling a statement of sources and applications of funds?**
24. **Explain the applications of marginal costing techniques.**
25. **Define: Marginal Costing. How does marginal costing differs from total cost?**

**PROBLEMS:-**

**1.From the following balance sheet of a company you are required to calculate current ratio and solvency ratio:**

 **BALANCESHEET AS ON 31ST DECEMBER**

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Rs.** |  | **Rs.** |
| **Share capital** | **10,00,000** | **Fixed Assets** | **12,00,000** |
| **Fixed liabilities** | **5,00,000** | **Current assets** | **8,00,000** |
| **Current assets** | **5,00,000** |  |  |
| **Total** | **20,00,000** | **Total** | **20,00,000** |

**2. The balancesheets of a firm as on 31st December 1999 and 2000 are given below:**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **1999** | **2000** |  | **1999** | **2000** |
|  | **Rs.** | **Rs.** |  | **Rs.** | **Rs.** |
| **Share capital** | **100000** | **160000** | **Fixed assets at cost**  | **152000** | **200000** |
| **Retained earnings** | **70250** | **85300** | **Inventory** | **93400** | **89200** |
| **Accumulated Depreciation** | **60000** | **40000** | **Debtors** | **30800** | **21100** |
| **12% Debentures** | **50000** | **--------** | **Expenses repaid** | **3950** | **30000** |
| **Total** | **308250** | **333300** | **Total** | **308250** | **333300** |

**The following additional information for 2000 are also given:**

1. **Net profit Rs.27,050**
2. **Depreciation charged Rs.10,000**
3. **Cash dividend declared during the period Rs.12,000**
4. **An addition to the building was made during the year at a cost of Rs.78,000& fully depreciated equipment. Costing Rs.30,000 was discarded as no salvage being realized. Prepare a cash flow statement.**

**3. The following information was obtained from a company in a company in a certain year:**

|  |  |
| --- | --- |
| **Sales** | **Rs.1,00,000** |
| **Variable costs** | **Rs.60,000** |
| **Fixed costs** | **Rs.30,000** |

 **Find the P/V ration, breakeven point and margin of safety.**

**4. From the following given ratios and informations, prepare A Balance sheet.**

1. **Working capital Rs.60,000.**
2. **Reserves Rs.40,000**
3. **Bank O/D Rs.10,000**
4. **Fixed assets Ratio 0.75**
5. **Current ratio 2.50**
6. **Liquid ratio 1.50**

**5. From the following Balance sheet of M/s. xyz Ltd. Prepare Funds flow statement.**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **LIABILITIES** | **2001** | **2002** | **ASSETS** | **2001** | **2002** |
|  | **Rs.** | **Rs.** |  | **Rs.** | **Rs.** |
| **Capital** | **63000** | **100000** | **Cash** | **15000** | **20000** |
| **Long term Borrowing** | **50000** | **60000** | **Debtors** | **30000** | **28000** |
| **Creditors** | **42000** | **39000** | **Stock** | **55000** | **72000** |
| **Bank Over Draft** | **35000** | **25000** | **Land** | **80000** | **100000** |
| **Outstanding expenses** | **5000** | **6000** | **Furniture** | **15000** | **10000** |
| **Total** | **195000** | **230000** | **Total** | **195000** | **230000** |

**6. From the following Balance sheets, Prepare a cash flow Statement.**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **LIABILITIES** | **2002** | **2003** | **ASSETS** | **2002** | **2003** |
|  | **Rs.** | **Rs.** |  | **Rs.** | **Rs.** |
| **Share capital** | **100000** | **150000** | **Fixed assets** | **100000** | **150000** |
| **P&L A/C** | **50000** | **80000** | **Goodwill** | **50000** | **40000** |
| **General reserve** | **30000** | **40000** | **Inventories** | **50000** | **80000** |
| **16%Bonds** | **50000** | **60000** | **Debtors** | **50000** | **80000** |
| **Creditors** | **30000** | **40000** | **Bills Receivable** | **10000** | **20000** |
| **Outstanding expenses** | **10000** | **15000** | **Bank** | **10000** | **15000** |
| **Total** | **270000** | **385000** | **Total** | **270000** | **385000** |

**7. A.G. Ltd. Furnished you are the following related to Year 2003:-**

|  |  |  |
| --- | --- | --- |
|  | **First half of the year** | **Second half of the year** |
|  | **Rs.** | **Rs.** |
| **Sales** | **45,000** | **50,000** |
| **Total cost** | **40,000** | **43,000** |

 **Assume there is no changes in prices and variables Costs and that the fixed expenses are incurred equally in the second half year periods, calculate for the year 2003:**

1. **Profit volume ratio**
2. **Fixed expenses**
3. **Break even sales and**
4. **% of margin of safety**

**8. The following is the balancesheet of a company as on 31st March.**

|  |  |  |  |
| --- | --- | --- | --- |
| **LIABILITIES** | **Rs.** | **ASSETS** | **Rs.** |
| **Share capital** | **200000** | **Land and Building** | **140000** |
| **Profit and loss account** | **30000** | **Plant and machinery**  | **350000** |
| **General reserve** | **40000** | **Stock** | **200000** |
| **12% Debentures** | **420000** | **Sundry debtors** | **100000** |
| **Sundry Creditors** | **100000** | **Bills receivable** | **10000** |
| **Bills payable** | **50000** | **Cast at bank** | **40000** |
| **Total** | **840000** | **Total** | **840000** |

 **Calculate:**

1. **Current ratio**
2. **Quick ratio**
3. **Inventory to working capital**
4. **Debt to equity ratio**
5. **Proprietary ratio**

**9. The following is the balancesheet as on 31st December, Prepare a cash flow Statement.**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **1999** | **2000** |  | **1999** | **2000** |
| **Share capital** | **100000** | **150000** | **Fixed assets** | **100000** | **150000** |
| **Profit and loss account** | **50000** | **80000** | **Goodwill** | **50000** | **40000** |
| **General reserve** | **30000** | **40000** | **Inventories** | **50000** | **80000** |
| **16% Bonds** | **50000** | **60000** | **Debtors** | **50000** | **80000** |
| **Sundry creditors** | **30000** | **40000** | **Bills receivable** | **10000** | **20000** |
| **Expenses O/D** | **10000** | **15000** | **Bank** | **10000** | **15000** |
| **Total** | **270000** | **385000** | **Total** | **270000** | **385000** |

**10. From the following details find out (i) Profit volume ratio, (ii) B.E.P., (iii) Margin of safety.**

|  |  |
| --- | --- |
| **Sales** | **1,00,000** |
| **Total costs** | **80,000** |
| **Fixed costs** | **20,000** |
| **Net profit** | **20,000** |

**11.Following is the balance sheet Of Nonesuch co LTD .As on december 31.1998**

**Liabilities Rs Assets RS.**

**Equity share capital 20000 Godwill 12000**

**Capital reserve 4000 Fixed assets 28000**

**8%Loan on mortage 16,000 Stocks 6000**

**Trade creditors 8,000 Debtors 6000**

**Bank over draft 2,000 Investments 2000**

**Taxation : Cash in hand 6000**

**Current 2000**

**Future 2000**

**Profit &Loss a\c:**

**Profit for 1998 after**

**Taxation and interest**

**on fixed 12,000**

**Transfer to Rs .**

**Reserve 4,000**

**Dividend 2000 6000**

 **60,000 60,000**

**Sales amounted to RS .1,20,000. Calculate ratio for (1)Testing Liqudity and (2)Testing solvency .**

**12.From the following figures extracted from the icome statement and balance sheet of anu sales Pvt.Ltd ., Calaulate the return on total capital employed.**

 **Rs. Rs**

**Fixed assets 450000 Reserv100000**

**Current assets 150000 Debentures 100000**

**Investment in Govt . Securities 100000 Income on investment 10000**

**Sales 500000 Provision for Tax at 50% of Net profits**

**Cost of goods sold 300000**

**Share capital :**

 **10% preferance 100000**

**Equity 200000.**

**13.Opening and closing balance of the machinery account at (W.D.V) Appering in the comparative balance sheet are RS. 1,50,000 and RS. 2,50,000 respectively. The opening and closing balance of accumulated depreciation account Were Rs. 25,000 and RS. 40,000 respectively .Turther ,it is given that during the year (1)a machine costing RS. 50,000 Was purchased in exchange for fully paid up shares and (2) an old machine costing RS. 10,000 (accumulated depriciation RS .4000)was sold for RS. 4500.Show the ledger accounts.**

**14.The following transactions in fixed assets section of the balance sheet of a company took place in 1987.**

 **The fixed assets at cost amounted Rs. 2,02, 240 on 31,12, 1987. The accumulated depreciation account increased from RS. 85,600 in 1986 to Rs 88,500 in 1987.A piece of asset sold in 1987 for RS. 5,000 was originally purchased at RS. 20,000.**

**Accumulated depriciation on the asset sold was RS.12,000. The loss was charged against profit of the year .**

**Find out the amount of fixed assets acquired during the year. What other items shown above should apper in the funds flow statement?**

**15.From the following balance you are required to calculate cash from operations:**

 **DECEMBER 31**

 **1991 1992**

 **(RS) (RS)**

**Profit and loss accounts 25000 155000**

**Debtors 45000 42000**

**Creditors 20000 26000**

**Bills recievable 12000 15000**

**Prepaid expenses 1600 1400**

**Bills payable 18000 16000**

**Outstanding expenses 1200 1600**

**Outstanding income 800 900**

**Income received in advance 250 300**

**16.The following particulars are taken from records of a company engaged in manufacturing to products AD and BI from a certain raw materials:**

 **PRODUCT AD (per unit) PRODUCT BI (per unit)**

 **RS. RS.**

**sales 125.00 250.00**

**Materials cost**

**(Rs.2.5 per kg) 25.00 62.50**

**Direct labour**

**(Rs.1.5 per hour) 37.50 75.00**

**Variable overhead 12.50 25.00**

**Total fixed overheads Rs.50000**

**Comment on the profitability of each product when**

1. **Total sales in value is limited**
2. **Raw materials is in short supply**
3. **Production capacity is the key factor**

**17.(1)Calculatefrom the following informations the break even point and the net profit,if the sales column is Rs.8,00,000 P\V ratio is 40% amd margin of safety is 25%**

**(2)A company estimates that next year it will earn a profit of Rs.50,000.The budgeted fixed cost and sales are RS.2,50,000 and RS.9,93,000 respectively.Find out the break even point for the company**

**18.From the following details make out the balance sheet with as many details as possible**

1. **Stock velocity---6**
2. **Capital turnover ratio---2**
3. **Fixed assets turnover---4**
4. **Gross profit Turnover ratio---20%**
5. **Debtor velocity---2 months**
6. **Creditor velocity---73 days**

**The gross profit was RS.60.000 Reserves and surplus amounts to RS.20000.Closing stock was RS.5000 in excess of opening stock.**

**19.From the following balance sheets, make out a schedule of changes in working capital and funds flow statement:**

**LIABILITIES 31.12.01 31.12.02 ASSETS 31.12.01 31.12.02**

**Share capital 70000 74000 Cash 9000 7800**

**Debentures 12000 6000 Debtors 14900 17700**

**Reseve for D.D 700 800 Stock 49200 42700**

**Creditors 10360 11840 Land 20000 30000**

**P\L a\c 10040 10560 Goodwill 10000 50000**

**Total 103100 103200 Total 103100 103200**

**ADDITIONAL INFORMATION:**

**1.Dividend paid RS.3500**

**2.During the year ,land was purchased for RS.10000.**

**20.From the following prepare cash flow statements:**

**LIABILITIES 2001 2002 ASSETS 2001 2002**

 **RS. RS. RS. RS.**

**Capital 150000 175000 land &buildings 110000 150000**

**Loan from bank 160000 100000 machinery 200000 140000**

**Creditors 85000 93000 stock 50000 45000**

**Outstanding**

 **Expense 5000 7000 cash 15000 22000**

**B\P 50000 40000 Prepaid expense 5000 3000**

**Loan from LIC ---------- 25000**

 **450000 440000 450000 440000**

**ADDITIONAL INFORMATION:**

1. **Net profit for the year 2002 amounted to RS.60,000**
2. **During the year a machine costing RS.25,000 (accumulated depreciation RS.10,000) was sold for RS.13,000.The provision for depreciation against machinery as on 31.12.2001. was RS.50,000 and on RS. 31.12.2001 was RS.85,000.**
3. **The following figures of sales and profits for two periods are available in respect of a concern.**

 **SALES PROFIT**

 **RS. RS.**

**Period 1 100000 15000**

**Period 2 120000 23000**

**You are required to find out**

1. **P\V ratio**
2. **Fixed cost**
3. **BEP**
4. **Profit at an estimated sale of RS.1,25,000**
5. **Sales required to earn a profit of RS.20,000**

**22.From the following balance sheet of a company you ae required to prepare a common size balance sheet**

**BALANCE SHEET AS ON 31ST DECEMBER**

**LIABILITIES RS. ASSETS RS.**

**Equity share capital 125000 Plant and machinery 200000**

**Preference share capital 50000 furniture 12140**

**Reserves 55000 current assets 169500**

**P&L a\c 35000 381640**

**Current liabilities 116640**

 **381640**

**23.You are given the following information pertaining to financial statements of a firm.You are required to prepare trading and profit and accounts and balance sheet:**

 **RS.**

**Net current assets 100000**

**Paid up capital 300000**

**Current ratio 1.8:1**

**Liquid ratio 1.35:1**

**Fixed assets to shareholders equity 80%**

**Gross profit ratio 25%**

**Net profit to paid up capital 20%**

**Stock turn over 5times**

**Average age of outstanding customer 36.days**

**24.During the year a machine costing RS.5000 (accumulated depreciation RS. 2000)was sold for RS.2500. the provision for deoreciation against machinery as on 31,12,2005 was RS.6000 and on 31,12,2006RS.7000.**

 **From the above information , prepare a cash flow statement**

**25.The comparitive balance sheet of Mr .Kaliash for the two years are as follows:**

 **Liabilities 2005 2006 Assets 2005 2006**

 **RS. RS. RS. RS.**

**Loan from wife ----- 20000 Cash 11000 15000**

**Bills payable 120000 8000 Debtors 40000 35000**

**Creditors 25000 52000 stock 25000 30000**

**Loan from bank 43000 60000 Machinery 20000 14000**

**Capital 66000 34000 Land and**

 **Buildings 50000 80000**

 **146000 174000 146000 174000**

**Additional information:**

**1.Net loss for the year 2006 amounted to RS.13000**