**VALLUVAR COLLEGE OF SCIENCE AND MANAGEMENT – KARUR**

**PG AND RESEARCH DEPARTMENT OF COMMERCE**

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**THEORY MATERIAL**

**Objective:** To enable the students to know the importance of management accounting and its concepts.

**Unit - I**

Management accounting – Definition – Objectives – Nature – Scope – Merits and limitations

– Differences between management accounting and financial accounting – Financial statement analysis – Comparative statement – Common size statement – Trend percentage – Ratio analysis – Meaning – Classification – Liquidity, solvency, turnover and profitability ratios – DuPont chart – Construction of balance sheet.

**Unit - II**

Fund flow statement – Meaning – Preparation – Schedule of changes in working capital – Funds from operation – Sources and applications – Cash flow statement – Meaning – Difference between fund flow statement and cash flow statement – Preparation of cash flow statement as per Accounting Standard 3.

**Unit - III**

Budget and Budgetary control – Meaning – Advantages – Preparation of sales, production, production cost, purchase, overhead cost, cash and flexible budgets - Standard costing – Meaning, Advantages and Limitations.

**Unit - IV**

Variance analysis – Significance - Computation of variances (Material and Labour variance only) - Marginal costing – CVP analysis – Break even analysis – BEP – Managerial applications – Margin of safety – Profit planning.

**Unit - V**

Capital Budgeting – Meaning – Importance – Appraisal methods – Payback period –– Accounting rate of return - Discounted cash flow – Net present value – Profitability index – Internal rate of return.

Theory: 20% Problem: 80%

**Text and Reference Books (Latest revised edition only)**

1. Management accounting by S.N.Maheswari – Sultan Chand & sons publications, New Delhi

2. Management accounting by Sharma and Guptha, Kalyani Publishers, Chennai.

3. Management accounting by R.Ramachandran and R.Srinivasan – Sriram publication

4. Management accounting by A. Murthi and S. Gurusamy, Vijay Nicole Publications, Chennai.

5. Management Accounting by R.S.N.Pillai&V.Baghavathi – S.Chand& Co, Mumbai

6. Management accounting by Hingorani&Ramanthan – S.Chand& Co, New Delhi.

**Management Accounting Meaning:**

The term management accounting refers to accounting for the management. Management accounting provides necessary information to assist the management in the creation of policy and in the day – to – day operation. It enables the management to discharge all its functions i.e. planning, organization, staffing, direction and control efficiently with the help of accounting information.

**Definition:**

“Management Accounting is concerned with accounting information that is useful to management.” – R.N.ANTHONY.

**Objectives of Management Accounting:**

The objectives of management accounting are:

1. To assist the management in promoting efficiency. Efficiency includes best possible services to the customers, investors and employees.
2. To prepare budgets covering all functions of a business (i.e. Production, sales, research and finance).
3. To analyses monetary and non - monetary transaction.
4. To compare the actual performance with plan for identifying deviations their causes.
5. To interpret financial statements to enable the management to formulate future policies.
6. To submit to the management at frequent intervals operating statements and short – term financial statements.
7. To arrange for the systematic allocation of responsibilities.
8. To provide a suitable organization for discharging the responsibilities.

**Scope and Functions of Management Accounting:**

The scope of management accounting is very wide. It includes with in its fold all aspects of business operations. The following areas indicate the scope of management accounting.

1. **Financial accounting:** Financial accounting provides historical information. It forms the basis for the future planning and financial forecasting. A properly designed financial accounting. System is a must securing full control and co – ordination of business operations.
2. **Cost Accounting:** Cost accounting provides various techniques of costing like marginal costing. Standard costing, operation costing etc. these techniques play an important role in assisting the management in the formulation of policy and the operation of the undertaking.
3. **Budgetary control:** This includes framing of budgets, comparison of actual performance with budgeted performance, computation of variances, finding
4. **Inventory Control:** It is concerned with control over inventory form the time it is received till its disposal.
5. **Reporting:** Reporting includes the preparation of monthly, quarterly, half yearly income statements and other related reports such as cash flow and funds flow statements.

These reports are submitted to the management for evaluation of performance and decision – making.

1. **Statistical Methods:** Statistical tools like graphs, charts, index numbers etc., are used for presentation of information to various departments.
2. **Taxation:** It includes preparation of income statements, assessing the effect of tax on capital expenditure proposals and pricing.
3. **Methods and Procedures:** They deal with organizational methods for cost reduction, procedures for improving the efficiency of accounting and office operations.
4. **Internal Audit:** This refers to the establishments of a suitable internal audit system for internal control.
5. **Office Services:** They cover a wide range of activities like data processing, filing, copying, printing, communication etc.,

**Function of Management Accounting:**

A function of management accounting includes all activities connected with collecting, processing, interpreting and presenting information to the management. The main functions of management accounting are:

**1)**  **Forecasting:** Making short – term and long – term forecasts and planning the future operations of the business.

**2)** **Organizing:** Organizing the human and physical resources of the business. This is done by assigning specific responsibilities to different people.

**3)** **Co – Ordination:** Providing different tools of co – ordination. Examples of such tools are budgeting, financial reporting, financial analysis, interpretation etc.

**4)** **Controlling:** Controlling performance by using standard costing, variance analysis and budgetary control.

**5)** **Analysis and Interpretation:** Analyzing and interpreting financial data in a simple and purposeful manner.

**6)** **Communicating:** Communicating the results of business activities through prompt and accurate reporting system.

**7)** **Economic Appraisal:** Appraising of social and economic forces and government policies and interpreting their on business.

**Explain the advantages and limitation of management accounting:**

The Advantages of management accounting are summarized below.

1. **Helps in Decision Making:** Management accounting helps in decision making such as pricing, make or buy, acceptance of additional orders, selection of suitable product mix etc. These important decisions are taken with the help of marginal costing technique.
2. **Helps in Planning:** Planning includes profit planning, preparation of budgets programmes of capital investment and financing. Management is accounting assist in planning through budgetary control, capital budgeting and cost – volume – profit analysis.
3. **Helps in Organising:** Management accounting uses various tools and techniques like budgeting, responsibility accounting and standard costing. A sound organizational structure is developed to facilitate the use of these techniques.
4. **Facilitates Communication:** Management is provided with up – to – date information through periodical reports. These reports assist the management in the evaluation of performance and control.
5. **Helps in Coordinating:**  The functional budgets (purchase budget, sales budget, overhead budgets etc.) are integrated into one known as master budget. This facilitates clear definition of department goals and co – ordination of their activities.
6. **Intuitive decisions:** management accounting helps in scientific decision making. Yet, because of simplicity and personal factors the management has a tendency to arrive at decisions by intuition.
7. **Not an alternative to management:** management accounting will not replace the management and administration. It is a tool of the management. Decisions are of the management and not the management accountant.

**Distinguish between management accounting and financial accounting.**

The following are the main differences between financial accounting and management accounting.

1. **Objectives:** the main objective of financial accounting is to supply information in the form of profit and loss account and balance sheet to outside parties like shareholders, creditors, government etc. but the objective of management accounting is to provide information for the internal use of management.
2. **Performance Analysis:** financial accounting is concerned with the overall performance of the business. On the other hand management accounting is concerned with the departments or divisions. It reports about the performance and profitability of each of them.
3. **Data Used:** financial accounting is mainly concerned with the recording of post events whereas managements accounting is concerned with future plans and policies.
4. **Nature:** financial accounting is based on measurement while management accounting is based on judgment. Because of this, financial accounting is more objective and management accounting is more subjective.
5. **Accuracy:** accuracy is an important factor in financial accounting. But approximations are widely used in management accounting. This is because most of the information is related to the future and intend for internal use.
6. **Legal compulsion:** financial accounting is compulsory for all joint stock companies but management accounting is only optional.
7. **Monetary Transactions:** financial accounting records only those transactions which can be expressed in terms of money. On the other hand, management accounting records not only monetary transactions but also non –monetary events, namely technical changes, government polices etc.
8. **Control:** financial accounting will not reveal whether plans are properly implemented. Management accounting will reveal the deviations of actual performance from plans. It will also indicate the causes for such deviations.

**Distinguish between cost accounting and management accounting.**

1. **Objective:** The objective of cost accounting is the ascertainment and control of costs of products or services. But the objective of management accounting is to help the management in decision making, planning, control etc. this objective is achieved by furnishing relevant accounting information to the management.
2. **Scope:** Cost accounting deals primary with cost data. But management accounting deals with both cost and revenue. It includes financial accounting, cost accounting, budgeting, reporting to management and interpretation of financial data. Thus, the scope of management accounting is wider than that of cost accounting.

**Data Used:** in cost accounting, only those transactions which can be expressed in figures are taken. Only quantitative aspect is recorded in cost accounting. But management accounting uses both quantitative and qualitative information.

1. **Nature:** Cost accounting uses both past and present figures. But management accounting is concerned with the projection of figures for future. The policies and plans are prepared for providing future guidelines.

**Meaning of Fund Flow Statement:**

The funds flow statement is a report on the movement of funds or working capital. It explains how working capital is raised and used during an accounting period.

**Definition:**

“A statement of sources and application of funds is a technical device designed to analyses the changes in the financial condition of a business enterprise between two dates.”

**Objectives:**

The main objectives of funds flow statements are:

* 1. To show how the resources have been obtained and used.
  2. To indicate the results of current financial management.
  3. To throw light upon the most important changes that has taken place during a specific period.
  4. To show how the general expansion of the business has been financed.
  5. To indicate the relationship between profits from operations distribution of dividend and raising of new capital or term loans.
  6. To have an assessment of the working capital position of the concern.

**Limitations of fund flow statements:**

The limitation of funds flow statements are listed below,

1. Funds flow statements is not a substitute for an income statement or balance sheet. It provides only some additional information regarding changes in working capital.
2. Changes in cash are more important and relevant for financial management then the working capital.
3. It is not an original statement. It is only a rearrangement of data given in financial statements.
4. Funds flow statement is essentially historical in nature. A projected funds flow statement, on the basis of it cannot be prepared with much accuracy.
5. It cannot reveal continuous changes.

**The procedure for the preparation of funds flow statements:**

Funds flow statements is usually prepared for one year on the basis of balance sheets and additional information. Preparation of funds flow statements involves the following steps.

1. **Schedule of changes of working capital:**

Working capital is the difference between current assets and current liabilities. The schedule of changes in working capital is prepared to find out the increase or decrease in working capital during the year.

Increase in working capital will appear on the “application” side of fund flow statement. Decrease in working capital will appear on the “sources” side of the fund flow statement.

**Schedule of changes of working capital**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Particulars** | **Last year**  **Rs** | **Current year**  **Rs** | **Increase**  **Rs** | **Decrease**  **Rs** |
| **Current Assets:** |  |  |  |  |
| Stock | **\*\*\*\*** | **\*\*\*\*** | **\*\*\*\*** | **\*\*\*\*** |
| Debtors | **\*\*\*\*** | **\*\*\*\*** | **\*\*\*\*** | **\*\*\*\*** |
| Cash in hand & bank | **\*\*\*\*** | **\*\*\*\*** | **\*\*\*\*** | **\*\*\*\*** |
| Bills receivable | **\*\*\*\*** | **\*\*\*\*** | **\*\*\*\*** | **\*\*\*\*** |
| Prepaid Expanses | **\*\*\*\*** | **\*\*\*\*** | **\*\*\*\*** | **\*\*\*\*** |
|  | **\*\*\*\*\*\*\*** | **\*\*\*\*\*\*\*** |  |  |
| **Less Current Liabilities:** |  |  |  |  |
| Creditors | **\*\*\*\*** | **\*\*\*\*** | **\*\*\*\*** | **\*\*\*\*** |
| Bills Payable | **\*\*\*\*** | **\*\*\*\*** | **\*\*\*\*** | **\*\*\*\*** |
| Bank Overdraft | **\*\*\*\*** | **\*\*\*\*** | **\*\*\*\*** | **\*\*\*\*** |
| Proposed dividend | **\*\*\*\*** | **\*\*\*\*** | **\*\*\*\*** | **\*\*\*\*** |
| Provision for Taxation | **\*\*\*\*** | **\*\*\*\*** | **\*\*\*\*** | **\*\*\*\*** |
| **Working Capital** | **\*\*\*\*\*\*\*** | **\*\*\*\*\*\*\*** | **\*\*\*\*\*\*\*** | **\*\*\*\*\*\*\*** |
| **Increase (or) Decrease in Working Capital** | **\*\*\*\*\*** | **\*\*\*\*\*** | **\*\*\*\*\*** | **\*\*\*\*\*** |
| **Total** | **\*\*\*\*\*\*** | **\*\*\*\*\*\*** | **\*\*\*\*\*\*** | **\*\*\*\*\*\*** |

1. **Opening of accounts for Non – Current items:**

Accounts are prepared for non – current items to ascertain the source or application of funds. In the preparation of accounts for non – current items, additional information is to be considered. For example, the value of machinery (as per balance sheet) on 1st march 1999 and 31st march 2000 are Rs.20, 000 and 25, 000 respectively and depreciation charged during the year is Rs.5, 000; the accounts will appear as under:

**Machinery Account**

**Debit Credit**

|  |  |  |  |
| --- | --- | --- | --- |
| **Particulars** | **Rs** | **Particulars** | **Rs** |
| To Balance b/d | 20,000 | By Adjusted P & L a/c. (Depreciation) | 5,000 |
| **To Cash (?) (balancing figure)** | **10,000** | By Balance c/d | 25,000 |
|  | 30,000 |  | 30,000 |

The balancing figure represents purchase of machinery. It is an application of funds. Thus, by opening accounts for or by comparing non – current items, source and application of funds are found out.

1. **Preparation of Adjusted Profit and Loss Account:**

The adjusted profits and loss account is prepared to ascertain funds from operation. The regular profit and loss account shows only the net profit or loss. To ascertain the funds generated by operation the adjusted profit & loss account is prepared by taking into account only the non – fund and non – operating items. ‘Non – funds items refer to expanses and income which do not involves any changes in working capital (e.g, deprecations. Transfer to general reserve, writing back of provision for tax etc.). Non – Operating items refer to expenses and income which are not directly to the business operations of the company, (E.g., dividend received, refund of tax, profit/loss on sale of assets etc.). The balancing figure in the adjusted profit and loss account is either funds from operation or funds lost in operations.

**Adjusted Profit & Loss Account**

**Debit Credit**

|  |  |  |  |
| --- | --- | --- | --- |
| **Particulars** | **Rs** | **Particulars** | **Rs** |
| To Provision for depreciation | **\*\*\*\*** | By Balance b/d | **\*\*\*\*** |
| To Loss on sale of Assets | **\*\*\*\*** | By Profit on sale of assets | **\*\*\*\*** |
| To Discount | **\*\*\*\*** | By Dividend received | **\*\*\*\*** |
| To Good will | **\*\*\*\*** | By Refund of tax | **\*\*\*\*** |
| To Balance c/d | **\*\*\*\*** | By Funds from Operation ( balance figure) | **\*\*\*\*** |
|  | **\*\*\*\*\*\*** |  | **\*\*\*\*\*\*** |

1. **Preparation of Funds Flow Statement:**

The above three steps are incorporated in the preparation of funds flow statements. Sources of funds and decrease in the working capital are entered on the sources side. Application or uses of funds and increase in working capital are entered on the application side. This completes the preparation of funds flow statement.

**Funds Flow Statements**

|  |  |  |  |
| --- | --- | --- | --- |
| **Sources of funds** | **Rs** | **Application of Funds** | **Rs** |
| Issue of Shares and depenture | \*\*\*\* | Redemption of preference shares and depenture | \*\*\*\* |
| Raising of long term loans | \*\*\*\* | Repayments of loans | \*\*\*\* |
| Income from investments | \*\*\*\* | Purchase of long term investments | \*\*\*\* |
| Sale of fixed assets and long term investments | \*\*\*\* | Purchase of fixed assets | \*\*\*\* |
| Funds from operations | \*\*\*\* | Payment of taxes and dividends | \*\*\*\* |
|  |  | Drawings(in case of proprietary or partnership business) | \*\*\*\* |
|  |  | Loss of cash by embezzlement | \*\*\*\* |
|  |  | Funds lost in operations | \*\*\*\* |
|  | \*\*\*\*\*\* |  | \*\*\*\*\*\* |

**Meaning of Cash flow statements:**

A statement prepared from the historical data (i.e., income statements and balance sheet) showing sources and uses of cash is called cash flow statements. It reveals the inflow and outflow of cash during the particular period. Cash flow statement can be prepared for a year, half year, quarter or for any other duration. The term cash is used to refer bank balance also.

**Objectives:**

1. To show the causes of changes in cash balance between two balance sheet dates.
2. To indicate the factors contributing to the reduction of cash balance in spite of increase in profits and vice versa.

**Significance and uses of cash flow statement:**

Cash flow statements are of vital significance to the financial management. Its chief advantages are.

1. The cash flow statements explain the reasons for low cash balance in spite of huge profits or large cash balance in spite of low profits.
2. It helps in short – term financial decisions relating to liquidity.
3. It shows the major sources and uses of cash. The management with the aid of projected cash flow statement can know
   1. How much cash will be needed
   2. From which sources it can be obtained
   3. How much can be generated internally
   4. How much could be obtained from outside
4. It helps the management in planning the repayment of loans, replacement of assets, credit arrangement etc. it is also significance for capital budgeting decisions.
5. On the basis of past years cash flow statements projections can be made for the future. The projected cash flow statement helps in planning for the investment of surplus or meeting the deficit.
6. A comparison of actual cash flow statement with the projected cash flow statement helps in understanding the variations and control of cash expenditure.

**How cash flow statement differs from funds flow statement?**

The cash flow statement differs from funds flow statement in the following ways:

1. In a cash flow statement, only cash receipts and payments are recorded. But in a funds flow statement increase or decrease in working capital is recorded.
2. The cash flow statement indicates the causes for changes in cash position. On the other hand, a funds flow statement shows the cause of changes in working capital.
3. A cash flow statement is appropriate for short planning while funds flow statement is appropriate for long range planning.
4. Whenever there is inflow of cash there will definitely be inflow of funds. But it is not vice versa. Inflow of funds does not necessarily mean inflow of cash.
5. Cash flow statement starts with opening cash balance and closes with the closing cash balance. But there are no opening and closing balance in funds flow statement.

**Explain the procedure for the preparation of cash flow statement.**

Cash flow statement is usually prepared for one year on the basis of balance sheets and additional information. Preparation of cash flow statement involves the following steps.

1. **Opening of accounts for non-current items**

Accounts are prepared for non – current items to ascertain the source or application of funds. In the preparation of accounts for non – current items, additional information is to be considered. For example, the value of machinery (as per balance sheet) on 1st march 1999 and 31st march 2000 are Rs.20, 000 and 25, 000 respectively and depreciation charged during the year is Rs.5, 000; the accounts will appear as under:

**Machinery Account**

**Debit Credit**

|  |  |  |  |
| --- | --- | --- | --- |
| **Particulars** | **Rs** | **Particulars** | **Rs** |
| To Balance b/d | 40,000 | By Adjusted P & L a/c. (Depreciation) | 10,000 |
| **To Cash (?) (balancing figure)** | **20,000** | By Balance c/d | 50,000 |
|  | 60,000 |  | 60,000 |

The balancing figure reference purchasing of plant. It is an out flow cash. Thus by opening of accounts or by comparing non-current items, inflow and outflow of cash are found out.

1. **Preparation of Adjusted Profit and Loss Account**

The adjusted profit and loss account is prepared to ascertain cash trading profit. The regular profit and loss account shows only the net profit or loss. It does not show the cash profit realised by trading. Suppose, the net profit shown by profit and loss account is Rs.10, 000. if depreciation of Rs.5,000 had been charged and preliminary expenses written off were nRs.5,000, the cash trading profit would be Rs.20,000 (10,000+5,000+5,000). In the preparation of adjusted profit and loss account, the non-cash and non-operating items are alone taken into account. Non-cash item refer to expenses or income which do not cause any change in cash. (E.g. depreciation and preliminary expense written off, etc.) Non-operating items refer to expenses and income which are not directly related to operations of the company (e.g. dividend or interest received, refund of tax, profit or loss on sale of assets etc.) the balancing figure in the adjusted profit and loss account is either cash trading profit or cash trading loss.

1. **Comparison of current items to determine inflow or outflow of cash**

Individual current assets like stock, debtors, and prepaid expenses (except cash) are compared. Increase in current assets is taken as an outflow of cash and vice versa. For example, if stock shows an increase of Rs.5, 000 over the balance of the previous year, out flow of cash is Rs. 5,000.

Increase in current liabilities is taken as inflow of cash and vice – versa.

1. **Preparation of cash flow statement**

The above three steps are incorporated in the preparation of cash flow statement. Opening balance of cash and bank and sources of cash are entered on the inflow side. Uses or application of cash and closing balance of cash and bank are entered on the outflow side. This completes the preparation of cash flow statement.

**RATIO ANALYSIS MEANING**

The relationship between two figures expressed mathematically is called a ‘Ratio’. It is a numerical relationship between two numbers which are related in some manner. Ratio analysis is a technique of analysis and interpretation of financial statements. It is the process of determination and interpretation of various ratios for helping in decision making. Ratio analysis involves three steps.

1. Calculation of appropriate ratios from the financial statements.
2. Comparison of the ratios with standards or with ratios of the past period. Comparison can also be made with the ratios of other firms.
3. Interpretation of ratios.

**Significance and Uses**

Ratio analysis is a powerful tool of financial analysis. It is used as a device to analyses and interprets the financial health of a firm. Analysis of financial statements with the aid of ratios helps the management in decision making and control.

The use of ratio analysis is not confined to financial managers only. Different parties are interested in knowing the financial position of a firm for different purposes. Ratio analysis is used by creditors, banks, financial institutions, investors and shareholders. It helps them in making decisions regarding the granting of credit and making investments in the firm. Thus, ratio analysis is of immense use and has wide application.

**CLASSIFICATION OF RATIOS**

Accounting ratios can be classified in a number of ways. Important among them are stated below:

**1. Classification according to statements**

1. **Profit and Loss account ratios:** Ratios calculated on the basis of the items of the profit and loss account only e.g. gross profit ration, expenses ratio, net profit ratio etc.,
2. **Balance Sheet ratios:** Ratios calculated on the basis of the figures of the balance sheet only e.g. current ratio, quick ratio proprietary ratio etc.
3. **Composite ratios:** Ratios based on figures of profit loss account as well as the balance sheet e.g. debtors and creditors turnover ratio, return on capital employed etc.,
4. **Classification according to functions**
5. **Solvency ratios:** Short-term and Long-term solvency ratios. e.g., Current Ratio, Debt-Equity Ratio.
6. **Profitability ratios:** E.g. Gross profit ratio, Net Profit ratio, Operating profit ratio, Return on capital employed.
7. **Turnover or Activity ratios:** e.g. Stock turnover ratio, Debtors turnover ratio, Creditors turnover ratio.
8. **Capital structure ratio:** e.g. Capital gearing ratio.

**LIMITATION OF RATIOS**

Ratio analysis suffers from certain limitations. They are discussed below:

**1. Inadequacy of Standards:** Ratios are useful only if they are compared with some standards. But,

adequate standards like industry averages are not easily available.

**2. Limitation of Financial Statements:** Ratios are based only on the information recorded in the financial

statements. Financial statements suffer from a number of limitations. Hence, the ratios derived from

them are also subjective to those limitations.

**3. Ratios Alone are not adequate:** Ratios are only indicators. They cannot be taken as final regarding

good or bad financial position of the firm.

**4. Difficulty in Comparison:** In actual practice, it is difficult to have similar companies for comparison.

Even if similar companies are available, their accounting periods may differ. This makes inter-firm

comparison difficult.

**5. Problem of Price Level Changes:** Ratio analysis does not take into account the effects of changes in

price level. Because of this, interpretation of ratios becomes invalid.

**6. Window Dressing:** Financial statements can easily be window dressed to present a better picture of the financial and profitability positions.

**7. No Fixed Standards:** No fixed standards can be laid down.

**8. No Indicators of Future:** Ratios are generally calculated from past financial statements. Hence, they

are no indicators of the future.

**SHORT TERM FINANCIAL RATIOS**

**I. Liquidity Ratios:**

For the purpose of financial analysis, ratios are classified into liquidity ratios, solvency ratios, profitability ratios, activity ratios and capital structure ratios.

**1. Current Ratio:** Current Ratio is the relationship between current assets and current liabilities.

Current Assets

**Current Ratio =**

Current Liabilities

1. **Current Assets: Stock, Debtors, Cash in hand & bank, Bills receivable, Prepaid Expanses.**
2. **Current Liabilities: Creditors Bills Payable Bank Overdraft Proposed dividend**

**2. Quick Ratio or Liquid Ratio**

Quick Ratio is also called Acid-test ratio because it is the acid test of a concern’s financial soundness. It is the relationship between quick assets and quick liabilities. Quick assets are those assets which are readily converted into cash. They include cash and bank balances, bill receivable, debtors, short-term investments. Quick liabilities include creditors, bills payable, outstanding expenses.

**Quick assets**

**Quick Ratio =**

**Quick liabilities**

**Quick assets = Current assets – (Stock + Prepaid expenses)**

**Quick liabilities = Current liabilities – Bank overdraft**

A quick ratio of 1: 1 is considered satisfactory. The quick ratio supplements current ratio.

**LONG TERM FINANCIAL RATIOS**

**I. Solvency Ratios**

Solvency ratios assess the long-term financial condition of the firm. The following are the widely used solvency ratios

**1. Debt-Equity ratio**

The debt-equity ratio establishes the relationship between shareholders’ funds and outsiders’ funds. Outsiders’ funds include all long-term and short-term debts. Shareholders’ funds consist of preference share capital, equity share capita and reserves and surplus.

**Debt Outsiders’ funds**

**Debt – Equity ratio = (or)**

**Equity Shareholders’ funds**

**Long-term Debt**

**Debt – Equity ratio =**

**Shareholders’ funds**

**PROPRIETORY RATIO**

Proprietor Ratio is the relationship between proprietors’ funds and total tangible assets.

**Shareholders’ funds**

**Proprietor ratio =**

**Total tangible assets**

**PROFITABILITY RATIOS**

Profitability ratios measure the profitability of a firm’s business operations. These ratios may be related to sales (e.g. Gross profit ratio) or investments (e.g., Return on assets or Return capital employed).

**1. Gross Profit Ratio**

This ratio expenses the relationship between gross profit and net sales.

**Gross Profit**

**Gross Profit Ratio =**

**Sales**

**2. Net Profit Ratio**

This ratio measures the relationship between net profit and net sales.

**Net Profit**

**Net profit Ratio =**

**Sales**

**3. Operating Ratio**

Operating ratio matches cost of goods sold and other operating expenses with sales.

**Cost of goods sold + operating expenses**

**Operating Ratio =**

**Sales**

**4. Return on Capital Employed**

Return on capital employed establishes the relationship between profits and the capital employed. It is most widely used to measure the overall profitability and efficiency of the business.

**Net Profit + Interest + Taxes**

**Return on capital employed = x 100**

**Average Capital Employed**

**(Or) Capital Employed**

**Capital employed = Fixed Assets + Current assets – Current Liabilities**

**(Or)**

**Shareholders’ Funds + Long term liabilities**

**TURNOVER RATIOS (or) EFFICIENCY RATIO**

An activity ratio measures the efficiency of asset management. The efficiency in (asset utilization) the use of assets would be reflected by the speed with which they are converted into sales. Activity ratios indicate the relationship between sales and various assets of the firm.

**1. Stock (or Inventory) Turnover Ratio**

This ratio indicates the number of times stock is turned over (or re-placed) during a year. A high ratio indicates quick movement of stock and vice versa.

**Cost of goods sold**

**Stock turnover ratio =**

**Average Stock**

**2. Debtors turnover Ratio**

This ratio shows, on an average, the number of times debtors are turned over during a year. A higher ratio indicates efficiency in asset management and vice versa.

**Credit Sales**

**Debtors turnover Ratio =**

**Debtors**

**Average Collection Period**

This ratio indicates the speed with which debtors/accounts receivable are collected. It shows the number of days taken to collect money from debtors.

**Debtors + Bills Receivable**

**Average collection Period =**

**Credit Sales**

**3. Creditors turnover ratio**

This ratio shows, on an average the number of time creditors are turned over during a year. A higher ratio indicates quick settlement of dues and a lower ratio reflects liberal credit terms granted by suppliers.

**Credit Purchases**

**Creditors turnover ratio =**

**Creditors**

**Average Payment Period:** It refers to the number of days taken by the firm to pay its creditors.

**Creditors + Bills Payable**

**Average collection Period = x No. of working days**

**Credit Purchases in a year**

Generally, lower the ratio, the better is the liquidity position of the firm.

**4. Fixed Assets Turnover Ratio**

Fixed assets turnover ratio explains, the relationship between equity shareholders’ funds on he one hand and preference share capital and fixed interest bearing loan on the other.

**Sales**

**Fixed assets turnover ratio =**

**Net Fixed assets**

**CAPITAL STRUCTURE RATIOS**

**Capital Gearing Ratio:** The Ratio explains the relationship between equity shareholders’ funds on the one hand and preference share capital and fixed interest bearing loan on the other.

**Preference share capital + Fixed interest securities**

**Capital gearing ratio =**

**Equity shareholders’ funds**

**BUDGETARY CONTROL**

# Meaning and Definition

**Budget:** A budget is the monetary and/or quantitative expression of business plans and policies to be pursued in the future period of time. Budgeting is preparing budgets and other procedures for planning, coordination and control of business enterprise.

I.C.M.A. defines a budget as “A financial and /or quantitative statement, prepared prior to a defined period of time, of the policy to be pursued during that period for the purpose of attaining a given objective.”

As per the above definition, the essential features of a budget are:

1. A budget is a financial statement but it can be a statement of quantities also with or without monetary data:
2. Budget is prepared for a particular period and it is prepared in advance.
3. Budget is a detailed plan of the policy to be pursed during the period for which the budget is prepared.
4. The function of the budget is to attain a specific objective.

# Budgetary Control

Budgetary control is the process of preparation of budgets for various activities and comparing the budgeted figures for arriving at deviations if any, which are to be eliminated in future. Thus budget is a means and budgetary control is the end result. Budgetary control is a continuous process, which helps in planning and coordination. It also provides a method of control.

### Definition

According to Brown and Howard” Budgetary control is a system of coordinating costs, which includes the preparation of budgets. Coordinating the work of departments and establishing responsibilities, comparing the actual performance with the budgeted and acting upon results to achieve maximum profitability”.

### Objectives of Budgetary Control

Budgetary control is inevitable for policy formulation, planning, control and coordination. The essence of budgeting is to plan and control. Following are the main objectives of budgetary control.

1. Planning: Budgeting ensures effective planning by setting up of budgets.
2. Coordination: Budgets are helpful in coordination of business activities.
3. Efficiency and Economy: Effective budgetary control results in cost control and cost reduction.
4. Increase in Profitability: Costs are controlled with help of budgets and profits targeted are achieved.
5. Anticipation of future capital expenditure: Estimated increases in sales necessitating higher production capacity provides advance warning for the possible capital expenditure in near future.
6. Control: Controlling function is made to be effective as the control is centralized while budgets are prepared and implemented.
7. Deviations: Ascertainments of deviations is essential to fix responsibility and correct the deviations as far as possible.

# Advantages of Budgetary Control

1. **Maximisation of Profits:**

Budgetary control aims at increasing the overall profits of the organization. This is achieved through planning, coordination and control of various activities in a programmed manner.

1. **Effective Coordination:**

Performance and working of various activities is effectively coordinated through budgetary control. Budgets of the various functions are interlinked and dependent. Effective implementation of budgets depends on cooperation of concerned personnel of various departments.

1. **Evaluation of Executive Performance:**

Goals are set for each department. Actual performance is compared with standards and deviations are reported to top management for action against unfavorable deviations.

1. **Clear-cut Goals and Targets:**

Through the process of budgeting the goals of different departments are set in advance in consultation with those in charge of them.

1. **Economy in Operations:**

Expenses are properly planned and financial resources are put to optimum use. The benefits are extended to the industry and then to national economy.

# Limitations of Budgetary Control

1. **Prediction of uncertain future:**

Budgeting is a process of forecasting and estimation. Forecasting may not be accurate. Therefore budgets based on inaccurate forecasts and estimates may not be accurate and effective.

1. **Changes of Conditions:**

Budgets are prepared on the basis of certain prevailing conditions. If the conditions change budgets are also to be revised.

1. **Complacence:**

General tendency of employees is to achieve the targets as budgeting fixes the targets. Some of the employees who are highly skillful may also be satisfied in performing up to the goals set without showing full potential, which will be a loss to the enterprise as well as the employee in terms of productivity.

1. **Difficulty in Coordination:**

Effective implementation of budgetary control depends upon proper coordination among various departments as the performance of a department depends on the work of other departments and vice versa.

1. **Conflict among Different Departments:**

Budgetary control sets targets for different departments individually. This will make the departmental heads to be selfish to get maximum funds and think in terms of achieving their own set targets, thereby raising conflict among different departments.

# Essentials of Successful Budgetary Control

1. **Top Management Support:**

The budgetary control system should have continuous support of top management, which can ensure it’s all round acceptances.

1. **Clearly defined Organizational Structure:**

The authority and responsibilities are to be properly defined to pinpoint the responsibility of specific individuals in key positions.

1. **Efficient Accounting System:**

The accounting system should provide the required information in time.

1. **Reporting of Deviations:**

Efficient system has to be devised to reduce the differences between the budgets and actual performance.

1. **Motivation:**

Staff is to be appraised of the budgets and benefits they are going to derive directly and indirectly.

1. **Realistic Targets:**

The targets set should be realistic so that they are achievable and budgets should not frustrate the workers by fixing unrealistic targets.

1. **Participation of all Departments Concerned:**

Budgets are to be set for all the departments so that their participation in implementation will be effective.

1. **Flexibility:**

Budgets are prepared on the basis of certain conditions. If there is change in conditions budgets also should be adjusted to accommodate the changes.

Types of Budgets

**(1) Sales Budget:**

In the budgeting process, a sale is a starting point, as sales are the key factor in many cases.

W.W.Bigg Writes, “This is probably most important budget, as it is usually the most difficult of forecast to attain”.

The sales budget is generally prepared by the sales manager of the concern. This budget is prepared by taking general factors into account like policies relating to the prices, economic situation, intensity of competition, substitutes for the products, discounts and other terms and offers made. The sales budget includes:

* 1. Sales quantities
  2. Territory-wise or area –wise analysis
  3. Cost of sales promotion
  4. Methods adopted for increasing sales.

**(2) Production Budget:**

This budget is based on sales budget, unless production itself is the key-factor. It shows the budgeted quantity of output to be produced during a specific period. It has two parts, one showing the output for the period and the other showing production costs. The following key elements are considered while preparing the production budget.

(1) Production Planning

(2) Volume or Quantity of Output

(3)Quantities of Stocks:

(4) Coordination with Sales Budget

Preparation of effective production budget is helpful in

(a) Minimization of wastage, spoilage, defectives,

(b) Avoidance of overstocking,

(c) Production of required quantities at the right time as per schedule.

**Cash Budget:**

Cash budget is an important budget. It estimates the amount of cash receipts and payments and the balance of cash or estimates of cash showing what funds would be available at what times and whether the funds available would meet requirements. The objective of cash budget is to provide for all cash requirements in time and avoid accumulation of excess cash.

**Flexible Budget:**

Flexible budget is designed to change according to the level of activity.

Flexible budget has been defined by I.C.M.A. U.K. as “a budget, which, by recognizing the difference between fixed, semi fixed and variable costs, is designed to change in relation to the level of activity”. Costs of various levels can be easily obtained, price fixation and estimation of profit at different levels of activity is made easy.

**PREVIOUS YEAR QUESTION PAPER**

**SECTION A – (10\*2=20)**

1. What is financial statement analysis?
2. Write any two functions of management accounting.
3. What is the item of sources of funds?
4. Calculate P.V. ratio. Sales Rs. 30,000; Variable overheads Rs. 10,000.
5. Find out current assets and current liability when current ratio is 2:4 and working capital Rs. 1,40,000.
6. What is Break Even Point?
7. Define budgetary control.
8. What is standard costing?
9. Write a short note on net present value.
10. Mention the different methods of discounted cash flow method.

**SECTION B – (5\*5=25)**

1. Explain the characteristics of management accounting. **(OR)**

Differentiate between cost and management accounting.

1. From the following calculate cash from operations: Net profit for the year 2017 Rs. 30,000; Total sales for 2017 Rs. 60,000; Debtors on 1.1.2017 Rs. 20,000; Debtors on 31.12.2017 Rs. 10,000. **(OR)**

Find out funds from operations: Proposed dividend 31.3.2014 Rs. 50,000 31.3.2015 Rs. 70,000; Goodwill write off 31.3.2014 Rs. 10,000 31.3.2015 Rs. 5,000; P & L a/c 31.3.2014 Rs. 2,00,000 31.3.2015 Rs. 3,00,000.

1. From the following details. Calculate Gross profit ratio, and Net profit ratio Expenses ratio. Sales Rs. Sales Rs. 3,50,000; Cost of Goods sold Rs. 1,50,000; Administration expenses Rs. 50,000; Selling expenses Rs. 10,000. **(OR)**

Find out debtors turnover ratio: Annual credit sales Rs. 25,000; Returns Rs. 1,000; Debtors Rs.3,000; Bills receivables Rs. 1,000

1. You are required to prepare a production budget for the year ending june 2016 from the following information:

|  |  |  |  |
| --- | --- | --- | --- |
| **Product** | **Budgeted sales** | **Actual stock on 31.12.2015** | **Desired stock on 30.6.2016** |
| X | 20,000 | 4,000 | 5,000 |
| Y | 50,000 | 6,000 | 10,000 |

**(OR)** Calculate: i) Material cost variance ii) Material price variance iii) Material mix variance iv) Material utility variance.

|  |  |  |
| --- | --- | --- |
|  | **Standard** | **Actual** |
| Quantity | 400 kgs | 460 kgs |
| Price | Rs. 2 Per kg | Rs. 1.5 Per kg |
| Value | Rs. 800 | Rs. 690 |

1. A project requires investment of Rs. 10, 00,000 and has an expected life of 5 years. It is estimated to yield Rs. 3, 00,000 P.A before depreciation and tax (Tax rate 50%) ascertain payback period.

**(OR)** Discuss the methods of capital budgeting.

**SECTION C – (3\*10=75)**

1. Explain the advantages and disadvantages of management accounting.
2. Statement of financial position of Mr. Murugan is given below:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Liabilities** | **1.1.2015**  **Rs** | **31.12.2015**  **Rs** | **Assets** | **1.1.2015**  **Rs** | **31.12.2015**  **Rs** |
| Capital  Creditors | 7,50,000  29,000  7,79,000 | 6,25,000  25,000  6,50,000 | Cash  Debtors  Stock  Building  Fixed assets | 51,000  20,000  8,000  1,00,000  6,00,000  7,79,000 | 40,000  17,000  13,000  80,000  5,00,000  6,50,000 |

1. From the following information, prepare a balance sheet:
2. Working capital Rs. 75,000 b) Reserve and surplus Rs 1,00,000 c) Bank overdraft Rs 60,000 d) Current ratio Rs. 1.75 e) Liquid ratio Rs. 1.75 f) Fixed assets to proprietor’s fund Rs. 0.75 g) Log term liabilities Rs Nil
3. From the following data for a 60 % activity prepare a flexible budget for production at 80% and 100% activity.

Production at 60% activity – 600 units; Martial- 100 per unit; Labour – 40 per unit; Expanses - 10per unit; Administrative expenses Rs. 30,000 (60% fixed); Factory expenses Rs. 40,000 (40% fixed)

1. Based on payback period and accounting rate of return, select the best machine from the following machine.

|  |  |  |
| --- | --- | --- |
| **Particulars** | **Machine X** | **Machine Y** |
| Estimated life of machine  Cost of machine  Estimated savings in scrap  Additional cost of maintenance  Additional cost of supervision  Ignore taxation | 4 years  Rs. 18,000  1,000  12,000  1,600  2,400 | 5 years  36,000  1,000  16,000  2,000  3,600 |

**PREVIOUS YEAR QUESTION PAPER**

**SECTION A – (10\*2=20)**

1. Define ratio analysis.
2. List any two functions of management accounting.
3. State the sources of funds.
4. What are the uses of a funds flow statements?
5. Mention the different methods of cash budget.
6. What is standard costing?
7. Give the formula for margin of safety.
8. Write any two types of variance.
9. What is meant by average rate of return?
10. Calculate Net Present Value: Total present value of cash inflow Rs. 1,00,000, initial investment Rs. 80,000

**SECTION B – (5\*5=25)**

1. What are the limitations of management accounting? **(OR)**

From the following particulars calculate the stock turnover rations: i) Opening stock Rs. 40,000; ii) Closing stock Rs. 44,000; iii) Sales Rs. 4,15,000;iv) Gross profit ratio 20%.

1. Calculate cash from operation: Net profit Rs.1,00,000; Depreciation on building Rs.14,000; Depreciation on machinery Rs. 5,000; Preliminary expenses Rs. 5,000; Provision for tax Rs. 10,000; Good will Rs.5,000; Gain on sale of building Rs.8,000 **(OR)**

What do you mean by funds from operation? How is it calculated?

1. Prepare production budget for the following information:

|  |  |  |
| --- | --- | --- |
| **Particulars** | **Product S** | **Product T** |
| Budgeted sales in units  Actual stock on 31.12.2014  Desired stock on 30.06.2015 | 20,000  4,000  5,000 | 50,000  6,000  10,000 |

**(OR)** State the different types of budgets.

1. From the following information, calculate the breakeven point units and in value. Output 3,000 units; Selling price per unit Rs. 30; Variable cost per unit Rs. 20; Total fixed cost Rs. 20,000.

**(OR)** From the following calculate break even sales value. Output 9,000 units; Selling price Rs. 60 unit, Variable cost Rs. 40 unit; Total fixed cost Rs. 40,000.

1. Calculate payback period for a project which required an investment of Rs. 10,000 and generate cash inflow of Rs. 2,000, Rs. 4,000, Rs. 3,000 and Rs. 2,000 in the first, second, third and fourth year respectively. **(OR)**

Explain the methods of capital budgeting.

**SECTION C – (3\*10=75)**

1. Discuss the various techniques of financial statement analysis.
2. From the following balance sheet prepare funds flow statements.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Liabilities** | **2018** | **2019** | **Assets** | **2018** | **2019** |
| Share capital  P& L a/c  Current liabilities | 60,000  34,000  12,000  1,06,000 | 65,000  26,000  3,000  94,000 | Goodwill  Plant  Current Assets | 30,000  60,000  16,000  1,06,000 | 25,000  50,000  19,000  94,000 |

Additional information:

1. Depreciation of Rs. 20,000 on plant was charged to P & L a/c
2. Dividends of Rs. 12,000 were paid during the year.
3. Prepare a cash budget for the period of April to June 2009 from the data:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Month** | **Feb** | **Mar** | **Apr** | **May** | **June** |
| Credit sales (Rs.)  Purchase (Rs.)  Wages (Rs.) | 1,80,000  1,24,800  12,000 | 1,92,000  1,44,000  14,000 | 1,08,000  2,43,000  11,000 | 174,000  2,46,000  10,000 | 1,25,000  2.68,000  15,000 |

1. 50% of credit sales realized in next month and remaining sales in the second month.
2. Creditors are paid in the month following the purchase.
3. Cash at bank on 1st April Rs. 25,000.
4. From the following information calculate:
5. P/V ratio b) Breakeven point c) Margin of safety , Total sales Rs. 3,60,000, Selling price Rs. 100 unit, variable cost Rs. 50 unit, Fixed cost Rs. 1,00,000. d) If the selling price is reduced to Rs. 90, by how much is th margin of safety is reduced?
6. Calculate discounted payback period from the details given below: cost of project Rs. 6,00,000, list of the project 5 years, annual cash inflow Rs. 2,00,000, cut off rate 10%

|  |  |
| --- | --- |
| **Year** | **Discounting factor** |
| 1  2  3  4  5 | 0.909  0.826  0.751  0.683  0.621 |

**PREVIOUS YEAR QUESTION PAPER**

**SECTION A – (10\*2=20)**

1. What is the need of management accounting?
2. What is meant by comparative statement?
3. Define – ‘Working capital’.
4. What is fund from operation?
5. What do you mean by marginal costing?
6. What is a solvency ratio?
7. Write the meaning of budgetary control.
8. What is standard costing?
9. State the meaning of NPV.
10. Bring out the concept of capital budgeting.

**SECTION B – (5\*5=25)**

1. Explain the difference between management accounting and financial accounting. **(OR)**

Prepare the common size profit and loss a/c from the following profit and loss a/c.

|  |  |  |  |
| --- | --- | --- | --- |
| **Dr** | **Rs** | **Cr** | **Rs** |
| To Material cost  To Labour cost  To administrative expenses  To Net profit c/d | 6,00,000  5,00,000  4,50,000  3,00,000  18,50,000 | By Sales | 18,50,000  18,50,000 |

1. From the following find out cash from operations:

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Rs** |  | **Rs** |
| To Salaries  To rent  To Depreciation  To loss on sale of plant  To Good will written off  To Proposed dividend  To Provision for taxation  To net profit | 2,500  500  1,000  500  2,000  2,500  2,500  5,000  16,500 | By Gross profit  By Profit on sale of land  By income tax refund | 12,500  2,500  1,500  16,500 |

**(OR)**

From the following information, you are required to forecast the working capital requirements.

Projected annual sales Rs. 65,00,000; Net profit on cost of sales 25%; Average credit allowed to debtors 1o weeks; Average credit allowed by creditors 4 weeks; Average stock 8 weeks; Allow 10% for contingencies

1. From the following data, calculate current ratio. Liquid assets Rs. 1,00,000; Stock Rs. 90,000; Working capital Rs. 1,50,000; Prepaid Expenses Rs. 60,000.

**(OR)**

From the following data, determine the breakeven point. Fixed over heads Rs. 25,000; Variable cost Rs. 10 per unit; Selling price Rs. 15 per unit

1. Prepare a production budget for the month of January 2018**.**

|  |  |  |  |
| --- | --- | --- | --- |
| **Product** | **Estimated stock on 1.1.2018 (units)** | **Estimated sales during Jan 2018 (units)** | **Desired closing stock on 31.1.2018 (units)** |
| A  B  C  D | 8,000  12,000  16,000  12,000 | 40,000  60,000  52,000  48,000 | 12,000  20,000  12,000  8,000 |

**(OR)** Product ‘A’ requires 10 kg of material at the rate of Rs. 4 per kg. The actual consumption of material for the manufacturing of product ‘A’ came to 12 kg of material at the rate of Rs. 4.50 per kg. Calculate: i) Material cost variance ii) Material usage variance iii) Material price variance.

1. Calculate the payback period for a project. Cash outlay – Rs. 2, 00,000. Cash inflow: I year – Rs. 80,000; II year – Rs. 40,000; III year – Rs. 70,000; IV year – Rs. 30,000; V year – Rs. 10,000.

**(OR)** What are the importance of capital budgeting?

**SECTION C – (3\*10=75)**

1. Explain the objectives of management accounting.
2. From the following balance sheet prepare a funds flow statement

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Liabilities** | **2017**  **Rs** | **2018**  **Rs** | **Assets** | **2017**  **Rs** | **2018**  **Rs** |
| Share capital  Reserve  P & L a/c  Creditors  Bills payable  Provision for taxation  Provision for doubtful debts | 1,00,000  14,000  16,000  8,000  1,200  16,000  400  1,55,600 | 1,00,000  18,000  13,000  5,400  800  18,000  600  1,55,800 | Goodwill  Building  Plant  Investments  Stock  Bills receivable  Debtors  Cash | 12,000  40,000  37,000  10,000  30,000  2,000  18,000  6,600  1,55,600 | 12,000  36,00  36,000  11,000  23,400  3,200  19,000  15,200  1,55,800 |

1. Depreciation on plant was Rs. 4,000 and on building Rs. 4,000
2. Provision for taxation of Rs. 19,000 was made during the year
3. Interim dividend Rs. 8,000 was paid during the year.
4. The trading results of a company for two periods.

|  |  |  |
| --- | --- | --- |
| **Year** | **Total cost (Rs)** | **Total Sales (Rs)** |
| 2015  2016 | 80,000  90,000 | 1,00,000  1,20,000 |

Find out: a) Profit volume ratio b) BEP Sales c) Fixed cost d) Margin of safety in the year 2016.

1. A company is expecting to have Rs. 25,000 cash in hand on 1.4.2015 and it requires you to prepare cash budget for 3 months. (April to June 2015)

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Months 205 | Sales Rs | Purchase Rs | Wages Rs | Expenses Rs |
| Feb  Mar  Apr  May  Jun | 70,000  80,000  92,000  1,00,000  1,20,000 | 40,000  50,000  52,000  60,000  55,000 | 8,000  8,000  9,000  10,000  12,000 | 6,000  7,000  7,000  8,000  9,000 |

Other information:

1. Period of credit allowed by suppliers 2 months
2. 25% of sale is for cash and the period of credit allowed customers for credit sale is one month
3. Delay in payment of wages and expenses one month
4. Income tax Rs. 25,000 is to be paid in June 2015
5. Calculate the net present value from the following data.

|  |  |  |
| --- | --- | --- |
| **Year** | **Outflows**  **Rs** | **Inflows**  **Rs** |
| 0  1  2  3  4  5 | 1,50,000  30,000  -  -  -  - | -  20,000  30,000  60,000  80,000  70,000 |

The company’s required rate of return is 10%.

**PREVIOUS YEAR QUESTION PAPER**

**SECTION A – (10\*2=20)**

1. What is liquid ratio
2. Mention the use of trend percentages.
3. Why do you prepare fund flow statement?
4. How do you calculate working capital?
5. What is flexible budget?
6. Define budgetary control.
7. What do you know about breakeven point?
8. What is labour variance?
9. Explain the terms NPV and IRR.
10. List out any two merits of payback period method.

**SECTION B – (5\*5=25)**

1. Calculate gross profit ratio from the following details. Sales Rs. 2,20,000; Sales returns Rs. 20,000; Purchase Rs. 1,75,000; Purchase returns 15,000; Opening stock Rs. 30,000; Closing stock Rs. 40,000 **(OR)** From the following information find out current assets. Current ratio – 2.5; Liquid ratio - 1.5; Working capital – Rs. 90,000.
2. Mention the need for working capital management. **(OR)**

From the given balance sheets prepare schedule of changes in working capital.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Liabilities** | **2018 (Rs)** | **2019 (Rs)** | **Assets** | **2018 (Rs)** | **2019 (Rs)** |
| Share capital  Creditors  P&L a/c | 4,00,000  1,06,000  14,000  5,20,000 | 5,75,000  70,000  31,000  6,76,000 | Plant  Stock  Debtors  Cash | 75,000  1,21,000  1,81,000  1,43,000  5,20,000 | 1,00,000  1,36,000  1,70,000  2,70,000  6,76,000 |

1. What are the advantages of standard costing? **(OR)**

Larsen ltd. Plans to sell 1,10,000 units of a certain product line in the first fiscal quarter, 1,20,000 units in the second quarter, 1,30,000 units in the third quarter and 1,50,000 units in the fourth quarter and 1,40,000 units in the first quarter of the following year. At the beginning of the first quarter of the current year, there are 14,000 units of product in the stock. At the end of each quarter, the company plans to have an inventory equal to 1/5 of the sales for the next fiscal quarter. Prepare a production budget to find out the number of units to be manufactured in each quarter of the current year.

1. Give the uses of marginal costing. **(OR)**

Product X requires 20 kgs. Of material at Rs. 4 per kg. The actual consumption of material for the manufacturing of product X came to 24 kgs. Of material at Rs. 4.50 per kg. Calculate material cost variance, material price variance and material usage variance.

1. Discuss the importance of capital budgeting. **(OR)**

Find out internal rate of return from the following particulars: Initial investment Rs. 4, 00,000. Life of the asset – 4 years. The cash inflows during four years were Rs. 1, 00,000; Rs. 1, 20,000; Rs. 1, 50,000 and Rs. 1.80,000. The discount rates are given below:

|  |  |  |  |
| --- | --- | --- | --- |
| **Year** | **12%** | **14%** | **15%** |
| 1  2  3  4 | 0.892  0.797  0.711  06.35 | 0.877  0.769  0.674  0.592 | 0.869  0.756  0.657  0.571 |

**SECTION C – (3\*10=75)**

1. Prepare a comparative income statement from the following: (Rs. In Laks)

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Particulars** | **2009 (Rs)** | **2010 (Rs)** | **Particulars** | **2009 (Rs)** | **2010 (Rs)** |
| To cost of goods sold  To Operative Expenses:  Administrative Expenses  Selling Expenses  To Net profit | 500  20  30  15  700 | 640  20  40  200  900 | by Sales | 700  700 | 900  900 |

1. Make a comparison between fund slow statement and cash flow statement.
2. From the following information, prepare a cash budget for the month of June, 2009:

* Expected sales: Apr, 2009 – Rs. 2.00.0000; May, 2009 – Rs. 2,20,000; June, 2009 – Rs. 1,90,000. Credit allowed to customers is 2 months and 50% of the sales of every month are on cash basis.
* Estimated purchase: May, 2009 – Rs. 1,20,000; June, 2009 – Rs. 1,10,000. 40% of the purchase of every month is on cash basis and the balance is payable next month.
* Rent Rs. 2,000 is payable every month.
* Time lag in payment of overhead is ½ month. Overhead for May, 2009 – Rs. 12,000; June, 2009 – Rs. 11,000.
* Depreciation for the year is Rs. 12,000
* Interest receivable on investment during June and December is Rs. 3,000 each.
* Tax payable during April, 2009 is Rs. 10,000.

Estimated cash balance as on 01-06-2009 is Rs. 42,000

1. A ball point pen manufacturer has developed a new ball pens with unique features. His design development executive has suggested three possible retail prices Vi Rs. 15 for super star; Rs. 10 for Deluxe and Rs.7.50 for economy model. His marketing manager opines that the wholesalers and retailers have to be given at least 30% discount. The estimated fixed cost is Rs. 70,000 and variable cost per unit would be Rs. 3.50.

* Calculate breakeven point for each model of ball pen.
* How much should the manufacturer sell in order to make a profit of Rs. 21,000? Work out for each model of ball pen

1. A project cost Rs. 5, 00,000 and gives a profit of Rs. 80,000 after depreciation at 12% p.a. but before tax of 50%. Calculate payback period.

**PREVIOUS YEAR QUESTION PAPER**

**SECTION A – (10\*2=20)**

1. What are trend percentages?
2. State the objective of management accounting.
3. How do you calculate working capital?
4. What is cash flow statement?
5. What is breakeven point?
6. Give the formulae for calculating current ratio.
7. List out the essential features of a budget.
8. What is material variance?
9. Define normal rate of return.
10. What do you mean by capital budgeting?

**SECTION B – (5\*5=25)**

1. List out the objectives of financial statement analysis. **(OR)**

Make a trend analysis for the following data.

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | **2011** | **2012** | **2013** | **2014** | **2015** | **2016** | **2017** |
| Sales | 2,00,000 | 2,50,000 | 1,50,000 | 3,00,000 | 4,00,000 | 4,50,000 | 5,00,000 |

1. Point out the limitations of fund flow statement. **(OR)**

From the following profit and loss a/c, calculate cash from operations:

To Salaries Rs. 1,000; To Rent Rs 1,200; To Depreciation Rs 800; To Loss on sale of plant Rs 200; To goodwill written off Rs 500; To Proposed dividend Rs 500; To Provision for tax Rs 1,000; To Net profit Rs. 1,000; By Gross profit Rs. 5,000; By Profit on sale of land Rs. 600; By Income tax refund Rs. 700.

1. Find out fixed expenses from the following details:
2. Sales – Rs. 2,50,000 ii) Direct material – Rs. 80,000 iii) Direct labour – Rs. 50,000 iv) Variable overheads – Rs. 20,000 v) Profit – Rs. 60,000

**(OR)** Calculate current assets and current liabilities from the following details:

i)Current ratio – 2.5 ii) Working capital – Rs. 90,000

1. Calculate material cost variance from the following:
2. Material – 5 per kg ( standard cost per kg)
3. Standard price – Rs 5 per kg (standard cost per kg) the actual production is 400 units. Material used is 2,200 kgs. Price of the material is Rs. 4.50 per kg

**(OR)** Prepare materials purchase budget for material – A and material – B from the given details:

Estimated production (finished product) – 54,000 units; Estimated opening stock (material – A) – 12,000 units; Estimated opening stock (material – B) – 15,000 units; Desired closing stock (material – A) – 13,000 units; Desired closing stock (material – B) – 16,000 units. Assume that each unit of finished product requires 2 units of material – A and 3 units of material – B.

1. List out various methods of capital budgeting. **(OR)**

Calculate NPV from the following:

i)Capital investment – Rs. 2,00,000; ii) Cash inflow: First year – Rs. 2,00,000; Second year – Nil; Third year – Nil; iii) Discount factors at 10% are 0.909, 0.826and 0.751 respectively for first 3 years.

**SECTION C – (3\*10=75)**

1. Prepare a common size balance sheet from the following (Rs. In Lakh)

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Liabilities** | **31.12.2018 Rs** | **31.12.2019 Rs** | **Assets** | **31.12.2018 Rs** | **31.12.2019 Rs** |
| Bills payable  Tax payable  Creditors  15% Debentures  10% Preference shares  Equity capital  Reserves | 50  100  150  100  200  300  200  1,100 | 75  150  200  150  200  300  250  1,325 | Cash  Debtors  Stock  Land  Building  Plant  Furniture | 50  300  100  100  250  200  100  1,100 | 70  450  200  120  225  180  80  1,325 |

1. Prepare a fund flow statement from the following:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Liabilities** | **31.12.2018 Rs** | **31.12.2019 Rs** | **Assets** | **31.12.2018 Rs** | **31.12.2019 Rs** |
| Equity capital  General reserve  P & L a/c  Creditors  Tax provision | 1,000  200  300  300  300  2,100 | 2,000  400  400  500  400  3,700 | Plant  Debtors  Stock  Cash | 900  400  400  400  2,100 | 1,700  1,000  700  300  3,700 |

1. Depreciation on plant is at Rs. 3000
2. Provision for tax is Rs. 350
3. Interim dividend paid Rs. 250
4. From the following details related to two companies find out breakeven point of each company both in units as well as in volume.

|  |  |  |
| --- | --- | --- |
| **Particulars** | **X ltd Rs** | **Y ltd Rs** |
| Units produced and sold (units)  Revenues  Fixed costs  Operating income  Variable cost | 17,000  1,70,000  85,000  51,000  34,000 | 17,000  1,70,000  34,000  51,000  85,000 |

1. What are types of budgets under functional basis?
2. A project cost Rs. 5, 00,000. It yields annually a profit of Rs. 80,000 after 12% depreciation p.a but before 50% tax. Calculate payback period.

**\*\*\*\*\*\*\*\*\*\* ALL THE BEST \*\*\*\*\*\*\*\*\*\***