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JE – 2260

I Semester MBA (Day)/II Sem. MBA (Eve.) Degree Examination, Sept./October 2003
(New Scheme)
MANAGEMENT (Paper – 1.5)
Accounting for Management

Time : 3 Hours

Max. Marks : 75

Instruction : As per the question paper,
Section A six questions out of nine each carries 2 marks.
Section B 4 out of six questions each carries 5 marks.
Section C 3 out of 5 and each carries 10 marks and
Section D is compulsory.

SECTION – A

1. Answer any six questions from this Section. Each question carries 2 marks. (6×2=12)

   a) What is P/V ratio ?

   b) What is Business Entity Concept ?

   c) What are make or buy decisions ?

   d) What is ROI ?

   e) What are accounting standards ?

   f) What is composite ratio ?

   g) What is activity based costing ?

   h) What is margin of safety ?

   i) Explain gross working capital and net working capital.

SECTION – B

Answer any four questions from this Section. Each question carries 5 marks. (4×5=20)

2. Distinguish between standard costing and budgetary control.

3. What are the generally accepted accounting concepts ?

4. "The effect of a price increase is always to increase the P/V ratio, to bring down the break even point and to widen the margin of safety" - Discuss.

5. The following particulars relate to ABC limited involved in manufacturing x and y products. Prepare a statement showing cost and profit per unit sold.

	Product x	**Product y**
	Rs.	**Rs.**
Material	35,000	1,20,000
Labour	17,000	66,000

P.T.O.

Works overhead is charged at 70% on labour and office overhead is taken at 20% on works cost. The selling price of x is Rs. 1,000 and that of y is Rs. 600. Product x sold were 80 and that of y were 575. The selling expenses of each product was Rs. 5.

6. Prepare the process account from the following :

	Process X
	Rs.
Material	60,000
Labour	20,000
Overheads	14,000
Direct expenses	3,000
Inputs (units)	20,000
Output (units)	17,500
Normal loss	10%
Sale value of scrap (per unit)	Rs. 2

7. The following was the expenditure on a contract for Rs. 6,00,000 commenced in Feb. 2002.

	Rs.
Materials	1,20,000
Wages	1,64,000
Plant	20,000
Office expenses	8,600

Cash received on contract on 31-12-2002 amounted to Rs. 2,40,000 being 80% of work certified. The value of materials on hand on 31-12-2002 was Rs. 10,000. Plant is to be depreciated at 10% per annum. Prepare the contract a/c for 2002 showing the profit to be credited to the year's P&L A/c.

SECTION – C

Answer any three questions from this Section. Each question carries 10 marks. (3×10=30)

8. From the following information you are required to prepare a Balance Sheet :

Current ratio	1.75
Liquid ratio	1.25
Stock turnover ratio	9
Gross profit ratio	25%
Debt collection period	$1\frac{1}{2}$ months
Reserves and surplus	
To capital	0.2
Turnover of fixed assets	1.2
Capital gearing ratio	0.6
Fixed assets to net worth	1.25
Sales for the year	Rs. 12,00,000

9. Discuss the various methods of Inventory valuation.

10. K B U Corporation provides air transport services for short distances. It acquired an air craft costing Rs. 10,00,00,000. The aircraft was expected to last 50,000 flying - hours with an estimated residual value of Rs. 40,00,000. At the beginning of year 4, the company carried out a modification to the aircraft engine at a cost of Rs. 80,00,000. At that time, the aircraft had completed 30,000 flying - hours.

As a result of the modification, the aircraft has a remaining useful life of 30,000 flying - hours and an estimated residual value of Rs. 75,00,000. In the year 4, the aircraft flew 8,000 hours.

A. Prepare journal entries to record the cost of the modification and depreciation expense for the year 4.

B. Assume that the modification was not carried out. In the beginning of year 4, the aircraft was estimated to have a remaining useful life of 10,000 flying -hours and a residual value of Rs. 40,00,000. In the year 4, the aircraft flew 8,000 hours. Calculate depreciation for the year 4.

11. From the following you are required to :

i) Find the P/V Ratio, B.E.P., and margin of safety.

ii) Calculate the revised P/V ratio, B.E.P., and margin of safety in each of the following cases :

a) Decrease of 10% of selling price

b) Increase of 10% variable cost.

c) Increase of Rs. 6,000 in fixed costs.

Sales units	15,000
Fixed expenses	Rs. 34,000
Sales value	Rs. 1,50,000
Variable costs	Rs. 6 per unit.

12. What is human resource accounting ? Discuss major models of human resource accounting.

SECTION – D
(CASE STUDY) (1×13=13)

Comparative financial information for the India Steels Company and United Steels Company for the years 1998 and 1999 is given below.

Income Statement for 1998 and 1999

(Rs. in crores)

	India Steels Company		United Steels Company	
	1999	1998	1999	1998
Sales	1008	845	400	387
Cost of Production**	700	600	290	240
	308	245	110	147

Operating Expenses	188	132	73	75
	120	113	37	72
Other Income or (Expenses)	3	3	5	(4)
	123	116	42	68
Interest Expenses	18	22	10	8
	105	94	32	60
Income Tax	36	31	18	26
	69	63	14	34
Dividend :				
Preference shares	4	4	–	–
Equity shares	31	29	8	10
	34	30	6	24
Includes : **				
Depreciation provision	15	14	65	20
Material consumption	300	250	195	190
Balance Sheet				
Fixed Assets (Gross)	227	210	250	200
Accumulated Depreciation	111	98	85	20
Fixed Assets (Net)	116	112	165	180
Investment	8	3	25	10
Current Assets	424	379	106	114
	548	494	296	304
Share Capital				
Equity Rs. 10 each	80	60	40	30
10% preference shares	40	40		
Reserves	118	103	80	87
Debentures	120	127	60	80
Current liabilities	190	164	116	107
	548	494	296	304
Details of Current Assets :				
Cash and Bank	10	5	10	5
Receivables	113	101	50	59
Raw Material	145	148	24	24
Work-in-progress	56	60	10	8
Finished Goods	100	65	12	18
	424	379	106	114

Details of Current Liabilities :				
Trade creditors	110	80	60	40
Other Current Liabilites	80	84	56	67
	190	164	116	107

Notes :

1. Credit purchases during the year	250	200	200	180
2. Credit Sales included in Sales (%)	60	50	60	50

3. Both the companies issued bonus shares in the ratio 1:3.

QUESTIONS FOR DISCUSSION :

From the financial information given above, you are required to compute various financial ratios so as to discuss the following :

1. Which company has got a better liquidity position to pay off its short-term commitments ?
2. What is the rate of return on the total investment for both the companies ?
3. Which company has got a better rate of return ? Is the difference in the rate of return (as per 2 above) due to a better rate of profit on the business conducted or due to a higher volume of business per rupee invested ?
4. Which company provides the highest safety margin to its debenture holders ?
5. What is the return available to preference shareholders in India Steels Company ? and
6. Which company appears to have a higher return per rupee invested in operating assets ?