

Internal Assessment Test - II

Sub:	Accounting For Managers	Code:	20MBA13
Date	21/4/2022	Duration:	90 mins
		Max Marks:	50
		Sem:	I
		Branch:	MBA

Part A: (Answer any 2 full questions)

1 (a) What is ROCE? Give the ratio of ROCE.

Return on capital employed (ROCE) is a financial ratio that can be used to assess a company's profitability and capital efficiency. In other words, this ratio can help to understand how well a company is generating profits from its capital as it is put to use.

$$\text{ROCE} = \frac{\text{EBIT}}{\text{Capital Employed}}$$

(b) Explain importance and limitation of Management Account?

IMPORTANCE OF MANAGERIAL ACCOUNTING

The main objective of managerial accounting is to assist the management of a company in efficiently performing its functions: planning, organizing, directing, and controlling. Management accounting helps with these functions in the following ways:

1. **Provides data:**
2. **Analyzes data:**
3. **Aids meaningful discussions:**
4. **Helps in achieving goals:**
5. **Uses qualitative information:**

LIMITATIONS OF MANAGERIAL ACCOUNTING

Managerial accounting may define the pace and process of development of an organisation yet it has its set of drawbacks. By now, we know that the information to make managerial decisions is dependent on financial statements. Due to this, the strength or weakness of accounting decisions made depends solely on the quality of basic records. Meanwhile, different managers may interpret the same information in

Marks	OBE	
	CO	RBT
[03]	CO1	L1
[07]	CO1	L2

different ways depending on their capacity and experience in the field. That way there might be bias in decision-making process.

(c) You are required to prepare the common size balance sheet.

[10] CO1 L3

Following are balance sheets of Shashi and Co. and Kiran and Co. as on 31st March, 2015.

	<i>Shashi & Co.</i>	<i>Kiran & Co.</i>
Assets		
Land and buildings	40,000	60,000
Plant and Machinery	1,50,000	3,12,500
Investments	50,000	1,00,000
Stock	75,000	1,00,000
Sundry Debtors	50,000	60,000
Cash and bank balance	35,000	67,500
Total	4,00,000	7,00,000
Liabilities:		
Equity share capital	1,00,000	1,50,000
12% Debentures	50,000	1,00,000
10% preference share capital	1,00,000	1,25,000
Reserves and surplus	50,000	60,000
Dividend provision	25,000	35,000
Sundry creditors	75,000	2,05,000
Bank overdraft	-	25,000
Total	4,00,000	7,00,000

Compare the financial position of the two companies with the help of common size balance sheets and comment.

Particulars	Shashi & Co.		Kiran & Co.	
	₹	Increase or Decrease in %	₹	Increase or Decrease in %
I. Assets				
1) Fixed Assets:				
Land and Buildings	40,000	10%	60,000	8.57%
Plant and Machinery	1,50,000	37.5%	3,12,500	44.64%
Total fixed assets (a)	1,90,000	47.5%	3,72,500	53.21%
2) Investment:				
Investment (b)	50,000	12.5%	1,00,000	14.29%
Total investment (b)	50,000	12.5%	1,00,000	14.29%
3) Current assets:				
Stock	75,000	18.75%	1,00,000	14.29%
Sundry debtors	50,000	12.5%	60,000	8.57%
Cash and Bank balance	35,000	8.75%	67,500	9.64%
Total current assets (c)	1,60,000	40%	2,27,500	32.5%
Total assets (a+b+c)	4,00,000	100%	7,00,000	100%
II. Liabilities				
1) Shareholders fund:				
Equity share capital	1,00,000	25%	1,50,000	21.43%
Preference share capital	1,00,000	25%	1,25,000	17.86%
Reserves and surplus	50,000	12.5%	60,000	8.57%
Total shareholders funds (a)	2,50,000	62.5%	3,35,000	47.86%
2) Long term debts				
Debentures	50,000	12.5%	1,00,000	14.29%
Total long term debts (b)	50,000	12.5%	1,00,000	14.29%
3) Current liabilities:				
Dividend provision	25,000	6.25%	35,000	5.00%
Sundry creditors	75,000	18.75%	2,05,000	29.29%
Bank overdraft	-	-	25,000	3.57%
Total current liabilities (c)	1,00,000	25.00%	2,65,000	37.86%
Total liabilities (a+b+c)	4,00,000	100%	7,00,000	100%

<p>2 (a) What is operating ratio?</p> <p>The operating ratio shows the efficiency of a company's management by comparing the total operating expense (OPEX) of a company to net sales. The operating ratio shows how efficient a company's management is at keeping costs low while generating revenue or sales. The smaller the ratio, the more efficient the company is at generating revenue vs. total expenses.</p>	[03]	CO1	L1																																																
<p>(b) What are the importance of analysis of financial statement?</p> <p>1. Holding Of Share</p> <p>Shareholders are the owners of the company. Time and again, they may have to take decisions whether they have to continue with the holdings of the company's share or sell them out. The financial statement analysis is important as it provides meaningful information to the shareholders in taking such decisions.</p> <p>2. Decisions And Plans</p> <p>The management of the company is responsible for taking decisions and formulating plans and policies for the future. They, therefore, always need to evaluate its performance and effectiveness of their action to realise the company's goal in the past. For that purpose, financial statement analysis is important to the company's management.</p> <p>3. Extension Of Credit</p> <p>The creditors are the providers of loan capital to the company. Therefore they may have to take decisions as to whether they have to extend their loans to the company and demand for higher interest rates. The financial statement analysis provides important information to them for their purpose.</p> <p>4. Investment Decision</p> <p>The prospective investors are those who have surplus capital to invest in some profitable opportunities. Therefore, they often have to decide whether to invest their capital in the company's share. The financial statement analysis is important to them because they can obtain useful information for their investment decision making purpose.</p>	[07]	CO1	L2																																																
<p>c) Prepare ratio analysis from given information.</p> <p>The following are the Balance sheet of Archita Ltd. for the year 2014 and 2015.</p> <table border="1" data-bbox="172 1518 1236 1836"> <thead> <tr> <th><i>Liabilities</i></th> <th><i>2014</i></th> <th><i>2015</i></th> <th><i>Assets</i></th> <th><i>2014</i></th> <th><i>2015</i></th> </tr> </thead> <tbody> <tr> <td>Share capital.</td> <td>1,00,000</td> <td>1,00,000</td> <td>Fixed assets</td> <td>2,00,000</td> <td>2,30,000</td> </tr> <tr> <td>Reserves</td> <td>50,000</td> <td>50,000</td> <td>Stock</td> <td>40,000</td> <td>60,000</td> </tr> <tr> <td>Profit and Loss A/c</td> <td>50,000</td> <td>1,00,000</td> <td>Debtors</td> <td>30,000</td> <td>60,000</td> </tr> <tr> <td>8% debentures</td> <td>50,000</td> <td>80,000</td> <td>Cash</td> <td>20,000</td> <td>30,000</td> </tr> <tr> <td>Sundry creditors</td> <td>40,000</td> <td>50,000</td> <td>Prepaid expenses</td> <td>10,000</td> <td>20,000</td> </tr> <tr> <td>Proposed dividends</td> <td>10,000</td> <td>20,000</td> <td></td> <td></td> <td></td> </tr> <tr> <td></td> <td>3,00,000</td> <td>4,00,000</td> <td></td> <td>3,00,000</td> <td>4,00,000</td> </tr> </tbody> </table> <p>You are required to compute the following for the year 2014 and 2015.</p> <p>a) Current ratio; b) Acid test ratio; c) Proprietary ratio. d) Fixed assets to shareholder's fund.</p>	<i>Liabilities</i>	<i>2014</i>	<i>2015</i>	<i>Assets</i>	<i>2014</i>	<i>2015</i>	Share capital.	1,00,000	1,00,000	Fixed assets	2,00,000	2,30,000	Reserves	50,000	50,000	Stock	40,000	60,000	Profit and Loss A/c	50,000	1,00,000	Debtors	30,000	60,000	8% debentures	50,000	80,000	Cash	20,000	30,000	Sundry creditors	40,000	50,000	Prepaid expenses	10,000	20,000	Proposed dividends	10,000	20,000					3,00,000	4,00,000		3,00,000	4,00,000	[10]	CO2	L3
<i>Liabilities</i>	<i>2014</i>	<i>2015</i>	<i>Assets</i>	<i>2014</i>	<i>2015</i>																																														
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For the year 2015 = 70,000

∴ Current ratio for the year 2014 = $\frac{1,00,000}{50,000} = 2$ times.

Current ratio for the year 2015 = $\frac{1,70,000}{70,000} = 2.43$ times.

b) Calculation of Acid Test Ratio

Acid Test Ratio = $\frac{\text{Quick Assets}}{\text{Current Liabilities}}$

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

1995 = 1,00,000 – (40,000 + 10,000) = 50,000

1996 = 1,70,000 – (60,000 + 20,000) = 90,000

∴ Quick Ratio for 2014 = $\frac{50,000}{50,000} = 1$ time

Quick Ratio for 2015 = $\frac{90,000}{70,000} = 1.28$ times.

c) Calculation of fixed assets to share holder's fund ratio

Fixed Assets to Share hold Fund Ratio = $\frac{\text{Fixed Assets}}{\text{Shareholder's Fund}}$

∴ Fixed Assets to share holders for 2014

Fixed assets = 2,00,000

Share holder's fund = Share capital + Reserves + Profit

= 1,00,000 + 50,000 + 50,000 = 2,00,000

∴ FA to share holders fund = $\frac{2,00,000}{2,00,000} = 1$ times.

For the year 2015

Fixed assets = 2,30,000

Share holder's fund = 1,00,000 + 50,000 + 1,00,000 = 2,50,000.

∴ $\frac{2,30,000}{2,50,000} = 0.92$ times

d) Calculation of Proprietary Ratio

Proprietary Ratio = Net worth / Total Assets

For the year 2014 = $\frac{2,00,000}{3,00,000} = 0.66$ times.

3 (a) What is trend analysis?

[03]

CO1

L1

Trend analysis is a technique used in technical analysis that attempts to predict future stock price movements based on recently observed trend data. Trend analysis uses historical data, such as price movements and trade volume, to forecast the long-term direction of market sentiment.

(b) Explain the techniques and limitation of Management Accounting.

[07]

CO1

L2

1. Marginal analysis:
2. Constraint analysis:
3. Capital budgeting:
4. Inventory valuation and product costing:
5. Trend analysis and forecasting:

(c) Calculate

[10]

CO1

L3

The following figures relate to a company manufacturing a varied range of products :

Year Ended	Total Sales (Rs.)	Total Cost (Rs.)
31.12.007	32,20,000	29,80,000
31.12.08	34,50,000	31,40,000

Calculate (a) P/V Ratio to reflect the rate of growth for profit and sales., (b) Fixed Cost, (c) Fixed Cost % to Sales, (d) Break Even Point, and (e) Margin of Safety for the year 2007 and year 2008.

Solution :

Particulars	2007 (Rs.)	2008 (Rs.)	Difference (Rs.)
Sales	32,20,000	34,50,000	2,30,000
Total Cost	29,80,000	31,40,000	1,60,000
Profit	2,40,000	3,10,000	70,000

Solution :

Particulars	2007 (Rs.)	2008 (Rs.)	Difference (Rs.)
Sales	32,20,000	34,50,000	2,30,000
Total Cost	29,80,000	31,40,000	1,60,000
Profit	2,40,000	3,10,000	70,000

(a)
$$\text{P/V Ratio} = \frac{\text{Change in Profit}}{\text{Change in Sales}} \times 100$$

$$= \frac{\text{Rs. } 70,000}{\text{Rs. } 2,30,000} \times 100$$

$$= 30.43\%$$

(b)

	2007	2008
Contribution (30.43% of Sales)	Rs. 9,79,846	Rs. 10,49,846
Less : Profit	(2,40,000)	(3,10,000)
Fixed costs	= <u>7,39,846</u>	<u>7,39,846</u>

Therefore, Annual Fixed Cost = Rs. 7,39,846

(c) Fixed Cost as % of Sales.

	2007	2008
$\frac{\text{Fixed Cost}}{\text{Sales}} \times 100$	$\frac{\text{Rs. } 7,39,846}{\text{Rs. } 32,20,000} \times 100 = 22.98\%$	$\frac{\text{Rs. } 7,39,846}{\text{Rs. } 34,50,000} \times 100 = 21.45\%$

(d) Break Even Point (Rs.) = $\frac{\text{Fixed Cost}}{\text{P/V Ratio}}$

$$= \frac{\text{Rs. } 7,39,846}{30.43\%} = 24,31,305$$

(e) Margin of Safety :

	2007	2008
Sales - Break Even Sales	Rs. 32,20,000 - 24,31,305	Rs. 34,50,000 - 24,31,305
Margin Safety of Ratio	$\frac{\text{Margin of Safety}}{\text{Sales}} \times 100 = \frac{\text{Rs. } 7,88,695}{32,20,000} \times 100 = 24.49\%$	$\frac{\text{Rs. } 10,18,695}{34,50,000} \times 100 = 29.53\%$

Part B (Mandatory, 10 marks)

4 Prepare the cash flow statements.

Prepare cash flow statement of Satyam Ltd. From the following:

Liabilities	1.1.06	31.12.06	Assets	1.1.06	31.12.06
Share capital	1,00,000	4,00,000	Goodwill	-	20,000
8% debenture	-	2,00,000	Machinery	1,25,000	4,75,000
Retained earning	60,000	90,000	Stock	20,000	80,000
Creditors	40,000	1,00,000	Debtor	30,000	1,00,000
Bills payable	20,000	40,000	Bank	50,000	1,50,000
Tax provision	30,000	40,000	Cash	25,000	45,000
	2,50,000	8,70,000		2,50,000	8,70,000

Additional Details:

- During 2006 the business of a sole trader was purchased by issuing share for Rs. 2,00,000. The assets acquired from him were:
Goodwill Rs. 20,000, machinery Rs. 1,00,000 , stock Rs. 50,000 and Debtors Rs. 30,000
- Provision for tax charged in 2006 was Rs. 35,000
- The debenture was issued at a premium of 5% which is included in the retained earnings.
- Depreciation charged on machinery was Rs.30,000.

CO2 L3

Cash flow statement for the year ended 31.12.2006

Particular	Rs	Rs
1. Cash flows from operating activities:		
Net profit before tax	55,000	
Adjustment for:		
Dep. On machinery	30,000	
Inc.. in creditor	60,000	
Inc.. in bills payable	20,000	
Inc.in stock	(10,000)	
Inc.. in debtor	(40,000)	
Income tax paid	(25,000)	
Net cash from operating activities		90,000
2. Cash flows from investing activities:		
Machinery purchased	(2,80,000)	
Net cash from investing activities		(2,80,000)

3. Cash flows from financing activities		
Issue of shares	1,00,000	
Issue of debenture	2,10,000	
Cash flows from financing activities		3,10,000
Net inc. in cash equivalents		1,20,000
Add: opening cash balance		75,000
Closing cash balance		1,95,000

Provision for tax A/c

Particulars	Rs	Particulars	Rs
To Bank (tax paid)	25,000	By Balance b/d	30,000
To Balance c/d	40000	By P & L A/c (provision)	35,000
	65,000		84,000

Machinery A/c

Particulars	Rs	Particulars	Rs
To Balance b/d	1,25,000	By Depreciation	30,000
To Bank (purchase)	2,80,000	By Balance c/d	4,75,000
To Vendor	1,00,000		
	5,05,000		5,05,000

Share Capital A/c

Particulars	Rs	Particulars	Rs
		By Balance b/d	1,00,000
		By Vendor	2,00,000
To Balance c/d	4,00,000	By Bank	1,00,000
	4,00,000		4,00,000

Course Outcomes		PO1	PO2	PO3	PO4	PO5
CO1 :	Demonstrate theoretical knowledge and its application in real time accounting	1a,1b, 2a,2b, 3a,3b	1c,3 c,			
CO2 :	Capable of preparing financial statement of sole trading concerns and companies		2c ,4			
CO3 :	Independently undertake financial statement analysis and take decisions					
CO4 :	Comprehend emerging trends in accounting using data base Management system					

Cognitive level	KEYWORDS
L1	List, define, tell, describe, identify, show, label, collect, examine, tabulate, quote, name, who, when, where, etc.
L2	summarize, describe, interpret, contrast, predict, associate, distinguish, estimate, differentiate, discuss, extend
L3	Apply, demonstrate, calculate, complete, illustrate, show, solve, examine, modify, relate, change, classify, experiment, discover.
L4	Analyze, separate, order, explain, connect, classify, arrange, divide, compare, select, explain, infer.
L5	Assess, decide, rank, grade, test, measure, recommend, convince, select, judge, explain, discriminate, support, conclude, compare, summarize.

PO1- *Theoretical knowledge* PO2 – *Effective communication skill* ; PO3- *Leadership qualities* ;
 PO4 – *Sustained research Orientation* PO5: *Self sustaining Entrepreneurship*

CT

CCI

HOD