16UBI619 - MANAGEMENT ACCOUNTING

Question bank
K1 level
Multiple choice questions

1. Management accounting assists the management
    Only in control
    Only in direction
    Only in planning
In planning, direction and control
2. The term management accounting was first coined in
    1960
    1950
    1945
    1955
3. Management accounting deals with
    Quantitative information
    Qualitative information
    Both a and b
    None of the above
4. Which one of the following branches of accounting primarily deals with processing and presenting of accounting data for internal use?
    Financial accounting
    Tax accounting
    Management accounting
    Inflation accounting
5. Interpretation of accounts is the
    Art and science of translating the figures
    To know financial strengths and weaknesses of a business
    To know the causes for the prevailing performance of business
    All of the above
6. The term current asset doesn't cover _______.
Car
    Debtors
    Stock
    Prepaid expenses
7. Amount spent on an advertisement campaign, the benefit of which is likely to last for three years is a
    Capital expenditure
    Revenue expenditure
    Deferred revenue expenditure
    None of the above
8. The use of management accounting is
    Optional
    Compulsory

Legally obligatory
Compulsory to some and optional to others

9. Accounting is concerned with
Monetary transactions
Non-monetary transactions
Monetary and non-monetary transactions
None of the above

10. Which of the following accounting equation is correct?
Capital + Liabilities= Assets
Capital = Assets + Liabilities
Capital- Liabilities = Assets
Capital + Assets = Liabilities

11. The balance sheet is a __ of the assets, liabilities and capital of a concern as on particular date.
Statement
Document
Picture
Balance

12. Profit and Loss Account is also called________.
Funds Flow Statement
Income Statement
Cash Flow
None of the above Statement

13. Financial accounts record only______.
Actual figures
Budgeted figures
Standard figures
None of the above

14. Going concern concept assumes business as a_____.
Going concern
Dissolving concern
Realizing concern
None of the above

15.Business entity concept distinguishes between _____.
Individual and business
Businesss and business
Owners
All the above

16.Preparation of financial statements is essential under _______.
Income tax
Company law
Business law
All the above

17. Retained earnings statement depicts _____
Appropriation of profits
Estimates of profits
Estimates of costs
All the above

18._____ analysis compares the financial data for several years.

Vertical

Static

Horizontal

Internal

19.______ analysis compares various items in the financial data for one accounting year.

Vertical

Static

Horizontal

Internal

20.______ analysis involves comparison of financial data of a firm with other firms.

Vertical

Cross sectional

Horizontal

Internal

21. A ____ is a simple arithmetical expression of the relationship between two numbers.

Fund flow analysis

Cash flow analysis

Ratio

Marginal costing

22. If the stock turnover ratio is 4 times and the collection period is 30 days the operating cycle would be _____ days.

30

60

90

120

23. Given that current liabilities are at Rs. 300,000, current ratio is 3:1 and quick ratio is 1:1, the value of stock will be:

6,00,000

16,00,000

9,00,000

12,00,000

24. The stock turnover ratio is ____ .

Financial ratio

Activity ratio

Solvency ratio

Profitability ratio

25. The stock turnover ratio may be calculated as ___.

Cost of goods sold / Average stock

Turnover at cost / stock at cost

Turnover at selling price / Stock at selling price

Any of the above

26. ROI stands for?

Return on Investment

Ratio of Investment

Return of Income

None of these

27. The gross profit ratio is the ratio of gross profit to ______.

Net sales
Net purchase
Closing stock
Net total sales

28. Acid test ratio is equal to quick current assets divided by ____.
Current liabilities
Current assets
Total liabilities
Total assets

29. In the debt equity ratio, external equity refers to_____.
Only Debentures
Only current liabilities
Debentures and current liability
Reserves

30. Acid test ratio should normally be ----
2:1
1:1
1:2
2:2

31. In the computation of the debtors turnover ratio accounts receivable includes
Debtors and B/R
Creditors and B/P
Bank overdraft and loan
Debtors and creditors

32. In the debt equity ratio, equity refers to
Only preference capital
Only equity capital
Both preference and equity capitals plus all reserves
Only reserves

33. Current ratio is a ------ ratio
Trading account
Profit and loss
Profitability
Balance sheet

34. Identify the transaction that has no effect on the current ratio.
Preference shares redeemed
Bills receivable collected
Motor car sold for cash
Machinery bought for cash

35. What does creditors turnover ratio take into account?
Total credit sales
Total credit purchase
Total cash sales
Total cash purchases

36. Current ratio should normally be
2:1
1:1
1:2

2:2

37. EPS is calculated as

EBIT / Equity shares

(EBIT - Preference Dividend) / Equity shares

(EAT - Preference Dividend) / Equity shares

EIT / Equity shares

38. Interest coverage Ratio is given by

Net profit / fixed interest charges

Debt capital / Interest on Debt

Earning Before Interest and Tax / lnterest on Debt

Profit Before Tax / Interest on Debt

39. To test the liquidity of a concern which of the following ratios are useful?

Acid test ratio

Capital turnover ratio

Bad Debt to sales ratio

lnventory turnover ratio

41. The word fund means the difference between _____ and current liabilities.

Tangible assets

Current assets

Fixed assets

Intangible assets

42. Stock in the beginning results in ______of funds.

Application

Source

No flow

Inflow

43. Issue of capital will mean _____ working capital.

Decrease

Increase

Diminish

Distribute

44. Purchase of plant will mean_____ working capital.

Decrease

Increase

Distribute

Rise

45. Goodwill is a ______ transaction.

Current

Non current

Fixed

Source of fund

46. Identify the item which is not an operating expense

Advertising expenses

General management salaries

Depreciation of office equipment

Loss on sale of motor car

47. Redeemable preference shares is __

Current assets

Non-current assets

Current liability
Non-Current liability

48. Expenditure incurred on research is an example of
Capital expenditure
Revenue expenditure
Deferred revenue expenditure
None of the above

49. Which one of the following is capital expenditure?
Cost of advertisement
Purchase of a delivery van
Purchase of raw material
Purchase of machine oil

50. Which one of the following is an example of sources of funds?
Decrease in share capital
Increase in long-term liabilities
Decrease in long-term liabilities
Increase in fixed assets

51.Goods withdrawn by the proprietor for his personal use are
Shown as a deduction from the purchases
Shown as a deduction from the sales
Treated as sales at cost price
Added to the purchases

52.Closing stock is valued at
Cost
Market value
Cost or market price whichever is lower
None of the above

53.If the change, because of a business transaction results in the increase of fund then the transactions responsible for such a change is said to be ____
Uses of fund
Schedule of change in working capital
Source of fund
Funds flow statements

54.Which of the following cannot be treated as revenue expenditure?
Cost of goods purchased for resale.
Wages paid for the erection of plant and machinery.
Obsolescence cost.
Expenses incurred by way of repairs of existing assets which do not have earning capacity.

55. AS- 3 deals with______statement.
Fund flow
Cash flow
Income
Expenditure

56. Sale of goods is a _______ activity.
Operating
Investing
Financing
Manipulating

57. Dividend paid is ______ activity.

Operating

Investing

Financing

Manipulating

58. Cash flow include_______.

Cash payments only

Cash receipts only

Cash receipts and payments only

Cash and non cash expenses

59. Increase in bills payable results in _______.

No change in cash

Change in cash

Increase in cash

Decrease in cash

60. Provision for tax is _____ activity.

Operating

Investing

Financing

Manipulating

61. Marginal costing is the most useful technique for the ______

Shareholders

Management

Auditors

Creditors

62. The term contribution refers to ____

The difference between selling price and fixed cost

The difference between selling price and variable cost

Profit

None of these

63. Marginal costing technique helps the management in deciding _____

Pricing

To accept fresh orders at low price

To make or buy

All of the above

64. The other name of marginal costing is _______

Direct costing

Variable costing

Incremental costing

All of the above

65. Sales Rs. 100000, variable cost Rs. 50000 and net profit ratio is 10% on sales, find out fixed cost.

50000

40000

20000

The data inadequate

66. Profit volume ratio establishes the relationship between _______

Contribution and profit

Fixed cost and contribution

Profit and sales
Contribution and sales value

67. Contribution/sales is equal to _______
P/V ratio
Net profit ratio
BEP
EPS

68. The profit of an undertaking is affected by _______
Selling price of the products
Volume of sales
Variable cost per unit and total fixed cost
All of the above

69. The profit at which total revenue is equal to total cost is called ______
Break Even Point
Margin of safety
Break even analysis
None

70. The break even chart helps the management in ______
Forecasting costs and profits
Cost control
Long term planning and growth
All of the above

71. Expenses that do not vary with the volume of production are known as _______
Fixed expenses
Variable expenses
Semi-variable expenses
None

72. _______ is the excess of sales over the break even sales.
Actual sales
Total sales
Margin of safety
Net sales

73. The formula for Margin of Safety is one of the following ________
PV ratio/profit
Profit/P/v ratio
Profit/sales
Contribution/fixed cost

74. Managers utilizes marginal costing for
Make or buy decision
Utilization of additional capacity
Determination of dumping price
All of the above

75. CVP stands for
Cost variance profit
Cost volume profit
Cost variance prime
Contribution volume profit

76. Marginal cost does not include ______.

Variable cost
Semi variable cost
Fixed cost
Additional cost

77. At BEP ____ is equal to fixed cost.
Contribution
Profit
Sales
Variable cost

78. BEP is _____ by changes in fixed cost.
Not affected
Affected
Not influenced
Implemented

79. Contribution is also called ______.
Marginal income
Gross profit
Net profit
Fixed cost

80. In USA marginal costing is referred as_____.
Direct costing
Variable costing
Incremental costing
All of the above

81. Which of the following is a type of budget according to function?
Fixed Budget
Production budget
Long term Budget
Flexible Budget

82. Budgets can be classified according to
Time
Functions
Flexibility
All of the above

83. Sales budget is ______.
Functional budget
Expenditure budget
Fixed budget
Master budget

84. A budget is:
Aid to management
Substitute to management
Post mortem analysis
None of the above

85. Which of the following will not appear in a cash budget?
Wages
Depreciation of machinery
Sales revenue

Machinery bought on hire purchase

86. If variable and fixed costs at 60% capacity are Rs 12,000 and Rs 9,000 respectively, total cost at 80% capacity will be

Rs 25,000
Rs 28,000
Rs 24,000
None of the above

87. Which one is usually a long term budget?
Fixed budget
Cash budget
Sales budget
Capital expenditure budget

88. Operating budgets cover a period of_____.
One year
Two years
Ten years
Twenty years

89. Fixed – variable cost classification is significant in _______.
Fixed budget
Cash budget
Sales budget
Flexible budget

90. ______ budget is prepared first.
Master
Cash
Key factor
Flexible

91. Zero based budgeting was first used by _______.
Adam smith
Alfred marshall
Philip kotler
Jimmy carter

92. Budget is derived from the French word _______.
Bougette
Bounet
Bonqet
Budgtte

93._______ refers to the length of the period for which a budget is prepared.
Budget period
Budgeting
Budget control
Budget month

94. Working capital is also called as ______ capital.
Circulating
Circumference
Contribution
None of the above

95. Gross working capital represents_______.

Total current liabilities
Excess of current assets over current liabilities
Current assets less current liabilities
Total Current assets

96.Net working capital represents_______.
Total current liabilities
Excess of current assets over current liabilities
Current assets less current liabilities
Total Current assets

97. The Gross working capital is based on ______ concept.
Cost
Going concern
Historical
Replacement

98. ______ is a temporary source of working capital.
Trade credit
Issue of share
Public deposits
Issue of debentures

99.______ is a long term source of working capital.
Trade credit
Issue of share
Advances
Commercial papers

100. Operating cycle method uses _____.
Cost of goods purchased
Cost of goods produced
Cost of goods sold
Cost of goods manufactured

DEPARTMENT OF B.COM BANKING AND INSURANCE

16 UBI 619 - MANAGENT ACCOUNTING

K2 LEVEL

1. What is financial accounting?

   Financial accounting is the process of recording, summarizing and reporting the monetary transactions resulting from business operations over a period of time. These transactions are summarized in the preparation of financial statements, including the balance sheet, income statement and cash flow statement, that record the company's operating performance over a specified period.
2. Define management accounting.

   Management accounting is presentation of analysis of business activities to the internal management to facilitate decision making.
3. Mention any two limitations of financial accounting.

   1. Supplies Insufficient Information,
   2. Controlling Cost not Possible,
   3. Historic in nature,
   4. Recording Actual Cost,
   5. Difficulty in Price Fixation
4. What is cost accounting?

   Cost accounting is the process of recording, classifying, analyzing, summarizing, and allocating costs associated with a process, and then developing various courses of action to control the costs.
5. Mention any two limitations of cost accounting.

   Cost Accounting has certain limitations. Important among them are as follows: a)Based on estimates, b)Lack of uniformity, c)Many conventions, d)Expensive, e)Result requires reconciliation.
6. Mention any five tools used in management accounting.

   Financial statement analysis, cost accounting, fund flow analysis, cash flow analysis, standard costing, marginal costing, budgetary control.
7. What are the types of accounting?

   Types of Accounting are *Financial Accounting*, Managerial Accounting, *Cost Accounting*.
8. List any five accounting concepts.

   1. Business Entity Concept 2. Going Concern Concept 3. Money Measurement Concept (Monetary Expression) 4. Cost Concept 5. Accounting Period Concept 6. Dual Aspect Concept 7. Matching Concept 8. Realisation Concept 9. Balance Sheet Equation Concept 10. Verifiable and Objective Evidence Concept.
9. What is going concern concept?

   The going concern assumption is a basic underlying assumption of accounting. For a company to be a going concern, it must be able to continue operating long enough to carry out its commitments, obligations, objectives, and so on. In other words, the company will not have to liquidate or be forced out of business.

10. What is business entity concept?

    The business entity concept states that the transactions associated with a business must be separately recorded from those of its owners or other businesses. This entity states that business is separate from its owners. The owners are treated as Financier eligible for profit or loss in the business.

11. What is money measurement concept?

    The *money measurement concept* states that a business should only record an accounting transaction if it can be expressed in terms of money.

12. List the accounting conventions.

    Accounting conventions *are conservatism*, *consistency*, full disclosure and *materiality*.

13. What is convention of disclosure?

    The full disclosure principle requires a company to provide the necessary information so that people who are accustomed to reading financial information are able to make informed decisions regarding the company.

14. What are financial statements?

    The primary financial statements are: the profit and loss statement, balance sheet and statement of cash flow.

15. What is a balance sheet?

    A balance sheet is a statement of the financial position of a business which states the assets, liabilities and owner's equity at a particular point in time.

16. What is a profit and loss account?

    The profit and loss (P&L) statement is a financial statement that summarizes the revenues, costs and expenses incurred during a specified period, usually a fiscal quarter or year.

17. What is trend analysis?

    Trend analysis is a technique used in technical *analysis* that attempts to predict the future stock price movements based on recently observed *trend*data. *Trend analysis* is based on the idea that what has happened in the past gives traders an idea of what will happen in the future.

18. Mention any two financial statements.

    The financial statements are: the profit and loss statement, balance sheet and statement of cash flow.

19. Mention the tools used in financial statement analysis.

    Comparative Financial Statement Analysis (Horizontal Analysis),Common-size Financial Statement Analysis (Vertical Analysis), Ratio Analysis,Trend Analysis,Regression Analysis.

20. What is a ratio?

    A *ratio* compares values. A *ratio* expresses how much of one thing there is compared to another thing

21. What is meant by cost of goods sold?

Cost of goods sold (COGS) refers to the direct costs attributable to the production of the goods sold in a company. It is calculated as opening stock + purchases – closing stock.

22. Give the formula for current ratio.
    The*Current Ratio formula* is = Current Assets / Current Liabilities.
23. Give the formula for liquid ratio.
    Theliquid *Ratio formula* is = Liquid Assets / Current Liabilities.
24. Give the formula for absolute liquid ratio.
    Theabsolute liquid *Ratio formula* is = Absolute liquid Assets / Current Liabilities.
25. List down the current assets.
    - Cash in hand
    - Cash at bank
    - Bills receivable
    - Sundry debtors
    - Inventory
    - Short-term investments
    - Prepaid expenses
    - Marketable securities
26. List down the current liabilities.
    - Bank overdraft
    - Sundry creditors
    - Bills payable
    - Income tax payable
    - Dividend payable
    - Outstanding expenses
27. What is meant by liquidity?
    Liquidity describes the degree to which an asset or security can be quickly bought or sold in the market without affecting the asset's price.
28. What is the difference between current ratio and liquid ratio?

    The current ratio uses the total amount of *all of the current assets*. The acid test ratio excludes inventory and some other amounts such as prepaid expenses and deferred income taxes. What is the difference between current ratio and absolute liquid ratio?
29. Current ratio is 2.8, liquid ratio is 1.5 working capital is Rs.1,62,000 find current assets.
    Current assets = Rs.2,52,000
30. Current ratio is 2.5 working capital is Rs.90,000 find current liability.
    Current liability = Rs. 60,000
31. Current ratio is 2.5, liquid ratio is 1.5 current liabilities is Rs.50,000 find inventory.
    Inventory = Rs.50,000
32. Current ratio is 2.4 working capital is Rs.1,40,000 find current assets.
    Current assets = Rs.2,40,000
33. Give the formula for gross profit ratio.
    Gross profit ratio =Gross Profit/Net Sales X 100

34. Give the formula for net profit ratio.
    Net profit ratio = Net profit or Operating Profit/Net Sales X 100
35. Give the formula for operating profit ratio.
    Operating profit ratio = Operating Profit/Net Sales X 100
36. Give the formula for inventory turnover ratio.
    Inventory turnover ratio = Net Sales / average Inventory
37. Give the formula for debtor's turnover ratio.
    Debtor's turnover ratio = Net credit sales/ average trade debtors
38. Give the formula for creditor's turnover ratio.
    Creditor's turnover ratio = Net credit purchases/ average trade creditors
39. Give the formula for working capital turnover ratio.
    Working capital turnover ratio = Net Sales / Working Capital
40. Give the formula for average collection period.
    Average collection period = Average Trade debtors / Net Credit sales X 100
41. Give the formula for average payment period.
    Average payment period = Average Trade Creditors / Net Credit Purchases X 100
42. Give the formula for inventory conversion period.
    Inventory conversion period = 365 / Inventory Turnover Ratio
43. Give the formula for working capital.
    Working capital = current assets – current liabilities
44. Give the formula for debt –equity ratio.
    Debt –equity ratio= Total Long Term Debts / Shareholders Fund
45. Give the formula for proprietary ratio.
    Proprietary ratio = Shareholders Fund/ Total Assets
46. Give the formula for solvency ratio.
    Solvency ratio = Total liabilities to outsiders / total assets
47. Give the formula for interest coverage ratio.
    Interest coverage ratio = EBIT / Interest expenses
48. Give the rule of thumb for liquidity ratios.
    Current ratio =2:1, liquid ratio =1:1, absolute liquid ratio = 0.5:1.
49. What is EPS?
    EPS= Net profit/ no of equity shares
50. What is included in shareholder's funds?
    Shareholders' funds include equity share capital, preference share capital, retained earnings.
51. What is meant by fund?
    A *fund* is a source of money that is allocated for a specific purpose.
52. Give five examples for noncurrent assets.
    Noncurrent assets like machinery, land , buildings, furniture, fittings.
53. Give five examples for non current liability.
    Noncurrent liabilities include debentures, long-term loans, tax payable, long-term lease obligations, deferred compensation, and deferred revenue.
54. Mention two transactions involving flow of fund.

1.Issue of shares for cash.
2. Issue of debentures for cash.
3. Raising of long-term loans.
4. Sale of fixed assets on cash or credit.
5. Sale of trade investments.

55. Mention two transactions involving no flow of fund.

1. Cash collected from debtors.
2. Bills receivables realized.
3. Cash paid to creditors.
4. Payment or discharge of bills payable.
5. Issued bills payable to trade creditors.

56. What is the impact of issue of shares in fund flow statement?

Issue of shares will result in source of fund in fund flow statement.

57. What is the impact of issue of debentures in fund flow statement?

Issue of debentures will result in source of fund in fund flow statement.

58. What is the impact of issue of bonus shares in fund flow statement?

There will not be any impact in fund flow statement due to issue of bonus shares as there is no fund flow.

59. What is the impact of redemption of shares in fund flow statement?

Redemption of shares will result in application of fund in fund flow statement.

60. What is the impact of redemption of debentures in fund flow statement?

Redemption of debentures will result in application of fund in fund flow statement.

61. What is the impact of sale of assets in fund flow statement?

Sale of assets will result in source of fund in fund flow statement.

62. What is the impact of sale of fixed assets in fund flow statement?

Sale of fixed assets will result in source of fund in fund flow statement.

63. What is the impact of purchase of fixed assets in fund flow statement?

Purchase of fixed assets will result in application of fund in fund flow statement.

64. What is the impact of non trading receipts in fund flow statement?

Non trading receipts will result in source of fund in fund flow statement.

65. Name the sources of fund.

1. Issue of shares for cash.
2. Issue of debentures for cash.
3. Raising of long-term loans.
4. Sale of fixed assets on cash or credit.
5. Sale of trade investments.

66. Name the applications of fund.

1. Redemption of shares for cash .
2. Redemption of debentures for cash.
3. Payment of long-term loans.
4. Purchase of fixed assets.
5. Purchase of trade investments.

67. What is cash flow statement?

A *cash flow statement* is a financial *statement* that provides aggregate data regarding all *cash* inflows a company receives from its ongoing operations and external investment sources, as well as all *cash* outflows that pay for business activities and investments during a given period.

68. What are the types of cash flow activities?

The three categories of cash flows are operating activities, investing activities, and financing activities.

69. Give examples for cash flow from operating activities.

Examples of Inflows:

- Cash collected from customers against sale of goods or rendering of services
- Cash collections from “other revenues” such as commissions, royalties, and fees
- Cash refunded against income taxes if they cannot be specifically identified with the investing or financing activities

Examples of Outflows:

- Cash paid to vendors against supply of goods or services
- Cash paid to or on behalf of employees of the entity
- Cash paid against income taxes if they cannot be specifically identified with the investing or financing activities

70. Give examples for cash flow from investing activities.

- Purchase of fixed assets (negative cash flow)
- Sale of fixed assets (positive cash flow)
- Purchase of investment instruments, such as stocks and bonds (negative cash flow)
- Sale of investment instruments, such as stocks and bonds (positive cash flow)
- Lending of money (negative cash flow)
- Collection of loans (positive cash flow)

71. Give examples for cash flow from financing activities.

- Sale of stock (positive cash flow)
- Repurchase of company stock (negative cash flow)
- Issuance of debt, such as bonds (positive cash flow)
- Repayment of debt (negative cash flow)
- Payment of dividends(negative cash flow)

72. Define marginal cost.

Marginal cost is the cost incurred for producing one additional unit of a product or service.

73. What is contribution?

Contribution = Sales − variable costs

74. What is P/V ratio?

P/V Ratio (Profit Volume Ratio) is the ratio of contribution to sales which indicates the contribution earned with respect to one rupee of sales. It also measures the rate of change of profit due to change in volume of sales.

75. Give the formula for P/V ratio.

P/V ratio =Contribution x100/sales (*Contribution means the difference between sale price and variable cost).

76. What is breakeven point?
    The break-even point (BEP) or break-even level represents the sales amount—in either unit (quantity) or revenue (sales) terms—that is required to cover total costs, consisting of both fixed and variable costs to the company. Total profit at the break-even point is zero.
77. Give the formula breakeven point.
    Breakeven point = Fixed expenses /p/v ratio.
78. What do you understand by limiting factor?
    In management accounting, limiting factors refer to the constraints in availability of production resources (e.g. shortages in labor, machine hours or materials) that prevent a business from maximizing its sales.
79. What is sales mix?
    A *sales mix* is the variety of products sold by a company.
80. What is working capital?
    Working capital is the capital of a business which is used in its day-to-day trading operations, calculated as the current assets minus the current liabilities.
81. What are the types of working capital?

- Gross Working Capital (GWC)
- Net Working Capital (NWC) or Working Capital
- Permanent / Fixed Working Capital
- Temporary / Variable Working Capital.

82. Mention five short term sources of working capital?
    Tax Provisions
    Bank Overdraft
    Dividend Provisions
    Trade Deposits
    Public Deposits
    Short Term Loans
83. Mention five long term sources of working capital?
    Share capital
    Debentures
    Retained profits
    Long term loans
    Depreciation
84. What is net working capital?
    Net working capital is the aggregate amount of all current assets and current liabilities. It is used to measure the short-term liquidity of a business, and can also be used to obtain a general impression of the ability of company management to utilize assets in an efficient manner.
85. What is operating cycle?

The operating cycle is the average period of time required for a business to make an initial outlay of cash to produce goods, sell the goods, and receive cash from customers in exchange for the goods.

86. Give the formula for finding working capital using operating cycle.

    Working capital using operating cycle= Cogs * operating cycle/ 360or 365 days + desired cash balance.

87. What are the methods of estimating working capital requirements?

    Percentage of sales method, regression analysis, cash forecasting, operating cycle method, projected balance sheet method.

88. Define budget.

    Budget is an estimate of income and expenditure for a set period of time.

89. What is budgeting?

    Budgeting is the process of preparing detailed projections of future amounts in form of budgets.

90. What is budgetary control?

    Budgetary control is a process for managers to set financial and performance goals with budgets, compare the actual results, and adjust performance, as it is needed.

91. What is flexible budget?

    A flexible budget is a budget that adjusts or flexes with changes in volume or activity.

92. What is cash budget?

    A cash budget is an estimation of the cash inflows and outflows for a business over a specific period of time.

93. What is production budget?

    The production budget calculates the number of units of products that must be manufactured, and is derived from a combination of the sales forecast and the planned amount of finished goods inventory to have on hand (usually as safety stock to cover for unexpected increases in demand).

94. What is sales budget?

    A sales budget is management's estimate of sales for a future financial period. A business uses sales budgets to set department goals, estimate earnings and forecast production requirements. The sales budget affects both other operating budgets and the overall master budget of the company.

95. What is budget period?

    Budget Period is the specified future period of time over which revenue and expenses are estimated.

96. What is semi variable expense?

    A *semi-variable cost* is a cost that contains both fixed and variable cost elements.

97. Give two examples for fixed expense.

    Fixed expenses are those expenses that do not change when there is a change in production or sales level. Expenses like rent, insurance, payment on loans, management salaries, advertising are examples of fixed expenses.

98. What is the formula to find production in production budget?

Production = Sales+ closing stock – opening stock

99. Give two limitations of management accounting.

Based on Financial and Cost Records

Personal Bias

Lack of Knowledge and Understanding of the Related Subjects

Provides only Data

Management Accounting is only a Tool

100. Give two examples for variable expense.

- Piece rate labor.
- Production supplies.
- Commissions.

16UBI619 - MANAGEMENT ACCOUNTING

K3 - LEVEL

SECTION B

1. Explain the nature of management accounting.
2. Distinguish between management accounting and cost accounting.
3. Functions of management accounting
4. Objectives of management accounting
5. Limitations of management accounting
6. Need and importance of management accounting
7. State the importance of financial analysis
8. What are the objectives financial statement analyses?
9. Describe trend analysis with a suitable example?
10. Write a short note on comparative statements.
11. Calculate current ratio from the information given.

	Rs.		Rs.
Stock	60,000	Sundry creditors	20,000
Sundry debtors	70,000	Bills payable	15,000
Cash	20,000	Tax payable	18,000
Bills receivable	30,000	Outstanding expenses	7,000
Prepaid expenses	10,000	Bank overdraft	25,000
Land and building	1,00,000	Debentures	75,000
Goodwill	50,000		

12. Find Quick ratio from the information given.

	Rs.			Rs.
Bank loan	1,00,000	Stock in trade		1,35,000
Sundry creditors	1,50,000	Sundry debtors	72,000	
Bills payable	20,000	Less: provision for		
Creditors for expenses	10,000	doubtful debts	2,000	70,000
6% debentures	2,00,000	Cash in hand		15,000
Plant and machinery	3,00,000	Cash at bank		1,10,000

		Short term investments Prepaid insurance	1,50,000 5,000

13. Find out debtors turnover ratio.

Particulars	Rs
Annual credit sales	25,000
Returns	1,000
Debtors	3,000
Bills Receivables	1,000

14. From the following information, calculate average collection period:

	Rs.
Total sales	1,00,000
Cash sales	20,000
Sales returns	7,000
Total debtors at the end of the year	11,000
Bills receivable	4,000
Bad debts provision	1,000
Creditors	10,000

15. Find out operating ratio:

	Rs.
Cost of goods sold	3,50,000
Selling and distribution expenses	20,000
Administrative expenses	30,000
Net sales	5,00,000

16. Following information is given for a company whose accounting year ends on 31st march 2012. Calculate return on equity capital.

10,000 equity shares of Rs.10 each Rs.8 paid	Rs.80,000
11% 5,000 preference shares of Rs.20 each	Rs.1,00,000
Profit before tax	Rs.80,000
Rate of tax	50%

17. If inventory turnover ratio is 5 times and average stock at cost is Rs. 75000.

Find cost of goods sold and inventory conversion period.

18. Calculate debt equity ratio.

Liabilities	Rs.	Assets	Rs.
2,000 equity shares of Rs.100 each	2,00,000	Fixed assets	4,00,000
1,000 preference shares of Rs.100 each	1,00,000	Current assets	2,00,000
1,000 10% debentures of Rs.100 each	1,00,000		
General reserve	50,000		
Reserve for Contingencies	50,000		
Current Liabilities	1,00,000		
	6,00,000		6,00,000

19. The net profit (after taxes) of a firm is Rs.75,000 and its fixed interest charges on long term borrowings are Rs.10,000. The rate of income tax is 50%. Calculate interest coverage ratio.

20. From the information given below, calculate operating profit ratio.

Cost of goods sold =Rs.4, 00,000
Administrative & office expenses =Rs.35, 000
Selling & Distributive expenses = Rs. 45,000
Net sales = Rs. 6, 00,000

21. Prepare a statement of changes in working capital from the following balance sheet of ABC company.

Liabilities	2015	2016	Assets	2015	2016

	Rs.	Rs		Rs.	Rs.
Share capital	4,00,000	5,00,000	Cash	60,000	94,000
Trade creditors	1,40,000	90,000	Debtors	2,40,000	2,30,000
Retained earnings	20,000	46,000	Stock in trade	1,60,000	1,80,000
			Land	1,00,000	1,32,000
	5,60,000	6,36,000		5,60,000	6,36,000

22. Give the format for find flow statement.

23. B.M. Company presents the following information to you are required to calculate funds from operations.

Profit and loss account

	Rs.		Rs.
To expenses:		By Gross Profit	2,00,000
Operation	1,00,000	By Gain on sale of plant	20,000
Depreciation	40,000		
To Loss on sale of building	10,000		
To advertisement suspense a/c	5,000		
To discount (allowed to customers)	500		
To discount on Issue of shares written off	500		
To goodwill	12,000		
To net profit	52,000		
	2,20,000		2,20,000

24. From the following profit and loss account compute the funds from operations.

Profit and loss account

	Rs.		Rs.
To salaries	5,000	By gross profit b/d	1,000
To rent	2,000	By discount	5,000

To depreciation To preliminary expenses To loss on sale of land	1,000 2,000 5,000	By interest on investment By net loss	4,000 5,000
	15,000		15,000

25. Extracts from Balance sheets.

	As on 31st March 2016	As on 31st March 2017
Equity share capital	4,00,000	5,00,000
8% Preference share capital	2,00,000	1,50,00

Additional information:

i. Equity shares were issued during the year against purchase of machinery for Rs.50,000.

ii. 8% Preference shares worth Rs.1,00,000 were redeemed during the year.

Prepare necessary accounts to find out sources/ applications of funds.

26. Give the format for finding cash flows from operating activities.

27. Calculate net cash flows from investing activities from the following information.

	As on 31st March 2016	As on 31st March 2017
Buildings (w.d.v)	6,00,000	7,50,000

Additional information:

i. Buildings costing Rs1,00,000 on which Rs.30,000 had accumulated as depreciation was sold for Rs.60,000

ii. Depreciation is charged on buildings for the year ended 31.3.2017 Rs. 50,000.

28. From the information given below, calculate cash flows from financing activities.

Particulars	2007	2008
Equity share capital	2,00,000	3,00,000
8% Debentures	1,00,000	50,000
Securities Premium	20,000	30,000
Bank loan (long term)	---	1,00,000

29. Discuss about the classification of cash flows with suitable examples.

30. From the following find cash flows from operating activities.

Summary Cash Account

	Rs.'000		Rs.'000
Balance on 1.4.2007	100	Payment of suppliers	4,000
Issue of equity shares	600	Purchase of fixed assets	400
Receipts from customers	5,600	Overhead expenses	400
Sale of fixed assets	200	Wage and salaries	200
		Taxation	500
		Dividend	100
		Repayment of bank loan	600
		Balance	300
	6,500		6,500

31. Discuss about the classification of working capital.

32. Details of X Ltd for the year 2016-17 is given as:

Cost of goods sold	Rs. 48,00,000
Operating cycle	60 days
Minimum desired level of cash balance	Rs. 75,000

You are required to calculate the expected working capital requirement by assuming 360 days in a year.

33. From the following information of M/s Senthil industries Ltd, you are required to forecast their working capital requirements:

Projected annual sales = Rs.65 Lakhs
Percentage of net profit on cost of sales = 25%
Average credit allowed to debtors = 10 weeks
Average credit allowed by creditors = 4 weeks
Average stock carrying (in terms of sales requirement) = 8 weeks
Add 10% to computed figures to allow for contingencies.

34. Write a short note on concepts of working capital.

35.Prepare an estimate of working capital requirement from the following information of a trading concern.

a	Project annual sales	1,00,000 units
b	Selling price	Rs. 8 per unit
c	% of net profit on sales	25%
d	Average credit period allowed to customers	8 weeks
e	Average credit period allowed to suppliers	4 weeks
f	Average stock holding in terms of sales requirement	12 weeks
g	Allow 10% for contingencies	

36. From the following information find out the amount of profit earned during the year using the marginal costing technique:

Fixed cost	Rs.2,50,000
Variable cost	Rs.10 per unit
Selling price	Rs.15 per unit
Output level	75,000 units

37. Find out P/V ratio and fixed cost. If

Sales Rs.1,00,000
Profit Rs.10,000
Variable cost 70%

38. From the following information, calculate breakeven point in units and in sales.

Output = 3,000 units
Selling price per unit = Rs.30
Variable cost per unit = Rs.20
Total fixed cost = Rs.20, 000

39. From the following information, find P/V ratio and breakeven point in sales.

Total fixed cost = Rs.90, 000
Variable cost per unit
Direct material = Rs.5
Direct labour = Rs.2
Factory overheads = 100% of direct labour
Selling price per unit = Rs.12.

40. From the following information, ascertain by how much the value of sales must be increased by the company to achieve break even.

Sales = Rs.3,00,000
Fixed cost = Rs.1,50,000
Variable cost = Rs.2,00,000

41. With the following data for a 60% activity, prepare a budget for production at 100% capacity:

Production at 60% capacity	600 units
Materials	Rs. 100 per unit
Labour	Rs. 40 per unit
Direct expenses	Rs.10 per unit
Factory overheads	Rs.40,000 (40% fixed)
Administration expenses	Rs.30,000(60% fixed)

42. The budgeted expenses for the production of 10,000 units in a factory are furnished below:

Particulars	Per Unit in Rs.
Materials	70
Labour	25
Variable overheads	20
Fixed overhead(1,00,000)	10
Direct Variable overheads	5
Selling expenses(15% fixed)	13
Distribution expenses(20 % fixed)	7
Administrative expenses(50,000)	5

Prepare a budget for 8,000 units.

43. What is a production budget? Give the format.

44. Prepare a cash budget for the month of April from the following information.

Month	Sales	Purchases	Wages
February	1,80,000	1,24,800	12,000
March	1,92,000	1,44,000	14,000
April	1,08,000	2,43,000	11,000
May	1,74,000	2,46,000	10,000
June	1,26,000	2,68,000	15,000

50% of credit sales are realized in the month following the sales and remaining in second month following. Creditors are paid in the following month of purchase. Cash at bank on 1st April Rs. 25,000.

45.GangaAgroChemicalsmanufactureschemicalX.Aforecast forthequantity soldinthefirstfourmonthsoftheyearisasfollows:

Particulars	**Quantity in Units**
January, 2017	6000
February,2017	6000
March,2017	5200
April,2017	4400

Itisanticipatedthat

(a) Therewillbenowork-in-progressattheendofanymonth.

(b) Finishedunitsequaltohalfthesalesforthenextmonthwillbeinstock atthe endofeachmonthincluding(December,2016).

You are required to prepare a Production Budget for each of the three months ending31stMarch,2017.

46.Briefly narrate on the Elements of Budgetary Control.

47.What is a cash budget? Give the format.

48. From the following data, prepare cash budget for June, the bank balance is Rs.1,00,000.

Month	Sales	Purchases	Wages	Administration expenses
April	80,000	41,000	5,600	10,000
May	76,500	40,500	5,400	14,000
June	78,500	38,500	5,400	15,000
July	90,000	37,000	4,800	17,000
August	95,000	35,000	4,700	13,000

There is a two month credit period allowed to customers and received from suppliers.

49.From the following data for a 60% activity, prepare a budget for production at 70% capacity:

Production at 60% capacity	600 units
Materials	Rs. 100 per unit
Labour	Rs. 40 per unit
Direct expenses	Rs.10 per unit

Factory overheads Administration expenses	Rs.40,000 (40% fixed) Rs.30,000(60% fixed)

50. Explain the essentials of a successful budget.

K4 – LEVEL

SECTION C

1. How does financial accounting differ from management accounting?

2. Discuss the nature and scope of management accounting.

3. Discuss in detail the types of financial analysis.

4. Explain the tools and techniques used in management accounting.

5. Explain in detail the functions of management accounting.

6. From the following particulars extracted from the books of Sonu and Monu Ltd; compute

A) Current Ratio
B) Acid Test Ratio
C) Stock turnover ratio
D) Debtors turnover ratio
E) Creditors turnover ratio
F) Average Debt collection period (Take 365 days in a year)

Particulars	1.1.2007	31.12.2007
Bills receivable	15,000	30,000
Bills payable	30,000	15,000
Sundry debtors	60,000	75,000
Sundry creditors	37,500	52,500
Stock in trade	48,000	72,000

Additional information:

i) On 31.12.2007 there were assets- Building Rs.1, 00, 000; Cash Rs. 60,000; Cash at bank
Rs.48,000.
ii) Cash purchases Rs.69,000 and returns outwards Rs.9,000
iii) Cash sales Rs.75,000 and returns inwards Rs.3,000
iv) Rate of gross profit 25% on sales and actual gross profit was Rs. 75,000.

7. From the following particulars extracted from the financial statements of XYZ Ltd. Compute

a) Current ratio

b) Liquid ratio
c) Inventory Turnover ratio
d) Debtors Turnover ratio
e) Creditors turnover ratio

Particulars	Amount(Rs)	Particulars	Amount(Rs)
Opening Stock	47,000	Sundry Debtors	42,000
Closing Stock	53,000	Cash	10,000
Sales less returns	2,52,000	Bank	8,000
Provision for bad debts	2,000	Bills receivables	15,000
Sundry creditors	32,000	Provision for tax	15,000
Loose tools	4,000	Bills payable	29,000
Purchases	1,80,000	Marketable securities	8,000

8.From the following balance sheet of Dinesh Limited calculate:-
(i) Current ratio (ii) Liquid ratio (iii) Debt-equity ratio and (iv) Proprietary ratio.

Balance Sheet of Dinesh Limited as on 31-12-2016

Liabilities	Rs.	Assets	Rs.
Equity share capital	10,00,000	Goodwill	5,00,000
6% preference capital	5,00,000	Plant & Machinery	6,00,000
Reserves	1,00,000	Land & Buildings	7,00,000
Profit & Loss a/c	4,00,000	Furniture	1,00,000
Tax provision	1,76,000	Stock	6,00,000
Bills payable	1,24,000	Bills receivables	30,000
Bank overdraft	20,000	Sundry debtors	1,50,000
Sundry creditors	80,000	Bank account	2,00,000
12% debentures	5,00,000	Short term investment	20,000
	29,00,000		**29,00,000**

9.M/s Raj & sons presents you the following balance sheet as on 31.12.2016.

Liabilities	Rs	Assets	Rs
Share capital		Fixed assets	10,00,000
Equity shares of Rs.10 each	10,00,000	Stock	4,00,000
Reserve fund	1,00,000	Debtors	3,00,000
7% Debentures	3,00,000	Cash	2,00,000
Overdraft	2,00,000		

Creditors	3,00,000		
	19,00,000		19,00,000

Calculate i) liquidity ratios ii) solvency ratios iii) debt equity ratio

10. Mr. Wise intends to supply goods to X Ltd and Y Ltd. From the following information calculate i) current ratio ii) liquid ratio iii) average payment period and interpret the ratios.

	X Ltd	Y Ltd
Stock	4,00,000	50,000
Debtors	85,000	70,000
Cash	15,000	30,000
Trade creditors	1,50,000	80,000
Bank overdraft	20,000	15,000
Creditors for expenses	30,000	5,000
Total purchases	4,65,000	3,30,000
Cash purchases	15,000	10,000
Terms of payment	3 months	3 months

11. From the following balance sheets of S.M Industries prepare a funds flow statement showing your workings:

Liabilities	2007(Rs)	2008(Rs)	Assets	2007(Rs)	2008(Rs)
Share capital	60,000	65,000	Goodwill	30,000	25,000
Profit and loss a/c	34,000	26,000	Plant & Machinery	60,000	50,000
Current liabilities	12,000	3,000	Current assets	16,000	19,000
	1,06,000	94,000		1,06,000	94,000

Additional information:

i) Depreciation of Rs. 20,000 on plant and machinery was charged to Profit and Loss account

ii) Dividends of Rs. 12,000 were paid during the year.

12. From the following particulars prepare funds flow statement:

	Jan 1	Dec 31

Cash	2,000	1,800
Debtors	17,500	19,200
Stock	12,500	11,000
Land	10,000	15,000
Building	25,000	27,500
Machinery	40,000	43,000
	1,07,000	1,17,000
Creditors	18,000	20,500
Bank loan	15,000	22,500
Capital	74,000	74,500
	1,07,000	1,17,000

13. From the following two balance sheets as on 31st December 2016 and 2017, you are required to prepare statement showing flow of funds.

	2006	2007
Assets:		
Cash	30,000	47,000
Debtors	1,20,000	1,15,000
Stock in trade	80,000	90,000
Land	50,000	66,000
	2,80,000	3,18,000
Capital and liabilities:		
Share capital	2,00,000	2,50,000
Trade creditors	70,000	45,000
Retained earnings	10,000	23,000
	2,80,000	3,18,000

14. From the following balance sheet of Mr. A, prepare a schedule of changes in working capital and funds flow statement.

Liabilities	2016	2017	Assets	2016	2017
Capital	63,000	1,00,000	Cash	15,000	20,000
Long term borrowing	50,000	60,000	Debtors	30,000	28,000
Trade creditors	42,000	39,000	Stock in trade	55,000	72,000
Bank overdraft	35,000	25,000	Land and buildings	80,000	1,00,000
Outstanding expenses	5,000	6,000	furniture	15,000	10,000
	1,95,000	2,30,000		1,95,000	2,30,000

15. From the summary cash amount of sunny Ltd prepare cash flow statement for the year ended 31st march 2017 as per AS- 3 using direct method. The company does not have any cash equivalents.

Summary Cash Account

	Rs.'000		Rs.'000
Balance on 1.4.2007	100	Payment of suppliers	4,000
Issue of equity shares	600	Purchase of fixed assets	400
Receipts from customers	5,600	Overhead expenses	400
Sale of fixed assets	200	Wage and salaries	200
		Taxation	500
		Dividend	100
		Repayment of bank loan	600
		Balance	300
	6,500		6,500

16. The following information has been provided by a company for the year ended 30.6.2017.

Liabilities	Rs	Assets	Rs

Equity share capital	2,00,000	Fixed assets less depreciation	3,00,000
8% debentures	1,00,000	Inventories	1,00,000
Reserves and surplus	50,000	Sundry debtors	70,000
Long term loans	50,000	Cash and bank	10,000
Sundry creditors	80,000		
	4,80,000		4,80,000

Sales for the year ended 30.06.2017 amounted to Rs. 10,00,000 and it is estimated that the same will amount to Rs.12,00,000 for the year 2017-18. You are required to estimate the working capital requirements for the year 2017-18 assuming a linear relationship between sales and working capital.

18. Present the following information to show clearly to management.

a) Marginal product cost and the contribution

b) The total contribution and profits resulting from each of the following mixtures.

Particulars	Price per unit(Rs)	
	Product A	Product B
Direct material	10	9
Direct wages	3	2
Fixed expense Rs.800	--	--
Variable expenses are allotted to the products as 100% of direct wages.	--	--
Sale Price	20	15

Sales mixtures:

a) 100 units of Product A and 200 of B.

b) 150 units of Product A and 150 of B.

c) 200 units of Product A and 100 of B.

19.You are the Management Accountant of XYZ Co. Ltd. The Managing Director of the company seeks your advice on the following problem: The company produces a variety of products each having a number of computer parts. Product “B” takes 5 hours to produce on machine No.99 working at full capacity. “B” has a selling price of Rs.50 and a marginal cost, Rs.30 per unit. “A-10” a component part could be made on the same machine in 2 hours for marginal cost of Rs.5 per unit. The supplier’s price is Rs.12.50 per unit. Should the company make or buy “A-10”? Assume that machine hour is the limiting factor.

20. Sale of a product amounts to 200 units per month at Rs.10 per unit. Fixed overhead cost is Rs.400 per month and variable cost is Rs.6 per unit. There is a proposal to reduce prices by 10 per cent. Calculate present and future P/V ratio. How many units must be sold to earn the present total profits.

21.From the following forecasts of income and expenditure, prepare a cash budget for the month January to April, 2012:

Year	Month	Sales (Rs)	Purchases (Rs)	Wages (Rs)	Manufacturing expenses(Rs)	Administrative expenses(Rs)	Selling expenses (Rs)
2011	Nov	30,000	15,000	3,000	1,150	1,060	500
	Dec	35,000	20,000	3,200	1,225	1,040	550
	Jan	25,000	15,000	2,500	990	1,100	600
	Feb	30,000	20,000	3,000	1,050	1,150	620
	Mar	35,000	22,500	2,400	1,100	1,220	570
	April	40,000	25,000	2,600	1,200	1,180	710

Additional information is as follows:

1. The customers are allowed a credit period of 2 months.
2. A Dividend of Rs. 10,000 is payable in April.
3. Capital expenditure to be incurred: Plant purchased on 15^{th} of Janurary for Rs. 50,000; a building has been purchased on 1^{st} March and the payments are to be made in monthly instalments of Rs.2,000 each.
4. The creditors are allowing a credit of 2 months.
5. Wages are paid on the 1^{st} of the next month.
6. Lag in payment of other expenses is one month.
7. Balance of cash in hand on 1^{st} January, 2012 is Rs. 15,000.

22.Prasad and Co. wishes to prepare cash budget from January. Prepare a cash budget for the first six months from the following estimated revenue and expenses: (Amount in Rs.)

Month	Total sales	Materials	Wages	Production overheads	Selling and distribution overheads
January	10,000	10,000	2,00	1,600	400
February	11,000	7,000	2,200	1,650	450
March	14,000	7,000	2,300	1,700	450
April	18,000	11,000	2,300	1,750	500
May	15,000	10,000	2,000	1,600	450
June	20,000	12,500	2,500	1,800	600

Additional Information

1.Cash balance on 1st January was Rs. 5,000. New machinery is to be installed at Rs. 10,000 on credit, to be repaid by two equal instalments in March and April.

2.Sales commission @ 5% on total sales is to be paid within a month of following actual sales.

3.Rs. 5,000 being the amount of 2nd call may be received in March. Share Premium amounting to Rs. 1,000 is also obtainable with the 2nd call.

4.Period of credit allowed by suppliers- 2 months.

5.Period of credit allowed to customers- 1 month.

6.Delay in payment of overheads- 1 month.

7.Delay in payment of wages- ½ month.

8.Assume cash sales to be 50% of total sales.

23. The following information at 50% capacity is given. Prepare a flexible budget and forecast the profit

Or loss at 60%, 70%, 90% capacity.

	Expenses at 50% capacity
Fixed expenses:	
Salaries	50,000
Rent and taxes	40,000
Depreciation	60,000
Administrative expenses	70,000
Variable expenses:	
Materials	2,00,000
Labour	2,50,000
Others	40,000
Semi variable expenses:	

Repairs	1,00,000
Indirect labour	1,50,000
Others	90,000

24. Prepare a production budget for each month and a summarized production cost budget for the six months period ending 31^{st} December, 2016 from the following data of product X

i) The units to be sold for different months are as follows:

Month	Units
July	1,100
August	1,100
September	1,700
October	1,900
November	2,500
December	2,300
January	2,000

ii) There will be no work in progress at the end of any month.

iii) Finished units equal to half the sales for the next month will be in stock at the end of each month including June 2016.

iv) Budgeted production and production cost for the year ending 31^{st} December, 2011 are as follows

Production (units) – 22,000

Direct material (per unit) – Rs.10

Direct wages (per unit) – Rs.4

Total factory overheads apportioned to products Rs.88,000

25. Explain in detail the type of budgets.
