Module- I
Paper – 2 Company Accounts,
Cost & Management Accounting
December - 2012

PART – B

Q. No. 5 (a)

State, with reasons in brief, whether the following statements are true or false ?

	APPROPRIATE ANSWER	REASONS
(i)	TRUE	Cash flow statement deals with only cash inflow & cash outflow, hence accrual concept is not considered.
(ii)	FALSE	Cost –volume- profit relationship & Break-even analysis, both are same terms, which shows the changes in cost and profit with the changes in volume of production.
(iii)	FALSE	Short-term budgets are prepared for better control purposes.
(iv)	FALSE	Direct cost and variable cost both are same, as direct cost is directly related to the volume of output and change with the level of output. On the other side, variable cost is also directly related to the volume of output and change with the level of output.
(v)	TRUE	ABC Analysis is used to manage the small parts of inventory.

Q. No. 5 (b)
Write the most appropriate answer from the given options in respect of the following :-

	APPROPRIATE ANSWER	
(i)	(b)	Transfer to costing profit & loss account
(ii)	(b)	Attained
(iii)	(c)	Absorption costing
(iv)	(c)	12%
(v)	(c)	Halsey premium plan

Q. No. 5 (c)
R-write the following sentences after filling-in the blanks spaces with appropriate word(s)/figures(s) :-

	APPROPRIATE ANSWER
(i)	Overheads
(ii)	Method/technique
(iii)	Traditional Budgeting
(iv)	Reduce/decreases
(v)	Weighted average method

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Q. No. 6 (a)

Balance Sheet of Moon Ltd.

Liabilities		Amount	Assets		Amount
Share Capital		600,000	Fixed Assets		800,000
Profit & Loss a/c		240,000	Current Assets :-		
			- Debtors	4,00,000	
Reserves		60,000	- Stock	3,00,000	
			- Other	1,00,000	800,000
Debentures		300,000			
Current Liabilities :-					
- Creditors	3,50,000				
- Others	50,000	400,000			
		1,600,000			**1,600,000**

Working Notes :-

1. Current Assets

Given,
Current Ratio = 2:1 &
Working Capital = ₹ 4,00,000
Working capital = current assets – current liabilities,
Current Assets = Ratio of CA * Working capital / Working capital ratio (2-1)
= (2 * 4,00,000)/1,
= ₹ 8,00,000

Current Assets = ₹ 8,00,000

2. Current Liabilities

Working capital = Current assets – current liabilities
Hence,
Current liabilities = CA – WC
= 8,00,000 - 4,00,000

Current Liabilities = ₹ 4,00,000

3. Capital Block

Capital block/Current assets = 3/2,
Capital block = (3 * 8,00,000)/2
= 12,00,000

Capital Block = ₹ 12,00,000

4. Total of Liabilities side of Balance Sheet

= Capital Block + Current Liabilities
= 12,00,000 + 4,00,000
= 16,00,000

Total of Liabilities side = ₹ 16,00,000

5. Total of Assets side of Balance Sheet

Total of Liabilities Side = Total of Assets side
16,00,000 = 16,00,000

Total of Assets side = ₹ 16,00,000

6. Fixed Assets

= Total Assets – Current Assets
= 16,00,000 - 8,00,000
= 8,00,000

Fixed Assets = ₹ 8,00,000

7. Turnover/Sales

Fixed Assets/Turnover= 1/3,
Turnover = (Fixed Assets * 3)/1
= (8,00,000 * 3)/1
= 24,00,000

Turnover = ₹ 24,00,000

8. Cash Sales & Credit Sales

Cash sales/Credit sales = 1/2
Let, Cash sales be assumed as "x", then
Cash sales = X,
Credit sales = 2X
Cash sales + Credit sales = Total sales
X + 2X = 24,00,000
3 X = 24,00,000
X = 8,00,000

Cash Sales = ₹ 8,00,000

Credit Sales = ₹ 16,00,000

9. Gross Profit

G.P. Ratio is 25 % on sales
i.e. 25 % of 24,00,000

Gross Profit = ₹ 6,00,000

10. Cost of goods sold

= Sales - Gross profit
= 24,00,000 – 6,00,000
= 18,00,000

Cost of goods sold = ₹ 18,00,000

11. Closing Stock

Stock velocity = 2 months ; (given)
Stock velocity = closing stock * 12 / cost of goods sold
closing stock = (18,00,000 * 2)/12
= 3,00,000

Closing Stock = ₹ 3,00,000

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12. Sundry Debtors

Debtors velocity = 3 months ; (given)

Debtors velocity = Debtors * 12 / Credit sales

Debtors = (16,00,000 * 3)/12

= 4,00,000

Debtors = ₹ 4,00,000

13. Sundry Creditors

Creditors velocity = 2 months ; (given)

Creditors velocity = Creditors * 12 / Credit purchases

Creditors = (21,00,000 * 2)/12

= 3,50,000

Creditors = ₹ 3,50,000

Purchases,

Cost of goods sold = Op Stock + Purchases + Direct Exp – closing stock ;

18,00,000 = 0 + Purchases + 0 – 3,00,000

Purchases = 21,00,000

Assuming, all purchases in credit.

Assuming, no direct exp & NIL opening stock.

14. Net Profit

10 % of turnover

i.e. 10 % of 24,00,000

= 2,40,000

Net Profit = ₹ 2,40,000

15. Reserves

2.5 % of turnover

i.e. 2.5 % of 24,00,000

= 60,000

Reserves = ₹ 60,000

16. Debentures & Share Capital

Capital block = Share Capital + Debentures + Net Profit + Reserves, ;

12,00,000 = Share capital & debentures + 2,40,000 + 60,000, ;

Share capital & debentures = 9,00,000

Debentures/share capital = 1/2

Let, debentures be assumed as "p", then

Share capital = 2p

P + 2p = 9,00,000

3p = 9,00,000

p = 3,00,000

Debentures = ₹ 3,00,000

Share Capital = ₹ 6,00,000

17. Other Current Assets

= Total Current assets – Debtors – Stock

= 8,00,000 – 4,00,000 – 3,00,000

= 1,00,000

Other current assets = ₹ 1,00,000

18. Other Current Liabilities

= Total Current liabilities– Creditors

= 4,00,000 – 3,50,000

= 50,000

Other current liabilities = ₹ 50,000

Q. No. 6 (b)

Please refer page no. 631 of study material.

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Q. No. 7 (a)

In the Books of S V Construction Ltd.
Contract Account for the year ended 30th Sept 2012

Contract Price - 12,00,000

Particulars	Amount	Particulars	Amount
To Plant Purchased	60,000	By Plant at site . (Rs. 60,000 - Rs. 12,000)	48,000
To Wages paid	340,000	By Material at site	4,000
To Wages accrued	2,800	By Work in progress	
		- Work Certified	750,000
To Material Issued	336,000	- Work Uncertified	14,000
To Direct Exp	8,000		
To Direct Exp accrued	1,200		
To General Overheads	32,000		
To Notional Profit c/d	***36,000***		
	816,000		**816,000**
To Profit & Loss a/c	19,200	By Notional profit b/d	36,000
To WIP	16,800		
	36,000		**36,000**

Contract has not completed in the same year, hence it is incomplete question. Accordingly, the part of the profit will be transferred to the work-in-progress and other part to profit & loss account based on % age of work certified to contract price.

Calculation of amount of profit to be credited to Profit & Loss account :-

Work certified $\frac{(6,00,000 * 100)}{80}$ = 7,50,000, Contract Price = 12,00,000

Ratio of work certified to contract price = (750000/1200000) * 100 = 62.50 %

The value of work certified is more than 50 % of the contract price, hence 2/3 of the profit will be transferred to Profit & loss account as follows :-

$$= \frac{2}{3} X \text{ Notional Profit } X \frac{\text{Cash Received}}{\text{Work Certified}}$$

$$= \frac{2}{3} X \ 36,000 \ X \frac{600,000}{750,000} = 19,200$$

Depreciation on plant :-

= (Cost of plant – Scrap value)/Life of plant
= (60,000 – 0)/5 Years
= ₹ 12,000

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Q. No. 7 (b)

Annual Supply (R)	=	24,000 bearings
Holding cost per unit (C)	=	₹ 1.20 p.a. (0.10 * 12)
Set-up cost (O)	=	₹ 324 per run

(i) Optimum run size for manufacturing of bearing :- to determine the optimum run size, Economic Order Quantity (EOQ) shall be calculated

$$\text{Economic Order Quantity (EOQ)} = \frac{\sqrt{2RO}}{C}$$

$$= \frac{\sqrt{2 * 24{,}000 * 324}}{1.20} = 3600 \text{ bearings}$$

(ii) Extra cost at 6000 bearings

- Total cost at optimum run size of 3600 bearings

$$\text{Total Cost} = \text{Ordering cost/Set-up cost} + \text{Carrying Cost}$$

$$\text{Total Cost} = \left(\frac{R}{\text{Order Size}} \times \text{Set up cost per run}\right) + \left(\frac{\text{Order Size}}{2} \times \text{Holding cost per unit}\right)$$

$$\text{Total Cost} = \left(\frac{24000}{3600} \times 324\right) + \left(\frac{3600}{2} \times 1.20\right)$$

Total Cost = ₹ 4320.00

- Total cost at run size of 6000 bearings

$$\text{Total Cost} = \text{Ordering cost/Set-up cost} + \text{Carrying Cost}$$

$$\text{Total Cost} = \left(\frac{R}{\text{Order Size}} \times \text{Set up cost per run}\right) + \left(\frac{\text{Order Size}}{2} \times \text{Holding cost per unit}\right)$$

$$\text{Total Cost} = \left(\frac{24000}{6000} \times 324\right) + \left(\frac{6000}{2} \times 1.20\right)$$

Total Cost = ₹ 4896.00

Conclusion: - Company would be incurring ₹ 576 (₹ 4896 - ₹ 4320) as extra cost.

(iii) Minimum inventory holding cost

Total holding cost at Optimum run size of 3600 bearings will be the minimum inventory holding cost, which is ₹ 2160.

$$\text{Total holding cost} = \left(\frac{3600}{2} \times 1.20\right) = 2160$$

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Q. No. 8 (a)

CASH FLOW STATEMENT OF GREAT LTD.

PARTICULARS		AMOUNT	AMOUNT
(A) Cash Flow from Operating Activities:-			
Net Profit before tax for the year {(1,00,000 - 60,000) + 80,000 }			120,000
Adjustments of non operating/non cash items:-			
Depreciation on plant & machinery		125,000	
Proposed Dividend		200,000	
Transfer to reserves		50,000	
Profit on sale of plant & machinery		-15,000	360,000
Cash flow from operating activities before working capital & extra ordinary items			480,000
Adjustment of working capital:-			
Decrease in trade receivables		200,000	
Increase in stock		-200,000	
Decrease in trade payables		-120,000	-120,000
Cash flow from operating activities before tax paid & extra ordinary items			360,000
Tax paid			-50,000
Net Cash flow from Operating activities	**(A)**		**310,000**
(B) Cash Flow from Investing Activities:-			
Purchases of Investments		-100,000	
Purchases of plant & machinery		-345,000	
Purchases of building		-200,000	
Sale of plant & machinery		35,000	-610,000
Net Cash flow from Investing activities	**(B)**		**-610,000**
(C) Cash Flow from Financing Activities:-			
Issue of Share capital		200,000	
Issue of Debentures		200,000	
Dividend paid		-100,000	300,000
Net Cash flow from Financing activities	**(C)**		**300,000**
Net Increase or Decrease in Cash and Cash equivalents { (A) + (B) + (C) }			0
Cash and Cash equivalents in the beginning of the year			200,000
Cash and Cash equivalents at the end of the year			200,000

Working Notes:-

Land & Building A/c

Particulars	Amount	Particulars	Amount
To Balance b/d	400,000		
To Bank a/c (Purchases)	200,000	By Balance c/d	600,000
	600,000		**600,000**

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Plant & Machinery A/c

Particulars	Amount	Particulars	Amount
To Balance b/d	500,000	By Depreciation (25%)	125,000
To P & L (profit on sale)	15,000	By Bank a/c (sale)	35,000
To Bank a/c (Purchases)	345,000	By Balance c/d	700,000
	860,000		**860,000**

Provision for Taxation A/c

Particulars	Amount	Particulars	Amount
To Bank (tax paid)	50,000	By Balance b/d	70,000
To Balance c/d	100,000	By P & L (tax made)	80,000
	150,000		**150,000**

Proposed Dividend A/c

Particulars	Amount	Particulars	Amount
To Bank (dividend paid)	100,000	By Balance b/d	100,000
To Balance c/d	200,000	By P & L	200,000
	300,000		**300,000**

Q. No. 8 (b)

Product X can be produced either by Machine A or Machine B. Total machine hour available are 2500 hours. It means machine hours are limited factor (key factor). To decide that Product X should be produced by which machine, contribution per key factor (contribution per machine hour) shall be calculated and selection should be based on ranking.

Statement showing calculation of Contribution per machine hour of Machine A & B (Total machine hours = 2500 hours)

Particulars	Machine A	Machine B
Selling price per unit	9.00	9.00
Less - Marginal cost per unit	5.00	6.00
Contribution per unit - (i)	*4.00*	*3.00*
No. of units/machine hour – (ii)	100 units	150 units
Contribution per machine hour – (i) * (ii)	**₹ 400**	**₹ 450**
Ranking	**I**	**II**

Conclusion - Based on the above calculation, it is evident that Contribution per machine hour of Machine B (₹ 450) is higher than Machine A (₹ 400). ***Hence, product X should be produced by Machine B.***

Note –

1. Fixed cost is not relevant for decision-making.

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Q. No. 8 (c)

"Management accounting is a decision making system". Comment ? (Jun – 05)

Decision-making is an important and prime function of top management. Management accounting may take the decision making process more modern and scientific by providing significant information relating to various alternatives in terms of cost and revenue. With the help of techniques provided by Management accounting, data relating to cost, price profit or saving for each of the available alternatives may be collected and analysed and these provide a base for taking sound decision. Management accounting deal with a number of techniques which could be used in judging the profitability and feasibility of the alternatives selected on the basis of cost and revenue data.

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