

INTRODUCTION TO MANAGEMENT ACCOUNTING

S.Y.B.Com. Semester III

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**Special Guidance Lecture at
L.S.Raheja College of Arts & Commerce,
Santacruz (West),**

On 12th October, 2018.

TOTAL MARKS – 100 TIME – 3 HOURS

• ALLOCATION OF MARKS & TIME –

- Q.No.1 Objective – 10 out of 12+ 10 out of 12 20 marks
- Q.No.2 Problem-15 marks or Problem 15 marks
- Q.No.3 Problem-15 marks or Problem 15 marks
- Q.No.4 Problem-15 marks or Problem 15 marks
- Q.No.5 Problem-15 marks or Problem 15 marks
- Q.No.6 Theory10+10marks or Short Q.4 out of 6 20 marks
- Question of 15 marks may be divided into 7/8, 10/5 marks
- Total Questions 6, Total 100 **marks**

- For reading question paper 5 mt.s
- For solving 5 questions x 30 mt.s 150 mts.
- For solving Q. no. 1 20 mts.
- For checking answer paper 5 mts.
- Total Time **180 mts.**

VERTICAL FORM – ABC LTD.

Balance Sheet as on ...

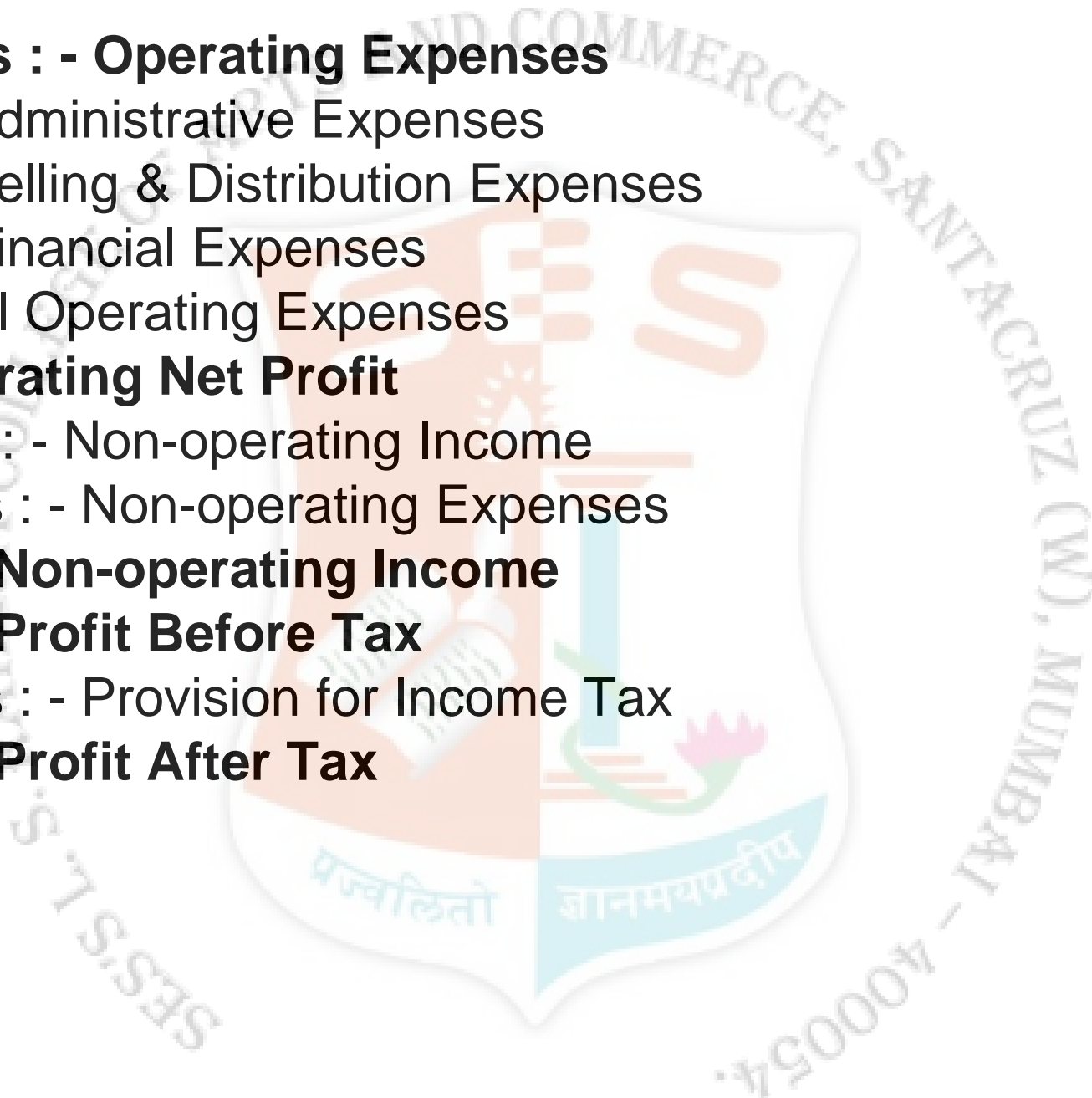
- **Sources of Funds -**
- **I) Shareholders' Fund / Proprietor's Fund /**
- **Own Fund / Net Worth**
- a) Capital (Eq.+ Pref.–Calls-in-arrears + forfeited shares)
- b) Reserves & Surplus
- c) Less – Fictitious Assets & Losses
- **II) Loan Fund / Borrowed Fund /**
- **Owed Fund / Long Term (Fixed) Liabilities**
- a) Long-term Borrowings / Secured Loans
- b) Short-term Borrowings / Unsecured Loans
- **Total Capital (Funds) Employed (I + II)**

- **Application of Funds –**
- **I) Fixed Assets**
 - a) **Tangible Assets** (Fixed Assets – Depreciation Provision)
 - b) **Intangible Assets** (Goodwill, Patents, Trade marks etc.)
- **II) Investments** (Long-term including Trade Investment)
- **III) Working Capital**
 - **A) Current Assets**
 - i) **Quick Assets** (S.Dr.s, B/R, Marketable Investment, Cash & Bank Bal. etc.)
 - ii) **Non-Quick Assets**(Stock,Prepaid Exp.,Adv.Paid, Adv. I.Tax Paid,TDS from income,Stock of Spares)
 - **B) Current Liabilities**
 - i) **Quick Liabilities** (S.Cr.s, B/P, O/s exp.s, Adv. Recd., TDS. From exp.s etc.)
 - ii) **Non-Quick Liabilities**(Bank Overdraft, Pre-received Income)
 - Working Capital = (A) – (B)
- **Total Capital (Funds) Employed. (I + II + III)**

VERTICAL FORM – ABC Ltd. Revenue Statement for the year ended ...

- **Gross Sales**
- Less :- Sales Returns
- **Net Sales**
- **Less : - Cost of Goods Sold**
- Raw Material Consumed
- Direct Expenses
- Depreciation on Machinery, Factory Building, Patterns
- Add :- Opening Stock of W.I.P.
- Less :- Closing Stock of W.I.P.
- Less :- Sale of factory scrap
- Add :- Opening Stock and Purchase of Finished Goods
- Less :- Closing Stock of Finished Goods
- **Gross Margin / Gross Profit**
- Add :- Other Operating Income (Commi. & Dis. recd., Bad Debts recovery)
- **Gross Profit plus Other Operating Income**

- **Less : - Operating Expenses**
- A) Administrative Expenses
- B) Selling & Distribution Expenses
- C) Financial Expenses
- Total Operating Expenses
- **Operating Net Profit**
- Add : - Non-operating Income
- Less : - Non-operating Expenses
- **Net Non-operating Income**
- **Net Profit Before Tax**
- Less : - Provision for Income Tax
- **Net Profit After Tax**



Statement of Retained Earnings

- **Net Profit After Tax for the year**
- Add :- Op.Bal. of Profit & Loss A/c
- Add :- Excess Provision for Tax
- Less:- Short Provision for Tax
- **Net Profit available for appropriation**
- Less :- Appropriations -
- Transfer to Reserves
- Interim Dividend Paid
- Final Dividend Paid
- **Retained Earnings / Profits**

Comparative Statements

- Prepare statements in **vertical form with first year in the first and second year in the second column.**
- Negative change should be indicated by
- - sign or writing the figure in bracket. – 10, (10)
- % Change = $\frac{\text{Absolute Change}}{\text{Base Year Figure}} \times 100$
- % Change should be written upto 2 decimal points.e.g. 25.675 as 25.68 %
- If First year figure is zero then % change
- is infinite i.e. ~
- **Write comments** in brief.

Common-size Statements

- Prepare Statements in **vertical form**.
- In Balance Sheet take **Total Capital Employed** as base or 100.00 % and convert all other figures as % of that figure.
- In Profit & Loss A/c take **Net Sales** as base or 100.00 % and convert all other figures as % of that figure.
- **Write comments** in brief.

Trend Statements

- Prepare Statements in **Vertical Form** from **earlier years to current year**.
- Take all the figures of the first year as the base or 100.00 %
- From second year onwards convert every figure as % of the corresponding base year's figure.
- If first year's figure is zero then take second year's figure as the base or 100.00 %
- **Write comments** in brief.

Ratio Analysis

- **Write the formula of the ratio and standard ratio.**
- **Calculate the ratio.**
- **Write comments** stating –
 - A) What the ratio indicates.
 - B) What is the actual ratio.(up to two decimal points)
 - C) What is the standard ratio.
 - D) Compare actual & standard ratio and
Comment whether it is good or bad.
 - E) If the ratio is bad or unsatisfactory then suggest
How to improve the ratio.

Working Capital

- **Estimate of Working Capital –**
- **A) Current Assets –**
- i) Stock of Raw Material-units x rate x mths.
- ii) Stock of W.I.P.
 - a) Material - units x rate x mths.
 - b) Labour - units x rate x mths. x $\frac{1}{2}$
 - c) Overheads – units x rate x mths. x $\frac{1}{2}$
- iii) Stock of Finished Goods-units x rate x mths.
- iv) Debtors – units x S.P. x mths.
- v) Prepaid Expenses – Expenses payable in advance
- vi) Advance to Suppliers- units x rate x mths
- vii) Bills Receivables – units x S.P. x mths.
- viii) Cash & Bank Balance – Estimated Cash & Bank Balance

- **B)Current Liabilities –**

- i)Creditors for goods – units x rate x mths.
- ii)Outstanding Wages- units x rate x mths.
- iii)Outstanding Overheads – units x rate x mths.
- iv)Bills Payable – units x rate x mths.
- v)Bank Overdraft – Estimated overdraft
- vi) Advance from customers – units x S.P.x mths.
- **Working Capital = C.A. – C.L.+ Contingency Reserve.**
- Debtors should be taken at selling price. If it is given to be taken at cost, then take it at cost.
- Finished goods should be taken at Factory cost.
- Administrative and Selling & Distribution Overheads should not be considered for Finished Goods.
- For Cash-Cost Working Capital , Depreciation and non-cash charges should be excluded from cost and Debtors should be taken at cost.

Capital Budgeting

- Capital Budgeting Techniques –
- Payback Period
- Discounted Payback Period
- Accounting Rate of Return (ARR)
(Av. Profit after tax / Av. Investment x 100)
- Net Present Value (NPV)
(P.V. of cash inflows – P.V. of cash outflows)
- Profitability Index (PI)
(P.V. of cash inflows / P.V. of cash outflows)

Theory Questions

- **Question No. 1** is of objective type question – a) Any 10 out of 12 and b) Any 10 out of 12, which may include
- Questions like a) Multiple-choice b) Fill in the blanks c) Match the column d) True or False
- **Question No. 6** is Theory Q. a) Short Q. of 10 marks b) Short Q. of 10 marks **OR** Short Notes – Any 4 out of 6.

Concept of Trading on Equity

Permanent or Core Working Capital

Over-Trading & Under-Trading

Over-Investment & Under-Investment

Over-Capitalization & Under-Capitalization

Debt-Service Ratio, Debtors' / Creditors' turnover Ratio

Leverage Ratios, Activity ratios, Solvency Ratios, Coverage Ratios, Profitability Ratios, Balance Sheet Ratios, Revenue Statement Ratios, Combined Ratios etc.

General Instructions

- It is not necessary to solve Q.No.1 first. Solve first the question which you know the best.
- Handwriting should be clean, neat and beautiful.
- Presentation should be nice.
- Complete the entire paper.
- Take care of your health. Take proper sleep at night and avoid full night studies.
- Reach exam. hall 30 minutes before time.
- Do not entertain anybody during exam.

BEST OF LUCK !

- TRY TO GET **100 / 100 !**
- YOU **CAN** AND YOU **WILL** DO IT !!

THANK YOU !

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