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),
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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 Theory 10+10 marks 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.)

• 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 covert 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.
• 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 ½
  • c) Overheads – units x rate x mths. x ½
  • 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.


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)
  \(\text{(Av. Profit after tax / Av. Investment x 100)}\)
• Net Present Value (NPV)
  \((\text{P.V. of cash inflows – P.V. of cash outflows})\)
• Profitability Index (PI)
  \((\text{P.V. of cash inflows / P.V. of cash outflows})\)
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!

• CA MAHESH S. SATHE.

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