MANAGEMENT PROGRAMME

Term-End Examination

December, 2006

MS-4 : ACCOUNTING AND FINANCE FOR MANAGERS

Time : 3 hours *Maximum Marks : 100*

(Weightage 70%)

Note : *Attempt any **five** questions. All questions carry equal marks.*

1. (a) "Accounting is closely connected with control." Elaborate this statement and discuss the role of accounting feedback in the process of control.

(b) "The cost concept of accounting meets all the three basic criteria of relevance, objectivity and feasibility." Explain.

2. From the following balances as on 31^{st} December 2004, prepare the Trading and Profit and Loss Account for the year ended 31^{st} December 2004 and the Balance Sheet as on that date after making the necessary adjustments :

Mr. Gupta's Capital A/C	1,65,000
Stock on 1st January, 2004	70,200
Sales	4,34,400
Purchases	3,64,650
Carriage Inwards	27,900
Rent and Taxes	8,550
Sales Returns	12,900
Salaries	13,950
Purchases Return	8,700
Sundry Debtors	36,000
Sundry Creditors	22,200
6% Bank Loan (1-1-2004)	30,000
Interest Paid on Bank Loan	1,350
Printing and Advertising	21,900
Drawings A/c	15,000
Interest Received from A.N. Sen	400
Cash at Bank	12,000
Discount received	6,300

Investments	7,500
Furniture and fittings	2,700
Discount paid	11,310
General Expenses	6,000
Audit fees	1,050
Insurance	900
Travelling Expenses	3,500
Postage and Telegrams	4,070
Cash in hand	570
9% deposit with A.N. Sen (on 1-1-2004)	45,000

Adjustments :

(a) Stock as on 31st December 2004 was Rs. 1,20,000.

(b) Sundry debtors included a sum of Rs. 3,000 from Mr. Gupta and Sundry creditors included a sum of Rs. 4,000 due to Mr. Gupta.

(c) 25% of the Printing and Advertising is to be carried forward to the next year.

(d) Provide 5% for bad debts and 2% on the balance for discount for prompt payment.

(e) Write off depreciation at 10% on Furniture and Fittings.

(f) As on 31st December 2004, salaries and carriage inwards that remained unpaid were Rs. 1,200 and Rs. 150 respectively.

(g) Insurance paid in advance as on 31st December 2004 was Rs. 120.

(h) Purchases to the value of Rs. 1,800 had been omitted to be entered in the books.

(i) Personal purchases of Rs. 700 made by Mr. Gupta had been included in the purchases.

(j) Provide for interest on bank loan and deposit with A.N. Sen.

(k) Furniture purchases for Rs. 1,000 on 1-1-2004 had been debited to Purchases Account.

3. Prepare an estimate of net working capital requirment for ABC Ltd. from the following information :

Estimated cost of production per unit

Rs. 170 which includes —

Raw materials Rs. 80/-

Direct labour Rs. 30/-

Overheads (exclusive of depreciation) Rs. 60/-

Selling price is Rs. 200 per unit.

Level of activity per annum, 1,04,000 units

Raw material in stock : average 4 weeks.

Work in progress (assume 50% completion stage) : average 2 weeks

Finished goods in stock : average 4 weeks

Credit allowed by suppliers : average 4 weeks

Credit allowed to debtors : average 8 weeks

Lag in payment of wages : average 1·5 weeks

Cash at bank is expected as Rs. 25,000/-

You may assume the production is carried out evenly throughout the year (52 weeks) and wages and overheads accrue similarly.

All sales are on credit basis only.

Add 10% for contingencies.

You may state your assumptions, if any.

4. What do you understand by composite cost of capital ? How is it calculated ? What is its role in determining the optimal debt-equity mix ? Explain fully.

5. What advice would you give to a company in the following situations ? Give reasons also.

(a) Company prepares a cash budget taking into account the operating cash flows only.

(b) Company is following an erratic dividend policy.

(c) Company's current ratio is very high, but the quick ratio is very low.

(d) Company wants to choose suitable channels for investment of its idle cash.

6. A foreign soft drink company is planning to establish a subsidiary company in India to produce mineral water. Based on the estimated annual sales of 40,000 bottles of mineral water, cost studies show the following estimates for the Indian subsidiary :

	Total Annual Costs (Rs.)	Percentage of Total Annual Cost which is variable
Material	2,10,000	100%
Labour	1,50,000	80%
Factory overheads	92,000	60%
Administrative expenses	40,000	35%

The Indian production will be sold by the manufacturer's representatives who will receive a commission of 8% of the sale price.

You are required to :

(i) Compute the sale price per bottle to enable the management to realise an estimated 10% profit on sale proceeds in India.

(ii) Calculate the break-even point in Rupee Sales as also in number of bottles for the Indian subsidiary on the assumption that the sale price is Rs. 14 per bottle.

7. What do you understand by Zero Base Budgeting ? Discuss the steps that are involved in Zero Base Budgeting and describe its advantages.

8. Write short notes on any ***four*** of the following :

(a) Rolling Budget

(b) Shut Down and Sunk Costs

(c) Direct Material Usage (or Quantity) Variance

(d) Funds from Business Operations

(e) Continuity Concept