BE9-R3: ACCOUNTING AND FINANCIAL MANAGEMENT

NOTE:

1.	**Answer question 1 and any FOUR questions from 2 to 7.**
2.	**Parts of the same question should be answered together and in the same sequence.**

Time: 3 Hours **Total Marks: 100**

1.

a) State under what heading (personal, real or nominal) would you classify each of the following accounts:
   i) Salary prepaid Account
   ii) Bank Account
   iii) Bad Debts Account
   iv) Goodwill Account

b) Describe-
   i) Du Pont Analysis
   ii) Opportunity Cost

c) Distinguish between job costing and process costing system.

d) Explain the concept of Zero-Base budgeting.

e) Explain the meaning of gross and net working capital.

f) Differentiate between absorption costing and variable costing.

g) What is time value of Money? Discuss briefly the ways for accounting for the time value of money.

(7x4)

2. From the following figures, extracted from the books of Shri Govind, you are required to prepare
   1) Trading and Profit & Loss Account
   2) Balance Sheet for the year ended 31st March 2009 after making the necessary adjustments.

Particulars	**Amount Rs.**
Shri Govind's Capital	2,28,800
Shri Govind's Drawing	13,200
Plant and Machinery	99,000
Freehold property	66,000
Purchases	1,10,000
Returns onwards	1,100
Salaries	13,200
Office expenses	2,750
Office furniture	5,500
Discounts A/C (Dr.)	1,320
Sundry Debtors	29,260
Loan to Shri Krishna @ 10%p.a. Balance on 1.4.2008	44,000
Cash at Bank	29,260
Bills Payable	5,500

Particulars	**Amount Rs.**
Stock 1.4.2008	38,500
Wages	35,200
Sundry Creditors	44,000
Postage and Telegrams	1,540
Insurance	1,760
Gas and Fuel	2,970
Bad debts	660
Office rent	2,860
Freight	9,900
Loose Tools	2,200
Factory Lighting	1,100
Provision for Doubtful Debts	880
Interest on Loan to Shri Krishna	1,100
Cash on hand	2,640
Sales	2,31,440

Adjustments:

i) Stock as on 31st March, 2009 was valued at Rs. 72,600.

ii) Rate of depreciation on Plant and Machinery @ 33.33%; Furniture @ 10% and Freehold Property @ 5%

iii) Loose tools were valued at Rs. 1,760 on 31.3.2009.

iv) Of the Sundry Debtors, Rs. 600 are bad and should be written off.

v) Maintain a provision of 5% on Sundry Debtors for doubtful debts.

vi) The manager is entitled to a commission of 10% of the net profits after charging such commission.

(18)

3.

a) Distinguish between Liquidity Ratios and Profitability ratios.

b) The financial position of M/s. A & B as on Jan1 and December 31, 2008 was as follows:

Liabilities	**1st Jan. Rs.**	**31st Dec. Rs.**	**Assets**	**1st Jan. Rs.**	**31st Dec. Rs.**
Current Liabilities for Goods	36,000	40,600	Cash	4,000	3,600
Mrs. A's Loan		20,000	Debtors	35,000	38,000
Loan From Bank	30,000	25,000	Stock	25,000	22,000
Hire-Purchase Vendors	-	20,000	Land	20,000	30,000
Capital	1,48,000	15,400	Building	50,000	55,000
			Machinery	80,000	86,000
			Delivery Van	-	25,000
	2,14,000	**2,59,600**		**2,14,000**	**2,59,600**

The delivery van was purchased in December 2008 on hire purchase basis; a payment of Rs. 5000 was made immediately and the balance of the amount is to be paid in 20 monthly installments of Rs. 1,000 each together with interest @ 12% p.a. During the year, the partners withdrew Rs. 26,000 for domestic expenditures. The depreciation against machinery on 31.12.2007 was Rs. 27,000 and on 31.12.2008 was Rs. 36,000.

You are required to prepare the Funds Flow statement for the year 2008. Show the working steps.

(6+12)

4.

a) The following information has been obtained from the records of "M/s. Left Centre Corporation" for the period from June 1 to June 30, 2008:

Cost of raw materials on June 1, 2008	Rs. 30,000
Purchase of raw material during the month	Rs. 4,50,000
Wages Paid	Rs. 2,30,000
Factory Overhead	Rs. 92,000
Cost of work-in-progress on June 1, 2008	Rs. 12,000
Cost of raw materials on June 30, 2008	Rs. 15,000
Cost of stock of finished goods on June 1, 2008	Rs. 60,000
Cost of stock of finished goods on June 30, 2008	Rs. 55,000
Selling and distribution overheads	Rs. 20,000
Sales	Rs. 9,00,000
Administration Overheads	Rs. 30,000

Prepare a statement of cost.

b) What are the limitations of funds flow statement? Describe different internal and external sources used in preparation of funds flow statements.

(10+8)

5.

a) The following data are available in a manufacturing company for the year 2009:

Fixed Expenses	**Rs. in Lakhs**
Wages and Salaries	9.5
Rent, Rates and Taxes	6.6
Depreciation	7.4
Sundry Administration Expenses	6.5
Semi-variable expenses (at 50% capacity)	
Maintenance and Repairs	3.5
Indirect Labour	7.9
Sales department salaries etc.	3.8
Sundry administration salaries	2.8
Variable Expenses (at 50% capacity)	
Materials	21.7
Labour	20.4
Other Expenses	7.9

Assume that the fixed expenses remain constant for all levels of production, semi variable expenses remain constant between 45 percent and 65 percent of capacity, increasing by 10 percent between 65 % and 80% capacity and by 20 % between 80 % and 100 % capacity.

Sales at various levels are

	(Rs. in Lakhs)
50% capacity	100
60% capacity	120
75% capacity	150
90% capacity	180
100% capacity	200

Prepare a flexible budget for the year 2009 and forecast the profit at 50%, 60%, 75%, 90% and 100% of capacity.

b) How cost volume profit analysis is useful to the Finance Manager of a manufacturing company?

(12+6)

6.

a) Discuss briefly the characteristics of short term securities.

b) Why are Preference Shares issued?

c) Write a short note on working capital optimization.

(6+6+6)

7.

a) M/s. S. Ltd is considering for purchase of a machine. There are two possible machines which will produce the additional output. Details of these machines are as follows:

	Machine X Rs.	**Machine Y Rs.**
Capital Cost	60,000	60,000
Sales at Standard price	1,00,000	80,000
Cost:		
Labour	10,000	6,000
Materials	8,000	10,000
Factory Overheads	12,000	10,000
Administrative Costs	4,000	2,000
Selling Costs	2,000	2,000
Expected Life in Years	2	3

Other Information's:

i) The costs shown above relate to annual expenditure resulting from each machine. Sales are expected to continue at the rates shown for each year for the full life of each machine;

ii) Tax to be paid may be assumed at 50 % of net earnings;

iii) Interest on capital is to be ignored ;

iv) The appropriate rate of interest for converting the present value may be taken at 10%

On the basis of facts given above, show the most profitable investment by the following methods:

1) Pay Back period
2) Return on Investment

Discount factor at 10 % for various years is as follows:

Year	**1**	**2**	**3**	**4**
Discount Factor at 10%	.909	.826	.751	.683

b) Discuss the meaning of Dividend and Dividend policy.

(12+6)