BE9-R3: ACCOUNTANCY 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) Differentiate clearly between Balance Sheet and Trial Balance.
b) Explain briefly advantage of preparing subsidiary books.
c) Discuss the limitations of CVP analysis.
d) Define: Cost, Costing and Cost accounting.
e) Explain the advantage of variable costing over Absorption Costing
f) Discuss the application job and process costing system
g) Write a short note on the objective(s) of Financial Management.

(7x4)

2. Mr. Shah carried on business as a coal merchant and on 31st December, 2006 the following Trial Balance was prepared.

Dr. Balances	(Rs.)	Cr. Balances	(Rs.)
Stock (on 01/01/2006)	8,500	Bills Payable	4,500
Salaries	6,400	Creditors	19,500
Furniture	2,550	Capital	50,000
Wages	3,350	Sales (Credit)	10,500
Purchases (Credit)	5,750	Sales (Cash)	70,000
Business Premises	46,000	Returns outward	500
Carriage (Outward)	350	Loan on mortgage	25,000
Discount	250	**Total**	1,80,000
Taxes	1,450		
General Expenses	350		
Returns Inward	2,300		
Machinery	20,000		
Rent	2,400		
Dock charges	2,700		
Sundry Debtors	32,000		
Insurance	450		
Repairs	700		
Bad debts	1,000		
Purchases (Cash)	40,000		
Bills Receivable	3,500		
Total	1,80,000		

Prepare Trading Account, Profit & Loss Account and Balance Sheet by considering the following:

i) Charge depreciation on business premises at 2.5%, Machinery at 5% and furniture at 10%.
ii) The stock on 31st December 2006 was valued as Rs. 12,750.
iii) Allow interest on capital 5% per annum and provide interest on loan for the year at 6%.

(18)

3.

a) Discuss the advantages of ratio analysis.
b) Explain the following ratios in detail:
   i) Current ratio
   ii) Quick ratio
   iii) Current asset turnover ratio
   iv) Gross profit margin
   v) Debt/Equity ratio
   vi) Earning Per Share (EPS)

(6+12)

4. Three firms X, Y and Z manufacture the same product. The selling price is Rs. 10 per unit of the product and is equal for all the firms. The fixed costs for Firms X, Y and Z is Rs. 3,00,000, Rs. 2,00,000 and Rs. 1,50,000 respectively , while the variable costs per unit are Rs. 6, Rs. 5 and Rs. 4.

a) Determine Break-even point for all the firms.
b) How much profit is earned by each firm, if each of them sells 80,000 units?
c) What shall be the impact on their profits if sales decreases by 25 percent?

(6+6+6)

5.

a) The following cost data is available on two jobs. Find out the selling price of both so as Job No. 1 earns a profit of 25% on cost and Job No. 2 earns a profit of 20% on sales.

	Job No. 1 (Rs.)	**Job No. 2 (Rs.)**
Direct Material	1600	2000
Direct Wages	1200	1400
Chargeable Expenses	160	200

Work overhead is to be charged at 50% of prime cost. General overhead is to be charged at 20% of works cost.

b) From the following projections of M/s. Rainbow Ltd. for the year 2007-2008. Prepare a statement that determines the Net working capital required by the company.

Particulars	**Amount in Rs. (Lakhs)**
Annual Sales	57.60
Cost of production (including Depreciation of Rs. 4,80,000)	48.00
Raw Material purchases	14.40
Monthly Expenditure	90.00
Estimated opening stock of raw material	5.60
Estimate closing stock of raw material	3.00

<u>Inventory Norms:</u>

Raw materials 2 Months
Work in Progress ½ Months
Finished goods 1 Month

The firm enjoys a credit a half-a-month on its purchases and allows one month credit on its sales. All sales are credit sales. It may be assumed that production is carried out evenly throughout the year and minimum cash balance desired to be maintained is Rs. 2,00,000.

(9+9)

6.

a) What you mean by working capital? Explain briefly its importance and factors influencing its needs.

b) Explain the meaning of capital structure and discuss the factors that affect the capital structure planning.

(9+9)

7.

a) Write the major difference(s) between funds flow statement and cash flow statement.

b) Discuss the following project evaluation techniques:
   - i) Payback period
   - ii) Accounting Rate of Return
   - iii) Profitability index

c) Discuss the determinants of an optimum capital structure.

(4+9+5)