BE9-R3: ACCOUNTING AND FINANCIAL MANAGEMENT

NOTE:

1.	**Answer question 1 and any FOUR from questions 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. Answer the following questions in brief:

a) Distinguish between allocation, apportionment and absorption of overheads with suitable examples.

b) What do you understand by Zero-base budgeting?

c) Explain the difference between weighted average cost of capital (WACC) and weighted marginal cost of capital (WMCC).

d) "Cash flows occurring at different point of time are not comparable". Explain the reason and concept that is used to make them comparable.

e) Explain briefly the risk-return trade-off in working capital management.

f) Explain the Accounting Equation approach to identify the debit and credit aspects of a transaction to be recorded in the books of accounts.

g) Explain as to how the fixed manufacturing overheads costs are shifted from one year to another under absorption costing.

(7x4)

2. You are provided the trial balance of M/s Alpha Enterprises as on 31-March-2009 for the financial year 2008-09.

Particulars	**Amount in Rupees**	
	Debit	**Credit**
Purchases	1,80,00,000	
Opening Stock	10,00,000	
Salaries less P.F.	5,40,000	
P.F. remittances including Prop. contribution @ 50%	1,20,000	
Rent @ 25000 p.m	2,75,000	
Machinery	29,00,000	
Wages	3,00,000	
Furniture and Fittings	5,00,000	
Electricity	55,000	
Trade Expenses	1,50,000	
Debtors	10,50,000	
Interest on Bank Overdraft	90,000	
Commission	20,000	
Buildings	30,00,000	
Sales		2,05,00,000
Bank Overdraft		10,00,000
Creditors		15,00,000
Capital		55,00,000
Drawings	5,00,000	
Total	**2,85,00,000**	**2,85,00,000**

Further, the scrutiny of accounts revealed the following information:

a) On 1-Jan-2009 the machinery worth Rs.5,00,000 was sold for Rs.4,00,000 and the amount was credited to the machinery account.
b) The wages include Rs. 20,000 paid for machinery erection charges.
c) The purchases include Rs.5,00,000 as cost of motor vehicles purchased for business use.
d) Proprietor has taken goods costing Rs.1,00,000 for which no entry has been made in the books of accounts.
e) Sundry Debtors include Rs.50,000 which have become bad. Provide 10% for bad and doubtful debts.
f) Electricity bills outstanding are Rs.5,000.
g) Goods costing Rs.5,00,000 were destroyed by fire and insurance clain was admitted for Rs.4,00,000.
h) Provide depreciation at 5% on buildings and 10% on all other assets.
i) Accrued interest on bank overdraft is Rs.10,000.

Prepare Trading Account, Profit & Loss account and Balance Sheet for the financial year 2008-09 with working note.

(18)

3.

a) Prepare the cost sheet to show the cost of raw materials consumed, total cost of production, cost of goods sold and the amount of profits and costs per unit of goods manufactured by a M/s. X & company for the month of Dec, 2009.

Particulars	**Amount in Rs.**
Opening Stock-Raw materials	150,000
Finished Goods	120,000
Closing Stock-Raw materials	120,000
Finished Goods	150,000
Raw materials purchased	15,00,000
Wages paid to laborers	6,00,000
Chargeable Expenses	60,000
Rent, Rates and taxes	1,50,000
Power	72,000
Factory heating and lighting	60,000
Factory Insurance	30,000
Experimental Expenses	15,000
Sale of wastage of material	6,000
Office management salaries	120,000
Office printing and stationary	6,000
Salaries of salesman	60,000
Commission of traveling agents	30,000
Sales	30,00,000

b) A departmental store has several departments. Recommend with explanation the basis for apportioning the following overhead expenses to its departments:
   i) Fire Insurance of building
   ii) Rent
   iii) Delivery Expenses
   iv) Purchases Department Expenses
   v) Advertisement
   vi) General Administration Expenses

(12+6)

4.

a) You are given the following details pertaining to M/s. GM Ltd in respect of the financial year ended 2008-09.

Balance Sheets of M/s. GM Ltd.

Liabilities	31-3-08	31-03-09	Assets	31-3-08	31-03-09
Share Capital	20,00,000	16,00,000	Plant and machinery	14,00,000	10,00,000
Reserves	4,00,000	3,00,000	Land and Buildings	12,00,000	8,00,000
Profit and Loss Account	2,00,000	1,20,000	Investments	2,00,000	-
Debentures	4,00,000	---	Sundry Debtors	10,00,000	14,00,000
Provision for taxation	2,00,000	1,40,000	Stock	8,00,000	4,00,000
Proposed Dividend	4,00,000	2,00,000	Cash in hand and bank	4,00,000	4,00,000
Sundry Creditors	14,00,000	16,40,000			
Total Liabilities	**50,00,000**	**40,00,000**	**Total Assets**	**50,00,000**	**40,00,000**

Additional Information:

- Depreciation @ 20% was charged on the opening value of Plant and machinery
- During the year one old machine costing Rs.1,00,000, written down values of which was Rs.40,000 was sold for Rs.70,000
- Rs.1,00,000 was paid towards Income Tax during the year
- Building under construction was not subject to any depreciation.

Prepare Cash flow Statement

b) Explain the dimensions of financial statement analysis. In this context, describe with implication the two important financial ratios for each of these dimensions.

(12+6)

5.

a) An item of raw material passes through three processes: X, Y and Z, with the normal wastage at each process as given below:

Process-X	3 percent
Process-Y	5 percent
Process-Z	8 percent

Wastage of process X was sold at Rs. 2.50 per unit, that of process Y at Rs.5.00 per unit and that of process Z at Rs.10 per unit. 10,000 units were issued to Process X in the beginning of October, 2008 at a cost of Rs. 10 per unit. The other expenses were as follows:

Particulars	Process-X	Process-Y	Process-Z
Sundry Materials	Rs. 10,000	Rs.15,000	Rs. 5,000
Labour	50,000	80,000	65,000
Direct Expenses	10,500	11,880	20,090
Actual Output (in units)	9500	9100	8100

Prepare the Process Accounts, assuming that there were no opening and closing stocks. Also give the abnormal Wastage and Abnormal Effectives Accounts for the month of October, 2008.

b) Discuss various factors that affect the corporate capital structure.

(12+6)

6.

a) A Plant of a company is performing poorly and is being considered for replacement. Three mutually exclusive Plants X, Y and Z have been proposed. The Plants are expected to cost Rs.4,00,000 each and have estimated life span of 5 years, 4 years and 3 years respectively and have no salvage value. The company's required rate of return is 10%. The anticipated cash inflows after taxes for these plants are as follows:

Years	Plant-X	Plant-Y	Plant-Z
1	1,00,000	1,60,000	2,00,000
2	1,00,000	1,60,000	2,00,000
3	1,00,000	1,60,000	20,000
4	1,00,000	60,000	-
5	3,80,000	-	-

You are required to suggest the best choice of Plant for replacing the existing one on the basis of Payback period, Average Rate of return, Net Present Value and profitability Index. Ignore unequal lives of Plants for the purpose of making suggestion. (Present value of Rs. 1 at 10% over five years =0.909, 0.826, 0.751, 0.683 and 0.621)

b) Describe the alternative approaches to the financing of working capital requirements.

(12+6)

7.

a) An electronic equipment manufacturing company wishes to determine the weighted average cost of capital for evaluating capital budgeting projects. For this purpose you have been provided with the following information for the financial year 2008-09.

Balance Sheet

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
Equity Share Capital	24,00,000	Fixed Assets	50,00,000
15 % Preference Share Capital	9,00,000	Current Assets	30,00,000
Retained Earnings	9,00,000		
14% Debentures	18,00,000		
Current Liabilities	20,00,000		
Total	**80,00,000**	**Total**	**80,00,000**

Additional Information:

i) Debentures with a face value of Rs.5000 have been issued this year at a floatation cost of 2% and are redeemable after 20 years at 5% premium.

ii) Preference shares, having par value of Rs. 100 have been issued at a flotation cost of 2%.

iii) Equity shares, with a par value of Rs.100, and selling price of Rs.115 per share have a flotation cost of Rs. 5 per share.

The corporate tax rate is 40% and the expected growth in equity dividend is 6% p.a and the expected dividend at the end of the current financial year is Rs.11 per share. Assume that the company wants to maintain its present capital structure.

b) X, Y and Z are three similar plants under the same management who wants them to be merged for better operations. The details are as under:

Plants	X	Y	Z
Capacity operated	100%	70%	50%
	(Rupees in Lakhs)		
Turnover	300	280	150
Variable cost	200	210	75
Fixed Costs	70	50	62

Find out the following:

i) The capacity of the merged plant for break-even.

ii) The profit at 75% of the merged plant.

iii) The turnover from the merged plant to give a profit of Rs. 28 lakhs.

(12+6)