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.

a) Define Accounting.
b) What are the elements of Financial Statement?
c) Who are the users of Accounting Information?
d) What is Activity Based Costing (ABC)?
e) What are the limitations of P/V Ratio?
f) What is the difference between Budget and Forecast?
g) What are the uses of Return on Investment (ROI)?

(7x4)

2.

a) Draw up the Trading, Profit & Loss for the year ending on 31st March, 2010 and Balance Sheet as on 31st March, 2010 from the following trial balance and the additional information that follows it.

Trial Balance of M/s ABC Traders as on 31st March 2010		
Particulars	Debit (in Rs)	Credit (in Rs)
Opening Stock	86,000	
Purchases	11,36,000	
Salaries	1,53,000	
Wages	18,000	
Carriage Inwards	26,900	
Trading Charges	64,000	
Carriage Outwards	52,500	
Rent received		1,78,300
Cash	62,500	
Capital		3,44,700
Bank (Overdraft)		37,980
Commission	42,780	
Creditors		2,68,000
Sales		15,48,700
Debtors	2,56,000	
Machinery	4,80,000	
Total	**23,77,680**	**23,77,680**

The following additional information is available

i) A Machine purchased on credit from M/s. Random Machinery Co. for Rs. 2,00,000 is not yet recorded in the books.
ii) Wages to the extent of Rs. 43,000 are incorrectly recorded as Salaries.

b) Write short notes on Cash, Accrual & Hybrid system of Accounts.

(10+8)

3. M/s. Sunrise Ltd., a profit making company, has a paid-up capital of Rs. 100 lakhs consisting of 10 lakhs ordinary shares of Rs. 10 each. Currently, it is earning an annual pre-tax profit of Rs. 60 lakhs. The company's shares are listed and are quoted in the range of Rs. 50 to Rs. 80. The management wants to diversify production and has approved a project which will cost Rs. 50 lakhs and which is expected to yield a pre-tax income of Rs. 40 lakhs per annum. To raise this additional capital, the following options are under consideration of the management:

a) To issue equity capital for the entire additional amount. It is expected that the new shares (face value of Rs. 10) can be sold at a premium of Rs. 15.

b) To issue 16% non-convertible debentures of Rs. 100 each for the entire amount.

c) To issue equity capital for Rs. 25 lakhs (face value of Rs. 10) and 16% non-convertible debentures for the balance amount. In this case, the company can issue shares at a premium of Rs. 40 each.

You are required to advise the management as to how the additional capital can be raised, keeping in mind that the management wants to maximise the earnings per share to maintain its goodwill. The company is paying income tax at 50%.

(18)

4.

a) Explain and illustrate cash break-even chart.

b) M/s. Ekta Ltd. has furnished the following data for the two years:

Year	2008-09	2009-10
Sales	Rs. 8,00,000	?
P/V Ratio	50%	37.5%
Margin of Safety (Sales as a % of Total sales)	40%	21.875%

There has been substantial savings in the fixed cost in the year 2009-10 due to the restructuring process. The company could maintain its sales quantity level of 2008-09 in 2009-10 by reducing selling price.

You are required to calculate the followings:

i) Sales for 2009-10 in rupees

ii) Fixed cost for 2009-10

iii) Break even sales for 2009-10 in rupees

(8+10)

5.

a) The budgeted cost of a factory specialising in the production of a single product at the optimum capacity of 6,400 units per annum amounts to Rs. 17,60,480 as detailed below:

		Rs.
Fixed costs		2,06,880
Variable costs:		
Power	14,400	
Repairs, etc.	17,000	
Other variable cost	5,400	
Direct material	4,92,800	
Direct labour	10,24,000	15,53,600
		17,60,480

Considering the possible impact on sales turnover by market trends, the company decides to prepare flexible budget with a production target of 3,200 and 4,800 units. On behalf of the company you are required to prepare a flexible budget for production levels at 50% and 75%.

Assuming the selling price per unit is maintained at Rs. 400 as at present, indicate the effect on net profit. Administration, selling and distribution overheads continue at Rs. 36,000.

b) You are required to calculate:

i) The cost of a new mobile phone is Rs. 10,000. If the interest rate is 5 percent, how much would you have to set aside now to provide this sum in five years?

ii) You have to pay tuition fees amounting to Rs. 12,000 a year at the end of each of the next six years. If the interest rate is 8 percent, how much do you need to set aside today to cover these fees?

iii) You have invested Rs. 60,476 at 8 percent. After paying the above tuition fees, how much would remain at the end of the six years?

Note:
- * The compound sum of one rupee at 8% after 6 years is 1.587.
- * The present value of one rupee after 5 year at 5% is 0.784.
- * The present value of one rupee for 6 years at 8% is 4.623.

(9+9)

6. The fixed assets and equities of M/s. Aero Limited are supplied to you both at the beginning and at the end of the year 2009-10:

	01.04-2009	31.03.2010
	(In Rs.)	(In Rs.)
Plant Less: Depreciation	63,500	1,42,500
Investment in Shares of Beta Limited	1,32,000	2,90,000
Bonds Payable	2,50,000	70,000
Capital Stock	4,00,000	4,00,000
Retained Earnings	2,38,000	4,10,500

You are not in a position to have complete Balance Sheet data or an income statement for the year in spite of the fact that you have obtained the following information:

i) Dividend of Rs. 37,500 was paid.

ii) The net income included Rs. 13,000 as profit on sale of equipment. There has been an increase of Rs. 93,000 in the value of gross plant assets even though equipments worth Rs. 29,000 with a net book value of Rs. 19,000 were disposed off.

You are required to prepare a statement of sources and uses of net working capital.

(18)

7.

a) Differentiate between the following:
   i) Profit maximization and Wealth maximization
   ii) Operating Leverage and Financial Leverage

b) Write short notes on the following:
   i) Venture Capital Financing
   ii) Factoring
   iii) Merits of Payback Period

(6+12)