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 between any **five** of the following:
   i) Capital expenditure and Deferred revenue expenditure
   ii) Revenues and Profits
   iii) Cost Concept and Cost Matching Revenue Concept
   iv) Direct Costs and Indirect Costs
   v) Period Costs and Product Cost
   vi) Internal users and External users of accounting information

b) Answer the following in not more than 50 words each:
   i) What do you understand by cost of capital?
   ii) What do you mean by the term "Outstanding Salaries"?
   iii) State the application of Job Costing.
   iv) What do you understand by Internal Rate of Return?
   v) What is the implicit assumption in Money measurement concept?

c) Journalize any **four** of the following transactions in the books of accounts:
   i) Purchased goods for Rs. 65,000 for cash and payment made by cheque.
   ii) Paid Rs. 6,000 for flowers, refreshment and rent for chairs on account of opening ceremony of business premises.
   iii) 20 Chairs @ Rs. 1,500 each and 40 tables @ Rs. 6,000 each purchased by a furniture shop, out of which 4 chairs and 2 tables are set aside for office use. The entire payment is made by a cheque.
   iv) Rented the premises by paying a security deposit of Rs. 5,00,000 and Rent of Rs. 10,000 for the month of April.
   v) Goods sent on approval to a customer for Rs. 50,000.

(10+10+8)

2. Following balances have been extracted from the books of accounts of M/s. Soumya and Associates for the year ended 31st of March 2005.

Opening Stock	4,00,000
Purchases	16,00,000
Salaries paid	3,20,000
Building	5,80,000
Cash in Hand	8,000
Cash at Bank	5,40,000
Rent, rates and taxes paid	60,000
Insurance Premium paid	12,000
Miscellaneous Receipts	40,000
Sales	28,80,000
Cash Discount allowed	19,000
Bad Debts	13,000
Repairs of Buildings	11,600
Miscellaneous Expenses	34,800
Advertisement	80,000

Commission to Sales Manager	1,29,600
Furniture and Fittings	1,40,000
Air Conditioners	1,20,000
Sundry Debtors	4,00,000
Sundry Creditors	3,20,000
Loan on Mortgage	2,80,000
Interest paid on above	12,000
Prepaid Expenses	16,000
Drawings	72,000
Bills Payable	1,20,000
Bank Charges	8,000
Legal Expenses	54,000
Motor Vehicles	3,20,000
Travelling and Conveyance	40,000

The following further information was obtained:

i) The Closing stock was valued at Rs. 2,20,000.

ii) Travelling and Conveyance include personal travelling of the proprietor to the extent of Rs. 10,200.

iii) Loan on Mortgage bear interest at 12% p.a. with monthly rates and was taken on 1st Oct, 2004.

iv) Depreciation is chargeable as follows:

Building	5.0%
Furniture and Fittings	10.0%
Air Conditioners	15.0%
Motor Vehicles	20.0%

v) Provision for Bad and Doubtful Debts is to be created at 2% on net outstanding debtors.

You are required to:

a) Ascertain the opening balance in capital account.

b) Prepare Trading and Profit & Loss account for the year ended 2005 and also a balance sheet as on that date.

(3+15)

3.

a) How will you treat the following items of expenses in cost accounts?

i) Cost of tools

ii) Incentives to indirect workers

iii) Leave travel assistance to employees

iv) Carriage and cartage cost of patterns and dies

b) M/s. Aditya Bearing Ltd. Produces 72,000 units. The extracts from the costing records of the company is reproduced below:

Direct Material	Rs.	3,60,000
Direct Wages		2,52,000
Variable Overheads		1,44,000
Semi-variable overheads		84,000
Fixed Overheads		2,40,000

The product is sold at Rs. 60 per unit. The management proposes to raise the production by 9000 units for sales in the foreign market. It is estimated that the semi-variable overheads will increase by Rs. 3000. But the product will be sold at Rs. 42 in the foreign market. However, no additional capital cost will be incurred. The management seeks your advice as cost accountant regarding viability of this proposal. What shall be your advice? Prepare appropriate statements in support of you advice.

(8+10)

4. A Company is considering the replacement of its existing machine, which is obsolete and unable to meet the rapidly growing demand for its product. The company is faced with a situation of twin alternatives: to buy a new Machine-X that is similar to the existing machine or go in for Machine-Y that is more expensive and has much greater capacity and capability. The cash flows at the present level of operations under the two alternatives are as given below:

Period	**Cash Flows (in Rs.) From**	
	Machine-X	**Machine-Y**
0	(50,00,000)	(80,00,000)
1	--	20,00,000
2	10,00,000	28,00,000
3	40,00,000	32,00,000
4	28,00,000	34,00,000
5	28,00,000	30,00,000

Figures within brackets for 0 period indicate the initial outlays for each of these alternatives. The company's cost of financing works out to be 10% for above projects. The finance manager wants to appraise the above alternatives by computing:

- Net present values
- Profitability Index
- Payback period
- Discounted payback period

At the end of his calculations, however, the finance manager is unable to make up his mind as to which machine to recommend. You are required to help him by making these calculations and advice as to which option he should exercise and why?

A table of Present values for one Re. To be received in future at a discount rate of 10% is as given below:

Year	1	2	3	4	5
Rate	.9091	.8264	.7513	.6830	.6209

(18)

5.

a) The product of a manufacturing concern passes through two processes X and Y and then to finished stock. It is found that in each process normally 5% of the total weight is lost and 10% is scrap from which Processes X and Y realize Rs. 800 per tonne and Rs. 2000 per tonne respectively. The following are the particulars relating to both processes:

Particulars	**Processes**	
	X	**Y**
Materials in tonnes	1,000	70
Cost of materials in Rupees per tonne	1,250	2,000
Wages in rupees	2,80,000	1,00,000
Manufacturing Expenses in rupees	80,000	52,500
Output in tonnes	830	780

Prepare process cost accounts showing cost per tonne of each process.
Assume that there was not stock or work-in-progress in any process.

b) Distinguish between Absorption Costing and Variable Costing.

(14+4)

6. You are provided with the following summarized balances sheets of M/s. Rachan Enterprises as at the end of financial years: 2004 and 2005.

Liabilities	**Amount in Rs.**		**Assets**	**Amount in Rs.**	
	2004	**2005**		**2004**	**2005**
Share Capital	4,00,000	5,00,000	Goodwill	4,00,000	3,80,000
General Reserves	1,00,000	1,20,000	Land and Building	3,00,000	3,38,000
Profit and Loss	61,000	61,200	Plant and Machinery	2,00,000	1,58,000
Bank Loan-Long Term	1,40,000	--	Stock in Trade	1,60,000	1,28,400
Trade Creditors	3,00,000	2,70,400	Trade Debtors	1,000	1,200
Taxation Provision	60,000	70,000	Bank Balance	--	16,000
			Cash in Hand	--	10,000
Total	10,61,000	10,21,600	**Total**	10,61,000	10,61,000

During the year ended March 31 2005, following transactions occurred:

- Dividend of Rs. 46,000 was paid
- Assets of another company were acquired for a consideration of Rs. 1,00,000 by issuing equity shares. Assets being: Stock 40,000 and Machinery 50,000.
- Additional Machinery was purchased for Rs. 16,000.
- Depreciation Written off Machinery Rs. 24,000.
- Loss on Sale of Machinery amounted to Rs. 400 that has been written off to General Reserves.

You are required to prepare a statement of Cash Flow.

(18)

7.

a) Write short notes on any **three** of the following:
   i) Operating Leverage
   ii) Financial distress and value of the firm
   iii) Optimum capital structure
   iv) Weighted cost of capital

b) Define working capital management? What methods do you suggest for estimating working capital needs of a corporate enterprise? Illustrate your answer.

(12+6)