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) Differentiate between the following:

i) Marginal cost and Variable cost.

ii) Income and Revenue

iii) Inter-firm and Intra-firm analysis of financial statements.

iv) Provisions and Reserves

v) Expenses and Expenditure

b) Journalize the following transactions in the books of accounts:

i) A furniture dealer sells the goods to manufacturer of Furniture machinery for Rs. 2, 50, 000. The settlement being purchase of machinery Rs. 2, 25, 000 and balance by cheque after allowing a trade discount of Rs. 5, 000.

ii) Paid Rs. 60,000 towards security deposit to Telephone Services operator for hiring the leased line for office.

iii) Accepted a payment of Rs. 48,840 from M/s. Vanita and Associates in full settlement of their dues that amount to Rs. 50,000.

iv) 30 Chairs @ Rs. 2500 each and 40 tables @ Rs. 9000 each purchased by a sole trader of furniture shop, out of which four chairs and two tables have been set a side for office use and two tables and two chairs have been kept for personal use at the residential premises of the proprietor. The entire payment is made by a cheque.

v) A sole trader withdrew Rs. 20, 000 from bank: Rs. 15, 000 for office use and Rs. 5, 000 for personal use.

c) Answer any **four** of the following in not more than 50 words each:

i) What do you understand by capital structure?

ii) What do you mean by the term “P/V ratio”?

iii) State briefly the advantages of Budgeting.

iv) Explain briefly pay back period as a method of evaluating capital budgeting projects?

v) State the utility of preparing a cash flow statements.

(10+10+8)

2.

a) You are provided with the following trial balance of M/s Geru and Mithu Plastics Ltd. as at the end of financial year 2006.

Particulars	**Amount in Rupees**	
	Debit	**Credit**
Drawings	64,000	
Trade Debtors	1,80,000	
Capital Account		3,60,000
Trade Creditors		67,208
Loan on Mortgage		68,000
Provision for Doubtful Debts		5,680
Carriage Inwards	12,032	
Office Expenses	64,776	
Interest on Loan	1,600	
Cash in Hand	24,400	
Cash at Bank	36,440	
Land and Buildings	96,000	
Bad Debts	5,000	
Purchases	4,84,864	
Sales		8,89,944
Discount		3,520
Bills Payables		21,712
Purchases Returns		10,768
Rent		2,000
Advertisement	18,112	
Sales Returns	62,568	
Bills Receivables	55,056	
Carriage Outwards	31,432	
Rates, Taxes and Insurance	31,128	
Motor Vehicles	72,000	
Opening Stock	46,712	
Salaries and Wages	51,200	
General Expenses	35,912	
Closing Stock	54,800	
Totals	**14,28,832**	**14,28,832**

The following further information was obtained:

i) Depreciation on Land and Building @ 5% and Motor Vehicles @ 15% is charged annually on Written-down-Value basis.

ii) Loan on Mortgage that was taken on 1-Oct-2005 bears interest at 8% p.a. The principal amount of loan is repayable in four equal instalments. One instalment of Rs. 17,000 was paid on 1st December, 2005.

iii) Salaries amounting to Rs. 5,600 and Taxes amounting to Rs. 3,200 are due and not recorded in the books of accounts.

iv) Provision for doubtful debts is to be maintained at 5% on net outstanding trade debtors.

v) During the year, there was a loss of stock by fire amounting to Rs. 10,000 for which the insurance company admitted a claim of Rs. 8,000 only that is yet to be paid.

You are required to prepare Trading and Profit & Loss account for the year ended 2006 and also a balance sheet as on that date.

(18)

3.

a) How will you treat the following items in cost accounts?
- i) Attendance bonus
- ii) After Sales service cost
- iii) Training Expenses

b) M/s. Shipra Enterprises manufactures a product called **P** by making and assembling three components X, Y and Z. The components are produced in a machine shop using 54 machines, each of which can make any of the three components. The shop works in two shifts of 8 hours each. 4 machines in the shop remain unused by rotation for reasons of continuous maintenance. The workshop works for 30 days in any month. The total machine capacity of the workshop is sufficient to meet the current demand. Labour and assembling is available according to requirements. The following details are given with respect to components and the Product **P**.

Components	Machine-hour per unit	Variable Cost per unit (Rs.)	Purchase price of Components (Rs.)
X	8	960	1280
Y	10	1200	1500
Z	12	1600	2200
Assembling-P		600	

Fixed cost per month amounts to Rs. 10,00,000 and the product P is sold at Rs. 6000 per unit. The company expects that the demands for its product shall rise by 25% from next month onwards. As the machine capacity is limited, the company wants to meet the increase in demand by buying such numbers of components X, Y and Z which is most profitable.
You are required to prepare appropriate statements to determine:
- i) Current demand and profit made by the company.
- ii) Which components and how many units of the same should be bought from the market to meet the increase in demand?
- iii) Profit made by the company if suggestion in ii) above is accepted.

(6+12)

4.

a) A plastic manufacturer has under consideration the proposal to manufacture high quality glasses. The necessary equipment to manufacture the glasses would cost Rs. 1 Lakh and would last 5 years. The tax relevant rate of depreciation is 25% on written down value. There is no other asset in this block. The expected salvage value is Rs. 10,000. The glasses can be sold at Rs. 4 each. Regardless of the level of productions, the manufacturer will incur cash cost of Rs. 25, 000 each year if the project is undertaken. The overhead costs allocated to this new line would be Rs. 5,000. The variable costs are estimated at Rs. 2 per glass. The manufacturer estimates that it will sell about 75,000 glasses per year, the tax rate is 40%. Should the proposed equipment be purchased? Assuming the cost of capital to be 20% and additional working requirement, Rs. 50,000. Justify your answer.
The PV factors at 20% rate have been tabulated as below:

Years	**1**	**2**	**3**	**4**	**5**
PV Factors	.833	.694	.579	.482	.402

b) M/s. Sunanda Garments Ltd. Has the following capital structure as on 30th Sep. 2006:

Particulars	Amount in Rs.
2,00,000 Equity Shares	40,00,000
10% Preference Shares	10,00,000
12% Debentures	30,00,000
	80,00,000

The shares of this company sell for Rs. 20. It is expected that the company will be in a position to pay a dividend of Rs. 2 per share that is expected at the rate of 7%. Assuming the corporate tax rate at 40$, you are required to:

i) Compute a weighted average cost of capital based on the existing capital structure.

ii) Compute the new weighted average cost of capital if the company raises an additional Rs. 20 Lakh debt by issuing 10% debenture. This would result in increasing the expected dividend to Rs. 3 and leave the growth rate unchanged, but the price of share will fall to Rs. 15 per share.

iii) Compute the cost of capital if in ii) above the growth rate increases to Rs. 10%.

(9+9)

5.

a) What do you understand by Zero-base budgeting? How does it differ from Incremental budgeting? What are the advantages and limitations of Zero-base budgeting?

b) From the following projections of M/s GLS Plastic Works Ltd. For the year 2006-07, prepare a statement that determines the Net working capital required by the company.

Particulars	Amount in Rs.
Annual Sales	28,80,000
Cost of production (including Depreciation of Rs. 2,40,000)	24,00,000
Raw Material purchases	14,10,000
Monthly Expenditure	60,000
Estimated opening Stock of raw materials	2,80,000
Estimated closing Stock of raw materials	2,50,000

Inventory Norms:

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 supplies. On sales orders, the company receives an advance of Rs. 30,000. It may be assumed that production is carried out evenly throughout the year and minimum cash balance desired to be maintained is Rs. 70,000.

(6+12)

6. At the end of financial year 2006, the directors of M/s. Sneh Enterprises decided to expand their business. The summary of financial statements of the company for financial year 2005 and 2006 stood as shown below:

Particulars	**2005**		**2006**	
	Details	**Total**	**Details**	**Total**
Income Statements				
Sales				
Cash	84,000		89,000	
Credit	7,56,000	**8,40,000**	9,57,600	**10,47,200**
Cost of Sales		6,60,800		8,34,400
Gross Margin		**1,99,200**		**2,12,800**
Expenses:				
Warehousing	36,400		39,200	
Transport	16,800		28,000	
Administration	53,200		53,200	
Selling	30,800		39,200	
Distribution		1,37,200	5,600	1,86,200
Net Profit		**42,000**		**47,600**
Financial Position Statements				
Fixed Assets		**84,000**		**1,12,000**
Current Assets				
Stock	1,68,000		2,63,200	
Debtors	1,40,000		2,29,600	
Cash and Bank	28,000	3,36,000	19,600	5,12,400
Less: Current Liabilities		1,40,000		2,12,800
Net Current Assets		**1,96,000**		2,99,600
Share Capital		2,10,000		2,10,000
Reserves		70,000		1,16,000
Debentures				84,000
Capital Employed		**2,80,000**		4,11,600

Further, you are informed that:

- All sales were from stocks in the company's warehouse.
- The range of merchandise was not changed and buying prices remained steady through out the period of two years.
- Budgeted Total sales for 2006 were Rs. 7,80,000.
- The debenture loan was received on 1st January, 2006 and additional fixed assets were purchased on that date.

You are required to:

a) Compute the following:

i) Current Ratio
ii) Quick Ratio
iii) Debtors Turnover
iv) Stock turnover
v) Expense ratio
vi) Gross Margin ratio
vii) Return on Capital Employed
viii) Capital Turnover
ix) Net Margin ratio
x) Debt-Equity ratio
xi) Fixed Assets Turnover
xii) Current Assets Turnover

b) Comment on the following financial aspects of this company
   i) Solvency
   ii) Profitability

(12+6)

7.

a) What do you understand by Capital Structure? Explain briefly the determinants of corporate capital structure.

b) Write short notes on any **three** of the following:
   i) Deficiencies of absorption costing
   ii) Advantages of cost accounting
   iii) Multi-Period compounding
   iv) Risk-return Trade-off

(9+[3x3])