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) Journalize any four of the following transactions in the books of accounts:
   i) An amount of Rs. 19,000 received from M/s. XYZ Company and a discount of Rs. 1,000 allowed to the company.
   ii) Purchased goods worth Rs. 50,000 out of it, Rs. 10,000 paid in cash and a cheque issued for the remaining amount.
   iii) Goods with invoice price of Rs. 20,000 purchased from M/s. ABC Company on credit and it allowed a trade discount of 5% on the invoice price.
   iv) Goods worth of Rs. 8,000 were destroyed in fire. Insurance company has accepted the claim upto Rs. 7,000 which would be paid after 2 months through cheque.
   v) Goods worth Rs. 5,000 purchased on cash basis were returned to M/s MN & Co. which would make payment for the same in future.

b) Distinguish between any five of the following:
   i) Trial Balance and Balance Sheet
   ii) Cash Flow Statement and Funds Flow Statement
   iii) Return on Equity and Return on Investment
   iv) Direct Cost and Variable Cost
   v) Financial Accounting and Cost Accounting
   vi) Trade Discount and Cash Discount

c) Accept any five of the following in not more than 50 words each:
   i) Explain the accounting concept of going concern.
   ii) Give any two applications of the Cost-Volume-Project Analysis.
   iii) Discuss any two important issues in Working Capital Management.
   iv) Write briefly about Cash Budget.
   v) Define Contribution Margin and C/S Ratio.
   vi) Discuss in brief any one Discounted Cash flow technique of Capital Budgeting Decisions.

(8+10+10)

2. Mr. Patel carried on business as a Cloth Manufacturer. On 31st March, 2006 the following Trial Balance was prepared.

Dr. Balances	Rs.	Cr. Balances	Rs.
Freehold Land	1,35,000	Bank Overdraft	11,900
Machinery	15,000	Creditors	12,900
Furniture	1,400	Capital	1,31,200
Wages	3,700	Sales (credit)	13,200
Purchases (credit)	6,600	Sales (cash)	6,000
General Expenses	190	Returns outward	300
Carriage	210		
Discounts	140		
Taxes	60		
Travelling Expenses	200		
Drawings	2,000		
Returns inward	1,000		
Purchases (Cash)	10,000		
Total	**1,75,500**	**Total**	**1,75,500**

Prepare Trading Account, Profit & Loss Account and a Balance Sheet taking into consideration the following:

a) Depreciate Furniture by 5%; Machinery by 7.5%.
b) The stock on 31st March 2006 was taken as Rs. 5,000.
c) Allow 5% interest on capital.
d) Wages outstanding as on 31st March 2006 was Rs. 500.
e) Interest due on Bank overdraft as on 31st March 2006 was Rs. 800.

(18)

3. Consider the following Balance sheet and information.

Balance Sheet, Dec. 31, 2005

Liabilities	**(Rs.)**	**Assets**	**(Rs.)**
Equity share capital	10,00,000	Plant and equipment	6,40,000
(Rs.100 each)		Land and buildings	80,000
Retained earnings	3,68,000	Cash	1,60,000
Sundry creditors	1,04,000	Sundry debtors 3,60,000	
Bills payable	2,00,000	Less allowances 40,000	3,20,000
Other current liabilities	20,000		
		Stock	4,80,000
		Prepaid insurance	12,000
	16,92,000		16,92,000

Statement of profit year ended Dec. 31, 2005

	Rs.
Sales	40,00,000
Less cost of goods	30,80,000
Gross profit on sales	9,20,000
Less operating expenses	6,80,000
Net profit	2,40,000
Less taxes @ 50%	1,20,000
Net profit after taxes	1,20,000

Sundry debtors and stock at the beginning of the year were Rs. 3,00,000 and Rs. 4,00,000 respectively.

Determine the following ratios.

a) Current ratio
b) Acid-Test ratio
c) Stock turnover ratio
d) Gross profit margin
e) Operating ratio
f) Earning Per Share

g) Net Profit Ratio
h) Net Worth Expense to total Assets Ratio
i) Return on Investment

(9x2)

4. Three firms A, B and C manufacturers the same product. The selling price is Rs. 9 per unit of the product and is equal for all the firms. The fixed costs for Firms A, B and C are Rs. 1,00,000/-, Rs. 2,00,000/- and Rs. 3,00,000/- respectively, while the variable costs per unit is Rs. 5, Rs. 4 and Rs. 3 respectively.

i) Determine Break-even point for all the firms.

ii) How much profits are earned by the firms, if each of them sells 80,000 units?

iii) What shall be the impact on their profits if the selling price increase by 25 percent?

(3x6)

5. From the following particulars, prepare cash flow statement for the year ended 31st March, 2006:

Profit and Loss Account
for the year ended 31st March, 2006

	Rs.		Rs.
To Opening Stock	2,90,000	By stock	18,93,000
To Purchases	9,53,000	By Closing Stock	3,11,000
To Wages	2,87,000		
To Power	24,000		
To Gross Profit c/d	6,50,000		
	22,04,000		22,04,000
To Rent	1,50,000	By Gross Profit b/d	6,50,000
To Salaries	2,14,000		
To Electricity	10,000		
To Petty Office Expenses	9,500		
To Loss on Disposal of Furniture	4,000		
To Depreciation on Machinery	40,500		
To Depreciation on Furniture	12,000		
To Goodwill written off	20,000		
To Preliminary Expenses written off	10,000		
To Provision for Income Tax	90,000		
To Net Profit c/d	90,000		
	6,50,000		6,50,000
To Propose Dividend	78,000	By Net Profit b/d	90,000
To Transfer to General Reserve	12,000		
	90,000		90,000

Balance Sheets

	As on 31.3.2005	*As on 31.3.2006*		*As on 31.3.2005*	*As on 31.3.2006*
	Rs.	***Rs.***		***Rs.***	***Rs.***
Equity Share Capital	6,00,000	6,50,000	Goodwill	60,000	40,000
General Reserve	1,00,000	1,12,000	Machinery	1,70,000	2,29,500
Creditors	65,000	62,200	Furniture	1,35,000	1,08,000
Outstanding			Stock	2,90,000	3,11,000
Expenses	2,000	3,800	Debtors	80,000	83,000
Provision for Taxation	80,000	90,000	Cash on hand	3,000	4,000
Proposed Dividend	66,000	78,000	Cash at Bank	75,000	1,13,000
			Prepaid Expenses	---	2,500
			Advance Payment of Income Tax	80,000	95,000
			Preliminary Expenses	20,000	10,000
	9,13,000	9,96,000		9,13,000	9,96,000

The following additional information is provided to you:

i) During the year, Furniture of the book value of Rs. 15,000 was sold for Rs. 11,000 and new Machinery costing Rs. 1,00,000 was purchased and put into operation.

ii) During the year, dividend for the year 2004-05, Rs. 66,000 was paid.

(18)

6. Vinak Ltd. Operating at 75% level of activity produces and sells two products A and B. The cost sheets of these two products are as under.

	Product A	**Product B**
Units produced and sold	600	400
Direct material (per unit)	Rs. 2	Rs. 4
Direct labour (per unit)	Rs. 4	Rs. 4
Factory overheads (40% fixed)	Rs. 5	Rs. 3
Selling and Administration Exp. (60% fixed)	8	5
Total Cost (per unit)	Rs. 19	Rs. 16
Selling price (per unit)	Rs. 23	Rs. 19

Factory overheads are absorbed on the basis of machine hour, which is the key factor. Machine hour rate is Rs. 2/- per hour.

The company receives an offer from Canada for the purchase of product A at a price of Rs. 17.50 per unit. Alternatively the company has another offer from the Middle East for the purchase product B at a price of Rs. 15.50 per unit.

In both the cases special packing charge of Rs. 0.50 per unit has to be borne by the company.

The Company can accept either of the two export orders and in either case the Company can supply such quantities as may be possible to produce by utilizing the balance of 25% capacity.

Prepare: -

a) A statement showing the economic of the two export proposals giving your recommendations as to which proposal should be accepted and

b) A statement showing overall profitabilities of the company after incorporating the export proposal recommended by you.

(9+9)

7.

a) What do you mean by Funds flow statement? Explain the steps to prepare it.

b) Write short notes on any **four** of the following:

   i) Profitability Index
   ii) Financial Leverage
   iii) Process Costing
   iv) Ratio Analysis
   v) Absorption Costing

(9+9)