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) Distinguish between Book- Keeping and Accounting.
b) What is the Going Concern Assumption?
c) Distinguish between Capital Expenditure and Revenue Expenditure?
d) Briefly explain the advantage of preparing subsidiary books.
e) What is the difference between Variable Costing and Absorption Costing?
f) What is meant by average weighted cost of capital?
g) What is Capital Gearing Ratio?

(7x4)

2. The following Trial Balance extracted fro the books of a Merchant Mr. Nageswara Rao on 31.03.20X2.

Particulars	**Dr.(Rs.)**	**Cr. (Rs.)**
Furniture and Fittings	640	-
Motor Vehicles	6,250	-
Buildings	7,500	-
Capital	-	12,500
Bad Debts	125	-
Provision for Doubtful Debts	-	200
Sundry Debtors and Creditors	3,800	2,500
Stock As on 1.4.20X1	3,460	-
Purchase and Sales	5,475	15,450
Bank Overdraft	-	2,850
Sales and Purchase Returns	200	125
Advertising	450	-
Interest on Bank Overdraft	118	-
Commission	-	375
Cash	650	-
Taxes and Insurance Premium	782	-
General Expenses	1,250	-
Salaries	3,300	-
Total	34,000	34,000

Adjustments
a) Stock on hand on 31.03.20X2 Rs. 3,250
b) Depreciate Buildings @ 5% p.a.; Furniture @ 10% p.a; Motor Vehicles @ 20% p.a.
c) Rs. 85 is due for interest on Bank Overdraft.
d) Salaries Rs.300 and Taxes Rs. 200 are outstanding.
e) Insurance Premium amounting Rs. 100 prepaid.
f) One-third of the commission received is in respect of work to be done next year.
g) Write off a further sum of Rs. 100 as bad debts from debtors and create provision for Doubtful Debts @ 5% on debtors.
Prepare a Trading, Profit & Loss Account and the Balance Sheet.

(18)

3. From the figure given below, prepare a statement showing the application and sources of funds during the year 2002-2003.

Particulars	**31st March, 2002**	**31st March, 2003**
Assets		
Net Fixed assets	5,10,000	6,20,000
Investments	30,000	80,000
Current assets	2,40,000	3,75,000
Discount on debentures	10,000	5,000
Total	**7,90,000**	**10,80,000**
Liabilities		
Equity share Capital	3,00,000	3,50,000
Preference Share Capital	2,00,000	1,00,000
Debentures	1,00,000	2,00,000
Reserves	1,10,000	2,70,000
Provision for doubtful debts	10,000	15,000
Current Liabilities	70,000	1,45,000
Total	**7,90,000**	**10,80,000**

You are informed that during the year

i) A machine costing Rs.70,000 (book value Rs. 40,000) was disposed off for Rs.25,000

ii) Preference share redemption was carried out at a premium of 5%.

iii) Dividend at 15% was paid on equity shares for the year 2002.

Further:

a) The provision for depreciation stood at Rs.1,50,000 on 31-3-2002 and at Rs. 1,90,000 on 31-3-2003.

b) Stock which was valued at Rs. 90,000 as on 31-3-2002 was written up to its cost Rs. 1,00,000 for preparing the Profit and Loss account for 2003.

(18)

4.

a) The ratios relating to the activities of National Traders Ltd. Are follows:

Debtors Velocity	3 months
Stock velocity	8 months
Creditors velocity	2 months
Gross Profit Ratio	25 percent

Gross Profit for the year is Rs.4,00,000. Closing stock of the year is Rs.10,000 above the opening stock. Bills receivable amount to Rs. 25,000 and bills payable to Rs.10,000. Find out (i) Sales (ii) Sundry debtors (iii) Closing Stock

b) In a manufacturing unit, raw material passes through four processes I, II, III and IV and the output of each process is the input of the subsequent process. The loss in the four processes, I, II, III and IV is 25, 20, 20 and 16.67 percent of the input respectively. If the end-product of process four is 40,000 kgs, what is the quantity of raw material required to be fed at the beginning of process I and the cost of the same at Rs.5 per kg.

(9+9)

5.

a) The following particulars are taken from the records of X Ltd. Engaged in manufacturing of two products A and B, from a certain material:

	Product A (per unit)	**Product B (per unit)**
Sales	Rs. 2,500	Rs. 5,000
Material Cost (Rs.50 per kg)	500	1,250
Direct labor (Rs. 30 per hour)	750	1,500
Variable overhead	250	500
Total fixed overheads	Rs. 10,00,000	

Comment on the profitability of each product when

i) Total Sales value is limited.

ii) Raw material in short supply.

iii) Production Capacity is the limiting Factor.

b) In what respects does the production budget contribute to managerial (i) planning (ii) coordination and (iii) control.

(9+9)

6.

a) Determine the average rate of return of two machines A and B.

	Machine A	**Machine B**
Cost	Rs. 56,125	Rs. 56,125
Annual estimated income after deprecation and income tax:		
Year 1	3,375	11,375
Year 2	5,375	9,375
Year 3	7,375	7,375
Year 4	9,375	5,375
Year 5	11,375	3,375
Total	**36,875**	**36,875**
Estimate life (years)	5	5
Estimated Salvage value	3,000	3,000

Depreciation has been charged on straight line basis.

b) Distinguish between NPV and IRR methods of capital budgeting.

c) Sun Ltd has its shares of Rs 10 each quoted on the stock exchange, the current price per share is Rs.24. the gross dividends per share over the last four years have been Rs. 1.20, Rs. 1.32, Rs.1.45 and Rs. 1.60. Calculate the cost of equity shares.

(6+6+6)

7.

a) The earnings per share of a company is Rs.8 and the rate of capitalization applicable is 10%. The company has before it an option of adopting (i) 50%, (ii) 75 % and (iii) 100 % dividend payout ratio. Compute the market price of the company's quoted shares as per Walter's Model if it can earn a return of 15% on its retained earnings.

b) The Balance sheet of Bhaskar Ltd. As on 31-03-2003 is as follows:

Liabilities	**Rs.**	**Assets**	**Rs.**
Share Capital	10,00,000	Land & Building	3,00,000
Reserves and Surplus	8,00,000	Plant & Machinery	10,00,000
Term Loans	8,00,000	Inventories	10,00,000
Creditors	6,00,000	Receivables	11,00,000
Provision for Taxation	3,00,000	Cash & Bank	1,00,000
Total	**35,00,000**	**Total**	**35,00,000**

The company's turnover for 2002-2003 was Rs. 60 lakhs. It anticipates a sales turnover of Rs.90 lakhs in 2003-2004. Estimate the working capital requirement for 2003-2004.

(9+9)