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) Fill in the blanks:
   i) An amount that is to be collected from the debtors and the firm is unable to collect the same is known as ________.
   ii) Time value of money means ________.
   iii) An Accounting Principle that makes a distinction between the firm and the owner is known as ________.
   iv) A discount that is offered to motivate the debtors to make an early payment is called ________.

b) "Present value of Re. 1 after one year is that amount, received today by a person, which makes him indifferent to Re. 1 after one year. All reserves created by a firm out of profits appear on the assets side of the Balance Sheet". State with reason if the statement is true or not.

c) What are PV Ratio and Internal Rate of Return? Explain briefly.

d) Adjustment entries always affect Profit and Loss A/C and Balance Sheet simultaneously. Justify the statement.

e) What are the limitations of Cost-Volume-Profit Analysis?

f) Distinguish any one of the following:
   i) Balance Sheet and Trial Balance
   ii) Fixed Cost and Variable Cost

g) Write short note on any one of the followings:
   i) Matching Concept
   ii) Money Measurement Concept

(7x4)

2.

a) The following are the summarised Trading and Profit & Loss Account of the XYZ Limited for the year ending on March 31, 2003 and the Balance Sheet as on that date:

Trading and Profit & Loss Account of XYZ Limited for the year ending on March 31, 2003

Particulars	**Amount (Rs.)**	**Particulars**	**Amount (Rs.)**
Opening Stock	1,99,000	Sales	17,00,000
Purchases	10,90,500	Closing Stock	2,98,000
Direct Expenses	28,500		
Gross Profit	**6,80,000**		
	19,98,000		**19,98,000**
Administration Expenses	3,00,000	Gross Profit	6,80,000
Selling and Distribution Expenses	60,000	Profit on the sale of Marketable Securities	6,000
Interest Paid	30,000	Other Non-operating Incomes	12,000
Loss on the sale of Assets	8,000		
Net Profit	**3,00,000**		
	6,98,000		**6,98,000**

Balance Sheet of XYZ Limited for as on March 31, 2003

Particulars	**Amount (Rs.)**	**Particulars**	**Amount (Rs.)**
Liabilities		**Assets**	
Share Capital: 40,000 Equity Shares of Rs. 10 each	4,00,000	**Fixed Assets:**	
Reserves and Surplus		Land and Building	2,50,000
Profit and Loss Account	1,20,000	Plant and Machinery	1,60,000
Security Premium Account	30,000	Furniture and Fixtures	50,000
General Reserve	1,50,000	**Current Assets:**	
Current Liabilities:		Inventory	2,98,000
Creditors	1,90,000	Sundry Debtors	1,24,000
Proposed Dividend	50,000	Marketable Securities	18,000
Provision for Taxation	20,000	Cash and Bank Balance	60,000
Total Liabilities	**9,60,000**	**Total Assets**	**9,60,000**

From the above statements, you are required to compute the following ratios and give your comments about them.

i) Current Ratio
ii) Earning per Share
iii) Fixed Assets Turnover Ratio
iv) Net Profit Margin Ratio

b) A person is analyzing the Financial Statements of M/s Sobti Limited so as to determine the financial health of the company. He is wondering whether the horizontal (Trend) Analysis and the Common-Size Analysis have some role in determining the financial health of a company. State the importance of the Horizontal (Trend) Analysis and the Common-Size Analysis in the Financial Statement Analysis.

(12+6)

3. Below is given the trial balance and the additional information, for the year ending on 31-3-2003.

Trial Balance as on 31-3-2003

S.No.	**Particulars**	**Amount (Rs.) [Debit]**	**Amount (Rs.) [Credit]**
1.	Capital		2,00,000
2.	Purchases Less Returns	1,25,000	
3.	Carriage Inward	5,000	
4.	Sales Less Returns		4,31,220
5.	Duty And Clearing Charges Paid on Raw Material	10,000	
6.	Advertisement	20,000	
7.	Insurance Paid	500	
8.	Opening Balance: * Raw Material * Work-In-Process * Finished Goods	 10,000 25,000 61,000	
9.	Salaries	22,230	
10.	Bad Debts	1,700	
11.	Power, Gas and Water	47,000	
12.	Factory Rent, Rates & Taxes	21,200	
13	Printing and Stationery	6,000	
14.	Goodwill	20,000	
15.	Wages	77,000	
16.	Sundry Debtors	24,500	
17.	Sundry Creditors		50,340
18.	Rent from Sub-Letting		1,500

19.	Bills Payable		5,000
20.	Plant & Machinery	2,00,000	
21.	Furniture	10,200	
22.	Cash in Hand & At Bank	1,730	
	Total	6,88,060	6,88,060

ADDITIONAL INFORMATION:

i) Closing Balances:
   * Raw Material Rs. 6,000
   * Work-in-Progress Rs. 19,000
   * Finished Goods Rs. 45,000

ii) Insurance Prepaid Rs. 200.

iii) Provide for depreciation of Plant and Machinery @ 20% and on the Furniture @10% of average value during the year.

iv) Provide for doubtful debts @ 10%.

v) Creditors include a person from whom a loan of Rs. 15,000 was taken at an interest rate of 18% p.a. on 1-1-2003. And, so far no interest has been paid.

Based on the above data, Prepare-

a) Trading Account

b) Profit & Loss Statement

(9+9)

4.

a) Following are the summarised balance sheets of AMCO Limited as on December 31, 2001 and 2002:

Balance Sheet of AMCO Limited as on December 31, …

Liabilities	**2001 Rs.**	**2002 Rs.**	**Assets**	**2001 Rs.**	**2002 Rs.**
Share capital	2,00,000	2,50,000	Land and Building	2,00,000	1,90,000
General reserve	50,000	60,000	Machinery	1,50,000	1,69,000
Profit and Loss	30,500	30,600	Stock	1,00,000	74,000
Loan (long-term)	70,000	--	Sundry debtors	80,000	64,200
Sundry creditors	1,50,000	1,35,200	Cash	500	600
Provision for taxation	30,000	35,000	Bank	--	8,000
			Goodwill	--	5,000
	5,30,500	**5,10,800**		**5,30,500**	**5,10,800**

Additional information supplied: During the year ended December 2002:

i) Dividend of Rs. 23,000 was paid;

ii) Assets of another company were purchased for a consideration of Rs. 50,000 payable in shares. The assets purchased were: Stock Rs. 20,000, Machinery Rs. 25,000;

iii) Machinery was further purchased for Rs. 8,000;

iv) Depreciation written off on machinery Rs. 12,000; and

v) Loss on sale of machine 200.

Prepare a statement of cash flow.

b) What is Funds Flow Statement and how is it different from a Cash Flow Statement?

(12+6)

5.

a) The management of Rollers Steel Pvt. Limited is planning to buy a plant for its new factory of Narno, Haryana. Mr. G. Bhanot, the managing director, asked the Finance Director, Mr. S.S. Mittal to contact suppliers of the plant and to submit a detailed report in this regard in the next Board Meeting.

Mr. Mittal contacted two suppliers – one from Delhi and another from Hyderabad. He labelled Delhi Supplier's Plant as – Plant D and that of Hyderabad Supplier's as – Plant H. Both the plants have the same production capacity. Plant H is more costly but its running cost is lower. Mr. Mittal has submitted the following information about the profitability of the plants at the projected sales volume of Rs. 5,00,000 p.a.

Particulars	**Plant – D**	**Plant – H**
Sales Revenue	Rs. 5,00,000	Rs. 5,00,000
Less Variable Costs	(4,00,000)	(2,00,000)
Contribution Margin	Rs. 1,00,000	Rs. 3,00,000
Less Fixed Costs	(50,000)	(2,50,000)
Net Income	Rs. 50,000	Rs. 50,000

Recommendation: Since the profitability under both cases is same at the projected level of sales, the management may buy any plant.

On the receipt of the above report from the Finance Director, the managing director was not satisfied. He wanted to have more information in this regard. Assume that you have been contacted by him and asked to provide the following information:

i) What are the break-even-points of the plants?

ii) If sales go up by 20%, which plant would be more profitable?

iii) If sales go down by 20%, which plant would be more profitable?

iv) Which plant would you like to suggest if it is expected that the sales level would be much more than that of Rs. 5,00,000?

b) Define the following terms:

i) Contribution Margin

ii) Cost-Volume-Profit Analysis

iii) Margin of Safety

(12+6)

6.

a) Answer a number of questions given below on the basis of the following information related to the stock of ABC Company Limited:

	01-03-2003 (Rs.)	**31-03-2003 (Rs.)**
Stock of Direct Material	36,000	30,000
Work-in-process	18,000	12,000
Stock of Finished goods	54,000	72,000

The following additional manufacturing cost data were also available for the month of March 2003:

	(Rs.)
Direct materials purchased	84,000
Direct labour cost	60,000
Direct labour rate per hour	7.50
Factory overhead rate per direct labour hour	10.00
Administrative and other expenses	15,000
Selling and Distribution Expenses	5,000

i) What was the amount of prime cost added to production during the month of March, 2003?
ii) What is the total cost of goods manufactured during the month of March, 2003?
iii) What is the cost of goods sold?
iv) If the profit margin is 20% of sales then find out the amount of sales.

b) A project has expected cashflows as shown by the following table:

Year	Projected Cashflows
0	- Rs. 50,000
1	Rs. 30,000
2	Rs. 20,000
3	Rs. 10,000
4	Rs. 5,000

Assume that the cost of funds will be 10%. Then, you are required to find-
i) Pay Back Period
ii) Net Present Value

(12+6)

7.
a) The following information is available from the balance sheet of M/s. Rainbow Steel Limited:

	Amount in rupees
A. Equity share capital – 20,000 shares of Rs. 10 each	2,00,000
B. Reserves and Surplus	1,30,000
C. 8% Debentures	1,70,000

The rate of tax for the company is 40% and last year the company declared a dividend of 10% and it is expected to grow at 5% per year. Its share is currently traded at par. Calculate the weighted average cost of capital.
b) What is a budget? Suggest how budgets help an organisation in ensuring an effective control system.
c) Modern Washing Machines Manufacturing Company Limited has budgeted the following expenses for the production of 1,000 Stone-Wash washing machines.

Particulars	**Per Unit (Rs.)**
Direct Materials	950
Direct Lab	500
Direct Chargeable Expenses	150
Variable Overheads	50
Administration Expenses (Rs. 1,00,000 fixed for all levels of production)	100
Selling and Distribution Expenses (60% Fixed)	25
Total Cost per unit	1,775

Prepare a flexible budget for 8,000 units and 12,000 units.

(7+4+7)