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. Journalize the following transactions in the books of accounts:

a) Mr. Abhinandan commences business by opening a bank account with initial deposit of Rs.5,00,000. He purchases furniture costing Rs.1,65,000 and machinery costing Rs. 2,00,000 from out of his personal sources. Out of the furniture purchased, he keeps for his personal use furniture costing Rs.35,000.

b) Differentiate between Current ratio and Quick (Acid-test) ratio

c) Compare and contrast between Period cost and Product cost

d) Explain Relevant Costs and Differential Costs as concepts associated with decision making.

e) Explain the concept of optimum Capital Structure.

f) What are the special features of Job costing? Illustrate with an example.

g) Distinguish between IRR and NPV as techniques of evaluating capital budgeting proposals.

(7x4)

2. The following is trial balance of M/s Abhinandan Industries Ltd. for the financial year ended 2006-07.

Particulars	Amount in Rupees	
	Debit	**Credit**
Fixed Assets	600,000	
Opening Stock	150,000	
Trade Debtors	410,000	
Bills Receivable	20,000	
12% Investments	100,000	
Cash In Hand	10,000	
Purchases Returns		10,000
Discount	4,000	2,000
Interest	5,000	6,000
Insurance	7,200	
Cash at Bank	20,000	
Drawings	20,000	
Bad Debts	10,000	
Purchases	966,000	
Sales		1,260,000
Carriage Outwards	4,000	
Bills Payables		11,200
Loan from Bank		8,000
Rent	60,000	
Bad Debts Recovered		7,000
Sales Returns	20,000	
Carriage Inwards	10,000	
Selling and Distribution Expenses	31,600	
Capital Account		1,054,000
Creditors		200,000
Office & Administrative Expenses	26,400	
Closing Stock	84,000	
Totals	**2,558,200**	**2,558,200**

Further, the following information was obtained:

a) Rent is payable at the rate of Rs. 6000 per month.

b) Provide for depreciation on fixed assets @ 10% p.a

c) Insurance premium was paid for a year up to June 2007.

d) Write of further bad debts of Rs. 10,000 and create a provision for doubtful debts @ 10%.

e) During the year, there was a loss of stock (costing Rs.5,000; market value being Rs.7,000) by fire amounting for which the insurance company admitted a claim of Rs.6,500 only that is yet to be paid.

You are required to prepare Trading and Profit & Loss account for the year ended on 31-03-2007 and also a balance sheet as on that date.

(18)

3. From the following information of M/s Shilpa Enterprises, prepare cash flow statement by using indirect method as per AS-3, issued by the ICAI.

Balance Sheets as at the end of March 31

Liabilities	2006	2007
Capital	10,00,000	10,00,000
Retained Earnings	5,30,000	7,38,000
Debentures	-	1,80,000
Creditors	1,76,000	1,64,000
Bank Loan	30,000	60,000
Liability for Expenses	66,000	54,000
Dividend Payable	30,000	60,000
Creditors for Plant & Machinery Purchased	-	40,000
Total	**18,32,000**	**22,96,000**
Assets	**2006**	**2007**
Plant & Machinery	5,46,000	8,54,000
Less: Depreciation	1,22,000	1,58,000
Net Amount of Plant and Machinery	**4,24,000**	**6,96,000**
Net Amount of Debtors	**4,48,000**	**5,28,000**
Cash	3,04,000	3,64,000
Marketable Securities	2,36,000	3,00,000
Inventories	4,02,000	3,84,000
Prepaid Expenses	18,000	24,000
Total	**18,32,000**	**22,96,000**

Additional Information:

a) Net Income for the year 2007, after charging depreciation of Rs. 38,000 is Rs. 4,48,000.

b) The board of directors declared dividend of Rs. 2,40,000 during the year.

(18)

4.

a) Explain in brief with reasons as to how you will deal with the following items of expenses in cost accounts:

i) Royalty on Sales
ii) Interest on borrowed capital
iii) Variance detected at stock taking
iv) Periodical exhibition expenses
v) Learner's Wages
vi) Data Processing Cost

b) Birbal Plastics Ltd produces a patent material used in building. The material is produced in three consecutive processes. The data pertaining to first 6 six months of the financial year 2006-07 are as given below:

Particulars	Processes		
	I	II	III
Raw Material Used (in Tonnes)	1000		
Cost per tonne (In Rs.)	400		
Manufacturing Wages and expenses (Rs.)	145,000	81,600	21,420
Weight Lost (Normal)	5%	10%	20%
Scrap Sold at Rs 100 per tonne	50 tonnes	30 tonnes	51 tonnes
Sale Price per tonne (Rs.)	700	1000	1600

Managerial expenses were Rs.35,000; selling expenses Rs.20,000 and interest on borrowed funds Rs.8000. Two-third of process I out put and one-half of process II out put are passed on to the next process and balances are sold.

You are required to prepare a cost statement in form that is suitable for presentation to the directors at their next board meeting when the production policy of the company will be discussed.

(6+12)

5.

a) Explain the objectives and importance of budgeting in a medium sized manufacturing enterprise.

b) A company is considering the replacement of its existing machine which is obsolete and unable to meet the rapidly rising demand for its products. The company is faced with two alternatives: to buy Machine A which is similar to the existing machine or go to in for Machine B which is more expensive and has much greater capacity. The cash flows at the present level of operations under the two alternatives are as given below:

Year	Cash flows from Machines	
	A	**B**
Initial Outlays	(5,00,000)	(8,00,000)
1	-	2,00,000
2	100,000	2,80,000
3	4,00,000	3,20,000
4	2,80,000	3,40,000
5	2,80,000	3,00,000

The company's cost of capital is 10%. The finance manager has computed Net Present value, Profitability Index and Discounted Payback Period to decide on above capital budgeting proposals. However, the finance manager is confused because of contradictory results and therefore unable to make up his mind.

You are required to make these calculations and in the light thereof advise the finance manager about the acceptance of above investment proposals.
The present value of Re. 1 at 10% discount rate is as follows:

Year	1	2	3	4	5
P.V	.909	.826	.751	.683	.621

(6+12)

6. M/s Bhavana Enterprises Private Limited, engaged in manufacturing of pressure cookers has drawn up the following budget for the year 2006-07.

Particulars	**Amount in Rs.**
Raw materials	40,00,000
Labour, stores and other variable costs	12,00,000
Manufacturing overheads	14,00,000
Variable distribution costs	8,00,000
General overheads including selling costs	6,00,000
Total	**80,00,000**
Sales Revenue	100,00,000
Budgeted Profit	20,00,000

The General Manager, in order to achieve additional 50% sales volume, has suggested a reduction of selling prices by 5%. There is a sufficient manufacturing capacity. More intensive manufacturing program shall involve additional costs of Rs. 1,00,000 for production planning. It will also be necessary to open an additional sales office at a cost of Rs.2,00,000 per annum.

The Sales manager, on the other hand, suggests an increase in selling price of 10%, which is expected to reduce sales volume by 10%. At the same time, savings in manufacturing overheads and general overheads of Rs. 1,00,000 and Rs.2,00,000 per annum respectively is expected on this reduced volume.

Which of these two proposal would you accept and why? Support your answer with necessary calculations.

(18)

7.

a) What do you understand by Dividend Policy? Discuss the determinants of corporate Dividend Policy.

b) Write Short Notes on any **three** of the following
   i) Advantages and Limitations of Variable costing
   ii) Weighted Average cost of Capital
   iii) Opportunity Cost of Money
   iv) Cost-Volume-Profit Analysis

(9+9)