

MANAGEMENT PROGRAMME

Term-End Examination

June, 2006

MS-4 : ACCOUNTING AND FINANCE FOR MANAGERS

Time : 3 hours

Maximum Marks : 100

(Weightage 70%)

Note : *Attempt any **five** questions. All questions carry equal marks.*

1. (a) What is Internal Audit ? What functions are undertaken by an Internal Auditor ? How does Internal Audit differ from External Audit ? Explain.

(b) Explain the Business Entity concept, Accrual concept and Consistency concept of Accounting.
2. Messrs E. Traders is a firm of two partners Mr. S and Mr. N dividing profits and losses in the ratio of 3 : 2. The following are the balances in their ledger as on 31st March, 2005.

<u>Capital</u>		
Mr. S	40,000	
Mr. N	26,000	
<u>Drawings</u>		
Mr. S	16,000	
Mr. N	14,000	
Sundry Creditors		32,151
Goodwill		15,000
Cash in hand		100
Sundry Debtors		58,170
(Less provision for B/D for Rs. 2,130)		
Stock (1-4-2004)		14,517
Plant and Machinery (1-4-2004)		21,000
Balance with Bank of India		7,065
Bad Debts		1,575
Buildings (as on 1-4-2004)		30,000
Purchases (Less Returns of Rs. 4,038)		1,53,336
Sales (Less Returns of Rs. 23,463)		3,25,275
Carriage outwards		7,010
Wages		46,455
Land		6,000
6% Loan on Mortgage	(Cr.)	28,500
Interest on Mortgage loan		1,185

Salaries	18,291
Carriage inwards	2,787
Rent and Rates	6,000
Gas, Water and Electricity	2,160
Insurance (for the period 1-1-2005 to 31-12-2005)	513
Advertisement	9,792
Cash discount received	3,300
Cash discount allowed	1,680
Investments	15,000
General expenses	11,780
Bills Payable	8,840
Bills Receivable	5,400
Dividends Received	750

Prepare the Trading and Profit and Loss Account and the Balance Sheet after making the following adjustments :

- (1) (i) Depreciation is to be provided for on Plant and Machinery at 10% p.a. and on Building at 6% p.a.
 - (ii) Provide for rent payable for February and March 2005 at Rs. 300 p.m.
 - (iii) Provision for B/D must be maintained at 5% of debtors.
 - (iv) Provide interest on capital at 10% p.a. No interest on drawings.
- (2) Purchases included Plant and Machinery costing Rs. 3,000 purchased on 1st April 2004.

- (3) The Manager is entitled to a commission of 10% of net profits after charging his commission but before interest on capital accounts of partners.
- (4) The closing stock was Rs. 16,800.

3. Explain the concepts of Operating Leverage and Financial Leverage and discuss their significance in business decisions. What will be the effect on net income, return on equity and earnings per share if the use of these leverages is considerable and there is a small change in sales ? Explain clearly.
4. Comment on the following statements :
- (a) Companies with very high profits generally have a low payout ratio.
 - (b) Cost of debt is always cheaper as compared to other sources of funds.
 - (c) Where cash flows are uncertain, the principle will be "greater the variability, the higher the minimum cash balance."
 - (d) "Opportunity cost should be taken into account while evaluating the profitability of a project."
5. (a) How would you compare the actual performance of a business with the budgeted performance ? Discuss the important ratios used for this purpose.
- (b) Distinguish between a Flexible Budget and a Rolling Budget. What purposes do they serve ? Explain.

6. The comparative Balance Sheets of B. Company Ltd. are indicated in condensed form as under :

	31 st March 2005	31 st March 2004
<u>Fixed Assets</u>	5,20,000	4,80,000
Less Depreciation	<u>1,40,000</u>	<u>1,08,000</u>
	3,80,000	3,72,000
Investment at cost	50,000	1,00,000
Stocks	90,500	55,600
Sundry Debtors	1,67,800	1,18,300
Cash and Bank Balance	47,500	49,800
Preliminary expenses	—	7,200
	<u>7,35,800</u>	<u>7,02,900</u>
<u>Share Capital</u>		
Equity shares of Rs. 100 each issued for cash	4,00,000	3,60,000
General Reserve	60,000	1,10,000
Surplus in P&L a/c	33,450	20,450
Sundry Creditors	1,95,350	1,33,650
Proposed Dividend	15,000	28,800
Provision for taxation	32,000	50,000
	<u>7,35,800</u>	<u>7,02,900</u>

The net profit for the year (after providing for depreciation Rs. 40,000, writing off Preliminary expenses Rs. 7,200 and making provision for taxation (Rs. 32,000) amounted to Rs. 38,000.

The company sold during the year old machinery costing Rs. 9,000 for Rs. 3,000. The accumulated depreciation on the said machinery was Rs. 8,000.

A portion of the Company's investment became worthless and was written off to general reserve. The cost of such investment was Rs. 50,000.

During the year the Company paid an interim dividend of Rs. 10,000 and the directors have recommended a final dividend of Rs. 15,000 for the year 2004 – 05.

Prepare (a) Statement of Sources and Application of Funds and (b) Schedule of Working Capital Changes.

7. The following data are obtained from the records of a factory :

Sales 4000 units @ Rs. 25 each		Rs. 1,00,000
Material consumed	Rs. 40,000	
Variable overheads	10,000	
Labour charges	20,000	
Fixed overheads	<u>18,000</u>	88,000
Net Profit		<u>12,000</u>

Calculate :

- (a) The number of units the company should sell so that there is neither any loss nor any gain.
- (b) The sales needed to earn a profit of 20% on sales.
- (c) The extra units which should be sold to obtain the present profit if it is proposed to reduce the selling price by 20% and 25%.
- (d) The selling price to be fixed to bring down its break-even point to 500 units under the present conditions.

8. Write explanatory notes on :

- (a) Sales – Price Variance
- (b) Price – Earnings Ratio
- (c) Operating Profit and Net Profit
- (d) Amortisation of Intangible Assets
- (e) Capitalisation of Earnings