COMMONWEALTH EXECUTIVE MBA/MPA PROGRAMME

Term-End Examination

December, 2007

C-9 : 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) Explain the Accounting Concept which states that "anticipate no profits, provide for all possible losses." Explain its rationale also.

(b) Distinguish between :

(i) Contingent liabilities and Estimated liabilities

(ii) First in First Out (FIFO) and Last in First Out (LIFO)

(iii) Specific Reserve and Free Reserve

(iv) Intangible Assets and Current Assets

2. The Balance Sheets of ABC Ltd. for the years ending 31st December 2004 and 2005 are presented in condensed form as under :

	31st Dec 2005	31st Dec 2004
Fixed Assets	5,20,000	4,80,000
Less Depreciation	(1,40,000)	(1,08,000)
	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
	7,35,800	7,02,900
Share Capital (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
	7,35,800	7,02,900

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 against 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 2005.

Prepare (a) Statement of Sources and Application of Funds for the year 2005, and (b) Schedule of Changes in Working Capital.

3. What do you understand by weighted average cost of capital ? How is it computed ? Explain with an example. Examine the rationale behind the use of weighted average cost of capital.

4. A company manufactures a product, currently utilising 80% capacity with a turnover of Rs. 8,00,000. The selling price is Rs. 25 per unit. The cost data are as follows :

Material cost Rs. 7·50 per unit

Labour cost Rs. 6·25 per unit

Semi-variable cost (including variable cost of Rs. 3·75 per unit) Rs. 1,80,000

Fixed cost Rs. 90,000 upto 80% of output; beyond this an additional Rs. 20,000 will be incurred.

Calculate :

(i) Activity level at Break-even point.

(ii) No. of units to be sold to earn a net income of 8% of sales.

(iii) Activity level needed to earn a profit of Rs. 95,000.

5. Given below are the Balance Sheet and Profit and Loss Statement of X Co. Ltd. for the year ending 31st March 2007, along with various ratios relevant to the particular industry to which the company belongs.

Find out the relevant ratios relating to the company and give your comments on strengths and weaknesses of the company comparing its ratios with the industry norms.

X Company Limited

Balance Sheet as on 31st March 2007

Liabilities	Rs.	Assets	Rs.
Equity Share Capital	24,00,000	Fixed Assets	12,10,000
10% Debentures	4,60,000	Cash	4,40,000
Sundry Creditors	3,30,000	Sundry Debtors	5,50,000
Bills Payable	4,40,000	Stock	16,50,000
Other Current Liabilities	2,20,000		
	38,50,000		38,50,000

Profit & Loss A/c for the year ending 31st March 2007

Sales		55,00,000
Less Cost of Goods Sold		
Materials	20,90,000	
Wages	13,20,000	
Factory overheads	6,49,000	40,59,000
Gross Profit		14,41,000

Less Selling and Distribution cost	5,50,000	
Administrative cost	6,14,000	11,64,000
Less interest charges		46,000
Less Tax @ 50%		1,15,500
Net Profit after Tax		1,15,500

Industry Norms

Current Ratio	2·5
Sales/Debtors	8·0
Sales/Stock	9·0
Sales/Total Assets	2·0
Net Profit/Sales	3·5%
Net Profit/Total Assets	7·0%
Net Profit/Net Worth	10·5%
Total Debt/Total Assets	60%

6. (a) "A high degree of leverage brings about a higher magnification of equity earnings." Explain this statement.

(b) What are the essential limiting factors in the reliability of capital budgeting techniques including discounted cash flow techniques ? Discuss.

7. Write short notes on any ***four*** of the following :

(a) Fixed Budget and Flexible Budget

(b) Indexed Statement for Trend Analysis

(c) Variance Analysis

(d) Optimum Cash Balance

(e) Profitability Index