MANAGEMENT PROGRAMME
Term – End Examination
June, 2007

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) Explain the Business Entity concept, Accrual concept Consistency concept of Accounting.

   (b) What do you understand by capitalization of earnings? How is the value of a firm ascertained with the help of its earnings? Explain with an example.

2. The following is the Trial Balance of Mr. Keshav Kant on 31st March 2006

	Rs. Dr.	Rs. Cr.
Capital	—	8,00,000
Drawings	60,000	
Opening Stock	75,000	
Purchases	15,95,000	
Freight on Purchases	25,000	
Wages (11 months upto 28-2-2006)	66,000	
Sales	—	23,10,000
Salaries	1,40,000	
Postage & Telephones	12,000	
Printing and Stationery	18,000	
Miscellaneous expenses	30,000	
Creditors	—	3,00,000
Investments	1,00,000	
Discount received	—	15,000
Debtors	2,50,000	
Bad Debts	15,000	
Provision for Bad Debts	—	8,000
Building	3,00,000	
Machinery	5,00,000	
Furniture	40,000	
Commission on Sales	45,000	
Interest on Investments		12,000
Insurance (year upto 31.7.2006)	24,000	
Bank Balance	1,50,000	
	34,45,000	34,45,000

Adjustments:

(i) Closing Stock Rs. 2, 25, 000.
(ii) Machinery worth Rs. 45, 00 purchased on 1.10.2005 was shown as purchases. Freight paid on the machinery was Rs. 5, 000 which is included in the freight on purchases.
(iii) Commission is payable at 20% on Sales.
(iv) Investments were sold at 10% profit but the entire sales proceeds have been taken as Sales.]
(v) Write off Bad Debts 10,000 and create a Provision for Doubtful Debts at 5% of Debtors.
(vi) Depreciate Building by 2% p.a and Machinery and Furniture @ 10% p.a.

Prepare Traveling and Profit and Loss A / C for the year ending 31st March 2006 and a Balance Sheet as on that date.

3. Distinguish between Operating Leverage and Financial Leverage. What will be the effect of small change in sales on Net Income, Return

on Equity and Earnings per Share if both these leverages are considerable? Explain.

4. (a) What is production Budget? What factors are taken into consideration while preparing a production Budget? Why are separate budgets prepared for each of the elements of production costs? Explain.

   (b) What is a Rolling Budget? Why is it prepared? Explain the procedure of its preparation.

5. An Engineering Company has received an export order for its sole product that would require the use of half of the factory's total capacity, which is estimated at 4 lakh units per annum. The condition of the export order is that it has to be accepted in full: acceptance of a part is not allowed.

   The factory is currently operating at 60% level to meet the demand of its domestic customers. As against the current price of Rs. 6 per unit, the export offer is Rs. 4.70 per unit, which is less than the total cost of current production. The cost break-down is given below:

Direct material	Rs. 2·50 per unit
Direct labour	1·00 per unit
Variable expenses	0·50 per unit
Fixed overhead	1·00 per unit
	Total 5·00 per unit

   The company has the following options:

   (a) Accept the export order and cut back domestics sales as necessary.

   (b) Remove the capacity constraint by installing balancing equipment and also by working overtime to meet both domestics and export demand. This will increase fixed overheads by Rs. 15, 000 annually and additional cost for the overtime work will amount to Rs. 40, 000 for the year.

   (c) Appoint a sub-contractor to manufacturer the additional requirement and meet the domestic and export requirements in full by supplying raw materials, paying a conversion charge @ Rs. 2 per unit and appointing a supervisor at a salary of Rs. 3, 000 per month for checking the quality of the product and controlling operations at the manufacturing unit.

(d) Refuse the order.
You are required to prepare a statement of costs and profits under each of the options and give your recommendation to the company giving the reasons for the same

6. Aditya Company's equity shares are being traded in the market at Rs. 54 per share with a price-earning ratio of 9. The company's payout is 72%. It has 1, 00, 000 equity shares of Rs. 10 each and no preference shares. Book value per share is Rs. 42.

You are required to calculate:

(i) Earning Per Shares
(ii) Net Income
(iii) Dividend Yield, and
(iv) Return on Equity

7. Comment on the following statements]

(a) The greater the variability of cash flows, the higher should be the minimum cash balance.

(b) As there is no explicit cost of retained earnings, these funds are free of cost.

(c) Dividend, Investment and Financing decisions are inter-dependent.

(d) Profitability Index is more relevant in the evaluation and ranking of projects than Internal Rate of Return.

8. Write short notes on the following:
(a) Performance Budget

(b) Amortisation of Intangible Assets

(c) Accounting Standards

(e) Funds from Business Operations