

BE9-R4: ACCOUNTING AND FINANCIAL MANAGEMENT

NOTE:

1. Answer question 1 and any FOUR from questions 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) What is labour turnover and write down its importance?
 - b) Describe the steps involved in the budgetary control technique.
 - c) What is importance of Cash Flow Statement?
 - d) Distinguish between Marginal Costing and Absorption Costing.
 - e) Distinguish between Sunk Cost and Imputed Cost.
 - f) Distinguish between Matching Concept and Realisation Concept of Accounting.
 - g) Distinguish between Job Costing and Process Costing.

(7x4)
2. From the following Trial Balance, prepare Trading and Profit and Loss Account for the year ending on 31st March 2013 and Balance Sheet as on 31st March 2013.

| <u>Particulars</u> | <u>Debit (Rs.)</u> | <u>Credit (Rs.)</u> |
|---|--------------------|---------------------|
| Cash in hand | 5,000 | - |
| Land and Building | 80,000 | - |
| Plant and Machinery | 50,000 | - |
| Debtors & Creditors | 25,000 | 40,000 |
| Stock on 1 st April, 2012 | 10,000 | - |
| 15% Investment on 1 st April, 2012 | 20,000 | - |
| Purchases & Sales | 95,000 | 1,90,000 |
| Bank Overdraft | - | 20,000 |
| Wages | 28,000 | - |
| Salaries | 16,000 | - |
| Rent ,Rates & Taxes | 15,000 | - |
| Bad Debts | 6,000 | - |
| Drawings | 5,000 | - |
| Bills Receivable & Bills Payable | 15,000 | 46,000 |
| Carriage Inwards | 6,000 | - |
| Customs Duty on Purchases | 16,000 | - |
| Fire Insurance Premium | 4,000 | - |
| Advertisement | 30,000 | - |
| Provision for Doubtful Debts | - | 2,000 |
| Interest on Investments | - | 2,000 |
| Sundry Expenses | 11,000 | - |
| Furniture | 20,000 | - |
| Capital | - | 1,57,000 |
| Total | 4,57,000 | 4,57,000 |

Additional Information:

- i) Stock on 31st March 2013 was valued at Rs. 40,000.
- ii) Bills receivables include a bill of Rs. 5,000 received from Mohan, which has been dishonored and not recorded in the books of accounts.
- iii) Sales include Rs. 5,000 for the good sold on approval basis. Approval was not received till March 31st, 2013. Goods are sold at a profit of 25% on cost.
- iv) Wages includes Rs. 5,000 spent on the erection of Machinery during the year.
- v) Create a provision for doubtful debts at 5% on Debtors.
- vi) Prepaid rates and taxes amounted to Rs. 2000.
- vii) Depreciate machinery and furniture by 10%, ignore depreciation on other assets.

(18)

3.

a) Journalize the following transactions:

- i) April 10, 2012, Ruchi started business with cash Rs. 4,00,000/-.
- ii) April 12, 2012, She paid/deposited into bank Rs. 20,000/-.
- iii) April 15, 2012, She purchased goods for cash Rs. 1,50,000/-.
- iv) April 17, 2012, She sold goods for cash Rs. 60,000/-.
- v) April 18, 2012, She purchased furniture and paid by cheque Rs. 5,000/-.
- vi) April 20, 2012, She sold goods to Rudra Rs. 40,000/-.
- vii) April 21, 2012, She purchased goods from Pintu Rs. 1,00,000/-.
- viii) April 22, 2012, She returned goods to Pintu Rs. 25,000/-.
- ix) April 23, 2012, She received from Pintu Rs. 69,500/- in full settlement.
- x) April 25, 2012, She withdraw goods for personal purpose Rs. 10,000/-.
- xi) April 26, 2012, She withdraw cash from business for personal use Rs. 2,000/-.
- xii) April 28, 2012, She paid telephone expenses Rs. 5,000/-.

b) Write short notes on Cash, Accrual and Hybrid System of Accounting.

(12+6)

4.

a) Rudra Ltd. produces product R. It uses annually 60,000 units of a material "Rex" costing Rs.10/- per unit. Other relevant information are:

| | |
|---------------------------|-------------------------------------|
| Cost of placing an order: | Rs. 800/- per order. |
| Carrying Cost: | 15% per annum of average inventory. |
| Re-order period: | 10 Days. |
| Safety Stock: | 600 units. |

The company operates 300 days in a year. You are required to calculate:

- i) Economic Order Quantity for material – "Rex".
- ii) Re-order Level
- iii) Maximum Stock Level
- iv) Average Stock Level

b) 'The objective of the financial management is not to maximize profit but to maximize the Shareholders' Value.' Discuss why the objective of Shareholders' Value Maximization is better than that of the Profit Maximization.

(10+8)

5.

- a) A company is considering an investment proposal at a cost of Rs. 50,000. It has a life expectancy of 5 years and no salvage value. The tax rate is 35%. Assume the firm uses straight line method of depreciation and the same is allowed for tax purposes. The estimated cash flows before depreciation and tax (CFBT) from the investment proposal is as follows:

| Year | CFBT (Rs.) |
|------|------------|
| 1 | 10,000 |
| 2 | 10,692 |
| 3 | 12,769 |
| 4 | 13,462 |
| 5 | 20,385 |

Compute the following:

- Payback period
- Average rate of return
- Net present value at 10% discount rate
- Profitability index at 10% discount rate

Use the following for calculating the present value.

| Year | 1 | 2 | 3 | 4 | 5 |
|---|-------|-------|-------|-------|-------|
| Present Value of Rupee at 10% Discount rate | 0.909 | 0.826 | 0.751 | 0.683 | 0.621 |

- b) What do you mean by Capital Structure? State its significance in Financing Decision.

(12+6)

6.

- a) A firm is having Contribution to Sales Ratio of 30% and having a Break-Even-Point of Rs. 60,000. If the variable cost of the product has increased by 20%, then find the new Break-Even-point.
- b) The following information has been extracted from the Annual Report-2013 of Rainbow Limited.

| | |
|----------------------|----------------------|
| Sales in Units | 10,000 |
| Sales in Rs. | Rs. 80,000.00 |
| Less: Variable Cost | Rs. 40,000.00 |
| Contribution | Rs. 40,000.00 |
| Less: Fixed Cost | Rs. 20,000.00 |
| EBIT | Rs. 20,000.00 |
| Amount of Debt | Rs. 80,000.00 |
| Interest Rate | 6% |
| Interest Amount | Rs. 4,800.00 |
| Net Profit | Rs. 15,200.00 |
| No. of Equity Shares | 8,000 |
| EPS | 1.90 |

Find Degree of Operating Leverage, Degree of Financial Leverage and Degree of Total Combined Leverage.

- c) What are the factors that determine the requirement of working capital and what are the sources of funds from the requirement of the working capital can be met?

(5+7+6)

7.
a)

| | |
|--|---------|
| Opening Stock | - |
| Units manufactured | 10,000 |
| Units sold | 9,000 |
| Selling price per unit (Rs.) | 1,500 |
| Variable Cost per unit: | |
| Direct Materials | 200 |
| Direct Labour | 100 |
| Direct expenses | 100 |
| Variable Manufacturing overhead | 300 |
| Variable Selling and Administrative Overhead | 100 |
| Fixed Cost per annum: | |
| Fixed Manufacturing overhead | 2000000 |
| Fixed Selling and Administrative Overhead | 1000000 |

Calculate profit/loss under:

- i) Absorption Costing
- ii) Marginal Costing

b) Explain **any two** of the following:

- i) Absorption of Overheads
- ii) Flexible Budget
- iii) Working Capital
- iv) Operating Cycle

(10+8)