BE9-R4: ACCOUNTING AND FINANCIAL MANAGEMENT SYSTEMS

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) Distinguish between Cash Discount and Trade Discount

b) Record the following transactions in Journal of **X**.

- i) X, Started business with a capital of Rs. 5,00,000/- paid in cash.
- ii) Opened a Bank A/c with Rs. 2,00,000/-
- iii) Purchased furniture for Rs. 50,000/- ,paid by cheque.
- iv) Purchased Goods for Rs. 1, 00,000/- on credit from Mr. Y.
- v) Purchased Goods for Rs. 20,000/- ,paid cash.
- vi) Sold goods for cash Rs. 60,000/-
- vii) Sold goods for Rs. 30,000/- to Raman on credit.
- viii) Purchased a computer for 50,000/- on credit from Wipro Company.

c) Explain In brief:

- i) Opportunity Cost.
- ii) Conversion Cost.

d) The Current Assets of a company are Rs. 17,00,000/-, if the current ratio is 2.5 and liquid ratio is 1.25, calculate current liabilities, liquid assets and inventory.

e) A factory manufacturing calculators has the capacity to produce 500 units per month .Variable cost is Rs. 200 per unit and selling price is Rs.250 per unit. Fixed over heads are Rs 12,000/- per month.
Calculate breakeven point for output and Sales, also calculate P.V. ratio.

f) ABC ltd. is expected to pay a dividend of Rs. 40/- per share. Dividends are expected to grow perpetually at 10%. You are required to calculate the market value of the share if capitalization rate is 15%.

g) The capital structure of a company consists of the following securities:

10% preference capital	Rs. 1, 00,000/-
Equity share capital (Rs. 10) shares	Rs. 1, 00,000/-
The amount of operating profit is	Rs. 60,000/-

The company is in 50% tax bracket.
Calculate the financial leverage of the company.

(7x4)

2.

a) A manufacturer has planned his level of operation at 50% of his plant capacity of 30,000 units. His expenses are estimated as follows, if 50% of the plant capacity is utilized:

		Rs.
i)	Direct materials	8,280
ii)	Direct wages	11,160
iii)	Variable and other manufacturing expenses	3,960
iv)	Total fixed expenses irrespective of capacity utilization	6,000

The expected selling price in the domestic market is Rs. 2 per unit. Recently the manufacturer has received a trade enquiry from an overseas organization interested in purchasing 6,000 units at a price Rs. 1.45 per unit.
As a professional management accountant, what would be your suggestion regarding acceptance or rejection of the offer? Support your suggestion with suitable quantitative information.

b) A limited company has the following capital structure equity share capital

(2,00,000 shares)	Rs.	40,00,000
6% Preference Shares		10,00,000
8% Debentures		30,00,000
		80,00,000

The market price of the company's equity share is Rs. 20. It is expected that company will pay a current dividend of Rs. 2 per share which will grow at 7 percent for ever. The tax rate may be presumed at 50 percent. You are required to compute the weighted average cost of capital based on existing capital structure.

(12+6)

3. From the following Trial Balance and information, prepare Trading and Profit & Loss Account of Mr. Rishabh for the year ended 31st March, 2016 and a Balance Sheet as on that date.

Particulars	**Debit**	**Credit**
	Rs.	Rs.
Capital Account		1,00,000
Drawings	12,000	
Land Building	90,000	
Plant and Machinery	20,000	
Furniture	5,000	
Sales		1,40,000
Return outward		6,000
Debtors	18,400	
Loan from Gajanand on		30,000
1-7-2015 @ 6% p.a.		
Purchases	80,000	
Returns inward	5,000	
Carriage	10,000	
Sundry expenses	600	
Printing and stationery	500	
Insurance expenses	1000	
Provision for bad and doubtful debts		1000
Provision for discount on debtors		380
Bad Debts	400	
Opening stock on 1-4-2015	21300	
Salaries and wages	18500	
Creditors		12,000
Trade expenses	800	
Cash at Bank	4600	
Cash in Hand	1280	
	------	------
	2,89,380	2,89,380

Additional Information:

i) Value of closing stock on 31-3-2016 was Rs. 27,300.

ii) Bad debts amounting to Rs. 400 are to be written off. Provision for bad debts and doubtful debts is to be made at 5% and for discount at 2% on debtors. Make a provision of 2% on creditors for discount.

iii) Received Rs 6,000 worth of goods on 27th March, 2016 but the Invoice of purchases was not recorded in Purchase Book.

iv) Rishabh took away goods worth Rs. 2,000 for personal use but no record was made thereof.

v) Charge depreciation at 2% on land and building, 20% on plant and machinery and 5% on furniture.

vi) Insurance prepaid amounts to Rs. 200.

(6x3)

4.

a) PK & Co. produce 4,000 units per month of a certain product at 100% capacity. The following information is obtained:

	Aug.	**Sept.**
Units Produced	**2,800**	**3,600**
	Rs.	**Rs.**
Repairs and maintenance	500	560
Power	1,800	2,000
Shop labour	700	900
Consumable stores	1,400	1,800
Salaries	1,000	1,000
Inspection	200	240
Depreciation	1,400	1,400

Rate of production per hour is 10 units. Direct material cost per unit is Rs. 1 and direct wages per hour is Rs. 4.

You are required to:

i) Compute the cost of production at 100%, 80% and 60% capacity showing the variable, fixed and semi-variable items under the flexible budget.

ii) Find out the overhead absorption rate per unit at 80% capacity.

b) State advantages of Debt Securitization.

(12+6)

5.

a) The product of a company passes through three distinct processes to completion. From the past experience it is ascertained that wastage is incurred in each process as under:

Process A 2%; Process B 5%; Process C 10%.

The wastage of processes A and B is sold at Rs. 10 per 100 units and that of Processes C at Rs. 80 per 100 units.

Following is the information regarding the production of March 2016:

	Process A	**Process B**	**Process C**
	Rs.	**Rs.**	**Rs.**
Materials	12,000	8,000	4,000
Direct Labor	16,000	12,000	6,000
Machine expenses	2,000	2,000	3,000
Other factory expenses	3,500	3,800	4,200

20,000 units have been issued to Process A at a cost of Rs. 20,000. The output of each process has been as under:

Process	A	19,500 Units
	B	18,800 Units
	C	16,000 Units

There was no stock of work-in-progress in any process in the beginning and at the end of March.

Prepare Process Accounts.

b) What is meant by "Cost Centre"? What are different types of Cost Centres?

(12+6)

6.

a) From the following Balance Sheets of Yogesh Ltd. Prepare the Cash Flow Statement:

Liabilities	**31-03-2015**	**31-03-2016**	**Assets**	**31-03-2015**	**31-03-2016**
Equity Share Capital	6,00,000	8,00,000	Fixed Assets	4,00,000	10,00,000
12% Preference Share Capital	2,00,000	1,50,000	Investments	80,000	90,000
15% Debentures	4,00,000	5,00,000	Stock	3,00,000	4,00,000
Securities Premium		1,20,000	Debtors	3,52,000	1,12,000
Profit and Loss A/c		1,44,000	Bank	1,88,000	4,28,000
Accumulated Depreciation	60,000	96,000	Preliminary Expenses	40,000	32,000
Provisions for Doubtful Debts	20,000	32,000	Profit and Loss A/c	20,000	
Creditors	1,00,000	2,20,000			
	13,80,000	20,62,000		13,80,000	20,62,000

Additional Information:

i) Dividend paid during the year Rs. 72,000.

ii) Investments costing Rs. 20,000 were sold at a profit of Rs. 8,000.

iii) Fixed Assets costing Rs. 40,000 (accumulated depreciation Rs. 16,000) were sold at a profit of Rs. 10,000.

iv) Additional debentures amounted to Rs. 1,00,000 issued on 1st January, 2016 interest on debentures is paid on 31st March every year.

b) The following figures have been extracted from the books of X Ltd. And Y Ltd. For the year ended 31st March, 2016.

	X Ltd.	**Y Ltd.**
Net Sales	36,000	23,00,000
Earnings before Interest and Tax (EBIT)	7,20,000	3,38,000
Current Assets	9,00,000	4,25,000
Current Liabilities	5,00,000	2,10,000
Average Debtors	5,50,000	3,00,000
Equity Share Capital	10,00,000	8,00,000
Reserve and Surplus	2,00,000	1,25,000
Long Term Loan	6,00,000	1,00,000

Calculate the following ratios for both the above mentioned companies and comment on their comparative performance:

i) Net Profit Ratio

ii) Current Ratio

iii) Debtors turnover ratio

iv) Return on capital employed

Note: Credit sales of X Ltd. And Y Ltd. accounted for 80% of their total sales.

(12+6)

7. Write short Notes (**any three**):

a) Relevance of time value of money.

b) Stable Dividend Policy

c) Deferred Revenue Expenditure

d) Convention of conservatism

e) Net Present Value

(3x6)