

## BE9-R4 : ACCOUNTING AND FINANCIAL MANAGEMENT SYSTEM

**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) Define accounting? Differentiate financial accounting from cost accounting.  
 (b) Distinguish between cash flow and fund flow statement.  
 (c) Explain the ledger.  
 (d) The building account of VAN College is Rs. 7,50,000. The following expenses were incurred on the building during the year. You are required to state how these items are to be treated in the books.
  - (i) Construction of a common room for students amounted to Rs. 20,000.
  - (ii) Repairing cost of college benches and tables amounted to Rs. 1,500.
  - (iii) Whitewashing cost amounted to Rs. 15,000.
  - (iv) Demolition cost of an old structure amounted to Rs. 7,500 and rebuilding cost amounted to Rs. 1,05,000.
- (e) Differentiate and explain straight line method and written down value method of depreciation.  
 (f) What is Contingent liability and where it is recorded?  
 (g) What is the difference between revenue and provisions? (7x4)
2. (a) The following is the extract from the balance sheet of Prema Limited as on 31<sup>st</sup> March 2019.

Share capital	2,00,000	Land and Building	1,40,000
Profit and Loss account balance	30,000	Plant and machinery	3,50,000
General Retained earnings	40,000	Stock -in-trade	2,00,000
12% Debentures	4,20,000	Sundry debtors	1,00,000
Sundry creditors	1,00,000	Bills receivables	10,000
Bills payable	50,000	Cash at bank	40,000

Calculate the following ratios:

- (i) Current ratio
- (ii) Quick ratio
- (iii) Inventory to working capital ratio
- (iv) Debt to equity ratio
- (b) Distinguish between trade discount and credit discount.
- (c) Explain job costing and process costing. (8+5+5)

3. (a) M/s. Ayushi Traders, Accountant has been called by Income Tax Officer with respect to scrutiny of Income Tax Return submitted for the first financial year 2018-19. The following issues are raised by Income Tax Officer. You are required to explain the treatment given by you (indicate the related adjustment entries and concepts name), in Income Statement and Balance Sheet of the year.
- The salary and wages payable to staff and workers per month Rs.50,000. The cash and bank book indicate the salary paid during the year is Rs. 5,50,000 only, while claimed expenses is Rs. 6,00,000.
  - The fire insurance premium paid as per bank book is Rs. 12,000; as on October 1, 2018. The income statement indicates the expense is Rs. 6,000 only.
  - Bank book indicates that Ayushi has withdrawn Rs.50,000 during the year for her personal purpose. The amount is not shown in the income statement.
  - During the year the goods has been lost by fire of Rs.25,000. The income statement indicates the loss of Rs.13,000 as lost by fire. What could be the reason for lesser recording of the lost by fire ?
  - Availed a loan of Rs. 2,00,000 from Dena Bank at an interest rate of 10% p.a as on January 1, 2019. The interest is payable on half yearly basis. The income statement does not indicate the interest expense. Is it a correct practice? If not what to do ?
- (b) Describe marginal cost and sunk cost in detail?
- (c) The following data is given :

Selling price	20 per unit
Variable manufacturing cost	11 per unit
Variable selling cost	3 per unit
Fixed factory overheads	5,40,000 per year
Fixed selling costs	2,52,000 per year

You are required to compute:

- Break-even point expressed in amount of sales in rupees.
  - Number of units that must be sold to earn a profit of Rs. 60,000 per year.
  - How many units must be sold to earn a net income of 10% sales ? **(6+6+6)**
4. (a) Ambuja Limited is considering an expansion project which is being evaluated by a firm that has a cost of capital of 12 percent. Following cash flows are evaluated by firm,

Initial investment	100,000
Year 1	30,000
Year 2	40,000
Year 3	40,000
Year 4	50,000

You are required to calculate Net present value of the project and take decision based on its outcome.

- Discuss the three broad areas of financial decision making i.e. capital budgeting, capital structure and working capital management.
- Explain financial leverage and operating leverage. **(6+6+6)**

5. The summarized balance sheets of Pero Ponda Motors Ltd and Zech Zahindra Ltd for the year ended 31<sup>st</sup> March 2019 are given as follows :

Particulars	(Rs. In crores)	
	Zech Zahindra Ltd	Pero Ponda Motors Ltd
<b>I. Sources of Funds</b>		
Share Capital	122.30	39.94
Share Application Money	0.20	-
Reserve and Surplus	2,744.20	3,425.08
<b>Total</b>	<b>2,866.70</b>	<b>3,465.02</b>
<b>Non-Current Liabilities</b>		
Secured Loan-Debentures	750.00	-
Unsecured Loan	200.00	66.03
Less : Due within 12 months	(120.00)	-
Non-Current : Provisions for Gratuity and Employee benefits	137.20	4.14
Deferred Revenue	767.70	
Deferred Tax Liability	-	152.75
<b>Total</b>	<b>1,734.90</b>	<b>222.92</b>
<b>Current Liabilities</b>		
Unsecured loans-short term	417.20	-
Term loans-due within 12 months	120.00	-
Sundry Creditors	453.30	1,111.44
Advances from customers	10.90	-
Short term provisions	123.30	1,022.21
Other current liabilities	110.10	2,693.62
	1,234.90	4,827.27
<b>Total</b>	<b>5,836.50</b>	<b>8,515.21</b>
<b>II. Application of funds</b>		
<b>Non-Current Assets</b>		
Fixed Assets (Gross Block)	1,112.80	2,750.98
Less: Accumulated depreciation	518.80	1,092.20
Net Block	594.00	1,658.78
Capital work-in-progress	320.80	48.14
	914.80	1,706.92
Long term investments	3,113.90	349.56
Deferred tax assets	22.30	-
<b>Current assets</b>		
Cash and bank Balances	138.00	1,907.21
Current investment	-	3,576.15
Inventories	1.40	436.40
Sundry Debtors	993.00	108.39
Loans and advances	653.10	405.76
Other current assets	-	24.82
	1,785.50	6,458.73
<b>Total</b>	<b>5,836.50</b>	<b>8,515.21</b>

- (i) Compare the composition of assets and liabilities of the two companies and identify the key differences.
- (ii) Pero Ponda Motors Ltd has higher reserves and surplus. What may be the reasons ?
- (iii) Which of the two companies have higher level of liquidity?
- (iv) Which of the two companies have higher level of borrowed funds?
- (v) What is likely impact on the profit and loss account?
- (vi) Which of the two companies is likely to have higher level of depreciation? Why?
- (vii) Zech Zahindra Ltd has large non-current investments whereas Pero Ponda motors Ltd has large current investments. What does it indicate?
- (viii) Justify the difference between the level of sundry debtors and inventories of the two companies.
- (ix) What do you mean by deferred tax liability and deferred tax asset ? (18)

6. (a) The financial position of ABN Ltd on 01 January 2018 and 31 December 2018 was as follows :

Assets	01.01.2018	01.12.2018
	Rs.	Rs.
Cash	8,000	7,200
Debtors	70,000	76,800
Stock	50,000	44,000
Land	40,000	60,000
Building	1,00,000	1,10,000
Machinery	2,14,000	2,44,000
Provision for depreciation	(54,000)	(72,000)
Liabilities	Rs.	Rs.
Current Liabilities	72,000	82,000
Loan from associate company	-	40,000
Loan from bank	60,000	50,000
Capital and reserve	2,96,000	2,98,000
	4,28,000	4,70,000

During the year Rs. 52,000 were paid as dividends. Prepare a cash flow statement.

- (b) Discuss Zero Based Budgeting. (12+6)

7. Write short notes on any three of the following:

- (a) Working Capital Management
- (b) Dividend policies in firms
- (c) Cost of capital
- (d) Allocation, apportionment and absorption of overhead
- (e) Process loss

**(6+6+6)**

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