No. of Printed Pages : **8**

Sl. No.

BE9-R4 : ACCOUNTING AND FINANCIAL MANAGEMENT SYSTEM

NOTE :
1. **Question No. 1 is compulsory. Answer 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 **any four** of the following :

(i) Money Measurement Concept

(ii) Consistency Concept

(iii) Matching Concept

(iv) DuPont Analysis

(v) Variable Costing

(vi) Flexible Budget **(4x2)**

(b) Answer the following :

(i) A Ltd. and B Ltd. sell identical products in identical markets. Their budgeted income statement for the year 2020-21 are as follows :

Particulars	**A Ltd.**	**B Ltd.**
	Amount (Rs.)	Amount (Rs.)
Sales	**5,00,000**	**6,00,000**
Less : Variable Cost	4,00,000	1,80,000
Contribution	**1,00,000**	**4,20,000**
Less : Fixed Cost	20,000	2,80,000
Budgeted Profit	**80,000**	**1,40,000**

You are required to calculate :

I. Break-Even-Point (BEP) for each company.

II. Sales at which both the companies will have same profits.

(ii) If a company is having P/E Ratio (Price/Earnings Ratio) of 25 and Market Value to Book Value of 2, then you are required to calculate Return on Equity (RoE).

(iii) The capital structure of a company is having Rs. 1,500 crores as Equity Share Capital, Rs. 2,800 crores as Retained Earnings and Rs. 1,200 crores of debt. If the cost of Equity Share Capital is 16.00%, of Retained Earnings 15.50% and cost of debt (after tax) 7.00%, then determine the Weighted Average Cost of Capital of the company.

(iv) A company is deciding whether a project costing Rs. 100 lakhs is to be accepted or not. For this, the following cash flows are estimated :

Year	**Cash Flows (in Rs. lakhs)**
1	Rs. 25
2	Rs. 30
3	Rs. 35
4	Rs. 40
5	Rs. 25

Determine the Pay-Back Period. **(4+3+3+4)**

(c) Distinguish between **any three** of the following :

(i) Gross Working Capital and Net Working Capital

(ii) Net Present Value (NPV) and Internal Rate of Return (IRR)

(iii) Fixed Budget and Flexible Budget

(iv) Future Value of Money and Present Value of Money

(v) Cash Flow Statement and Funds Flow Statement **(3x2)**

2. From the under mentioned trial balance of M/S Preeti Plastic Company, prepare a Trading Account, Profit and Loss Account, and a Balance Sheet.

Trial Balance as on 31-03-2021

Particulars	Debit Balances (Rs. in lakhs)	Credit Balances (Rs. in lakhs)
Opening stock of Inventories	2,000	
Capital		28,000
Plant and Machinery	10,000	
Sundry creditors		4,500
Fixtures & Fittings	3,000	
Discount received		800
Freehold Premises	30,000	
Bank Overdraft		2,500
Purchases	15,000	
Provision for Bad and Doubtful debts		200
Salaries	5,600	
Purchase Returns		1,165
Sundry debtors	4,000	
Sales (net)		50,585
Manufacturing Expenses	6,000	
Manufacturing Wages	2,500	
Carriage inwards	800	
Carriage outwards	1,250	
Administrative expenses	4,000	
Bad Debts	300	
Interest and Bank Charges	1,250	
Discount Allowed	300	
Insurance paid	600	
Cash in hand and cash at bank	1,150	
Total	**87,750**	**87,750**

Additional information :

- Closing stock of inventories as on March 31, 2021 was valued at Rs. 600 lakhs.
- Depreciation on Plant and Machinery @ 10% and on Fixtures and Fittings @ 8%.
- Prepaid insurance Rs. 7 lakhs.
- Prepaid salary Rs. 5 lakhs.
- Outstanding interest on bank overdraft; Rs. 1 lakh.
- Provision for Bad and Doubtful Debts is to be maintained at 6% of Sundry Debtors.

(18)

3. Following information has been extracted from the Annual Report, 2021 of Rainbow Limited :

The Balance Sheets of Rainbow Limited as on 31st March

Liabilities			Assets		
Particulars	**Amount - 2020 (Rs. Lakhs)**	**Amount - 2021 (Rs. Lakhs)**	**Particulars**	**Amount - 2020 (Rs. Lakhs)**	**Amount - 2021 (Rs. Lakhs)**
Equity share capital	7,500	16,000	Fixed assets	27,600	35,800
Capital reserve	1,600	2,000	Less : Depreciation	19,640	20,440
Surplus - Profit and Loss Account	3,000	3,860		7,960	15,360
12% Bonds	4,000	4,500	Investment	14,000	17,000
Sundry creditors	8,500	12,000	Sundry debtors	6,860	12,272
Bills payables	6,000	5,800	Inventories	2,040	2,200
Accrued Expenses	600	500	Prepaid Insurance	880	280
Other Current Liabilities	2,500	4,200	Cash in hand & Bank Balance	1,960	1,748
	33,700	**48,860**		**33,700**	**48,860**

Additional information :

During the year ended on 31st March, 2021, the company :

(i) Sold a machine for Rs. 175 lakhs; the cost of machine was Rs. 240 lakhs and depreciation provided on it was Rs. 80 lakhs.

(ii) Sold some investment and profit thereon credited to Capital Reserve and additional investments of Rs. 4,000 lakhs were made during the year.

(iii) Redeemed 20% of the bonds.

You are required to prepare Cash Flow Statement. **(18)**

4. The following information has been extracted from the cost accounting system of a company for the month of July 2020.

Particulars	**(Rs. in thousands)**
Sales	4,760
Less :	
Manufacturing Cost	4,116
Selling and Administration Cost (Fixed)	75
Net Profit	**569**

The production and inventories position during the period was -

Particular	**(Units in thousands)**
Opening Inventories (Units)	5
Production During the Period (Units)	25
Units Sold (Units)	28
Closing Inventories (Units)	2

Particulars	**In Rs. per unit**
Direct Material Cost	65.00
Direct Labour Cost	38.25
Direct Expenses	25.50
Variable Manufacturing Overheads	12.75
Fixed Manufacturing Overheads	5.50
Fixed Selling and Administration Cost	3.00
Total Cost	**150.00**

(Please note that all fixed overheads per unit are calculated assuming the normal base of 25 ***thousand*** *units)*

You are required to prepare Income Statements as per Absorption Costing Method and as per Variable Costing Method. Also, discuss the reasons why the net profit figures under both the approaches are different. **(18)**

5. (a) Prime Corp, a multi-product company, furnishes the following data relating to the year 2020 :

Particulars	1st Half	2nd Half
	Amount (Rs.)	**Amount (Rs.)**
Sales	75,000	1,00,000
Total Cost	50,000	60,000

Assuming that there is no change in prices and variable costs. Further, the fixed expenses are incurred equally in the two half-year periods. You are required to calculate for the year :

(i) Profit-Volume Ratio or Contribution to Sales Ratio

(ii) Fixed Expenses for each half

(iii) BEP Sales

(iv) Percentage Margin of Safety to Total Sales for 2nd Half **(12)**

(b) State whether the following statements are true or false.

(i) For the manufacturing of a car, Factory Rent paid by the company can be considered as fixed cost while costs related to Tyres, Contract Labour Wages and Electricity Costs may be considered as variable cost.

(ii) Internal Rate of Return (IRR) is based on the assumption that all cash flows generated from a product can be reinvested at a rate which is equal to the cost of capital.

(iii) Rent paid on a rented property taken by a firm is an example of variable cost as it changes every year as per the terms and conditions of the contract.

(iv) Degree of Operating Leverage exists because of the fixed interest cost which is paid on the amount borrowed.

(v) Horizontal Analysis and Vertical Analysis, as tools of Financial Statement Analysis, represents how a rupee is raised or a rupee is invested or how a rupee is earned and how the same is spent.

(vi) Solvency ratios help in determining the long-term solvency while Liquidity Ratios determine the short-term solvency. **(6)**

6. (a) A Company is planning to replace its existing plant which is semi-automatic by a fully automatic plant. This decision of the Company will reduce the variable cost by half but will result in increase fixed cost. It is also planning to finance the plant only through borrowings.

The estimated Income Statement of the Company is given below :

INCOME STATEMENT ...

	EXISTING	PROPOSED
Sales in Units	10,000	10,000
Sales in Rs.	Rs. 80,000.00	Rs. 80,000.00
Less : Variable Cost	Rs. 40,000.00	Rs. 20,000.00
Contribution	**Rs. 40,000.00**	**Rs. 60,000.00**
Less : Fixed Cost	Rs. 20,000.00	Rs. 34,000.00
Earnings Before Interest & Tax (EBIT)	**Rs. 20,000.00**	**Rs. 26,000.00**
Amount of Debt	80,000.00	1,60,000.00
Interest Rate	6%	6%
Interest Amount	Rs. 4,800.00	Rs. 9,600.00
Net Profit	**Rs. 15,200.00**	**Rs. 16,400.00**
No. of Equity Shares	8,000	8,000
EPS	**1.90**	**2.05**

Required :

(i) Find Degree of Operating Leverage (DOL), Degree of Financial Leverage (DFL) and Degree of Total Leverage (DTL) for the Existing as well as Proposed Cases.

(ii) Find at what level of Sales (in Units), the management is indifferent between both the cases. *(Note that the management is said to be indifferent if the EPS is same in both the cases)*. **((3x3)+3)**

(b) Record **any three** of the following transactions in Journal :

(i) Goods worth Rs. 75,000 were sold to M/S Blue Sky on credit basis.

(ii) A firm paid Rs. 78,000 in cash towards the purchase of machine and got a cash discount of Rs. 2,000.

(iii) Salaries paid to the employees totaling Rs. 60,000.

(iv) Rs. 50,000 are to be received from Mr. A. Soni, debtor of the firm, but it could not receive that amount as he becomes insolvent and hence, the firm decides to write-off the same amount.

(v) Interest accrued on a loan taken from a bank – Rs. 25,000. **(3x2)**

7. (a) 'Shareholders' Value Maximization' objective is better than that of Profit Maximization.' Do you agree with this statement ? Support your answer with necessary reasoning. **(5)**

(b) Name any two sources of funds for meeting working capital requirement of a firm and any two sources of funds for meeting funds requirement of the long-term investment projects. **(4)**

(c) Write short notes on **any three** of the following :

(i) Cost-Volume-Profit Analysis

(ii) NPV (Net Present Value) – as a measure of profitability of a project

(iii) Zero-Base Budgeting

(iv) Cost of Equity

(v) Solvency Ratios **(3x2)**

(d) Consider the following Balance Sheet of ABC Limited :

The Balance Sheets of ABC Limited as on 31st March, 2021

Liabilities		**Assets**	
Particulars	**Amount (Rs.)**	**Particulars**	**Amount (Rs.)**
Share capital	40,500	Fixed assets	90,000
Capital reserve	5,500	Less : Depreciation	36,600
General Reserve and Surplus of Profit and Loss Account	10,150		53,400
12% Debentures	11,750	Non-Current Investment	43,000
Sundry creditors	30,500	Sundry debtors	16,180
Bills payables	15,000	Inventories	6,000
Accrued Expenses	1,750	Prepaid Insurance	1,200
Other Current Liabilities	11,000	Cash in hand & Bank Balance	4,870
		Current Investments	1,500
	1,26,150		**1,26,150**

Calculate :

(i) Current Ratio

(ii) Quick Ratio

(iii) Cash to Current Liabilities Ratio **(3x1=3)**

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