

BE9-R4: ACCOUNTING & 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) Consider the following information for Rudra Enterprise:

	Rs. (in Lakhs)
EBIT	1,120
PBT	320
Fixed Cost	700

- b) Calculate percentage change in earning per share if sales increased by 5%.
If the cost of capital is 12%, you are required to determine the Net Present Value (NPV) of a project whose cash flows are given below:

Year	Cash Flows (in Rs. lakhs)
0	-Rs. 1,000
1	Rs. 250
2	Rs. 300
3	Rs. 350
4	Rs. 400
5	Rs. 250

Use the following discount factors to calculate NPV.

Year	0	1	2	3	4	5
Present Value Factor at 12%	1.000	0.870	0.756	0.658	0.572	0.497

- c) The capital structure of a company is having Rs. 100 crores as Equity Share Capital, Rs. 400 crores as Retained Earnings and Rs. 500 crores of debt. If the cost of Equity Share Capital is 15.00%, of Retained Earnings 14.50% and cost of debt (after tax) 7.50%, then determine the Weighted Average Cost of Capital of the company.
- d) Record the following transaction in Journal:
- i) An owner invests Rs. 73,000 of his money to begin the catering business.
 - ii) The firm borrows Rs. 27,000 from a bank at an interest rate of 12 percent per annum. The loan is repayable after 1 year.
- e) Record the following transaction in Journal
- i) A plot of land purchased for a shop-cum-office location, paying cash of Rs. 7,00,000.
 - ii) Purchased furniture worth Rs. 12,000 from M/s Assam Furniture on credit.
- f) What are the factors which influence management decision to pay dividend of a certain amount.
- g) Distinguish between **any two** of the following:
- i) Variable Costing and Absorption Costing
 - ii) Fixed Budget and Flexible Budget
 - iii) Gross Working Capital and Net Working Capital

(7x4)

2. From the under mentioned trial balance of Wadhwa & Sons, prepare a Trading Account, Profit and Loss Account, and a Balance Sheet.

Trial Balance as on 31-03-2014

Particulars	Debit Balances (Rs.)	Credit Balances (Rs.)
Opening stock of Inventories	45,000	
Capital		1,90,000
Plant and Machinery	1,85,000	
Sundry creditors		40,000
Fixtures & Fittings	7,500	
Discount received		3,500
Freehold Premises	75,000	
Bank Overdraft		20,000
Purchases	1,50,000	
Provision for Bad and Doubtful debts		3,000
Salaries	14,000	
Purchase Returns		1,500
Sundry debtors	55,000	
Sales (net)		3,39,070
Manufacturing Expenses	15,000	
Manufacturing Wages	30,000	
Carriage inwards	2,000	
Carriage outwards	2,100	
Administrative expenses	10,000	
Bad Debts	750	
Interest and Bank Charges	625	
Discount Allowed	750	
Insurance paid	1,500	
Cash in hand and cash at bank	2,845	
Total	5,97,070	5,97,070

Additional information:

- Closing stock of inventories as on March 31, 2014 was valued at Rs. 57,000.
- Depreciation on Plant and Machinery @ 10% and on Fixtures and Fittings @ 8%.
- Prepaid insurance Rs. 800.
- Prepaid salary Rs. 600.
- Outstanding interest on bank overdraft – Rs. 2,500.
- Provision for Bad and Doubtful Debts is to be maintained at 6% of Sundry Debtors.

(18)

3. Following information has been extracted from the records of Bora Bros. Pvt. Limited:
The Balance Sheets of a Company as on 31st March, 2013 and 2014 are given below:

Liabilities			Assets		
Particulars	Amount - 2013 (Rs. Lakhs)	Amount - 2014 (Rs. Lakhs)	Particulars	Amount - 2013 (Rs. Lakhs)	Amount - 2014 (Rs. Lakhs)
Equity share capital	100.00	200.00	Fixed assets	282.50	422.50
Capital reserve	21.50	24.50	Less: depreciation	120.50	130.50
Surplus - Profit and Loss Account	42.75	48.25		162.00	292.00
12% Bonds (Face Value Rs. 1,000)	50.00	55.00	Investment	176.50	185.60
Sundry creditors	122.75	144.50	Sundry debtors	85.75	78.40
Bills payables	75.00	72.50	Inventories	25.50	27.50
Accrued Expenses	9.25	8.75	Prepaid Insurance	2.50	3.50
Other Current Liabilities	55.50	52.25	Cash in hand & Bank Balance	24.50	18.75
	476.75	605.75		476.75	587.00

Additional information:

During the year ended on 31st March, 2014, the company:

- Sold a machine for Rs. 25 lakhs; the cost of machine was Rs. 40 lakhs and depreciation provided on it was Rs. 18 lakhs.
- Sold some investment and profit thereon credited to Capital Reserve and additional investments of Rs. 25 lakhs .were made during the year.
- Redeemed 20% of the debentures @ Rs. 1,005.

You are required to prepare Cash Flow Statement.

(18)

4. a) AT Limited is an engineering company having 25 different types of automatic machines. The following information for 2014 in respect of machine B has been extracted from the Cost Accounting System of the Company.

	(Rs.)
1) Cost of Machine	50,000
Life	10 years
2) Overhead Expenses	
Factory rent	50,000 p.a
Heating and Lighting	40,000 p.a
Supervision	1,50,000 p.a.
Reserve Equipment for Machine B	5,000 p.a.
Area of the Factory	80,000 sq ft
Area Occupied by Machine B	3,000 sq ft
Power Cost	Rs. 0.75 per hour while in operation
3) Wages of Operator are Rs. 240 per day of 8 hours including all fringe benefits. He attends to one machine when being set up and two when under operation	
4) Estimated production hours	3,600 hrs p.a.
Estimated set up hours	400 hrs p.a

Prepare a schedule of Machine Hour Rate and find cost of the following:

	Job 1102	Job 1308
Set up time (hours)	80	130
Operation (hours)	40	160

- b) A firm having a capacity of 15,000 units per year produces 10,000 units which are consumed in the home market at a price of Rs. 25 per unit. The cost sheet per unit is as follows:

	Rs. per unit
Materials	8.00
Labour	6.00
Fixed Factory Expenses	2.00
Variable Factory Expenses	1.50
Office Expenses	1.00
Selling Expenses	
Fixed	0.50
Variable	1.00
Total Cost	20.00

A foreign customer is interested in the product, and is willing to buy 5,000 units provided the price is not more than Rs. 18 per unit.

- i) Will you advise the firm to accept the order?
- ii) What will be your advise in case the price offered is Rs. 15?

(10+8)

5

- a) The following information is available in respect of Process I in the month of February, 2014:

- i) Opening Work-in-Progress of **Process-I**: 10,000 units –Rs. 6500
 Degree of Completion: Material – 100%
 Labour- 50%
 Overheads-50%
- ii) Transfer to **Process II** – 30,000 units
- iii) Direct Material added in the **Process-I** – Rs. 18,400
- iv) Direct labor amounted to – Rs. 9,180
- v) Production Overheads incurred- Rs. 6,180
- vi) Closing Work-in-Progress of **Process-I** – 20,000 units
 Degree of completion
 Material-10%
 Labour-25%
 Ovehrheads-25%

You are required to prepare Process Account using the above information.

- b) Explain the concept of Margin of Safety. The Profit Volume Ratio of X Limited is 50% and the Margin of Safety is 40%. You are required to calculate the Net Profit if the sales value is Rs. 1,00,000.

(15+3)

6. Following extracts are taken from the Annual Report, 2014 of NTPC Limited:

SELECTED FINANCIAL INFORMATION (<i>Rs. in crores</i>)	2012-13	2013-14
Total revenue	68,775.51	74,707.82
Total Expenses	48,559.87	54,254.39
Profit before depreciation, finance cost and tax	20,215.64	20,453.43
Depreciation and amortization expense	3,396.76	4,142.19
Profit before finance cost and tax	16,818.88	16,311.24
Finance costs	1,924.36	2,406.59
Profit before exceptional items and tax	14,894.52	13,904.65
Exceptional Items (+) income/ (-) loss	1,684.11	-
Profit before tax	16,578.63	13,904.65
Tax (Net)	3,959.24	2,929.91
Profit after tax	12,619.39	10,974.74
Dividend	4,741.16	4,741.15
Dividend tax	781.87	804.74
Retained profit	7,096.36	5,428.85
C. Assets		
Total Fixed Assets (Net block)	1,00,045.52	1,16,999.50
Investments (Non-current)	9,137.64	8,120.90
Long-term loans and advances	9,633.45	12,776.22
Other non-current assets	1,132.77	1,786.77
Current assets	41,167.08	39,870.79
Total Assets	1,61,116.46	1,79,554.18
D. Liabilities		
Borrowings		
Long-term borrowings	53,253.66	62,405.75
Current maturities of long-term borrowings	4,892.64	4,764.47
Total borrowings	58,146.30	67,170.22
Other Long-term liabilities and provisions	3,621.21	4,443.43
Net Current liabilities	17,717.39	20,515.33
Deferred Revenue	1,244.05	1,609.88
E. Net-worth		
Share capital	8,245.46	8,245.46
Reserves & surplus	72,142.05	77,569.86
Net-worth	80,387.51	85,815.32
Total Liabilities	1,61,116.46	1,79,554.18
Number of employees	23,865.00	23,411

Using the above data, you are supposed to calculate the following:

- i) Find Net Profit Ratios for both the years.
- ii) Calculate Return on Equity for both the years.
- iii) Find the EPS for the period ending on March 31, 2013 and March 31, 2014. (Face Value of each share is Rs. 10).

- iv) Calculate Dividend/Payout Ratio for the years ending on March 31, 2013 and March 31, 2014.
- v) Using the price of Rs. 140, determine the ratio between the market price and the book value as on March 31, 2014.
- vi) Calculate the P/E ratio using the price of Rs. 140 and the EPS calculated for the year ending on March 31, 2014.
- vii) Expand Return of Assets (ROA) using DuPont Analysis for the year ending on March 31, 2014.

(2+4+2+2+2+2+4)

7.

- a) "Working Capital is like blood pressure-too high of it is fatal, too low of it is collapse." Comment on it.
- b) XYZ Ltd. was incorporated as a public limited company in the last decade. Since then, the management has decided about a capital structure which is reflected by the liabilities side of the company's Balance Sheet as on March 31, 2014 that is as shown below:

	(Rs. in lakhs)
Equity Paid Up Capital	500.00
Reserves and Surplus	350.00
10% Redeemable Preference Share Capital	100.00
12% Term Loans	50.00
Total	1,000.00

The equity share of the company is currently selling for Rs. 120 and the equity shareholders are expecting a return of 16%. The Redeemable Preference Shares were issued on April 1, 2009 with a twelve-year maturity period. A similar issue today will cost 12%. The company has raised the term loan from a financial institution some five years back. A similar loan today will cost the company 13%. If a company has a tax rate of 30%, then you are required to calculate the weighted average cost of capital for the company using book-value weights.

- c) Write short notes on **any three** of the following:
 - i) Accounting Equation
 - ii) Matching Concept of Financial Accounting
 - iii) Horizontal (Trend) Analysis – A tool of Financial Analysis
 - iv) Cost-Volume-Profit Analysis
 - v) Risk-Return framework for financial decision making

(4+5+[3x3])