

## 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) Write short notes on any two of the following:
  - i) Conversion cost
  - ii) Sunk cost
  - iii) Opportunity cost
- b) Explain the need of debt-service coverage ratio.
- c) Discuss the components of budgetary control system.
- d) Distinguish between Net Present Value and Internal Rate of Return.
- e) Write short notes on Golden Rules of Accountancy.
- f) Discuss the four different methods of costing along with their applicability to concerned industry.
- g) You are given the following data for the year 2015 of Rio Co. Ltd:

Variable cost	60,000	60%
Fixed cost	30,000	30%
Net profit	10,000	10%
Sales	1,00,000	100%

Find out (i) Break-even point, (ii) P/V ratio, and (iii) Margin of safety.

(7x4)

2.

- a) AK Limited produces and sells a single product. Sales budget for calendar year 2016 by quarters is as under:

Quarters	I	II	III	IV
No. of units to be sold	18000	22000	25000	27000

The year is expected to open with an inventory of 6,000 units of finished products and close with inventory of 8,000 units. Production is customarily scheduled to provide for 70% of the current quarter's sales demand plus 30% of the following quarter demand. The budgeted selling price per unit is ₹40.

The standard cost details for one unit of the product are as follows:

Variable Cost ₹34.50 per unit

Fixed Overheads 2 hours 30 minutes @ ₹ 2 per hour based on a budgeted production volume of 1,10,000 direct labour hours for the year. Fixed overheads are evenly distributed through-out the year.

You are requested to:

- i) Prepare Quarterly Production Budget for the year.
  - ii) In which quarter of the year, company expected to achieve break-even point.
- b) A lessor is leasing equipment worth ₹ 30000 to a lessee. The lessor would be looking for at least 22% internal rate of return on this lease agreement. Calculate the lease rental, assuming the lease period of three years if the lessee is willing to pay the rental in the proportion of 3:5:7 over the three years.

(12+6)

3.

a) With the help of the following information complete the Balance Sheet of MNOP Ltd.:

Equity share capital	₹1,00,000
The relevant ratios of the company are as follows:	
Current debt to total debt	0.40
Total debt to owner's equity	0.60
Fixed assets to owner's equity	0.60
Total assets turnover	2 Times
Inventory turnover	8 Times

b) A company manufactures a product from a raw material, which is purchased at ₹ 60 per kg. The company incurs a handling cost of ₹ 360 plus freight of ₹ 390 per order. The incremental carrying cost of inventory of raw material is ₹ 0.50 per kg. per month. In addition, the cost of working capital finance on the investment in inventory of raw material is ₹ 9 per kg. per annum. The annual production of the product is 1,00,000 units and 2.5 units are obtained from one kg of raw material.

You are required to:

- Calculate the economic order quantity of raw materials.
- Advise, how frequently should orders for procurement be placed.

(10+8)

4. XYZ Ltd. Is considering three financial plans for which the key information is as below:

- Total investment to be raised Rs. 4,00,000.
- Plans of Financing Proportion:

Plans	Equity	Debt	Preference shares
A	100%	-	-
B	50%	50%	-
C	50%	-	50%
- Cost of debt 8%  
Cost of preference shares 8%
- Tax Rate 50%
- Equity shares of the face value of Rs. 10 each will be issued at a premium of Rs.10 per share.
- Expected EBIT is Rs. 1,60,000

Determine for each plan:

- Earnings per share (EPS)
- Financial break-even point
- Compute the EBIT range among the plans A and C for point of indifference

(18)

5.

a) Journalise the following transactions:

- December 1, 2015, Ajit started business with Cash ₹ 40,000.
- December 3, he paid into the Bank ₹ 2,000.
- December 5, he purchased goods for cash ₹ 15,000.
- December 8, he sold goods for cash ₹ 6,000.
- December 10, he purchased furniture and paid by cheque ₹ 5,000.
- December 12, he sold goods to Arvind ₹ 4,000.
- December 14, he purchased goods from Amrit ₹ 10,000.
- December 15, he returned goods to Amrit ₹ 5,000.
- December 16, he received from Arvind ₹ 3,960 in full settlement.
- December 18, he withdrew goods for personal use ₹ 1,000.

- b) Two new internet site projects are proposed to a young startup company. Project A will cost ₹ 250,000 to implement and is expected to have annual cash flow of ₹ 75,000. Project B will cost ₹150,000 to implement and should generate annual net cash flows of ₹ 52,000. The company is quite concerned about their cash flow. Using the payback period, which project is better from a cash flow standpoint?

(12+6)

6.

- a) X is invested ₹ 2,40,000 at annual rate of interest of 10 percent. What is the amount after 3 years if the compounding is done?

- i) Annually  
ii) Semi-annually

- b) Explain briefly the concepts of Opportunity costs and relevant costs. Narrate the objectives of Cost Accounting.

- c) Calculate total passenger kilometers from the following information:

Number of buses: 6, number of days operating in a month: 25, trips made by each bus per day: 8, Distance covered: 20 kilometers (one side), capacity of bus: 40 passengers, normally 80% of capacity utilization.

(8+5+5)

7.

- a) Write short notes on **any two** of the following:

- i) Discuss the estimation of working capital need based on operating cycle process.  
ii) What is meant by incremental Revenue?  
iii) Going Concern concept

- b) ABC Ltd. has supplied the following information at the beginning and at the end of the year 2015-16:

	1.4.2015 (₹)	31.3.2016 (₹)
Plant less depreciation	95,000	2,13,000
Investment (long term)	1,98,000	4,35,000
Debentures	3,75,000	1,05,000
Equity share capital	6,00,000	6,00,000
Reserves & Surplus	3,57,000	6,15,000

Although ABC Ltd. could not provide complete Balance Sheet and Profit & Loss Account, it supplied the following further information:

- i) An interim dividend of ₹ 54,000 has been paid during the year 2015-16.  
ii) The net income includes ₹ 20,000 on account of profit on sale of plant. There has been an increase of ₹ 1,40,000 in the gross value of plant after a plant having gross value of ₹ 43,500, whose written down value was ₹ 28,500, was disposed off during the year.

From the information given above, you are required to prepare a Funds Flow Statement.

(8+10)