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) If a company is having P/E Ratio (Price/Earnings Ratio) of 20 and Market Value to Book Value of 2.5, then you are required to calculate Return on Equity (ROE).

b) The capital structure of a company is having Rs. 500 crores as Equity Share Capital, Rs. 800 crores as Retained Earnings and Rs. 1000 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.

c) 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.

d) From the information given below, you are required to calculate the Degree of Operating Leverage:

*	Sales	Rs. 600 lakhs
*	Cost of Goods Sold:	
	** Variable Cost	Rs. 220 lakhs
	** Fixed Cost	Rs. 40 lakhs
*	Administrative Cost (Fixed)	Rs. 10 lakhs
*	Depreciation (Fixed)	Rs. 12 lakhs
*	Selling and Distribution Expenses:	
	** Variable Expenses	Rs. 50 lakhs
	** Fixed Expenses	Rs. 80 lakhs

e) Define the following:
- i) Matching Concept
- ii) Consistency Concept

f) Record the following transaction in journal:
- i) Rudra started a business by contributing Rs. 50 lakhs in cheques by ways of capital in the business.
- ii) Goods worth Rs. 1,00,000 were purchased from Mr. Divya on credit basis.
- iii) Goods worth Rs. 80,000 were sold to Mr. Hema on credit basis.
- iv) Firm paid Rs. 60,000 toward purchase of computer in cheque.

g) Distinguish between Capital Expenditure and Revenue Expenditure.

(7x4)

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

Trial Balance as on 31-03-2016

Particulars	Debit Balances (Rs. in lakhs)	Credit Balances (Rs. in lakhs)
Opening stock of Inventories	1,800	
Capital		7,600
Plant and Machinery	7,400	
Sundry creditors		1,600
Fixtures & Fittings	300	
Discount received		140
Freehold Premises	3,000	
Bank Overdraft		800
Purchases	6,000	
Provision for Bad and Doubtful debts		120
Salaries	560	
Purchase Returns		60
Sundry debtors	2,200	
Sales (net)		13,565
Manufacturing Expenses	600	
Manufacturing Wages	1,200	
Carriage inwards	80	
Carriage outwards	85	
Administrative expenses	400	
Bad Debts	30	
Interest and Bank Charges	25	
Discount Allowed	30	
Insurance paid	60	
Cash in hand and cash at bank	115	
Total	**23,885**	**23,885**

Additional information:

- Closing stock of inventories as on March 31, 2016 was valued at Rs. 60 lakhs.
- Depreciation on Plant and Machinery @ 10% and on Fixtures and Fittings @ 8%.
- Prepaid insurance Rs. 8 lakhs.
- Prepaid salary Rs. 6 lakhs.
- Outstanding interest on bank overdraft – Rs. 2 lakhs.
- 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, 2016 of Rainbow Limited:

The Balance Sheets of Rainbow Limited as on 31st March

Liabilities			**Assets**		
Particulars	**Amount-2015 (Rs. Lakhs)**	**Amount-2016 (Rs. Lakhs)**	**Particulars**	**Amount-2015 (Rs. Lakhs)**	**Amount-2016 (Rs. Lakhs)**
Equity share capital	8,000	16,000	Fixed assets	22,600	33,800
Capital reserve	1,720	1,960	Less: Depreciation	9,640	10,440
Surplus - Profit and Loss Account	3,420	3,860		12,960	23,360
12% Bonds (Face Value Rs. 1,000)	4,000	4,400	Investment	14,120	14,848
Sundry creditors	9,820	11,560	Sundry debtors	6,860	6,272
Bills payables	6,000	5,800	Inventories	2,040	2,200
Accrued Expenses	740	700	Prepaid Insurance	200	280
Other Current Liabilities	4,440	4,180	Cash in hand & Bank Balance	1,960	1,500
	38,140	**48,460**		**38,140**	**48,460**

Additional information:

During the year ended on 31st March, 2016, 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 there on credited to Capital Reserve and additional investments of Rs. 1,000 lakhs were made during the year.

iii) Redeemed 20% of the debentures @ Rs. 1,010.

You are required to prepare Cash Flow Statement.

(18)

4.

a) Assume that a firm has owner's equity Rs.1,00,000. The ratio's for the firm are.

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

Complete the following balance sheet giving the above information:

Liabilities	***Rs.***	***Assets***	***Rs.***
Current Debt	……	Cash	……
Long Term Debt	……	Inventory	……
Total Debt	……	Total Current Assets	……
Owner's Equity	……	Fixed Assets	……
Total Capital	……	Total Assets	……

b) A department of XYZ company attains sales of Rs. 6,00,000 at 80% of its normal capacity. Its expenses are given below:

	Rs.
Office expenses	90,000
General Expenses	2% of sales
Depreciation	7,500
Rent and rates	8,750
Selling Costs:	
Salaries	8% of sales
Travelling expenses	2% of sales
Sales Office	1% of sales
General Expenses	1% of sales
Distribution Costs:	
Wages	15,000
Rent	1% of sales
Other expense	4% of sales

Prepare a Flexible Budget Operating at 80%, 90% and 100%.

(10+8)

5.

a) At present a firm is selling its product at Rs. 600 per unit and earning a total profit of Rs. 20,00,000 on a sales volume of 20,000 units. During the period, its fixed cost is Rs. 18,00,000 allocated on the basis of 20,000 units.

The firm is considering the following two alternatives and wants to take up one which is giving lower break-even-point (**BEP**).

Alternative #1: A sales price increase of 20% is contemplated and it is estimated that sales will be dropped in units by 15%.

Alternative #2: A decrease in fixed cost by Rs. 55,000 and a decrease in variable costs by 6% is contemplated.

You are required to determine the **BEP** in units as well as in rupees and number of units to be sold to earn the present level of profit. Also, suggest which alternative the firm should select so as to have the lower **BEP**.

b) Distinguish between Net Present Value and Internal Rate of Return.

(15+3)

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 a 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)*

b) Distinguish between: -

i) Opportunity Cost and Imputed Cost

ii) Cash Discount and Trade Discount

([3x3+3]+3+3)

7.

a) Define capital structure of a company and explain the relation between capital structure and financial leverage of a company.

b) Name any four sources of funds for meeting working capital requirement of a firm.

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

i) Cost-Volume-Profit Analysis

ii) Internal Rate of Return – as a measure of profitability of a project

iii) Absorption Costing

iv) Flexible Budget

v) Solvency Ratios

(5+4+[3x3])