

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. Use the following information for answering questions a) to b)
Variable Cost = Rs. 40,000, Profit = Rs. 20,000 and Break-Even-Point = Rs. 80,000
 - a) Determine P/V Ratio.
 - b) Determine Margin of Safety.
 - c) What is the difference between an implicit cost and an explicit cost?
 - d) Explain the concepts of Historical Cost and Conservatism in Financial Accounting.
 - e) Define Intangible Assets and Revenue Expenditure.
 - f) Explain Capital Expenditures and Depreciation?
 - g) Define Job Costing and how is it different from Process Costing?

(7x4)

2. The following balances are taken from the books of a Trader.

Accounts Title	Rs.	Accounts Title	Rs.
Capital	1,50,000	Drawings	25,000
Stock (1-1-2017)	75,000	Plant & Machinery	68,750
Furniture	2,500	Purchases	1,12,500
Sales	3,12,500	Prepaid insurance	4,375
Purchases returns	3,750	Sales returns	3,125
Bills receivables	6,250	Bills Payable	20,000
Salaries	35,000	Wages	31,250
Bad debts	1,875	Investments @ 10%	3,750
Sundry debtors	50,000	Sundry creditors	75,000
Carriage	1,250	Cash	26,875
Land & Buildings	62,500	Loose tools	1,250
Goodwill	50,000		

After making the following adjustments, prepare Trading and Profits and Loss account/Income statement for the year ended 31st December 2017 and a Balance Sheet as on that date.

- i) Stock on 31st Dec 2017 Rs. 50,000.
 - ii) Depreciate Plant and Machinery by 10% and Building by 5%.
 - iii) Wages Rs. 2,500 are outstanding.
 - iv) Provide 5 % on debtors for bad and reserve for discount on debtors at 2%.
 - v) Investment is made on 1.1.2017 and no interest has been received or recorded so far.
 - vi) Insurance expired for the year ending on 31-12-2017 Rs. 1,875.
- b) A company lodged a claim to insurance company for Rs. 5,00,000 in September, 2016. The claim was settled in February, 2017 for Rs. 3,50,000. How will you record the short fall in claim settlement in the books of the company?

(14+4)

3.

- a) Prepare cash budget for January-June 2018 from the following information. The estimated sales and expenses are as follows:

Particulars	Nov	Dec.	Jan.	Feb.	Mar.	Apr.	May	June
Sales (Rs.)	2,00,000	2,00,000	1,20,000	1,00,000	1,50,000	2,40,000	2,00,000	2,00,000
Wages and salaries (Rs)	30,000	30,000	24,000	24,000	24,000	30,000	27,000	27,000
Miscellaneous expenses (Rs)	27,000	27,000	21,000	30,000	24,000	27,000	27,000	27,000

- i) 20 % of sales are on cash and balance on credit.
 ii) The firm has the gross margin of 25% on sales.
 iii) 50% of the credit sales are collected in the month following the sales, 30% in the second month and 20% in the third month.
 iv) Material for the sale of each month is purchased one month in advance on a credit for two months.
 v) The time-lag in the payment of wages and salaries is one-third of a month and of miscellaneous expenses, one month.
 vi) Debentures worth Rs 40,000 were sold in January.
 vii) The firm maintains a minimum cash balance of Rs 40,000. Funds can be borrowed @12% per annum in the multiples of Rs 1000, the interest being payable on monthly basis.
 viii) Cash balance at the end of December 2017 is Rs 60,000.
- b) State True or False for the following statements:
 i) According to money measurement concept, the efficiency of the top management of the business must be clearly recorded in the books of accounts.
 ii) The losses from sale of capital assets need not be deducted from revenue to ascertain the net income.
 iii) Accounting Principle is general law or rule followed in the preparation of financial statements.
 iv) The convention of conservation takes into account all prospective profits and all prospective losses.

(14+4)

4. Following are the balance sheets of a Vijay and Sons:

Liabilities	01-01-17	31-12-17	Assets	01-01-17	31-12-17
Creditors	36,000	41,000	Cash	4,000	3,600
Loan from Partners	—	20,000	Debtor	35,000	38,400
Loan from bank	30,000	25,000	Stock	25,000	22,000
Capital	1,48,000	1,49,000	Land	20,000	30,000
			Building	50,000	55,000
			Machinery	80,000	86,000
	2,14,000	2,35,000		2,14,000	2,35,000

During the year Rs. 26,000 paid as dividend. The provision made for depreciation against machinery as on 1.1.17 was Rs. 27,000 and on 31.12.17 Rs. 36,000. Prepare a funds flow statement.

- b) Explain any four functions of a Finance Manager.

(14+4)

5.

a) A company has the following capital structure as on March 31, 2017:

14% Debentures	Rs. 6 lakhs
10% Preference Shares	Rs. 2 lakhs
Equity (2,00,000 shares)	Rs. 32 lakhs

If the cost of the preference share is 15%, cost of equity is 18% and the tax rate is 30%, you are required to determine the cost of capital for the company.

b) Compute Cash from Operations during the year ending March 31, 2017, from the following data:

Particulars	April 1, 2016	March 31, 2017
Sundry debtors	Rs. 30,000	Rs. 40,000
Sundry creditors	48,000	30,000
Outstanding expenses	3,000	7,000
Outstanding income	1,000	3,000
Stock in trade (finished goods)	55,000	60,000
Accumulated depreciation	50,000	60,000
Profit before tax	----	1,50,000
Interest paid during the year		40,000
Income tax paid for the year		45,000

c) What is the difference between the Cash Flow and Funds Flow statements?

d) Why is the Cash Flow Statement identified as one of the important financial statements?

(4+6+4+4)

6. The following details has been collected from the financial records of Shreenath Limited are as under:

Sales (40% cash sales)			15,00,000
Less : Cost of sales			7,50,000
		Gross profit:	7,50,000
Less: Office Exp. (including int. on debentures)		1,25,000	
Selling expense		1,25,000	2,50,000
		Profit before taxes:	5,00,000
Less : Taxes			2,50,000
		Net profit:	2,50,000

Balance Sheet

Particulars	Rs.	Particulars	Rs.
Equity share capital	20,00,000	Fixed assets	55,00,000
10% Preference share capital	20,00,000	Stock	1,75,000
Reserves	11,00,000	Debtors	3,50,000
10% debentures	10,00,000	Bills receivables	50,000
Creditors	1,00,000	Cash	2,25,000
Bank overdrafts	1,50,000	Fictitious assets	1,00,000
Bills payable	45,000		
Outstanding expenses	5,000		
	64,00,000		64,00,000

Beside the details mentioned above, the opening stock was of Rs. 3,25,000. Taking 360 days of the year, calculate the following ratios; and also discuss the financial position of the company in terms of the ratio calculated:

- i) Gross profit ratio
- ii) Stock turnover ratio
- iii) Operating ratio
- iv) Current ratio
- v) Liquid ratio.
- vi) Debtors ratio
- vii) Creditors ratio
- viii) Proprietary ratio
- ix) Rate of return on net capital employed
- x) Rate of return on equity shares.

(18)

7.

- a) The sales volume of ABC Ltd, in the first half of 2017, amounted to Rs.10,80,000 and profit earned was Rs.28,800. The sales during the second half of the year registered an increase and amounted to Rs.13,68,000. The profit earned was Rs.82,800 in that half year. Assuming no change in fixed costs, calculate (a) the profit volume ratio, and (b) the amount of sales when profits are Rs.1,00,000.
- b) A four year financial project has net cash flows of Rs.20,000, Rs.25,000, Rs.30,000 and Rs.50,000 in the next four years. It will cost Rs.75,000 to implement the project. If the required rate of return is 15%, using NPV, decide whether the project is acceptable.
- c) Differentiate between Fixed Budget and Flexible Budget.

(8+8+2)