No. of Printed Pages : **6**

Sl. No.

BE9-R4 : ACCOUNTING AND FINANCIAL MANAGEMENT SYSTEM

Instructions :

1. Question 1 is compulsory. Attempt any four questions from 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) What are the major financial decisions which are taken by financial management ? Explain.

(b) What is the difference between Profitability Index and Net Present Value method ?

(c) Distinguish between working capital management and capital budgeting.

(d) What is meant by cost accounting ? Explain the difference between financial accounting and cost accounting.

(e) Explain the meaning and utility of margin of safety.

(f) Briefly explain the concept of materiality. Give examples.

(g) What are the major advantages of the Indirect method of reporting cash flow from operating activities ?

(7x4)

2. The following trial balance is extracted from the books of Mr. Ajay as at 31st March, 2022.

Particulars	Debit balances	Particulars	Credit Balance
Opening Stock	17,000	Capital	95,000
Purchases	55,000	Creditors	15,000
Sales Returns	5,000	10% Bank Loan. (Taken on Oct. 1, 2021)	10,000
Carriage Inward	1,500	Sales	1,10,000
Carriage Outward	2,000	Purchases returns	8,000
Wages	10,000	Wages Outstanding	2,000
Salaries	18,000	Salaries outstanding	3,000
Furniture	20,000	Discount Received	2,500
Machinery	70,000		
Cash in Hand and at Bank	10,000		
Sundry Debtors	18,000		
Rent ,rates & Taxes	3,200		
Insurance	2,000		
Bad Debts	1,000		
Drawings	7,800		
Sundry Expenses	3,000		
Discount Allowed	2,000		
	2,45,500		**2,45,000**

Additional Information :

1. Closing stock as at 31st March, 2022 was ₹ 11,000
2. Goods withdrawn by the proprietor ₹ 1,000, not yet adjusted.
3. Insurance prepaid at the end ₹ 500
4. Sundry expenses outstanding at the end ₹ 290
5. Charge depreciation on furniture and on machinery @ 10% per annum.
6. Write off further bad debts ₹ 1000.
7. Create provision for bad and doubtful debts @ 3% of the Debtors.

Prepare Trading and profit and loss Account for the year ended 31st March, 2022 and balance sheet as on that date.

(18)

3. (a) The Reliance Company Ltd. sells its product X at Rs. 500 p.u. Its variable cost is Rs. 280 p.u. whereas the fixed cost for the year is Rs. 2,20,000.

You are required to calculate for the company the following :

(I) P/V Ratio

(II) Sales in Rupees at breakeven point

(III) Sales units required to earn a target profit of Rs. 4,40,000

(IV) Profit at sales of Rs. 20,00,000

(b) Briefly explain the factors which influence the dividend policy of a company.

(14+4)

4. (a) The following data is provided to you for a 70% activity of a company :

Production at 70% capacity - 3500 units.

Materials	Rs. 100 p.u.
Labor	Rs. 40 p.u.
Expenses	Rs. 10 p.u.
Factory	Rs. 70,000 (40% fixed)
Office expenses	Rs. 35,000 (40% variable)

You are required to prepare budget at 80% and 100% activity.

(b) Calculate the cost of capital in each of the following cases :

(i) A company issues 10% non-redeemable preference shares at Rs. 105 (Fv=100)

(ii) The current market price of share is Rs. 90 and the expected dividend at the end of current year is Rs. 4.50 with a growth rate of 8%.

(12+6)

5. (a) A company is considering an investment proposal to install a new machinery. The project will cost ₹ 50,000 with life of 5 years and no salvage value. The tax rate of the company is 55% and it uses straight line method of depreciation. The estimated cash flows before tax (CFBT) are ₹ 10,000, ₹ 11,000, ₹ 14,000, ₹ 15,000 and ₹ 25,000 during years 1, 2, 3, 4 and 5 respectively. Compute :

(I) Average rate of return

(II) NPV at 10% discount rate

(III) Profitability Index at 10% discount rate.

Note : Discount factors at 10% are 0.909, 0.826, 0.751, 0.683 and 0.621 for the years 1, 2, 3, 4 and 5 respectively.

(b) How overheads are allocated apportioned and absorbed ?

(15+3)

6. Three companies A Ltd., B Ltd. and C Ltd. are similar in all respects except financial leverage.
Their current capital structures are as follows :

	A Ltd. ₹	B Ltd. ₹	C Ltd. ₹
Equity Share Capital (in ₹ 100 shares)	10,00,000	5,00,000	5,00,000
9% Preference capital	-----------	5,00,000	-----------
8% Debentures	-----------	-----------	5,00,000
Total capital	**10,00,000**	**10,00,000**	**10,00,000**

The present value of EBIT of each of the three companies is ₹ 2,40,000. Calculate EPS and the financial leverage for all these companies assuming that current corporate tax is 40%. **(9+9)**

7. Reyansh Paint Co.'s comparative financial statements for the years ending December 31, 2020 and 2019 are as follows. The market price of Reyansh paint Co.'s common stock was ₹ 30 on December 31, 2019 and ₹ 25 on December 31, 2020.

Reyansh Paint Co.
Comparative Income Statement
For the years ended December 31, 2020 and 2019

	2020	2019
Sales	5,125,000	3,257,600
Sales returns and allowance	125,000	57,600
Net sales	5,000,000	3,200,000
Cost of goods sold	3,400,000	2,080,000
Gross profit	1,600,000	1,120,000
Selling expenses	650,000	464,000
Administrative expenses	325,000	224,000
Total operating expenses	975,000	688,000
Income from operations	625,000	432,000
Other income	25,000	19,200
	650,000	451,200
Other expense (interest)	105,000	64,000
Income before income tax	545,000	387,200
Income tax expense	300,000	176,000
Net Income	**245,000**	**211,200**

Reyansh Paint Co.
Comparative Retained Earnings Statement
For the years Ended December 31, 2020 and 2019

	2020	**2019**
Retained earnings, January 1	723,000	581,800
Add net income for year	245,000	211,200
Total	968,000	793,000
Deduct dividends :		
On preferred stock	40,000	40,000
On common stock	45,000	30,000
Total	85,000	70,000
Retained earnings, December 31	883,000	723,000

Reyansh Paint Co.
Comparative Balance Sheet
December 31, 2020 and 2019

	Dec. 31, 2020	**Dec. 31, 2019**
Assets		
Current assets :		
Cash	175,000	125,000
Temporary investment	150,000	50,000
Accounts receivable	425,000	325,000
Inventories	720,000	480,000
Prepaid expenses	30,000	20,000
Total current assets	1,500,000	1,000,000
Long term investments	250,000	225,000
Property, plant, equipment	2,093,000	1,948,000
Total assets	3,843,000	3,173,000
Liabilities		
Current liabilities	750,000	650,000
Long-term liabilities :		
Mortgage Loan payable	410,000	
Bonds payable	800,000	800,000
Total long-term liabilities	1,210,000	800,000
Total liabilities	1,960,000	1,450,000
Stockholders' Equity :		
Preferred 8% stock, Rs.100 par	500,000	500,000
Common Stock, Rs.10 par	500,000	500,000
Retained earning	883,000	723,000
Total stockholders' equity	1,883,000	1,723,000
Total liabilities and stockholders' equity	**3,843,000**	**3,173,000**

Instructions :

Determine the following measures for 2020 :

(i) Working capital

(ii) Current ratio

(iii) Quick ratio

(iv) Accounts receivable turnover

(v) Inventory turnover

(vi) Number of days 'sales' in receivables

(vii) Ratio of net sales to assets

(viii) Price - earnings ratio

(ix) Dividends per share

(2x9)

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