BE9-R4: ACCOUNTING AND 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) If a company is having Contribution to Sales (C/S) Ratio of 40% and its fixed cost is of Rs. 20,000 a month. Determine Break-Even-Point (in units) if the selling price of the company is Rs. 50 per unit.

b) A company is deciding whether a project costing Rs. 10 lakhs is to be accepted or not. For this, the following cash flows are estimated:

Year	Cash in Flows (in Rs. lakhs)
1	Rs. 2.50
2	Rs. 3.00
3	Rs. 3.50
4	Rs. 4.00
5	Rs. 2.50

Determine the Pay-Back Period.

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 ***any FOUR*** of the following transactions in Journal:
   - i) Mr. R. J. Saxena started a business by contributing Rs. 20 lakhs in cash by way of capital in the business.
   - ii) Goods worth Rs. 40,000 were sold to Mr. A. K. Singh on credit basis.
   - iii) A firm paid Rs. 60,000 in cash towards the purchase of machine.
   - iv) Salaries paid to the employees totaling Rs. 3,50,000.
   - v) Rs. 4,000 are to be received from Mr. Sneh Gupta, debtor of the firm, but it could not receive that amount as he becomes insolvent and hence, the firm decides to write-off the same amount.
   - vi) Dividend Income of Rs. 6,500 was received by the firm on the investments made in shares of a company.

e) Distinguish between
   - i) Cash Flow Statement and Funds Flow Statement.
   - ii) Non-Current Assets and Current Assets

f) Distinguish between
   - i) Net Present Value (NPV) and Internal Rate of Return (IRR)
   - ii) Opportunity Cost and Imputed Cost

g) Distinguish between
   - i) Interest Rate and Discount Rate
   - ii) Cash Discount and Trade Discount

(7x4)

2. From the following trial balance and the additional information given, prepare Trading Account, Profit & Loss Account for the year ending on 31-3-2014 and the Balance Sheet as on 31-3-2014.

Particulars	**Dr. Amount (in thousands Rs.)**	**Cr. Amount (in thousands Rs.)**
Stock of Finished goods (01-04-2013)	120	
Purchases of raw materials	4,100	
Sales		5,840
Sales/Raw Materials returns	24	30
Manufacturing expenses	530	
12% bank Loan (Long term)		200
Salaries	449	
Top management remuneration	50	
Building (at cost)	500	
Plant & Machinery (at cost)	1,500	
Provision for depreciation on building		80
Provision for depreciation on plant and machinery		290
Trade debtors	500	
Trade creditors		160
Advance tax	35	
Auditor's fees for audit	60	
Interim dividend	50	
Surplus in Statement of Profit & Loss (as at 01-04-2013)		360
Cash at bank	61	
Bad debts	21	
Capital		1,040
	8,000	**8,000**

Additional information:

i) Stock of finished goods as on 31-3-2014 was 2,00,000.
ii) Depreciate building @ 5 % on cost and plant and machinery @ 10% on cost.
iii) Make provision for tax at 40%.
iv) Provision for bad debts is to be created at 2% on debtors.
v) Bank loan was raised on 1^{st} Oct, 2013.
vi) Manufacturing expenses include wages: 2,00,000.
vii) Wages includes Rs. 25,000 spent on the erection of Machinery during the year.

(18)

3. ABC Pvt. Limited manufactures and sells school children shoes. Following are their balance sheets as on March 31, 2013 and March 31, 2014:

The Balance Sheets of ABC Pvt Limited as on 31st March, 2013 and 2014

Liabilities			**Assets**		
Particulars	**Amount - 2013 (Rs.)**	**Amount - 2014 (Rs.)**	**Particulars**	**Amount - 2013 (Rs.)**	**Amount - 2014 (Rs.)**
Equity Capital	14,40,000	19,20,000	Fixed assets	38,40,000	45,60,000
General reserve	8,16,000	10,08,000	*Less*: Depreciation	11,04,000	13,92,000
Profit & Loss A/c	2,88,000	3,60,000		27,36,000	31,68,000
9% debentures @Rs. 100 each	9,60,000	6,72,000	Investment	4,80,000	3,84,000
Sundry creditors	5,50,000	5,90,000	Sundry Debtors	12,00,000	14,00,000
Bills payables	5,76,000	6,00,000	Stock	1,40,000	1,84,000
Other Current Liabilities	26,000	34,000	Cash in hand	1,00,000	48000
	46,56,000	**51,84,000**		**46,56,000**	**51,84,000**

Additional information:

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

i) Sold a machine for Rs.1,20,000; the cost of machine was Rs. 2,40,000 and depreciation provided on it was Rs. 84,000.
ii) Provided Rs. 4, 20,000 as depreciation on fixed assets.
iii) Sold some investment and profit credited to capital reserve.
iv) Redeemed 30% of the debentures @ 105.
v) Decided to write off fixed assets costing Rs. 60,000 on which depreciation amounting to Rs. 48,000 has been provided.

You are required to prepare Cash Flow Statement.

(18)

4. The following information has been extracted from the cost accounting system of a company for the month of April 2014.

Particulars	**(Rs. in thousands)**
Sales	1,800.00
Less:	
Manufacturing Cost	1,200.00
Selling and Administration Cost (Fixed)	300.00
Net Profit	**300.00**

The production and inventories position during the period was -

Particular	(Units)
Opening Inventories (Units) Production During the Period (Units)	10 190
Units Sold (Units) Closing Inventories (Units)	180 20

Particulars	In Rs. per unit
Direct Material Cost	25.00
Direct Labour Cost	15.00
Direct Expenses	10.00
Variable Manufacturing Overheads	5.00
Fixed Manufacturing Overheads	2.00
Fixed Selling and Administration Cost	1.00
Total Cost	**58.00**

(*Please note that all overheads per unit are calculated assuming the normal base of 200 units*)

You are required to prepare Income Statements as per Absorption Costing Method and as per Variable Costing Method, (discuss the reasons why the net profit figures under both the approaches are different.)

(18)

5.

a) At present a firm is selling its product at Rs. 100 per unit and earning a total profit of Rs. 2,20,000 on a sales volume of 22,000 units. During the period, its fixed cost is Rs. 9,90,000 allocated on the basis of 22,000 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) "A healthy company should always have a positive net working capital." Critically comment on the statement and suggest which kind of companies may adopt a working capital policy with negative net working capital.

(10+8)

6.

a) "Balance Sheet of a company provides a static picture and not a dynamic picture about a firm financial position." Critically comment on the statement.

b) Following extracts are taken from the Annual Report of a steel manufacturer in India:

FINANCIAL SUMMARY – For the period ending on March 31,

(Rs. In Crores)		
	2012-13	**2013-14**
CAPITAL	887.41	959.41
RESERVES AND SURPLUS	36,074.39	45,807.02
BORROWINGS	25,239.20	28,301.14
GROSS BLOCK	26,149.66	29,815.64
NET BLOCK	16,006.03	18,774.48
INVESTMENTS	44,979.67	46,564.94
GROSS REVENUE	27,611.59	32,692.81
EXPENDITURE	19,314.11	21,769.77
DEPRECIATION	1,083.18	1,146.19
PROFIT BEFORE TAXES	7,214.30	9,776.85
TAXES	2,167.50	2,911.16
PROFIT AFTER TAX	5,046.80	6,865.69
NO. OF SHARES (In Crores)	88.74	95.94
DIVIDEND (Rs. per share)	8.00	12.00

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.

iv) Calculate Dividend/Payout Ratio for the years ending on March 31, 2013 and March 31, 2014.

v) Using the price of Rs. 450, 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. 450 and the EPS calculated for the year ending on March 31, 2014.

(4+[2+4+2+2+2+2])

7.

a) What is capital structure of a company? Also, explain the relation between capital structure and financial leverage of a company.

b) Write down the treatment of over absorption and under absorption of overhead in cost accounts.

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

   i) Job Costing and Process Costing
   ii) Zero Based Budgeting
   iii) Time Value of Money
   iv) Operating Leverage

(5+4+[3x3])