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) A Company sells several products. Information about selling price and costs are as follows:

Selling price per unit	₹ 20.00
Variable costs per unit :	
Direct materials	₹ 4.00
Direct manufacturing labour	₹ 1.60
Manufacturing overhead	₹ 0.40
Selling costs	₹ 2.00
Annual fixed costs	₹ 96,000

(i) Calculate the contribution margin per unit.

(ii) Calculate the number of units, the company must sell each year to break even.

(iii) Calculate the number of units the company must sell to yield a profit of ₹ 144,000.

(b) What is the difference between the cash basis and the accrual basis of accounting ?

(c) Explain the concepts of Historical Cost and Conservatism in financial accounting.

(d) Distinguish between:

(i) Opportunity Cost and Out of Pocket Cost

(ii) Direct Cost and Indirect Cost

(e) Differentiate between job-order costing and process costing techniques.**(8+[5×4])**

2. (a) From the following statement of Profit and Loss of Saturn Electricals, prepare a Comparative statement of Profit and Loss showing absolute change and percentage change in items :

Particulars	**31-03-2016**	**31-03-2017**
(i) Revenue from operation	20,00,000	30,00,000
(ii) Other Incomes	4,00,000	4,50,000
(iii) Total revenue (i+ii)	24,00,000	34,50,000
(iv) Expenses:		
Cost of Raw Materials consumed	6,00,000	8,00,000
Purchase of stock in trade	2,00,000	4,00,000
Employees benefits expenses	1,00,000	1,20,000
Finance Cost	80,000	1,00,000
Depreciation	50,000	60,000
Total Expenses	10,30,000	14,80,000
(v) Profit before Tax (iii-iv)	13,70,000	19,70,000
(vi) (-) Taxes	40,000	50,000
(vii) Profit after tax	13,30,000	19,20,000

(b) State True or False for the following statements :
   (i) Providing depreciation in the accounts reduces the amount of profits available for dividend.
   (ii) The provision for discount on creditors is often not provided in keeping with the principle of conservatism.
   (iii) The entity concept considers the business and the proprietor as distinct from each other.
   (iv) According to money measurement concept, the efficiency of the top management of the business must be clearly recorded in the books of accounts. **(14+4)**

3. (a) The Trading and Profit and Loss Account of Fantasy Ltd. for the year ending on 31-3-2017 is given below :

Particular	Rs.	Particular	Rs.
To Opening Stock	76,250	By Sales	5,00,000
" Purchases	3,15,250	" Closing stock	98,500
" Carriage and Freight	2,000		
" Wages	5,000		
" Gross Profit b/d	2,00,000		
	5,98,500		5,98,500
To Administration expenses	1,01,000	By Gross Profit b/d	2,00,000
" Selling and Dist. Expenses	12,000	" Non-operating incomes:	
" Non-operating expenses	2,000	" Interest on Securities	1,500
" Financial expenses	7,000	" Dividend on shares	3,750
Net Profit c/d	84,000	" Profit on sale of shares	750
	2,06,000		2,06,000

Calculate :

(i) Gross Profit Ratio
(ii) Expenses Ratio
(iii) Operating Ratio
(iv) Net Profit Ratio
(v) Operating (Net) Profit Ratio
(vi) Stock Turnover Ratio

(b) State True or False for the following statements:
   (i) There is no difference between the return on total assets ratio and return on sales ratio.
   (ii) The profitability ratios includes only profit ratios and having nothing to do with sales and expense ratios.
   (iii) Undercapitalization is indicated by low current ratio.
   (iv) Acid test ratio is equal to quick current assets divided by current liabilities.
   (v) The income statement shows either net profit or net loss for a particular period.
   (vi) Fixed assets are stated in the balance sheet at their written down value.

(12+6)

4. (a) The summarized balance sheet of ABC Ltd. as on 31.12.16 and 31.12.2017 are as follows :

Liabilities	2016	2017	Assets	2016	2017
Share Capital	4,50,000	4,50,000	Fixed Asset	4,00,000	3,20,000
General Reserve	3,00,000	3,10,000	Investment	50,000	60,000
P&I a/c	56,000	68,000	Stock	2,40,000	2,10,000
Creditors	1,68,000	1,34,000	Debtor	2,10,000	4,55,000
Tax Provision	75,000	10,000	Bank	1,49,000	1,97,000
Mortgage Loan	-	2,70,000			
	10,49,000	**12,42,000**		**10,49,000**	**12,42,000**

Additional Details :

(i) Investment costing ₹ 8,000 were sold for ₹ 8,500.

(ii) Tax provision made during the year was ₹ 9,000.

(iii) During the year part of fixed assets costing ₹ 10,000 was sold for ₹ 12,000 and the profit was included in P&L A/c.

You are required to prepare cash flow statement for the year 2017.

(b) (i) What is the difference between the Cash Flow and Funds Flow statements ?

(ii) Why is the Cash Flow Statement identified as one of the financial statements ? **(14+4)**

5. (a) Two new internet site projects are proposed to a young start up 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 ?

(b) Discuss in detail the following accounting concepts :

(i) Separate entity concept

(ii) Dual Aspect concept

(iii) Matching concept

(iv) Going concern concept

(v) Cost concept **(8+10)**

6. (a) From the following particulars of ABC Ltd., calculate Operating Leverage :

Particulars	Year ending on 31-03-2017	Year ending on 31-03-2018
Sales Revenue	₹ 10,00,000	₹ 12,50,000
Variable Cost	₹ 6,00,000	₹ 7,50,000
Fixed Cost	₹ 2,50,000	₹ 2,50,000

(b) A company issued 10,000, 10% preference share of ₹ 10 each, cost of issue is ₹ 2 per share. Calculate cost of Capital of these shares, assuming that shares are issued (i) at par , (ii) at 10% premium, and (iii) at 5% discount.

(c) Explain the following terms :

(i) Liquid Assets

(ii) Bonus Shares

(iii) Net Working Capital **(6+6+6)**

7. (a) Enter the following transactions in the Journal of Kofine Enterprises :

January 1	Tarun started business with cash	₹ 1,00,000
January 2	Goods purchased for cash	20,000
January 4	Machinery Purchased from Vibhu	30,000
January 6	Rent paid in cash	10,000
January 8	Goods purchased on credit from Anil	25,000
January 10	Goods sold for cash	40,000

(b) A four year financial project has net cash flows of ₹ 20,000, ₹ 25,000, ₹ 30,000 and ₹ 50,000 in the next four years. It will cost ₹ 75,000 to implement the project. If the required rate of return is 20%, determine the NPV.

(c) Discuss the basic axioms of Financial Management. **(6+6+6)**