No. of Printed Pages : **6**

Sl. No.

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) State with reasons, whether the following statements are **true** or **false** :

   (i) Expenses in connection with obtaining a license for running the Movie theatre is Revenue Expenditure.

   (ii) If the effect of errors committed cancel out, the errors will be called compensating errors and the trial balance will disagree.

   (b) What is Cost accounting ? Enumerate its important objectives.

   (c) Give journal entries (narrations not required) to rectify the following :

   (i) Purchase of Furniture on credit from Nihaar for ₹ 3,000 posted to Shrey account as ₹ 300.

   (ii) A Sales Return of ₹ 5,000 to Joshua was not entered in the financial accounts though it was duly taken in the stock book.

   (d) Explain controllable and non-controllable cost with examples.

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

   (f) Explain the factors that are relevant in determining the capital structure.

   (g) Why debt is considered as the cheapest source of finance for a profit making company ?

(7x4)

2. (a) A department of Company X attains sale of ₹ 6,00,000 at 80 percent of its normal capacity and its expenses are given below :

Administration costs :	(₹)
Office salaries	90,000
General expenses	2 percent of sales
Depreciation	7,500
Rates and taxes	8,750
Selling costs :	
Salaries	8 percent of sales
Travelling expenses	2 percent of sales
Sales office expenses	1 percent of sales
General expenses	1 percent of sales
Distribution costs :	
Wages	15,000
Rent	1 percent of sales
Other expenses	4 percent of sales

Draw up flexible administration, selling and distribution costs budget, operating at 90 percent and 100 percent.

(b) Define Explicit costs. How is it different from implicit costs ? **(12+6)**

3. (a) Shree Ltd. using certainty-equivalent approach in the evaluation of risky proposals. The following information regarding a new project is as follows :

Year	Expected Cashflow	Certainty equivalent quotient
0	(4,00,000)	1.0
1	3,20,000	0.8
2	2,80,000	0.7
3	2,60,000	0.6
4	2,40,000	0.4
5	1,60,000	0.3

Riskless rate of interest on the government securities is 6 percent. Determine whether the project should be accepted ?

(b) Differentiate between Provision and Contingent liability. **(12+6)**

4. The following are the balances extracted from the books of Shri Ram as on 31.03.2018, who carries on business under the name and style of M/s Raghuram and Associates at Chennai :

Particulars	Debit (₹)	Credit (₹)
Capital A/c		14,11,400
Purchases	12,00,000	
Purchase Returns		18,000
Sales		15,00,000
Sales Returns	24,000	
Freight Inwards	62,000	
Carriage Outwards	8,500	
Rent of Godown	55,000	
Rates and Taxes	24,000	
Salaries	72,000	
Discount allowed	7,500	
Discount received		12,000
Drawings	20,000	
Printing and Stationery	6,000	
Insurance premium	48,000	
Electricity charges	14,000	
General expenses	11,000	
Bank charges	3,800	
Bad debts	12,200	
Repairs the Motor vehicle	13,000	
Interest on loan	4,400	
Provision for Bad-debts		10,000
Loan from Mr. Rajan		60,000
Sundry creditors		62,000
Motor vehicles	1,00,000	
Land and Buildings	5,00,000	
Office equipment	2,00,000	
Furniture and Fixtures	50,000	
Stock as on 31.03.2017	3,20,000	
Sundry debtors	2,80,000	
Cash at Bank	22,000	
Cash in Hand	16,000	
Total	30,73,400	30,73,400

Prepare Trading and Profit and Loss Account for the year ended 31.03.2018 and the Balance Sheet as at that date after making provision for the following :

(a) Depreciate Building by 5%, Furniture and Fixtures by 10%, Office Equipment by 15% and Motor Car by 20%.

(b) Value of stock at the close of the year was ₹ 4,10,000.

(c) One month rent for godown is outstanding.

(d) Interest on loan from Rajan is payable @ 10% per annum. This loan was taken on 01.07.2017.

(e) Reserve for bad debts is to be maintained at 5% of Sundry debtors.

(f) Insurance premium includes 42,000 paid towards proprietor's life insurance policy and the balance of the insurance charges cover the period from 01.04.2017 to 30.06.2018. **(18)**

5. Prepare monthly cash budget for six months beginning from April 2018 on the basis of the following information :

(a) Estimated monthly sales are as follows :

	₹		₹
January	1,00,000	June	80,000
February	1,20,000	July	1,00,000
March	1,40,000	August	80,000
April	80,000	September	60,000
May	60,000	October	1,00,000

(b) Wages and salaries are estimated to be payable as follows :

	₹		₹
April	9,000	July	10,000
May	8,000	August	9,000
June	10,000	September	9,000

(c) Of the sales, 80% is on credit and 20% for cash. 75% of the credit sales are collected within one month and the balance in two months. There are no bad debt losses.

(d) Purchases amount to 80% of sales and are made on credit and paid for in the month preceding the sales.

(e) The firm has 10% debentures of ₹ 1,20,000. Interest on these has to be paid quarterly in January, April and so on.

(f) The firm is to make an advance payment of tax of ₹ 5,000 in July, 2018.

(g) The firm had a cash balance of ₹ 20,000 on April 1, 2018, which is the minimum desired level of cash balance. Any cash surplus/deficit above/below this level is made up by temporary investments/liquidation of temporary investments or temporary borrowings at the end of each month (interest on these to be ignored). **(18)**

6. (a) Explain Profit centres and investment centres.

(b) A manufacturing company is producing a product 'X' which is sold in the market at ₹ 45 per unit. The company has the capacity to produce 40000 units per year. The budget for the year 2018-19 project a sale of 30000 units.

The cost of each unit are expected as under :

Material	₹ 12
Wages	₹ 9
Overheads	₹ 6
Margin of safety	₹ 4,12,500

You are required to calculate fixed cost and break even point.

(c) State the method of costing and the suggestive unit of cost for the following industries :

(i) Transport (ii) Hotel (iii) Hospital

(iv) Steel (v) Bicycles

(d) State the bases of apportionment of following overhead costs :

(i) Air-conditioning

(ii) Time-Keeping

(iii) Depreciation of plant and machinery

(iv) Power/Steam Consumption

(v) Electric power (machine operation) **(4+4+5+5)**

7. A company is considering its working capital investment and financial policies for the next year. Estimated fixed assets and current liabilities for the next year are 2.60 crores and 2.34 crores respectively. Estimated Sales and EBIT depend on current assets investment, particularly inventories and book-debts. The financial controller of the company is examining the following alternative Working Capital Policies :

(₹ Crores)

Working Capital Policy	Investment in Current Assets	Estimated Sales	EBIT
Conservative	4.50	12.30	1.23
Moderate	3.90	11.50	1.15
Aggressive	2.60	10.00	1.00

After evaluating the working capital policy, the Financial Controller has advised the adoption of the moderate working capital policy. The company is now examining the use of long-term and short-term borrowings for financing its assets. The company will use 2.50 crores of the equity funds. The corporate tax rate is 35%. The company is considering the following debt alternatives.

Financing Policy	Short-term Debt	Long-term Debt
Conservative	0.54	1.12
Moderate	1.00	0.66
Aggressive	1.50	0.16
Interest rate-Average	12%	16%

You are required to CALCULATE the following :

(a) Working Capital Investment for each policy :

   (i) Net Working Capital position

   (ii) Rate of Return

   (iii) Current ratio

(b) Financing for each policy :

   (i) Net Working Capital position

   (ii) Rate of Return on Shareholders' equity

   (iii) Current ratio **(18)**

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