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) A bank granted a loan of Rs.12,34,800 repayable in 4 equal installments in the ratio of 1:2:3:4 respectively, beginning with the end of 1st year. Determine the amount of installment if effective rate of interest is 18% p.a.

b) A company has a Profit-Volume ratio of 40%. By what percentage must the sales be increased to offset the effect of 10% reduction in selling price? Support your answer with calculations.

c) Stock turnover ratio is 5 times, cash sales is 1/3 of total sales, Net credit sales Rs. 16,80,000, Gross Profit is 1/3 of cost. Calculate opening and closing stock if stock in the beginning is 2.5 times of that at the end.

d) A firm has sales of Rs.80 Lakhs, variable cost of Rs.50 Lakhs, Fixed cost of Rs.12 Lakhs; 10% Debentures of Rs.60 Lakhs and Equity Capital of Rs.90 Lakhs. You are required to calculate its Financial Leverage.

e) A company offers a Fixed Deposit Scheme whereby Rs.10,000 matures to Rs.12,544 after 2 years on a yearly compounding basis. What will be the revised maturity value of the deposit, if the company wishes to amend the scheme by compounding interest on (i) Half yearly basis;(ii) Quarterly basis; (iii) Monthly basis?

f) Decide whether the following expenditures are capital, revenue or deferred revenue and also state their amount with appropriate justification for the decision.

   i) Repairing and white wash of a Cineplex at a cost of Rs.28,00,000 including the cost of digital sound system that costed Rs.15,00,000.

   ii) Erection of a shed with asbestos sheet roof in a college for parking the vehicles of students at a cost of Rs.15,000.

g) The current market price of a share of a company is Rs.100. the company's current earnings are Rs.20,00,000. Its shares outstanding are 2,00,000. The company wants to raise additional funds of Rs.6,00,000. The floatation cost is Rs.10 per share (10%) and the company can sell shares at a discount of 10%. Find out the cost of equity assuming that the company's earnings are stable.

(7x4)

2.

a) Gomati Enterprises commenced business with following assets and liabilities on April 1 2012. **Assets**: Furniture Rs.1,50,000; Machinery Rs.3,00,000; Stock Rs.1,20,000; Cash Rs.16,500; Bank Balance Rs.2,23,500, Receivable from Lokesh & Associates and M/s Ramachandaran Rs. 50,000 and Rs.40,000 respectively. **Liabilities**: Amount due to Reshama Enterprises Rs.1,35,000, Due to M/s Sharada Associates Rs.60,000 and M/s Aravali Hills Rs.45,000.

b)	01-April-2012: Purchased goods from Surya enterprises	Rs.1,35,000
c)	02-April-2012: Sold goods for cash	45,000
d)	05-April-2012: Paid to M/s Reshama Enterprises by cheque	1,35,000
e)	10-April-2012: Deposited into bank	84,000
f)	12-April-2012: Sold goods on credit to M/s Dina Rai & Co.	51,000
g)	13-April-2012: Paid for Postage	3,000
h)	14-April-2012: Received cash from Mohan and Sons on account	22,000
i)	16-April-2012: Cash Sales	55,000
j)	18-April-2012: Purchased goods with list price Rs.48,000 less 25% trade Discount for cash and supplied to R & Co. at list price less 10% trade discount.	

k) 21-April-2012: Goods worth Rs.15,000 were damaged in transit; a claim was made on the railways for the same.
l) 23-April-2012:M/s Lokesh & Associates declared insolvent and a dividend of 60 paisa a rupee is received from this firm in full settlement of their account.
m) 25-April-2012: Bought of horse for Rs.78,000 and a carriage for Rs.36,000 for delivering goods in remote rural areas.
n) 28-April-2012: the horse dies and the carriage was sold for Rs.30,000.
o) 30-April-2012: Allowed interest on capital for the month of April 2012 @ 10% annually.
p) 30-April-2012: Paid for Salaries Rs.15,000 and Rent Rs.18,000.

(3+[1x15])

3. The following is the Trial balance of M/s Soumya Garments as on 31st March 2012.

Particulars	**Amount in Rupees**	
	Debit	**Credit**
Capital Account		1,600,000
Drawings Account	120,000	
Stock as on April 1, 2011	900,000	
Purchases	5,200,000	
Sales		6,200,000
Furniture	200,000	
Sundry Debtors	800,000	
Freight and Octroi	92,000	
Trade Expenses	10,000	
Salaries	110,000	
Rent	48,000	
Advertisement Expenses	100,000	
Insurance Premium	8,000	
Commission		26,000
Discount	4,000	
Bad Debts	32,000	
Provision for Bad Debts		18,000
Creditors		400,000
Cash in Hand	104,000	
Bank Balance	116,000	
Goodwill (at cost)	400,000	
Total	**8,244,000**	**8,244,000**

Prepare trading and profit and loss account for the year ended March 31 2012 and the balance sheet on that date after taking into account the following adjustments:

a) Stock as on 31st March 2012 was valued at Rs.10,60,000.
b) Salaries have been paid during the year only for 11 months.
c) Unexpired insurance included in the Insurance premium account amounted to Rs.2,000.
d) Commission earned but not yet received amounting to Rs.2,440 is to be recorded in the books of account.
e) Provision for bad debts is to be brought up to 3% of sundry debtors.
f) Manager is to be allowed commission of 10% of net profits after charging such commission.

(6x3)

4.

a) A Product passes through three distinct processes to completion. These processes are identified as Process-A, Process-B and Process-C. During the week ended 31st of Mar. 2012, 1000 units are produced. The following information is obtained from the costing records:

Particulars	Amounts in Rupees		
	Process-A	Process-B	Process-C
Materials	60,000	30,000	20,000
Labour	50,000	40,000	50,000
Direct Expenses	10,000	2,000	10,000

The overhead expenses for the period were Rs.28,000 that were apportioned to the processes on the basis of labour cost. Prepare process accounts showing total cost and cost per unit.

b) What do you understand by marginal costing? Identify its characteristics. How does it differ from absorption costing?

(12+6)

5. Beta Ltd. is considering replacement of its existing machinery by a new machine, which is expected to cost Rs.26,40,000. The new machine will have a life of five years and will yield annual cash revenues of Rs. 56,87,500 and incur annual expenses of Rs.29,57,500. The estimated salvage value of new machine is 1,82,000.

The existing machine has a book value of Rs.9,10,000 and can be sold for Rs.4,55,000 as on today. The existing machine has a remaining useful life of five years. The cash revenues will be Rs.45,50,000 and associated cash expenses will be Rs.31,85,000. The existing machine will have a salvage value of Rs.45,500 at the end of five years.

The Beta Ltd. is in 35% tax bracket and write off depreciation at 25% on written down value basis.

The Beta Ltd. has a target debt to value ratio of 26%. The Company is in the past has raised debt at 11% and it can raise fresh debt at 10%. The cut-off rate is taken as rounded to the nearest integer.

The Beta Ltd. Plans to follow dividend discount model to estimate the cost of equity capital. The company plans to pay a dividend of Rs.2 per share in the next year. The current market price of the company's equity is Rs.20 per share. The dividend per equity share of the company is expected to grow at 8% p.a.

You are required to:

a) Compute the incremental cash flows of the replacement decision.
b) Compute the weighted average cost of capital of Beta Ltd.
c) Find out the net present value of the replacement decision.
d) Estimate the discounted payback period of the replacement decision.
e) Should the company replace the existing machine? Advise.

(6+[3x4])

6. You are provided with the following balance sheets of M/s Geru and Mithu Enterprises as on March 31, 2011 and 2012 respectively.

Liabilities	2012	2011
Equity Share Capital	800,000	550,000
12% Pref. Share Capital	200,000	250,000
General Reserve	40,000	40,000
Profit & Loss Account	24,000	20,000
15% Debentures	340,000	220,000
Creditors and Bills Payables	190,000	230,000

Outstanding Expenses	30,000	10,000
Provision for taxation	84,000	60,000
Proposed Dividend	116,000	100,000
Bank Overdraft	136,000	250,000
Total	**1,960,000**	**1,730,000**
Assets		
Fixed Assets	8,00,000	820,000
Less: Accumulated Depreciation	300,000	220,000
Net assets	**500,000**	**600,000**
15% Investments	200,000	100,000
Debtors and Bills Receivable	490,000	206,000
Stock	700,000	800,000
Marketable Securities	50,000	20,000
Cash	20,000	4,000
Total	**1,960,000**	**1,730,000**

Additional information:
Provision for tax made at the end of year Rs.94,000; Fixed assets which were originally acquired at Rs.2,00,000 and on which accumulated depreciation till the date of sales amounted to Rs.60,000 were sold during year for Rs.1,00,000; An interim dividend of Rs.90,000 was paid during the year.

You are required to prepare Cash Flow Statement.

(18)

7.

a) Baba Ltd. attain sales of Rs. 60,00,000 at 80% on its normal capacity and its expenses are given below:

Administration Costs: -	**in Rs.**
Office Salaries - (Fixed)	9,00,000
General Exepenses	2% of sales.
Depreciation - (Fixed)	75,000
Rates and Taxes - (Fixed)	87,500

Distribution Costs: -	**in Rs.**
Wages - (Fixed)	1,50,000
Rent	2% of sales.
Other Expenses	4% of sales.

Selling Costs: -	**in Rs.**
Salaries	5% of sales.
Travelling Expenses	3% of sales.
Sales Office Expenses	1% of sales.
General Expenses	1% of sales.

Prepare a flexible budget operating at 90%, 100% and 110% of normal capacity.

b) Explain various methods of absorbing overheads with their merits and demerits.

(12+6)