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) Bridal Shoppe sells wedding dresses. Each dress has a selling price of Rs.1,000 and variable cost of Rs.400. Total fixed costs for Bridal Shoppe are Rs.90,000. Using the given information answer the following:

   i) What is the contribution margin per dress?

   ii) What is the Bridal Shoppe's total profit when 200 dresses are sold?

   iii) How many dresses must Bridal Shoppe sell to reach the breakeven point?

   iv) How many dresses must Bridal Shoppe sell to yield a profit of Rs.60,000?

b) What is the accrual method of accounting?

c) What is a capital account?

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

e) Differentiate between job-order costing and process costing.

([2x4]+[4x5])

2.

a) From the following statement of Profit and Loss of Saturn Electricals, prepare Comparative statement of Profit and Loss for the year ended 31-03-17 and 31-03-2018.

Particulars	**31-03-2017**	**31-03-2018**
i) Revenue from operation	40,00,000	60,00,000
ii) Other Incomes	10,00,000	12,00,000
iii) Total revenue (i+ii)	50,00,000	72,00,000
iv) Expenses:		
Cost of Materials consumed	8,00,000	10,00,000
Purchases	10,00,000	8,00,000
Employees benefits expenses	14,00,000	9,00,000
Finance Cost	2,00,000	4,00,000
Other expenses	2,00,000	2,60,000
Total Expenses	36,00,000	33,60,000
v)Profit before Tax (iii-iv)	14,00,000	38,40,000
vi) (-) Taxes	5,00,000	8,00,000
vii) Profit after tax (v-vi)	9,00,000	30,40,000

b) i) Why is it that, for a given firm, the cost of equity is always greater than the cost of its debt?

   ii) What is the difference between bad debt and doubtful debt?

   iii) What is the difference between Horizontal (trend) Analysis and Vertical (common-size) Analysis?

(12+6)

3.

a) The Balance Sheet of Arizona Auto Limited as on 31-12-2017 was as follows:

Particular	Rs.	Particular	Rs.
Equity Share Capital	40,000	Plant and Machinery	24,000
Capital Reserve	8,000	Land and Buildings	40,000
8% Loan on Mortgage	32,000	Furniture and Fixtures	16,000
Creditors	16,000	Stock	12,000
Bank Overdraft	4,000	Debtors	12,000
Taxation:		Investments(Short Term)	4,000
Current	4,000	Cash in hand	12,000
Future	4,000		
Profit and Loss A/c	12,000		
	1,20,000		1,20,000

From the above, compute (a) the Current Ratio (b) Quick Ratio (c) Debt-Equity Ratio, and (d) Proprietary Ratio.

b) State whether the following statements are true or false:

i) The profitability ratios include only profit ratios and having nothing to do with sales and expense ratios.

ii) Acid test ratio is equal to quick current assets divided by current liabilities.

iii) The return on investment ratio is obtained by dividing the net profit by proprietors' investment.

iv) Return on equity capital ratio is calculated by dividing net income minus preferred dividend by equity capital.

(14+4)

4.

a) Prepare cash flow statement of Satyam Ltd. from the following:

Liabilities	1.1.2018	31.12.2018	Assets	1.1.2018	31.12.2018
Share capital	1,00,000	4,00,000	Goodwill	-	20,000
8% debenture	-	2,00,000	Machinery	1,25,000	4,75,000
Retained Earning	60,000	90,000	Stock	20,000	80,000
Creditors	40,000	1,00,000	Debtor	30,000	1,00,000
Bills Payable	20,000	40,000	Bank	50,000	1,50,000
Tax Provision	30,000	40,000	Cash	25,000	45,000
	2,50,000	8,70,000		2,50,000	8,70,000

Additional Details:

i) During 2018 the business of a sole trader was purchased by issuing shares of Rs. 2, 00,000. The assets acquired from him were:
Goodwill Rs. 20,000, machinery Rs. 1, 00,000, stock Rs. 50,000 and Debtors Rs.30, 000.

ii) Provision for tax charged in 2018 was Rs. 35,000.

iii) The debenture was issued at a premium of 5% which is included in the retained earnings.

iv) Depreciation charged on the machinery was Rs. 30,000.

b) Discuss in details the following accounting concepts:

i) Separate entity concept

ii) Dual aspect concept

iii) Matching concept

iv) Going concern concept

(10+8)

5.

a) A Company is considering a project with initial outlay of Rs.200 crores, and has a life of five years. The expected cash flows to be generated over the life of the project are given below:

Year	Cash Inflows (Rs. in crores)
1	60
2	80
3	50
4	100
5	75

If the Company's required rate of return is 10%, using Net Present Value (NPV) method, suggest whether the Company should accept the project.

b) 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?

c) A Company anticipates to earn a profit of Rs.2,00,000 if its estimated sales are of Rs.12,00,000. The estimated fixed costs are Rs.4,00,000. Compute the break-even point in rupees.

d) If a Company has Return on Equity (ROE) of 12% and Price/Earnings Ratio (P/E Ratio) 25, then you are required to calculate its Market Value to Book Value Ratio.

Year	**1**	**2**	**3**	**4**	**5**
Present Value @10%	0.909	0.826	0.751	0.683	0.621

(8+4+4+2)

6.

a) A Company's equity share price of $20 per share and is having a $0.5 dividend per share. The Company's dividends are expected to grow at a rate of 5% per year, forever. The expected risk-free rate of interest is 7.5%, whereas the expected market premium is 5%. The beta of the company's share is 1.2.

i) What is the cost of equity of the Company using the dividend valuation model?

ii) What is the cost of equity of the Company using the Capital Asset Pricing Model (CAPM)?

b) Distinguish between the following:

i) Operating Leverage and Financial Leverage

ii) Absorption Costing and Variable Costing

iii) Weighted Average Cost of Capital and Marginal Cost of Capital

c) Explain the following terms:

i) Working Capital

ii) Zero–Base Budgeting

iii) Internal Rate of Return (IRR)

(6+6+6)

7.

a) From the following information, prepare cash budget of a business firm for the month of April, 2018.

i) The firm makes 20% cash sales. Credit sales are collected 40, 30 and 25 percent in the month of sale, month after and the second month after sales, respectively. The remaining 5% becomes bad debts.

ii) The firm has a policy of buying enough goods each month to maintain its inventory at two and one-half times the following month's budgeted sales.

iii) The firm is entitled to 2% discount on all its purchases if bills are paid within 15 days and the firm avails of all such discounts. Monthly purchases are made in two equal lots on fortnightly basis.

iv) Cost of goods sold, without considering the 2% discount, is 50 per cent of selling prices. The firm records the inventory net of discount.

v) Other data is:

SALES (Rs.)

January, 2018 (actual)	1,00,000
February, 2018 (Actual)	1,20,000
March, 2018 (actual)	1,50,000
April, 2018 (budgeted)	1,70,000
May, 2018 (budgeted)	1,40,000

- Inventory on March 31, 2018 - Rs. 2, 25,400
- Cash on March 31,2018 - Rs 30,000
- Gross purchases in March,2018 - Rs. 1, 00,000
- Selling, general and administrative expenses budgeted for April, 2018 - Rs 45,000 (include Rs. 10,000 depreciation).

b) i) Explain the meaning of Budget. What are the advantages of budgetary control?

ii) Differentiate between Fixed Budget and Flexible Budget.

(14+4)