

## MANAGEMENT PROGRAMME

Term-End Examination 05747

June, 2013

### MS-4 : ACCOUNTING AND FINANCE FOR MANAGERS

Time : 3 hours

Maximum Marks : 100

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*Note : Attempt any five questions. All questions carry equal marks. Use of calculators is allowed.*

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1. (a) Explain the Business Entity Concept and the Consistency Concept. Can a company deviate from following the consistency concept ? If so, when and how ?  
(b) "Accounting is closely associated with control". Explain the statement and discuss the role of accounting feedback in the process of control.
  
2. "Every organisation, irrespective of its size and nature, has to determine the optimum cash balance". Why ? How is such optimum level determined ? Explain the Control Theory in this regard.

3. Explain the concepts of financial and operating leverages. How is the degree of these leverages measured ? What is the effect on the firm's net income and earnings per share, if the use of both these leverages is considerable ? Explain giving reasons.
  
4. (a) What is meant by Net Present Value ? Why is profitability index considered useful ?  
  
(b) How does depreciation act as a tax shield ? Explain the methods of charging depreciation, under which method the value of the asset is reduced to zero earlier ? Explain.

5. Following were the balance sheets of X Co. Ltd. as on 31st December 2010 and 31st December 2011.

Liabilities	2010	2011	Assets	2010	2011
Equity Share Capital	3,00,000	4,00,000	Goodwill	50,000	40,000
Preference Share Capital	2,00,000	-	Land and Building	1,80,000	2,40,000
Profit and Loss A/c	30,000	70,000	Plant and Machinery	1,60,000	2,20,000
Gen. Reserve Capital	60,000	70,000	Investments	60,000	1,10,000
Redemption Reserve	-	1,00,000	Stock	1,80,000	1,60,000
10% Debenture	1,00,000	2,00,000	Bills Receivable	35,000	45,000
Creditors	30,000	50,000	Debtors	1,10,000	1,40,000
Proposed Dividend	30,000	40,000	Cash at Bank	50,000	90,000
Provision for Tax	40,000	45,000	Preliminary Expenses	20,000	10,000
Provision for Depreciation on Plant and Machinery	40,000	60,000			
Bills Payable	15,000	20,000			
	<u>8,45,000</u>	<u>10,55,000</u>		<u>8,45,000</u>	<u>10,55,000</u>

**Additional Information :**

- (a) During 2011, a part of machinery costing Rs. 50,000, whose upto date depreciation was Rs. 20,000 was sold for Rs. 25,000.

- (b) During 2011 a part of the building costing Rs. 90,000 whose upto date depreciation was Rs. 50,000 was sold for Rs. 70,000, depreciation on building for 2011 was Rs. 15,000.
- (c) During 2011 preference shares were redeemed at a premium of 10%, partly out of a new issue of equity shares at par and partly out of profit.
- (d) Tax paid during the year amounted to Rs. 35,000.
- (e) During 2011 an interim dividend of Rs. 20,000 was paid in addition to the proposed dividend.
- (f) Debentures was issued at a discount of 10%.

Prepare a statement showing the changes in the Working Capital and a funds flow statement for the year ended on 31<sup>st</sup> Dec. 2011.

6. From the following data find out :
- (a) BEPs in value and volume.
  - (b) What would be the value and volume of sales, if products are sold to make a profit of Rs. 1,20,000 ?
  - (c) If the selling price per unit is reduced by Rs. 20 what would be the BEPs in value and volume ?

Material per unit	Rs. 50
Labour per unit	Rs. 80
Variable overheads per unit	75% of labour cost
Selling Price per unit	Rs. 250
Total fixed overheads	Rs. 2,40,000

7. From the following ratios and further information given below, prepare a trading and profit and loss A/C and a balance sheet.

Fixed Assets/Capital	5/4
Fixed Assets	Rs. 5,00,000
Capital Liabilities	1/2
Net Profit/Capital	1/5
Gross Profit Ratio	25%
Stock Turnover Ratio	10
Fixed Assets/Total Current Assets	5/7
Net Profit to Sales	20%
Closing Stock	Rs. 50,000

Out of the current assets, sundry debtors are Rs. 6,00,000 and the balance represents cash and closing stock.

8. Write notes on :
- Zero Base Budgeting
  - Direct Labour Variance
  - Contingent Liabilities
  - Absorption Costing