

MANAGEMENT PROGRAMME

Term-End Examination

10516

December, 2013

MS-4 : ACCOUNTING AND FINANCE FOR  
MANAGERS

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[mbaonlinepapers.com](http://mbaonlinepapers.com)

Time : 3 hours

Maximum Marks : 100

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

1. (a) Explain the concept of conservations and the continuity concept. Why is the former concept also called the concept of producer ?
- (b) Explain the two methods of valuation of inventories. Under which method the valuation of inventory will be higher in an inflationary economy and why ?

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2. Explain the concept of Net Working Capital. What factors are taken into consideration while determining the quantum of working capital for a firm ? Discuss.

3. What do you understand by Budgetary Control ? Explain its significance in modern business. How would you instal budgetary control in an organisation ? Explain.

4. Explain the concept of Cost of Capital. How is Weighted Average Cost of Capital Computed ? Explain its significance in Capital Budgeting decisions.

5. Balance sheets of ABC and Co. as on 31<sup>st</sup> March 2010 and 2011 are as follows :

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Liabilities	31.3.2010		31.3.2011		Assets	31.3.2010		31.3.2011	
	Rs.		Rs.			Rs.		Rs.	
Share Capital	20,00,000		20,00,000		Land + Building	15,00,000		14,00,000	
General Reserves	4,00,000		4,50,000		Plant + Machinery	18,00,000		17,50,000	
Profit and Loss A/c	2,50,000		3,60,000		Investment	4,00,000		3,72,000	
10% Debentures	10,00,000		8,00,000		Stock	4,80,000		8,50,000	
Bank Loan (Long term)	5,00,000		6,00,000		Debtors	6,00,000		7,98,000	
Creditors	4,00,000		5,80,000		Prepaid Expenses	50,000		40,000	
Outstanding Expenses	20,000		25,000		Cash and Bank	140,000		85,000	
Proposed Dividend	3,00,000		3,60,000						
Provision for taxation	1,00,000		1,20,000						
	49,70,000		52,95,000			49,70,000		52,95,000	

**Additional Information :**

- (a) New machinery for Rs. 3,00,000 was purchased and an old machinery costing Rs. 1,45,000 was sold for Rs. 50,000. Accumulated depreciation thereon was Rs. 75,000.
- (b) 10% Debentures was redeemed at 20% premium.
- (c) Investments was sold for Rs. 45,000 and its profit was transferred to general reserve.
- (d) Income Tax paid during the year 2010-11 was Rs. 80,000.
- (e) An interim dividend of Rs. 1,20,000 was paid during the year 2010-11.
- (f) Assume the provision for taxation as current liability and proposed dividend as Non-current liability.
- (g) Investments are non-trade investments. You are required to prepare :
  - (i) Scheduled of changes in Working Capital and
  - (ii) Funds flow statement.

6. A company manufactures a product, currently utilising 80% capacity with a turnover of Rs. 8,00,000 at Rs. 25 per unit. The cost data are as follows :

Material Cost is Rs. 7.50 per unit

Labour Cost is Rs. 6.25 per unit

Semi - Variable Cost (including the variable cost of Rs. 3.75 per unit) is Rs. 1,80,000.

Fixed Cost is Rs. 90,000 upto 80% level of the output and beyond this, an additional amount of Rs. 20,000 will be incurred.

You are required to calculate :

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- (a) Activity level at BEP
- (b) No. of units to be sold to earn a net income of 8% of sales.
- (c) Activity level needed to earn a profit of Rs. 95,000.
- (d) What should be the Selling Price per unit, if the BEP is to be brought down to 40% activity level.

7. From the following information prepare Profit and Loss A/c for the year ended on 31<sup>st</sup> March 2011 and a Balance Sheet as on that date.

Current Assets to Stock	3 : 2
Current Ratio	3
Acid Test Ratio	1
Financial Leverage	2.2
Earning Per Share	Rs. 40
Book Value Per Share	Rs. 100
Average Collection Period (assume 360 days in a year)	} 30 days
Stock Turnover Ratio	
Fixed Assets Turnover Ratio	5.6
Total Liabilities to Net worth	3.75
Net Working Capital	Rs. 10,00,000
Net Profit to sales	10%
Variable Cost	60%
Interest on Long Term Loans	12%
Tax	NIL

8. Write notes on :
- (a) Sales Variances
  - (b) Trading on Equity
  - (c) Marginal Costing
  - (d) Net Present Value Method

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## 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.

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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

## MANAGEMENT PROGRAMME

Term-End Examination

December, 2012

002

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

*Time : 3 hours*

*Maximum Marks : 100*

*Note : Attempt any five questions. All questions carry equal marks. Use of calculators is allowed. Present value and annuity tables are to be provided if asked for.*

1. "Accounting is closely connected with control".  
Elaborate this statement and discuss the role of accounting feedback in the process of control.
2. (a) Differentiate between "Fund Flow Statement" and Cash Flow Statement".  
(b) How is a Statement of Change in Working Capital" prepared ? Explain with the help of an illustration.
3. (a) What do you understand by Budgetary Control in a modern business ? Explain flexible Budget and distinguish it from fixed Budget.  
(b) Distinguish between Business Risk and Financial Risk.

4. (a) What factors are taken into consideration while determining the dividend policy of a company ?
- (b) Why do the Companies Capitalise their reserves ? What is its affect on the price of the shares of the Company ?
5. (a) What is Break Even Point ? How is it calculated graphically ? What are the assumptions made for it ?
- (b) From the following data relating to a company, calculate :
- (i) The break - even sales, and
- (ii) Sales required to earn a profit of Rs. 6,000 per year.

Years	Total Sales	Total Costs
2010	Rs. 42,500	Rs. 38,700
2011	Rs. 39,200	Rs. 36,852

6. From the following data of ABC Ltd. relating to the budgeted and actual performance for the month of March, compute direct material and direct labour cost variances.

Budgeted data for March :	
Units to be manufactured	1,50,000
Unit of Direct material required (based on standard rates)	4,95,000
Planned purchase for raw material (units)	5,40,000
Average unit cost of direct material (Rs.)	8
Direct labour - hours per unit of finished goods	0.75
Total direct labour costs (Rs.)	29,92,500
Actual data at the end of March :	
Units actually manufactured	1,60,000
Direct material costs (purchase costs based on units actually issued)	43,41,900
Direct material costs (purchase costs based on units actually purchased)	45,10,000
Average unit cost of direct material (Rs.)	8.20
Total direct labour - hours for March	1,25,000
Total direct labour costs for March (Rs.)	33,75,000

7. (a) Discuss the ratios which reveals the profitability of a business.

(b) Using the following data, complete the balance sheet given below.

Gross profit (20% of sales)	Rs. 60,000
Shareholder's equity	Rs. 50,000
Credit sales to total sales	80%
Total assets turnover	3 times
Inventory turnover (to cost of sales)	8 times
Average collection period (a 360 day year)	18 days
Current ratio	1.6
Long term debt to equity	40%

Balance Sheet

<u>Liabilities</u>	Rs.	<u>Assets</u>	Rs.
Creditors		Cash	
Long - term debt		Debtors	
Shareholder's equity		Inventory .....	
	_____	Fixed assets .....	
	.....		.....

8. A company is considering the replacement of one of its moulding machines. The existing machine is in good operating condition, but is smaller than required if the firm is to expand its operations. The old machine is 5 years old, has a current salvage value of Rs 30,000 and a remaining depreciable life of 10 years. The machine was originally purchased for Rs 75,000 and is being depreciated at Rs 5,000 per year for tax purposes. The new machine will cost Rs 1,50,000 and will be depreciated on a straight line basis over 10 years, with no salvage value. The management anticipates that, with the expanded operations, there will be need of an additional net working capital of Rs 30,000. The new machine will allow the firm to expand current operations, and thereby increase annual revenues of Rs 40,000 and variable operating costs from Rs 2,00,000 to Rs 2,10,000. The company's tax rate is 55% and its cost of capital is 10%. Should the company replace its existing machine ?

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**MANAGEMENT PROGRAMME**

**Term-End Examination**

**June, 2012**

**18650**

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

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*Maximum Marks : 100*

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1. What is meant by Capital Structure of a company ?  
What factors are taken into account while designing the Capital structure ? Does the dividend policy affect the Capital structure ? If so, explain.
  
2. (a) Differentiate between "Schedule of Changes in Working Capital" and "Fund Flow Statement".  
(b) How is "Cash from operating activity" calculated in Cash flow statement ? Explain with help of an example.
  
3. (a) Explain the Accrual Concept, Consistency Concept and the Periodicity concept of accounting.



- (b) Explain Internal Rate of Return and distinguish it from Accounting Rate of Return.
4. What are the important decisions of Finance Function ? Explain their importance and relevance in Financial Management.
5. (a) The 'Cost-Volume-Profit' relationships provide management with a simplified framework for organizing its thinking on a number of problems". Discuss.
- (b) Beta Ltd. furnishes you the following income information for the current year divided in two sub-parts.

	First Half	Second Half
Sales	Rs. 8,10,000	Rs. 10,26,000
Profit earned	21,600	64,800

From the above , you are required to compute the following, assuming that the fixed cost remains the same in both periods.

- (i) Profit /Volume Ratio
- (ii) Fixed Cost
- (iii) Amount of profit or loss when sales are Rs. 6,48,000.
- (iv) Amount of sales required to earn a profit of Rs. 1,08,000.

6. The ABC Company Ltd. makes only one product. The standard variable costs for the unit are :

Direct Material : 1 unit @ Rs. 0.50	Rs. 0.50
Direct Labour : 1 hour @ Rs. 2.00	2.00
Variable overhead : 1 hour Rs.@	1.50
Total variable cost per unit	4.00

There are no initial inventories. Production for the month of September was 10,000 units. The production costs are as follows :

Material purchased (15,000 units @ Rs. 0.40)	Rs. 6,000
Material used (units)	11,000
Direct labour, 9,000 hours @ 2.10	18,900
Variable overhead	16,000

The overhead rate is based on direct labour-hours. Calculate the relevant variances.

7. (a) What do you understand by Return on Investment ? How does it differ from Net Profit Margin ?
- (b) From the following information of a textile company, complete the performa balance sheet if its sales are Rs. 32,00,000.

Sales to net worth	2.3 times
Current debt to net worth	42%
Total debt to net worth	75%
Current ratio	2.9 times
Net sales to inventory	4.7 times
Average collection period	64 days
Fixed assets to net worth	53.2 %

### Proforma Balance Sheet

Net worth	....	Fixed assets	....
Long-term debt.	....	Cash	....
Current debt.	....	Stock	....
		Sundry debtors	....
	—		—

8. An existing company has a machine which has been in operation for 2 years ; its remaining estimated useful life is 10 years, with no salvage value at the end. Its current market value is Rs.1,00,000. The management is considering a proposal to purchase an improved model of a similar machine, which gives increased output. The relevant particulars are as follows :

	<u>Existing Machine</u>	<u>New Machine</u>
Purchase Price	Rs. 2,40,000	Rs. 4,00,000
Estimated life	12 years	10 years
Salvage Value	Nil	Nil
Annual operating hours	2,000	2,000
Selling price per unit	Rs. 10	Rs. 10
Output per hour	15 units	30 units
Material cost per unit	Rs. 2	Rs. 2
Labour cost per hour	20	40
Consumable stores per year	2,000	5,000
Repairs and maintenance per year	9,000	6,000
Working capital	25,000	40,000

The company follows the straight line method of depreciation and is subject to 50% tax. Should the existing machine be replaced ? Assume that the company's required rate of return is 15%.

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