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MS-4

MANAGEMENT PROGRAMME

Term-End Examination

03678

December, 2015

MS-4 : ACCOUNTING AND FINANCE FOR MANAGERS

Time : 3 hours *Maximum Marks :* **100**

Note : *(i) Attempt **any five** questions.*

*(ii) **All** questions carry **equal** marks.*

(iii) Use of calculators is allowed.

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1. (a) Explain the 'Accrual Concept' and the 'Consistency Concept' in accounting and signify their importance to an accountant.

   (b) Distinguish between 'Operating Profit' and 'Net Profit'. Which is a measure of operational efficiency of a company ? Distinguish between Capital expenditure and Revenue expenditure. Which is taken into account for determining the Operating Profit ?

2. What do you understand by Fund Flow Statement ? How does it differ from a Cash Flow Statement ? Explain the main items which are shown in the fund flow statement and the purpose of preparing this statement.

3. What do you understand by Discounted Cash Flow Techniques of Capital Budgeting ? Briefly explain the Net Present Value Method and Internal Rate of Return Method of appraisal of projects. Which of the two would you rank better and why ?

4. Distinguish between :
   (a) Profitability Index and Profitability Ratios.
   (b) Earnings Yield and Dividend Yield.
   (c) Fixed Budget and Flexible Budget.
   (d) Direct Labour Rate Variance and Direct Labour Efficiency Variance.

5. Explain the following statements, giving reasons :
   (a) Debt is a double-edged weapon.
   (b) Depreciation acts as a Tax Shield.
   (c) Fixed Costs are variable per unit and Variable Costs are fixed per unit.
   (d) When the use of operating and financial leverages is considerable, small changes in sales will produce wide fluctuations in Return on Equity and E.P.S.

6. "Zero-based Budgeting provides a solution for overcoming the limitations of a traditional budget". Explain this statement and describe the process of preparing a Zero-based Budget.

7. Following is the abridged Balance Sheet of ABC Company Ltd. as on 31st March 2013.

Balance Sheet as on 31st March 2013

Liabilities	₹	Assets		₹
Share Capital	1,00,000	Land and Building		80,000
Profit and Loss A/c	17,000	Plant and Machinery	50,000	
Current Liabilities	40,000	Less : Depreciation	15,000	35,000
		Stock		21,000
		Debtors		20,000
		Bank		1,000
	1,57,000			1,57,000

With the help of additional information given below, you are required to prepare Profit and Loss Account and a Balance Sheet as on 31st March 2014.

(a) The Company went in for re-organisation of capital structure with the share capital remaining the same but other liabilities were as follows :

Share Capital	50%
Reserves	15%
5% Debentures	10%
Trade Creditors	25%

Debentures were issued on 1st April, interest being paid annually on 31st March.

(b) Land and Buildings remain unchanged. Additional Plant and Machinery has been purchased and a further depreciation (₹ 5000) written off.

(The total fixed assets then constructed 60% of the total gross fixed and current assets.)

(c) Working Capital Ratio was 8 : 5.

(d) Quick Assets Ratio was 1 : 1

(e) Debtors ($4/5^{th}$ of quick assets) to sales ratio revealed a credit period of 2 months. There were no cash sales.

(f) Return on Net Worth was 10%.

(g) Gross Profit was @ 15% of sales.

(h) Stock Turnover was eight times for the year ignore taxation.

8. While finalising the plans for the Coming Year the excutives of XYZ Co. Ltd. thought that it will be advisable to have a look at the product-wise performance during the current year. The following information is furnished :

Particulars	Product A ₹	Product B ₹	Product C ₹
Unit Selling Price (i)	80	60	36
Direct Material	28	24	16
Direct Labour	20	12	12
Factory Overheads :			
Variable	8	6	4
Fixed	8	6	1.28
Cost of Production	64	48	33.28
Selling, Distribution and General Administrative **Expenses :**			
Variable	4	2	2
Fixed	4	6	1.52
Unit cost (ii)	72	56	36.80
Unit Profit/Loss (i)-(ii)	8	4	(0.80)
Sales Volume (Units)	10,000	15,000	15,000
Profit (Loss)	80,000	60,000	(12000)

For the coming year, the selling price, and costs of the three products are expected to remain unchanged. There will be an increase in Sales of Product A by 1000 units and of Product C by 8000 units. Sales of Product B will remain unchanged. Sufficient additional capacity exists to enable the increased demand to be met without incurring additional fixed cost. Some executives contend that it will be unwise to go for additional production and Sale of Product C as it is already losing ₹ 0.80 per unit. Their suggestion is to eliminate Product C altogether. Give your advice and determine product-wise and overall profit for the coming year.