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MS-004

MANAGEMENT PROGRAMME

Term-End Examination

December, 2017

03941

MS-004 : 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.*

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) Explain the two methods of inventory valuation with an example. Which method will give high value of inventory in an inflationary situation, other things remaining the same ? Explain.

2. Distinguish between :

   (a) Cash flows from Operating Activities and cash flows from Investment Activities.

   (b) Equity shares and the owners' Equity.

   (c) Net Profit and Funds from Operations.

   (d) Operating Profit and Retained Net Profit.

3. Explain the concepts of Financial Leverage and Operating Leverage, giving examples. How is the degree of these leverage obtained ? What will be the consequence if the use of both of these leverages is considerable ? Explain.

4. Explain the Internal Rate of Return method of appraisal of investment proposals. Point out its merits and limitations. Is this method related to the Pay Back Method ? Explain.

5. What do you understand by Budgetary Control ? Discuss its significance in a modern business and explain the steps for installing an effective system of budgetary control in an organisation.

6. Explain the following statements :
   (a) Debt is a double - edged weapon.
   (b) Very high Current Ratio is not desirable.
   (c) Profit under Traditional costing system is higher as compared to Marginal Costing system.
   (d) The greater the variability of cash inflows the higher will be the requirement of minimum cash balance.

7. Discuss the concept of working capital. Explain the concept of operating cycle and discuss how optimum cash balance is determined.

8. A Company manufactures a single product in its factory utilising 60% of its capacity. The selling price and cost details are given below :

	₹
Sales (6000 units)	5,40,000
Direct Materials	96,000
Direct Labour	1,20,000
Direct Expenses	18,000
Fixed Overheads :	
Factory	2,00,000
Administration	21,000
Selling and Distribution	25,000

An analysis of fixed overheads reveals that 12.5% of factory overheads and 20% of selling and distribution overheads are variables with production and sales. Administrative overheads are wholly fixed.

Since existing product could not achieve the budgeted level for two consecutive years, the company decides to introduce a new product with marginal investment but largely using the present plant and machinery.

The cost estimates of the new product are as follows :

Cost element	₹ Per Unit
Direct Materials	16.00
Direct Labours	15.00
Direct Expenses	1.50
Variable factory overheads	2.00
Variable Selling and Distribution Overheads	1.50

It is expected that 2000 Units of the new product can be sold as a price of ₹ 60 per unit. The fixed factory overheads are expected to increase by 10% while fixed selling and distribution expenses will go up by ₹ 12,500 annually. Administrative overheads remain unchanged. However, there will be an increase of working capital to the extent ₹ 75,000. The company considers that 20% pre-tax interest return on investment is the minimum acceptable to justify any new investment.

Should the new product be introduced ? You are required to advise the company on this point, giving full calculations.