

MANAGEMENT PROGRAMME

Term-End Examination

December, 2018

MS-004 : ACCOUNTING AND FINANCE FOR MANAGERS

Time : 3 hours

Maximum Marks : 100

Note : (i) Attempt any five questions. All questions carry equal marks.

(ii) Use of calculators is allowed.

1. (a) Explain the concept of conservation in accounting giving examples. Why should it be applied rationally ? Explain.
(b) What is meant by Cash Cycle ? How is the duration of Cash Cycle measured ? Explain with an example and discuss its significance.
2. Distinguish between :
 - (a) First in, First out and Last in, First out
 - (b) Funds from Operations and Net Profit
 - (c) Financial Accounting and Management Accounting
 - (d) Opportunity Cost and Variable Cost
3. What do you understand by Weighted Average Cost of Capital ? How is it Computed ? Explain the significance of Weighted Average Cost of Capital in planning the Capital structure of a company.

4. (a) What do you understand by (i) fixed budget and (ii) flexible budget? How do they differ from a Rolling Budget? Explain the relative merits and demerits of all of these budgets.
(b) What is a Cash Budget? Why is it prepared? Does it include Operating Cash flows only? Explain giving reasons.
5. Explain the following statements :
 - (a) Depreciation acts as a tax shield.
 - (b) Dividend, investment and financing decisions are inter-dependent.
 - (c) "Lower the Break-even point, better it is."
 - (d) "Present Value of future cash flows depends on the Discount factor."
6. As Finance Manager of a Company what steps would you take to manage the cash flows properly and effectively? If it is estimated that the Company will have some idle cash balances from time to time, what advice would you render for the utilisation of idle funds? Discuss.
7. What is capital structure? Discuss the determinants of capital structure and explain the features of an appropriate capital structure.
8. The management of M/s Rama Ltd. has prepared the following estimates of working results for the year ending 31st March 2016 for the purpose of preparing the budget for the year ending 31st March 2017 :

Direct Material	₹ 8 per unit
Direct Wages	₹ 20 per unit
Variable overheads	₹ 6 per unit
Selling Price	₹ 62.50 per unit
Fixed overheads	₹ 3,37,500 per annum
Sales	₹ 12,50,000 per annum

It is expected that during the year 2015-16 the material prices and variable overheads will go up by 10% and 5% respectively.

As a result of re-organisation of production methods the overall direct labour efficiency will increase by 12% but the wage rate will go up by 5%. The fixed overheads are expected to increase by ₹ 62,500.

The Marketing Manager states that the market will not absorb any increase in the selling price. However, he is of the view that if advertisement expenditure is increased, the sales quantity will increase as under :

Advertisement	40,000	97,000	1,60,000	2,30,000
Expenses (₹)				
Additional	2000	4000	6000	8000
Units of sales				

You are required to

- Prepare an Income Statement for the year 2015-16.
- Evaluate the four alternative proposals put forth by the Marketing Manager, determine the best output and sales level to be budgeted and prepare an overall Income Statement for 2016-17 at that level of output and sales.