MANAGEMENT PROGRAMME

Term-End Examination

February, 2021

MS-004 : ACCOUNTING AND FINANCE FOR MANAGERS

Time : 3 hours *Maximum Marks : 100*
(Weightage 70%)

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

1. (a) Explain the Continuity concept and the Consistency concept and their significance in accounting. How does inconsistency open the doors for manipulation of reported income and assets ? Explain.

(b) Explain the terms 'Net worth', 'Contingent liabilities', 'Opportunity cost', 'Intangible assets', and 'Term loans' as used in accounting.

2. “In managing cash, the Finance Manager faces the problem of compromising the conflicting goals of Liquidity and Profitability.” Comment on this statement.

   What strategy should the Finance Manager develop to solve this problem ? Explain.

3. “Zero-based budgeting provides a solution for overcoming the limitations of traditional budget.” Explain this statement and describe the procedure to be adopted for preparing a zero-based budget. Also explain its advantages.

4. Explain the following statements :

   (a) “There is no explicit cost of retained earnings, yet, these funds are not free of cost.”

   (b) Matching approach of financing working capital is most desirable.

   (c) Shortening the cash cycle affects the working capital requirement.

   (d) A very high Current Ratio is not desirable.

5. XYZ Company is considering replacement of its existing machine by a new machine which is expected to cost ₹ 1,60,000. The new machine will have a life of 5 years and will yield cash revenues of ₹ 2,50,000 and incur annual cash expenses of ₹ 1,30,000. The estimate salvage of the new machine is nil.

The existing machine has a book value of ₹ 40,000 and can be sold for ₹ 20,000 today. It is good for the next 5 years and is estimated to generate cash revenue of ₹ 2,00,000 and to involve annual cash expenses of ₹ 1,40,000. Its salvage value after 5 years is zero. The corporate tax rate is 40%. Depreciation rate is 25% on Written Down Value method. Company's opportunity cost of capital is 20%. Advise the company whether it should replace the machine or not. Ignore taxes on profit/loss on sale of machinery. Present Value Discount Factors for first 5 years @ 20% are 0·8333, 0·6944, 0·5787, 0·4823, 0·4019.

6. What do you understand by Break-Even Analysis ? Discuss the assumptions underlying Break-Even Analysis. How do they make Break-Even Analysis unrealistic ? Prepare a Break-Even Chart assuming relevant figures.

7. (a) What are Bonus Shares ? Why are they issued ? How do they differ from Rights Shares ? What is the effect on the price of the company's shares after these shares are issued by the company ? Discuss, giving reasons.

(b) What do you understand by Funds Flow Statement ? How does it differ from a Balance Sheet ? How do you calculate "Funds from Business Operations" ? Explain.

8. Write notes on the following :

(a) Overhead Cost Variance

(b) Rolling Budget

(c) FIFO and LIFO Methods of Inventory Valuation

(d) Debt-Equity Ratio