01396

MANAGEMENT PROGRAMME

Term-End Examination

June, 2018

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. Explain the various 'Accounting Concepts' and discuss their application in preparation of Final Accounts.

2. Distinguish between :

(a) Profitability Ratio and Profitability Index

(b) Revenue Expenditure and Capital Expenditure

(c) Intangible Assets and Current Assets

(d) Amortisation and Depreciation

3. Explain the concepts of Financial Leverage and Operating Leverage. Explain the effect on the firms Net Income and EPS if the use of both the leverages is considerable.

4. What do you understand by Budgetary Control ? Discuss its significance in a modern business. Explain the steps for installing an efficient system of budgetary control in an organisation.

5. Explain the following statements :

(a) High profit margin need not necessarily result in high rate of return on investment.

(b) As there is no explicit cost of retained earnings, these are free of cost.

(c) Many reasons account for direct material variances.

(d) Companies with very high profits generally have a low pay out ratio.

6. "Irrespective of its size and nature, every business organisation has to determine the appropriate or optimum cash balance that it would need." In the light of this statement, explain the methods followed to determine such appropriate cash balance.

7. With the help of the following ratios draw a Balance Sheet of a company as on March 31, 2017:

Current Ratio 2.5

Liquidity Ratio 1.5

Net Working Capital ₹ 3,00,000

Stock Turnover Ratio

(Cost of Sales/Closing Stock) 6 times

Gross Profit Ratio 20%

Fixed Assets Turnover Ratio

(On Cost of Sales) 2 times

Debtor Collection Period 2 months

Fixed Assets to Shareholder's Net Worth 0.80

Reserves and Surplus to Capital 0.50

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

12.5% of the Factory overheads and 20% of the Selling and Distribution overheads are variable with production and sales. Administration overheads are wholly fixed.

Since existing product could not achieve budgeted level for two consecutive years, the company decides to introduce a new product with marginal investment but largely using present plant and machinery. The cost estimates of the new product are as follows :

Direct Materials	₹ 16 per unit
Direct Labour	₹ 15 per unit
Direct Expenses	₹ 1.5 per unit
Variable factory overheads	₹ 2.0 per unit
Variable selling and distribution overheads	₹ 1.5 per unit

It is expected that 2000 units of the new product can be sold at 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. Administration overheads remain unchanged. However, there will be an increase of working capital to the extent of ₹ 75,000/-

The company considers 20% (pre-tax and pre-interest) return on investment is the minimum acceptable to justify new investment.

Should the new product be introduced ?