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MS-4

MANAGEMENT PROGRAMME (MP)

Term-End Examination

June, 2020

**MS-4 : 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 money measurement concept and the accrual concept. What are the limitations of the former concept ? Explain.
- (b) Explain the difference between the following :
 - (i) Operating Profit and Net Profit
 - (ii) Revenue Receipts and Capital Receipts

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2. What do you understand by Operating and Financial Leverages ? Explain how is financial leverage one of the important considerations in planning the capital structure of a company ? Explain with an example.
3. What do you understand by Budgetary Control ? Discuss its significance in a modern business organisation and explain the steps for installing an effective system of budgetary control in an organisation.
4. Explain the following statements :
 - (a) "Dividend, investment and financing decisions are inter-dependent."
 - (b) "Fixed costs are variable per unit and variable costs are fixed per unit."
 - (c) "Lower the break-even point, better it is."
 - (d) "Depreciation acts as a tax shield."
5. A company is considering a proposal for production of a new product. The company expects to sell 100000 units of the new product each year at a selling price of ₹ 5 per unit. Variable costs will be ₹ 2 per unit. Regardless of

the level of production, the company will incur cash cost of ₹ 50,000 per year if the project is undertaken. The machine for making of the product will cost ₹ 5,00,000 and can be sold for ₹ 60,000 at the end of its life of 5 years.

Additional working capital required will be ₹ 50,000. Overhead cost allowed to the near product will be ₹ 24,000 per year. The tax rate is 30% and the cost of capital for the company is 15%. The company charges depreciation at 25% of the written down value. Should the company buy the new machine? Explain with conclusions. Discount factor for the first 5 years @ 15% are 0.87, 0.756, 0.658, 0.572 and 0.497 respectively.

6. (a) Explain briefly the technique of marginal costing. In what ways do you consider this technique useful in Management Accounting?
- (b) What do you understand by Direct Labour Cost Variance? Distinguish between direct labour rate variance and direct labour efficiency variance.

7. What is a Funds Flow Statement ? Why is it prepared ? How does it differ from a Balance Sheet ? Explain the items which are usually shown in this statement. Distinguish between funds from operations and the net profit of the firm.
8. XYZ Ltd., a profit earning company with accumulated reserves; intends to expand its capacity by financing it partly by the issue of new equity capital. It has paid dividend regularly during the past years. During the year 2018 it suffered loss due to prolonged industrial unrest. The directors of the company differ on the question of distribution of dividend for the year 2018. Some of them want to skip dividend in view of the loss sustained by the company and also to undertake the expansion programme. As financial adviser, what advice would you give to Board of Director ? Give reasons of your answer after considering both viewpoints.