

MANAGEMENT PROGRAMME

Term-End Examination

June, 2015

MS-4 : ACCOUNTING AND FINANCE FOR MANAGERS

Time : 3 hours

Maximum Marks : 100

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- Note :** (i) *Attempt any five questions.*
(ii) *All questions carry equal marks.*
(iii) *Use of calculators is allowed.*
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1. (a) What do you understand by Accounting Standards ? How do they differ from Accounting Concepts ? Why should the accounting practices be standardised ? Explain.
(b) Explain the 'Money Measurement Concept' and the 'Accrual Concept'. What are the limitations of the former concept ? Explain.

2. (a) What are intangible assets of a firm ? Why are they shown in the Balance Sheet ? What is meant by amortisation of such assets ? Give reasons for the same.
(b) What do you understand by Appropriation of profits of a company ? How are the profits appropriated ? What will be the effect on appropriation of profit of a company if :

- (i) the company has issued debt instead of equity shares to finance its activities, and
 - (ii) the accountant has treated a revenue expenditure as capital expenditure.

- 3. What do you understand by cost of capital ? What is its significance in financial decision making ? Explain how is the weighted average cost of capital computed ?

- 4. Distinguish between :
 - (a) Contingent liabilities and accrued liabilities.
 - (b) Funds from Operations and Net Profit
 - (c) Straight line Method and Written down Value Method of charging depreciation
 - (d) Direct Material Price Variance and Direct Material usage Variance

- 5. (a) "Other things remaining the same, firm with relatively stable sales are able to incur relatively high debt ratio". Do you agree with this statement ? Give reasons for your answer.
- (b) Explain fixed budget, flexible budget and rolling budget. Point out the differences between them and explain their utility for a firm.

6. Write explanatory notes on :
- Zero Based Budgeting
 - Break even Point
 - Capitalisation of Earnings
 - Cumulative Preference Shares and Redeemable Preference Shares.
7. The management of M/s Rama Ltd. has prepared the following estimates of working results for the year ending 31st March 2013 for the purpose of preparing the budget for the year ending 31st March 2014 :

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 2013-14 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 market will not absorb any increase in the selling price. However, he is of the view that if expenditure on advertisement is increased, the sales quantity will increase as under :

Advertisement Expenses (₹)	40,000	97,000	1,60,000	2,30,000
Additional Sales (units)	2000	4000	6000	8000

You are required to

- Prepare an Income Statement for the year 2012-13 and
- Evaluate the four alternative proposals and determine the best sales level to be budgeted and prepare an overall Income Statement for 2013-2014 at that level of output and sales.

8. Summarised Balance Sheet and Profit and Loss Account of a company is given below. Determine the following ratios and comment on the health of the company basing your conclusions on the industry averages given below :

Inventory Turnover Ratio	10
Investment Turnover Ratio	1.5
Sales Margin	3.5%
Profit/ Assets employed	4.0%
Profit/Net worth	11.5%
Average Realization time	45 days
Debt/Equity ratio	3.2

Balance Sheet

	₹ Crore		₹ Crore
Equity	96.8	Net Block	48.4
Secured Loans	17.6	Stocks	66.0
Creditors	13.2	Debtors	22.0
Overdraft	17.6	Bank Balance	17.6
Income Tax due	8.8		
	154.0		154.0

Profit and Loss Account

	₹ Crores		₹ Crores
Materials	83.6	Sales	220.0
Manpower	52.8		
Energy	8.0		
Factory Expenses	13.2		
Depreciation	4.8		
Selling Expenses	22.0		
Administration	18.0		
Interest	1.6		
Profit	16.0		
	220.0		220.0