MANAGEMENT PROGRAMME

Term-End Examination 09498

December, 2011

MS-4 : ACCOUNTING AND FINANCE FOR MANAGERS

Time : 3 hours *Maximum Marks : 100*

Note : *Attempt* any *five questions. All questions carry* ***equal*** *marks.*

1. (a) How does an accountant follow the principle "anticipate no profit, provide for all losses" ? On which accounting concept is this based ? Explain it and discuss its significance.

   (b) Distinguish between Financial Accounting and Management Accounting. What is the most important role of a Management Accountant in a business organisation ? Discuss.

2. (a) Distinguish between revenue expenditure and Capital expenditure. How are they treated while preparing the final accounts ? If by mistake the accountant of a firm treats a capital expenditure as revenue expenditure, how will it affect the final accounts of the' firm ? Give an example.

(b) Why is depreciation charged ? Explain the two methods of charging depreciation. In which method the value of the asset is reduced to zero earlier ? Which one is more rational ? Explain why ?

3. "Financial Leverage is one of the important considerations in planning the capital structure of a company." Explain this statement giving an example. Briefly describe the other factors which are also considered while planning the Capital structure.

4. Distinguish between :

(a) Profit maximisation and Wealth maximisation goals.

(b) Accounting Rate of Return and Internal Rate of Return.

(c) Operating Cash flows and Financial cash flows.

(d) Direct Labour Rate Variance and Direct Labour Efficiency Variance.

5. Explain fully the following statements :

(a) "Break - even Analysis is not without limitations".

(b) "Lenders prefer high interest coverage ratio but a low debt-equity ratio".

(c) "Weighted average cost of capital would always be higher, if market value weights are used."

(d) Zero - based budgeting is a better alternative to traditional method of budgeting.

6. (a) "Sales Budget forms the basis on which all other budgets are built ." Explain.

   What factors are taken into consideration while preparing the sales budget ? Discuss.

   (b) What is Rolling Budget ? How does it differ from flexible Budget ? What purposes do these budgets serve ? Explain.

7. India Cables Ltd. is manufacturing a special type of cable used by electricity undertakings the company is currently working at 80% capacity level. Data on annual sales and costs are as follows:

Sales	Rs. 1,200 lakhs
Direct materials	Rs. 560 lakhs
Direct Labour	Rs. 240 lakhs
Factory overheads (80%fixed)	Rs. 180 lakhs

Selling, distribution and	
Administration expenses	Rs 100 lakhs
(60% variable)	

The company has just received an export order which requires utilisation of 40% of the plant capacity. The order can not be split and has to be executed in one lot as quickly as possible. The price offered is 10% lower than the current domestic price. Further, it will be necessary to spend 10% more on variable selling distribution and administration expenses because of the special type of export packing required. The company is considering the following options.

(a) reject the export order and carry on with the domestic sales.

(b) accept the export order and allow the domestic sales to fall to the extent required.

(c) Create additional plant capacity by installing new machinery which will result in increase of fixed costs by Rs. 20 lakhs per annum.

Evaluate each of these options and suggest the best course of action for the company, assuming that the export order will continue in future years also.

8. From the following details furnished by Global Traders for the year ended March 31,2010 prepare its Balance Sheet as on that date :

Current Ratio	1.75
Quick Ratio	1.25
Gross Profit Ratio	25%
Reserves and surplus : capital	0.2
Stock Turnover (cost of sales : closing stock)	9
Average collection period of credit sales	11/2 months
Cost of sales : Fixed Assets	1.2
Debt : Equity Ratio	0.6
Fixed Assets : Net worth	1.25

The firm sells its products only on credit, credit sales for the year ended March 31,2010 amounted to Rs. 120 lakhs.