

**MS-04**

**Management Programme**

**ASSIGNMENT  
SECOND SEMESTER  
2017**

**MS - 04: Accounting and Finance for Managers**



**School of Management Studies  
INDIRA GANDHI NATIONAL OPEN UNIVERSITY  
MAIDAN GARHI, NEW DELHI – 110 068**

## ASSIGNMENT

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<b>Course Code</b>	:	<b>MS-04</b>
<b>Course Title</b>	:	<b>Accounting and Finance for Managers</b>
<b>Assignment Code</b>	:	<b>MS-04/TMA/SEM-II/2017</b>
<b>Coverage</b>	:	<b>All Blocks</b>

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**Note** : Attempt all the questions and submit this assignment on or before 31<sup>st</sup> October, 2017 to the coordinator of your study center.

1. Explain the meaning of Generally Accepted Accounting Principles? Discuss in brief about the Accounting Concepts that are being followed in your organisation. Give your suggestions if any.
2. Discuss the different methods of depreciation and how these methods differ from each other.
3. The sales and profit of ABC Ltd for two successive years is as follows:

	Previous Year (Rs in lakhs)	Current Year (Rs in lakhs)
Number of units sold	15,000	20,500
Sales	37,500	5,125
Profit/Loss	825	1,178.75

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On the basis of the information given above you are required to determine:

- (a) The amount of fixed costs incurred by the firm.
  - (b) The Break Even point for the firm (both in rupees & units).
  - (c) The amount of sales to earn a profit of Rs 25 crores.
  - (d) Margin of Safety if actual sales of ABC Ltd is 17.5 crores.
4. XYZ Ltd is a leading manufacturer of decorative and industrial paints in India. The income statement (Exhibit 1) and the balance sheet (Exhibit 2) for the current year are given. Its sales next year are estimated to be 25 per cent higher on account of increase in demand for paints from the housing and commercial real estate sectors. The variable costs as percentage to sale are likely to remain constant. An increase of 12.5 per cent is estimated in fixed costs.

XYZ Ltd is planning to launch two new brands of luxury emulsions-Supercoat and Luxurycoat. The Supercoat paint would generate an additional Rs 600 crore sales and require an extra Rs. 400 crore investment involving installation of manufacturing and packaging machinery. While the additional fixed costs requirement would be Rs 150 crore, variable cost to sales ratio would not change. For manufacturing the Luxurycoat paint the additional investment requirement and sales generated would amount to Rs 600 crore and Rs 800 crore respectively. The variable cost ratio would remain constant but the fixed cost are expected to increase by Rs 240 crore. The XYZ Ltd has four alternative financing plans to choose from (Exhibit 3). Its current debt-equity ration is 5:1.

XYZ Ltd has hired Amar as a financial consultant to carry out the following tasks:

- (1) What would its operating, financial and total leverages be next year without the new proposal?
- (2) Assuming that the XYZ Ltd finances the projects using financing plan (A), determine the three leverages for the two projects individually. Which new brand is better?
- (3) Which financing option should XYZ Ltd choose to if only Supercoat is to be manufactured?
- (4) Calculate the financial breakeven points of each plan.

**EXHIBIT 1** Income Statement, Current Year and Market Data (Rs crore)

Sales	Rs 5,000
Variable costs (0.50)	2,500
Contribution	2,500
Fixed costs	1,000
EBIT	1,500
Interest	500
EBT	1,000
Tax (0.35)	350
EAT	650
Shares outstanding	10
EPS (Rs)	65
P/E ratio	20
Market price per share (MPS) (Rs)	1,300

**EXHIBIT 2** Balance Sheet As at March 31, Current Year (Rs crore)

<b>Liabilities</b>		<b>Assets</b>		
Equity capital	Rs 100	Fixed assets		Rs 5,850
Reserve and Surpluses	900	Current assets:		
10% Debt	5,000	Inventory	Rs 550	
Current liabilities	950	Receivables	300	
		Cash	250	1,100
	<u>6,950</u>			<u>6,950</u>

**EXHIBIT 3** Financing Options/Plans (Rs crore)

Plans	Debentures		Equity Shares		Preference Shares		P/E
	Coupon rate	Amount	Number (crore)	Face value	Rate	Amount	
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
A	0.12	Rs 1,000	-	-	-	-	14
B	-	-	100	Rs 10	-	-	30
C	0.11	400	60	10	-	-	20
D	-	-	70	10	0.11	Rs 300	28

5. In your organisation or any other organisation of your choice try to find out the factors that are taken into consideration while making the dividend decisions.