# MANAGEMENT PROGRAMME

## Term-End Examination

## December, 2014

08062

## MS-4 : 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. (a) What do you understand by Accounting Standards ? Why are they necessary ? Explain with examples.

   (b) Explain Money Measurement and Continuity Concepts in accounting and discuss the limitations of the former concept.

2. (a) What do you understand by the term 'provisions' ? For what purposes are provisions made and how are they shown in the final accounts ? Why are pre - paid expenses and Net loss shown on the asset side of the balance - sheet ?

   (b) Distinguish between :

   (i) Current liabilities and Contingent liabilities

   (ii) General Reserves and Specific Reserves.

3. Explain the Internal Rate of Return method of appraisal of investment proposals. Point out its merits and limitations. Is this method related to the Pay Back method ? Explain.

4. What do you understand by Break - even analysis ? Explain with the help of a chart. Are there any assumptions underlying the Break - even analysis ? Explain how do these assumptions make Break - even analysis unrealistic ?

5. Discuss the concepts of Gross and Net Working Capital. What factors are taken into consideration while determining the amount of working capital for a business entity ? How does a low Inventory Turnover Ratio affect the working capital needs of a firm ?

6. Explain the following statements :

   (a) Dividend, Investment and Financing decisions are inter-dependent.

   (b) Debt is a double - edged knife.

   (c) Higher profit margin need not necessarily lead to higher rate of return on investment.

   (d) Retained earnings do have a cost.

7. A company produces 30,000 units of product - A and 20,000 units of product - B per annum. The sales value and costs of the two products are as follows :

| | ₹ |
|---|---|
| Sales Value | 7,60,000 |
| Direct Material | 1,40,000 |
| Direct Labour | 1,90,000 |
| Factory Overheads | 1,90,000 |
| Administrative and Selling overheads | 1,20,000 |

50% of the factory overheads are variable and 50% of the administrative and selling overheads are fixed. The selling price of A is ₹ 12 per unit and B is ₹ 20 per unit.

The direct material and labour ratio of product A is 2 : 3 and for B is 4 : 5. For both the products the selling price is 40% of direct labour. The factory overheads are charged in the ratio of direct labour and administrative and selling overheads are recovered at a flat ₹ 2 per unit of A and ₹ 3 per unit of B.

Due to fall in demand of the above products the company has a plan to diversify and make product - C using 50% capcity. It has been estimated that for product - C direct material and direct labour cost will be ₹ 2.50 and ₹ 3 per unit respectively. Other variable costs will be the same as applicable to product - A. The Selling Price of product - C is ₹ 14 per unit and production will be 30,000 units. Assuming 50% capacity is used for manufacture of A and B, calculate :

(a) Present costs and profit,

(b) Costs and profit after diversification and

(c) Give your recommendation as to whether to diversify or not

8. From the following balance sheets prepare a statement of changes in working capital and the Funds flow statement for the year 2012.

| Particulars | 2011 | 2012 | Particulars | 2011 | 2012 |
|---|---|---|---|---|---|
| **Liabilities** | ₹ | ₹ | **Assets** | ₹ | ₹ |
| Share Capital | 6,00,000 | 7,00,000 | Fixed Assets | 10,00,000 | 12,00,000 |
| General Reserve | 2,00,000 | 2,50,000 | Less : Accumulated Depreciation | 2,00,000 | 2,50,000 |
| Capital Reserve (Profit on sale of investments) | - | 10,000 | | 8,00,000 | 9,50,000 |
| | | | Investments (at cost) | 1,80,000 | 1,80,000 |
| Profit and Loss Account | 1,00,000 | 2,00,000 | Stock (at cost) | 2,00,000 | 2,70,000 |
| 7% Debentures | 3,00,000 | 2,00,000 | Sundry debtors (Less Provisions for ₹ 20,000 and ₹ 25,000 respectively) | 2,25,000 | 2,45,000 |
| Creditors for expenses | 10,000 | 12,000 | Bills Receivable | 40,000 | 65,000 |
| Creditors for supply of goods | 1,60,000 | 2,50,000 | Pre-paid expenses | 10,000 | 12,000 |
| Proposed Dividend | 30,000 | 35,000 | Mis. Expenses | 15,000 | 10,000 |
| Provision for taxation | 70,000 | 75,000 | | | |
| | 14,70,000 | 17,32,000 | | 14,70,000 | 17,32,000 |

**Other information :**

(a) During the year 2012 fixed assets (WDV ₹ 10,000, depreceation written off ₹ 30,000) was sold for ₹ 8,000

(b) Proposed Divident for last year was paid in 2012.

(c) During the year 2012 investments costing ₹ 80,000 were sold and later in the year investments of the same cost were purchased.

(d) Debentures were redeemed at a premium of 10% in 2012.

(e) Liability for taxation for 2011 came to ₹ 55,000.

(f) During the year 2012 bad debts written off were ₹ 15,000 against the provision account.