MANAGEMENT PROGRAMME

Term-End Examination

June, 2012

18650

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 allowed. Present value and annuity tables are to be provided if asked for.*

1. What is meant by Capital Structure of a company ? What factors are taken into account while designing the Capital structure ? Does the dividend policy affect the Capital structure ? If so, explain.

2. (a) Differentiate between "Schedule of Changes in Working Capital" and "Fund Flow Statement".

(b) How is "Cash from operating activity" calculated in Cash flow statement ? Explain with help of an example.

3. (a) Explain the Accrual Concept, Consistency Concept and the Periodicity concept of accounting.

(b) Explain Internal Rate of Return and distinguish it from Accounting Rate of Return.

4. What are the important decisions of Finance Function ? Explain their importance and relevance in Financial Management.

5. (a) The 'Cost-Volume-Profit' relationships provide management with a simplified framework for organizing its thinking on a number of problems". Discuss.

(b) Beta Ltd. furnishes you the following income information for the current year divided in two sub-parts.

	First Half	Second Half
Sales	Rs. 8,10,000	Rs. 10,26,000
Profit earned	21,600	64,800

From the above , you are required to compute the following, assuming that the fixed cost remains the same in both periods.

(i) Profit /Volume Ratio

(ii) Fixed Cost

(iii) Amount of profit or loss when sales are Rs. 6,48,000.

(iv) Amount of sales required to earn a profit of Rs. 1,08,000.

6. The ABC Company Ltd. makes only one product. The standard variable costs for the unit are :

Direct Material : 1 unit @ Rs. 0.50	Rs. 0.50
Direct Labour : 1 hour @ Rs. 2.00	2.00
Variable overhead : 1 hour Rs.@	1.50
Total variable cost per unit	4.00

There are no initial inventories. Production for the month of September was 10,000 units. The production costs are as follows :

Material purchased (15,000 units @ Rs. 0.40)	Rs. 6,000
Material used (units)	11,000
Direct labour, 9,000 hours @ 2.10	18,900
Variable overhead	16,000

The overhead rate is based on direct labour-hours. Calculate the relevant variances.

7. (a) What do you understand by Return on Investment ? How does it differ from Net Profit Margin ?

(b) From the following information of a textile company, complete the performa balance sheet if its sales are Rs. 32,00,000.

Sales to net worth	2.3 times
Current debt to net worth	42%
Total debt to net worth	75%
Current ratio	2.9 times
Net sales to inventory	4.7 times
Average collection period	64 days
Fixed assets to net worth	53.2 %

Proforma Balance Sheet

Net worth	....	Fixed assets	....
Long-term debt.	....	Cash	....
Current debt.	....	Stock	....
		Sundry debtors	....
	___		___

8. An existing company has a machine which has been in operation for 2 years ; its remaining estimated useful life is 10 years, with no salvage value at the end. Its current market value is Rs.1,00,000. The management is considering a proposal to purchase an improved model of a similar machine, which gives increased output. The relevant particulars are as follows :

	Existing Machine	New Machine
Purchase Price	Rs. 2,40,000	Rs. 4,00,000
Estimated life	12 years	10 years
Salvage Value	Nil	Nil
Annual operating hours	2,000	2,000
Selling price per unit	Rs. 10	Rs. 10
Output per hour	15 units	30 units
Material cost per unit	Rs. 2	Rs. 2
Labour cost per hour	20	40
Consumable stores per year	2,000	5,000
Repairs and maintenance per year	9,000	6,000
Working capital	25,000	40,000

The company follows the straight line method of depreciation and is subject to 50% tax. Should the existing machine be replaced ? Assume that the company's required rate of return is 15%.