MS-4

MANAGEMENT PROGRAMME

Term-End Examination

03640

June, 2014

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) Explain the concept of conservatism in accounting and describe its importance. Why should conservation be applied rationally ? Explain.

   (b) What are the uses of earnings information ? How is the value of the business ascertained with the help of earnings ? Explain with an example.

2. (a) What is meant by Cash Cycle ? How is the duration of Cash Cycle measured ? Explain with an example.

   (b) Explain the two methods of Inventory Valuation with an example. In an inflationary situation, which method will give high value of the inventory, other things remaining the same ? Explain.

3. What do you understand by Budgetary Control ? Discuss its significance in a modern business and explain the steps for installing an effective system of budgetary control in an organisation.

4. Discuss the factors that are taken into consideration by a company while taking a decision on dividend to be declared. Under what circumstances companies issue Bonus Shares ? What is the effect of issuance of Bonus Shares on the Debt Equity Ratio and the D.P.S. if other things remain the same ? Give reasons.

5. "While planning the capital structure, debt should be used judiciously". Explain this statement and describe the various factors that are considered by the promoters of a company while planning the capital structure.

6. Explain the following statements :
   (a) A very high current ratio is not desirable.
   (b) High operating leaverage together with high financial leverage results in a risky situation.
   (c) Lower the break-even point, better it is.
   (d) Profitability index is more significant in evaluation of projects than Internal Rate of Return.

7. A company produces a single product which is sold by it presently in the domestic market at Rs.75 per unit. The present production and sales is 40,000 units per month representing 50% of the available capacity. Cost data of the product are as follows :

Variable costs per unit : Rs. 50

Fixed costs per month : Rs. 10 lakh.

To improve the profitability the management has 3 proposals on hand as follows :

(a) to accept an export supply order for 30,000 units per month at a reduced price of Rs. 60 per unit, incurring additional variable cost of Rs. 5 per unit towards export packing, duties, etc.

(b) to increase the domestic market sales by selling to a domestic chain store 30,000 units at Rs. 55 per unit retaining the existing sales at the existing price.

(c) to reduce the selling price of the entire increased domestic sales, as advised by the sales department, as under :

Reduce selling price per unit by Rs.	Increase in expected sales (in units)
5	10,000
8	30,000
11	35,000

Prepare a table to present the results of the above proposals and give your comment and advice on the proposals.

8. You have the following information on the performance of XYZ Ltd. and also the industry averages. You are required to determine the indicated ratios for the company and explain the company's strengths and weaknesses as shown by your analysis.

Balance sheet as on 31^{st} Dec. 2013

Liabilities	Rs.	Assets	Rs.
Equity share capital	24,00,000	Net fixed assets	12,10,000
10 % debentures	4,60,000	Cash	4,40,000
Sundry creditors	3,30,000	Sundry debtors	5,50,000
Bills payable	4,40,000	Stock	16,50,000
Other current liabilities	2,20,000		
	38,50,000		**38,50,000**

Statement of profit for the year ending 31^{st} Dec. 2013.

		Rs.
Sales		55,00,000
Less : Cost of Goods Sold :		
Materials	20,90,000	
Wages	13,20,000	
Factory overheads	6,49,000	40,59,000
Gross profit		14,41,000
Less : Selling and Distribution cost	5,50,000	
Administrative and General expenses	6,14,000	11,64,000
Earnings before Interest and Taxes		2,77,000
Less : Interest charges		46,000
Earnings before Taxes		2,31,000
Less : Taxes (50%)		1,15,500
Net profit		1,15,500

Industry Ratios

Current Ratio	2.4
Debtor Turnover Ratio	8.0
Inventory Turnover Ratio	9.8
Sales / Total Assets	2.0
Net Profit Ratio	3.3%
Net Profit / Total Assest	6.6%
Net Profit / Net Worth	10.7%
Total Debts / Total Assests	63.5%