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MS-4

17543

MANAGEMENT PROGRAMME

Term-End Examination

June, 2011

MS-4 : ACCOUNTING AND FINANCE FOR MANAGERS

Time : 3 hours *Maximum Marks : 100*

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

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1. (a) What do you understand by capitalisation of earnings ? How is the value of a firm ascertained with the help of its earnings ? Explain with an example.

(b) How can accounting reports, prepared on a historical basis after the closure of an accounting period, be useful to mangers in directing the activities of a business ? Discuss.

2. (a) Explain the terms 'Intangible Assets' and 'Contingent Liabilities' giving suitable examples. How are they treated while preparing the Balance Sheet ? Explain with reasons.

(b) What do you understand by the 'net worth' of a company ? How is it different from the owners' equity ? What items comprise the net worth ? Is dividend policy connected with the net worth in any way ? Explain.

3. Explain the important determinants of the Working Capital needs of a firm. Can two firms with different Working Capital achieve the same amount of sales ? If so, explain how ?

4. Distinguish between :

   (a) Profitability Index and Profitability Ratios.

   (b) Cash Budget and Cash Flow Statement.

   (c) Capitalisation of reserves and Capital Reserve.

   (d) Depreciation and Amortisation.

5. Explain fully the following statements :

   (a) "Where cash flows are uncertain, the principle will be, greater the variability of cash flows, higher should be the minimum cash balance".

   (b) 'Companies with very high profits, generally have a low pay out ratio.'

   (c) "Debt is double edged knife".

   (d) "Lower the Break-even point, better it is."

6. What do you understand by Budgetary Control ? How is it exercised ? What steps should be taken for installing a Budgetary Control system in an organisation ? Discuss.

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

Variable Cost per unit Rs. 50

Fixed Cost per month Rs. 10 lakh

To improve the profitability, the management has three proposals on hand as under :

(a) to accept an export 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 stores 30,000 units at Rs. 55 per unit, retaining the existing sales at the existing price;

(c) to reduce the selling price for the increased domestic sales as advised by the Sales Department as under;

Reduce Sale Price per Unit by Rs.	Increase in Sales Expected (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 comments and advice on the proposals.

8. The comparative Balance Sheets of ABC Co Ltd. are given below in condensed form.

	March 31, 2010		March 31, 2009	
Fixed Assets	520,000		4,80,000	
Less Depreciation	140,000	3,80,000	10,8,000	3,72,000
Investment at Cost		50,000		1,00,000
Stocks		90,500		55,600
Sundry Drs.		1,67,800		1,18,300
Cash and Bank balance		47,500		49,800
Preliminary Expenses		----		7,200
		7,35,800		70,2,900
Share Capital				
Equity Share of Rs.100 each issued for cash		4,00,000		3,60,000
General Reserves		60,000		1,10,000
Surplus in P and d a/c		33,450		20,450
Sundry Creditors		1,95,350		1,33,650
Proposed Dividend		15,000		28,800
Provision Taxation		32,000		50,000
		7,35,800		**7,02,900**

(a) The profit for the year (after providing for depreciation Rs 40,000 writing off preliminary expenses Rs. 7,200 and making provision for taxation Rs. 32,000) amounted to Rs. 38,000.

(b) The company sold during the year old machinery costing Rs. 9,000 for Rs. 3,000. The accumulated depreciation on this machine was Rs. 8,000.

(c) A portion of the company's investment became worthless and was written off to general reserve. The cost of such investments was Rs. 50,000.

(d) During the year the company paid an interim dividend of Rs. 10,000 and the directors have recommended a final divitlend of Rs. 15,000 for the year 2008-09

You are required to :

(i) prepare a statement of sources and application of funds, and

(ii) prepare a schedule of working capital changes.