No. of Printed Pages : 6 **MS-004**

MANAGEMENT PROGRAMME

Term-End Examination

December, 2016 03733

MS-004 : ACCOUNTING AND FINANCE FOR MANAGERS

Time : 3 hours *Maximum Marks : 100*

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

(ii) Use of calculators is allowed.

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1. (a) Explain the continuity concept and consistency concept of accounting, giving suitable examples.

(b) 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.

2. (a) What do you understand by Net Worth of a company ? What is the effect of capitalisation of reserves on the net worth of the Company and the Earnings Per Share (EPS) of the company ? Explain with an example.

(b) Explain the two methods (FIFO and LIFO) of inventory valuation with example. Under which method the value of closing inventory would be higher, if inflationary conditions prevail ? Give reason.

3. Explain the following statements :

(a) Accounting is a service function.

(b) Depreciation acts as tax shield.

(c) PBIT is better indicator of a company's profitability than PAT.

(d) Greater the variability of cash flows, higher should be the minimum cash balance.

4. Distinguish between Operating Leverage and Financial Leverage. What will be the effect of a small change in sales on net income, return on equity and earnings per share if both the leverages are considerable ? Explain giving example and reason.

5. (a) What is Production Budget ? What factors are taken into consideration while preparing a Production Budget ? Explain.

(b) What is a Rolling Budget ? Why is it prepared ? Explain the procedure of preparing rolling budget.

6. Write explanatory notes on :

(a) Price-Earnings Ratio

(b) Accounting Standards

(c) Direct Material Cost Variance

(d) Cash Cycle

7. A large manufacturing company has three factories located at places A, B and C. All the three factories produce the same product which is sold at ₹ 375 per unit. Budgets for the year 2016 for the three factories are given below :

₹ Lakh

	A	B	C	Total
Sales	300	1200	600	2100
Cost of Sales :				
Direct Materials	75	350	145	570
Direct Labour	75	280	140	495
Factory Overheads :				
Variable	20	110	55	185
Fixed	40	120	60	220
Administrative Overheads	20	90	40	150
Selling and Distribution Overheads :				
Variable	23	70	40	133
Fixed	15	50	30	95
Head Office expenses allocated	12	50	30	92
Total	280	1120	540	1940
Profit	20	80	60	160

Lease of factory at A will expire on 31st December, 2015 and could be renewed by enhancing the annual lease amount by ₹ 12 lakh. The Management Accountant is therefore asked to examine the following options, subject to the additional information given below :

(a) Renew the lease and bear the impact.

(b) Close down the factory at A and increase the production of Unit B to meet the demand hitherto met by A unit.

(c) Close down the factory at A and increase the production of C unit to meet the demand hitherto met by A unit.

Additional Information :

(i) The sale products of the assets at A factory will be sufficient to liquidate all liabilities there.

(ii) If production of B factory is increased, the variable cost for the additional output will increase by ₹ 25 per unit to meet additional freight and other costs. There will be an increase of ₹ 50 lakh in the annual fixed costs, inclusive of allocation of head office costs.

(iii) If production of C factory is increased the variable cost for the additional output there will increase by ₹ 35 per unit. The annual fixed cost of the factory will increase by ₹ 40 lakh, inclusive of allocated head office costs.

You are required to examine the three options by working out the comparative profit in each case and give your recommendations.

8. From the following information of XYZ Ltd. Prepare a statement showing changes in Working Capital along with Funds Flow Statement.

Particulars	31st December 2013	31st December 2014
Investments	15,000	21,400
Land	9,000	9,000
Stock	85,000	80,000
Debtors	40,000	39,000
Plant and Machinery	81,000	1,05,000
(Accumulated Depreciation)	(24,000)	(26,000)
Patents	16,200	12,600
Cash	10,000	8,200
Total Assets	2,32,200	2,49,200
Current Liabilities	24,600	34,800
12% Debentures	43,400	-
14% Debentures	-	39,000
Equity Share Capital	90,000	1,00,000
Reserve for Future Losses on Investments	6,000	3,600
Retained earnings	68,200	71,800
Total Liabilities and Capital	2,32,200	2,49,200

Additional Information :

(a) A reconciliation of the balances in retained earnings is as follows :

Beginning Balance	68,200
Net Income for 2014	3,000
Award Received from settlement of patent infringement case	15,600
Dividends	(15,000)
Closing balance	71,800

(b) Net Income for 2014 includes a loss of ₹ 4,800 on the sale of a part of plant. The plant was for ₹ 19,000 at the beginning of the year, accumulated depreciation being ₹ 6,000.

(c) Investments of ₹ 15,000 were sold during the year at a loss. The loss was charged to the Reserve for future loss on Investments and did not appear on the Income Statement.

(d) During the year 2014 the 12% debentures were called for redemption. Most of them were refunded through the issuance of new 14% Debentures and the rest were refunded for cash.

(e) Equity shares were issued in exchange of machinery. The rest of the plant and machinery were purchased for cash.