MS-4

MANAGEMENT PROGRAMME

22737

Term-End Examination
June, 2009

MS-4 : ACCOUNTING AND FINANCE FOR MANAGERS

Time : 3 hours *Maximum Marks : 100*
(Weightage 70%)

Note : *Attempt any five questions.* ***All*** *questions carry equal marks. Use of calculator is allowed.*

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1. (a) 'Management Accounting is an extension of financial Accounting'. Explain how is Management Accounting an effective tool of financial control ? Discuss.

(b) Explain the cost concept and the concept of conservation. Why are assets shown at cost even when this market prices far exceeds the cost ? Give reason.

2. (a) Why are Reserves created at the time of preparing the final accounts ? Distinguish between General Reserve and Specific Reserve and give their examples.

(b) Distinguish between capital expenditure and revenue expenditure. What will be the effect on net profit, if the accountant treats a capital expenditure as revenue expenditure. Discuss.

3. Distinguish between :

(a) Gross Working Capital and Net Working Capital.

(b) Current Ratio and Quick Ratio.

(c) Direct Labour Rate Variance and Direct. Labour Efficiency Variance.

(d) Committed Fixed Costs and Disentionary Fixed Costs.

4. (a) In what way is financial leverage related to operating leverage ? Discuss with an example.

(b) How would you appraise the technical feasibility and financial viability of a project ? Explain.

5. What do you understand by Zero Base Budgeting ? Discuss the steps that are involved in the preparation of Zero Base Budget and describe its advantages over a traditional budget.

6. Explain fully the following statements :

(a) "A very high current ratio is not desirable.

(b) "Cash Budget is a statement of all incomes and expenses during a given period."

(c) "Weighted average cost of capital would always be higher, if the market value weights are used."

(d) Companies with very high profits generally have a low pay out ratio.

7. Following details have been extracted from the annual budget of a manufacturing company for the year 2007 and 2008 :

Particulars	Per Unit Rs.	Per Annual Rs.
Selling Price	300	
Direct Materials	64	
Direct Labour	48	
Production overheads:		
Variable	32	40,00,000
Fixed		30,00,000
Administrative over heads-fixed		
Selling and Distribution overheads:		
Variable	36	
Fixed		20,00,000

Currently the company is operating on a margin of safety of 25%. To improve its profitability further, the company is considering the following options.

(a) Reduce selling price by 5%. Sales volume is expected to increase by 20% also fixed production overheads will increase by Rs. 2 lakh and fixed selling and distribution over heads by Rs 3 lakh.

(b) Increase selling price by 5%. This will cause a drop in sales volume by 10%. To arrest further fall in sales, an increase of Rs 2 lakh will be required under fixed selling and distribution overheads.

(c) Production can be increased by 15% by introducing an incentive scheme for labour. This will be increase direct labour cost by 25%. An additional expenditure of Rs 3 lakh would be required under fixed selling and distribution overhead to market the increased production.

Required :

(a) Current level of production/sales and profit earned.

(b) Assuming that (i), (ii) and (iii) above are mutually exclusive and other views remain unchanged, evaluate each of these options.

(c) If the company is able to reduce raw material cost by Rs 5 per unit by making bulk purchases and reduce the fixed overhead costs by 2 lakh by suitable economy measures, at what selling price per unit should it sell its current production to earn a 10% increase in current profit ?

8. The Balance Sheets of ABC Manufacturing Company Ltd. as on December 31, 2007 and 2008 are as follows :

Liabilities	31.12.2007	31.12.2008	Assets	31.12.2007	31.12.2008
	Rs.	Rs.	Rs.	Rs.	Rs.
Share Capital	2,50,000	250,000	Land+ Buildings	1,50,000	1,50,000
5% Debentures	1,00,000	80,,000	Machinery	82,000	90,000
Sunday creditors	1,15,000	108,000	Stock in Trade	1,00,000	1,14,000
Profit & Loss A/c	20,000	27,000	Sundry Debtors	85000	81,000
Depreciation Fund	40,000	44,000	Cash & Bank Balance	60,000	55,000
Reserve for contingency	70,000	55,000	Temp Investments	1,31,000	95,000
Outstanding Expenses	15000	24000	Prepaid Expensive	2,000	3,000
	6,10,000	5,88,000		6,10,000	588,000

The following additional information is also available.

(a) A new machinery was purchased for Rs. 30,000 and old machinery costing Rs. 15,000 was sold for Rs. 5,000. Accumulated depreciation was Rs. 8,000.

(b) Rs 20,000 5% debentures were reduced by purchase from open market @ Rs 96.

(c) Rs 36,000 investments were sold at book value.

(d) 12% dividend was paid in cash

(e) Rs.15,000 was debited to Contingency Reserve to settlement of previous tax liability.

You are required to prepare :

(a) a statement of changes in Working Capital, and

(b) a statement showing the sources and application of funds.

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