

2011**MCA****2nd Semester Examination****ACCOUNTING & FINANCIAL MANAGEMENT****PAPER—CS/MCA/202***Full Marks : 100**Time : 3 Hours**The figures in the margin indicate full marks.**Candidates are required to give their answers in their own words as far as practicable.**Illustrate the answers wherever necessary.*

**Answer Question No. 1 and
any four questions from the rest.**

1. Answer any four of the following : 5½ × 4

- (a) "The management of inventory must meet two opposing needs". What are they? How is a balance brought in these two opposing needs?
- (b) How is the weighted average cost of capital calculated? What weights should be used in its calculation?
- (c) Despite its weakness, the payback period method is popular in practice? What are the reasons for its popularity?
- (d) "Depreciation is an important source of funds". Do you agree? Defend your answer.

(Turn Over)

- (e) Distinguish between trade discount and cash discount. How is trade discount treated in accounts?
- (f) What is an accounting ratio? What ratios would you consider to judge the liquidity and stability positions of a firm?
- (g) Which one of Gross Profit and Net Profit is more reliable and why?

2. From the following Balance Sheet of Adams Ltd. and additional information prepare a statement of changes in Working Capital and Fund Flow Statement for the year ended 31.12.2010 :

Balance Sheet as on

| <i>Liabilities</i> | <i>2009 Rs.</i> | <i>2010 Rs.</i> | <i>Assets</i> | <i>2009 Rs.</i> | <i>2010 Rs.</i> |
|-----------------------------|---------------------|---------------------|----------------------|---------------------|---------------------|
| Eq. Share Capital | 3,00,000 | 4,00,000 | Goodwill | 1,00,000 | 80,000 |
| 8% Redeemable Pref. Shares | 1,50,000 | 1,00,000 | Land and Building | 2,00,000 | 1,70,000 |
| Capital Reserve General | — | 20,000 | Plant | 80,000 | 2,00,000 |
| Reserve Profit and Loss A/c | 40,000 | 50,000 | Investment | 20,000 | 30,000 |
| Proposed Dividend | 30,000 | 48,000 | Debtors | 1,40,000 | 1,70,000 |
| Sundry Creditors | 42,000 | 50,000 | Stock | 77,000 | 1,09,000 |
| Bills Payable | 25,000 | 47,000 | Bills Receivable | 20,000 | 30,000 |
| Liability for Expenses | 20,000 | 16,000 | Bank | 15,000 | 10,000 |
| Taxation Provision | 30,000 | 36,000 | Cash | 10,000 | 8,000 |
| | 40,000 | 50,000 | Preliminary Expenses | 15,000 | 10,000 |
| | 6,77,000 | 8,17,000 | | 6,77,000 | 8,17,000 |

Additional Information:

- (1) A piece of land was sold in 2010 and the profit on sale was credited to Capital Reserve A/c.
- (2) A machine (W.D.V. 12,000) was sold for Rs. 10,000. In 2010 depreciation Rs. 10,000 was charged in Plant A/c.
- (3) The investments are Trade Investments. Rs. 3,000 by way of dividend is received including Rs. 1,000 from pre-acquisition profit which was credited to Investment A/c.
- (4) An interim dividend of Rs. 20,000 has been paid in 2010. 12

3. The Trading and Profit/Loss Account for the year ended 31.03.2011 and the Balance Sheet as on that date of the Seva Electricals Ltd. are given below :

Trading and Profit/Loss Account

| Dr. | Rs. | Cr. | Rs. |
|----------------------------|----------|-----------------|----------|
| To Opening Stock | 75,000 | By Sales (Net) | 4,00,000 |
| " Purchases (Net) | 2,25,000 | " Closing Stock | 80,000 |
| " Wages | 50,000 | | |
| " Gross Profit | 1,30,000 | | |
| | 4,80,000 | | 4,80,000 |
| To Administrative Expenses | 65,000 | By Gross Profit | 1,30,000 |
| " Sales Overhead | 15,000 | | |
| " Net Profit | 50,000 | | |
| | 1,30,000 | | 1,30,000 |

Balance Sheet

| Liabilities | Rs. | Assets | Rs. |
|------------------------------|----------|--------------|----------|
| Equity Share Capital | 1,00,000 | Fixed Assets | 2,50,000 |
| 10% Preference | | Stock | 60,000 |
| Share Capital | 1,50,000 | Debtors | 90,000 |
| Reserve and Surplus | 50,000 | Cash | 50,000 |
| 15% Debentures | 75,000 | | |
| <i>Current liabilities :</i> | | | |
| For Expenses | 25,000 | | |
| Sundry Creditors | 50,000 | | |
| | 4,50,000 | | 4,50,000 |

You are required to work out the following ratios with brief remarks like normal, abnormal etc.

- (i) Current Ratio;
- (ii) Liquid Ratio;
- (iii) Debt-Equity Ratio;
- (iv) Proprietary Ratio;
- (v) Gross Profit Ratio;
- (vi) Stock Turnover Ratio;
- (vii) Return on Investment Ratio, and
- (viii) Profit to Proprietors Equity.

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4. (a) What do you understand by 'Budget' and 'Budgetary Control' ?
- (b) The budgeted income and expenditure of a manufacturing concern for the periods from November, 2009 to June, 2010 are as follows :

| Year and Months | Sales (Rs.) | Purchases (Rs.) | Manufacturing Expenses (Rs.) | Office Expenses (Rs.) | Selling Expenses (Rs.) |
|-----------------|----------------|--------------------|---------------------------------|--------------------------|---------------------------|
| <i>2009</i> | | | | | |
| November | 3,00,000 | 1,00,000 | 20,000 | 25,000 | 15,000 |
| December | 3,80,000 | 1,25,000 | 25,000 | 25,000 | 18,000 |
| <i>2010</i> | | | | | |
| January | 4,10,000 | 1,50,000 | 30,000 | 25,000 | 22,000 |
| February | 4,20,000 | 1,55,000 | 32,000 | 30,000 | 25,000 |
| March | 4,70,000 | 1,60,000 | 35,000 | 30,000 | 27,000 |
| April | 4,50,000 | 1,30,000 | 33,000 | 30,000 | 26,000 |
| May | 4,90,000 | 1,65,000 | 37,000 | 30,000 | 28,000 |
| June | 5,00,000 | 1,70,000 | 40,000 | 30,000 | 30,000 |

Additional Information:

- (1) 80% of the total sales are made on credit. There is no cash purchase.
- (2) 1% of credit sales are expected to be returned by debtors and 0.5% are expected to be bad.
- (3) Period of credit allowed to customers is one month. 50% is recovered, on an average on due date and the remaining 50% is one month overdue.
- (4) Period of credit allowed by suppliers is 2 months.
- (5) Manufacturing expenses are usually paid 15 day's interval i.e. on 1st and 16th day of each month.
- (6) Time lag in payment of office expenses and selling expenses is one month.
- (7) A bank loan (long-term) of Rs. 1,00,000 was taken carrying interest @ 18% per annum payable in March, June, September and December of each year. No payment has to be made towards principal during 2010.

- (8) A sales Commission @ 5% on gross credit sales is payable in the third month of sale in addition to selling expenses.
- (9) Advance payment of Rs. 3,00,000 is expected to be paid in March, 2010 for the procurement of a machinery.
- (10) Opening cash balance in January, 2010 is Rs. 1,00,000. The concern wants to keep a constant balance of Rs. 1,00,000 each month and the excess or shortfall, if any, is to be adjusted by way of investment in securities or taking a private loan. Interest receivable or payable is to be ignored.

On the basis of the above information, prepare a Cash Budget for the first 6 months of the year 2010.

2+10

5. From the following balances extracted from the books of Mr. Sen on 31.12.2010, prepare a Trading and Profit/Loss a/c for the year ended on that date and also a Balance Sheet as on the same date :

| | Rs. | | Rs. |
|----------------------|----------|-----------------------|----------|
| Capital | 20,000 | Stock on 1.1.2010 | 20,000 |
| Sales | 2,55,000 | Purchases | 1,85,000 |
| Return Outward | 5,000 | Sales Returns | 2,500 |
| Bank Overdraft | 12,000 | General Expenses | 8,500 |
| Bad Debt Provision | 1,200 | Wages and Salaries | 35,700 |
| Creditors | 25,000 | Freight | 10,300 |
| 6% Loan | 20,000 | Rent and Rates | 3,600 |
| (taken on 1.1.2010) | | Bad Debts | 1,500 |
| Drawings | 1,500 | Debtors | 40,800 |
| Plant and Machinery | 22,500 | Cash in hand | 2,800 |
| (One machine costing | | Discount Allowed | 2,500 |
| Rs. 5,000 was insta- | | Interest paid on Loan | 1,000 |
| lled on 01.07.2010 | | | |

Other information to be considered :

- (i) Stock on 31.12.2010 has been valued at Rs. 22,000
 - (ii) Wages and Salaries include Rs. 1,000 for the erection on new machinery purchased.
 - (iii) Bad Debt Provision is to be increased to 5% of Debtors.
 - (iv) Rent for November and December, 2010 has not yet been received.
 - (v) Provide depreciation on Plant and Machinery @ 10% p.a. 12
6. (a) Define Budgetary Control. What are the steps in Budgetary Control? Give at least six names of Functional Budgets.
- (b) Raja Brothers manufactures a product X. It is estimated that for each ton of materials consumed, 100 articles should be produced. The standard price per ton of materials is Rs. 10. During the first week in January 2011, 100 tons of materials were issued to production, the price of which was Rs. 10.50 per ton. Production during the week was 10,200 articles. Calculate Material Cost Variance. 5+7
7. From the following Balance Sheets of Hugo Products Ltd. and other particulars, prepare a Statement of Changes in Working Capital and a Fund Flow Statement for the year 31st December, 2010 3+9

(rs. in '000)

| Liabilities | 31.12.09 | 31.12.10 | Assets | 31.12.09 | 31.12.10 |
|-------------------|----------|----------|------------------|----------|----------|
| | Rs. | Rs. | | Rs. | Rs. |
| Share Capital | 2,400 | 2,800 | Fixed Assets | 3,200 | 3,800 |
| General Reserve | 800 | 1,000 | Investments at | | |
| Capital Reserve | — | 40 | Cost | 720 | 720 |
| Profit & Loss A/c | 400 | 800 | Stock | 800 | 1,080 |
| Creditors for | | | Sundry Debtors | 900 | 980 |
| Expenses | 1,240 | 848 | Bills Receivable | 160 | 260 |
| Creditors for | | | Prepaid | | |
| Purchases | 640 | 1,000 | Expenses | 40 | 48 |
| Proposed | | | Preliminary | | |
| Dividend | 120 | 140 | Expenses | 60 | 40 |
| Provision for Tax | 280 | 300 | | | |
| | 5,880 | 6,928 | | 5,880 | 6,928 |

Other particulars :

- (i) During the year investments costing Rs. 3,20,000 were sold and the profit therefrom was credited to Capital Reserve. There was no other capital profit during the year.
- (ii) One Fixed Asset (Book Value Rs. 40,000) was sold for Rs. 32,000.
- (iii) Depreciation charged on Fixed Assets was Rs. 3,20,000.
- (iv) The proposed dividend of last year was paid in the current year.
- (v) Tax paid during the year Rs.2,20,000.

8. Answer any three of the following : 4×3

- (a) Explain the statement : 'Fixed cost per unit is variable but variable cost per unit is fixed.'
- (b) Why is profit element included in the Working Capital Requirement Forecast ?
- (c) What is P/V Ratio ? Write about its importance in decision making.
- (d) What are the different types of Reserves ? Distinguish between Reserve and Provision.