2010

ACCOUNTING AND FINANCE FOR MANAGERS

FOURTH PAPER

Full Marks : 100

Time : 3 hours

The figures in the margin indicate full marks for the questions

1. Answer any *five* questions in about *100* words each : 5×5=25

(a) What do you mean by 'Accounting Period Concept'?

(b) Distinguish between 'closing of an account' and 'balancing of an account'.

(c) Discuss the methods used in preparing Trial Balance.

(d) State the uses of 'common size statements'.

(e) Write a short note on Last in First Out (LIFO) method of inventory valuation.

(f) What are the advantages of Discounted Cash Flow Technique of Investment Appraisal?

(g) Explain the concept of Gross Working Capital and Net Working Capital.

2. Answer any *three* questions in about *200* words each : 10×3=30

(a) What steps will you take if you find that the trial balance prepared by you at the end of accounting period does not agree? 10

(b) State the procedure for developing an accounting equation. 10

(c) What is meant by 'accounting standards'? State the significance of accounting standard. 5+5=10

(d) What do you mean by 'ratio analysis'? Discuss its uses and limitations. 3+7=10

(e) Explain the rationale of preparing a Balance Sheet. 10

3. Answer any *three* questions from the following : 15×3=45

(a) How would you assess the working capital requirements for a seasonal industry? Illustrate with examples.

(b) PESCO Ltd. has a machine having an additional life of 5 years, which cost Rs 10 lakhs and has a book value of Rs 4 lakhs. A new machine costing Rs 20 lakhs is available. Though its capacity is the same as that of the old machine, it will result a saving in variable cost to the extent of Rs 7 lakhs per annum. The life of the machine will be 5 years at the end of which it will have a scrap value of Rs 2 lakhs. The rate of income tax is 40% and the company has a policy of not making an investment if the yield is less than 12% per annum. The old machine, if sold today will fetch Rs 1 lakh and no salvage value of sold at the end of fifth year from present.

Advise PESCO Ltd. whether to replace the old machine or not. Present value of Re 1 receivable annually for 5 years at 12% is 3·605, and present value of Re 1 receivable at the end of 5 years at 12% per annum is 0·567. Assume that capital gain is tax free. Ignore income-tax savings on depreciation as well as loss due to sale of existing machine.

(c) A company is presently working with an earning before interest and taxes (EBIT) of Rs 15 lakhs. Its present borrowings are :

	Rs (in lakhs)
15% term loan	50
Working capital :	
Borrowing from bank at 20%	33
Public deposit at 14%	15

The sale of the company is growing and to support this the company proposes to obtain additional borrowing of Rs 25 lakhs. The increase in the EBIT is expected to be 20%.

Calculate the change in interest coverage ratio after the additional borrowing and commitment.

(d) Following are the extracts from the Trial Balance of a firm as on 31st March, 2010 :

	Rs
Sundry Debtors	2,05,000
Provision for Doubtful Debts	10,000
Provision for Discount on Debtors	1,800
Bad Debts	3,000
Discount	1,000

Additional Information :

(i) Additional bad debts—Rs 4,000

(ii) Additional discount allowed to debtors—Rs 1,000

(iii) Maintain a provision for bad debts @ 10% on debtors

(iv) Maintain a provision for discount @ 2% on debtors

You are required to pass the Journal Entries and show the relevant accounts including the treatment in final accounts.

(e) On 31st December, 2009, the cash book of a merchant showed a bank overdraft of Rs 1,730. On comparing the cash book with the bank passbook the following discrepancies were found :

(i) Cheque issued for Rs 600 were not presented at bank till 7th January, 2010

(ii) Cheques amounting to Rs 750 were deposited in the bank but were not collected so far

(iii) A cheque of Rs 150 received from Mahesh and deposited in the bank was dishonoured and advice of non-payment was received on 5th January, 2010

(iv) Rs 1,500 being the proceeds of a bill receivable collected appears in the passbook but not in the cash book

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(v) Bank charges Rs 15 and interest on overdraft Rs 85 appear in the passbook but not in the cash book

Prepare a reconciliation statement and show what balance the bank passbook would indicate on 31st December, 2009.

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