

**I Semester M.B.A. (Day) Examination, January 2010****(2007-08 Scheme)****MANAGEMENT****Paper – 1.2 : Accounting for Managers**

Time : 3 Hours

Max. Marks : 75

**SECTION – A**

1. Answer any six of the following. Each question carries 2 marks. (6×2=12)
- When borrowing is favourable to the equity share holder ?
  - Calculate return on equity with the following information :  
EBIT Rs. 50,000  
6% Debentures 5,00,000  
Tax rate 50%  
Equity share capital 1,00,000 (Face value Rs. 10)  
General reserves 3,00,000.
  - Balance Sheet is a 'Snap Shot'. Why it is so called ?
  - What do you mean by marshalling of Balance Sheet ?
  - What is meant by "Flows" in the context of cash flow statement ?
  - What is 'Zero-Base Budgeting' ? State its utility.
  - What is financial statement analysis ?
  - What do you mean by GAAP ?

**SECTION – B**

Answer any three of the following. Each question carries 8 marks. (8×3=24)

- If the value of the fixed assets falls, is it necessary to provide depreciation ? What are the basic factors for calculation of depreciation ?
- What is the utility of marginal costing as this technique, totally, ignores fixed costs, while calculating costs ?
- Evaluate the significance of cash flow information vis-a-vis Balance Sheet and Income Statement for analysing the financials of a company.
- A company producing 80,000 units of product 'B' working at 80% capacity, receives an order from foreign dealer for 20,000 units at Rs. 100 per unit, although the local sales price is Rs. 180 per unit.



The present cost sheet is given below :

| Element of cost        | Cost per units (in Rs.) |
|------------------------|-------------------------|
| Materials              | 40                      |
| Labour skilled (fixed) | 20                      |
| Unskilled (variable)   | 20                      |
| Variable overheads     | 20                      |
| Fixed overheads        | 40                      |
|                        | <b>140</b>              |

- a) Advise the management whether to accept the foreign order or not.  
 b) What will be your advice, if the same order had come from a local merchant ?

6. From the following Balance Sheet of XYZ Ltd, prepare funds flow statement.

| Particulars                           | 2008             | 2009             |
|---------------------------------------|------------------|------------------|
| <b>Liabilities</b>                    |                  |                  |
| Equity share capital                  | 4,80,000         | 7,20,000         |
| Preference share capital (redeemable) | 2,40,000         | 1,20,000         |
| General reserve                       | 48,000           | 72,000           |
| P & L a/c                             | 43,000           | 64,800           |
| Proposed dividends                    | 67,400           | 93,600           |
| Sundry creditors                      | 70,000           | 1,00,000         |
| Bills payable                         | 14,000           | 27,200           |
| Outstanding salary                    | 19,200           | 14,400           |
| Provision for taxation                | 67,200           | 76,800           |
| <b>Total</b>                          | <b>10,48,800</b> | <b>12,88,800</b> |
| <b>Assets</b>                         |                  |                  |
| Discount on issue of shares           | 1,20,000         | 96,000           |
| Factory                               | 2,40,000         | 1,20,000         |
| Machinery                             | 2,16,000         | 4,58,400         |
| Fixed Deposits with Canara Bank       | 24,000           | 84,000           |
| Sundry debtors                        | 1,80,000         | 2,59,200         |
| Stock                                 | 2,04,000         | 1,87,200         |
| Bank                                  | 30,600           | 50,000           |
| Cash                                  | 10,200           | 17,200           |
| Preliminary Expenses                  | 24,000           | 16,800           |
|                                       | <b>10,48,800</b> | <b>12,88,800</b> |



SECTION - C

Answer any two questions. Each question carries 12 marks. (12×2=24)

- 7. Discuss the requisites of a good budgetary control system. Explain briefly the essential steps in setting up of a budgetary control system, so that its working efficiency is ensured.
- 8. Prepare Trading and Profit and Loss Account for the year ended 31-3-2007 and Balance Sheet of M/s Fy International Company as on that date from the following trail balance.

| Particulars            | Dr. (Rs.) | Cr. (Rs.) |
|------------------------|-----------|-----------|
| Purchase               | 70,000    | -         |
| Goods returned         | -         | 5,000     |
| Carriage inwards       | 1,500     | -         |
| Salaries and wages     | 14,000    | -         |
| Rent, rate and taxes   | 2,800     | -         |
| Insurance              | 500       | -         |
| Discount               | 800       | -         |
| Bank                   | 13,700    | -         |
| Plant and Machinery    | 12,000    | -         |
| Investments            | 8,000     | -         |
| Furniture and Fittings | 5,000     | -         |
| Bills Receivables      | 45,500    | -         |
| Cash in hand           | 1,000     | -         |
| Sundry expenses        | 500       | -         |
| Opening stock          | 31,500    | -         |
| Sales                  | -         | 1,10,000  |
| Bill payable           | -         | 15,800    |
| Capital a/c            | -         | 76,000    |
|                        | 2,06,800  | 2,06,800  |

Adjustments :

- a) Provide outstanding salary Rs. 2,500/-
- b) Make provision for bad debts in bills receivables by Rs. 1,500-



- c) Closing stock Rs. 65,000/-
- d) Stock lost by fire were Rs. 7,000/- However the insurance company settled the claim for Rs. 5,000/- and is still receivable.
- e) Manager is entitled the commission at 10% on net profit.

9. The following particulars have been taken from the books of BT Ltd.

| Particulars | 2006               | 2007                 |
|-------------|--------------------|----------------------|
| Sales       | 20,00,000          | 25,00,000            |
| Profit/loss | 1,00,000<br>(loss) | 1,00,000<br>(profit) |

Calculate :

- a) P.V. Ratio.
- b) Break even - sales
- c) Sales required to earn a profit of Rs. 50,000.

#### SECTION - D

#### Compulsory

#### Case Study

(1×15=15)

The capital employed in a business has been financed, as below

|                             |          |
|-----------------------------|----------|
| Equity share capital        | 6,00,000 |
| 7% preference share capital | 4,00,000 |
| 6% Debentures               | 8,00,000 |
| Reserves & surplus          | 2,00,000 |

The company earns a profit of Rs. 4,00,000 before interest. Tax rate may be taken 50%. You are required to

- a) Explain the principle of "Trading on equity" and test the data for the principle.
- b) Elaborate the impact of changes in EBIT, both increase and decrease, on return on capital employed (ROCE) and return on equity (ROE) with suitable example, making the required valid assumption.