VPM's
Programme: PGP (2014-15)
Second Semester Examination July 2015 (Finance)

	Management Accounting		
Roll No.		**Marks**	**60 Marks**
Total No. of Questions	**7**	**Duration**	**3 Hours**
Total No. of printed pages		**Date**	**11-07-2015**

Note: Q1 is compulsory and solve any FOUR from the remaining SIX questions.

Q1) 20 Marks (Compulsory)

Following is the Balance of XYZ Ltd and some key financial figures. (Amount is Rs.)

Particulars	**2014**	**2013**	**2012**
Assets			
Land and Buildings	10,000	10,000	10,000
Plant and Machinery	20,000	15,000	12,000
Stock	70,000	50,000	50,000
Debtors	60,000	50,000	30,000
Other current assets	10,000	12,000	15,000
Total	**1,70,000**	**1,37,000**	**1,17,000**
Liabilities			
Paid up capital (Rs.10 per share, Rs.8 paid up)	50,000	50,000	50,000
Reserve and Surplus	17,000	14,000	10,000
Long Term Loan	14,000	17,000	21,000
Cash credit / Bank Overdraft	39,000	26,000	11,000
Sundry Creditors	50,000	30,000	25,000
Total	**1,70,000**	**1,37,000**	**1,17,000**
Sales	2,00,000	1,50,000	1,00,000
Gross profit	35,000	30,000	25,000
Net Profit	8,000	7,000	5,000
Dividend paid	4,000	4,000	4,000

The opening stock at the beginning of year 2012 was Rs.30,000/-. Company has cash sales of 15% every year. Company's purchases are on credit and are 90% of sales every year.

Analyze the performance of the company for the three years with the help of ratio analysis (Profitability ratios, Balance sheet ratios and composite ratios) and comment on the same.

Attempt Any FOUR from the Remaining SIX Questions

Q2) ***Any two from (a) or (b) or (c) ————— (5x2) = 10 Marks***

a) Prepare a flexible budget on the basis of following information for 70% and 90% capacity:

Particulars	**Capacity level**		
	70%	**80%**	**90%**
1) VARIABLE OVERHEADS			
Indirect labour	--	12,000	--
Stores	--	4,000	--
2) SEMI VARIABLE OVERHEADS			
Power (30% fixed)	--	30,000	--
Repairs (60% fixed)	--	4,000	--
3) FIXED OVERHEADS			
Depreciation	--	11,000	--
Insurance	--	4,000	--
Salary	--	10,000	--

b) Explain Economic Order Quantity (EOQ)

c) The annual demand for an item is 3,200 units. The unit cost is Rs.6 and inventory carrying charges are 25% p.a.. If the cost of one procurement is Rs.150, determine: a) EOQ, b) Number of orders per year and c) Time between two consecutive orders.

Q3) ***Any two from (a) or (b) or (c) ————— (5x2) = 10 Marks***

a) Explain steps in determining working capital

b) Explain types of budgets

c) Explain Zero based budgeting

Q4) ***Any two from (a) or (b) or (c) ————— (5x2) = 10 Marks***

a) Calculate the operating cycle of a company which gives the following details:

Particulars	**Rs.**
Raw material consumption p.a.	8,42,000
Annual cost of Production	14,25,000
Annual cost of sales	15,30,000
Annual sales	19,50,000
Average value of current assets held:	
Raw material	1,24,000
W I P	72,000
Finished goods	1,22,000
Debtors	2,60,000

The company gets 30 days credit from its suppliers. All sales are made by the firm are on credit only. Year is of 365 days.

b) Explain how Current ratio and Debt equity ratio are calculated and its importance in ratio analysis.

c) Explain Discounted Cash flow (DCF) technique.

Q5) ***Any two from (a) or (b) or (c) ————— (5x2) = 10 Marks***

a) Differentiate between Financial accounting, Cost accounting and Management accounting.

b) Explain Capital Investment decision process.

c) Explain merits and Demerits of NPV method.

Q6) ***Any two from (a) or (b) or (c) ————— (5x2) = 10 Marks***

a) A firm can invest Rs.10,000/- in a project with a life of three years. The projected cash inflow are as follows: Year 1 Rs.4,000/-, Year 2 Rs.5,000/-, Year 3 Rs.4,000/-. Cost of capital is 10% p.a. Should the investment be made? (Discount factors @ 10% are Year 1- 0.909, Year 2 – 0.826, Year 3 – 0.751).

b) Explain Pay back period method.

c) The project involves a total initial expense of Rs.2 lacs and it is estimated to generate future cash inflows for next 10 years as: Y 1 – 30,000, Y 2 – 38,000, Y 3 – 25,000, Y 4 – 22,000, Y 5 – 36,000, Y 6 – 40,000, Y 7 – 40,000, Y 8 – 28,000, Y 9 – 24,000 and Y 10 – 24,000. Calculate the payback period.

Q7) ***Any two from (a) or (b) or (c) ————— (5x2) = 10 Marks***

a) What is IRR?

b) A company has to select one of the following two projects:

	Project A	Project B
Cost	11,000	10,000
Discount rate	10%	15%
Cash inflows		
Year 1	6,000	1,000
Year 2	2,000	1,000
Year 3	1,000	2,000
Year 4	5,000	10,000

Discounting factor @10%	Discounting factor @12%	Discounting factor @15%
0.909	0.893	0.870
0.826	0.797	0.756
0.751	0.712	0.658
0.683	0636	0.572

Calculate NPV and IRR for both he projects and advice selection.

c) A company currently working at 50% of its capacity. It sells 20,000 units now. Price p.u. is Rs.100. The cost p.u. is Rs.90. Breakupp of the cost is as follows: Material cost Rs.40, Manufacturing cost (30% fixed) Rs.30, Selling cost (40% fixed) Rs.10 and Administrative cost (50% fixed) Rs.10.

When company works at 80% of its capacity, selling price would fall by 5% and material cost would go up by 5%. At full capacity (i.e. 100%), the selling price would fall by 8% and material cost would go up by 8%.

Calculate Profit at each level. Should company work at its full capacity?