S-Y-BMS - SEM III - Medical - Jan'20

A.M.D.

18-1-20



**TIME: 2 ½ hours** **Accounting for Managerial Decisions** **MARKS: 75**

**Note: All questions are compulsory, subject to internal choice.**
**Figures to the right indicate full marks.**
**Use of simple calculator allowed.**

**Q1 (A) State whether the following are true or false: (Any 8)** *(8)*

1. A financial statement for one company that shows two or more years in a side-by-side format is called a comparative financial statement.
2. Trend income statements recast each statement item as a percent of sales.
3. The liquidity ratios measure how quickly a firm can dispose of inventory.
4. The higher the current ratio, the more likely a firm is able to pay its short-term obligations.
5. The inventory turnover ratio is an indication of how often inventory is purchased.
6. The statement of cash flows reflects cash flows during a period of time.
7. Cash equivalents include investments that cannot be readily converted into cash.
8. An increase in current assets increases net working capital, thereby increasing liquidity.
9. Net working capital can never be negative.
10. Receivables management deals only with the collection of cash from the debtors.

**(B) Match the Columns: (Any 7)** *(7)*

| Column A | Column B |
|---|---|
| 1. Loss on sale of fixed assets | a. Revenue statement ratio |
| 2. Capital gearing ratio | b. Current Liabilities – Quick Liabilities |
| 3. Standard Current ratio | c. Composite ratio |
| 4. Net profit ratio | d. Non- operating expenditure |
| 5. Bank overdraft | e. Non-operating income |
| 6. Standard Liquid ratio | f. Balance Sheet ratio |
| 7. Return on capital employed | g. 2:1 |
| | h. 1:1 |
| | i. 1.33 |

**Q2. A** The following items appear in the financial statements of Ritu Ltd as on 31st March, 2017. *(15)*

| Particulars | Amt (Rs) | Particulars | Amt (Rs) |
|---|---|---|---|
| Cash | 48,600 | Debentures | 2,80,000 |
| Land & building | 8,00,000 | Bank loan | 52,000 |
| Debtors | 62,000 | Equity share capital | 10,00,000 |
| Stock | 2,92,800 | Profit & Loss a/c | 2,17,000 |
| Creditors | 4,05,750 | o/s expenses | 86,250 |
| Share premium | 1,00,000 | Trade investments | 30,000 |
| Bills receivable | 5,23,000 | Advance tax | 1,00,000 |
| Prepaid expenses | 32,600 | Provision for taxation | 2,64,000 |
| Plant & Machinery at cost less depn | 5,44,000 | Bills payable | 28,000 |

You are required to arrange the above items in the form of Vertical Balance Sheet and determine:
(1) Current assets (2) Fixed assets (3) Current liabilities (4) Working Capital (vi) Proprietors Funds (vii) Total Capital employed (viii) Quick assets (ix) Quick liabilities.

**OR**

**Q2.B.** Prepare Common-size Income statement. *(15)*

| Particulars | Year 1 | Year 2 | Particulars | Year 1 | Year 2 |
|---|---|---|---|---|---|
| To cost of goods sold | 5,46,750 | 4,91,400 | By gross sales | 9,91,640 | 8,26,200 |
| **To operating expenses** | | | Less: returns | 18,900 | 16,200 |
| Administrative | 92,000 | 81,000 | By Net Sales | 9,72,740 | 8,10,000 |
| Selling & Distribution | 1,78,000 | 1,62,300 | By income from investment | 10,730 | 8,400 |
| To non-operating exp | 16,320 | 10,800 | | | |
| To tax provision | 59,400 | 36,450 | | | |
| To proposed dividend | 9,000 | 7,000 | | | |
| To retained earnings | 82,000 | 29,450 | | | |
| | **9,83,470** | **8,18,400** | | **9,83,470** | **8,18,400** |

**Q3.A.** Comment on the position of Deepa Ltd from the following: *(15)*
Profit & Loss account and Balance Sheet after calculating following ratios: (1) Current ratio (2) Proprietory ratio (3) Debt-Equity ratio (4) Stock working capital ratio (5) Liquid ratio (6) Administrative to sales ratio

**Trading Profit and Loss A/c**

| Particulars | Rs | Particulars | Rs |
|---|---|---|---|
| To opening stock | 40,000 | By Sales | 2,00,000 |
| To Purchase | 72,000 | By Closing Stock | 44,000 |
| To wages | 36,000 | | |
| To factory expenses | 28,000 | | |
| To administrative exp | 6,000 | | |
| To selling exp | 10,000 | | |
| To managerial remuneration | 2,000 | | |
| To income tax | 24,000 | | |
| To proposed dividend | 10,000 | | |
| To balance c/d | 16,000 | | |
| | **2,44,000** | | **2,44,000** |

**Balance Sheet**

| Liabilities | Rs | Assets | Rs |
|---|---|---|---|
| Share capital | 50,000 | Fixed Assets | 90,000 |
| Reserves | 34,000 | Current assets | 1,00,000 |
| Secured loans | 24,000 | | |
| Current liabilities | 30,000 | | |
| Provisions | 52,000 | | |
| | **1,90,000** | | **1,90,000** |

**OR**

**Q3.B.** Following are the figures extracted from the books of Meenu Ltd. *(15)*

| Particulars | Rs |
|---|---|
| Furniture | 5,00,000 |
| Office premises | 5,00,000 |
| Equity capital | 5,00,000 |
| Preference capital | 2,00,000 |
| Stock | 2,40,000 |
| Debtors | 2,00,000 |
| Cash and Bank | 55,000 |
| Other current assets | 5,000 |
| Profit & Loss a/c | 2,00,000 |
| General reserve | 1,00,000 |
| Sundry creditors | 80,000 |
| Bills payable | 60,000 |
| Other current liabilities | 60,000 |
| Debenture | 3,00,000 |

You are required to Rearrange above figures in the vertical form and calculate (a) Debt-Equity ratio (b) Proprietory ratio (c) Capital Gearing ratio (d) Current Assets (e) Quick ratio

**Q4.A.** From the following summary financial statements prepare cash flow statement of EPABX Ltd for the year ended 31st March, 2017. *(15)*

**Balance Sheet as on**

| Liabilities | 2016 | 2017 | Assets | 2016 | 2017 |
|---|---|---|---|---|---|
| Equity capital | 1,35,000 | 1,35,000 | Goodwill | 13,950 | 4,950 |
| Reserves | 54,000 | 70,200 | Land & Building | 32,400 | 45,000 |
| Loans | 45,000 | 27,000 | Plant & Machinery | 1,13,400 | 85,050 |
| Fixed deposits | 67,950 | 62,010 | Furniture | - | 40,500 |
| Creditors | 71,640 | 43,920 | Investments | 40,500 | 49,500 |
| Provision for taxation | 10,800 | 12,600 | Debtors | 94,500 | 1,14,120 |
| | | | Bank balance | 89,640 | 11,610 |
| | **3,84,390** | **3,50,730** | | **3,84,390** | **3,50,730** |

**Other Information:**

a. Depreciation is provided @ 10% on Furniture.
b. Depreciation on Land & Building is Rs 5,000.
c. Investment costing Rs 8,000 were sold for Rs 10,000 during the year.
d. Tax of Rs 13,000 was paid for the year ended 31st March, 2017

**OR**

**Q4.B.** You are required to prepare a statement showing the estimate of working capital required to finance the level of activity of 1,04,000 units for the year (52weeks) from the following information, obtained from the books of R.M. Ltd. *(8)*

| Product Cost Sheet | Rs(per unit) |
|---|---|
| Raw material | 5 |
| Direct labour | 2 |
| Overheads | 1 |
| Total | **8** |
| Profit | 2 |
| Selling price | **10** |

1. Raw material are in stock on an average for 4 weeks
2. Materials remain in process on average for 4 weeks
3. Finished goods are in stock on average for 4 weeks
4. Credit allowed to creditors is 4 weeks
5. Credit allowed to debtors is 6 weeks
6. Lag in payment of wages is 4 weeks
7. Lag in payment of overheads is 2 weeks
8. Cash on hand and a bank is expected to be Rs 40,000
9. Debtors are calculated on sales basis.
10. Purchases against cash 20%
11. All the activities are spread evenly throughout the year.
12. During processing, labour and overhead accrue evenly.

**Q4.C.** A new customer with 10% risk of non-payment desires to establish business connections with you. He would require 1.5 month of credit and is likely to increase your sales by Rs 1,20,000 p.a. Cost of sales amounted to 85% of sales. The tax rate is 30%. Should you accept the offer if the required rate of return is 40% (after tax)? *(7)*

**Q5. A)** What are Financial Statements? State the users of Financial Statements. *(8)*

**B)** Advantages and Disadvantages of Ratio Analysis. *(7)*

**OR**

**Q5. Short Notes on: (Any 3)** *(15)*

1. Objectives of Financial statements
2. Common Size statements
3. Factors affecting working capital
4. Cash flow from Financing activities
5. 5 C's of credit standards .