Madras University

M.C.A Financial Accounting and Analysis Question paper

Time: Three hours **Maximum: 75 marks**

PART A - [5 x 5 = Marks 25]

1. (a) How are Accounts classified? What is the basis for such classificatio n?

Or

(b) Distinguish between Trading and Manufacturing Account.

2. (a) Why is provision for Depreciation a Liability?

Or

(b) What are intangible Assets? Give two examples.

3. (a) What is debt equity ratio? How do you compute it? What is its purpose?

Or

(b) How do you assess the Liquidity of a firm?

4. (a) What are Mixed costs? Give two examples.

Or

(b) What is contribution analysis? What is its importance?

5. (a) How are budgets prepared?

Or

(b) What is weighted average cost of capital? What is its significance?

PART B - [5 x 10 = Marks 50]

6. From the following Trial Balance of M/s. Bharat Equipment Ltd. as on December 31, 1971, prepare the Profit and Loss Account, the Profit & Loss Appropriation Account and

the Balance Sheet.

TRIAL BALANCE
Rs. Rs.
Capital :
10,000 equity shares 10,00,000
2,000 6% preference shares 2,00,000
Land & buildings (1.1.1971) 4,50,000
Machinery (1.1.1971) 15,00,000
Additions to Machinery 3,00,000
General Reserve 2,50,000
Furniture (1.1.1971) 30,000
7% debentures 2,00,000
Profit & Loss A/c (1.1.1971) 2,500
Profit for the year before
charging depreciation 4,35,000
Expenses of debenture issue 7,000
Stock - raw materials 35,000
Stock - finished goods 1,40,000
Provision for taxes (1.1.1971) 70,000
Sundry creditors 83,000
Sundry debtors 1,80,000
Taxes paid 50,000
Depreciation Reserve (1.1.1971) :
Building 30,000
Machinery 4,50,000
Furniture 2,000
Interest on debentures accrued and due 7,000
Government securities 1,20,000
Bank loan 2,10,000
Bills receivable 28,000
Loose tools 3,500
Prepaid expenses 2,000
Investments 55,500
Cash in hand 1,500
Advance taxes paid 32,000
Cash at Bank 50,000
Bills payable 45,000
29,84,500 29,84,500
(a) Authorised share capital of the Company consits of 12,000 equity share of Rs. 100 each; and 2,000, 6% preferences shares of Rs. 100 each.

(b) After providing depreciation Rs. 5,000 on buildings, Rs. 1,20,000 on machinery and Rs. 1,500 on furniture, the Board of Directors recommended the following appropriations :

(i) Rs. 2,500 to write off debenture issue expenses.
(ii) Rs. 60,000 provision for taxation.
(iii) Rs. 25,000 to General Reserve.
(iv) Rs. 1,00,000 to Development Rebate Reserve; and payment of 10% per annum dividend on equity shares.

(c) Stock of raw materials was valued at cost.

7. A firm purchased on 1st January, 1994 certain machinery for Rs. 58,200 and spent Rs. 1,800 on its erection. On 1st July, 1994 additional machinery co sting Rs. 20,000 was purchased. On 1st July, 1996 the machinery purchased on 1st January, 1994 having become obsolete was auctioned for Rs. 28,600 and on the same date fresh machinery was purchased at a cost of Rs. 40,000. Depreciation was provided for annual on 31st December at the rate of 10 percent on written down value. In 1997, however the firm changed this method of providing depreciation and adopted the method of providing 5 percent per annum depreciation on the original cost of the machinery. Give the Machinery Account as it would stand at the end of each year from 1994 to 1997.

8. From the following information, prepare a summarised Balance Sheet as at 31st March, 1990 :
(a) Working Capital Rs. 1,20,000
(b) Reserve and Surplus Rs. 80,000
(c) Bank overdraft Rs. 20,000
(d) Fixed Asset-Proprietory Ratio Rs. 0.75
(e) Current Ratio Rs. 2.5
(f) Liquidity Ration Rs. 1.5
Your workings should form part of the answer.

9. The summarised balance sheets of Omega Ltd. as on 31st March 1992, 1993 a nd 1994 are given below :
(Rs. in lakhs)
As on 31st March
Liabilities : 1992 1993 1994
Paid-up equity capital 194 194 194
Long-term borrowing :
- from banks 68 97 124
- from others 281 343 379
Current Liabilities 52 54 99
595 688 796
Assets :
Gross block 355 356 361
Less : Depreciation 69 95 122
Net Block 286 261 239
Current Assets 143 199 234
Profit and Loss Accounts 166 228 323
595 688 796

Prepare a statement of net sources and uses of funds for the year ended on 3 1st March, 1993 and 1994 and give your comments on the same.

10. Three companies A, B and C are in the same type of business and hence ha ve similar operating risks. However, the capital structure of each of them i s different and the following are the details : A B C
Equity share Capital (Face value Rs. 10 per share) Rs. 4,00,000 2,50,000 5,00,000
Market value per share Rs 15 20 12
Dividend per share Rs. 2,70 4 2.88
Debenture (Face value per debenture Rs. 100) Rs. NIL 1,00,000 2,50,000
Market value per debenture Rs. - 125 126 80
Interest rate - 10% 8%
Assume that the current levels of dividends are generally expected to continue indefinitely and the income tax rate at 50%. You are required to compute the weighted average cost of capital of each company.

11. ZED Ltd. manufactures two product P and Q and sells them at Rs. 215 and Rs. 320 per unit respectively. The variable costs per units are as under :

Product P Product Q
Rs. Rs.
Raw Materials :
Material-X 22.00 28.00
Material-Y 8.00 32.00
Direct wages (Rs. 6 per labour hour):
Department-A 36.00 54.00
Department-B 18.00 36.00
Department-C 54.00 -
Department-D - 72.00
Variable overheads 23.00 14.30

The company procures raw materials against import license. The company operates at single shift a day of 8 hours for 300 days in a year. The number of workmen engaged are 30, 16, 18 and 24 in departments A, B, C and D respectively. Neither the workers are subject to transfer from one department to another nor any new recruitment is possible at present. Fixed costs are Rs. 12,000 per month. You are required to find out the following:
(a) The product-mix to yield maximum profit.
(b) The most profitable product if only one product is to be manufactured. Whether the answer will differ if licence to import raw materials is released only for Rs. 1,80,000.

12. Determine the working capital requirements from the following particulars :
Annual budget figures for : Rs. Lakhs
Raw materials 360
Supplies and components 120

Manpower 240
Factory expenses 60
Administration 90
Sales 1,190

You are given the following additional information
(a) Stock-levels planned :
Raw materials - 30 days
Supplies and components - 90 days
(b) 50% of the sales is for cash; for the remaining, 20 days credit is norma l.
(c) finished goods are held in stock for a period of seven days before they are released for sale.
(d) Goods remain in process for 5 days.
(e) The company enjoys 30 day's credit facilities on 20% of the purchases.
(f) Cash/Bank balance had been planned to be kept at the rate of half-month' s budgeted expenses.

13. A company is considering the replacement of its existing machine which i s obsolete and unable to meet the rapidly rising demand for its product, The company is faced with two alternatives : to buy Machine A which is similar to the existing machine or so go in for Machine B which is more expensive and has much greater capacity. The cash flows at the present level of operations under the two alternatives are as follows :
Machine Immediate Cash inflows (in lakhs of Rs.)
Cash outflow at the end of
(in lakhs of Rs.) I II III IV V
Year Year Year Year Year
Machine A 25 - 5 20 14 14
Machine B 25 10 14 16 17 15
The Company's cost of capital is 10%

The Finance Manager tries to appraise the machines by calculating the following:
(a) Net present value
(b) Profitability index
(c) Payback period and
(d) Discounted payback period
At the end of his calculations, however the Finance Manager is unable to make up his mind as to which machine to recommend. You are required to make these calculations and in the light thereof to advise the Finance Manager about the proposed investment :

Note : Present values of Rs. 1 at 10% discount rate are as follows :
Year 0 1 2 3 4 5
P.V. 1.00 .91 .83 .75 .68 .62