

SYBMS/SEM III/REG/ACCOUNTING FOR MANAGERIAL DECISION

Time: 2½ hrs.

Marks:75

- Note:**
1. All questions are compulsory with internal options.
 2. The figures to the right indicate full marks.
 3. Draw a neat diagram wherever necessary.

- Q. 1 (A) Fill in the blanks with the correct answer from the alternatives given below. (Attempt any 8) (08)**
- (1) Permanent working capital is also known as _____.
(a) Gross working capital (b) Net working capital
(c) Core working capital (d) Fixed capital
 - (2) Short term deposits will be shown in the cash flow statement as _____.
(a) Operating cash flow (b) Investing cash flow
(c) Financing cash flow (d) Cash or cash equivalent
 - (3) Which of the following is classified as liquidity ratio?
(a) Return on equity (b) Return on investment
(c) Acid test ratio (d) Debt equity ratio
 - (4) Tracking items over a series of years is a practice called _____.
(a) Profitability analysis (b) Ratio analysis
(c) Trend analysis (d) Financial statement analysis
 - (5) Receivables management deals with _____.
(a) Receipts of raw materials (b) Debtors collection
(c) Creditors management (d) Inventory management
 - (6) A high proprietary ratio indicates _____.
(a) High risk (b) Low risk
(c) Low risk to creditors (d) Low risk to shareholders
 - (7) Advances received are shown in the vertical financial statements as _____.
(a) Part of investments (b) Part of loans and advances
(c) Part of current liabilities (d) Part of current assets
 - (8) When a company analyses credit applicants and increases the quality of the accounts rejected, the company is attempting to _____.
(a) Maximise sales (b) Increase bad debt losses
(c) Increase the average collection period (d) Maximise profits
 - (9) Refund of income tax received will be shown in the cash flow statement as _____.
(a) Operating cash flow (b) Investing cash flow
(c) Financing cash flow (d) Cash or cash equivalent
 - (10) Which of the following is not a factor that affects the composition of the working capital?
(a) Nature of business (b) Nature of raw material used
(c) Tax structure of the company (d) Process technology used

- (B) State whether the following statements are True or False. (Attempt any 7) (07)**
- (1) Receivables management deals only with the collection of cash from the debtors.
 - (2) The operating activities section of the statement of cash flows is the most important section.
 - (3) Net working capital can never be negative.
 - (4) A ratio expresses a mathematical relation between two quantities.
 - (5) The statement of cash flows reflects cash flows during a period of time.
 - (6) Liberalizing the discount rate means increasing the discount rate for the same period.
 - (7) Common size statements are used for both horizontal and vertical analysis.

- (8) Net operating cycle is the sum of inventory cycle and debtors credit cycle.
 (9) Owed funds is an internal source of finance.
 (10) Extraordinary gains and losses are usually included in ratio analysis.

Q.2 (a) From the following information prepare vertical balance sheet and trend analysis of Mahad products Ltd. for all the years (15)

Particulars	31 st March 2015	31 st March 2016	31 st March 2017
Share capital	50,000	60,000	70,000
Reserve and surplus	10,000	15,000	20,000
Secured loans	10,000	10,000	10,000
Current liabilities	10,000	15,000	20,000
Fixed assets	40,000	44,000	50,000
Investments	10,000	16,000	20,000
Stock and debtors	25,000	30,000	35,000
Bank balance	5,000	10,000	15,000

OR

Q.2 (p) Following are the balance sheets as on 31st December, 2016 and 2017 of M/s. Gautami Ltd. Prepare comparative balance sheet. (15)

Liabilities	2016 Rs.	2017 Rs.	Assets	2016 Rs.	2017 Rs.
Equity share capital	1,00,000	1,50,000	Land and building	80,000	75,000
General reserve	60,000	10,000	Plant & machinery	42,000	85,000
Profit and loss A/c	5,000	30,000	Furniture	7,000	6,000
Bank loan	-	40,000	Investments	6,000	12,000
Bank overdraft	-	65,000	Stock	27,500	94,500
Provision for tax	10,000	15,000	Debtors	46,500	77,250
Creditors	30,000	20,000	Cash	2,000	7,250
Bills payable	10,000	30,000	Preliminary expenses	4,000	3,000
Total	2,15,000	3,60,000	Total	2,15,000	3,60,000

Q.3 (a) Calculate the following ratios from the given financial statements: (15)

1. Current ratio
2. Quick ratio
3. Gross profit ratio
4. Net profit ratio
5. Stock turnover ratio
6. Propreitory ratio

Profit and loss A/c for the year ended 31st March, 2017

Particulars	Rs.	Particulars	Rs.
To opening stock	75,000	By sales	5,00,000
To purchases	1,50,000	By closing stock	1,25,000
To wages	1,50,000	By profit on sale of asset	25,000
To administrative expenses	25,000		
To selling expenses	25,000		
To finance expenses	5,000		
To loss on sale of assets	27,500		
To net profit	1,92,500		
	6,50,000		6,50,000

Balance sheet as on 31st March, 2017

Liabilities	Rs.	Assets	Rs.
Share capital	1,00,000	Fixed assets	1,25,000
Reserves	50,000	Debtors	50,000
Debentures	1,00,000	Bank balance	25,000
Creditors	25,000	Stock	1,25,000
Bills payable	50,000		
Total	3,25,000	Total	3,25,000

OR

Q.3 (p) Classify the following items into cash flow from operating, investing or financing activity. (15)

1. Purchase of building
2. Cash sales of scrap
3. Income tax paid
4. Underwriting commission paid
5. Selling and distribution expenses paid
6. Wages and salaries paid
7. Sale of trade mark
8. Cash purchases
9. Purchase of patents
10. Redemption of preference shares
11. Rent paid
12. Office and administration expenses paid
13. Interest paid on bank loan
14. Manufacturing overheads paid
15. Rent received on property held as investment

Q.4 (a) From the following figures, prepare an estimate of the working capital (15)

Production	30,000 units
Selling price per unit	Rs. 10
Raw material	60% of selling price
Direct wages	1/6 th of raw material
Overheads	Twice the direct wages
Material in hand	2 months requirement
Processing time	1 month requirement
Finished goods in stores	3 months requirement
Credit by the creditors	2 months
Credit to the debtors	3 months
Cash balance	Rs. 40,000

Wages and overheads are paid after one month.

OR

Q.4 (p) The MP company is planning to relax its credit policy to motivate customers to buy on new credit terms. It is expected that the variable cost will remain 75% of sales. The incremental sales are expected to be sold on credit. For the perceived increase in risk in liberalising the credit terms, the company requires higher return. If the following is the projected information, which credit policy should the company pursue? (Assume 360 days in a year) (15)

Credit policy	Required return	Collection period	New sales (Rs.)
A	20%	40	3,00,000
B	25%	45	4,00,000
C	32%	55	5,00,000

Q.5 (a) Explain working capital cycle for a manufacturing concern. (08)

(b) Explain components of financial statements. (07)