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Code No: 821AE

JAWAHARLAL NEHRU TECHNOLOGICAL UNIVERSITY HYDERABAD
MCA I Semester Examinations, October/ November - 2020
ACCOUNTING AND FINANCIAL MANAGEMENT

Time: 2 Hours **Max.Marks:75**

Answer any five questions
All questions carry equal marks
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1. Discuss the salient features and benefits of accrual accounting system over cash based accounting System. [15]

2. Morningstar Ltd. is currently selling 20,000 units at a selling price of Rs.200. Its variable cost per unit is 120. Annual Fixed Costs are Rs.7, 50,000.
   a) Determine the operating profit at its current level of sales
   b) Show the impact of a 10% increase in quantity of sales on its operating profit
   c) Show the impact of a 10% decrease in variable cost on its operating profit
   d) If the firm wants to achieve the breakeven point at 7,500 units, what should be the new selling price? [15]

3. Dolphin Ltd. has reported a total assets Rs.65, 00,000. The cost of debt before taxes is 8%. The risk-free rate is 8% and the beta of the firm is 1.5. The return from the market index for 2017 is 16%. The tax rate for the firm is 30%. Determine the weighted average cost of capital of Dolphin Ltd. under the following capital structures:
   a) 30% equity and 70% Debt b) 50% equity and 50% debt c) 60% equity and 40% debt. [15]

4. The following information is available for the two companies, Homecare Ltd. and Interior Decors Ltd. for the Financial Year 2016, the first year of their operation.

	(Rs. thousands)	
	Homecare	**Interior**
Cash	13,606	7,669
Debtors	23,045	19,951
Inventory	31,087	31,345
Other Current Assets	12,522	11,909
Current Liabilities	75,230	80,280
Revenue	115,225	79,804
Cost of Goods Sold	69,135	51,873
Operating Expenses	17,284	11,971
Interest on Borrowings	450	325
Tax rate	30%	30%
Preference Dividend	250	300
No. of Equity Shares of outstanding (in thousands)	2000	2500

Determine the following ratios for the two companies and give your observations:
a) Gross Profit b) Net Profit
c) Earnings per share d) Times interest earned e) Working Capital. [15]

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5. The following transactions were reported for Zandu Corporation Ltd. for the Financial Year 2016. The Cash balance at the beginning of the year was 10,500.
1) Borrowed cash from the bank: 30,000
2) Issued shares for cash: 40,000
3) Invested cash in the debentures of Beta Company: 25,000
4) Performed services and collected cash: 19,500
5) Paid cash for operating expense: 14,300
6) Purchased equipment for cash: 14,800
7) Paid dividends to shareholders: 850
8) Repaid the bank loan: 5,500
9) Paid interest on Bank Loan: 3000
10) Received interest on debentures: 2500
Required:
Classify the transactions into *operating, investing and financing* activities and determine the cash balance at the end of the year. [15]

6. TS Industrials has provided the following information.
Current level of sales: 10,000 units
Selling Price per unit: Rs.150;
Variable Cost per unit: Rs.90;
Annual Fixed Costs: Rs.6, 00,000
Required: Prepare a flexible budget showing the operating profit at the following levels of sales
a) 5000 units b) 7500 units c) 12,500 units d) 15,000 units [15]

7. Explain the following concepts with suitable examples:
a) Master Budget
b) Profit-Volume Ratio
c) Make or Buy Decision
d) Margin of Safety
e) Relevant Range. [15]

8. Harrison Engineers Ltd. is considering two mutually exclusive projects, A and B, which require an initial outlay of Rs.50 million each. The cash flow estimates are given below:

Year	Project A	Project B
1	11	38
2	19	22
3	32	18
4	37	10

a) Which project can be selected on the basis of payback period?
b) Which project can be selected on the basis of NPV, if the discount rate is 12%?
c) Which project can be selected on the basis of NPV, if the discount rate is 10%? [15]

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