# JAWAHARLAL NEHRU TECHNOLOGICAL UNIVERSITY HYDERABAD 

## MCA I Semester Examinations, August - 2017

ACCOUNTING AND FINANCIAL MANAGEMENT
Time: 3hrs
Note: This question paper contains two parts A and B. Part A is compulsory which carries 20 marks. Answer all questions in Part A. Part B consists of 5 Units. Answer any one full question from each unit. Each question carries 8 marks and may have $\mathrm{a}, \mathrm{b}, \mathrm{c}$ as sub questions.

## PART - A

$5 \times 4$ Marks $=20$
1.a) Explain the following accounting concepts:
i) the conservatism concept ii) the materiality concept.
b) What are the various sources of working capital finance?
c) Explain how investors and creditors would make use of Cash Flow Statement.
d) What is Sales budget? What is its importance to budgeting process?
e) What are the advantages and limitations of Payback period method?

PART - B
$5 \times 8$ Marks $=40$
2. $\mathrm{M} / \mathrm{s}$ Anurag and Co. manages the publishing business. He has come to you for help in preparing an income statement and a balance sheet for the year ended Dec.31, 2016. Several items determined as of Dec.31, 2016 are presented below. No dividends were paid this year.

| Equity capital | 40,000 |  | All figures in Rs.'000 |  |
| :--- | :---: | :--- | ---: | :---: |
| Reserves \& surplus <br> $(31 / 12 / 2015)$ | 12,400 |  | Accounts payable |  |
| Advertising <br> Expenses | 2000 |  | Land |  |
| Cash | 17,000 | Supplies | 24,000 |  |
| Rent expenses | 2,400 | Salary expenses | 20,000 |  |
| Building (net block) | $1,00,000$ | Revenues | 42,000 |  |
| Interest expenses | 700 | Other expenses | 1,300 |  |
|  |  | Accounts receivable | 3,000 |  |

a) prepare an income statement for the year ended $31^{\text {st }}$ Dec.2016.
b) prepare a balance sheet as on Dec.31,2016.
[4+4]

## OR

3.a) What is 'Double entry system of accounting'? What are its advantages?
b) Prepare a cash book for a trader, enter the following transactions and ascertain the balance as on $7^{\text {th }}$ July 2015.

| 2015 |  | Rs. | 2015 |  | Rs. |
| :--- | :--- | ---: | ---: | :--- | ---: |
| July 01 | Balance in hand | 2,500 | July 04 | Paid Daut Ram by Cheque | 1,000 |
|  | Balance at bank | 35,000 |  | Discount allowed | 100 |
| 02 | Received from "P" cheque 5,000 | 05 | Salaries paid to staff in cash 2,000 |  |  |
|  | Discount allowed to him | 250 |  |  |  |
| 03 | Purchased goods by cash | 1,500 | 06 | Bank withdrawal for office | 5,000 |
|  |  | 07 | Purchase of chair by cheque | 5,000 |  |

[^0]www.FirstRanker.com
4.a) What is the importance of Financial Management to an organization?
b) Gahlon Gearing Ltd. has a Degree of operating leverage 2 at its current production and sales level of 10,000 units. The resulting operating income figure is $\$ 1,000$.
i) If sales are expected to increase by 20 percent from the current 10,000 unit sales position, what would be the resulting operating profit?
ii) At the company's new sales position of 12,000 units, what is the firm's new degree of operating leverage figure?
[3+5]

## OR

5.a) The cost of specific sources of capital for Apollo Paper Mills Ltd., are as follows:

Cost of debt

$$
=10.00 \text { percent }
$$

Cost of preference
$=12.00$ percent
Cost of equity
$=18.00$ percent
The capital structure of the company is as follows:

| Source of finance | Book value (Rs. million) | Market value (Rs. million) |
| :---: | :---: | :---: |
| Equity | 50 | 120 |
| Preference | 10 | 9 |
| Debt | 80 | 70 |

Calculate the weighted average cost of capital for Apollo Paper Mills Ltd., using book value weights and market value weights.
b) What do you understand by time value of money?
6. A condensed balance sheet for Sheepwell Company prepared at the end of the year appears as follows:

| Assets (in Rupees) |  | Liabilities and Shareholders' Equity (Rs.) |  |
| :--- | ---: | :--- | :--- |
| Cash | 55,000 | Loan payable (due <br> in 6 months) | 40,000 |
| Accounts receivable | $1,55,000$ | Accounts payable | $1,10,000$ |
| Inventory | $2,70,000$ | Long term liabilities | $3,30,000$ |
| Prepaid expenses | 60,000 | Equity shares, Rs.5 <br> par | $3,00,000$ |
|  <br> Equipment(net) | $5,70,000$ | Reserves \& Surplus | $4,20,000$ |
| Other assets | 90,000 |  |  |
| Total | $12,00,000$ | total | $12,00,000$ |

During the year the company earned a gross profit of Rs. $11,16,000$ on sales of Rs. 27,90,000. Accounts receivable, inventory and plant assets remained almost constant in amount throughout the year.
Compute the following:
a) Current ratio
b) Quick ratio
c) working capital d) debt ratio
e) accounts receivable turnover ( all sales were on credit) f) inventory turnover.
7.a) What is Quick ratio? Under what circumstances are short-term creditors most likely to regard a company's quick ratio as more meaningful than its current ratio?
b) Explain any four of the profitability ratios for evaluating profitability.
[3+5]
8.a) A company making single product has the following Sales and net profit for the two half of the financial year.

| Period | I half of the financial year | II half of the financial year |
| :--- | :--- | :--- |
| Sales in Rs. | $8,00,000$ | $10,00,000$ |
| Net profit in Rs. | $1,00,000$ | $1,50,000$ |

i) find breakeven point of production and ii) the margin of safety.
b) What are the applications of Break even analysis?

## OR

9. A company has fixed expenses of Rs. 90,000 with sales at Rs. $3,00,000$ and a profit of Rs. 60,000 .
a) Calculate the profit/volume ratio.
b) If in the next period, the company suffered a loss of Rs.30,000 calculate the sales volume.
c) What is the margin of safety for a profit of Rs. 60,000 ?
10. Two investment proposals are brought before a company with an initial investment of Rs. $1,20,00,000$ in both the cases. The annual returns for the two proposals are as shown below:

| Description | Proposal 1 | Proposal 2 |
| :--- | :---: | :--- |
| Return at the end of I year | Rs. $48,00,000$ | Rs. 56,00,000 |
| II year | Rs. $80.00,000$ | Rs. 70,00,000 |
| III year | Rs. $50,00,000$ | Rs. $60,00,000$ |
| IV year | Rs. $50,00,000$ | Rs. $40,00,000$ |

Evaluate the two proposals on NPV basis at $12 \%$ discount and select the best one.
11.a) Explain the concept of 'working capital cycle' and show the break up.
b) How are shares classified? What are their distinct features?


[^0]:    Show cash, bank and discount balances.

