RM – 2017-19

Financial & Management Accounting

RM - 104

Trimester – I, End-Term Examination: September 2017

Time allowed: 2 Hrs 30 Min
Max Marks: 50

Roll No: ____________

Instruction: Students are required to write Roll No on every page of the question paper, writing anything except the Roll No will be treated as **Unfair Means.** All other instructions on the reverse of Admit Card should be followed meticulously.

Sections	No. of Questions to attempt	Marks	Marks
A	3 out of 5 (Short Questions)	5 Marks each	3*5 = 15
B	2 out of 3 (Long Questions)	10 Marks each	2*10 = 20
C	Compulsory Case Study	15 Marks	15
		Total Marks	**50**

SECTION A

Qs 1 (1 marks each)

For each of the following situations, indicate whether you agree or disagree with the financial reporting practice employed and state the basic assumption or accounting principle that is applied (if you agree) or violated (if you disagree).

1. Jim Marley is the sole owner of Marley's Appliances. Jim borrowed $100,000 to buy a new home to be used as his personal residence. This liability was not recorded in the records of Marley's Appliances.
2. Hewlett-Packard Corporation depreciates machinery and equipment over their useful lives.
3. Crosby Company lists land on its balance sheet at $120,000, its original purchase price, even though the land has a current market value of $200,000.

Qs 2

Define 'Internal Audit'. Explain the objectives of internal audit.

Qs 3

Analyze the effect of the following transactions on accounting equation and calculate the net cash arising out of these transactions:

1. Started business with capital 1,00,000
2. Bought goods for cash 20,000
3. Bought goods from Ram on Credit 5,000

Qs 4

Calculate gross profit from the given information:

1.Sales Rs 12,50,000

2. Opening stock of finished goods Rs 2,50,000

3. Cost of goods manufactured Rs 8,30,000

4. Closing stock of finished goods Rs 1,20,000

Qs 5
Calculate cash flow from operating activities from the given information
1.PAT Rs 50 lakh
2.Tax Rs 10 lakh
3.Depreciation & Amortization Rs 5 lakh
4.PAT includes interest income Rs 3 lakh
5.Increase in trade receivables Rs 4 lakh
6.Increase in trade payables Rs 2 lakh

SECTION B

Qs 1
Central Bank has been approached by two customers for a short-term loan of Rs 3000. The following summarized financial information is available from the latest financial statements:

	DL Fashion Ltd (Rs)	BL Fashion Ltd (Rs)
Net sales	72,800	65,000
Gross profit	24,020	19,500
Interest expense	1,200	700
Income tax	6,500	5,000
Profit after tax	7,000	4,500
Inventories	9,000	3,500
Receivables	4,000	2,200
Cash	900	1,200
Current liabilities	16,680	7,200
Non-current liabilities	19,000	11,000
Shareholders' equity	21,000	22,000

The bank intends to accept one of the two loan proposals.

Required
Which customer's loan request should be accepted and why? What additional information may be useful in making a decision? Assume that the year-end account balances are representative of the whole year.

Qs 2
Two firm's ABC Ltd and XYZ Ltd, sell identical products in the same market. Their budgeted profit and loss accounts for the year ending on 31 March 2018 are as follows:

	ABC Ltd	XYZ Ltd
Sales	4,00,000	4,00,000
Less:		
Variable costs	3,20,000	2,80,000
Fixed costs	40,000	80,000
Net profit	40,000	40,000

Required:
a)Calculate the break-even point for each firm
b)State what shall be the likely effect on the profits of the firms in conditions of (i) increasing demand for the product, (ii) falling demand for the product.

Qs 3
From the following you are required to calculate (a) material price variance, (b) material usage variance, and (c) material cost variance.
Quantity of material purchased 3,000 units
Value of material purchased Rs 9,000
Standard quantity of material required for one tonne of finished product 25 units
Standard rate of material Rs 2 per unit
Opening stock of material nil
Closing stock of material 500 units
Finished production during the period 80 tonnes.

SECTION C

Primus is a firm of consultants that focusses on process reengineering and quality improvement initiatives. Northwood Industries has asked Primus to conduct a study aimed at improving on-time delivery. Normal practice for Primus is to bill for consultant time at standard rates plus actual travel costs and estimated overhead. However, Northwood has offered a flat Rs 75,000 for the job. Currently, Primus has excess capacity so it can take on the Northwood job without turning down other business and without hiring additional staff. If normal practices were followed, the bill would be:

Classification	Hours	Rate	Amount
Partner	90	Rs 260	Rs 23,400
Senior consultant	125	Rs 160	20,000
Staff consultant	160	Rs 90	14,400
Travel costs			21,000
Overhead at Rs 30 per non partner hour			8,550
Total			87,350

Overhead (computer costs, rent, utilities, paper, copying, etc.) is determined at the start of the year by dividing estimated annual overhead costs (Rs 24,00,000) by total estimated non partner hours (80,000 hours). Approximately 20 percent of the total amount is variable costs. All primus employees receive a fixed wage (i.e., there is no compensation for overtime). Annual compensation in the previous year amounted to the following:

	Per Hour
Partner	Rs 250
Senior comsultant	Rs 150
Staff consultant	Rs 80

Required
What will be the effect on company profit related to accepting the Northwood Industries job? What qualitative factors should be considered in the decision whether to accept the job or not?