INDIAN MARITIME UNIVERSITY
(A Central University, Government of India)
December 2017 Examinations -I SEMESTER
MBA (PSM)/ITLM

Financial Accounting and Management (PG21T2103/ PG22T2103)

Date: 06.12.2017 **Maximum Marks**: 60
Time: 3 Hrs **Pass Marks**: 30

Part – A Multiple Choice Questions

Answer all the Questions: 12 x1 = 12 marks

1. The accounts that records expenses, gains and losses are

    a. Personal accounts

    b. Real accounts

    c. Nominal accounts

    d. None of the above

2. Retained earnings will change over time because of several factors. Which of the following factors would explain an increase in retained earnings?

    a. Net loss.

    b. Net income.

    c. Dividends.

    d. Investments by stockholders.

3. The comparison of one accounting period with that of the past is possi ble when one of the concepts given is followed

    a Cost

    b Consistency

    c Going concern

    d Matching

4. Bill payable issued during the year is

   a Debited to B/P a/c

   b Debited to creditors a/c

   c Credited to creditors a/c

   d None of the above.

5. Cash paid to creditors can be computed from

   a Bills payable a/c

   b Statement of affairs

   c Total debtors a/c

   d Total creditors a/c

6. Finance Function comprises

   a Safe custody of funds only

   b Expenditure of funds only

   c Procurement of finance only

   d Procurement & effective use of funds

7. Time value of money indicates that

   a A unit of money obtained today is worth more than a unit of money obtained in future

   b A unit of money obtained today is worth less than a unit of money obtained in future

   c There is no difference in the value of money obtained today and tomorrow

   d None of the above

8. If the coupon rate is constant, the value of bond when close to maturity will be

    a. Issued value

    b. Par value

    c. Redemption value

    d. All of the above

9. Which of the following statements is true?

    a. Investments that yield a positive internal rate of return should be accepted
    b. Investments that have a positive net present value should always be accepted
    c. Investments that have a positive net present value should be considered for acceptance
    d. Investments that pay back in five years or less should always be accepted

10. Modigliani and Miller argue that the dividend decision ___________.

    a. is irrelevant as the value of the firm is based on the earning power of its assets
    b. is relevant as the value of the firm is not based just on the earning power of its assets
    c. is irrelevant as dividends represent cash leaving the firm to shareholders, who own the firm anyway
    d. is relevant as cash outflow always influences other firm decisions

11. Financing a long-lived asset with short-term financing would be

    a. an example of "moderate risk -- moderate (potential) profitability" asset financing.

b. an example of "low risk -- low (potential) profitability" asset financing.

c. an example of "high risk -- high (potential) profitability" asset financing.

d. an example of the "hedging approach" to financing.

12. Which of the following would be consistent with a more aggressive approach to financing working capital?

    a. Financing short-term needs with short-term funds.

    b. Financing permanent inventory buildup with long-term debt.

    c. Financing seasonal needs with short-term funds.

    d. Financing some long-term needs with short-term funds.

PArt – B

Answer any 5 out of 7 (5X4 = 20 marks)

13. What is GAAP?

14. What is dividend warrant? Explain.

15. Write journal entries in the books of Chikky & Bros.

10^{th} June	:	Paid wages 12,000
11^{th} June	:	paid rent by cheque 10,000
14^{th} June	:	Purchased stationery from Kagaz & Co. and paid by cheque 5,000
15^{th} June	:	Received interest 14,000
17^{th} June	:	Received commission by cheque 6,000
19^{th} June	:	Interest received from Mr.Bijju by cheque 10,000
20^{th} June	:	Carriage paid on purchase of goods 3,000
22^{nd} June	:	Carriage paid on sale of goods 2,000

16. A firm purchased a machine on 1st April, 1998 for Rs. 37,000 and spent Rs. 3,000 on its installation. Depreciation is written off at the rate of 10% on the original cost. Accounts are closed on 31st December every year. On 30th June, 2002 the machine was disposed off for Rs. 20,000. Write up the Machinery Account from 1998 to 2002 under the Straight Line Method and diminishing balance.

17. A company issues 10,000 10% preference shares of Rs. 100 each. Cost of issue is Rs. 2 per share. Calculate cost of preference capital if these shares are issued (i) at par, (ii) at a premium of 10% and (iii) at a discount of 5%.

18. Calculate discounted Payback Period for the below projects P and Q.

Particulars	Project P (in Rs.)	Project Q (in Rs.)
Investment (Cash Outflow)	40,000	40,000
Projected Cash Inflow 1 year	30,000	0
2 year	10,000	40,000
3 year	10,000	10,000
4 year	10,000	20,000
Opportunity cost of capital may be assumed	10%	10%

19. What factors should be considered while estimating working capital ?

Part – C

(500 words - case study / analytical problem/ essay)

i. **Question 20 of the section is compulsory 1 x7 = 7 marks**
ii. **Question 21 to 25 – answer any 3 out of 5 3x 7= 21 marks**

20. From the following is the trial balance of Vishal Ltd., prepare the Balance Sheet of the company as on 31st March 2015 as per Schedule III of the Companies Act.

Trial Balance as on 31**st** March 2015

Debit	Rs.	Credit	Rs.
Advances to employees	3,00,000	Equity Share Capital	52,00,000
Cash at Bank	3,14,320	Capital Reserve	60,000
Furniture & Fixture	7,50,000	Loan from SBI	8,00,000
Premises	41,09,940	Provision for Employees Welfare Fund	6,00,000
Patents	10,00,000	Proposed Dividend	1,64,000
Discount on issue of shares(unwritten off)	25,000	Short term loan rom bank	4,90,200
Trade Receivables	3,66,240	Unpaid dividend	64,800
Advance Tax	50,000	Profit & Loss A/c	42,980
8% Govt. Bonds	3,36,000	Bills Payable	85,100
Stock in trade	3,55,600	Sundry Creditors	1,00,020
	========		========
	76,07,100		76,07,100
	======		========

21. Goodluck Ltd. purchased on 1 January 1997, certain machinery for Rs. 1,94,000 and spent Rs. 6,000 on its erection. On 1 July 1997 additional machinery costing Rs. 1,00,000 was purchased. On 1 July 1999, the machinery purchased on 1 January 1997 has been auctioned for Rs. 1,00,000 and on the same date, new machinery was purchased at a cost of Rs. 1,50,000. Depreciation was provided annually on 31 December at the rate of 10% p.a. on the original cost.

No depreciation need be charged during the year of sale of machinery for that part of the year when the machine was used. In 2001, however the company has changed the method of depreciation to written down value method at the rate of 15% p.a. from the straight line method. Show the machinery account for the period from 1997 to 2001.

22. Mr. X wants to buy a business and seeks your help to calculate working capital requirements in the first year of trading. The following information are given and you are asked to add 10% for contingencies:

		Rs.
(1)	Average amount locked up on stock:	
	Stock of finished product and work in progress	2,500
	Stock of stores, materials	4,000
(2)	Average credit given to customers:	
	Local sales – 2 weeks credit	39,000
	Outside sales – 6 weeks credit	1,56,000
(3)	Time allowed by supplier for payment – 4 weeks	48,000
(4)	Time available for payment for wages - 2 weeks	1,30,000

Prepare a statement showing the working capital requirement:

23. Anish Led., is evaluating two mutually exclusive proposals for new capital investment. The following information about the proposals are available

Particulars	**Proposal A (Rs)**	**Proposal B (Rs)**
Investment Cost	80,000	90,000
Life (year)	4	5

Earnings before depreciation and taxes

Year 1	24,000	28,000
2	28,000	32,000
3	32,000	36,000
4	44,000	44,00
5	-	40,000

The company's cost of capital is 10% and tax rate is 50%.

Calculate for each project:

Net Present Value, Profitability index, Internal Rate of Return and Payback Period.

24. What is Capital structure? .Discuss the various determinants of capital structure.

25. Describe the 'Internal' and 'External' users of accounting information and their requirements.

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