

AC-3379-ab Seat No. _____
M. Phil. (Com.) Examination
April / May – 2003
Accountancy : Paper – III
(New & Old Course)

Time : 3 Hours]

[Total Marks : 100

Instruction : Attempt Q. No. 1 and any other **two** questions.

NEW COURSE

- 1** Explain critically the following statement : **40**
“Since the full disclosure of accounting information by the corporate sector is a difficult proposition, the external reporting process must conform to (a) concerned legal requirements (b) informational needs of investors only.”

OR

- 1** Write notes on the following :
- (a) Role of professional bodies in the improvement of quality of external reporting by the corporate sector. **15**
 - (b) Impact of the policy of economic liberalisation on the process of external reporting by the corporate sector. **15**
 - (c) Abridged reporting in India. **10**
- 2** (a) Do you agree with the following statement ? Why ? **15**
“The evaluation of performance of an industrial unit with profitability analysis alone is incomplete. It must be supplemented by the analysis of liquidity performance.”
- (b) State how the study of capital structure can help in predicting future performance of an industrial unit during recession. **15**

- 3** Write notes on : (any **two**) **30**
- (a) Core current assets and planning of working capital funds
 - (b) Estimation of working capital needs
 - (c) Plan to ensure fair liquidity position keeping inventory in mind.
- 4** What do you mean by accounting for decision making ? **30**
Do you believe that the use of known techniques of models can help in making more scientific decisions ? Why ? State how the following technique can be useful in this respect :
- (a) CAPM model
 - (b) Monte Carlo simulations.
- 5** (a) “The concept of break even analysis is useful in understanding CVP relationship. However, its application may not lead to the ‘correct understanding of CVP relationship and may not help in improving decision making process, since its assumptions are unrealistic.” – Do you agree ? Why ? **20**
- (b) State how margin of safety can be improved. **10**
- Note the impact of one assumption of break even analysis when it is proved unreal.
- 6** (a) PQ Limited has been offered a choice to buy a machine between *X* and *Y*. You are required to compute :
- (i) break even point for each of the machines
 - (ii) level of sales at which both the machines each equal profits

Relevant data are given below :

<i>Particulars</i>	<i>Machines</i>	
	<i>X</i>	<i>Y</i>
Actual output in units	50,000	50,000
Fixed cost (Rs.)	1,50,000	80,000
Profits at the above level of production (Rs.)	1,50,000	1,20,000
Market price per unit (Rs.)	10	10

- (b) XY Limited has been operating its manufacturing facilities till 31-3-2001 on a single shift working with the following cost structure :

<i>Particulars</i>	<i>Rs. per unit</i>
cost of materials	6-00
wages (40% fixed)	5-00
Overheads (80% fixed)	5-00
Profit	2-00
Sales	18-00

Sales during 2000-2001 was at Rs. 4,32,000. As at 31-3-2001 the company held :

- Stock of raw materials (at cost)	Rs. 36,000
- Work in progress (valued at prime cost)	Rs. 22,000
- Finished goods (valued at total cost)	Rs. 72,000
- Sundry debtors	Rs. 1,08,000

In view of increased demand, it is proposed to double production by working an extra shift. It is expected that a 10% discount will be available from suppliers of raw materials in view of increased volume of business. Selling price will remain the same. The credit period allowed to customers will remain unaltered. Credit availed of from suppliers will continue to remain at the present level ie. 2 months. Lag in payment of wages and expenses will continue to remain half a month.

You are required to assess the additional working capital requirements, if the policy to increase output is implemented.

OLD COURSE

- 1** (a) "The external reporting of accounting information by the corporate sector must be user-friendly." Do you agree ? Why ? Explain your answer. **20**
- (b) What is your opinion in regard to the impact of abridged reporting on the corporate reporting process and subsequently on the users of accounting information ? Do you believe that multiple reporting is superior to single reporting in India ? **20**

OR

- 1** Explain critically the following statements : **40**
"Since the full disclosure of accounting information by the corporate sector is a difficult proposition, the external reporting process" must conform to.
- (a) Concerned legal requirements
- (b) Informational needs of investors only.

- 2** (a) Write a detailed note on the accounting appraisal of performance of an independent segment of an industrial entry. **15**
- (b) Do you agree with the view that the planning of capital structure has to be liquidity based only ? Why ? **15**
- 3** Explain the following statements critically :
- (a) “Theoretically the functions of working capital management and those of long term capital management are different, the distinction must disappear in practice.” **15**
- (b) The management of working capital means the management of inventory alone. **15**
- 4** (a) Do you agree with the view that the correct understanding of CVP relationship requires the grasping of the concept of Breakeven analysis. However, the use of sensitivity analysis is unavoidable in the light of complexities of business ? Why ? **15**
- (b) Explain the significance of cash break even analysis. Do you believe that in the circumstances like recession, calculation of cash break even point is unavoidable ? Why ? **15**
- 5** Write notes on the following :
- (a) Concept of incremental profit analysis. **10**
- (b) Controlability of cost and responsibility accounting **10**
- (c) Characteristics of an independent segment suitable for application of responsibility accounting. **10**

- 6 (a) A company currently operating at 80% capacity has the following profitability particulars : **20**

<i>Particulars</i>	<i>Rs.</i>	<i>Rs.</i>
Sales @ Rs. 160		12,80,000
Costs :		
Direct materials	4,00,000	
Direct labour	1,60,000	
Variable overheads	80,000	
Fixed overheads	5,20,000	11,60,000
Profits		<u>1,20,000</u>

An export order has been received that would utilise half the capacity of the factory. The order has either to be taken in full and executed at 10% below the domestic prices, or rejected totally. The alternative available to the management are given below :

- (a) Reject the order and continue with the domestic sales only as at present or,
- (b) Accept order, split capacity between overseas and domestic sales and turn away excess domestic demand, or
- (c) Increase capacity so as to accept the export order and maintain the present domestic sales by buying an equipment that will increase the capacity by 30% and fixed cost by Rs. 80,000.

Prepare comparative statements of profitability and suggest the best alternative.

- (b) *XYZ Limited* has annual credit sales amounting to **10** Rs. 10,00,000 for which it grants a credit of 60 days. How-even, at present no discount facility is offered by the firm to its customers. The company is considering a plan to offer a discount of “3/15 net 60”. The offer of discount is expected to bring the total credit periods from 60 days to 45 days and 50% of the customer (in value) are likely to avail the discount facility. The selling price of the product is Rs. 15, while the average cost per unit comes to Rs. 12.

Please advise the company whether to resort to discount facility if the rate of return is 20% and a month is equal to 30 days.
