The following adjustments are required :

(i) Closing stock as on 31st March, 2009 was Rs. 57,000.
(ii) Depreciation on Plant and Machinery @ 10%, Fixtures & Fittings @ 5%.
(iiii) Prepaid insurance Rs. 500 and prepaid salary Rs. 600.
(iv) Outstanding interest on overdraft Rs. 2,500.
(iv) Provision for bad debts is to be maintained at 5% of sundry debtors.

II. A. Two firms A and B have the following information :

	Sales (Rs. in lakh)	Variables Costs (Rs. in lakh)	Fixed Costs (Rs. in lakh)
Firm A	1,800	450	900
Firm B	1,500	750	375

You are required to calculate (i) profit to sales ratio (ii) break-even point (iii) the degree of operating leverage for both firms.
Comment on the positions of the firms. If sales increase by 20 per cent what shall be the impact on the profitability of the two firms?

OR

B. (a) What do you understand by the term 'cost-volume-profit' relationship? Why is this relationship important in business management?

(b) Explain the concept of financial leverage.

III. A. (a) A finance company advertises that it will pay a lump sum of Rs. 44,650 at the end of five years to investors who deposit annually Rs. 6,000 for 5 years. What is the interest rate implicit in this offer?

(b) You want to take a world tour which costs Rs. 10,00,000/- the cost is expected to remain unchanged in nominal terms. You are willing to save annually Rs. 80,000/- to fulfill your desire. How long will you have to wait if your savings earn a return of 14 per cent per annum?

OR

B. (a) Explain the concept of 'Cost of Capital' as a device for establishing a cut-off point of capital investment proposals.

(b) How would you handle the flotation costs in computing the cost of capital?

IV. A. Modern Enterprises Ltd. is considering the purchase of a new computer system for its Research and Development Division, which would cost Rs. 35 lakh. The operation and maintenance costs (excluding depreciation) are expected to be Rs. 7 lakh per annum. It is estimated that the useful life of the system would be 6 years, at the end of which the disposal value is expected to be Rs. 1 lakh.
The tangible benefits expected from the system in the form of reduction in design and draftsmanship costs would be Rs. 12 lakh per annum. The disposal of used drawing office equipment and furniture initially is anticipated to net Rs. 9 lakh.

(Contd...........3)