



K21P 0513

Reg. No. :

Name :



First Semester M.Com. Degree (CBSS – Reg./Suppl. (Including Mercy
Chance)/Imp.) Examination, October 2020
(2014 Admission Onwards)

COM1C05 : ACCOUNTING FOR BUSINESS DECISIONS

Time : 3 Hours

Max. Marks : 60

SECTION – A

Answer **any four** questions in this Section. **Each** question carries **1** mark for Part (a), **3** marks for Part (b) and **5** marks for Part (c).

1. A) What is participative budgeting ?
- B) What is responsibility budgeting and what are the different responsibility centers ?
- C) The following information is abstracted from the books of ABC Ltd. For the 6 months of 2005 in respect of product X.

The following units are to be sold in different months of the year 2005

January	2200
February	2200
March	3400
April	3800
May	5000
June	4600
July	4000

There will be work-in-progress at the end of the month. Finished units are equal to half the sales of the next month's stock at the end of every month (including December 2004). Budgeted production and production cost for the half year ending 30th June 2005 are the following.

Production (units)	40,000
Direct material per unit	Rs. 5
Direct wages per unit	Rs. 2

Factory overhead apportioned to production Rs. 1,60,000

You are required to prepare production budget and production cost budget for the 6 months.

P.T.O.



2. A) What are preference shares ?
 B) What are the needs and importance of capital budgeting ?
 C) From the following information, ascertain which project is more risky on the basis of standard deviation.

Project A		Project B	
Cash flow	Probability	Cash flow	Probability
2000	.2	2000	.1
4000	.3	4000	.4
6000	.3	6000	.4
8000	.2	8000	.1

3. A) What is decision tree analysis ?
 B) Explain in detail the relationship between risk and return.
 C) The Globe Manufacturing company Ltd. is considering an investment in one of the two mutually exclusive proposals – Project X and Project Y, which require cash outlay of Rs. 3,40,000 and 3,30,000 respectively. The certainty equivalent approach is used in incorporating risk in capital budgeting decisions. The current yield on Government bonds is 8% and this be used as the risk less rate. The expected net cash flows and their certainty equivalents are as follows :

Year-end	Project X		Project Y	
	Cash inflow	CE	Cash inflow	CE
1	1,80,000	0.8	1,80,000	0.9
2	2,00,000	0.7	1,80,000	0.8
3	2,00,000	0.5	2,00,000	0.7

Present value factors of Re. 1 discounted at 8% at the end of the year 1, 2 and 3 are .926, .857 and .794 respectively.

Required :

- I) Which project should be accepted ?
 II) If risk adjusted discount rate method is used, which project should be analysed with a higher rate ?
- 4: A) What is cost of capital ?
 B) Explain in brief the different classifications of cost.



- C) A firm has the following capital structure and the after-tax cost for different sources of funds used :

Source of funds	Amount	Proportion %	After tax cost %
Debt	15,00,000	25	5
Preference share	12,00,000	20	10
Equity shares	18,00,000	30	12
Retained earnings	15,00,000	25	11
Total	60,00,000	100	

You are required to compute weighted average cost of capital.

5. A) What is social accounting ?
B) What is management accounting ? Elucidate the needs and importance of management accounting.
C) What are the objectives and scope of management accounting ?
6. A) What is capital rationing ?
B) What are the uses of social and environment accounting in business decision ?
C) Critically examine the new trends in accounting. (4×9=36)

SECTION – B

Answer **any two** questions in this Section. **Each** question carries **12** marks.

7. A) What is ZBB and what are its advantages ? Also explain the steps involved in ZBB and how it differs from traditional budgeting.

OR

- B) Following are the data on a capital project being evaluated by the management of ABC Ltd.

Annual cost saving	Rs. 50,000
Useful life	4 years
IRR	14%
PI	1.06522
NPV	?
Cost of capital	?
Cost of project	?
Payback period	?
Salvage value	0



Find the missing values considering the following table of discount factor only.

Discount factor	14%	13%	12%	11%
1 st year	0.877	0.885	0.893	0.901
2 nd year	0.769	0.783	0.797	0.811
3 rd year	0.675	0.693	0.712	0.732
4 th year	0.592	0.613	0.636	0.659
	2.913	2.974	3.038	3.103

8. A) The following is the capital structure of Saras Ltd. as on 31-12-2007 :

Equity shares-20,000 shares of Rs. 100 each	20,00,000
10% preference shares of Rs. 100 each	8,00,000
12% debentures	12,00,000
	40,00,000

The market price of the company's share is Rs. 110 and it is expected that a dividend of Rs. 10 per share would be declared after 1 year. The dividend growth rate is 6%.

- I) If the company is in the 50% tax bracket, compute the weighted average cost of capital.
- II) Assuming that in order to finance an expansion plan, the company intends to borrow a fund of Rs. 20 lacs bearing 14% interest rate, what will be the company's revised weighted average cost of capital ? This financing decision is expected to increase dividend from Rs. 10 to Rs. 12 per share. However, the market price of equity share is expected to decline from Rs. 110 to 105 per share.

OR

B) A company is considering an investment proposal to purchase a machine costing Rs. 2,50,000. The machine has a life expectancy of 5 years and no salvage value. The company's tax rate is 40%. The firm uses straight line method for providing depreciation. The estimated cash flows before tax after depreciation (CFBT) from the machine are as follows.

Year	CFBT (Rs.)
1	60,000
2	70,000
3	90,000
4	1,00,000
5	1,50,000

Calculate :

- I) Payback period
- II) ARR
- III) NPV and PI at 10% discount rate. You may use the following table.

Year	1	2	3	4	5
PV factor at 10%	0.909	0.826	0.751	0.683	0.621

(2×12=24)