K21P 4170

Reg. No. : ....

Name : ....

I Semester M.Com. Degree (CBSS – Reg./Supple./Imp.) Examination, October 2021 (2018 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) Define Management Accounting.

   b) What are the functions of Management Accounting ?

   c) What are the essentials of an effective Responsibility Accounting ?

2. a) What is social accounting ?

   b) Explain the differences between traditional budgeting and performance budgeting.

   c) Explain the steps in ZBB.

3. a) What is capital budgeting ?

   b) Explain the methods of measuring the performance of an investment centre.

   c) Calculate the Accounting Rate of Return for the following investment :

Year	0	1	2	3	4
Cash flow (Rs.)	(150,000)	21,000	60,000	105,000	75,000

   Life of the investment is four years and no scrap value at the end of fourth year.

P.T.O.

4. a) What is systematic risk ?

   b) Explain the Monte Carlo Simulation technique.

   c) A company is considering Projects X and Y with the following information :

Project	Expected NPV (Rs.)	Standard Deviation
X	122,000	90,000
Y	225,000	120,000

Which project will you recommend on the basis of

i) Standard Deviation Method and

ii) Coefficient of Variation Method of Risk analysis ?

5. a) Define cost of capital.

   b) What are the factors that affect the cost of capital of a company ?

   c) From the following information, select the best project using payback period method :

	Project A	Project B	Project C
Cost (Rs.)	2,40,000	3,20,000	3,50,000
Life (in years)	10	12	14
Estimated scrap value (Rs.)	20,000	20,000	28,000
Annual profit less tax (Rs.)	26,000	31,000	28,000

6. a) What is profit centre ?

   b) Give a brief note on Internal Rate of Return.

   c) Y Ltd. has 10,00,000 equity shares of Rs. 10 each. The company earned a net profit of Rs. 50,00,000 after tax during the year out of which 50% was distributed as dividends. Market price of the company is Rs. 15. Moreover, the company retains Rs. 7,50,000 out of its current earnings. The expected rate of return to the shareholders, if they had invested the funds elsewhere, is 10%. The brokerage is 3% and the shareholders come in 30% tax bracket. Calculate the cost of equity and the cost of retained earnings. **(4×9=36)**

SECTION – B

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

7. Explain the tools and techniques of Management Accounting.

OR

Alok Ltd. is considering two mutually exclusive Projects A and B. You are required to advise the Finance Manager of the company about the acceptability of the project from the following information :

	Project A	**Project B**
Initial investment	Rs. 1,00,000	Rs. 1,00,000
Expected cash inflows p.a. for 5 years :		
Optimistic	Rs. 60,000	Rs. 80,000
Most likely	Rs. 40,000	Rs. 40,000
Pessimistic	Rs. 30,000	Rs. 10,000

The company has a target return on capital of 15%.

8. A limited company is considering the purchase of a new plant requiring a cash outlay of Rs. 50,000. The plant is expected to have a useful life of 2 years without any salvage value. The cash flows and their associated probabilities for the two years are as follows :

First Year	**Cash flow**	**Probability**
i.	Rs. 20,000	0.2
ii.	Rs. 25,000	0.3
iii.	Rs. 35,000	0.5

Second year : If cash flows in the first year are :

Rs. 20,000		Rs. 25,000		Rs. 35,000	
Cash flow	Probability	Cash flow	Probability	Cash flow	Probability
Rs. 10,000	0.3	Rs. 26,000	0.2	Rs. 38,000	0.3
Rs. 24,000	0.4	Rs. 30,000	0.4	Rs. 50,000	0.5
Rs. 35,000	0.3	Rs. 36,000	0.4	Rs. 60,000	0.2

Assume that the cost of capital is 10%. Plot the above data in a decision tree and suggest whether the projects should be accepted or not.

OR

The following is the capital structure of A Ltd. :

Source	Amount
6,00,000 Equity shares of Rs. 100 each	Rs. 6,00,00,000
Retained earnings	Rs. 1,20,00,000
12% Debentures of Rs. 100 each	Rs. 1,80,00,000

For the year ended 31st March, 2019 the company has paid equity dividend @24%. Dividend is likely to grow by 5% every year. The market price of equity share is Rs. 600 per share. Income tax rate applicable to the company is 30%.

You are required to :

i) Compute the current weighted average cost of capital.

ii) The company has a plan to raise a further Rs. 3 crore by way of long term loan at 18% interest. If this loan is raised, the market value of equity share is expected to fall to Rs. 500 per share. What will be the new weighted average cost of capital of the company ? **(2×12=24)**
