K16P 1317

Reg. No. : ....

Name : ....

First Semester M.Com. Degree (Reg./Suppl./Imp.) Examination, November 2016
(2014 Admission Onwards)
COMMERCE
COM 1C05 : Accounting for Business Decisions

Time : 3 Hours Max. Marks : 60

SECTION – A

Answer **any 4**. Part – **a** carries **1** mark and Part – **b** carries **3** marks, Part – **c** carries **5** marks.

I. a) What is performance budgeting ?

b) Distinguish between performance budgeting and traditional budgeting.

c) Discuss the essential features of performance budgeting.

II. a) Define cost of capital.

b) What are the components of cost of capital ?

c) Explain briefly the classification of cost of capital.

III. a) Define risks.

b) How can you classify risk on the basis of decision situation ?

c) Explain the steps in sensitivity analysis.

IV. a) How will you compute average rate of return ?

b) State the acceptance criterion through IRR methods if there are a number of alternatives.

c) From the following particular relating to two projects X and Y. Compute I.R.R. and state which of the two projects is better :

	Project X	**Project Y**
Estimated life	10 years	8 years
Cost	₹ 1,80,000	₹ 2,00,000
Estimated saving	₹ 30,000	₹ 40,000

P.T.O.

V. a) What is weighted average cost of capital ?

b) What are the different steps in computing weighted average cost of capital ?

c) Your company's share is quoted in the market at ₹ 20 currently. The company pays a dividend of ₹ 1/- per share and the investor expects a growth rate of 5% per year. Compute

a) The Company's cost of capital.

b) If the anticipated growth rate is 6% p.a.

Calculate the indicated market price per share.

VI. a) Who is the Comptroller and Auditor General of India ?

b) Write note on the term 'Consolidated Fund'.

c) What are the general principle of Government Accounting.

(4×9=36)

SECTION – B

VII. a) Excellent Ltd. specialise in the manufacture of novel transistors. They have recently developed technology to design a new radio transistor capable of being used as an emergency lamp also. They are quite confident of selling all the 8000 units that they would be making in a year. The capital equipment that would be required will cost ₹ 25 lakh. It will have an economic life of 4 years and no significant terminal value.

During each of the first four years promotional expenses as planned as under :

Year	**1**	**2**	**3**	**4**
Advertisement (₹)	1,00,000	95,000	60,000	30,000
Other expenses	50,000	75,000	90,000	1,20,000

Variable cost of producing and selling the unit would be ₹ 250 per unit. Additional fixed operating cost incurred because of this new product are budgeted at ₹ 75,000 per year.

The company's profit goals call for a discounted rate of 15% after taxes on investment of new products. The income tax rate on an average worth out to 40%. You can assume that the straight line methods of depreciate will be used for tax and reporting.

Workout an initial selling price per unit of the product that may be fixed for obtaining the desired rate of return an investment.

Present value of annuity of ₹ 1 received or paid in a ready stream through out 4 years in the future at 15% is 3.0079.

OR

b) Discuss the problems of traditional budgeting. How can these problems be overcome ? **12**

VIII. A firm has the following capital structure and after tax cost for the different sources of fund used :

Source of Fund	₹	Proportion (%)	After tax cost %
Debt	4,50,000	30%	7%
Preference capital	3,75,000	25%	10%
Equity capital	6,75,000	45%	15%
	15,00,000	100	

a) Calculate the WACC using book value weight

b) The firm wishes to raise further ₹ 6,00,000 for the expansion of the project in the following manner :

Debt	₹ 3,00,000
Preference capital	₹ 1,50,000
Equity capital	₹ 1,50,000

Compute the weighted marginal cost of capital.

OR

Define Management Accounting. Explain the scope and objectives of management accounting. 12

(2×12=24)