K22P 1562

Reg. No. : ....

Name : ....

I Semester M.Com. Degree (CBSS – Reg./Sup./Imp.) Examination, October 2022 (2019 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 performance budgeting ?
   b) What are the key features of programme budgeting ?
   c) Explain social accounting.

2. a) What is capital budgeting ?
   b) What are the limitations of the payback period method ?
   c) A project costs Rs. 20,00,000 and yields a profit of Rs. 4,00,000 annually for 10 years. The profit is before depreciation and tax. You are required to calculate the payback period assuming 50% tax rate and depreciation on the straight-line method.

3. a) Explain the method of calculating the cost of redeemable preference shares.
   b) How will you calculate net proceeds if the shares are issued at par, discount and premium ?
   c) The current market price of the shares of A Ltd. is Rs. 95. The cost of floatation is Rs. 5 per share. The dividend per share amounts to Rs. 4.5 per share and is expected to grow at the rate of 7%. You are required to calculate the cost of equity capital.

P.T.O.

4. a) Explain sensitivity analysis.
   b) What is risk-adjusted discount rate ?
   c) No project is acceptable unless the yield is 10%. Cash inflows of a certain project along with cash outflows are given below.

Year	Outflow (Rs.)	Inflow (Rs.)
0	1,50,000	–
1	30,000	20,000
2	30,000	–
3	60,000	–
4	80,000	–
5	70,000	–

   Calculate Net Present Value.

5. a) Explain the concept of management accounting.
   b) Enlist the objectives of management accounting.
   c) Explain the tools of management accounting.

6. a) What is a profit centre ?
   b) What is responsibility accounting ?
   c) Explain the new trends in accounting.

SECTION – B

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

7. a) The Beta Company is considering the purchase of new investment. Two alternatives investments are available (A and B) Rs. 1,00,000. Cash flows are expected to be as follows :

Year	Cash Flows Investment A (Rs.)	Cash Flows Investment B (Rs.)
1	40,000	50,000
2	35,000	40,000
3	25,000	30,000
4	20,000	30,000

   The company has a target return on capital at 10%. Risk premium rates are 2% and 8%. For investments A and B. Which investments should be preferred ?

   OR

   b) Explain the risk-adjusted techniques in capital budgeting.

8. a) Explain zero-based budgeting. Compare with traditional budgeting. Elaborate on its process and advantages.

OR

b) A company has the following capital structure and after tax costs of different sources of capital used.

Type of Capital	Book Value	Proportion (%)	After tax cost (%)
Debt	4,50,000	30	7
Preference	3,75,000	25	10
Equity	6,75,000	45	15
	15,00,000	**100**	

i) Determine the weighted average cost of capital using book value weights.

ii) The firm wishes to raise further Rs. 6,00,000 for the expansion of the project as below :

Debt Rs. 3,00,000

Preference Capital Rs. 1,50,000

Equity Capital Rs. 1,50,000

Assuming that specific costs do not change, compute the weighted marginal cost of capital.

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)**

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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

(2×12=24)

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

Discount factor	14%	13%	12%	11%
1st year	0.877	0.885	0.893	0.901
2nd year	0.769	0.783	0.797	0.811
3rd year	0.675	0.693	0.712	0.732
4th 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)

M 26602

Reg. No. : ....

Name : ....

I Semester M.A./M.Sc./M.Com. Degree (Regular/Supplementary/ Improvement) Examination, November 2014
(2014 Admn. under CBSS)
COMMERCE
COM 1C 05 : Accounting for Business Decision

Time : 3 Hours Max. Marks : 60

SECTION – A

Answer **any four** questions.

I. a) Define Management Accounting.

b) Discuss the functions of management accountant.

c) How will you install management accounting system ?

II. a) Define Government Accounting.

b) What are the objectives of government accounting ?

c) Distinguish government accounting and commercial accounting.

III. a) What is responsibility accounting ?

b) What are the steps in responsibility accounting ?

c) Describe the essentials of responsibility accounting.

IV. a) What is capital budgeting ?

b) Explain the process of capital budgeting.

c) The following are particular relating to two alternative machines.

	Machine A	Machine B
Purchase price	50,000	84,000
Estimated life (year)	8	10
Net earnings after tax but before depreciation (p.a)	10,000	12,000

Calculate the profitability of the investment on the basis of payback profitability.

P.T.O.

V. a) What is budget ?

b) What are the steps involved in the preparation of budget ?

c) What are the limitations of budgeting ?

VI. a) What is cost of retained earning ?

b) Mr. X holds 110 shares of Rs. 100 each in Y Ltd. The company has earned Rs. 10 per share and distributed ₹ 6 per share as dividend among the shareholder and the balance is retained. The market price of the share in Y Ltd. is Rs. 110. If personal income tax applicable to Mr. X is 40 %. Find out the cost of retained earning.

c) How can you classify cost of capital ? Discuss the different types of cost of capital. **(4×9=36)**

SECTION – B

Answer **any two** questions. **Each** carries **12** marks.

VII. A company's cost of capital for specific sources is as under

Cost of debentures	5%
Cost of preference shares	10%
Cost of equity shares	14 %
Cost of retained earnings	13%

The company wishes to raise ₹ 5,00,000 for the expansion of its plant. It is estimated that ₹ 1,00,000 will be available as retained earnings and the balance of the additional funds will be raised as under

Debenture issue	₹ 3,00,000
Preference share issue	₹ 1,00,000

Using marginal weights calculate weighted average cost of capital.

OR

Describe the different methods for accounting for risk in capital budgeting.

VIII. Explain the factors influencing capital expenditure decision.

OR

From the following forecasts of income and expenditure, you are required to prepare a cash budget for three months ending 30th November. The bank balance on 1st September was ₹ 10,000.

Months	Sales	Purchase	Wages	Factory exp.	Office exp.
	₹	₹	₹	₹	₹
July	80,000	40,000	5,600	3,900	10,000
August	76,500	42,000	5,800	4,100	12,000
September	78,000	38,500	5,800	4,200	14,000
October	90,000	37,500	5,900	5,100	16,000
November	95,000	43,000	5,900	6,000	13,000

A sales commission of 4% on sales, due in the month in which sales dues are collected is payable in addition to office expenses. Fixed assets worth ₹ 65,000 will be purchased in September to be paid in the following month. ₹ 20,000 in respect of debenture interest will be paid in October. The period of credit allowed to customer is two month and one month credit is obtained from suppliers of goods. Wages are paid twice in a month on 1st and 16th respectively. Expenses are paid in the month in which they are due. **(2×12=24)**

K15P 0326

Reg. No. : ....

Name : ....

I Semester M.Com. Degree (Reg./Sup./Imp.) Examination, November 2015
COMMERCE (2014 Admn. Onwards)
COM 1C05 : Accounting for Business Decisions

Time : 3 Hours Max. Marks : 60

SECTION – A

Answer **any four** questions, **each** carries **9** marks.

I. a) What is management accounting ?

b) State the importance of management accounting.

c) What are the purpose of management accounting ?

II. a) What is government accounting ?

b) What are the different methods of preparing government account ?

c) Explain the features of government accounting in India.

III. a) Define decision tree.

b) Explain the construction of a decision tree in capital budgeting.

c) Illustrate the merits and demerits of decision tree analysis.

IV. a) Define capital rationing.

b) What are the different steps in the selection of projects under capital rationing ?

c) Briefly explain the different methods of selecting a project under capital rationing.

P.T.O.

V. a) Define flexible budget.

b) State the circumstances in which flexible budget is prepared.

c) Prepare a flexible budget at 80 % and 100 % acting on the basis of the following information :

Production at 50% capacity	5000 unit
Raw materials	Rs. 80 per unit
Direct labour	Rs. 50 per unit
Expenses	Rs. 15 per unit
Factory expenses	Rs. 50,000 (50% variable)
Administration expenses	Rs. 60,000 (60% variable)

VI. a) Define cost of equity capital.

b) What are the factors determining cost of capital ?

c) The shares of a company are selling at Rs. 80 per share and the company had paid a dividend of Rs. 8/- per share last year. The investors expect a growth rate of 5% per year.

a) Calculate the equity cost of capital.

b) If the expected growth rate is 7% p.a., calculate the market price per share. **(4×9=36)**

SECTION – B

Answer the following, **each** carries **12** marks.

VII. Production costs of a factory for a year are as follow :

Direct labour cost		75,000
Direct material cost		1,20,000
Production overhead-fixed	45,000	
Variable	70,000	1,15,000

The production manager anticipates the following changes in the forthcoming year.

a) The average rate for direct labour will fall from Rs. 4 per hour to Rs. 3/- per hour.

b) Production efficiency will decrease by 4%.

c) Direct labour hours will increase by 10% and

d) The purchase price per unit of direct materials and of the other materials and service included among overhead will remain unchanged. Draw up a budget and compute a factory overhead rate, the overheads being absorbed on a direct wages basis.

OR

Discuss in detail the objective of management Accounting. Explain the scope of management accounting. 12

VIII. Amsel Industrial Ltd. has assets of Rs. 1,60,000 which have been financed with Rs. 52,000 of debt and Rs. 90,000 of equity and general research of Rs. 18,000. The firm's total profits after interest and tax for the year ended 31-3-2014 were Rs. 13,500/-. It pays 8% interest on borrowed funds and is in the 50% tax bracket. It has 900 equity shares of Rs. 100 each selling at a market price of Rs. 120 per share. What is the weighted average cost of capital on market value method.

OR

Discuss in detail the different methods of evaluating profitability of capital investment proposed. 12

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)

K17P 1553

Reg. No. : ....

Name : ....

First Semester M.Com. Degree (Reg./Suppl./Imp.) Examination, October 2017
(2014 Admission Onwards)
COM1C05 : ACCOUNTING FOR BUSINESS DECISIONS

Time : 3 Hours Max. Marks : 60

SECTION – A

Answer **any 4** sets **1** mark for (a), **3** for (b) and **5** for (c).

I. a) What do you mean by responsibility accounting ?

b) What are the different responsibility centres ?

c) Explain the different steps in responsibility accounting ?

II. a) What is composite cost of capital ?

b) State the significance of the concept of cost of capital.

c) The shares of a company are selling at ₹ 80 per share and the company had paid dividend of ₹ 8 per share last year. The investors expect a growth rate of 5% per year.

a) Calculate the equity cost of capital

b) If the expected growth rate is 7% p.a. calculate the market price per share.

III. a) What is decision tree analysis ?

b) Explain the steps you take for constructing a decision tree.

c) Explain the various technique used for incorporating risk factor in capital budgeting decision.

IV. a) What do you mean by Zero Base Budgeting (ZBB) ?

b) What are the processes involved in ZBB ?

c) Distinguish between traditional budgeting and Zero Base Budgeting.

P.T.O.

V. a) What is explicit cost of capital ?

b) What are the assumptions of cost of capital ?

c) Explain the factors determining cost of capital.

VI. a) Define capital budgeting.

b) State the significance of capital budgeting.

c) Discuss the process involved in capital budgeting. **(4×9=36)**

SECTION – B

VII. a) A limited company has the following capital structure :

	₹
Equity share capital (2,00,000 shares)	40,00,000
6% preference shares	10,00,000
8% debentures	30,00,000
	80,00,000

The market price of the company's equity share is ₹ 20. It is expected that company will pay a current dividend of ₹ 2/- per share which will grow at 7% for ever. The tax rate may be presumed at 50%. You are required to compute the following.

a) WACC based on existing capital structure.

b) The new WACC if the company raises an additional ₹ 20,00,000 debt by issuing 10% debentures. This would result in increasing the expected dividend to ₹ 3/- and leave the growth rate unchanged but the price of share will fall to ₹ 15 per share.

c) The cost of capital if in (b) above, growth rate increases to 10%. **12**

OR

b) What is management accounting ? Explain the tools of management accounting. **12**

VIII. a) Your company can make either of the following two investments at the beginning of 2010. Following particulars are available in this respect.

	Project I	Project II
	₹	₹
Estimated cost (to be incurred initially)	20,000	28,000
Estimated life (years)	4	5
Scrap value at the end	nil	nil
Estimated net cash flow (₹) :		
End of 2010	5,500	5,600
End of 2011	7,000	9,000
End of 2012	8,500	9,000
End of 2013	7,500	9,000
End of 2014	–	9,000

It is estimated that each of the alternative project will require an additional working capital of ₹ 2,000 which will be received back in full after the expiry of each project life. In estimating net cash flow depreciation has been provided under straight line method.

Cost of finance to your company may be taken at 10% p.a. The present value of ₹ 1 to the received at the end of each year, at 10% is given below :

Year :	1	2	3	4	5
P.V. :	0.91	0.83	0.75	0.68	0.62

Evaluate the investment proposed using NPV. **12**

OR

b) What do you understand by budgetary control ? Describe the essential steps of a budgetary control. **12**

(2×12=24)

K18P 1391

Reg. No. : ....

Name : ....

First Semester M.Com. Degree (Reg./Supple./Imp.) Examination, October 2018 (2014 Admn. Onwards)

COM 1C05 : ACCOUNTING FOR BUSINESS DECISIONS

Time : 3 Hours Max. Marks : 60

SECTION – A

Answer **any four** out of **six**.

I. a) Who is a Management Accountant ? 1

b) What are the duties of management accountant ? 3

c) State the limitations of management Accounting. 5

II. a) Define Social accounting. 1

b) What are the Objectives of social accounting ? 3

c) Explain the benefits of social accounting to the organisation. 5

III. a) Define decision tree. 1

b) What are the uses of game theory ? 3

c) Explain how you can construct a decision theory in capital budgeting. 5

IV. a) What do you mean by Zero Base Budgeting ? 1

b) Explain the process of Zero Base Budgeting. 3

c) Distinguish between Zero Base Budgeting and Traditional Budgeting. 5

V. a) What is cost of capital ? 1

b) State the significance of cost of capital. 3

c) A company issues Rs. 10,00,000 10% redeemable debentures at a discount of 5%. The cost of floatation amounts to ₹ 30,000. The debentures are redeemable after 5 years. Calculate before tax and after tax cost of debt assuming a tax rate of 50%. 5

P.T.O.

VI. a) What is Net Terminal value methods ? 1

b) Explain the different methods of capital rationing. 3

c) A company has the following investment opportunities. 5

Projects	Initial Outlay	Profitability Index
A	4,00,000	1.15
B	2,50,000	1.13
C	3,50,000	1.11
D	3,00,000	1.08

The available funds are ₹ 6,00,000. Which projects the company should accepts.

SECTION – B

VII. From the following capital structure of a company. Calculate the overall cost of capital, using (a) book value weights and (b) Market value weights.

Source	Book value	Market value
Equity share capital (Rs. 10 share)	45,000	90,000
Retained earnings	15,000	–
Preference share capital	10,000	10,000
Debentures	30,000	30,000

The after tax cost of different sources of finance is as follows :

Equity share capital : 14% ; Retained earnings : 13%

Preference share capital : 10% ; Debenture : 5%.

OR

Define responsibility accounting. What are the different steps involved for achieving the objectives of responsibility accounting ? Explain the different types of responsibility center. 12

VIII. Prepare a cash budget for the months of May, June and July 2014 on the basis of the following information. Income and expenditure forecast.

1)

Months	Credit Sales	Credit Purchase	Wages	Manufacturing expenses	Other expenses	Selling expenses
March	60000	36000	9000	4000	2000	4000
April	62000	38000	8000	3000	1500	5000
May	65000	33000	10000	4500	2500	4500
June	58000	35000	8500	3500	2000	3500
July	56000	39000	9500	4000	1000	4500
August	60000	34000	8000	3000	1500	4500

2) Cash balance on 1st May, 2014 ₹ 8,000.

3) Plant costing ₹ 16,000 is due for delivery in July, payable 10% on delivery and the balance after 3 months.

4) Advance Tax of ₹ 8,000 each is payable in March and June.

5) Period of credit allowed (i) by suppliers - 2 month and (ii) to customers - one month.

6) Lag in payment of manufacturing expense - 1/2 month.

7) Lag in payment of office and selling expense - one month.

OR

Explain the factors affecting capital investment decision and discuss the different capital appraisal methods. 12

(2×12=24)

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K19P 1472

Reg. No. : ....

Name : ....

I Semester M.Com. Degree (CBSS-Reg./Suppl./Imp) Examination, October - 2019 (2014 Admission Onwards) COM 1 C05: (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). **(4 x 9=36)**

1. a) What is cost of capital?
   b) Explain the different factors that determine the cost of capital.
   c) i) A company issues 1000, 10% preference shares of Rs.100 each at a discount of 5%. Cost raising capital are Rs.2000. Compute the cost of preference share capital.
   ii) Assume that the firm pays a tax at 50%. Compute after taxcost of a preferred share sold at Rs.100 with a 90% dividend and a redemption price of Rs.110, if the company redeems in 5 years.

2. a) What is capital budgeting?
   b) Explain the different kinds of capital budgeting decisions.
   c) A chemical company is considering investing in a project that costs Rs. 500,000. The life of the project is 5 years and estimated salvage value is 0. Tax rate is 55%. The company uses straight line depreciation and proposed project has estimated EBDT as follows.

Years	EBDT
1	100,000
2	100,000
3	150,000
4	150,000
5	250,000

P.T.O.

Determine the following:

i) Pay back period

ii) ARR

iii) NVP @ 15%

iv) Gross profitability index @15%

PV factors at 15% p.a.

Year	1	2	3	4	5
PV factor	0.870	0.756	0.658	0.572	0.497

3. a) What is sensitivity analysis?

b) Explain the relation between risk and return.

c) S Ltd. has Rs.10,00,000 allocated for capital budgeting purposes. The following proposals and ascertained profitability index have been determined as.

Project	Amount	PI
1	3,00,000	1.22
2	1,50,000	0.95
3	3,50,000	1.20
4	4,50,000	1.18
5	2,00,000	1.20
6	4,00,000	1.05

Which of the above investments should be taken? Assume that the projects are indivisible and there no alternatives for capital budgeting. And Comment.

4. a) What is capital rationing?

b) What is Zero Base Budgeting? State its advantages.

c) The budgeted expense for production of 10,000 units in a manufacturing company are given below. From the information prepare a budget for the production of :

i) 8000 units and

ii) 6000 units, Assume that administration expenses are fixed for all levels of production.

	Rs. Per Unit
Material	70
Labour	25
Variable overheads	20
Fixed overheads (Rs. 1,00,000)	10
Variable overheads (direct)	5
Selling expenses (10% fixed)	13
Administrative expenses (Rs. 50,000)	5
Distribution expenses (20% fixed)	7

5. a) What is environment accounting?
   b) What is a budget manual and mention the important matters dealt in a budget manual.
   c) What is responsibility accounting? And what are its benefits?

6. a) What is management accounting?
   b) Distinguish between performance budgeting and traditional budgeting.
   c) Briefly explain control and budgeted ratios.

SECTION-B

Answer the **Two** questions in this section. Each question carries **12** marks.

(2x12=24)

7. a) M/s Albert & Co. has the following capital structure as on 31st December 2007.

10% debentures	3,00,000
9% preference shares	2,00,000
Equity shares-5000 of Rs.100 each.	5,00,000
TOTAL	10,00,000

The equity shares of the company are quoted at Rs.102 and the company is expected to declare a dividend of Rs.9 per share for 2007. The company has registered a dividend growth of 5% which is expected to be maintained.

i) Assume the tax rate application to the company at 50%, calculate the weighted average cost of capital, state your assumptions if any,

ii) Assume that the company raise additional term loans at 12% for Rs. 5,00,000 to finance an expansion, calculate the revised weighted cost of capital. The company's assessment is that it will be in a position to increase the dividend from Rs.9 per share to Rs.10 per share, but business risk associated with the financing may bring down the market price from Rs.102 to Rs.96 per share.

(OR)

b) A company is considering the purchase of two machines with the following details.

	Machine 1	Machine 2
Life (estimated)	3 years	3 years
Capital cost	Rs.10,000	Rs.10,000
Net cash flow:	Rs.	Rs.
1st year	8000	2000
2nd year	6000	7000
3rd year	4000	10,000

You are required to suggest which machine should be preferred using

i) Pay back period method

ii) Discounted cash flow method (using 10% discount factor)

8. a) What is responsibility accounting? What are the pre-requisites for introducing responsibility accounting in a company ? Also explain the various cost centres in this regard.

(OR)

b) Calculate IRR and modified IRR form the following cash flows at 10% cost of capital.

Year	CEAT
0	-90,000
1	20,000
2	25,000
3	27,000
4	30,000
5	35,000
