

2015

DDE

M.Com. Part-I Examination
FINANCIAL POLICY AND
MANAGEMENT ACCOUNTING

PAPER—III

Full Marks : 100

Time : 4 Hours

The figures in the right-hand margin indicate full marks.

Candidates are required to give their answers in their own words as far as practicable.

Illustrate the answers wherever necessary.

Write the answer question of each Half in separate books.

First Half

(Financial Policy)

[Marks : 50]

Answer Q. No. 1 and any two from the rest.

1. Answer any four questions from the following : 4×5

(a) Write any two important functions of financial management.

(Turn Over)

- (b) Distinguish between specific cost of capital and overall cost of capital. What do you mean by implicit of capital. 3+2
- (c) Write the role of trade creditors as a source of finance of a business.
- (d) Discuss in brief the Net Income Approach to capital structure theory.
- (e) Explain in brief any *two* of the following :
- (i) Gross Working Capital.
 - (ii) Net Working Capital.
 - (iii) Postive Working Capital.
 - (iv) Negative Working Capital.
- (f) Write any three factors affecting dividend policy of a firm.
- (g) What are the objectives of inventory management?
- (h) What is EOQ? Write the assumptions underlying EOQ.
2. Answer any *two* questions from the following : 2×15
- (a) Write the needs of cost of capital measurement for a business.
 - (b) Do yo think that magnet value weights are more appropriate than the book value weights?

- (c) From the following information in respect of Alpha Ltd., compute the overall Cost of Capital :
- (i) The company has 1,00,000 equity shares of Rs.10 each. Present dividend per share is Rs. 8 and it is estimated that the dividend will grow @ 6% per annum. Present market price per share is Rs. 80 per share.
 - (ii) Retained earning is Rs. 1,00,000.
 - (iii) The company issued 2000, 10% preference shares of Rs.100 each at Rs. 95 per share which will be redeemed at par after five years.
 - (iv) The company also issued 13.5%, 500 'A' Deventures of Rs.100 each as per which be redumed at par after 10 years.
 - (v) 13%, 500 'B' Debentures were issued at a premium of 5% (face value being Rs.100 par debenture) and will be redeemed at per after 10 years.
 - (vi) Corporate tax rate is 40%. 3+2+10
3. Discuss the role of factoring, bank loan and debentures for financing business firm. 5×3
4. (a) Briefly discuss any five factors determining working capital requirement of a firm.

(b) From the given information relating to ABC Ltd, prepare a statement of working capital requirement.

(i) Estimated annual Sales 26,000

(ii) Selling price per unit 60

(iii) Analysis of selling price :

Material 40%

Labour 30%

Overheads 20%

Profit 10%

(iv) Time lag (on average)

Raw materials in stock 3 weeks

Production process 4 weeks

Credit to Debtors 5 weeks

Credit form suppliers 3 weeks

Lag in payment of wages and

overheads 2 weekly

Finished goods in warehouse 2 weekly

(v) Cash in hand is expected to be 10% of net working capital.

5+10

5. (a) Discuss critically the Walter's Model of dividend policy.

(b) Write the main differences between M.M. Approach and Walter's model of dividend policy.

10+5

Second Half

(Management Accounting)

[Marks : 50]

Answer Q. No. 6 and any two from the rest.

6. Answer any two of the following : 2×10

(a) (i) State the techniques or tools of Management Accounting.

(ii) Distinguish between Management Accounting and Financial Accounting. 4+6

(b) (i) What is 'Flow of Fund'?

(ii) Discuss the importance of financial statements to the different users. 3+7

(c) (i) What is Capital Rationing?

(ii) From the data presented below, State which project is better :

Cash Flows	Project X	Project Y
Year end:	Rs.	Rs.
0	(-) 20,000	(-) 20,000
1	8,000	10,000
2	8,000	14,000
3	4,000	4,000

Riskless discount rate is 5%. Project X is less risky as compared to Project Y. The management considers risk premium rates at 5% and 10%, respectively, for discounting the cash in flows. 2+8

(d) The following ratios were computed from the information disclosed in the financial statement of Rahim & Co. for the last five financial years :

Years : 2005-06 2006-07 2007-08 2008-09 2009-10

Ratios :

Working	2005-06	2006-07	2007-08	2008-09	2009-10
Capital Ratio	1.05	1.29	1.30	1.42	1.43
Acid Test Ratio	0.92	0.95	1.01	1.17	1.25
Inventory					
Turnover Ratio	6	9	12	11	13
Debtors					
Turnover Ratio	5	8	6	4	3

On the basis of the above information you are required to comment on the financial performance and position of Rahim & Co. during the period 2005-06 to 2009-10. 10

7. The Balance Sheet and the Income Statement of Strong Ltd. are given below :

Balance Sheet as at 31.3.2015

Liabilities	Rs.	Assets	Rs.
Equity Share Capital	24,00,000	Net Fixed Assets	12,00,000
10% Deventure	4,60,000	Stock	16,50,000
Sundry Creditors	4,00,000	Sundry Debtors	5,50,000
Bill Payable	3,70,000	Cash at Bank	4,50,000
Other Current Liabilities	2,20,000		
	38,50,000		38,50,000

Income Statement for the year ended 31-3-2015

Sales	55,00,000
Less : Cost of goods sold	40,60,000
Gross Profit	14,40,000
Less : Administrative, Selling and Distribution expenses	11,60,000
EBIT	2,80,000

Less : Interest	46,000
	<u>2,34,000</u>
Less : Tax	70,200
Net Profitable Tax	<u>1,63,800</u>

You are required to calculate the following indicated ratios and compare the same with the given industry average values and comment on the strengths and weakness of strong Ltd. :

	Industry Average Values
Current ratio	2.5
Sales/Debtors	8.0
Sales/Stock	10.0
Sales/Total Assets	2.0
Net profit ratio	3%
Net profit to total Assets	7%
Net profit to Net Worth	10%
Total Debt to Total Assets	60%

15

8. (a) Mention few symptoms which might indicate that industrial sickness lies ahead.
- (b) What are the usual components of the revival programme of sick unit? 5+10

9. Balance Sheet of XY Co.Ltd. as at March 31st 2014 and 2015 :

Liabilities	2014	2015
	Rs.	Rs.
Share Capital	2,00,000	2,50,000
General Reserve	50,000	60,000
P & L A/c	30,500	30,600
Long term loan	80,000	—
Creditors	1,20,000	1,00,400
Provision for taxation	20,000	25,000
	<u>5,00,500</u>	<u>4,66,000</u>
Assets		
Buildings	2,00,000	1,60,000
Machinery	1,50,000	1,69,000
Stock	1,00,000	75,000
Debtors	50,000	54,200
Cash and Bank	500	2,800
Good will	—	5,000
	<u>5,00,500</u>	<u>4,66,000</u>

Additional information :

- (i) During the year ended 31.3.2015, a dividend of Rs. 23,000 was paid.

- (ii) Assets were purchased for Rs.45,000 payable in shares of XY Co. Ltd. The assets were : Stock Rs. 20,000 and Machinery Rs.25,000.
- (iii) Further purchase of Machinery for cash Rs. 10,000
- (iv) Machinery is depreciated by Rs. 14,000.
- (v) Income tax provided during the year Rs.30,000.
- (vi) There was loss on sale of Machinery Rs.1000 which was written off to general reserve.

You are required to prepare Cash Flow Statement.

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10. (a) Explain how 'Present Value Method' and 'Internal Rate of Return' differ as a criteria for evaluating capital expenditure projects.
- (b) Discuss the limitations of ratios in interpreting financial statements.

8+7