

**2012**

**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.

Answer any four questions from the following : 5×4

- 1) Write down the basic objectives of financial management.

(Turn Over)

- (b) Discuss in brief any four factors that determine dividend policy decisions of a firm.
- (c) Cost of Retained Earnings is zero. Give your comments.
- (d) The balance sheet of strong Ltd. as on 31.3.2012 is as follows :

Liabilities	₹	Assets	₹
Equity Capital (Rs. 10 per share)	60,000	Net Fixed Assets	1,50,000
10% Long-term Debt	80,000	Current Assets	50,000
Reserves	20,000		
Current liabilities	40,000		
	2,00,000		2,00,000

The company's total assets turnover ratio is 3, its fixed operating costs are Rs. 1,00,000 and the variable operating costs ratio is 40%. The income tax rate is 30%.

You are required to compute all the three types of leverage.

- (e) What are the reasons of disinvestment in Public Sector Enterprises ?
- (f) Write a short note on operating cycle concept of working capital.

- (g) Show the effect of dividend policy on market price of share by applying Walter's Model when D/P ratio is—
- 25%.
  - 50%.
  - 100% on the basis of the given information:  
Capitalisation rate ( $K_e$ ) = 10%  
Earnings per share = Rs. 10  
Rate of return on investment = 15%

- (h) Name the different types of lease. Explain any one of them. 2+3

Answer any two of the following : 15×2

2. (a) Prove mathematically M-M's Irrelevance Theory on the relationship between dividend payment and value of a firm. What are the criticisms of the theory?
- (b) The following information is available in respect of rate of return on investment ( $r$ ), the capitalisation rate ( $K_e$ ) and the earnings per share ( $E$ ) of Sweetly Ltd. :

$$r = 12\%$$

$$E = \text{Rs. } 20.$$

Determine the value of shares using Gordon's Model when D/P ratio is 30% and  $K_e$  is 18%.

(7+4)+4

3. You are provided with the following information of Excel Ltd. for the year 2012-13 :

Production of the year	69,000 units
Finished goods stock	3 months
Raw material stock	2 months' consumption
Production Process	1 month
Credit allowed by creditors	2 months
Credit given to debtors	3 months
Selling price per unit	Rs. 50
Raw material	50% of selling price
Direct Wages	10% of selling price
Manufacturing and administrative overheads	16% of selling price
Selling overheads	4% of selling price

There is a regular production and sales cycle and wage overheads accrue evenly. Wages are paid in the next month of accrual. Material is introduced at the beginning of the production cycle. You are required to ascertain its working capital requirements. 15

4. (a) What is cost of capital? Explain the term explicit and overall cost of capital.
- (b) What are the different types of weights used in computing overall cost of capital? Mention in brief the advantages and disadvantages in using 'market value' as the weight.
- (c) Discuss briefly the usefulness of cost of capital in making financing decisions. (2+3)+(1+4)+5
5. (a) Write down the recommendations of Tandon Committee with respect to bank credit.
- (b) What is an Indifference Point in the EBIT-EPS analysis? How is it computed? 8+7

### Second Half

#### (Management Accounting)

[Marks : 50]

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

6. Answer any two of the following : 10×2
- (a) Define Management Accounting. Distinguish between Management Accounting and Financial Accounting. Write down the limitations of Management Accounting. 2+5+3
- (b) Write down the assumptions of 'discounted cash flow' methods in capital budgeting. Why is the IRR called a rational method for project selection? 4+6
- (c) What are the different ways for fixing standard financial ratio for inter-firm comparison. Briefly explain any one of them. 2+8
- (d) A dealer of a perishable product earns a profit of Rs. 6 per kg. if he can sell it within two days, but incurs a loss of Rs. 4 per kg. if he fails to do so. The estimated demand for the product and the respective probabilities are given below :

Estimated Demand	Probability
0 kg	5%
1 kg	20%
2 kgs	40%
3 kgs	25%
4 kgs	10%

In order to maximise his profit, what should be the quantity of stock that he should hold?

10

7. A company is considering the replacement of one of its existing machines by a new one. The written down value of the existing machine is Rs. 2,00,000 and its cash salvage value is Rs. 1,00,000. The removal of this machine would cost Rs. 10,000 by way of labour charges.

The purchase price of the new machine is Rs. 20 lakhs and its expected life is 10 years. The company follows straight line method of depreciation. The other expenses associated with the new machine are :

Carriage inward and installation charges Rs. 15,000  
Additional working capital requirement Rs. 1,00,000.  
Consultation fees for purchasing the new machine Rs. 5,000.

The annual savings (before tax) from the new machine would amount to Rs. 2,00,000.

The income tax rate is 30% and the company's required rate of return is 10%.

Should the new machine be purchased?

[Given : The present value of Re. 1 at 10% rate of discount at the end of 1st year is 0.909 and at the end of 10th year is 0.386.

The present value of an annuity of Re. 1 at 10% rate of discount for 10 years is 6.145].

15

8. The comparative Balance Sheets of Bijoy Company are given below :

<i>Liabilities :</i>	<i>End of 2010 (Rs. in lakhs)</i>	<i>End of 2011 (Rs. in lakhs)</i>
Share Capital	500	500
Reserve and Surplus	425	500
Long-term debt	300	330
Short-term bank borrowings	200	225
Trade creditors	100	95
Provisions	75	80
	<u>1,600</u>	<u>1,730</u>

*Assets :*

Fixed Assets (Net)	850	1,000
Inventories	340	350
Debtors	360	330
Cash	30	35
Misc. Expenses	20	15
	<u>1,600</u>	<u>1,730</u>

The Income Statement of Bijoy Company for the year ended 2011 is given below : (Rs. in lakhs)

Net Sales	2,040
Cost of Goods Sold	1,360
Stock	1,010
Wages & Salaries	210
Other manufacturing exp.	<u>140</u>

*Contd.*

*(Turn Over)*

Gross Profit		680
Operating expenses		340
Depreciation	110	
Selling and adm. expenses	<u>230</u>	
Operating profit		340
Non-operating income		25
EBIT		365
Interest		70
EBT		295
Tax		130
EAT		165
Dividends		90
Retained earnings		75
Prepare a Cash Flow Statement for the year ended 2011.		15

9. The following ratios are given for XYZ Company :

Net profit margin ratio	4%
Current ratio	1.25
Return on Net Worth	15.23%
Total debt to total assets ratio	0.40
Inventory turnover ratio	25 times.

Complete the following statements of XYZ Company :

<i>Income Statement</i>	<i>Rs. in '000</i>
Sales	—
Cost of goods sold	—
Operating expenses	700
EBIT	—
Interest	45
Profit before tax	—
Tax provision (50 percent)	—
Profit after tax	—

Balance Sheet (in Rs. '000)

Net Worth	—	Fixed Assets	—
Long-term Debt	—	Current Assets	180
(@ 15% interest)		Inventory	—
Accounts payment	—	Receivable	60
		Cash	—
	<u>—</u>		<u>—</u>
			15

10. (a) What are the different causes of Industrial Sickness ?

(b) Using Altman's function, calculate Z score in case of Lima Company, Whose five accounting ratios are as follows :

- |  |          |
|--|----------|
| (i) Working capital to Total Assets                        | = 20%    |
| (ii) Sale, to Total Assets                                 | = 2.0    |
| (iii) Market value of Equity to<br>Book vale of Total Debt | = 135.5% |
| (iv) Retained Earnings of total Assets                     | = 35%    |
| (v) EBIT to Total Assets                                   | = 13.5%  |

Also interpret the result.

(c) Express the general model of the 'Learning Curve'.  
6+6+3