 PG/IIIS/COM/305.1 & 305.2 /23

M.Com. 3rd Semester Examination, 2023

COMMERCE

(*Advanced Management Accounting*)

PAPER – COM-305 AF

Full Marks : 50

Time : 2 hours

The figures in the right hand margin indicate marks

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

COM-305 AF.1

1. Answer any *two* questions : 5×2

(*a*) "Management Accounting has been evolved to meet the needs of management". Discuss.

(*b*) What is pay-back period ? Why pay-back period is popular among the investors ?

(*c*) How can a capital investment decision be taken in the situation of capital rationing ? State about the internal and external factors that lead to capital rationing situation. 2 + 3

2. Answer any *one* question : 10 × 1

(*a*) Mr. Ghosh wants to introduce a new project of prawn processing in Contai. The initial investment of the project in different fixed assets is estimated as Rs. 20,00,000. The estimated life of the project is 5 years. The working capital requirement for the project is estimated as Rs. 5,00,000.

The projected operating results are as follows :

Year	1	2	3	4	5
Price per kg. (Rs.)	200	200	220	250	250
Production (in Qtl.)	200	250	200	175	175
Variable cost per Kg. (Rs.)	120	130	160	160	170
Fixed cost (Rs.) (excluding depreciation)	4,80,000	7,50,000	7,50,000	6,00,000	6,00,000

Mr. Ghosh charges depreciation on its fixed assets on straight line basis. The estimated salvage value of the assets is Rs. 2,00,000. Regarding the investment in working capital, it is expected that 20% of it will be freed at the end of 4th year and the remaining at the end of the project life.

Assume that the income tax rate is 25% and the required rate of return of Mr. Ghosh on such type of investment is 15%.

Calculate NPV of the project and comment on the project feasibility.

(*b*) A firm is considering two mutually exclusive projects : Project A and Project B. the initial investment on the projects are Rs. 15 lakh and Rs. 20 lakh respectively. The estimated cash inflows of the projects are given below :

Project A				Project B			
Year 1		Year 2		Year 1		Year 2	
Cash Flow	Prob.	Cash Flow	Prob.	Cash Flow	Prob.	Cash Flow	Prob.
10	0.1	10	0.1	16	0.2	12	0.3
12	0.2	9	0.3	11	0.5	16	0.1
14	0.4	8	0.4	14	0.2	18	0.2
15	0.3	7	0.2	18	0.1	8	0.4

Cash flows of different years are assumed to be independent. Cost of capital is assumed to be 8%. From the above determine which project is more preferable to the firm.

COM-305.2

3. Answer any *two* questions : 5×2

(*a*) What are the different responsibility centers in responsibility accounting ? Give a note on the investment centre. 1 + 4

(*b*) What are the different methods of fixinginter-divisional transfer price ? Briefly explain any one of them. 2 + 3

(*c*) Discuss the need for making financial distress analysis.

4. Answer any *one* question : 10 × 1

(*a*) (*i*) A company has two divisions : Alfa and Beta. Alfa manufactures a component which is used by Beta as an input. The relevant information of Alfa is given below :

Production capacity of Alfa	60,000 units per quarter
Maximum external demand	50,000 units per quarter
Variable cost per unit	Rs. 12
Fixed cost per quarter	Rs. 8,000

The external selling price of the component produced by Alfa Division is Rs.18 per unit.

In a certain quarter Beta Division requires 8,000 units of the components produced by Alfa Division, but agree to pay only a transfer price of Rs. 15 per unit. An external supplier is ready to supply the component at Rs 15 per unit to Beta Division.

(A) Should Beta Division buy the component from the external supplier at a price of Rs. 15 per unit ?

(B) If the requirement of the component of Beta Division is increased to 25,000 units for the quarter and the Division is unable to find any suitable external supplier, then what would be the minimum transfer price that Alfa Division may charge to Beta Division ?

(*ii*) What do you understand by Residual Income ? 8 + 2

(*b*) Following is the Balance Sheet of Weak Company Ltd. as at 31.03.2023

Liabilities	Rs.	*Assets*	Rs.
40,000 Equity Shares @ Rs 10 each	4,00,000	Net fixed assets	9,20,000
Retained Earnings	50,000	Investments	4,00,000
12% Debentures	5,00,000	Closing stocks	50,000
10% Debentures	3,00,000	Sunday debtors	1,20,000
Sundry Creditors	2,00,000	Cash at bank	10,000
Outstanding Expenses	50,000		
	15,00,000		15,00,000

Additional information :

(*i*) For the year 2022-23, Weak Company Ltd. has earned a net profit before depreciation, interest and taxes amounting to Rs. 4,00,000/- against a turnover of Rs. 18,75,000/-.

(*ii*) The company charges depreciation on its fixed assets on straight line basis @8% p.a.

(*iii*) The company has a P-E ratio of 2.0

(*iv*) Corporate tax rate is assumed to be 25%

Comment about the financial health of the company by calculating Altman's Z-Score. 10

[***Internal Assessment*** **– 10 Marks**]