2016

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) Distinguish between financial lease and operating lease. 5

(b) Give the assumptions of deducing the formula of EOQ under the normal circumstance in inventory Management. 5

(c) Give a critical appraisal of the traditional approach to the theory of capital structure. 5

(d) State the merits and demerits of stability of dividend. $2\frac{1}{2} \times 2$

(e) Surya Ltd. has the following capital structure :

	Rs.
Equity shares (400,000 shares)	80,00,000
10% Preference shares	20,00,000
14% Debentures	60,00,000
	1,60,00,000

The shares of the company currently sells for Rs. 25. It is expected that the company will pay a dividend of Rs. 2 per share which will grow at 7 percent forever. Assume a 50 percent tax rate, you are required to compute weighted average cost of capital on existing capital structure. 5

(f) Mention major points of the difference between operating cycle of a manufacturing company and that of non-manufacturing company. 5

(g) State the benefits and costs of receivables. 5

(h) XY company has a policy of maintaining a minimum cash balance of Rs. 30,000. The standard deviation of company's daily net cash flow is Rs. 1,000. The transaction cost is Rs. 90 per transaction. The interest rate is 2 percent daily.

Find the spread Z the return level, the upper limit and the average cash balance according to Miller-ORR model. 3+1+1

2. Explain the principal determinations of the dividend policy of a corporate enterprise. 15

3. You are required to prepare the net working capital of project. Add 10 percent to your computed figure to allow contingencies. You are given the following information.

Particulars	Amount per unit Rs.
Estimated cost per unit of production :	
Raw Material	80
Direct labour	30
Overheads (exclusive of depreciation, Rs.10 per unit)	60
Total cash cost	170

Additional Information :

(i) Selling price : Rs. 200 per unit.

(ii) Level of activity : 104,000 units of production p.a.

(iii) Raw materials in Stock : average 4 weeks.

(iv) W-I-P (assume 50 percent completion stage in respect of conversion costs and 100 present completion in respect of materials) : average 2 weeks.

(v) Finished goods in stock : average 4 weeks.

(vi) Credit allowed by suppliers : average 4 weeks.

(vii) Credit allowed to debtors : average 8 weeks.

(viii) Lag in payment of wages : average 1·5 weeks.

(ix) Cash at bank is expected to be Rs. 25,000.

You may assume that production is carried on evenly throughout the year (52 weeks) and wages and

overheads accrue similarly. All sales are made on credit basis only.

4. (a) The PQ company's most recent balance sheet is as follows :

Liabilities	Rs.	Assets	Rs.
Eq. Capital (Rs. 10 per share)	60,000	Net Fixed assets.	1,50,000
10% Long-term debt	80,000	Current assets	50,000
Retained earnings	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 percent. The income tax rate is 35 percent.

(i) Calculate all the three types of leverages.

(ii) Determine the likely level of EBIT if EPS is (a) Re. 1, (b) Rs. 3 and (c) Zero.

(b) What is the 'indifference point' in the context of EBIT-EPS analysis ? State its usefulness ? 10+2+3

5. (a) Briefly discuss the factors affecting capital structure.

(b) Why does the finance manager keep in mind the degree of financial leverage in evaluating various financing plans ? 9+6

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) Write a short note on 'Common-size Financial Statement.'

(ii) Discuss the problems faced by the financial analyst to analyse financial statements. 5+5

(b) (i) What is Profitability Index or Benefit Cost Ratio in Capital budgeting decision ? 3

(ii) What do you mean by IRR ? 3

(iii) Write short notes on : Return on Capital Employed and Liquidity Ratio. 2+2

(c) (i) Briefly discuss the objectives of financial statement analysis.

(ii) Distinguish between Cash Flow Statement and Fund Flow Statement. 5+5

(d) (i) What is Industrial Sickness ?

(ii) Narrate in brief the different reasons for industrial sickness.

(iii) State the methods that are to be adopted for revival for sick units. 2+4+4

7. The Balance Sheet of Sourav Ltd. as on 31.3.2015 & 31.3.2016 are given below :

Assets	*31.3.15* Rs.	*31.3.16* Rs.
Fixed Assets at Cost	10,00,000	10,00,000
Less : Depreciation	2,60,000	3,10,000
	7,40,000	6,90,000
Trade Investment	1,10,000	90,000
Current Assets	3,20,000	4,50,000
Preliminary Exp.	30,000	20,000
	12,00,000	12,50,000

Liabilities	*31.3.15* Rs.	*31.3.16* Rs.
Share Capital	4,00,000	5,00,000
Capital Reserve	–	20,000
General Reserve	1,80,000	2,10,000
P & L A/c	70,000	90,000
Debentures	3,00,000	2,00,000
Payable	1,30,000	1,20,000
Provision for taxation	80,000	60,000
Proposed Dividend	40,000	50,000
	12,00,000	12,50,000

During the year ended 31st March 2016 the company :

(i) Sold one machine for Rs. 40,000, the cost of which was Rs. 80,000 and the depreciation provided on it was Rs. 30,000.

(ii) Provided Rs. 1,00,000 as depreciation.

(iii) Redecmed the debentures at Rs. 105.

(iv) Sold some trade investment which was credited to Capital reserve.

(v) Decided to write off fixed assets (fully depreciated costing Rs. 20,000) and

(vi) Decided to value opening stock at Cost which was valued previously at Cost less 10%.

The opening stock according to books of accounts was Rs. 63,000. The closing stock was currently valued at Cost. Prepare a Fund Flow Statement for the year ended 31st March, 2016. 15

8. Explain the objectives of Management Accounting. Discuss the major points of difference between Management Accounting and Cost Accounting. 15

9. The standard ratios for the ratios of the Bright Company and given as follows :

	Industry Standard	*Bright Company*
Current Ratio	2 : 1	1·5 : 1
Liquid ratio	1 : 1	0·75 : 1
Debtors' Turnover	5 times	6 times
Creditors' Turnover	4 times	3·8 times
Debt-Equity ratio	1 : 1	2 : 1
Proprietors' equity to total assets	0·4 : 1	0·24 : 1
Fixed Assets to Proprietors' equity	1 ·25 : 1	2 · 44 : 1
Capital Turnover	1· 87 times	1·85 times
Total Assets Turnover	1· 36 times	1·35 times
Fixed Assets Turnover	3 times	2 · 3 times
Working Capital Turnover	1· 94 times	2·7 times
Stock Turnover	5 times	5 · 4 times
Gross profit ratio	25%	20%
Operating Ratio	88%	85%
Net profit Ratio	12%	15%
ROI	22·5%	28%

You are required to make necessary comments on the financial status of the company based on the above ratio 15

10. (a) Distinguish between NPV and IRR approach to capital budgeting decisions.

(b) Write a short note on 'capital budgeting decisions under capital rationing'.

10+5