2018

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 to 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 : 4×5

(a) Explain the term "trading on equity". Why, when and how it can be used by a business organization? 2+3

(Turn Over)

(b) Why is Preference Capital considered as a hybrid form of financing ? Explain. 5

(c) Write short notes on (i) Finance lease, (ii) Operating lease. 2½+2½

(d) What are the different approaches to financing of working capital requirements ? Explain in detail. 5

(e) Discuss five important determinants of working ? 5

(f) Distinguish between specific cost of capital and overall cost of capital. What do you mean by implicit cost of capital ? 3+2

(g) Discuss in brief the Net Income Approach in relation to capital structure theory. 5

(h) Briefly discuss three important factors which influence dividend policy decision of a firm. 5

2\. (a) What is meant by financial management ? Explain any three decisions involved in the financial management.

(b) 'The profit maximization is not an operationally feasible criterion'. Do you agree ? Illustrate your views. 7+8

3\. A proforma cost sheet of a company provides the following particulars :

Particulars	*Amount per unit (Rs.)*
Elements of Cost :	
Raw Materials	80
Direct labour	30
Overhead	60
Total Cost	170
Profit	30
Selling price	200

The following further particulars are available :

Raw materials in stock, on average, one month : Material in progress (completion stage, 50 per cent), on average, half a month; Finished goods in stock, on average, one month.

Credit allowed by suppliers is one month; Credit allowed to debtors is two months; Average time-lag in payment of wages is 1.5 weeks and one month in overhead expenses; one-fourth of the output is sold against cash;

cash in hand and at bank is desired to be maintained at Rs. 3,65,000.

You are required to prepare a statement showing the working capital needed to finance a level of activity of 1,04,000 units of production. You may assume that production is carried on evenly throughout the year, and wages and overhead are accrue similarly. For calculation purposes, 4 weeks may be taken are equivalent to a month. 15

4. (a) Explain the usage of EBIT-EPS analysis.

(b) A company needs Rs. 5,00,000 for construction of a new plant. The following three financial plans are feasible.

(i) The company may issue 50,000 ordinary shares at Rs. 10 per share.

(ii) The company may issue 25,000 ordinary shares at Rs. 10 per share and 2,500 debentures at Rs. 100 denominations bearing a 8 per cent rate of interest.

(iii) The company may issue 25,000 ordinary shares at Rs. 10 per share and 2,500 preference shares

at Rs. 100 per share bearing a 8 per cent rate of dividend.

If the company's earnings before interest and taxes are Rs. 10,000, Rs. 20,000, Rs. 40,000, Rs. 60,000 and Rs. 1,00,000, what are the earnings per share under each of the three financial plans ? Which alternative would you recommend and why ? Determine the indifference points by formulae and graphically. Assume a corporate tax rate of 50 per cent. 5+10

5. (a) What is the CAPM approach of calculating the cost of equity ? What is the difference between this approach and the constant growth approach ? Which one is better ? Why ?

(b) The Blue Line Company Ltd. is contemplating a debenture issue on the following terms :

Face value	:	Rs. 100 per debenture
Term of maturity	:	7 years
Yearly rate of interest		
Year 1–2	:	9 per cent
3–4	:	10 per cent
5–7	:	11 per cent

The current market rate on similar debentures is 11 per cent per annum. The company proposes to price the issue so as to yield a return of 12 per cent per annum to the investors. Determine the issue price. Assume redemption at a premium of 5 per cent on face value. 8+7

Second Half

(*Management Accounting*)

[Marks : 50]

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

6. Answer any *two* questions : 2×10

(a) Define Management Accounting. How does it differ from Cost Accounting and Financial Accounting? 2+8

(b) What is financial ratio? Write the significance of ratio analysis. What are the limitations of ratio analysis? 1+5+4

(c) Compare and contrast the Certainty Equivalent Approach and Risk Adjusted Discount Rate Approach for evaluating investment project under the condition of risk and uncertainty. 10

(d) What do you understand by the net present value (NPV) of a project? Do you think that the NPV method of capital budgeting is a rational method? Justify your answer. 2+8

7. Answer any *two* questions : 2×15

(a) What do you understand by interfirm and intra-firm comparison of ratios?

(b) Certain items of Fortune Ltd. are missing as shown below :

Trading and Profit and Loss Account for the year ended 31st March, 2018

Particulars	*Rs.*	*Particulars*	*Rs.*
To Opening stock	3,50,000	By Sales	—
To Purchase	—	By Closing stock	—
To Other expenses	87,500		
To Gross profit	—		
			—
To Office and other expenses	3,70,000	By Gross profit	—
		By commission	50,000
To Interest on Debenture	30,000		
To Provision for Taxation	—		

To net profit for the year	—		
	—		—
To Proposed dividends	—	By balance brought forward	70,000
To transfer to General Reserve	—	By Net profit for the year	—
To balance transfer to Balance sheet	—		
	—		—

Balance Sheet as at 31st March, 2018

Liabilities	*Rs.*	*Assets.*	*Rs.*
Paid up Capital	5,00,000	Fixed Assets :	
General Reserve: Bal. at the beginning		Plant and Machinery	7,00,000
of the year	—	Other Fixed Assets	—
Proposed addition	—	Current Assets :	
P/L Appropriation Account	—	Stock in trade Sundry Debtors	— —
10% Debentures	—	Sundry Debtors	—
Current Liabilities	—	Balance at bank	62,500

You are required to supply the missing figures with the help of the following information :

(i) Current ratio 2 : 1

(ii) Closing stock is 25% of sales

(iii) Proposed dividend is 40% of the paid-up capital

(iv) Gross profit ratio is 60%

(v) Ratio of current liabilities to debentures is 2 : 1

(vi) Transfer to general reserve is equal to proposed dividend

(vii) Profit carried forward is 10% of the proposed dividend

(viii) Provision of taxation is 5% of profit

(ix) Balance to the credit of general reserve at the beginning of the year is twice the amount transfer to that account from the current profit. 3+12

8. (a) What is Industrial Sickness ? What are the measures should be adopted for the revival of the sick unit ?

(b) Differentiate between Cash Flow Statement and Fund Flow Statement. 2+5+8

9. (a) What is learning curve ? What are its applications ?

(b) The Minnesota Coach Company has just been given the following production schedule for ski-lift gondola cars. This product is considerably different from any others the company has produced. Historically, the company's learning rate has been 80 per cent on large projects. The first unit took 1,000 hours to produce the gondola car. The company's production schedule for supplying 32 units of production is given below:

Month	*Units*	*Cumulative units*
1	3	3
2	7	10
3	10	20
4	12	32

Estimate the total hour required for producing 32 units of production

(c) Point out the general symptoms of financial distress of a company. 5+5+5

10. From the following details, prepare a statement of sources and applications of funds of BPR Ltd. for the year ended 31st December 2016 :

	31.12.16	*31.12.15*
Equity Share Capital	4,00,000	2,50,000
Pref. Share Capital	—	1,50,000
Revaluation Reserve	70,000	1,00,000
General Reserve	60,000	50,000
P & L A/c	10,000	—
15% Debentures	1,00,000	—
Bank Overdraft	50,000	40,000
Provision for Taxation	60,000	10,000
Sundry Creditors	3,50,000	3,20,000
	11,00,000	9,20,000
Plant and Machinery	4,00,000	3,80,000
Other Fixed Assets	20,000	20,000
Stock-in-trade	3,20,000	2,00,000
Book Debts	3,55,000	2,90,000
Debenture Discount	5000	—
P & L A/c	—	30,000
	11,00,000	9,20,000

(a) During 2016, preference shareholders were given an option to convert their shares into equity shares or have the preference shares redeemed at a premium of 5%. Holders of Rs. 50,000 preference shares opted for conversion and other shares were redeemed. The premium was charged to Profit and Loss A/c.

(b) Depreciation charged during the year 2016 had been Rs. 70,000 on Plant and Machinery, out of which Rs. 30,000 was charged against revaluation reserve. Rs. 5000 on other fixed assets.

(c) The balance in the provision for taxation account is after charging Rs. 20,000 paid as advance income tax.

(d) Debenture were issued at a discount one half of which has been written off against profits.

(e) Included in Stock-in-trade as on 31.12.15 was a plant costing Rs. 60,000. This was capitalised in 2016.

15
