2012

M. COM.

3rd Semester Examination

ADVANCED MANAGEMENT ACCOUNTING

PAPER — COM-305 (AF)

Full Marks : 50

Time : 2 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.

Unit—I

[Marks : 20]

1. Answer any *two* of the following : 5×2

(a) Management Accounting for managerial decision making process. Explain.

(b) Write a brief note on certainty equivalent approach of capital budgeting under condition of risk.

(c) Is there any contradiction between NPV and IRR method for project selection ? Justify.

(d) Examine the rationality of NPV method for project evaluation under capital budgeting.

2. Answer any *one* question of the following : 10×1

(a) Bright Co. Ltd. is considering two competing projects — Project A and Project B, each requiring initial cash outflow of Rs. 4,00,000 each. The other details of the projects are :

After tax net Cash inflow at year end (Rs.)

Year	*Project A*	*Project B*
1	40,000	1,20,000
2	1,20,000	1,60,000
3	1,60,000	2,40,000
4	2,40,000	80,000
5	1,60,000	60,000

At the end of 5th year, a scrap value of 5% of the project cost is expected to be realised from Project A.

However, no scrap value is likely to be realised from Project B. The company has a target rate of return on capital @ 10 per cent and on this basis, compute the Pay Back Period, Net Present Value and the Profitability Index of the two competing projects.

Rank the two projects based on the three criteria and then comment which project should be preferred by the company. 10

(b) Ujwal Lamps Company is considering an investment project which has an estimated life of 4 years. The cost of the project is Rs. 10,000 (lakhs) and the possible cash flows (in Rs. lakhs) are given below :

Year-1		Year-2		Year-3		Year-4	
Cash Flow	Prob.	Cash Flow	Prob	Cash Flow	Prob	Cash Flow	Prob.
2,000	0·2	3,000	0·4	4,000	0·3	2,000	0·2
3,000	0·5	4,000	0·3	5,000	0·5	3,000	0·4
4,000	0·3	5,000	0·3	6,000	0·2	4,000	0·4

The cash flows of various year are independent and the risk-free discount rate (post-tax) is 6%.

Required :

(i) Calculate the expected net present value of the project.

(ii) If NPV is approximately normally distributed, what is the probability that NPV will be zero or less ?

(iii) What is the probability that the profitability index will be greater than 1·2 ?

3+5+2

Unit—II

[Marks : 20]

3. Answer any *two* of the following questions : 5×2

(a) Define industrial sickness as per the Companies (Second Amendment) Act, 2002. Write down any six leading indicators of corporate sickness. 2+3

(b) Write down the different methods for fixing interdivisional transfer price. Briefly explain any one. 1+4

(c) Give a brief overview of Argenti Scoreboard for predicting corporate sickness. 5

(d) Explain the basic principles to be followed for fixing inter-divisional transfer price. 5

4. Answer any *one* question of the following : 10×1

(a) Saina Company is facing the difficulty in its budgeting process, as it is unable to find the learning effect for a new product.

An initial order of 30 units of such has been received by the company. So far 14 units have been completed. The first unit required 40 direct labour hours and a total 240 direct labour hours have been recorded to complete 14 units. The production manager assumes a learning effect of 80%. The cost data of the company is as follows :

Direct Material	Rs. 30 per unit
Direct Labour	Rs. 10 per hour
Variable Overhead	Rs. 2 per labour hour
Fixed Overhead	Rs. 12,000 per four week of operation.

There are 10 labours working in a five-day week and eight hours per day. Personal and other down time allowances is 25% of the total available time.

The company usually quotes a four-week delivery period for orders.

Required :

(i) Examine whether the assumption of 80% learning effect is reasonable one.

(ii) Estimate the cost of production for the initial order of 30 units.

(iii) Calculate the direct labour hour requirement for an expected second order of 30 units.

Given : log 2 = 0·301 Antilog of 1·233 = 17·14
log 3 = 0·477 Antilog of 1·126 = 13·38
log 14 = 1·146

3+5+2

(b) A large company is organized into several manufacturing divisions. The policy of the company is to allow the Divisional Managers to choose their sources of supply and to negotiate prices with other sister divisions.

Division-X buys all its requirements of the main raw material R from Division–Y. The full manufacturing cost of R Division–Y is Rs. 88 per kg. at normal volume.

Till recently, Division–Y was willing to supply R to Division–X at a transfer price of Rs. 80 per kg, as the marginal cost of it was Rs. 76 per kg. Since Division–Y is now operating at its full capacity, it is unable to meet the outside demand of R at its market price Rs. 100 per kg. Division–Y now demanding the market price from Division–X for supplying R.

Division–X resisting pressure because of its budget based on the consumption of 1,00,000 kgs per month at a price of Rs. 80 per kg., is expected to yield a profit of Rs. 25,00,000 per month and so a price increase to Rs. 100 per kg will bring the Division–X close to B. E. Point.

Division–X even found an outside source for a substitute material at a price of Rs. 95 per kg.

Alternatively, Division–X is ready to pay Division–Y even the full manufacturing cost of Rs. 88 per kg.

Required :

(i) Using each of the transfer prices of Rs. 80, Rs. 88, Rs. 95 and Rs. 100, show the financial results of the Divisions and the company as a whole.

(ii) Comment on the effect of each transfer price on the performance of Division–X, Division-Y and the company as a whole.

5+5

[Internal Assessment : 10 Marks]
