K17P 1553

Reg. No. : ....

Name : ....

First Semester M.Com. Degree (Reg./Suppl./Imp.) Examination, October 2017 (2014 Admission Onwards)
COM1C05 : ACCOUNTING FOR BUSINESS DECISIONS

Time : 3 Hours Max. Marks : 60

SECTION – A

Answer **any 4** sets **1** mark for (a), **3** for (b) and **5** for (c).

I. a) What do you mean by responsibility accounting ?

b) What are the different responsibility centres ?

c) Explain the different steps in responsibility accounting ?

II. a) What is composite cost of capital ?

b) State the significance of the concept of cost of capital.

c) The shares of a company are selling at ₹ 80 per share and the company had paid dividend of ₹ 8 per share last year. The investors expect a growth rate of 5% per year.

a) Calculate the equity cost of capital

b) If the expected growth rate is 7% p.a. calculate the market price per share.

III. a) What is decision tree analysis ?

b) Explain the steps you take for constructing a decision tree.

c) Explain the various technique used for incorporating risk factor in capital budgeting decision.

IV. a) What do you mean by Zero Base Budgeting (ZBB) ?

b) What are the processes involved in ZBB ?

c) Distinguish between traditional budgeting and Zero Base Budgeting.

P.T.O.

V. a) What is explicit cost of capital ?

b) What are the assumptions of cost of capital ?

c) Explain the factors determining cost of capital.

VI. a) Define capital budgeting.

b) State the significance of capital budgeting.

c) Discuss the process involved in capital budgeting. **(4×9=36)**

SECTION – B

VII. a) A limited company has the following capital structure :

	₹
Equity share capital (2,00,000 shares)	40,00,000
6% preference shares	10,00,000
8% debentures	30,00,000
	80,00,000

The market price of the company's equity share is ₹ 20. It is expected that company will pay a current dividend of ₹ 2/- per share which will grow at 7% for ever. The tax rate may be presumed at 50%. You are required to compute the following.

a) WACC based on existing capital structure.

b) The new WACC if the company raises an additional ₹ 20,00,000 debt by issuing 10% debentures. This would result in increasing the expected dividend to ₹ 3/- and leave the growth rate unchanged but the price of share will fall to ₹ 15 per share.

c) The cost of capital if in (b) above, growth rate increases to 10%. 12

OR

b) What is management accounting ? Explain the tools of management accounting. 12

VIII. a) Your company can make either of the following two investments at the beginning of 2010. Following particulars are available in this respect.

	Project I	Project II
	₹	₹
Estimated cost (to be incurred initially)	20,000	28,000
Estimated life (years)	4	5
Scrap value at the end	nil	nil
Estimated net cash flow (₹) :		
End of 2010	5,500	5,600
End of 2011	7,000	9,000
End of 2012	8,500	9,000
End of 2013	7,500	9,000
End of 2014	–	9,000

It is estimated that each of the alternative project will require an additional working capital of ₹ 2,000 which will be received back in full after the expiry of each project life. In estimating net cash flow depreciation has been provided under straight line method.

Cost of finance to your company may be taken at 10% p.a. The present value of ₹ 1 to the received at the end of each year, at 10% is given below :

Year :	1	2	3	4	5
P.V. :	0.91	0.83	0.75	0.68	0.62

Evaluate the investment proposed using NPV. **12**

OR

b) What do you understand by budgetary control ? Describe the essential steps of a budgetary control. **12**

(2×12=24)