0033382

K19P 1472

Reg. No. : ....

Name : ....

I Semester M.Com. Degree (CBSS-Reg./Suppl./Imp) Examination, October - 2019 (2014 Admission Onwards) COM 1 C05: (ACCOUNTING FOR BUSINESS DECISIONS)

Time : 3 Hours

Max. Marks : 60

SECTION-A

Answer any **Four** questions in this section.

Each question carries **1** mark for Part (a), **3** marks for Part (b) and **5** marks for Part (c). **(4 x 9=36)**

1. a) What is cost of capital?

   b) Explain the different factors that determine the cost of capital.

   c) i) A company issues 1000, 10% preference shares of Rs.100 each at a discount of 5%. Cost raising capital are Rs.2000. Compute the cost of preference share capital.

      ii) Assume that the firm pays a tax at 50%. Compute after taxcost of a preferred share sold at Rs.100 with a 90% dividend and a redemption price of Rs.110, if the company redeems in 5 years.

2. a) What is capital budgeting?

   b) Explain the different kinds of capital budgeting decisions.

   c) A chemical company is considering investing in a project that costs Rs. 500,000. The life of the project is 5 years and estimated salvage value is 0. Tax rate is 55%. The company uses straight line depreciation and proposed project has estimated EBDT as follows.

Years	EBDT
1	100,000
2	100,000
3	150,000
4	150,000
5	250,000

Determine the following:

i) Pay back period

ii) ARR

iii) NVP @ 15%

iv) Gross profitability index @15%

PV factors at 15% p.a.

Year	1	2	3	4	5
PV factor	0.870	0.756	0.658	0.572	0.497

3. a) What is sensitivity analysis?

b) Explain the relation between risk and return.

c) S Ltd. has Rs.10,00,000 allocated for capital budgeting purposes. The following proposals and ascertained profitability index have been determined as.

Project	Amount	PI
1	3,00,000	1.22
2	1,50,000	0.95
3	3,50,000	1.20
4	4,50,000	1.18
5	2,00,000	1.20
6	4,00,000	1.05

Which of the above investments should be taken? Assume that the projects are indivisible and there no alternatives for capital budgeting. And Comment.

4. a) What is capital rationing?

b) What is Zero Base Budgeting? State its advantages.

c) The budgeted expense for production of 10,000 units in a manufacturing company are given below. From the information prepare a budget for the production of :

i) 8000 units and

ii) 6000 units, Assume that administration expenses are fixed for all levels of production.

	Rs. Per Unit
Material	70
Labour	25
Variable overheads	20
Fixed overheads (Rs. 1,00,000)	10
Variable overheads (direct)	5
Selling expenses (10% fixed)	13
Administrative expenses (Rs. 50,000)	5
Distribution expenses (20% fixed)	7

5. a) What is environment accounting?
   b) What is a budget manual and mention the important matters dealt in a budget manual.
   c) What is responsibility accounting? And what are its benefits?

6. a) What is management accounting?
   b) Distinguish between performance budgeting and traditional budgeting.
   c) Briefly explain control and budgeted ratios.

SECTION-B

Answer the **Two** questions in this section. Each question carries **12** marks. **(2x12=24)**

7. a) M/s Albert & Co. has the following capital structure as on 31st December 2007.

10% debentures	3,00,000
9% preference shares	2,00,000
Equity shares-5000 of Rs.100 each.	5,00,000
TOTAL	10,00,000

The equity shares of the company are quoted at Rs.102 and the company is expected to declare a dividend of Rs.9 per share for 2007. The company has registered a dividend growth of 5% which is expected to be maintained.

i) Assume the tax rate application to the company at 50%, calculate the weighted average cost of capital, state your assumptions if any,

ii) Assume that the company raise additional term loans at 12% for Rs. 5,00,000 to finance an expansion, calculate the revised weighted cost of capital. The company's assessment is that it will be in a position to increase the dividend from Rs.9 per share to Rs.10 per share, but business risk associated with the financing may bring down the market price from Rs.102 to Rs.96 per share.

(OR)

b) A company is considering the purchase of two machines with the following details.

	Machine 1	Machine 2
Life (estimated)	3 years	3 years
Capital cost	Rs.10,000	Rs.10,000
Net cash flow:	Rs.	Rs.
1st year	8000	2000
2nd year	6000	7000
3rd year	4000	10,000

You are required to suggest which machine should be preferred using

i) Pay back period method

ii) Discounted cash flow method (using 10% discount factor)

8. a) What is responsibility accounting? What are the pre-requisites for introducing responsibility accounting in a company ? Also explain the various cost centres in this regard.

(OR)

b) Calculate IRR and modified IRR form the following cash flows at 10% cost of capital.

Year	CEAT
0	-90,000
1	20,000
2	25,000
3	27,000
4	30,000
5	35,000