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FIRST SEMESTER M.Com. DEGREE EXAMINATION, DECEMBER 2015

Type your text

(CUCSS)

MC 1C 03—ACCOUNTING FOR MANAGERIAL DECISIONS

(2015 Admissions)

Type your text

Time : Three Hours

Maximum : 36 Weightage

Part A

Answer all questions.

Each question carries 1 weightage.

1. What is Flexible Budgeting ?
2. Explain Transfer pricing.
3. What is Total Quality Management ?
4. Explain Cost Centre.
5. What is Activity based costing ?
6. What is opportunity cost ?

(6 × 1 = 6 weightage)

Part B

Answer any six of the following.

Each question carries 3 weightage.

7. Balanced score card started as a performance measurement system, but has ended up as a full pledged MCS". Explain with suitable examples.
8. How is the weighted average cost of capital calculated ? What weights should be used in its calculation ?
9. "A higher rate of return on capital employed implies that the firm is managed efficiently." Is this true in every situation ? What or why not ?
10. Is the term 'Appraisal' different from 'Evaluation' ?
11. A company has 1,00,000 shares of Rs. 100 at par of preference shares outstanding at 9.75 per cent dividend rate. The current market price of the preference share is Rs 80. What is its cost ?
12. Sales 4000 units at Rs. 10/unit, BEP 1500 units ; Fixed Cost Rs 3000, What is the amount of variable cost and Profit ?

Turn over

13. A Company issues 10,00,000 12% debentures of 100 each. The debentures are redeemable after the expiry of fixed period of 7 years. The Company is in 35% tax bracket.

Required : Calculate the cost of debt after tax, if debentures are issued at :

- (a) Par.
- (b) 10% Discount.
- (c) 10% Premium.

14. The data relating to two companies are as given below :

	Company A	Company B
	Rs.	Rs.
Equity Capital ...	6,00,000	3,50,000
12% Debentures ...	4,00,000	6,50,000
Output (units) per annum ...	60,000	15,000
Selling price/unit ...	30	250
Fixed Costs per annum ...	7,00,000	14,00,000
Variable Cost per unit ...	10	75

You are required to calculate the Operating leverage, Financial leverage and Combined leverage of these two companies.

(6 × 3 = 18 weightage)

Section C

Answer any two of the following.

Each question carries 6 weightage.

15. What do you meant by budgetary control system ? Explain the process of budgetary control in an organization
16. A company has an old machine having book value of zero, which can be sold for Rs 50,000. The company is thinking to choose one from following two alternatives :
 - (i) To incur additional cost of Rs 10,00,000 to upgrade the old existing machine.
 - (ii) To replace old machine with a new machine costing Rs. 20,00,000 plus installation cost Rs. 50,000.

Both above proposals envisage its useful life to be five years with salvage value to be nil.

The expected after-tax profits for the above three alternatives are as under :

Year	Old existing Machine Rs.	Upgrade Machine Rs.	New Machine Rs.
1.	5,00,000	5,50,000	6,00,000
2.	5,40,000	5,90,000	6,40,000
3.	5,80,000	6,10,000	6,90,000
4.	6,20,000	6,50,000	7,40,000
5.	6,60,000	7,00,000	8,00,000

The tax rate is 40 per cent. The company follows straight line method of depreciation. Assume cost of capital to be 15 per cent.

(P.V.F. of 15%, 1Y = 0.870, 2Y = 0.756, 3Y = 0.658, 4Y = 0.572 and 5Y = 0.497). You are required to advise the company as to which alternative is to be adopted.

17. A company budgets a production of 5,00,000 units at a variable costs of Rs.20 each .The fixed costs are Rs. 20,00,000. The Selling price is fixed to yield 25% on cost. You are required to calculate :

- P/V ratio.
- Break even point.

If the selling price is reduced by 20 % find :

- The effect of the price reduction on the BEP and P/V ratio.
- The number of units required to be sold at the reduced selling price to obtain an increase of 20% over the budgeted profit.

(2 × 6 = 12 weightage)