

M.Com. HPP (AAA) Semester-4 Examination

CC-19

Management Accounting-II

April-2023

Time : 2-30 Hours]

[Max. Marks : 70

Q.1

Aalap Ltd. is considering selecting a machine out of two machines namely P & Q. The cost of Machine-P is ₹2,70,000 and Machine-Q is ₹4,80,000. There will be no scrap value at the end of life of both machines. The cost of capital is 16%. The annual cash flows are as under:

Year	Machine - P	Machine - Q	Discounting factor @ 16%
1	—	1,20,000	0.862
2	60,000	1,60,000	0.743
3	2,60,000	1,80,000	0.641
4	1,60,000	2,00,000	0.552
5	1,60,000	1,80,000	0.476

Calculate:

- Pay-back period
- Net Present Value.
- Profitability Index.

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OR

Q.1

Vishva Ltd. is planning for a capital budgeting project. The details are as follows:

Particulars	Year	Cash flow (₹)
Investment in plant and machinery	0	18,00,000
Profit after depreciation and tax (PAT):		
	1	14,00,000
	2	26,00,000
	3	18,00,000

Additional Information:

- Company uses Strait Line Method (SLM) for depreciation.
- Company falls into tax bracket of 30%.
- Discounting rate is 10%.
- Present value of ₹1 at 10%

Year	0	1	2	3
Present value	1	0.909	0.826	0.751

You are required to evaluate the project acceptance with the help of:

- Net Present Value (NPV) method and
- Profitability Index (PI) method.

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Q.2

Determine risk adjusted net present value of the following projects under consideration of Manush Ltd.:

Particulars	R	S	T
Initial outflow of the project (₹)	5,00,000	5,80,000	6,60,000
Expected Project life	5 years	5 years	5 years
Annual cash inflows (₹)	1,40,000	1,90,000	2,40,000
Coefficient of Variation (C.V.)	0.4	0.8	1.2

The company selects the risk adjusted rate of discount based on coefficient of variation.

C.V.	Risk Adjusted discount rate (RADR)	Present value factor 1 to 5 years
0	10%	3.791
0.4	12%	3.605
0.8	14%	3.433
1.2	16%	3.274

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OR

Q.2

Dee Ltd. is considering one of two mutually exclusive project A and B which require cash outflow of ₹16,00,000 and ₹22,00,000 respectively. The risk-free rate is 6%. The expected net cash inflows and their certainty equivalents are as follows:

Years End	Project A		Project B	
	Cash in flow	Certainty equivalent	Cash in flow	Certainty equivalent
1	6,00,000	0.9	10,00,000	0.8
2	10,00,000	0.8	14,00,000	0.7
3	14,00,000	0.7	18,00,000	0.6

Present value of ₹1 at 6%

Year	0	1	2	3
Present value	1	0.943	0.890	0.840

Required:

- Which project should be accepted?
- Which project is risky and why?

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Q.3

Calculate missing figures in following table for Barkha Ltd.:

Particulars	Division – L	Division – M	Division – N
Sales (₹)	60,000	75,000	1,00,000
Operating Assets (₹)	30,000	(?)	50,000
Operating Income (₹)	(?)	25,000	(?)
ROI (%)	15 %	10 %	20 %
Minimum Required Rate of Return	10 %	(?)	(?)
Residual Income	(?)	10,000	NIL

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OR

Q.3 What is Responsibility Accounting? What are the advantages and limitations of Responsibility Accounting?

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Q.4

Division Z is a profit centre, which produces four products P, Q, R and S. Each product is sold in the external market also. Data for the period is as follows:

Particulars	P	Q	R	S
Market Price per unit (₹)	700	690	560	460
Variable Cost of Production per unit (₹)	660	620	360	370
Labour hours required per unit	3	4	2	3

Product S can be transferred to Division B but the maximum quantity that might be required for transfer is 4,000 units of S.

The maximum sales in the external market are:

- P 6,000 units
- Q 7,000 units
- R 5,600 units
- S 3,600 units

Division B can purchase the same product at a slightly cheaper price of ₹450 per unit instead of receiving transfers of products S from Division Z.

What should be transfer price for each unit for 4,000 units of S, if the total labour hours available in Division Z are:

- (i) 48,000 hours?
- (ii) 64,000 hours?

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OR

Q.4

(A) Explain Transfer Price? What are the advantages of Transfer Pricing?

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(B) What are the objectives of Transfer Pricing?

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Q.5 Select the appropriate alternative: **(Attempt any Seven out of given)** **14**

(1) Capital Budgeting

- (A) discloses historical evaluation of project.
- (B) discloses past evaluation of project.
- (C) discloses evaluation of future project.
- (D) all of the above

(2) Higher the discount Rate, _____ the present value-

- (A) higher
- (B) lower
- (C) same
- (D) None of the above

(3) $PI > 1$, indicates

- (A) Negative NPV
- (B) Positive NPV
- (C) Zero NPV
- (D) None of the above

(4) Which of the following factor is not non-financial factor in the context of capital budgeting?

- (A) Organizational behaviour
- (B) Human and social factors
- (C) Technical issues
- (D) Depreciation and taxes

(5) Which pricing approach is useful when the selling division is operating below capacity?

- (A) Variable cost
- (B) Standard cost
- (C) Actual full cost
- (D) None of the above

(6) Division 'A' of a company has ROI 24% and an investment turnover of 1.6. What is the profit margin?

- (A) 6%
- (B) 15%
- (C) 24%
- (D) None of the above

(7) In certainly equivalent approach, _____

- (A) Elimination of uncertainty from cash flow

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- (B) Expected cash flow is converted to equivalent risk-free amount
- (C) (A) and (B)
- (D) None of these

(8) Which formula is used to calculate present value?

(A) $\frac{1}{(1+r)^n}$

(B) $\frac{1}{(r+1)^n}$

(C) $\frac{1}{(1+n)^r}$

(D) None of above

(9) Internal Rate of Return should be always _____ than cost of capital.

- (A) greater
- (B) Lower
- (C) equal
- (D) None of the above

(10) Controllable Profit = _____

- (A) Return on investment
- (B) Revenue - Controllable expenses
- (C) Revenue - Variable cost
- (D) Revenue - Fixed cost

(11) The term mutually exclusive investments mean:

- (A) Choose only the best investments
- (B) Selection of one investment precludes the selection of an alternative
- (C) The elite investment opportunities will get chosen
- (D) There are no investment options available

(12) Under conventional cost system, overheads accumulated are allocated to different defined _____ for the purpose.

- (A) production centres
- (B) machine centres
- (C) plant centres
- (D) cost centres

- X -

