1804N049

Candidate's Seat No :________

M.Com (HPP) (AAA) Sem-4 Examination
CC 19
Management Accounting-2
April 2022

Time : 2-00 Hours] **[Max. Marks : 50**

SECTION: I

(Attempt any TWO questions out of given questions from section I)

Q.1

Hiral Enterprises Ltd. is contemplating to replace one of its machines with a new and more efficient machine. The old machine has a cost of ₹10 lakhs and a useful life of ten years. The machine was bought five years ago. The company does not expect to realise any return from scrapping the old machine at the end of ten years, but if it is sold to another company in the industry, Hiral Enterprises Ltd. Would receive ₹6 lakhs for it.

The new machine has a purchase price of ₹20 lakhs. It has all estimated salvage value of ₹ 2 lakhs and has useful life of five years. The new machine will have a greater capacity and annual sales are expected to increase from ₹10 lakhs to ₹12 lakhs. Operating efficiencies with the new machine will also produce savings of ₹2 lakhs a year. Depreciation is calculated on a straight-line method (SLM) basis over the useful life of the machine.

The cost of capital is 8%. The present value interest factor for an annuity for five years at 8% is 3.993 and present value interest factor at the end of five years is 0.681.

The rate of income-tax for Normal income and capital gain is 50% for the company.

Should the company replace the old machine? Working should be the part of your answer.

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Q.2

Rima Ltd. is considering to purchase one out of the two machines for production of a new product. The investment in each machine will be ₹1,00,000 and they would give benefit for 12 years. For each alternative, three estimates of cash flows are given: Most likely. Optimistic and Pessimistic.

	Machine P (₹)	**Machine Q (₹)**
Cost Price	1,00,000	1,00,000
Estimate of Cash flow:		
Optimistic	32,000	40,000
Most Likely	24,000	20,000
Pessimistic	16,000	1,000

The cost of capital is 14% which project is more risky? The annuity of Re.1 at 14% for 12 years is ₹5.66.

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(P.T.O)

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Q.3

(A) Calculate missing figures in following table:

Particulars	Division – R	Division - S
Sales (₹)	2,40,000	3,00,000
Operating Assets (₹)	1,20,000	(?)
Operating Income (₹)	(?)	1,00,000
ROI (%)	15 %	10 %
Minimum Required Rate of Return	10 %	(?)
Residual Income	(?)	20,000

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(B) Explain the concept of Responsibility Accounting in the context of Responsibility Centres. **10**

Q.4

(A) Aryan Ltd. is organized into two divisions Sun and Moon which produces three products X, Y and Z. Each product has an external market:

Products	X	Y	Z
External Market Price per unit (₹)	120	115	100
Variable cost of production per unit (₹)	84	60	70
Labour hours required per unit	4	5	3

Division Moon has demand for 600 units of product Y for its use. If Division Sun can't supply the requirement, Division Moon can buy a similar product from market at ₹ 112 per unit.

Products	X	Y	Z
Maximum External sales (units)	1,600	1,000	600

What should be the transfer price of 600 units of product Y for Division Moon, if the total direct labour hours available in Division Sun are restricted to 15,000?

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(B) What are objectives of transfer pricing? **10**

SECTION: II

Q.5 Select the appropriate alternative: **10**

(1) Internal rate of return

(A) discloses actual cost of project.

(B) discloses probable cost of project.

(C) discloses positive net present value of project.

(D) discloses zero net present value of project.

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(2) With increase in discounting rate, there is ___________ in present value

(A) increase
(B) decrease
(C) no change
(D) None of above

(3) Which of the following indicate cashflow?

(A) Profit after taxes
(B) Profit before tax - depreciation
(C) Profit after tax + depreciation
(D) None of the above

(4) 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

(5) If expected NPV(mean) = ₹4,80,000 and S.D. = ₹1,20,000, then coefficient of variation will be ....

(A) 25%
(B) 20%
(C) 30%
(D)50%

(6) Higher Certainty equivalent factor indicates:

(A) High Risk
(B) Low Risk
(C) Moderate Risk
(D) None of the above

(7) PI=1, indicates

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

(8) A responsibility centre whose performance is measured by its ROI is known as

(A) Investment Centre
(B) Market Centre
(C) Cost Centre
(D) Production Centre

(9) Controllable profit =_________.

(A) Revenue – Fixed Cost

(P.T.O)

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(B) Revenue – Controllable Cost
(C) Contribution - Fixed Cost
(D) Revenue – Variable Cost

(10) Division A has operating profit of ₹2,50,000 while its sale is ₹50,00,000 and Investment is of ₹25,00,000 then ROI is_______ .
(A) 12%
(B) 8%
(C) 10%
(D) 1000%