Seat No. : _______________

SD-120

September-2020

M. Com., Sem.-IV (HPP)

CC-19 : Management Account - 2

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

Instructions : (1) All Questions in **Section I** carry equal marks.
(2) Attempt any **TWO** questions in **Section I**.
(3) Question V in **Section II** is **COMPULSORY**.

Section – I

1. ABC Co. is examining two mutually exclusive proposals for capital investment. The data on the proposals are as follows : **20**

Particular	Proposal X	Proposal Y
Net Cash Outlay	₹ 80,000	₹ 1,00,000
Salvage Value	Nil	Nil
Estimated Life	4 years	5 years
Depreciation	Straight Line Method	Straight Line method
Tax rate	50%	50%
Discount rate	10%	10%
Earnings Before Depreciation and tax		
1st year	24,000	28,000
2nd Year	28,000	32,000
3rd Year	32,000	36,000
4th Year	44,000	44,000
5th Year	-	40,000

Using following methods, you are asked to advise which proposal would be financially preferable ?

(1) Net present Value
(2) Payback period
(3) Accounting Rate of Return
(4) Profitability index

Present value of Re. 1 at 10 % discount rate are as follows:

Year	0	1	2	3	4	5
Present Value	1	0.909	0.826	0.751	0.683	0.621

2. A company is considering a proposal to buy one machine out of the two. An investment of ₹ 1,00,000 is required in each machine and useful life of each machine is estimated at 4 years. **20**

The vendor of these machines has given a guarantee to purchase these machines for ₹ 10,000 at the end of their useful life. The company uses certainty- equivalent co-efficient to evaluate the risky projects. The risk adjusted rate of discount is 16%. While the riskless discount rate is 10%.

	Machine 1		Machine 2	
Year	**Cash flow**	**Co- efficient**	**Cash flow**	**Co-efficient**
1	60,000	0.8	36,000	0.9
2	60,000	0.7	72,000	0.8
3	60,000	0.6	48,000	0.7
4	60,000	0.5	32,000	0.4

Which machine should be purchased ?

3. Calculate missing figures in the following table: **20**

Particulars	Divison X	Divison Y	Divison Z
Sales (₹)	5,00,000	3,00,000	3,75,000
Operating Assets (₹)	(?)	(?)	12,50,000
Operating Income (₹)	50,000	22,500	(?)
ROI (%)	25	15	15
Minimum Rate of Return (%)	(?)	(?)	(?)
Residual Income (₹)	NIL	7500	25,000

4. A Company is organized into two division namely X and Y produces three product P, Q and R. Data per unit are : **20**

Particular	Product P	Product Q	Product R
Market Price (₹)	120	115	100
Variable Cost (₹)	84	60	70
Direct Labour Hours	4	3	3
Maximum Sales Potential (Units)	1600	1000	600

Division Y has demand for 600 units of product Q for its use. If Division X cannot supply the requirement, division Y can buy a similar product from market at ₹ 112 per unit.

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

Section – II

5. Attempt any **five** out of Twelve : (Each of **2** marks) **10**

1. Higher the discount rate, _____the present value.

   (a) Increase (b) Decrease

   (c) No change (d) None of the above

2. Present value is calculated by using formula

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

   (c) $\frac{1}{(r+1)^n}$ (d) None of these

3. In which method discounted factor is highly necessary ?

   (a) ARR (b) Net Present Value

   (c) Payback period (d) None of the above

4. Probability means the likelihood of happening an event. (True/False)

5. Out of two mutually exclusive projects, whose coefficient of variation is highest will be selected. (True/False)

6. In certainty equivalent approach is used for elimination of uncertainty from cash flow. (True/False)

7. A company's ROI would generally increase when____.

   (a) Cost Increases (b) Assets Increases

   (c) Cost Decreases (d) Sales Decreases

8. Controllable profit = ______.

   (a) Revenue – Fixed Cost (b) Return on Investment

   (c) Revenue – Variable Cost (d) Revenue – Controllable Cost

9. Residual Income = ______.

(a) Annual Profit – Cost of Capital (b) Annual Profit + Cost of capital

(c) Annual Profit × Cost of Capital (d) None of the above

10. Transfer pricing is concerned with______ .

(a) Inter Organizational transfer

(b) Intra-divisions of an organization

(c) Both of the above

(d) None of the above

11. Under method of______, two separate transfer pricing method are used.

(a) Negotiated transfer pricing (b) Total Cost method

(c) Dual pricing (d) Market price method

12. Division under transfer pricing system is treated as_______ .

(a) Profit Centre (b) Cost Centre

(c) Investment Centre (d) None of the above