

M.Com. HPP (AAA) Sem.-4 Examination
CC-19

Management Accounting - II

Time : 2-30 Hours]

April-2025

[Max. Marks : 70

Q.1 Suzon Ltd. is considering two mutually exclusive projects. The finance director thinks that project with higher NPV should be chosen where as managing director thinks that project with higher IRR should be chosen as both the project have same initial outlay and expected life. The company anticipates cost of capital of 10% and net after tax cash flow of projects are as follows:

(Amount in ₹ '000)

Year	0	1	2	3	4	5
Project Cash flows- X (₹)	(400)	70	160	180	150	40
Project Cash flows - Y (₹)	(400)	436	20	20	8	6

Required:

- Calculate NPV and IRR for both projects.
- State, with reasons, which project you would suggest.

P.V. factor for ₹1

Year	0	1	2	3	4	5
PV @ 10%	1	0.909	0.826	0.751	0.683	0.621
PV @ 20%	1	0.833	0.694	0.579	0.482	0.402

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OR

Q.1

(A) The management of Sonam Limited is planning to invest into a machine. The company's cost of capital is 12 percent and corporate tax rate for the company is 30 percent. Details of the machine is as follows:

Cost of machine	₹20,00,000
Expected life	4 years
Annual income before tax and depreciation	₹6,90,000

Depreciation is to be charged on straight line basis.

You are required to:

- Net Present value.
- Profitability Index.

The present value factors of ₹ 1 are as follows:

Year	1	2	3	4
At 12%	0.893	0.797	0.712	0.636

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(B) If company wants to implement more than one projects simultaneously, Which method should be adopted to select the projects to maximize the NPV and how? Explain.

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E178-2

Q.2 X Ltd. is considering one of two mutually exclusive project Param and Karam which require cash outlay of ₹ 20,00,000 and ₹ 28,00,000 respectively. The risk-free rate is 5% and risk premium is 3%. The RADR is 12%. The expected net cash inflows and their certainty equivalents are as follows:

Years End	Project Param		Project Karam	
	Cash in flow	Certainty equivalent	Cash in flow	Certainty equivalent
1	8,00,000	0.9	12,00,000	0.8
2	12,00,000	0.8	16,00,000	0.7
3	16,00,000	0.7	20,00,000	0.6

Required:

- Which project should be accepted?
- Which project is risky and why?
- Which project should be discounted at higher RADR? Why?

P.V. factor for ₹1

Year	0	1	2	3
PV @ 3%	1	0.971	0.942	0.915
PV @ 5%	1	0.952	0.907	0.863
PV @ 12%	1	0.893	0.797	0.711

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OR

Q.2

(A) From the following information of projects under consideration of Tenali Ltd., determine risk adjusted net present value of:

Particulars	P	Q
Initial outflow of the project (₹)	10,00,000	11,60,000
Expected Project life	6 years	6 years
Annual cash inflows (₹)	2,80,000	3,80,000
Coefficient of Variation (C.V.)	0.3	0.7

The company selects appropriate Risk Adjusted discount rate (RADR) based on coefficient of variation.

Risk Adjusted discount rate (RADR)	Present value factor 1 to 6 years
15%	3.7844
13%	3.9976

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(B) Explain Risk and Uncertainty in capital budgeting.

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Q.3

(A) Explain Cost centre and Investment centre.

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(B) Explain the advantages of Responsibility Accounting.

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OR

Q.3 Calculate missing figures in following table for Mehta Ltd.:

Particulars	Division – M	Division – N	Division – P
Sales (₹)	18,00,000	14,40,000	24,00,000
Operating Assets (₹)	(?)	7,20,000	12,00,000
Operating Income (₹)	6,00,000	(?)	(?)
ROI (%)	10 %	15 %	20 %
Minimum Required Rate of Return	(?)	10 %	(?)
Residual Income	1,20,000	(?)	NIL

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Q.4

Division - 'X' of Star Limited is given target to sell 2,00,000 components of 'Pingu'.

Further information:

(i) 25% Return on average assets employed

Cost related information:

(ii) Fixed Cost ₹ 4,00,000

(iii) Variable Cost ₹ 2 per unit

(iv) Average assets:

Debtors	₹ 4,00,000
Stock	₹ 12,00,000
Plant	₹ 4,00,000

(v) Expected sales: 1,40,000 units

(vi) Division 'Y' is ready to purchase remaining 60,000 units. Division 'X' is ready to sell it at ₹5 per unit. But division 'Y' is ready to pay ₹3.25 per unit.

(vii) Division 'X' is not ready to sell to 'Y' division @ ₹3.25 per unit, but ready to sell 1,40,000 units in market. Due to this company can reduce investment in stock by ₹1,80,000, in plant by ₹2,20,000 and in fixed expenses by ₹80,000.

Evaluate proposal in the context of inter-division transfer.

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OR

Q.4

(A) Explain the Cost based transfer pricing and Negotiated transfer pricing methods.

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(B) Explain the advantages of Transfer Pricing?

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

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(1) 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

(P.T.O)

- (2) Lower Coefficient of Variation indicates _____
- (A) Higher Risk
 - (B) Lower Risk
 - (C) Moderate Risk
 - (D) None of the above
- (3) Performance evaluation under market price is considered _____ performance evaluation.
- (A) Poor
 - (B) Average
 - (C) Strong
 - (D) Very strong
- (4) Lower the discount Rate, _____ the Profitability Index (PI).
- (A) higher
 - (B) lower
 - (C) same
 - (D) None of the above
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- (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) Higher C.E. indicates that, project has _____ risk.
- (A) Lower
 - (B) Moderate
 - (C) Higher
 - (D) None of the above
- (7) Which method of transfer pricing is used if both divisions are free to deal either with each other or in the external market?
- (A) Negotiated prices
 - (B) Cost based prices
 - (C) Market prices
 - (D) Dual prices
- (8) Which of the following indicate cash flow?
- (A) Profit after taxes
 - (B) Profit after tax + depreciation
 - (C) Profit before tax - depreciation
 - (D) None of the above
- (9) A strategic business unit (SUB) is defined as a division of an organization:
- (A) that help in the marketing operation
 - (B) that enable managers to have better control over the resources
 - (C) that help in the choice of technology

- (D) that helps in the allocation of scarce resources
- (10) $PI > 1$, indicates
- (A) Negative NPV
 - (B) Positive NPV
 - (C) Zero NPV
 - (D) None of the above
- (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) In certainty equivalent approach, _____
- (A) Elimination of uncertainty from cash flow
 - (B) Expected cash flow is converted to equivalent risk-free amount
 - (C) (A) and (B)
 - (D) None of these

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