2017

DDE

M.Com. Part–I Examination

FINANCIAL POLICY AND MANAGEMENT ACCOUNTING

PAPER—III

Full Marks : 100

Time : 4 Hours

The figures in the right-hand margin indicate full marks.

Candidates are required to give their answers in their own words as far as practicable.

Illustrate the answers wherever necessary.

Write the answer question of each Half in separate books.

First Half
(*Financial Policy*)

[Marks : 50]

Answer *Q. No. 1* and any *two* from the rest.

1. Answer any *four* questions from the following : 4×5

(a) Explain, in brief, the wealth maximisation objective of financial management.

(Turn Over)

(b) State the significance of using the book value and market value based weights respectively while calculating the overall cost of capital.

(c) Is there a difference between the cost of external equity and internal equity ? Explain.

(d) How will you measure operating leverage, financial leverage and combined leverage ?

(e) Write short notes on : 2½+2½

(i) Employee stock option ;

(ii) Sweat Share.

(f) Distinguish between : 2½+2½

(i) Capital Structure and Financial Structure ;

(ii) Convertible bond and Junk Bond.

(g) State the objectives of 'Inventory Management' ?

(h) Mention the advantages and disadvantages of ploughing back of profit. 2½+2½

2. Describe the factors to be considered in determining the Capital Structure. 15

3. Alpha Ltd. has equity share capital of Rs. 500,000 divided into shares of 100 each. It wishes to raise further Rs. 300,000 for expansion. The company plans the following financing alternatives :

(i) By issuing equity shares only.

(ii) Rs. 100,000 by issuing equity shares and Rs. 200000 through debentures or term loan @ 10% per annum.

(iii) By raising loan only at 10% p.a.

(iv) Rs. 100,000 by issuing equity shares and Rs. 200,000 by issuing 8% preference shares. 15

You are required to suggest the best alternative giving your comment assuming that the estimated earning before interest and taxes (EBIT) after expansion is Rs. 150,000 and corporate rate of tax is 50%.

4. X Ltd. sells goods at a gross profit of 20 per cent. It includes depreciation as a part of cost of production. The following figures for the 12 month-period ending March 31, current year are given to enable you to ascertain the requirement of working capital of the company on a cash cost basis.

In your working, you are required to assume that :

(i) A safety margin of 15 per cent will be maintained ;

(ii) Cash is to be held to the extent of 50 per cent of current liabilities ;

(iii) There will be no work-in-progress ;

(iv) Tax is to be ignored ;

(v) Finished goods are to be valued at manufacturing costs. Stock of raw materials and finished goods are kept at one month's requirements.

Sales at 2 month's credit, Rs. 27,00,000

Materials consumed (suppliers' credit is for 2 months) Rs. 6,75,000 ; wages (paid on the last day of the month) Rs. 5,40,000

Manufacturing expenses outstanding at the end of the year (cash expenses are paid one month in arrear) Rs. 60,000

Total administrative expenses Rs. 180,000.

Sales Promotion expenses (paid quarterly in advance) Rs. 90,000. 15

5. (a) State the assumptions and implication of Gordon's Model.

(b) Following are the details regarding three companies A Ltd., B. Ltd. and C. Ltd. :

Details	*A. Ltd.*	*B. Ltd.*	*C. Ltd.*
Internal rate of return	15%	5%	10%
Cost of equity capital	10%	10%	10%
Earning per share	Rs. 8	Rs. 8	Rs. 8

Calculate the value of an equity share of each of these companies applying Walter's formula when dividend payout ratio is —

(a) 50%, (b) 75% and (c) 25%.

Interpret the results. 9+6

Second Half

(*Management Accounting*)

[Marks : 50]

Answer Q. No. 6 and any *two* from the rest.

6. Answer any *two* of the following : 2×10

(a) (i) What is Du Pont analysis of profitability of a firm ? Explain the elements of this analysis.

(ii) Discuss the problems faced by the financial analyst to analyse financial statements. 5+5

(b) (i) What do you mean by 'Pay Back Period'?

(ii) What do you understand by 'capital budgeting decision under capital rationing'.

(iii) Explain Accounting Rate of Return Method?

3+4+3

(c) (i) The standard ratios for the industry and the ratios of Sundarsan Trading Limited are given below. Indicate the strength and weakness of the firm. 10

	Industry Standard	Sundarsan Trading Ltd.
Current Ratio	2.4	2.67
Debtors Turnover Ratio	8.0	10.0
Stock Turnover Ratio	9.8	3.33
Assets Turnover Ratio	2.0	1.43
Net Profit Ratio	3.3%	2.1%
Net Profit on Total Assets Ratio	6.6%	3.0%
Net Profit on Net Worth	10.7%	4.8%
Total Debts on Total Assets	63.5%	37.7%

(d) (i) Briefly discuss the objectives of financial statement analysis.

(ii) "A Cash Flow Statement is a better substitute of Income Statement"—Critically examine. 5+5

7. (a) What are the objectives of preparing Cash Flow Statement?

(b) From the Balance Sheet of Ghosh & Brothers Company Ltd. as on March 31, 2016 and 2017 and other information presented bellow, prepare a cash flow statement for the year ended 31st March, 2017.

Assets	*2015-16* (Rs. '000)	*2016-17* (Rs. '000)
Cash	10,000	5,000
Bills Receivable	5,000	7,000
Debtors	30,000	40,000
Stock-in-trade	15,000	20,000
Plant and Machinery	45,000	69,000
Land and Building	80,000	95,500
	1,85,000	2,36,500

Liabilities

Equity Share Capital	1,00,000	1,30,000
Creditors	17,000	17,000
Outstanding liabilities for wages	1,000	1,500
Bills Payable	7,000	8,000
Bank Overdraft	60,000	80,000
	1,85,000	2,36,500

Additional Information :

(i) Net profit earned for the year 2016–17 Rs. 40,000.

(ii) Plant and Machinery purchased in the earlier years for Rs. 10,000 was sold for Rs. 7,000 in the year 2016–17. Up to the point of sales of the machinery, depreciation was charged for Rs. 2,000. Accumulated balance of depreciation on plant and machinery on 31st March, 2016 and 31st March, 2017 were Rs. 15,000 and Rs. 20,000 respectively.

(iii) No depreciation was charged on land and building.

3+12

8. Explain the objectives of Management Accounting. Enumerate the major points of differences between Financial Accounting and Cost Accounting. 5+10

9. Bellow are selected ratios for two companies belonging to same industry, along with the industry average :

	Company A	Company B	Industry
Current Ratio	220%	560%	240%
Acid Test Ratio	120%	300%	130%
Debt-Assets Ratio	36%	5%	35%
Operating Expenses Ratio	18%	17%	20%
No. of Times Interest Earned	6	12	5
Stock Turnover Ratio	15	11	11.4
Rate of Return on Total Assets	17%	10%	14%
Cost of Capital	14%	14%	14%

Can you say on the basis of the above ratios and information that company B is better than company A, because its ratios are better in six out of eight areas (all except Stock Turnover Ratio and Rate of Return on Total Assets) ? 15

10. (a) Using Altman's function calculate Z score in case of Ghosh & Brothers Company Ltd. and interpret the result. The important accounting ratios of the company are as follows :

Current ratio	2.5
Sales to Total Assets Ratio	1.5
Fixed expenses to sales ratio	0.15
Working Capital to Total Assets Ratio	0.30
Retained Earnings to Total Assets Ratio	0.35
Fixed assets to long term fund	0.80
EBIT to Total Assets Ratio	0.15
Rate of return on capital employed	0.45
Market Value of Equity to Book Value of Total Debt Ratio	1.8

(b) Discuss the nature and causes of industrial sickness in India. 5+10