2009

M. COM.

3rd Semester Examination

ADVANCED MANAGEMENT ACCOUNTING

PAPER — CM-2105 (AF)

Full Marks : 50

Time : 2 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.

Unit—I

[Marks : 20]

1. Answer any *two* of the following : 5×2

   (a) What is 'Management Accounting'? In what respects does Management Accounting differ from Financial Accounting?

   (b) What is 'Pay-back period'? Do you think that Pay-back period method is a rational method for project selection? Explain.

   (c) Write down the mean-variance rule for selecting two mutually exclusive projects A and B under condition of risk and uncertainty.

   (d) Write down the basic objectives of Management Accounting.

(Turn Over)

2. Answer any *one* question of the following : 10×1

(a) A bulldozer, which has a service life of ten years, can be purchased for Rs. 15,00,000. It can also be hired at a rent of Rs. 4,00,000 p.a. payable at the beginning of each year. Operating costs are to be borne by the user. A contractor, requiring the use of the bulldozer only for a period of 2 years, seeks advice from you.

If purchased, he expects to use it for 2 years and then to sell it at 80% of the purchase price. He can finance its purchase by his own resources to the extent of Rs. 5,00,000 and the balance by borrowings at an interest rate of 18% p.a. The interest on loan is payable annually at the end of each year and the loan can be repaid out of the sales proceeds of the bulldozer.

For income tax purpose, depreciation is an admissible deduction @ 20% on diminishing balance. Excess realization, if any, over written down value is subject to tax.

The effective tax rate for the contractor is 40%. Liabilities can be assumed to arise at the close of each year. The contractor expects a minimum rate of return of 10%.

Advise the contractor suitably.

(b) (i) Explain briefly the risk-adjusted discount rate method for evaluating risky projects.

(ii) Determine the risk-adjusted net present value for the following projects:

		P_A	P_B	P_C
Net cash Outlays	:	Rs.10,00,000	Rs.12,00,000	Rs.21,00,000
Project Life	:	5 years	5 years	5 years
Annual cash inflow	:	Rs.3,00,000	Rs.4,20,000	Rs.7,00,000
Coefficient variation	:	0.4	0.8	1.2

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

Coefficient of variation	*Risk-adjusted rate of discount*
0.0	10%
0.4	12%
0.8	14%
1.2	16%
1.6	18%
2.0	22%
More than 2.0	25%

Unit—II

[Marks : 20]

3. Answer any *two* of the following questions : 5×2

(a) What is 'Responsibility Accounting' ? What are its pre-requisites ?

(b) Briefly explain the principles in fixing inter-divisional transfer price.

(c) What is 'Learning Curve'? How does it differ from 'Experience Curve'?

(d) A company wants a special tool. It has procured 4 numbers of these tools from a vendor for the first time on developmental order basis. It has paid Rs. 1,150 per tool to the vendor as per vendor's break-up of cost, indicated below :

	Rs.
Material	550
Labour	200
Overhead	250
Profit @ 15%	150

The company wants to order four more of these special tools. What would be a reasonable price for these four, in your openion, if it is found that an 80% 'Learning Curve' applies for the job?

The vendor believes in a slab system of overhead charges i.e. a constant rate per unit from 1 to 10 numbers.

4. Answer any *one* question of the following : 10×1

(a) (i) Give a note on 'Argenti Scoreboard' for predicting corporate disaster.

(ii) Following are the information of 'Danger Company' for the year ended 31.3.2009 :

Balance Sheet as at 31.3.09

Liabilities	*Rs.*	*Assets*	*Rs.*
Equity Share Capital @ Rs.100 each	5,00,000	Net Fixed Assets	12,00,000
Reserve and Surplus	3,00,000	Investments	5,00,000
10% Debentures	6,00,000	Stock	1,20,000
12% Bank loan	4,00,000	Debtors	80,000
Creditors	1,00,000	Bills Receivables	60,000
Bills Payable	50,000	Cash & Bank Balance	40,000
Outstanding Expenses	50,000		
	20,00,000		20,00,000

For the year the company earned a return on its total assets @ 8% against a turnover of Rs. 30,00,000.

The company is taxed @ 30%.

The price-earning ratio of the company at the end of the year was 3·5.

Calculate Altman's Z score for the company and interpret about its health.

(b) Division A is a profit centre, Which produces three products X, Y and Z. Each product has an external market.

	X	Y	Z
External market price/unit	Rs.48	Rs.46	Rs.40
Variable cost/unit	Rs.33	Rs.24	Rs.28
Labour hour required/unit	3	4	2
Maximum external sell	800 units	500 units	300 units

Product— Y can be transferred to Division— B, but the minimum quantity that might be required for transfer is 300 units of Y.

Instead of receiving transfers of product Y from Division—A, Division—B could buy a similar product from the open market at a price of Rs. 45/unit.

What would be the minimum transfer price for each unit of Y for 300 units, if the total labour hour available in Division—A are :

(i) 3,800 hours ;

(ii) 5,600 hours.

[Internal Assessment : 10 Marks]

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