**18P152** (Pages: 3) Name:……………………….

Reg.No……………………...

**FIRST SEMESTER M.Com. DEGREE EXAMINATION, NOVEMBER 2018**

(Regular/Supplementary/Improvement)

(CUCSS-PG)

**CC15P MC1 C03 – ACCOUNTING FOR MANAGERIAL DECISIONS**

(Commerce)

(2015 Admission onwards)

Time: Three Hours Maximum: 36 Weightage

**Part - A**

Answer ***all*** questions. Each question carries 1 weightage.

1. What is incremental cost?
2. What do you mean by Activity Based Costing?
3. What is capital rationing?
4. What is key factor?
5. Define ROI.
6. What is transfer pricing?

**(6 x 1 = 6 Weightage)**

**Part - B**

Answer any ***six*** questions. Each question carries 3 weightage.

7. Differentiate Traditional Costing and Activity Based Costing.
8. Explain the impact of inflation on investment decision.
9. State the role of margin of safety in CVP analysis.
10. Discuss the different approaches to the calculation of cost of equity.
11. From the following particulars find out BEP.
    a. Variable cost per unit – Rs.12
    b. Selling price per unit – Rs. 20
    c. Fixed expenses – Rs. 60,000

    What will be the selling price, if BEP is brought down to 6,000 units?
12. The market price of a share is Rs.90 and the growth rate of dividend is 12%. The earnings per share is Rs. 18. You are required to find out the cost of retained earnings.

13. A company manufacturing two products furnishes the following data for a year:

| Product | Annual Output | Total Machine hours | Total Number of Purchase orders | Total Number of set-ups |
|---|---|---|---|---|
| A | 5000 units | 20,000 | 160 | 20 |
| B | 60,000 units | 1,20,000 | 384 | 44 |

The annual overheads are as under:

Volume related activity costs - Rs. 5,50,000

Set up related costs - Rs. 8,20,000

Purchase related costs - Rs. 6,18,000

You are required to calculate the cost per unit of each Product A and B based on ABC.

14. Surya Ltd. Is considering the purchase of a new machine for Rs. 1,20,000. It has a life of 4 years and an estimated scrap value of Rs. 20,000. The machine will generate an extra revenue of Rs. 4,00,000 per annum and have additional operating costs of Rs. 3,20,000 per annum. The company's cost of capital is 20% and tax rate 50%. Should the machine be purchased?

**(6 x 3 = 18 Weightage)**

## Part - C

Answer any ***two*** questions. Each question carries 6 weightage.

15. What do you mean by Performance measurement? Explain the various methods of measuring the performance of a company.

16. National Bottling Company is contemplating to replace one of its bottling machines with a new and more efficient machine. The old machine has a book value of Rs. 10,00,000 and useful life of 10 years. The machine was bought 5 years back. The company does not expect to realize any return from scrapping the old machine at the end of 10 years but if it is sold now to another company in the industry, National bottling company would receive Rs. 6,00,000 for it.

The new machine has a purchase price of 20,00,000. It has an estimated salvage value of Rs. 2,00,000 and has useful life of 5 years. The new machine will have a great capacity and annual sales are expected to increases from Rs. 10,00,000 to Rs. 12,00,000 operating efficiencies with the new machine will also produce savings of Rs. 2,00,000 a year. Depreciation is on a straight line basis over a 5 year life. The cost of capital is 8% and a 50% tax rate is applicable. 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 year is 0.681. Should company replace the old machine?





17. Rani Transport Ltd. has the following capital structure as on March 31, 2011:

| | |
|---|---|
| Equity share capital (1,00,000 shares of Rs. 10 each) | 10,00,000 |
| 16% Preference shares | 6,00,000 |
| 13% Debentures | 4,00,000 |

The equity shares of the company are opted at Rs. 110 and the company is expected to declare a dividend of Rs. 11 per share for the next year. The company has registered a dividend growth rate of 7% which is expected to be maintained.

a) Assuming the tax rate applicable to the company at 35%. Calculate WACC.

b) Assuming that the company can raise additional term loan at 14% for Rs. 10,00,000 for its expansion , calculate the revised WACC. The company's expectation is that the business risk associated with new financing may bring down the market price of the equity shares to Rs. 102.

**(2 x 6 =12 Weightage)**

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