'समानो मन्त्रः समितिः समानी'

UNIVERSITY OF NORTH BENGAL

B.Com. Honours Part-III Examination, 2022

B.COM.

PAPER-3H2

MANAGEMENT ACCOUNTING

Time Allotted: 4 Hours | Full Marks: 100

The figures in the margin indicate full marks.

GROUP-A

Answer any *four* questions 15×4 = 60

1. (a) Define Management Accounting. State its essential features. (2+5)+8=15

   (b) Explain the uses of Management Accounting Information in cost control and decision making.

2. Prepare a statement to determine the working capital requirement from the following information :

   The percentage of cost of sales are:

Material	50%
Labour	20%
Overheads	10%

Annual capacity 30,000 units. But owing to the security of resources normal level of activity has been 50%.

Additional information:

(i) Raw Materials are to remain in stores on an average period of one month

(ii) Each unit of production will be in process for one month on an average

(iii) Finished Goods are to stay in warehouse on an average two months

(iv) Credit allowed to debtors is four months from the date of sales

(v) Credit allowed by suppliers is two months from the date of purchases

(vi) Lag in payment of wages is $\frac{1}{2}$ month

(vii) Lag in payment of overhead is one month

(viii) Cash is to be required for contingencies Rs. 24,500

(ix) Selling price is Rs. 14 per unit

Production is not carried on evenly during the year and wages and overheads not accrued similarly.

3. (a) Briefly discuss different types of Capital Budgeting decisions. 5+10=15

(b) Mr. A, an investor, is facing two mutually exclusive investment proposals having life span of 4-years each, furnishes the following information:

		Project-I	Project-II
		₹	₹
Initial Investment:		80,000	24,000
After tax inflows expected at the end of the year:			
	1	28,000	9,800
	2	28,000	9,800
	3	28,000	9,800
	4	28,000	9,800

Your are asked to rank the two proposals by the NPV and IRR methods, assuming the Cost of capital to be 10%. Explain the reasons of contradiction in ranking, if any, and state that which method is suitable to the investor to make his final decision in selecting the project.

4. (a) Briefly discuss the significance of cost of capital in financial decisions. 5+10=15

(b) The following information have been extracted from the "Liabilities" side of the Balance Sheet of Alpha Ltd. as on 31st December 2021:

	₹
Paid-up Capital:	
4,00,000 Equity Shares of Rs. 10 each	40,00,000
11%, Preference Capital (1,00,000 shares of Rs. 10 each)	10,00,000
Reserve and Surplus	40,00,000
Loand:	
15%, Non-convertible Debenture	30,00,000
14% Institutional Loan	50,00,000

Other relevant information:

Year ended 31st December	Dividend per Equity Share ₹	Earning per Equity Share ₹	Average Market Price per Equity Share ₹
2021	4.00	7.50	50.00
2020	3.00	6.00	40.00
2019	4.00	4.50	30.00

You are required to calculate the weighted average cost of capital, using book values as weights and Earning / Price (E/P) ratio as the basis of cost of equity; whereas the preference stock redeemable at par after 10 years is currently selling for Rs. 7.50 per share. Assume 50% tax rate.

5. From the following information of Sigma Ltd., prepare a cash budget for the three months commencing on 1st June, 2020 when the bank balance was ₹10,000: 15

Months	**Sales**	**Purchases**	**Wages**	**Selling and Distribution Expenses**
	₹	₹	₹	₹
April	1,00,000	70,000	8,500	7,500
May	1,20,000	80,000	9,500	8,000
June	1,40,000	90,000	9,500	9,500
July	1,60,000	1,00,000	12,000	10,000
August	1,80,000	1,10,000	14,000	10,500

A sale commission of 5% on sales are due 2 months after sales, is payable in addition to the above selling expenses.

Credit terms of sales are — payment by the end of the month following the month of supply. On an average one half of the sales is paid on the due date, while the other half is paid during the next month.

Creditors are paid in the month following the month of purchase. Plant purchased in June 2020 for ₹75,000; payable on delivery ₹45,000 and the balance in two equal installments, in July and August 2020. A dividend of ₹15,000 was due on August, 2020, half of which is paid in August and the remaining half in September 2020. Wages are paid 3/4th on the due date and remaining 1/4th in the following month; while the lag in selling and distribution expenses is one month. An advance income tax of ₹5,000 to be paid in July.

6. The following information is given: 15

Current Ratio: 2.5

Liquid Ratio: 1.5

Net working capital ₹3,00,000

Stock turnover ratio: 6 times (cost of sales / closing stock)

Gross Profit Ratio: 20%

Fixed assets turnover ratio: 2 times

Average debt collection period: 2 moths

Fixed Assets: Shareholders Net Worth = 1:1

Reserves: Share Capital = 0.5:1

Draw up a Balance Sheet from the above information.

7. (a) Enumerate briefly the major steps involved in Capital Budgeting Process. 8+7=15

(b) Do the methods NPV and PI always lead to the same investment decision? Discuss.

8. From the following Balance Sheet and other information, prepare a Cash Flow Statement for the year ended 31st December, 2021 15

Liabilities	31.12.20	31.12.21	Assets	31.12.20	31.12.21
Equity Share Capital	3,00,000	3,50,000	Goodwill	1,00,000	89,000
8% Preference Share	1,50,000	1,00,000	Land & Building at cost	2,00,000	1,70,000
Share Premium	20,000	25,000	Plant & Machinery (Net)	80,000	2,00,000
Capital Reserve	-	20,000	Investment	20,000	35,000
General Reserve	40,000	75,000	Debtors	1,40,000	1,70,000
Profit & Loss Approp. A/c	30,000	73,000	Stock	77,000	1,00,000
Creditors	55,000	83,000	Bills Receivable	20,000	30,000
Bills Payable	20,000	16,000	Cash and Bank	25,000	18,000
Proposed Dividend	42,000	50,000	Preliminary Expenses	35,000	30,000
Provision for Taxation	40,000	50,000			
	6,97,000	**8,42,000**		**6,97,000**	**8,42,000**

Additional Information:

(i) One piece of land was sold at profit and the profit was transferred to Capital Reserve

(ii) One machine was sold for ₹15,000 (written down value on the date of sale was Rs. 20,000)

(iii) Depreciation charged on Plant and Machinery amounted to Rs. 16,000

(iv) Dividend of Rs. 5,000 was received from investment of which Rs. 3,000 was credited to Investment Account being dividend declared from pre-acquisition profit

(v) Actual amount of dividend and taxes paid were Rs. 35,000 and Rs. 38,000 respectively.

GROUP-B

9. Answer any ***four*** questions: 5×4 = 20

(a) Distinguish between budget and budgetary control.

(b) A firm is considering an expenditure of ₹60 lakhs for expanding its operations. The relevant information is as follows:

No. of existing equity shares- ₹10 lakhs

Market value of existing shares- ₹60/ share

Net earnings- ₹90 lakhs

Compute the cost of existing equity share capital and new equity share capital assuming that the new share will be issued at a price of ₹52 per share, when the cost of new issue would be ₹2 per share.

(c) Write the limitations of accounting ratios.

(d) What are the objectives of preparing budget?

(e) Discuss the significance of variable working capital.

(f) There are two alternative machines. You are asked to compute the profitability of investment on the basis of payback profitability:

	Machine-X	**Machine-Y**
Purchase Price	₹25,000	₹42,000
Estimated Life	8 years	10 years
Net earnings p.a. (after tax but before depreciation)	₹5,000	₹6,000

(g) Write the importance of capital budgeting decision.

(h) The expenses for the production of 5,000 units in a factory are given below:

	Per Unit (₹)
Materials	50
Labour	20
Variable Overhead	15
Fixed Overhead (Rs. 50,000)	10
Administrative Expenses (5% Variable)	10
Selling Expenses (20% Fixed)	6
Distribution Expenses (10% Fixed)	5
Total cost of Sales per unit	116

You are required to prepare a budget for the production of 7,000 units.

GROUP-C

10. Answer any ***ten*** questions: 2×10 = 20

(a) Define Management Accounting.

(b) What is budget committee?

(c) Explain the following ratios:

(i) Debt-equity ratio, (ii) Capital gearing ratio.

(d) How will you explain "Accounting Rate of Return"?

(e) What is weighted average cost of capital?

(f) When a project get rejected under IRR method?

(g) What is the main purpose preparing Cash Flow Statement?

(h) Define "budgetary control".

(i) How is cost of debt calculated?

(j) What will happen if the working capital is inadequate?

(k) What is retained earnings?

(l) What is the significance of post-payback profitability?

(m) What do we mean by investing activities as per AS-3?

(n) What is ROI?

(o) Write three major sources of variable working capital.

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