4) Answer any one question of the following: 10 X 1

(a) Define corporate sickness as per Companies Act 2013. Briefly explain the powers and functions of Company Tribunal for dealing with corporate sickness as per Co Act 2013. 2+8

(b) The Royal Industries Ltd has two divisions A & B. A manufactures Product X, which it sells in outside market as well as to division B, which process it to manufacture Product Z. The manager of division B has expressed the opinion that the transfer price is too high.

Division A has been selling 40000 units to outside and 10000 units to division B at the price Rs 20 p/unit to all. The variable cost is Rs 12 p/unit and the fixed cost is Rs 200000/-.

The manager of division A anticipates that division B will want a transfer price of Rs 18/-. If he does not sell to division B, Rs 30000/- of fixed cost and Rs 175000/- of assets can be avided.

The firms existing assets are of Rs 800000/-. Now, you are require to

i) Should the manager of division A transfer its product to division B at Rs 18/-?

ii) What is the lowest price that can be accepted by the division A?

(***Internal Assessment: 10 marks***)

2018

M. Com.

3RD Semester Examination

ADVANCE MANAGEMENT ACCOUNTING
PAPER – COM – 303 (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.

UNIT – I

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

(a) What is capital budgeting? State the merits and demerits of IRR method of capital budgeting in project selection?

(b) 'Imperfection of capital market leads a financial manager towards the capital rationing situation'- Discuss.

(c) What are functions of a Management Accountant?

(d) Determine the risk adjusted net present value of the following projects..

Particular	Project A	Project B
Net cash outstay (Rs)	100000	120000
Project life (Year)	5	5
Cash inflow (Year) (Rs)	30000	420000
CoV	0.4	0.8

Company selects the risk adjusted rate of discount on the basis of CoV

Variation	Risk adjusted discount (%)	PV factor
0.4	12	3.605
0.8	14	3.433
1.2	16	3.274

(Turn over)

2) Answer any one question of the following: 10 X 1

(a) High Tech Instruments Ltd has projected cash inflow of its diversification project as fallow.

Initial outlay Rs-	27,000
Cash inflow (Rs) Year 1	-
Year 2	5000
Year 3	22000
Year 4	14000
Year 5	14000

The variables used in the projected cash inflow of diversification project are as follows.

Year	Production & sales in units	Product cost per unit (Rs)	Selling price per unit (Rs)
2	10000	1.50	2.00
3	40000	1.45	2.00
4	28000	1.40	1.90
5	28000	1.40	1.90

Make sensitivity analysis based on the above variables and also comment on the situation with necessary logic.

(b) (i) In order to improve the operating efficiency, ABC company proposes to replace its manual operation by an automatic one. The automatic device is estimated to cost Rs 600000/- and will last for 5 years with a scrap value of Rs 100000/- at the end. The device, when installed, is expected to reduce the operating cost by Rs200000/- p.a. Assume that quantity and quality of output produced will remain unchanged. Admissible depreciation for tax purpose on straight line basis. Assume the Corporate Tax rate as 30% and Cost of Capital is 15%.

Compute NPV of the proposal and evaluate its acceptability.

(ii) What is Pay Back Period of a project? How would you calculate PBP of a project having non uniform cash inflows? Explain with suitable example. 6+4

Continued

UNIT – II

3) Answer any two questions of the following: 5 X 2

(a) What is transfer pricing? Write the merits and demerits of market price based transfer pricing to the managers of the concerned divisions.

(b) State the concept of divisional performance measurement.

(c) Explain the concept of responsibility accounting.

(d) Unlucky Company Ltd has furnished the following information as on 31.03.18-

Retained Earnings to Total Assets Ratio -10%, Working Capital to Total Assets Ratio -1:20, EBIT to Total Assets Ratio -20%, Total Assets Turnover Ratio- 100%, Market Value Equity to Book Value of Total Debts 1:4

Determine the financial health of the company by computing Altman's Z-Score.

(Turn over)