D.K.M.COLLEGE FOR WOMEN (AUTONOMOUS),VELLORE-1

ACCOUNTING FOR MANAGERIAL DECISION

I M.COM

SECTION-A 6 MARKS QUESTIONS

1. A project cost Rs. 15,60,000 & Yields annually a profit of Rs.2,70,400 after depreciation of 12% p.a but before tax at 25% calculate payback period.
2. Calculate a) Payback period b) Return on investment method.

Particular	**Option A (Rs.)**	**Option B (Rs.)**
Investment Required	8000	7000
Annual cash flows		
Year 1	4000	2500
Year 2	3000	2500
Year 3	2000	2500
Year 4	2000	2500

3. A Company investment of Rs.10,000 in a project.

   1st year loss Rs.1,00,000

   2nd year profit Rs.3,00,000

   3rd year profit Rs.4,00,000

   4th year profit Rs.2,00,000

   5th year profit Rs.2,00,000

   Calculate

   a) Original investment method

   b) Average investment method
4. Two machines A & B is to be purchased. Find out of the two will be more profitable. Average rate of tax.50% .Use payback period method.

Details	**Machine A**	**Machine B**

Cost of each machine	50,000	80,000
Working life	4 Years	6 Years
Earnings before tax	Rs.	Rs.
Year 1	10,000	8,000
2	15,000	14,000
3	20,000	25,000
4	15,000	30,000
5	-	18,000
6	-	13,000

5. Cost of project Rs.6,00,000 life of the project 5 years. Annual cash inflow Rs.2,00,000 cut off rate 10%. Calculate discounted payback period.

YEAR	DISCOUNTING FACTORS
1	.909
2	.826
3	.751
4	.683
5	.621

SECTION-B 15 MARKS QUESTIONS

1. Neelam & Co., is considering a project which requires investment of Rs.1,50,000/Cost of Capital 12% cash inflows are..

YEAR	ESTIMATED CASH INFLOWS
1	40,000
2	50,000
3	50,000
4	40,000
5	30,000

Calculate internal rate of return.

2. Two Machines A & B are available. Each costing Rs.5,00,000. Discount rate of 10% Earnings after tax.

YEAR	CASH INFLOWS	
	MACHINE A	MACHINE B
1	1,50,000	50,000
2	2,00,000	1,50,000
3	2,50,000	2,00,000
4	1,50,000	3,00,000
5	1,00,000	2,00,000

I) Payback period

II) Net present method

Discounted factors at 10%

1	2	3	4	5
0.9091	0.8264	0.7513	0.6830	0.6209

3. Jane proposes take up a project which needs an investment of Rs.240000. Net income before depreciation & tax is estimated as follows.

YEAR	INCOME
1	60,000
2	72,000
3	84,000
4	96,000
5	1,20,000

Income tax rate may be assumed as 50% depreciation on straight line basis. Calculate accounting rate of return.

4. An investment of Rs.10,000 (having scrap value of Rs.500)

YEAR	YIELDS
1	4000
2	4000
3	3000
4	3000
5	2000

Cost of capital 10% is the investment desirable? According to net present value method assuming P.V. factors for 1^{st}, 2nd,3rd, 4^{th},5^{th} years. .909,.826,.751,.683,.621 respectively.

Calculate net present value method.

5. Two projects M, N, which are mutually Exclusive are being under consideration. Both of them require and investment of Rs.1,00,000 Each. Net cash inflows are

YEAR	M	N
1	10,000	30,000
2	40,000	50,000
3	30,000	80,000
4	60,000	40,000
5	90,000	60,000

Company's targeted rate of return on investment is 12%.

Calculate, 1) NPV Method

2) Profitability Index method.

SECTION-A 6 MARKS

1. Definition and Characteristics of Decision Making.
2. Explain the scopes for Decision Making.
3. Explain the Importance of Decision Making.
4. Explain the functions of Decision Making.
5. Explain about the Tools & Techniques of Decision Making.
6. Explain the Advantages & Disadvantages of Decision Making.
7. Discuss the difference between Management Accounting and financial Management Accounting.
8. Write the difference between Management Accounting and cost Accounting.

Write the difference between Management Accounting, Financial Accounting and Cost Accounting.

The following balance sheets of Harper steel ltd., are given for the yeards ending on 31st March 1998 and 1999.

Liabilities	1998	1999	Assets	1998	1999
Share Capital:			Fixed Assets:		
Equity share capital	20,00,00	40,00,000	Land and buildings	12,00,000	28,00,000
Reserves and surplus:			Plant and Machinery	6,00,000	18,00,000
Capital reserves	1,00,000	2,00,000	Furniture & fixtures	2,00,000	3,00,000
General Reserve	6,00,000	5,00,000	Investments:		
Secured loans:			Subsidiary in X ltd.	1,00,000	1,00,000
10& Debentures	2,00,000	4,00,000	Immovable properties	8,00,000	4,00,000
			Current Assets:		
Current Liabilities:			Cash	2,00,000	20,000
			Book debts	6,00,000	2,00,000

Sundry Creditors	12,00,000	8,20,000	Stock-in-trade	4,00,000	3,00,000
	41,00,000	59,20,000		41,00,000	59,20,000

Prepare a comparative balance sheet of the company and study its financial position. From the following profit and loss account of Everady Co.Ltd., for the year ending on 31st March 1998 and 1999, You are required to prepare a comparative income statement and comment on the performance.

Particulars	**Year ended 31.03.1999 Rs.**	**Year ended 31.03.1998 Rs.**
Sales		
Less : Cost of goods sold	12,80,000	9,60,000
	7,12,000	4,96,000
Gross profit	5,68,000	4,64,000
Less : Administrative expenses	2,56,000	1,76,000
Selling expenses	1,44,000	1,68,000
Interest charge	6,400	9,600
	4,06,400	3,53,600
Net profit before Income Tax	1,61,600	1,10,400
Less: Income Tax@50%	80,800	55,200
	80,800	55,200

The following figures relate to the activities of Moon Ltd., for the year ending 31st Dec 1999.

Sales (Net)	16,00,000
Cost of goods sold	7,20,000
Administrative expenses:	
Salaries	1,74,000
Rent and rates	24,000
Postage and telegrams	10,000
Stationery	74,000
Selling and Distribution expenses	
Salesman Salaries	36,000
Advertising	12,000
Sales Commission	15,000
Discount on sales	4,000
Non – operating expenses:	
Interest	10,000
Loss on sale of building	22,000
Non-operating Income:	
Gain on sale of investments	20,000

You are required to study the income statement with the help of common size statement.

Following are the two balance sheets of X Co. and Y Co. as on 31.12.1990

	X CO.LTD	**Y CO.LTD**

Assets		
Cash	27	72
Sundry debtors	220	226
Stock	100	174
Prepaid expenses	11	21
Other current assets	10	21
Total current assets	368	514
Fixed assets (net)	635	513
Total	1003	1027
Liabilities		
Current liabilities:		
Sundry Creditors	42	154
Others	78	62
	120	216
Fixed liabilities	225	318
Total liabilities	345	534
Capital	658	493
Total	1003	1027

From the above date, prepare a common size balance sheet.

Calculate the trend ratios from the following figures of MPM Company Ltd., taking 1994 as the base and comment there on.

YEAR	SALES	STOCK	PROFIT BEFORE

	RS	**RS**	**TAX RS.**
1994	1,80,000	70,000	32,000
1995	2,30,000	78,100	43,500
1996	2,65,000	81,500	45,700
1997	3,02,000	94,400	52,700
1998	3,76,000	1,15,000	67,300