# M.Com. (Semester – I) Examination, April 2015
# CO-105 : MANAGERIAL ACCOUNTING (OB-10)

Duration : 2 Hours  Total Marks : 50

***Instructions :*** *1) Question No.* ***1*** *is* ***compulsory.***
*2) Answer* ***any*** *of the internal choices of* ***remaining*** *questions.*

1. A) Explain any two conventions of Accounting. **(5×2=10)**
   B) Explain trend analysis with suitable example.
   C) What do you mean by "Corporate Governance" ?
   D) Explain the advantages of Buy-Back of shares.
   E) Why price level accounting is not practised in India ?

2. A) "Accounting as an information system" – Discuss. Differentiate fund flow statement from cash flow statement analysis. **10**

OR

B) The following are the changes in the account balances taken from the balance sheets of RR Steels Ltd., as at the beginning and end of the year.

| **Particulars** | **Debit** | **Credit** |
|---|---|---|
| 8% Debentures | – | 1,50,000 |
| Debenture Discount | 3,000 | – |
| Plant and Machinery at cost | 1,80,000 | – |
| Depreciation on Plant and Machinery | – | 43,200 |
| Trade receivables | 1,50,000 | – |
| Inventory including work in progress | 1,15,500 | – |
| Trade payables | – | 35,400 |
| Net profit for the year | – | 2,29,500 |
| Dividend paid in respect of earlier year | 90,000 | – |
| Provision for doubtful debts | – | 9,900 |
| Trade investments at cost | 1,41,000 | – |
| Bank | – | 2,11,500 |
| Total | **6,79,500** | **6,79,500** |

You are informed that :

a) During the year plant costing Rs. 54,000 against which depreciation provision of Rs. 40,500 was lying was sold for Rs. 21,000.

b) During the middle of the year Rs. 1,50,000 debentures were issued for cash at a discount of Rs. 3,000.

c) The net profit for the year was after crediting the profit on sale of plant and charging debenture interest.

Prepare a cash flow statement which will explain why Bank borrowing has increased by Rs. 2,11,500 during the year end, ignore taxation.

3. A) Explain "Mergers and Acquisitions". – Discuss different categories of Mergers and Acquisitions. Explain defensive strategies in hostile take over bids. 10

OR

B) You have been provided the following financial data of two companies.

| | Nirmal Ltd. | Shaju Ltd. |
|---|---|---|
| Earning after taxes (EAT) Rs. | 17,50,000 | 25,00,000 |
| Equity shares outstanding | 5,00,000 | 10,00,000 |
| Earnings per share (EPS) Rs. | 3.50 | 2.50 |
| Price earnings (P/E) ratio (times) | 10 | 14 |
| Market price per share Rs. | 35 | 35 |

Shaju Ltd., is the acquiring company, exchanging its shares on a 1 : 1 basis for Nirmal Ltd's., shares. The exchange ratio is based on the market prices of the shares of the two companies.

i) What will be the EPS subsequent to merger ?

ii) What is the change in EPS for the shareholders of Shaju Ltd., and Nirmal Ltd.

iii) Determine the market value of the post-merger firm.

iv) Ascertain the profits accruing to shareholders of both the firms.

4. A) Explain the concept of human capital. What do you mean by HR valuation models ? Explain Hermanson's un-purchased goodwill model and Lev and Sehwartz present value of future earnings model. **10**

OR

B) Stacy Ltd., furnishes the following income statement for the year ending 31st December, 2013 prepared on the conventional accounting basis. You are required to adjust the same for price level changes under CPP method. Closing inventory should be valued under LIFO method.

| | | | |
|---|---|---|---|
| Sales | | | 1,00,000 |
| Less : Cost of goods sold : | | | |
| Opening inventory | 10,000 | | |
| Add : Purchases | 65,000 | | |
| | 75,000 | | |
| Less : Closing inventory | 12,000 | 63,000 | |
| Add : Expenses | | | |
| Wages and salaries | | 8,000 | |
| Printing and stationary | | 2,000 | |
| Depreciation on building | | 1,000 | |
| Interest | | 500 | |
| Net Income | | | 74,500 |
| Dividends | | | 25,500 |
| | | | 5,500 |
| Retained earnings | | | 20,000 |

**Additional information :**

i) Index of general price level :

| | |
|---|---|
| January 1, 2013 | 100 |
| December 31, 2013 | 250 |
| Average Index | 175 |

ii) Interest and dividends are paid on December, 31.

iii) Building was purchased, when the index was 60.

5. A) Explain the difference between leasing and hire purchase. What is the current scenario of leasing in India ? Explain the advantages of leasing to the lessor. 10

OR

B) Suresh Ltd., is thinking of installing an equipment. Decide whether the equipment is to be purchased outright through 14 per cent borrowings or to be acquired on lease rental basis. The company is in the 50 per cent tax bracket. The other relevant data are :

**Purchases of equipment :**

Purchase price : Rs . 20,00,000

Annual maintenance : (to be paid in advance) Rs. 50,000 per year

Expected economic useful life : 6 years

Depreciation : Straight line method

Salvage value : Rs. 2,00,000

**Leasing of Equipment :**

Lease charges (to be paid in advance) : Rs. 4,50,000 maintenance expenses to be borne by lessor.

Payment of loan : 6 year-end equal instalments of Rs. 5,14,271.

Present value factor at 7% for 6 years is as follows

| 1 year | $2^{nd}$ year | $3^{rd}$ year | $4^{th}$ year | $5^{th}$ year | $6^{th}$ year |
|---|---|---|---|---|---|
| 0.935 | 0.873 | 0.816 | 0.763 | 0.713 | 0.666 |