COM 103 **Reg. No. ....**

CREDIT BASED FIRST SEMESTER B.Com. DEGREE EXAMINATION
OCTOBER 2017
COMMERCE
MANAGEMENT PERSPECTIVES

Time: 3 Hrs. **Max. Marks: 80**

SECTION – A

Answer any THREE questions: **3×20=60**

1. Explain briefly the selection process followed in an organization.
2. Explain Herzberg's Hygiene theory. What are the criticisms against the theory?
3. Explain the main elements of Taylor's Scientific Management.
4. Define Planning. Explain the steps in Managerial Planning.

SECTION – B

Answer any THREE questions: **3×5=15**

5. State any five differences between Administration and Management.
6. Write a note on Trait Theory of Leadership.
7. Explain the various types of Decisions.
8. Explain briefly Maslow's theory of motivation.

SECTION – C

Answer all the questions: **5×1=5**

9. State the Levels of Management.
10. What is Decision making?
11. Give the meaning of MBO.
12. What is Free rein leadership?
13. Define Motivation.

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COM 105.1 Reg. No. ....

CREDIT BASED FIRST SEMESTER B.Com. DEGREE EXAMINATION OCTOBER 2017
COMMERCE
CORPORATE COMMUNICATION

Time: 3 Hrs. **Max. Marks: 80**

SECTION – A

Answer any THREE questions: **3×20=60**

1. What is Report?
   a) Explain different types of Reports.
   b) Draft a letter inviting application for interview.
2. Define Communication. Explain the Channels of Communication.
3. a) Draft a letter to Ramesh Book Palace, Mangaluru placing an order for 60 dozen gel pens.
   b) Draft an application for the post of Accounts Manager.
4. Explain 7 C's of Communication.

SECTION – B

Answer any THREE questions: **3×5=15**

5. Write a short note on: a) Internet b) Facsimile (Fax)
6. Explain the importance of Communication.
7. Draft a Curriculum Vitae.
8. Briefly explain any five functions of communication in the Modern Organization.

SECTION – C

Answer all the questions: **5×1=5**

9. What is Encoding and Decoding of message?
10. What is meant by Electronic Mail?
11. State any two advantages of Oral Communication.
12. Mention two differences between Formal and Informal Communication.
13. What is meant by Presentations?

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COM 115 Reg. No. ....

CREDIT BASED FIRST SEMESTER B.Com. DEGREE EXAMINATION OCTOBER 2017

COMMERCE

GLOBAL CORPORATE AND BUSINESS LAW

Time: 3 Hrs. **Max. Marks: 80**

SECTION – A

Answer any THREE questions: **3×20=60**

1. What is Law? Explain the different types and sources of English Law.
2. Explain the Statutory Duties of a Director.
3. Explain the meaning and procedure involved in Voluntary Liquidation of a Company.
4. Define Money Laundering. Explain the categories of Money Laundering Offences.

SECTION – B

Answer any THREE questions: **3×5=15**

5. Explain the rules of Consideration.
6. Explain the different types of Dismissal.
7. Distinguish between Shares and Debentures.
8. Explain the main features of Limited Liability Partnership (LLP).

SECTION – C

Answer all the questions: **5×1=5**

9. Define Negligence
10. Who is a 'Shadow Director'?
11. State any two duties of a Partner.
12. What is Insider Information?
13. What is Rights Issue of Shares?

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COM 104.2 Reg. No. ....

CREDIT BASED FIRST SEMESTER B.COM. DEGREE EXAMINATION
OCTOBER 2017
COMMERCE
BUSINESS ECONOMICS

Time: 3 Hrs. **Max. Marks: 80**

SECTION – A

Answer any THREE of the following: **3×20=60**

1. State and explain the law of demand. What are its exceptions?
2. What is demand forecasting? Explain the methods of demand forecasting.
3. What are the features of monopoly? Determine the equilibrium price-output under monopoly.
4. What is price elasticity of 'demand? Explain the various degrees of price elasticity of demand.

SECTION – B

Answer any THREE of the following: **3×5=15**

5. Explain the Law of Diminishing Marginal Utility.
6. Discuss briefly the law of variable proportions.
7. Explain the subject matter of Business Economics.
8. Explain the features of perfect completion.

SECTION – C

Answer ALL the following: **5×1=5**

9. Give the meaning of micro economics.
10. What is Supply?
11. What is price discrimination?
12. What is meant by product differentiation?
13. What is the difference between fixed cost and variable cost.

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COM 102.1 Reg. No. ....

CREDIT BASED FIRST SEMESTER B.Com. DEGREE EXAMINATION OCTOBER 2017
COMMERCE
MODERN BANKING

Time: 3 Hrs. Max. Marks: 80

SECTION – A

Answer any THREE questions: 3×20=60

1. Define the term Bank and explain the functions of Commercial Bank.
2. What is crossing of a Cheque? Explain the different types of Crossing of a cheque with example.
3. What are the rights and duties of a Paying Banker and explain the precautions to be taken by a Paying Banker while honouring cheques.
4. Explain the general relationship between the Banker and Customer.

SECTION – B

Answer any THREE questions: 3×5=15

5. Briefly explain the KYC guidelines.
6. Explain the need for risk management.
7. Explain the precautions to be taken by the banker while opening the account of minor.
8. Explain the different classification of assets.

SECTION – C

Answer all the questions: 5×1=5

9. Expand NEFT and RTGS.
10. Give the meaning of Promissory Note.
11. What is meant by Market Risk?
12. What is E-Banking?
13. What is Bill of Exchange?

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COM 101.1 Reg. No. ....

CREDIT BASED FIRST SEMESTER B.Com. DEGREE EXAMINATION OCTOBER 2017
COMMERCE
FINANCIAL ACCOUNTING - I

Time: 3 Hrs **Max. Marks: 80**

SECTION – A

Answer any THREE questions: **3×20=60**

1. A Company purchased a machinery costing ₹50,000 on 1-1-2007. A depreciation fund was created to replace the machine after 10 years. It was decided to invest the fund balance in government securities which was expected to realize 4% interest. Sinking Fund table shows that to provide Re.1 at 4% after 10 years, an annual investment of ₹0.083291 is required. At the end of 4th year the machine has to be sold off as scrap. It realized ₹5,000. Investment was realized 5% below the book value, purchase of new machine cost ₹60,000. Show Machinery A/c, Depreciation Fund A/c, Depreciation Fund Investment A/c assuming that investments were made in multiples of ₹100.

2. From the following trial balance of Mr. Hari and additional information, prepare Trading and Profit and Loss A/c for the year ended 31-3-2015 and a Balance Sheet as on that date.

Particulars	Debit (₹)	Credit (₹)
Capital	---	1,00,000
Furniture at original cost	20,000	---
Purchases	1,50,000	---
Debtors	2,00,000	---
Interest earned	---	4,000
Salary	30,000	---
Sales	---	3,21,000
Purchase returns	---	5,000
Wages	20,000	---
Rent	15,000	---
Bad debts	7,000	---
Creditors	---	1,20,000
Drawings	24,000	---
Provision for bad debts	---	6,000
Printing & Stationary	8,000	---
Insurance	12,000	---
Opening stock	50,000	---
Office expenses	12,000	---
Provision for depreciation on furniture	---	2,000
Sales return	10,000	---
	5,58,000	5,58,000

Additional Information:

a) Provide depreciation on furniture at 20% on original cost
b) A provision for doubtful debt is to be created to the extent of 5% on debtors
c) Salaries for March 2015 amounting to ₹3,000 were unpaid which must be provided for. Salaries included ₹2,000 paid in advance.
d) Insurance amounting to ₹2,000 is prepaid.
e) Provide for outstanding office expenses ₹8,000.
f) Goods used for private purposes ₹6,000.
g) Closing stock ₹60,000

3. From the following, prepare Income & Expenditure A/c and Balance Sheet as on 31-12-2015 of Kumara Club.

Receipt and Payment account for the year ending 31-12-2015

Receipt	₹	Payment	₹
To Cash	1,125	By News Paper	750
" Subscription	2,900	" Rent	250
" Tournament Fund	750	" Salaries	1,800
" Life Membership Fee	1,000	" Office Expenses	1,200
" Entrance Fee	100	" Sports Materials	1,150
" Donation for Building	1,500	" Tournament Expenses	450
" Sale of News Paper	50	" Cash	1,825
	7,425		7,425

Adjustment:

a) Subscriptions outstanding on 31-12-2015 ₹400 and on 31-12-2014 ₹450
b) Subscriptions received in advance ₹100 for the year 2016.
c) Sports materials were valued on 31-12-2014 at ₹550 and on 31-12-2015 at ₹1,090.
d) Furniture were valued on 31-12-2014 at ₹2,000 and Buildings were worth ₹20,000, and Tournament fund of ₹5,000.
e) Office expenses included ₹150 for 2014 and ₹200 is outstanding on 31-12-2015.
f) Entrance fee are treated as revenue income.

4. The following mistakes were located in the books of a concern after its books were closed and a Suspense A/c was opened in order to get the trial balance agreed.

a) Sales book was overcast by ₹100
b) A sale of ₹50 to Mr. X was wrongly debited to the A/c of Mr. Y.
c) General expenses ₹18 posted in the general ledger as ₹80.
d) A bill receivable for ₹155 was passed through bills payable book. The bill was given by Mr. P.
e) Legal expenses of ₹119 paid to Mr. Dinesh debited to his Personal A/c.
f) Cash received from Das was debited to the A/c of Bose ₹150
g) While carrying forward the total of one page of the purchases book to the next the amount of ₹1,235 was written as ₹1,325.

Pass Journal entries for the rectification of the above errors in the subsequent years book and show the suspense A/c and Profit & Loss adjustment A/c.

SECTION – B

Answer any THREE questions: **3×5=15**

5. What are accounting standards? Write a note on AS – 1.

6. A company purchased a machinery on 1-1-2006 for ₹76,000 and spent ₹4,000 for its installation. On 1-7-2007 it purchased another Machinery for ₹20,000. On 1-7-2008 it sold the first Machinery purchased in 2006 for ₹50,000. Depreciation was provided on the machinery at 10%p.a. on original cost annually on 31st December every year. Prepare Machinery A/c for 3 years ending 31-12-2008.

7. Prepare Manufacturing A/c from the following.

Stock at Commencement :	₹	Stock at close:	₹
Raw materials	50,000	Raw materials	60,000
Work in progress	25,000	Work in progress	30,000
Finished goods	75,000	Finished goods	85,000
Freight and octroi	7,000	Purchase of Raw Materials	35,500
Manufacturing wages	20,000	Return inwards	15,000
Gas, electricity, water	18,000	Return outwards	5,500
Stores consumed	10,000	Sales	3,00,000
Factory Rent	8,000	Salary	1,000
Factory expenses	3,000	Commission	200

8. From the following ledger balances as on 1-1-2008 prepare the Balance Sheet.

Capital fund	?	O/s bills for payment	3,200
Endowment fund	12,000	Income & expenditure A/c (Cr.)	6,000
Equipment	6,000	Subscription received in advance	600
Furniture	6,500	Prepaid rent	200
Subscription in arrears	1,800	Land	14,000

SECTION – C

Answer ALL questions: **5×1=5**

9. What is going concern concept?

10. Classify the following as capital and Revenue
    a) Wages paid for erection of plant
    b) Sale of old bats and balls

11. Rectify the following error.

    A purchase of ₹671 has been posted to the debit of creditors A/c as ₹617 and creditors were Patel & Co.

12. How do you treat the following while preparing final account of a sole trader?
    Goods of the value of ₹3,000 have been destroyed by fire and the insurance company has admitted the claim for ₹2,400.

13. A firm purchased a machine on 1-1-2003 for ₹30,000, depreciation is to be provided on straight line method. The useful life of Machine is 10 years. The scrap value of the machine after 10 years is ₹3,000. Find;
    a) The amount of depreciation to be charged every year
    b) The rate of depreciation p.a.

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COM 111 Reg. No.......................

CREDIT BASED FIRST SEMESTER B.Com DEGREE EXAMAINATION OCTOBER 2017

COMMERCE

INTERNATIONAL FINANCIAL ACCOUNTING

Time: 3hrs Marks: 80

SECTION A

Answer any THREE of the following questions. **(3x20=60)**

1. a. The statements of financial position of Grand, a company trading as a wholesaler, at 31 December 2015 and 2016 were as follows:

	2016		2015	
	$000	$000	$000	$000
Assets				
Non-current assets				
Cost or valuation	162,400		126,300	
Aggregate depreciation	(64,000)	98,400	(50,000)	76,300
Current assets				
Cash	2,000		1,400	
Accounts receivable (trade)	14,000		10,500	
Inventories	15,000	31,000	12,000	23,900
Total assets		129,400		100,200
Equity and liabilities				
Ordinary shares of $1 each	10,000		6,000	
Share premium account	3,000		1,000	
Revaluation surplus	8,000		–	
Retained earnings	28,000	49,000	19,000	26,000
Non-current liabilities				
Loans (due for repayment 2021)		60,000		60,000
Current liabilities				
Accounts payable (trade)	9,400		6,800	
Taxation on profits	5,000		3,400	
Dividend payable	6,000	20,400	4,000	14,200
Total equity and liabilities		129,400		100,200

The inventory at 31 December 2014 was $10,000,000.

The summarised statements of profit or loss for the years ended 31 December 2015 and 2016 were:

	Year ended 31 December	
	2016 $000	2015 $000
Sales revenues	108,000	64,000
Cost of sales	75,600	40,000
Gross profit	32,400	24,000
Expenses	12,400	10,000
Profit before tax	20,000	14,000

Required: (a) Calculate the following accounting ratios for both years:
(i) The gross profit percentage (ii) Two ratios measuring short-term liquidity (iii) Accounts receivable collection period in days (iv) Trade accounts payable payment in days (based on purchases) (v) Gearing ratio Show all workings. **(10 Marks)**

b. Leonardo is in business but does not keep proper books of account. In order to prepare his income and expenditure account for the year ended 31 December 2016 you are given the following information:

	1 Jan 2016 $	31 Dec 2016 $
Inventory on hand	1,310	1,623
Receivables	268	412
Payables for goods	712	914
Payables for expenses	116	103

In addition you are able to prepare the following summary of his cash and bank transactions for the year:

Cash account

	$		$
Balance 1 January	62	Payments into bank	3,050
Shop takings	4,317	Purchases	316
Cheques cashed	200	Expenses	584
		Drawings	600
		Balance 31 December	29
	4,579		4,579

Bank account

	$		$
Balance 1 January	840	Cash withdrawn	200
Cheques from customers	1,416	Purchases	2,715
Cash paid in	3,050	Expenses	519
		Drawings	400
		Delivery van (purchased 1 September)	900
		Balance 31 December	572
	5,306		5,306

In addition Leonardo says that he had taken goods for personal consumption and estimates that those goods cost $100. In considering accounts receivable Leonardo suggests that a loss allowance be made of 5% of amounts due after writing off a specific irrecoverable debt of $30. Depreciation on the delivery van is to be allowed at 20% per annum. Prepare the statement of profit or loss and a statement of financial position at 31 December 2016. **(10 Marks)**

2. a. On 30 April 2017 the bank account of Dealers, according to the cash account, was overdrawn to the extent of $1,062. On the same date the bank statement showed a balance in favour of Dealers of $2,149. An examination of the cash account and bank statements reveals the following:

(1) In carrying forward the page totals in the cash account, the total of the credit side on one page amounting to $10,502 has been carried forward at $10,052.

(2) A bank deposit of $698 made on 30 April 2017 was not recorded on the bank statement until 1 May 2017.

(3) A hire purchase payment of $91 made by standing order had not been entered in the cash account.

(4) A cheque payment of $94 had been entered twice in the cash account.

(5) Bank charges amounting to $57 had not been entered in the cash account.

(6) On 29 April 2017 the bank credited an amount of $341 received by trader's credit, but the advice was not received by Dealers until 1 May 2017.

(7) On 15 April 2017 the bank credited the sum of $1,560 to Dealers in error.

(8) A receipt paid into the bank by Dealers on 20 April 2017 was dishonoured on 28 April 2017, but no entry has been made in the books of Dealers. The sum involved was $100.

(9) Certain cheques issued prior to 30 April 2017 were not presented to the bank for payment until after that date.

Required: (a) Show the appropriate adjustments required in the cash account of Dealers, bringing down the correct balance on 30 April 2017. **(5 marks)**

(b) Prepare a bank reconciliation statement at that date. **(5 marks)**

b. Lorca's draft statement of profit or loss showed a profit of $830,000. However, the trial balance did not balance and a suspense account with a credit balance of $20,000 has been included in the statement of financial position for the difference.

The following errors were found on investigation:

(1) The proceeds of issue of 100,000 50c shares at 70c per share were correctly entered in the cash book but had been credited to sales account.

(2) During the year $8,000 interest received on a holding of loan notes had been correctly entered in the cash book but debited to interest payable account.

(3) In arriving at the net sales and purchases totals for the year, the $48,000 balance on the returns outwards account had been transferred to the debit of sales account and the $64,000 balance on the returns inwards account had been transferred to the credit of purchases account.

(4) A payment of $4,000 for rent had been correctly recorded in the cash book but debited to the rent account as $40,000.

(a) Prepare journal entries to correct the errors. Narratives are NOT required. **(5 marks)**

(b) Calculate the revised profit after adjusting for the errors. **(5 Marks)**

3. The following are the draft statements of financial position of Dublin and its subsidiary Belfast as at 31 December 2016:

	Dublin		Belfast	
Assets	$	$	$	$
Non-current assets				
Tangible assets		157,000		82,000
Investments: Belfast		58,000		
Others		12,000		
Current assets				
Cash at bank and in hand	8,000		25,150	
Trade receivables	96,800		46,900	
Inventory	73,200		35,200	
		178,000		107,250
		405,000		189,250

Equity and liabilities		
Equity		
Share capital ($1 shares)	250,000	50,000
Share premium account		6,250
Revaluation surplus		15,000
Retained earnings	32,000	40,000
	282,000	111,250
Non-current liabilities:		
6% Loan		20,000
Current liabilities		
Trade payables	123,000	58,000
	405,000	189,250

Notes:

(1) Dublin acquired 40,000 shares in Belfast on 1 January 2015 for a cost of $58,000 when the balances on Belfast's reserves were:

	$
Share premium account	6,250
Revaluation surplus –	
Retained earnings	10,000

(2) Non-controlling interest is valued at fair value, which was $14,500 on 1 January 2015.

(3) At 31 December 2016 Belfast's inventory included $12,000 of goods purchased from Dublin. Dublin earns a gross profit of 25% on sales.

(4) At 31 December 2016 Dublin's trade receivables include $28,000 due from Belfast and Belfast's trade payables include $28,000 due to Dublin.

Prepare the consolidated statement of financial position as at 31 December 2016 of Dublin.

4. The following information relates to the business of Maria for the year ended 31 December 2016:

	$	$
Capital account, 1 January 2016		13,640
Freehold properties at cost	7,500	
Furniture and fittings at cost	2,000	
Motor cars at cost	6,300	
Accumulated depreciation to 1 January 2016		
Freehold properties		450
Furniture and fittings		800
Motor cars		2,370
Inventory 1 January 2016	6,740	
Purchases	54,520	
Sales		79,060
Salaries	8,760	
Rent	1,170	
Office expenses	3,950	
Motor expenses	3,790	

Drawings	4,800	
Loss allowance for receivables 1 January 2016		600
Loan		4,000
Trade receivables	9,240	
Trade payables		10,040
Bank balance	2,190	
	110,960	110,960

You are also supplied with the following information:

(1) Inventory at 31 December 2016 was $7,330.

(2) Rent paid in advance at 31 December 2016 amounted to $250.

(3) Loss allowance for trade receivables is to be made equal to 5% of accounts receivable at 31 December 2016.

(4) Depreciation is to be charged for the year at the following annual rates calculated on cost at the year end: Freehold properties 1% Furniture and fittings 10% Motor cars 20%

(5) Interest on the loan at 5% per annum is to be provided.

Prepare a statement of profit or loss for the year ended 31 December 2016 and a statement of financial position at that date.

SECTION B

Answer any THREE of the following questions. **(3x5=15)**

5. The receivables ledger control account of Atanga at 31 December shows a debit balance of $487,600. The list of receivables ledger balances at the same date totalled $455,800 debit. There were no credit balances.

   On investigation the following errors and revisions were found:

   (1) The sales day book had been overcast by $2,000;

   (2) A debt of $8,400 is to be written off;

   (3) A credit note for $1,200 was entered on the debit side of the customer's account;

   (4) Contras against amounts owing to Atanga in the payables ledger totalling $16,100 were entered on the debit side of the receivables ledger control account;

   (5) A credit note for $5,600 sent to a customer and recorded at that figure should have been for $4,500;

   (6) Cash discount allowed and agreed at $150 has not been recorded in the accounting system.

   Prepare a statement showing the necessary adjustments to the receivables ledger control account balance.

6. Ogay started business on 1 January 2015. At the end of his first year of trading he had closing inventory of $5,000. During 2016 he traded continuously and at 31 December 2016 he had inventory amounting to $7,500.

   Sales for 2015 and 2016 were $120,000 and $155,000 respectively and purchases were $75,000 and $110,000 respectively.

   Write up the inventory account, purchases account and revenue account for the two years.

7. a. On 5 May 2016 Tomas pays a rent bill of $3,600 for the 18 months ended 30 June 2017. What is the charge to profit or loss and the amount to be carried in the statement of financial position in respect of rent for the year ended 31 March 2017? **(2 Marks)**

b. On 31 March 2017, the balance on the receivables control account of Zee Co is $425,700.The bookkeeper has identified that the following adjustments for receivables are required:
Irrecoverable debt recovered $2,000
Specific allowance $2,400
It was decided that a further allowance for receivables of 2% should be made for expected credit losses. The allowance for receivables on 1 April 2017 was $1,900.
What was the receivables allowance expense for the year ended 31 March 2017? **(3 Marks)**

8. a. The loss allowance for trade receivables brought forward on 1 January in the books of Krol was $86. Trade receivables at 31 December amounted to $2,840 and irrecoverable debts to be written off totalled $115. Krol wishes to carry forward a loss allowance of 5% of accounts receivable.
Prepare the irrecoverable debts expense account; **(2 Marks)**

b. Petr commenced trading in his bakery on 5 April. All his transactions were on a cash basis, as follows:
5 April Introduced cash into the business of $300
7 April Purchased goods for $200
8 April Received loan from Tatiana of $250 repayable within twelve months
15 April Purchased a motor van for $150
20 April Sold goods for $350
28 April Paid rent of $50
29 April Repaid part of the loan $200
30 April Drew cash from the business $60.
At 30 April Petr had $100 goods in hand.
Write up Cash accounts for the above transactions. **(3Marks)**

SECTION C

Answer all the following questions. (5x1=5)

9. State any two objectives of the International Accounting Standards Board (IASB).
10. Alexander purchased a van for $800 cash. He estimates that in four years it will have a scrap value of $70. Calculate the annual depreciation charge on the straight line method.
11. On 31 December 2016 the income tax liability of a company was $29,500 (2015: $25,300). The tax charge for the year ended 31 December 2016 was $32,000. What figure for taxation should be included in the statement of cash flows for the year ended 31 December 2016?
12. At what amount is a revalued asset included in the statement of financial position in accordance with IAS 16?
13. During the year Frodo sold goods for a sales price of $168,000 to its wholly-owned subsidiary Bilbo. These goods were sold by Frodo at a mark-up of 50% on cost. On 31 December Bilbo still had $36,000 worth of these goods in inventory. What adjustment for unrealised profit should be made in Frodo's consolidated financial statements?

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COM113 Reg. No. ....

CREDIT BASED FIRST SEMESTER B.Com. DEGREE EXAMINATION OCTOBER 2017

COMMERCE

MANAGEMENT ACCOUNTING

Time: 3 Hrs. **Max. Marks: 80**

SECTION – A

Answer any THREE of the following: **3×20=60**

1. A company is divided into four departments of which A, B and C are production departments and D is a service cost centre responsible for maintenance. The actual costs for the period are as follows:

	$
Rent	1,000
Light	160
Supervision	1,500
Power	900
Depreciation of Plant	450
Employers liability Insurance	150
Insurance of Inventory	500
Heating	440

The following additional information is available

	A	B	C	D
Area (m^3)	1500	1100	900	500
Number of Employees	20	15	10	5
Value of Plant	$24000	$18000	$12000	$ 6000
Value of Inventory	$15000	$ 9000	$6000	-
Machine Hours	4000	3000	2000	-
Maintenance Hours	210	80	120	-
Labour Hours	1150	400	800	820

Required:

a) Apportion the costs on the most equitable basis and re-apportion the service cost centre costs to the three production departments.

b) Calculate an absorption rate for each production department based on labour hours.

c) Use these absorption rates to calculate the overhead content of an X127 which requires two hours in Department A, three hours in B, and half an hour in C.

2. Peter Block is considering the acquisition of an electronics business. Peter could finance the cost of furniture and fixtures $ 20,000 and leasehold property $ 30,000 from the sale of investments. He will, however, require substantial assistance from his bank to finance the working capital. Before considering this facility the bank requires information regarding expected profitability and liquidity.

Peter has given you the following information.

1)

Sales (Estimated)	Cash ($)	Credit ($)
July	5000	20000
August	8000	24000
September	10000	30000
October Onwards (per month)	12000	36000

The average credit taken by customers is expected to be 2 months. Bad debts are expected to be 1% of credit sales.

2) The average gross profit percentage on sales is expected to be 25%.
3) Inventory levels at the end of each month are planned to be sufficient to cover the following two month's sales, adequate supplies are to be purchased in July to meet this requirement.
4) It is intended to settle purchases by the end of the following month in order to obtain a 2% cash discount.
5) Expenses are estimated as follows:
   Selling and distribution Expenses -8% of sales
   Administration and General Expenses -$2250 per month.
6) The leasehold is thirty years and the furniture and fixtures are expected to have a useful life of ten years.
   Depreciation included in General Expenses. Other expenses are paid as incurred.
7) Interest of 18% per annum is payable at the beginning of each month on the previous month's closing overdraft.

Required:

a) Prepare the sales and purchases budgets for the four months to October.
b) Prepare a cash budget for each of the four months to October, indicating the month-end overdraft requirement.
c) Draft a budgeted statement of financial position as at 31st October.

3. A Company is planning to manufacture and sell 12000 bottles of a new perfume. The estimated costs of this product are as follows.

Cost per Bottle	$
Materials Ingredients	1.70
Bottle and other packing	0.80
Other variable production Costs	0.50
Variable selling Costs	0.20
	3.20

Fixed costs for the year, which will accrue evenly, are expected to be:
Fixed production Costs $ 24,000
Fixed selling costs $ 6,000
The perform will sell for $ 7 per bottle
Production and Sales for the first six months of the products life are budgeted as follows.

Bottles	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.
Production	2,000	2,500	1,000	1000	500	1,000
Sales	1,000	1,000	1,500	2,000	1,500	500

Required:

a) Calculate budgeted monthly Profit figures using
   1) Absorption costing and
   2) Marginal Costing

4. Tomkins is engaged in the production of electronic musical instruments. The Management Accountant wishes to prepare a flexible budget for next month. He obtains the following information from a summary of electricity cost as related to direct labour hours for the current year.

Month	Electricity Cost $	Direct Labour Hours
May	1,548	297
June	1,667	350
July	1,405	241

August	1,534	280
September	1,600	274
October	1,600	266
November	1,613	285
December	1,635	301

Required:

a) Using regression analysis of the above data, estimate
   1) The annual fixed element of electricity cost; and
   2) The variable element per hour of direct labour

b) Calculate the coefficient of correlation and interpret your result.

c) Recalculate the estimate made in, using high-Low method.

SECTION – B

Answer any THREE of the following: **3×5=15**

5. Shark is a Manufacturing Company. Budgeted overhead costs for the next year have been allocated and apportioned to the production cost centers as follows.

	\$
P_1	978,750
P_2	586,250
P_3	393,750

The company manufactures products CD4 and EF7. The following budgeted information is available.

	CD4	EF7
Labour hours per unit		
P_1	1.5	3.5
P_2	0.5	1.0
P_3	0.5	1.0
Machine hours per unit		
P_1	0.5	1.0
P_2	5.5	7.5
P_3	0.5	1.0
Budgeted annual production (units)	10,000	15,000

Overheads are absorbed on the following bases.

P_1 – Labour hours worked
P_2 - Machine hours worked
P_3 – Number of units produced.

Required:

Calculate the budgeted overhead absorption rate in each production centre.

6. Describe briefly the planning and control cycle in an organization.

7. a) Sales of Product X over the last four years have been:

Year 1	\$ 273,691
Year 2	\$ 293,379
Year 3	\$ 321,270
Year 4	\$ 326,666

Annual price inflation of the product over the same period has been:

From Year 1 to Year 2	3.0%
From Year 2 to Year 3	2.5%
From Year 3 to Year 4	3.6%

Required:
Calculate the index number series of annual sales volume for Product X for year 1 to 4, (using Year 1 as the base)

8. To determine public opinion of the design of a new family car, on a particular day four interviewers stand in a busy pedestrian shopping area and each stop and question 50 people.
Required:
State the sampling method used and discuss its suitability in this situation.

SECTION – C

Answer all questions: **5×1=5**

9. Which of the following is an initial requirement of a management control system?

A. Establishing the standard to be achieved
B. Measuring the actual performance
C. Setting Organisational objectives
D. Taking appropriate corrective action

10. An oganisation manufactures a single product. The total cost of making 4000 units is \$ 20,000 and the total cost of making 20,000 units is \$ 40,000. Within this range of activity the total fixed costs remain unchanged.

A \$ 0.80 C \$ 1.25
B \$ 1.20 D \$ 2.00

11. The demand for a product is 12,500 units for a three month period. Each unit of product has a purchase price of \$ 15 and ordering costs are \$ 20 per order placed. The annual holding cost of one unit of product is 10% of its purchase price. What is the Economic Order Quantity? (to the nearest unit)

A 577 B 816

C 866 D 1,555

12. Which of the following factor is least likely to motivate managers to achieve higher levels of performance?

A. A reward system B. A top- down approach to Budgeting
C. A non-accounting style of management D. Setting targets higher than intended achievement

13. Which of the following is a feature of a fixed budget?
A. A budget which ignores inflation
B. A budget used only for fixed costs
C. A budget for a single level of activity
D. A budget for a single product.

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COM 314 Reg.No..........................

CREDIT BASED THIRD SEMESTER B.Com DEGREE EXAMINATION OCTOBER 2017

INTERNATIONAL FINANCIAL MANAGEMENT

Time : 3Hrs **Max.Marks:80**

SECTION A

Answer any THREE questions **3x20=60**

1. (a) HDW Co is a listed company which plans to meet increased demand for its products by buying new machinery costing $5 million. The machinery would last for four years, at the end of which it would be replaced. The scrap value of the machinery is expected to be 5% of the initial cost. Tax-allowable depreciation would be available on the cost of the machinery on a 25% reducing balance basis, with a balancing allowance or charge claimed in the final year of operation.
This investment will increase production capacity by 9,000 units per year and all of these units are expected to be sold as they are produced. Relevant financial information in current price terms is as follows:

		Forecast inflation
Selling price	$650 per unit	4·0% per year
Variable cost	$250 per unit	5·5% per year
Incremental fixed costs	$250,000 per year	5·0% per year

In addition to the initial cost of the new machinery, initial investment in working capital of $500,000 will be required. Investment in working capital will be subject to the general rate of inflation, which is expected to be 4·7% per year.
HDW Co pays tax on profits at the rate of 20% per year, one year in arrears. The company has a nominal (money terms) after-tax cost of capital of 12% per year.
Required:
Calculate the net present value of the planned purchase of the new machinery using a nominal (money terms) approach and comment on its financial acceptability. **(15 Marks)**
(b) State the limitations of the Net Present Value technique when applied to investment appraisal. **(5 Marks)**

2. ASOP Co is considering an investment in new technology that will reduce operating costs through increasing energy efficiency and decreasing pollution. The new technology will cost $1 million and have a four-year life, at the end of which it will have a scrap value of $100,000.
A licence fee of $104,000 is payable at the end of the first year. Licence fee will increase by 4% per year in each subsequent year.
The new technology is expected to reduce operating costs by $5.80 per unit in current price terms. This reduction in operating costs is before taking account of expected inflation of 5% per year.
Forecast production volumes over the life of the new technology are expected to be as follows:

Year	1	2	3	4
Production (units per year)	60,000	75,000	95,000	80,000

If ASOP bought the new technology, it would finance the purchase through a four-year loan paying interest at an annual before-tax rate of 8.6% per year.
Alternatively, ASOP could lease the new technology. The company would pay four annual lease rentals of $380,000 per year, payable in advance at the start of each year. The annual lease rentals include the cost of the licence fee.
If ASOP buys the new technology it can claim tax-allowable depreciation on the investment on a 25% reducing balance basis. The company pays taxation one year in arrears at an annual rate of 30%. ASOP has an after-tax weighted average cost of capital of 11% per year.
Required:
(a) Determine whether ASOP Co should lease or buy the new technology. **(15 Marks)**
(b) Explain the differences between a nominal approach and a real terms approach to calculating net present value.

(5 Marks)

3. Bar Co is a stock exchange listed company that is concerned by its current level of debt finance. It plans to make a rights issue and to use the funds raised to pay off some of its debt. The rights issue will be at a 20% discount to its current ex-dividend share price of $7·50 per share and Bar Co plans to raise $90 million. Bar Co believes that paying off some of its debt will not affect its price/earnings ratio, which is expected to remain constant.

Statement of profit or loss information

	$m
Revenue	472
Cost of sales	423
Profit before interest and tax	49
Interest	10
Profit before tax	39
Tax	12
Profit after tax	27

Statement of financial position information

	$m
Equity	
Ordinary shares ($1 nominal)	60
Reserves	80
	140
Long-term liabilities	
8% Loan notes ($100 nominal)	125
	265

The 8% loan notes are currently trading at $112·50 per $100 loan note and loan note holders have agreed that they will allow Bar Co to buy back the loan notes at this market value. Bar Co pays tax at a rate of 30% per year.

Required:

(a) Calculate the theoretical ex-rights price per share of Bar Co following the rights issue.

(3 marks)

(b) Calculate and discuss whether using the cash raised by the rights issue to buy back loan notes is likely to be financially acceptable to the shareholders of Bar Co, commenting in your answer on the belief that the current price/earnings ratio will remain constant.

(12 marks)

(c) Calculate and discuss the effect of using the cash raised by the rights issue to buy back loan notes on the financial risk of Bar Co, as measured by its interest coverage ratio and its book value debt to equity ratio.

(5 marks)

4. (a) Backpay Co is considering investing $50,000 in a new machine. The machine will have scrap value of $10,000 at the end of its five year life. It is expected that 20,000 units will be sold each year at a selling price of $3·00 per unit. Variable production costs are expected to be $1·65 per unit, while incremental fixed costs are expected to be $10,000 per year.

i) What is the project's payback period?

A 1.9 years
B 2.9 years
C 1.0 year
D 2.5 years

ii) What is the project's return on capital employed based on average investment?

A 34%
B 45%
C 57%
D 30%

iii) Backpay Co is also evaluating an investment project with the following forecast cash flows:

Year	0	1	2	3	4
Cash flow ($m)	(6·5)	2·4	3·1	2·1	1·8

Using discount rates of 15% and 20%, what is the internal rate of return of the investment project?

A 15·8%
B 17·2%
C 17·8%
D 19·4%

iv) The chairman of Backpay Co is concerned about how government economic policy may affect the success of the firm's future projects.

Which of the following is/are usually seen as forms of market failure where regulation may be a solution?

(1) Imperfect competition
(2) Social costs or externalities
(3) Imperfect information

A 1 only
B 1 and 2 only
C 2 and 3 only
D 1, 2 and 3

v) Which of the following government actions relate predominantly to fiscal policy?

(1) Decreasing interest rates in order to stimulate consumer spending
(2) Reducing taxation while maintaining public spending
(3) Using official foreign currency reserves to buy the domestic currency
(4) Borrowing money from the capital markets and spending it on public works

A 1 only
B 1 and 3
C 2 and 4 only
D 2, 3 and 4

(10 marks)

(b) Distinguish between weak form, semi-strong form and strong form stock market efficiency, and discuss the significance to a listed company if the stock market on which its shares are traded is shown to be semi-strong form efficient. **(7 marks)**

(c) Tanglefoot Co is an unlisted firm whose most recent earnings per share (EPS) was $0·53 per share and next year's EPS is forecast to be 10% higher. Tanglefoot Co has $50,000 of issued share capital ($0·10 nominal value per share). The average price-earnings ratio of listed firms in the same business sector is 12 times.

Required:

Estimate the total value of Tanglefoot Co using the price/earnings ratio method.

(3 marks)

SECTION B

Answer any THREE questions **3x5=15**

5. (a) A company uses the Baumol cash management model. Cash disbursements are constant at $20,000 each month. Short-term investments yield 5% a year, while cash held in the company's bank account earns zero interest. Switching costs (that is, for each purchase or sale of short-term investments) are $30 for each transaction.

What is the optimal amount (to the nearest $100) to be transferred in each transaction? **(2 ½ Marks)**

(b) A company has annual credit sales of $27 million and related cost of sales of $15 million.
The company has the following targets for the next year:

Trade receivables days	50 days
Inventory days	60 days
Trade payables	45 days

Assume there are 360 days in the year.
What is the net investment in working capital required for the next year? **(2 ½ Marks)**

6. (a) A company is considering whether to buy or lease two assets:
Asset 1 has a 10-year economic life with a zero residual value. It can be purchased for $80,000 payable immediately. Alternatively, it can be leased with 10 lease rentals of $12,000 per year payable annually in advance.
Asset 2 has a five-year economic life. It can be purchased for $81,000 payable immediately and will have a residual value of $40,000 after five years. Alternatively, it can be leased with five lease rentals of $14,000 per year payable annually in arrears.
The appropriate discount rate is 10% per year.
How should the company finance each asset? **(3 Marks)**

(b) Hathaway Co has just paid a dividend of $0·21 per share and its share price is $3·50 per share. One year ago its share price was $3·60 per share. What is the total shareholder return over the period? **(2 Marks)**

7. (a) A company currently has 1,000 ordinary shares in issue and no debt. It has the choice of raising an additional $100,000 by issuing 9% long-term debt, or issuing 500 ordinary shares. The company has a 40% tax rate. What level of earnings before interest and taxes (EBIT) would result in the same earnings per share (EPS) for the two financing options? **(3 Marks)**
(b) A firm has achieved an average growth in dividends over the last five years of 10.5% per year. It is now widely believed that the long-run average annual dividend growth rate will be 9.16% per year. The firm's current dividend yield is 4.8%. What is the firm's cost of equity? **(2 Marks)**

8. Explain the factors to be considered in formulating a trade receivables management policy. **(5 marks)**

SECTION C

Answer ALL questions **5x1=5**

9. Which of the following is one of the 3Es "value for money" concept?
A Earnings
B Equity
C Evaluation
D Effectiveness

10. A company has a "money" cost of capital of 21% per year. The general inflation rate is 9% per year. What is the "real" cost of capital?
A 9%
B 11%
C 12%
D 21%