M 26112

Reg. No. : ....

Name : ....

Third Semester M.A./M.Sc./M.Com. Degree (Reg./Sup./Imp.) Examination, November 2014
COMMERCE
Paper – IX : Budgeting and Pricing

Time : 3 Hours Max. Marks : 80

SECTION – A

Answer **any five** questions. **Each** carries **8** marks.

1. What are the steps involved in the preparation of production budget ?
2. Distinguish between performance budgeting and programme budgeting.
3. What are the factors influencing capital expenditure decisions ?
4. Explain the necessary steps to be followed for adopting the net present value methods of evaluating investment proposals.
5. Calculate discounted payback period from the information given below :

   Cost of project – ₹ 6,00,000

   Life of it project – 5 years

   Annual cashflow – ₹ 2,00,000

   Cut off rate 10%.
6. What are the pre-requisites for responsibility accounting ?
7. Explain the process of zero base budgeting.
8. Define budget period. What are the points to be considered in fixing the budget period ? **(5×8=40)**

P.T.O.

SECTION – B

Answer **any two** questions. **Each** question carries **20** marks.

9. From the following forecast of income and expenditure, prepare a cash budget for the months of January to April 2010.

Months	Sales (Credit)	Purchase (Credit)	Wages	Manufacturing exp.	Admn. expenses	Selling exp.
2009 Nov.	30,000	15,000	3,000	1,150	1,060	500
Dec.	35,000	20,000	3,200	1,225	1,040	550
2010 Jan.	25,000	15,000	2,500	990	1,100	600
Feb.	30,000	20,000	3,000	1,050	1,150	620
March	35,000	22,500	2,400	1,100	1,220	570
April	40,000	25,000	2,600	1,200	1,180	710

Additional information is as follows :

1) The customers are allowed a credit period of 2 months.
2) A dividend of Rs. 10,000 payable in April.
3) Capital expenditure to be incurred : Plant purchased on 15^{th} of January for Rs. 5,000; a Building has been purchased on 1^{st} March and the payments are to be made in monthly installments of Rs. 2,000 each.
4) The creditors are allowing a credit of 2 months.
5) Wages are paid on the first of the next month.
6) Lag in payment of other expenses in one month.
7) Balance of cash in hand on 1-1-2010 is Rs. 5,000.

10. From the following information calculate the net present value of the two projects and suggest which of the two projects should be accepted assuming a discount rate of 10%.

	Project X	Project Y
Initial investment	20,000	30,000
Estimated life	5 years	5 years
Scrap value	1,000	2,000

The profits before depreciation and after tax (cash flows) are as follows :

	1 year	Year 2	Year 3	Year 4	Year 5
Project X	5,000	10,000	10,000	3,000	2,000
Project Y	20,000	10,000	5,000	3,000	2,000

11. From the following details in units, prepare production budget for the year 2010 assuming sales as limiting factor :

Product Group A	**Op. Stock**	**Budgeted Sales**
X	50,000	2,00,000
Y	60,000	2,50,000
Z	1,00,000	5,00,000
Product Group B		
P	10,000	1,00,000
Q	20,000	50,000

Stock of Y and Z is to be maintained at 10% above the existing lend to sustain the budgeted sales. Stock lend of 'X' may be reduced by 20%. Stock of Q is proposed to be raised by 30,000 units for expert market not considered in sales budget given above.

12. Describe the essential steps of a budgetary control system. **(2×20=40)**

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