Diploma in Islamic Banking Examination, May 2023

Part :II Subject Code: 204
Subject Name: Management Accounting and Financial Management
Full Marks: 100 Pass Marks: 45
Time: 3 Hours

(N.B.: Answer any **5 (Five)** Questions selecting **at least 2 (two)** questions from each section. The figure in the right margin indicates full marks. Answer to the question must bear workings, notes, and formula where necessary)

Section-I: Management Accounting

1. a) State the major objectives of Management Accounting. How does Cost Accounting differ from Management Accounting? 5

   b) Alif and Mim are two manufacturing concerns doing business in same market with same types of products. Following are the data obtained from two concerns in relation to year 2022:

	Alif Ltd.	Mim Ltd.
Sales Revenue	Tk. 1,50,000	Tk.1,50,000
Less: Operating Cost		
Fixed Cost	15,000	35,000
Variable Cost	1,20,000	1,00,000
Total Operating Cost	1,35,000	1,35,000
Profit	15,000	15,000

Requirements:

(i) Determine the Break-Even Point (BEP) sales and margin of safety of each company. 6

(ii) Determine the volume of revenue at which each company will make a profit of Tk. 50,000. 5

(iii) State with reasons which company is likely to earn greater profits in conditions of heavy demand as well as low demand for their products? 4

2. a) Distinguish between Vertical Analysis and Horizontal Analysis of financial statements. 5

   b) Safa Manufacturing has provided the following financial statements:

Comparative Balance Sheets Components
As on December 31, 2021 and December 31, 2022

Assets	2021	2022
Cash	Tk. 1,12,500	Tk. 3,50,000
Accounts Receivables	3,50,000	2,81,250
Inventories	1,25,000	1,50,000
Plant and Equipment (Written Down Value)	5,00,000	5,00,000
Land	5,00,000	7,18,750
Total Assets	**Tk.15,87,500**	**Tk.20,00,000**
Liabilities And Equity		
Accounts Payable	Tk. 3,00,000	Tk. 2,37,500
Mortgage Payable	-	2,50,000
Common Stock	75,000	75,000
Share Premium	3,00,000	3,00,000
Retained Earnings	9,12,500	11,37,500
Total Liabilities and Equity	**Tk. 15,87,500**	**Tk. 20,00,000**

Income Statement Components
For the year ended December, 2022

Revenues	Tk. 12,00,000
Gain on sale of equipment	50,000
Cost of goods sold	(6,40,000)
Depreciation expense	(1,25,000)
Finance Cost	(35,000)
Net Income	**Tk. 4,50,000**

Other Information:

(i) Equipment with a book value of Tk.1,25,000 was sold for Tk.1,75,000. During the year purchase of Tk.137,500 was made.
(ii) Dividends of Tk.2,25,000 were declared and paid.

Requirements: Prepare a Statement of Cash Flows for the year 2022 using Indirect Method. 15

3. a) What does the Liquidity Ratio indicate? Why quick ratio is considered as a better indicator of liquidity than current ratio? 5

b) The Arafat Company reports the following selected balance sheet data:

16% Bond	Tk. 1,20,000
Common stock (16800 shares@ Tk.25 each)	4,20,000
Share Premium	2,40,000
Retained earnings	1,80,000

Earnings Before Interest and Taxes (EBIT) is Tk.1,79,200. The tax rate is 40% which is applicable on Earning Before Tax. The market price per share of common stock is Tk.35.

Calculate: 3x5=15

(i) Return on Equity (ROE)
(ii) Times Interest Earned Ratio
(iii) Earnings Per Share (EPS)
(iv) Price-Earnings Ratio
(v) Book Value Per Share

4. Write short-notes on **any 5 (five)** of the following: 4x5=20

i) Dividend Yield Ratio
ii) Statement of Cash Flows
iii) Absorption Costing
iv) Margin of Safety
v) Flexible Budget
vi) Diluted Earnings Per Share
vii) Window Dressing
viii) Big Bath Strategy

Section-II: Financial Management

5. a) What is meant by Effective Rate of Return? How does it different from Nominal Rate of Return? 5

b) A client approached for making an investment under Hire Purchase under Shirkatul Melk (HPSM) mode to purchase a vehicle worth Tk.45,00,000. The client will provide 30% of the cost as down payment. Repayment to be made at yearly installment basis at the end of each year for the next 7 years. Calculate the yearly installment size if rate of return is 9% per annum. 6

c) You have currently Tk. 1,00,00 deposit in an Islamic Bank under Mudaraba Term Deposit (MTDR) on auto renewal basis. You have been informed that the provisional rate of profit for 3 months MTDR is 6.50% followed by 6.75% for 6 months and 6.85% for 12 months.

Requirements:

i) What would you get at the end of three years on each alternative? 5

ii) What would be the effective rate of return on each alternative and which plan should you choose? 4

6. a) Explain Working Capital Cycle of a manufacturing firm. Discuss the factors that determine working capital needs of a manufacturing firm. 8

b) Classify Sources of Fund on the basis of time duration and ownership with examples. 6

c) What is Lease Financing? Distinguish between Operating Lease and Finance Lease. 6

7. a) What are the major weaknesses of Pay-back Period? How discounted cash flow methods can overcome the weakness? 6

b) A company is considering to purchase a machine worth Tk.5,00,000. The machine has an expected life of 5 (five) years with a salvage value of Tk.50,000. The company follows straight-line method of depreciation and belongs to a 50% tax-bracket. The cost of capital of the company is 15%. The expected profit before depreciation and tax of the machine in its 5-year life along with present value interest factor @ 15% discount factor are shown in table below:

Year	Profit before depreciation and tax	(PVIF) @15% discount rate
1	Tk.2,00,000	0.8696
2	2,00,000	0.7561
3	2,50,000	0.6575
4	2,25,000	0.5718
5	1,50,000	0.4972

Requirements:

i) Calculate Payback Period of the machine. 4

ii) Will it be wise for the company to purchase the machine considering NPV method? 10

8. a) Define Cost of Capital. Why will the cost of equity capital be higher than the cost of debt capital? 6

b) XYZ Chemical Company has the following capital structure on December 31 2022:

Ordinary share capital - 8,00,000 shares	Tk. 80,00,000
10% Preference Shares	20,00,000
14% Debenture	60,00,000

The share of the company sells for Tk.20. It is expected that company will pay next year a dividend of Tk.2 per share which will grow at 5% forever. Assume a 40% tax rate.

You are required to:

i) Compute a Weighted Average Cost of Capital based on the existing capital structure. 7

ii) Compute new Weighted Average Cost of Capital if the company raises an additional Tk. 40,00,000 debt by issuing 15% subordinated bond. This will result increasing the expected dividend to Tk.3 and leave the growth rate unchanged but the price of shares will fall to Tk.15 per share. 7