

**FACULTY OF MANAGEMENT STUDIES**  
**UNIVERSITY OF DELHI**  
**MBA FT 2014**

Name of Examination: MBA(FT) -6104 Paper Name: FINANCIAL ACCOUNTING

Time allowed THREE Hours

Maximum Marks.....50

ATTEMPT ANY FIVE QUESTIONS. ALL QUESTIONS CARRY EQUAL MARKS.

Serial No. of Question				Marks
1.	The Ranbaxy Corporation has decentralized its manufacturing and marketing activities. Each function is now organized as a profit center. The output of the manufacturing division is transferred to the marketing division at standard cost plus a 20% markup. For one of the company's largest volume products, the following flexible budget has been computed at typical output levels:			
	Output (Units)	40,000	50,000	60,000
	Indirect Materials	Rs 80,000	Rs 1,00,000	Rs 1,20,000
	Indirect Labour	1,50,000	1,62,000	1,74,000
	Equipment Rentals	2,00,000	2,00,000	2,50,000
	Miscellaneous	1,40,000	1,45,000	1,50,000
	Total Overhead	Rs 5,70,000	Rs 6,07,000	Rs 6,94,000
	Direct Materials	3,20,000	4,00,000	4,80,000
	Direct Labour	1,60,000	2,00,000	2,40,000
	Total budgeted costs	Rs 10,50,000	Rs 12,07,000	Rs 14,14,000
	<p>The standard cost per unit is calculated at an annual volume of 50,000 units but the forecasted volume level for the next year is <u>45,000 units</u>.</p>			
	<b>Required:</b>			
	(a) At what price is this product transferred from the manufacturing to the marketing division?			
	(b) The marketing division has uncovered an opportunity to sell 15,000 additional units to a new customer at a price of Rs. 23/- per unit. This is a special one-year contract that will not affect the pricing for current or potential customers. The			



manager of the marketing division has asked the manufacturing manager to supply these units at a transfer price of Rs. 20/- per unit. The manufacturing manager has emphatically unit declined this offer. " How can I transfer these items below may cost? Not only will I not make my standard markup on each unit, I'll lose money on every item that I produce at this transfer price. I am willing to be reasonable since business is slower than usual, but his offer is ridiculous".

Analyze the situation in an attempt to mediate this dispute.

2. Microtex Corporation is a well known retailer of electronic products divided into four separate divisions. The four divisional managers are responsible for the sale of different products and are evaluated at the end of the year and bonuses are awarded based on ROI. The company as a whole produced a 15 percent return on its investment last year.

During the past month, management of the company's Green Wood Division was approached about the possibility of buying a competitor, Asian Division that had decided to reallocate its retail activities. The data below gives the recent performance of the Green Wood Division and the competitor:

	Green Wood Division	Asian Division (competitor)
Sales	Rs8,600,000	Rs5,600,000
Variable costs	65% of sales	60% of sales
Fixed costs	Rs2,250,000	Rs1,700,000
Invested capital	Rs1,800,000	Rs650,000



Management has determined that in order to upgrade the competitor, Asian Division to Microtex standards, an additional Rs385,000 of invested capital would be needed.

Required:

- a) Compute the current ROI of the Green Wood division and the division's ROI if the competitor is acquired.
- b) How would the divisional management react toward the acquisition? Why?
- c) What do you think is the likely reaction of Microtex' corporate management toward the acquisition? Will it be positive? Why?
- d) Assume that Microtex uses the residual income basis to evaluate performance and desires a 14 percent minimum return on invested capital. Compute the current residual income of the Green Wood Division and the division's residual income if the competitor is acquired. Comment on the divisional manager's reaction to the changed calculations.

3. You are given the following;

Current ratio	2.5
Liquidity ratio	1.5
Net working capital	Rs 3,00,000
Stock turnover ratio	6
Ratio of gross profit to sales	20%
Ratio of turnover to fixed assets	2
Average debt collection period	2 months
Fixed assets to net worth	.80
Reserves and surplus	Rs 2,50,000

Prepare the balance sheet of the company. If the balance sheet is not balanced identify the missing details in the question and redraft the balance sheet again.



4. The Food Corporation's comparative Balance sheet and Income statement is given below.

**FOOD CORPORATION**  
**Comparative Balance Sheet**  
**December 31, 2013.**

<u>ASSETS</u>	<u>2013</u>	<u>2012</u>
Cash	Rs. 70,000	Rs. 10,000
Accounts Receivable	46,000	87,000
Prepaid expenses	12,000	5,000
Long-term Investments	1,000	12,000
Land	130,000	5,000
Building	400,000	1,00,000
Accumulaated Depreciation- Building	(22,000)	8 (2000)
Equipment	136,000	5,000
Accumulated Depreciation – Equipment	(20,000)	0
Total	Rs. 753,000	Rs. 2,22,000
 <u>LIABILITIES AND STOCKHOLDERS EQUITY</u>		
Accounts payable	Rs. 71,000	Rs. 27,000
Bonds payable	300,000	15,000
Common stock	120,000	120,000
Retained Earnings	262,000	60,000
Total	Rs. 753,000	Rs. 2,22,000



**FOOD CORPORATION**  
**Income Statement**  
**For the Year Ended December 31, 2013.**

Revenues		Rs. 980,000
Operating Expenses (excluding depreciation)	Rs. 530,000	
Depreciation Expenses	40,000	570,000
Income from Operations		410,000
Income Tax Expense		123,000
Net Income		287,000

During 2013 Food Corporation paid Rs. 36,000 in cash dividends.

Prepare a statement of cash flows using the direct method or the indirect method.

5. a) The ABC Club uses straight line depreciation for a machine costing Rs 56,250 with an estimated four year life and an Rs 4050 salvage value. At the beginning of the third year, it is found that the machine will have 3 more years of useful life, after which it will have an estimated Rs 2000 salvage value. Compute the book value of the machine at the end of second year and also the amount of depreciation for each of the remaining years.

b) The valid basis for choice among alternative depreciation methods is their capacity to allocate the value of the assets over their useful life. Elucidate giving the managements view point in his regard.

6. a) Discuss the Criteria for Divisional Performance Measurement. Elucidate with examples.

b) Which methods of inventory valuation are more popular in practice? Elucidate with real life examples.