FACULTY OF MANAGEMENT STUDIES

UNIVERSITY OF DELHI

MBA Examination 2019

Name of Examination.........MBA Paper Name......FINANCIAL ACCOUNTING ..Paper No..........6104

Time allowed THREE Hours Maximum Marks.........50

...Attempt any 5 Questions. All questions carry equal marks .

Serial No. of Question		Marks
	1. The ABC Corporation has 3 operating divisions. The managers of these divisions are evaluated on their divisional net income before taxes, a figure that includes an allocation of corporation overhead proportional to the sales of each division. The operating statement for the first quarter of 2019 appears below:	

Divisions

	A (Rs)	B (Rs)	C (Rs)	TOTAL
Net sales (000)	2000	1200	1600	4800
Cost of sales	1050	540	640	2230
Div overhead	250	125	160	535
Div contribution	700	535	800	2035
Corporate overhead	400	240	320	960

Net Income before taxes	300	295	480	1075

The manager of Division A is unhappy that his profitability is about the same as Division B's and much less than division C's, even though his sales are much higher than either of these two divisions. The manager knows that he is carrying one line of product with very low profitability. He was going to replace this line of business as soon as more profitable product opportunities become available but has retained it until now, since the line was still marginally profitable and used facilities that would otherwise be idle. The manager now realizes, however, that the sales from this product line are attracting a fair amount of corporate overhead because of the allocation procedure and may be the line is already unprofitable for him.

This low margin line of products had the following characteristics for the quarter:

Net sales (000)	800
Cost of sales	600
Escapable div overhead	100
Contribution	100

Thus the product line accounted for 40% of divisional sales but less than 15% of divisional profit.

Required

a. Prepare the operating statement for the ABC Corporation for the second quarter of 2019 assuming that sales and operating results are identical to the first quarter except that the manager of Division A drops the low margin product line entirely from his product group. Is the Division A manager better off from this action? Is the ABC Corporation better off from this action?

b. Suggest improvements to the ABC Corporation's divisional reporting and evaluation system that will improve local incentives for decision making that is in the best interests of the firm.

2. The ABC division of a company produces water pumps for automobiles. It has been the sole suppliers of pumps to the automotive division and charges Rs. 10/- per unit, the current market price for very large wholesale lots. The pump division also sells to outside retail outlets, at Rs. 12.50 per unit. Normally, outside sales amount to 25% of a sales volume of 2 million pumps per year. Typical combined annual data for division are as follows:

	Rs.
Sales	21,250,000
Variable costs @ Rs 8 per pump	16,000,000
• Fixed costs	2,000,000
• Total costs	18,000,000
• Gross margin	3,250,000

The Sure Life pump company an entirely separate entity, has offered the automotive Division comparable pumps at a firms price of Rs. 9 per unit. The ABC Division claims that it cannot possibly match this price because it could not earn any margin at Rs. 9.

Required:

- Assume that you are the manager of the automotive Division. Comment on the ABC Divisions claim. Assume that normal outside volume cannot be increased.
- The ABC division tells that it can increase outside sales by 1.5 million pumps per year by increasing fixed costs by Rs. 2 million and variable costs by Rs. 1 per unit while reducing the selling costs to Rs. 12.

Assume that maximum capacity is 2 million pumps per year. Should the division reject intra-company business and concentrate on outside sales?

3. Venus music corner provides music services at social functions. A small CA firm maintains its accounting records. On March 31 20XX, the records show a balance of Rs 21140 in the capital account. Venus the owner felt that the accountant fee were too high and decided to maintain the firm accounting records himself. He prepared the accounting record at the end of April 20XX. He is horrified that business has fared very badly, and wants to review the statement.

Venus music corner

Profit and loss account for the year ended April 30 20XX

Revenue		
Investment by owners	3000	
Unearned revenue	600	3600
Expenses		
Salary	5600	
Electricity	410	
Advertisement	130	
Rent	300	
Drawing	4000	
Total expenses		10440
Net profit		(6840)

Venus music corner

Balance sheet as on April 30 20XX

Assets	
Cash	570
Debtors	1210
Supplies closing balance	2190
Equipment	25,500
Total assets	29470
Liabilities	
Creditors	2510
Revenue from services	12660
Total liabilities	15170
Equity	14300
Total liabilities and equity	29470

Prepare the revise financial statement for April and comment on the working for the month of April.

4. 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 questions and redraft the balance sheet again.

5. a. Discuss the Inventory policies of a few companies across sectors.

b. Why do companies provide for depreciation. Explain the meaning of Depreciation, Depletion and Amortization? Give examples to illustrate your answer.

6. a. Discuss the important differences between Indian GAAP and IFRS.

b. Who are the users of financial accounting? What is the difference between financial accounting and management accounting?

7. a. Why do companies prepare a statement of cash flows when most of the information in it is available from a company's comparative balance sheets and the income statement.

b. Compare LIFO and FIFO as methods of inventory valuation.