Faculty of Management Studies

University of Delhi

Financial Accounting

Paper code 6104

Time Allowed: 3 Hours **Max. Marks: 50**

Instructions:

Attempt five questions. All questions carry equal marks

1. (A) Ram invested Rupees 20000 of his own money in small service business and borrowed another Rupees 10000 from bank, for business use. At the end of the first year of operations, he found that there was Rupees 34000 in the enterprise bank account. He owned his supplier Rupees 6000 and had not repaid the bank loan. His business asset other than cash was negligible. During the year he has paid himself a salary of Rupees 12000.
   a. What conclusion would you draw from his first year operation?
   b. What additional information is needed to, make some meaningful decision. Explain in detail?. 5

   (B) What are the various ways in which depreciation can be used to manipulate the books of accounts? What is effect of inventory error? 5

2. Write short notes on the following (any five):
   a. P/E ratio
   b. Diluted EPS
   c. Interest coverage ratio
   d. Dual Aspect Concept
   e. Accrual Concept 10

3. (a) The following are the details of a machine acquired by A Ltd. in 2007:

Acquisition cost	Rs. 110,000
Estimated useful life	10 years
Estimated residual value	Rs. 10,000

A Ltd. uses the straight-line method of depreciation.

In the year 2010 it reviewed and revised the estimated useful life and the estimated residual value to 5 years and Rs. 40,000, respectively. Calculate the amount of depreciation that A Ltd. should charge p.a. over the remaining useful life of the machine. 5

(b) Identify which one of the three types of transfer prices (cost-based, market-based, or negotiated) is most likely to elicit desirable management behavior at a manufacturing firm. Explain your answer. 5

4. On August 1 20XX A and B set a money care company investment advisory services. Each of them deposited 20,000 in money care bank account in exchange for 2000 shares. Also they raised an interest free loan of Rs 10,000 for the company from their friend. They rented an office for the company in the city costing Rs 2000 per month payable at the end of the month. At the landlord insistence, they paid a deposit of Rs 40,000, refundable on Money Care replacing the space.

They leased two computers on a monthly rental of Rs 4, 000 per computer and subscribe to a financial database for a fee of Rs 2,000 per month. Computer rent and database fee are payable at the beginning of the month. They appointed a secretary on a monthly salary of Rs 2500 and an assistance on a monthly salary of Rs 3,500 per month.

Depending on their credit evaluation Money Care customers paid in one of the following ways:

1. Before receiving services.
2. Immediately on receiving services.
3. Within one month after receiving services.

   During August company provided services for Rs 31, 500and raised invoices with the following payment terms:

   1. 15 customers with invoices totaling Rs 25,700could pay in September.
   2. Two customers with invoices totaling 5,800 had to pay immediately.

   Money care other transaction in August were as follows

   1. Received amounts totaling Rs 17,100, including Rs 11,300from customers who choose to pay early.
   2. Paid for office suppliers costing Rs 1200 but did not use them.
   3. Received Rs 3000 from a customer for services to be provided in September.
   4. Earned Interest income of Rs 320 on the bank account.
   5. Paid office rent, computer rental, database fee, and salaries as agreed.

Prepare company annual account and comment on its performance. 10

5. Following is the Balance Sheet of R Limited:

Liabilities	Amount	Assets	Amount
Share capital	1,00,000	L&B	80,000
Profit & Loss	17,000	P&M 50,000	
Current Liabilities	40,000	Less depreciation 15,000	35000
		Stock	21,000
		Debtors	20,000
		Bank	1,000
	157,000		157,000

With the help of additional information furnished below prepare the income statement along with the Balance Sheet for the year ending:

a. The company went in for reorganization of capital structure, with share capital remaining the same as follows:

Share capital	50%
Reserves	15%
5%debentures	10%
Creditors	25%

b. Debentures were issued on 1st April and interest is paid annually on 31st of March.
c. L/B remained unchanged. Additional plant has been bought and a further rupees 5,000 depreciation written off. The total fixed assets then constitute 60% of net fixed and current assets.
d. Working capital ratio was 8:5
e. Quick assets ratio was 1:1
f. The debtors (4/5 of quick assets) to sales ratio revealed a credit period of 2 months. There were no cash sales.
g. Return on net worth was 10%.
h. G/P was at the rate of 15% of SP.
i. Stock turnover was 6 times for the year.
j. Ignore tax.

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6.Regal Appliance Corporation is organized into three divisions, A, B and C. One of the firm's products uses components, made by A and B, with the final assembly done by C. One unit from A and one unit from B are required.

The following data is given:

Selling Price (Division C)	Rs. 150
Variable costs:	
Division A	Rs. 40
Division B	Rs. 20
Division C	Rs. 15
Total variable costs	Rs. 75
Volume	1,000 units

For each unit supplied to Division C, Division A and B charge Rs. 45 and Rs. 25 respectively from Division C. The Manager of Division C has found an outside supplier who will sell the component, currently being Purchased from Division A, at Rs. 40 per unit.

(a) Based on current operations, calculate the contribution margin for A, B and C.
(b) Should Division C accept the outside offer? If A meets the outside price will C continue to buy from A?

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7.The Great Business Corporation has 3 segments. Results of operation for 2017 were as follows:

	Segment 1	Segment 2	Segment 3	Total
Sales	Rs 25,000,000	Rs 15,000,000	Rs 10,000,000	Rs 50,000,000

Variable expenses	18,000,000	8500,000	6,750,000	33,250,000
Fixed expenses				
Direct	3,500,000	1,250,000	500,000	5,250,000
Indirect				2,400,000

The following direct fixed expenses were not under the control of the segment manager:

Segment 1 Rs 250,000, Segment 2 Rs 175000 and Segment 3 Rs 200,000

Regarding the Company's total operating asset of Rs 70,000,000, the following details are provided to you:

	Segment1	Segment2	Segment3
Assets directly used and identified with the segment	35,000,000	20,000,000	10,000,000
Assets under the control of the segment manager	30,000,000	16,000,000	8,000,000

Required:

a) Prepare a statement showing the contribution margin and the contribution to indirect expenses for each segment and the total earnings of the Great Business Corporation.

b) Determine the ROI for evaluating (1) the earning power of entire company (2) the rate of earnings contribution of each segment, an (3) the earning performance of each segment manager

c) Comment on the results of part (b) 10