# FACULTY OF MANAGEMENT STUDIES

# UNIVERSITY OF DELHI

## Semester Examination 2016

Name of Examination...... ...MBAFT6104

Paper Name...FINANCIAL ACCOUNTING

Paper No....6104

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

ATTEMPT All QUESTIONS.

Serial No. of Question

1. The New York Company presents the following balance sheet data:

| | | |
|---|---|---|
| Current liabilities | | Rs. 280,000 |
| Bonds payable, 15% | 120,000 | |
| Preferred stock, 13%, Rs.100 par value | 200,000 | |
| Common stock, Rs. 25 par value, 16,000 shares | 400,000 | |
| Premium on common stock | 240,000 | |
| Retained earnings | 200,000 | |

Income before taxes is Rs. 160,000. The tax rate is 45 percent. Common shareholder's equity in the previous year was Rs. 800,000. The market price per share of common share is Rs. 35. Calculate (a) net income, (b) preferred dividends, (c) return on common stock, (d) times interest earned, (e) earnings per share, (f) price-earnings ratio, and (g) book value per share. Also explain the concept of diluted earnings per share.

(8 marks)

2.a. The following data relates to the opening stock and purchases of a given product for a Company for the year 2016:

| | | |
|---|---|---|
| Inventory January 16 | 5,000 | @ Rs. 2.00 |
| February 25 | 4,000 | @ Rs. 2.20 |
| April 21 | 7,000 | @ Rs. 2.40 |
| June 15 | 5,000 | @ Rs. 2.50 |
| November 21 | 3,000 | @ Rs. 2.70 |
| | 24,000 | |

During the year 21,000 units were sold. Calculate the ending inventory under each of the following method:

(i) FIFO

(ii) LIFO

(iii) Weighted Average

Make suitable assumptions. (6 marks)

2.b Contrast the assumptions underlying the straight line depreciation method with the assumptions underlying the diminishing balance depreciation method. (4marks)

3.The Nexus Manufacturing Company produces garments in three departments, Department A, Department B, and Department C. The external market does not exist for the garments goods, and Department A uses its total cost as the transfer price when transferring the goods to Department B. Department B finishes the goods and uses the current market price in its transfer of goods to Department C. The current market price for unfinished garments is Rs.15 per unit. Department C sells the finished garments for Rs.21 each.
The following information pertains to July 2016.

**Department A**

| | |
|---|---|
| Sales to department B | 20,000 units |
| Variable costs | Rs.5 per unit |
| Fixed costs | Rs.30,000 |

**Department B**

| | |
|---|---|
| Sales to department C | 20,000 units |
| Variable costs (added in department) | Rs.4 per unit |
| Fixed costs | Rs.11,500 |

**Department C**

| | |
|---|---|
| Sales | 20,000 units |
| Variable costs (added in department) | Rs.4 |
| Fixed costs | Rs.15,000 |

(a) Calculate the gross profit for the three divisions using Nexus Company's transfer price systems. Assume Department A makes sales to Department B at a price of Rs.8/-.

(b) According to your calculations in (a) above, which department seems to be in an unusually good position? Why?

(c) Department A has complained about its transfer price being based solely on total costs. The Nexus Co. is therefore changing Department A's transfer- price method from total cost to total cost plus 40%. Compute the new gross profit for A and show how it affects Departments B and C's total costs.

(10 marks)

4. a. 'Companies adopting IFRS will get a competitive edge over other companies.' Comment.

(5 marks)

b. 'The measure chosen for divisional performance measurement should indicate clearly the contribution made by each division to the overall profitability of the company.' Explain. How is residual income (RI) measured? What are the differences between ROI and RI? Illustrate your answer with examples.

( 5 marks)

5. **Bonus Issue by Marico Limited**

We present excerpts from the annual report of Marico Limited (earlier, Marico Industries Limited and even earlier, Bombay Oil Industries Limited) for the financial year ended March 31, 2003.

**The highlights pertain to the financial performance of Marico Consolidated**

Amount in Rs Million

| Year ended March 31st | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|---|---|---|---|---|
| Sales & Services | 2,364 | 2,833 | 3,486 | 4,097 | 4,900 | 5,512 | 6,497 | 6,707 | 6,957 | 7,755 |
| Profit before Interest & Tax (PBIT) | 207 | 252 | 364 | 353 | 424 | 477 | 458 | 537 | 619 | 651 |
| Operating Profit before Tax | 149 | 191 | 268 | 277 | 365 | 440 | 426 | 501 | 578 | 640 |
| Extraordinary/Exceptional items | | | 29 | 14 | | | 18 | | | |
| Profit before Tax (PBT) | 149 | 191 | 297 | 291 | 365 | 440 | 408 | 501 | 578 | 640 |
| Profit after Tax (PAT) | 64 | 118 | 212 | 215 | 300 | 375 | 357 | 458 | 501 | 562 |
| Cash profits (PAT+Depreciation) | 81 | 150 | 238 | 246 | 340 | 427 | 435 | 546 | 703 | 783 |
| Exconomic Value Added (Refer Management Discussion) | 48 | 90 | 125 | 87 | 188 | 230 | 233 | 278 | 291 | 313 |
| Net Fixed Assets | 167 | 270 | 404 | 453 | 605 | 694 | 953 | 1,274 | 1,413 | 1,027 |
| Investments | 7 | 22 | 23 | 8 | | | | | | 139 |
| Net Current Assets | 159 | 230 | 634 | 524 | 463 | 540 | 502 | 475 | 669 | 934 |
| Miscellaneous Expenditure | | | | | | | | | | 4 |
| Total Capital Employed | 333 | 522 | 1,061 | 985 | 1,068 | 1,235 | 1,455 | 1,749 | 2,082 | 2,104 |
| Equity Share Capital | 45 | 45 | 145 | 145 | 145 | 145 | 145 | 145 | 145 | 290 |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | | 290 |
| Preference Share Capital | | | | | | | | | | |
| Reserves | 140 | 252 | 515 | 653 | 834 | 1,065 | 1,277 | 1,568 | 1,827 | 1,3 |
| Net Worth | 185 | 297 | 660 | 798 | 979 | 1,210 | 1,422 | 1,713 | 1,972 | 1,930 |
| Borrowed Funds | 148 | 225 | 401 | 187 | 89 | 25 | 33 | 36 | 50 | 1 |
| Deferred Tax Liability | | | | | | | | | 60 | 61 |
| Total Funds Employed | 333 | 522 | 1,061 | 985 | 1,068 | 1,235 | 1,455 | 1,749 | 2,082 | 2,1 |

In financial year 2013, Marico's distribution to shareholders comprised the following:
Bonus equity shares in the ratio of 1:1.
Bonus Redeemable Preference Shares in the ratio of 1:1 on the enhanced equity capital of Rs. 290 million.
The company's balance sheet schedule 1 had the following important information.

**Schedules to Balance Sheet**

| | | As at March 31, 2013 Rs. Million | 2012 Rs Million |
|---|---|---|---|
| SCHEDULE 'A' SHARE CAPITAL AUTHORISED: | | | |
| 30,000,000 | (29,900,000) Equity shares of Rs 10 each | 300.000 | 299.000 |
| 30,000,000 | (Nil) Preference shares of Rs 10 each | 300.000 | |
| Nil | (10,000) 14% Cumulative Redeemable Preference shares of Rs 100 each | | 1.000 |
| ISSUED AND SUBSCRIBED: | | | |
| 29,000,000 | (14,500,000) Equity shares of Rs 10 each fully paid up | 290.000 | 145.000 |
| 29,000,000 | (Nil) 8% Redeemable Preference shares of Rs. 10 each fully paid up (redeemable on or before October 1, 2015) | 290.000 | |
| The above includes 26,500,000 (12,000,000) equity shares issues as fully paid bonus shares by capitalization of General reserve. | | | |
| | | 580.000 | 145.000 |

Based on the above information, answer the following questions:

(a) When did the company come with a public issue at share premium?

(b) Within in the limited information, what has the company done with the amount raised as share capital?

(c) Discuss the financial health of the company from 2004 to 2013. Use appropriate ratios for that.

(d) Discuss the position of operating cash flows?

(12 marks)

OR

5. Singer Ltd. has developed the following data from the accounting records of the company for the year ended 31st March, 2016.

(i) Cash payments to acquire plant assets, Rs. 29,500.
(ii) Cost of goods sold, Rs. 1,90,300.
(iii) Proceeds from issuance of equity shares, Rs. 4,000.
(iv) Collection of interest, Rs. 2,200.
(v) Payments of cash dividends, Rs. 24,000.
(vi) Equipment acquired by issuing short-term note payable, Rs. 8,500.
(vii) Payment of salaries, Rs. 46,800.
(viii) Credit sale, Rs. 2,81,450.
(ix) Loan to another company, Rs. 5,250.
(x) Collection of accounts receivable, Rs. 2,82,200.
(xi) Payment to suppliers, Rs. 2,39,250.
(xii) Proceeds from sale of plant assets, Rs. 11,200, including Rs. 3,200 loss.
(xiii) Interest revenue, Rs. 1,900.
(xiv) Cash dividends received, Rs. 2,000.
(xv) Depreciation expense, Rs. 29,950.
(xvi) Cash sale, Rs. 85,750.
(xvii) Payment of long-term debt, Rs. 25,000
(xviii) Proceeds from short-term debt, Rs. 9,800.
(xix) Salary expense, Rs. 47,650.
(xx) Interest expense and payments, Rs. 6,650.
(xxi) Loan collection, Rs. 6,400.
(xxii) Payment of short-term note payable by issuing common share, Rs. 15,500.
(xxiii) Amortization expense, Rs. 1,450.
(xxiv) Income tax expense and payment, Rs. 18,950.
(xxv) Cash balance: 31st March, 2015 – Rs. 18,650; March 31st, 2016 - Rs 25,000.

Required: Prepare Singer Ltd Statement of cash flows for the year ended 31st March, 2016.

( 12 marks)