FACULTY OF MANAGEMENT STUDIES

UNIVERSITY OF DELHI

First Semester Examination 2018

Name of Examination…MBA(Full time) Paper Name……FINANCIAL ACCOUNTING ..Paper No………6104

Time allowed THREE Hours   Maximum Marks………50

…ATTEMPT ANY FIVE QUESTIONS. ALL QUESTIONS CARRY EQUAL MARKS………

Serial No of Question	
	1. The Aqua 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,
Fixed costs	2,000,000
Total costs	18,000,000
Gross margin	3,250,000

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

Required:

a. Assume that you are the manager of the automotive Division. Comment on the Aqua Divisions claim. Assume that normal outside volume cannot be increased.

b. The Aqua 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 reducingthe 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?

2. a.Green City Textiles Company has two divisions, which reported the following results for 2018.

	Division I	*Division 2*
Income	Rs800, 000	Rs300, 000
Average invested capital	Rs5, 000,000	Rs1, 500,000
ROI	10%	15%

Required: Which division performed better in 2018? Explain your answer.

(4 marks)

b.

Alpha 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 Alpha 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 Alpha's corporate management toward the acquisition? Will it be positive? Why (6 marks)

3.The SMC Company completed its income statement and comparative balance sheet at December 31, 2017, and has provided the following data:

Beginning cash balance	Rs 90,000
Sales revenue	340,000
Depreciation expenses	20,000
Cost of goods sold	250,000
Other expenses	40,000

Sales of long-term investments (sold	
At book value for Rs15,000 cash)	15,000
Inventory increased during the period	25,000
Declared and paid cash dividends	
During the period	25,000
Accounts Payable	28,000
Payment of long-term note	35,000
Issued Capital stock	50,000
Ending cash balance	97,000

Prepare a schedule of Cash Flows for SMC Company using the direct method. (10 marks)

4. Y ltd. presents to you the following Balance Sheet as on March 31, 2017:

Liabilities	Rs.	*Assets*	Rs.	Rs.	
Equity Share Capital	5,00,000	Fixed Assets	11,50,000		
14% Preference Share Capital	1,00,000	*Less*: Depreciation	2,75,000	8,75,000	
General Reserve	4,00,000	Investment in Subsidiaries		3,00,000	

		Preliminary Expenses		85,000	
	17,10,000			17,10,000	

It was found that the profit for the current year was before provision for taxation @50%. The company has been declaring dividends @15% p.a. on equity shares, that being the normal rate in the industry concerned. The subsidiary companies are not producing profits.

Calculate the ratios affecting creditors, shareholders and prospective investors.
What will be your reaction to a request for participation in the equity share capital of the company?
Show how the shareholder's funds are employed.
If sales of the company are Rs. 20,00,000 producing a gross profit of Rs. 4,00,000, calculate the inventory ratio and the average collection period. (10 marks)

5. The shareholder's equity section of Tarapore Company Limited on March 31, 20X9 was as follows:

Share Capital	
10% Preference Share, Rs 100 Par Value, 5000 Shares	Rs. 500,000
Equity Shares, Rs 10 Par Value, 500,000 Shares Authorized, and 300,000 Shares issued and fully Paid up	3,000,000
	3,500,000
Reserves and Surplus	
Capital Redemption Reserve	400,000
Share Premium	900,000
Revaluation Reserve	700,000
General Reserve	1,000,000
Profit and Loss Appropriation Account	1,700,000
	4,700,000

Total Share Holder's Equity	8,200,000

On May 5, the board of directors decided to recommend a dividend of 10 per cent on preference as well as equity share capital. The net profit for the year had been transferred to retained earnings from which the dividends would be paid.

REQUIRED:

1. Compute the book value per equity share on March 31, 20X9. (Hint: The estimated liability for payment of dividends should be from retained earnings:
2. Tarapore Company's equity share was quoting at Rs 120 on the balance sheet date. Why did the price differ from the book value of the share?
3. Can the company raise additional equity? If yes , how much?
4. What was the maximum ratio of bonus issue the company could have made on the balance sheet date? The company would like a balance of Rs 650,000 to be left in the retained earnings after the bonus issue.

(10 marks)

5. a. What factors should management take into account in selecting an appropriate method to depreciate company assets? How does depreciation affect income taxes? Elucidate with examples. (5 marks)

b. Briefly discuss the following cost concepts with examples:

a. Sunk Costs
b. Fixed versus Variable Cost.
c. Discretionary Cost.
d. Period versus Product Cost.
e. Controllable and Non-Controllable Costs. (5 marks)

6. a. Which methods of inventory valuation are more popular in practice? Elucidate with examples.

(5 marks)

b. 'Firms that manipulate their financial statements tend to have unusual increase in receivables, deteriorating gross margins, decreasing asset quality, increasing sales growth and increasing accruals.' Comment and give examples.

7. From the given details prepare the balance sheet of the firm:

Stock Turnover	6
Capital Turnover	2
Fixed Assets Turnover	4
Gross Profit Ratio	20%
Average Collection Period	2 Months
Average Payment Period	73 days

Gross Profit is given to be 60,000

Closing stock is 5,000 greater than opening stock.

(10 marks)