4225

Your Roll No. ....

MBA (FT)

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Paper MBAFT-6104— FINANCIAL ACCOUNTING

Time : 3 hours *Maximum Marks* : 50

(Write your Roll No. on the top immediately on receipt of this question paper.)

Attempt any five questions. All questions carry equal marks.

1. a) On January 1, 2010, the Pond's Company's beginning inventory was Rs.500, 000. During the year the company purchased Rs.1,800,000 of additional inventory. On December 31, 2010, Pond's ending inventory was Rs.4, 00,000.

i. What are the inventory turnover and the age of inventory for 2010?

ii. If the inventory turnover in 2009 was 3.5 and the age of the inventory was 100 days, evaluate the results for 2010.

b) Sea Rock Corporation's partial balance sheet at December 31, 2010, shows the following:

Current assets	
Cash	Rs.4, 000
Marketable Securities	10,000
Accounts Receivable	100,000
Inventories	120,000
Prepaid Expenses	5,000
Total Current Assets	**Rs 239,000**
Current Liabilities	
Notes Payable	Rs. 5,000
Accounts Payable	150,000
Accrued Expenses	20,000
Income Taxes Payable	5,000
Total Current Liabilities	Rs.1,80,000
Long term Liabilities	**Rs.3,40,000**

i. Determine (a) working capital, (b) current ratio, and (c) quick ratio.

ii. According to the answers to part 1, does Sea Rock Corporation have good or poor liquidity if the industry averages are a current ratio of 1.25 and a quick ratio of 1.1?

2. a) The following data have been collected for the South West division of a Company.

	2009	2010
Sales	Rs.20, 000,000	Rs. 20,000,000
Net operating income	1,400,000	1,220,000
Average operating assets	10,000,000	10,000,000

Required:

1. Compute the margin and turnover ratios for each year.
2. Compute the ROI for each year.
3. Explain why the division experienced decreased ROI from 2009 to 2010.

b) "The return on investment measure may be biased in favour of divisions with older plant and equipment". Elucidate with examples.

3. The Arnold Corporation produces men's clothing. It has two decentralized divisions. Division M manufactures a product at a variable cost of Rs.6 per unit and a fixed cost of Rs.3 per unit. The product, which has a competitive market price of Rs.12 per unit, is transferred to Division N. The transfer price used by Arnold is the competitive market price. Division N incurs additional variable costs of Rs.4per unit and completes the product. Division N sells the finished product outside the company for Rs.16 per unit.

   (a) Compute the profit for Divisions M and N and the Arnold Corporation when 1,000 units are produced by Division M and transferred to Division N.

(b) Are there any advantages in interdivisional transfers in the above situation? Do you think purchases from, and sales to, the outside markets provide the same results?

4. a) Briefly distinguish between direct and indirect costs. Give examples to illustrate your answer.

   b) "All costs are controllable at one level or the other". Discuss.

   c) Distinguish between out-of-pocket costs and opportunity costs.

5. Neha and Company acquired equipment on January 15, 2001, at a cash cost of Rs. 140,000. Transportation charges amounted to Rs. 2,000 and installation costs totaled Rs. 3,000. The equipment was damaged while being installed, and the cost of repairing the damage was Rs. 500.

   The equipment was estimated to have a useful life of 10 years and a salvage value of Rs. 5,500 at the end of its life. It was further estimated that the equipment would be used in the production of 800,000 units of product during its life. During 2006, 150,000 units of product were produced.

   Required: Compute the depreciation for 2006 and 2007 if the company used (a) Straight line method, (b) The Sum-of-the-year' digit method, (c) The Double declining method.

6. a) 'The success or failure of IFRS convergence will depend on how heavily companies inform, mobilize and educate their workforce.' Discuss.

   b) What are non-cash investing and financing activities? Give three examples. How are they reported in the statement of cash flows?