GUJARAT NATIONAL LAW UNIVERSITY
GANDHINAGAR

Course: **Managerial Accounting**
Semester- II (Batch: 2020-25)

End Semester Online Examination: July-August 2021

Date: 08th August, 2021
Duration: 8 hours **Max. Marks: 50**

Instructions:
- The respective marks for each question are indicated in-line.
- Indicate correct question numbers in front of the answer.
- No questions or clarification can be sought during the exam period, answer as it is, giving reason, if any.
- Word Limit: 10 Marks: 600-700 Words.

Marks

Q.1 Draft Red Herring Prospectus of Zomato Limited dated 27 April 2021, available at the website of Bombay Stock Exchange is enclosed as an annexure to this question. You may refer to page number 210 to 218 of the document for financial statements and schedules. Analyze the financial statements and state your views regarding the following; (10)

a) What is the current status of the company in terms of profitability and liquidity?
b) How do you view the capital structuring strategy of the company? Is it very much dependent on debt as against equity?
c) What is your estimation about the valuation of the company? Do you think it is overvalued in terms of market capitalization?
d) If you are representing a bank, would you be interested in lending to such a company?

Q.2 From the following Comparative Balance Sheet and Income Statement, prepare Cash Flow Statement for the year ended 31st March 2021. Interpret the results of net cash inflows/outflows from operating activities, investing activities and financing activities. (10)

Comparative Balance Sheet Figures in Rs.'000

LIABILITIES	2020	2021	ASSETS	2020	2021
Equity Share Capital	4,000	8,000	**Fixed Assets:**		
Reserves & Surplus	280	1,000	Furniture & Fittings	4,000	5,000
Loan Funds:			Motor Vans	3,000	5,000
Secured Loans	4,200	4,000	Land	2,000	3,000
Unsecured Loans	800	1,000	**Current Assets:**		
Short Term Liabilities:			Debtors	600	1,600

Creditors	1,300	1,000	Stocks	500	600
Bills Payable	820	1,200	Bills Receivable	Nil	400
Bonds	2,800	3,800	Cash	100	300
			Bank	4,000	4,100
Total	14,200	20,000	**Total**	14,200	20,000

Income Statement for the Year 2021

Sales		**9,000**
Less: Cost of Goods Sold		(6,200)
Operating Profit		**2,800**
Less: Depreciation on Furniture & Fittings	(500)	
Loss on sale of Furniture & Fittings	(50)	
Interest Paid	(150)	
Add: Interest Received	50	
Dividend Received	30	(620)
Earnings Before Taxes(EBT)		2,180

Additional Information:

i) Book value of Furniture & Fittings sold is Rs.200,000.
ii) Corporate Tax at the rate of 30% is paid on EBT.

Q.3 Blue Ocean Limited, an Australian chocolate and soft drink company, is planning to establish a subsidiary company in India to produce and sell oceanic mineral water. Based on the estimated annual sales of 40,000 bottles of mineral water, cost studies produced the following estimates for the Indian subsidiary: (10)

Particulars	**Total Annual Costs**	**Percentage of the total annual cost that is variable**
Material	1,93,600	100%
Labour (Direct and Indirect)	90,000	70%
Selling Overheads	80,000	64%
Administration Overheads	30,000	30%

The Indian production will be sold by an agent only, who will receive 8% commission (which is not included in selling overheads) on the total sales amount. The Australian office will not assist the Indian subsidiary in any way and no portion of expenses of the Australian office is to be allocated (charged) to the Indian subsidiary. You are required to:

i. Compute the selling price per bottle to enable the company to realize an estimated 10% profit margin on the sale proceeds in India.
ii. Calculate the Break Even Point (Sales Amount) for the Indian subsidiary assuming the selling price to be Rs.11 per bottle.
iii. Determine the amount of sales required to be made to earn a desired profit of Rs. 50,000.

Q.4 A company manufactures three products A, B and C. There are no common processes and the sale of one product does not affect the price or volume of sales of any other. The company's product wise Profit & Loss Account for the year 2021 has been abstracted as follows: (10)

Particulars	**A**	**B**	**C**
Sales	45,000	2,25,000	30,000
Less: Production Costs Variable: Fixed:	 (24,000) (3,000)	 (1,44,000) (48,000)	 (12,000) (9,000)
Less: Selling and Administration Costs Variable: Fixed:	 (8,100) (2,100)	 (8,100) (1,800)	 (7,800) (2,100)
Profit/Loss	**7,800**	**23,100**	**(900)**

On the basis of the above, the board is considering elimination of product 'C' from its product line. In your opinion, Should product 'C' be dropped?

Further, considering the following conditions, advise the management on the future course of action.

i. If the economy is passing through a short recessionary phase and there is savings of Rs.10,200 of fixed costs due to elimination ofproduct 'C'
ii. If sales of other two products increase by 10% dueto elimination of product 'C'
iii. If the economy is experiencing a boom (high demand) and sales of all the three products are showing a 5% increasing trend, should the product be dropped?

Q.5 Dhony Music Ltd. has two divisions, DVD (D) and Recording (R). Division D manufactures DVDs and it sells in the outside market as well as to Division R, which then writes content on it and sells in the open market. Both blank DVDs and Recorded ones are sold under the brand name of Mony. The total investment in the company is Rs.16,00,000. (10)

Division D has been selling 1,00,000 units to outsiders and 30,000 units to R, all at Rs.15 per unit. It is not anticipated that these demands will change. The variable costs are Rs.8 per unit and the fixed costs are Rs.5,00,000.

The manager of division R expressed his opinion that the transfer price of Rs.15 is too high. The two divisional managers are about to enter into discussions in the presence of CEO to resolve the conflict, and the manager of D wants you to supply him with some information prior to the discussions.

The manager of division D anticipates that division R will expect a transfer price of Rs.12. If division D does not agree to this, division R may not buy blank DVDs from division D at all. If division D does not sell to division R, in spite of best efforts division D can sell only up to 1,20,000 units in total in the open market. In that case Rs.20,000 of fixed costs and Rs.1,00,000 of investments can be avoided.

The managers of division D and division R are judged primarily on the return on investment earned by their respective divisions.

a) Should division D transfer its products to division R at Rs.12?
b) What is the lowest price that division D should accept?

Support your answers with detailed calculations.

****