UNIVERSITÀ DEGLI STUDI DI TRIESTE

Issues of Financial & Management Accounting
Third Written Exam Winter Session
17 February 2023

Exercise CFS_1 – Consolidation effect and entries (at the date of acquisition)

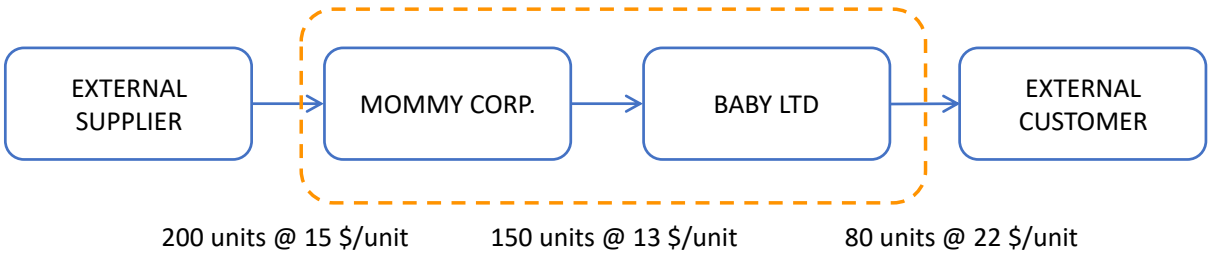
The MAMMA Ldt owns owns 1,600 of the 2,000 outstanding shares issued by BAMBINA Inco. The investment is recorded on the parent company's balance sheet at a value of $ 104,000. The shares of BAMBINA Inco are traded on the market at an average price of € 68 per share
The following summary data at acquisition date is known of the two companies.

	MAMMA Ltd		BAMBINA Inco	
	Carrying Amount	**Fair Value**	**Carrying Amount**	**Fair Value**
Identifiable Assets	$ 500,000	$ 670,000	$ 270,000	$ 300,000
Identifiable Liabilities	$ 380,000	$ 320,000	$ 120,000	$ 160,000

On the basis of this information, determine the structure of the synthetic balance sheet of the group at acquisition date, highlighting the value of the assets, liabilities and net equity. Clearly the more detailed the answer the higher the mark awarded.
In addition, provide, again in summary form, the consolidation entries that must be made to produce that result. Please note: consolidation journal entries are required.

Exercise CFS_2 – Accounting for intragroup transaction

In the following graphical representation the exchanges of a specific commodity (clearly a merchandise) are described. Those exchanges happened all in the same period.

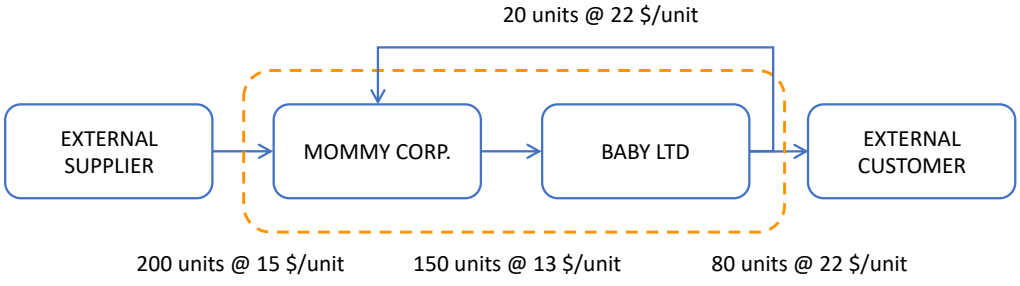


Knowing that:

- Mommy Corp. and Baby Ltd form a group.
- the initial inventory of the goods considered here was both for Mommy Corp and for Baby Ltd equal to zero
- all the exchanges described were settled with cash in the period
- both companies use the perpetual inventory method in their accounting process
- Mommy Corp. and Baby Ltd operate in a "tax haven", so there are no requirements for taxes

Required:

1. Provided double-entry journal entries related to:
   a. transactions carried out during the period by Mommy
   b. transactions carried out during the period by Baby
2. Provide the consolidation journal entries necessary to eliminate the effect of intergroup sales
3. Provide the consolidation journal entries necessary to eliminate the effect of intergroup sales in the hypothesis that the situation previously described changes as follows:



Exercise MC_1 – Effects of Sales Mix on CVP Analysis

The following information is known about the **TheGreatGig Company:**

	Product "A"	**Product "A"**	**Company**
Quantity made and sold	5.000	14.000	
Partial operational productivity of direct labor hours	10	7	
Sales Revenue (variable)	€75.000	€126.000	
Fixed Revenues			€2.500
Direct variable costs	€15.000	€28.000	
Indirect variable costs			€23.000
Direct labour costs			€74.250
Other fixed costs			€85.000

TheGreatGig Company employs 2 workers who are available to work an average of 7.5 per day for 220 workable days per year.

The two company products are totally different from each other so that **under no circumstances can their respective quantities be added together.**

On the basis of the available information:

1. compute what would have been the company's break-even point (in terms of turnover), assuming constancy in the components of the sales mix.
2. determine the (physical) quantities of the two products that must be sold to achieve this break-even point (again assuming constancy in the components of the sales mix, of course)
3. calculate the contribution margin of each product by first imagining that the industrial variable costs are attributed using the direct variable cost as the allocation base and then imagining that the allocation base is the direct labour hours used by the products.
4. determine the new break-even point (in terms of **units** of the two **different** products that should be sold) if the sales mix changes so that the company sells on average 9 units of product "A" for every 13 units of product "B"
5. attribute direct labour costs to the two products, first using a 'push' approach and then a 'pull' approach. In the latter case, determine the cost of unused capacity by considering only the resource "direct labour".

Exercise MC_2 – Different "Cost Rules" and Different Income Statement Formats

Consider the following set of data:

Administrative costs	€7,680
Direct labor	€17,280
Direct materials	€7,940
Fixed manufacturing overhead	€3,200
General costs	€5,024
Outwork	€1,340
Provisions for bad debt	€1,896
Sales manager salary	€4,320
Sales revenue	€63,456
Seles commissions	€4,860
Variable manufacturing overhead	€5,200
Quantity made	800
Quantity sold	900
Capacity	1,000

Requirements:

Making the best use of the information just provided determine, first of all:

1. the manufacturing variable cost per unit
2. the manufacturing full cost per unit (using a push approach)
3. the manufacturing full cost per unit (using a pull approach)
4. the variable cost per unit
5. the full cost per unit (using a pull approach)

Applying alternatively "absorption costing" (pull approach) and "variable costing", provide the income statements for the next year, exploiting the following assumptions:

Quantity made	950
Quantity sold	920
Capacity	1'000

Please note, you're required to provide the income statements for both "absorption costing" and "variable costing" in both formats:

1. cost of goods sold format, and
2. total output format.