

PGDM – (IB) 2020-22
Financial Accounting
IB 103

Trimester – I, End-Term Examination: October 2020

Time allowed: 2 Hrs 30 Min
 Max Marks: 50

Roll No: _____

Instruction: Students are required to write Roll No on every page of the question paper, writing anything except the Roll No will be treated as **Unfair Means**. All other instructions on the reverse of Admit Card should be followed meticulously.

| Sections | No. of Questions to attempt | Marks | Total Marks |
|--------------|---|-------|-------------|
| A | Minimum 3 question (Course Intended Learning Outcome) | 3*10 | 30 |
| B | Compulsory Case Study with minimum of 2 questions | 20 | 20 |
| Total | | | 50 |

SECTION A

A1. The following is the trial balance of Jacqueline Khan Ltd. As on 31st March 2020

| Accounts | Debit | Credit |
|--------------------------------------|-----------|-----------|
| Wages | 8,77,920 | |
| Receivables & Payables | 13,15,200 | 7,37,760 |
| Furniture | 40,000 | |
| Inventory available for sale & Sales | 72,37,040 | 93,59,200 |
| Carriage inwards | 39,280 | |
| Sales Returns/invent ory Returns | 1,01,120 | 78,480 |
| Advance payment of income tax | 1,14,320 | |
| Secured Bank loan- long term | | 4,00,000 |
| Manufacturing expenses | 1,53,920 | |
| Interest on loan | 36,000 | |
| Retained Earnings, 1st April 2019 | | 69,440 |
| Cash in hand | 15,360 | |
| Leasehold Factory building | 13,13,680 | |
| Plant & Machinery | 10,27,200 | |
| Loose tools | 1,00,000 | |

| | | |
|--|-------------|-------------|
| Carriage outwards | 74,080 | |
| Share capital | | 32,00,000 |
| Call-in-arrear | 8,000 | |
| Rates & electricity | 1,40,880 | |
| Office expenses | 64,000 | |
| Director's fees & remuneration | 96,000 | |
| Office salaries | 1,04,000 | |
| Auditor's fees | 10,000 | |
| Machinery repairs | 34,880 | |
| Commission | 39,120 | |
| Bank current account | 8,54,880 | |
| Preliminary expenses (not written off) | 48,000 | |
| Total | 1,38,44,880 | 1,38,44,880 |

Further information:

- The authorized share capital of the company consists of 4,00,000 equity shares of Rs 10 each.
- The inventory was valued at 9,98,720 and loose tools at Rs 80,000
- Wages of Rs 15,120 & office salaries of Rs 9,600 are due
- Bank loan was taken on 1st April 2019 @15% p.a.
- Depreciation is to be provided on plant & machinery @14% and Furniture @ 18%
- Write off one-third preliminary expenses
- Provide Rs 68,000 on debtors for doubtful debts and further Rs 24,960 for discount on debtors
- Make provision for income tax @35%
- The directors recommend dividend @10% of the profit for the year ended 31st March 2020

Prepare statement of Income Statement as per the Companies Act 2013 for the year ended 31st March 2020. (Marks 10) (CILO - 1)

A2. It is unethical but not illegal because creative accounting practices are used by the company without violating the rules. Various creative accounting techniques are used by the companies to distort the true and fair view of the financial position of the company resulting in serious corporate failure. The system itself authorizes the companies to adopt any method without any accountability to the stakeholders.

- Explain main reasons for creative accounting choices available with the companies? Give five such reasons only. (CILO 3)
- Suggest measures against adopting creative accounting practices by the companies. (CILO 3)

A3. Company comes across problem while processing the special economic events when constructing a cash flow statement of a manufacturing company using indirect method. What solution do you propose to it? (CILO – 4)

- Pre-incorporation expenses (Preliminary Expenses) charged off in Income Statement in a year.
- Provision for Bad and Doubtful Debt A/C.
- COGS, Opening and Closing balances of raw material, Work-in-progress, Finished Goods, and Account Payables. All are to be processed together.

- d. Insurance expenses, Prepaid insurance as opening balance and Insurance payable as closing balance for a year. All are to be processed together.
- e. Gain on Sale of PP&E, Original cost of the PP&E, and related accumulated depreciation are given.

OR

A3. Consistent wide gap year-after-year where 'Profit after tax' is more than 'operating cash flow' depicts possible earnings quality. Justify with two examples of balance sheets where such gaps are explained. Explain a suitable measure for earnings quality of a company. Also elaborate problem that may arise in the absence of accounting policies. (CILO - 4)

SECTION B

Tiger Rao set up the Antariksh Materials Company in 20X3. The Company supplies specialized materials to the Indian Space Research Organization (ISRO) for use in the latter's space programme. Rao is considering proposals for investment totaling Rs. 100 million during 2020-21. He hopes to meet the financing need by a combination of internal cash Generation and bank loans.

Statement of profit and loss for the year ended June 30, 2020

| | |
|-------------------------------------|-------------|
| Sales | Rs.2,90,000 |
| Gain on sale of plant | 800 |
| Total Income | 2,90,800 |
| Cost of goods sold | 1,67,800 |
| Selling and Administrative expenses | 20,500 |
| Interest expense | 2,000 |
| Amortization of patents | 1,000 |
| Total expenses | 2,91,300 |
| Profit before income tax | 99,500 |
| Income tax | 42,000 |
| Profit after tax | 57,500 |

Balance sheet as at June 30, 2019 and 2020

| EQUITY & LIABILITIES | 2020 | 2019 |
|--|----------|----------|
| Share holders' funds | | |
| Share capital | 1,25,100 | 1,03,100 |
| Reserves and surplus | 1,40,125 | 1,13,900 |
| Noncurrent liabilities | | |
| Long term borrowings | 1,40,000 | 93,000 |
| Current Liabilities | | |
| Trade Payables | 12,000 | 18,000 |
| Short term Provision: income tax payable | 4,000 | 5,000 |
| Total | 4,21,225 | 3,33,000 |
| ASSETS | | |
| Noncurrent assets | | |
| Plant and Machinery, cost | 1,91,000 | 1,74,000 |
| Less Accumulated Depreciation | 44,300 | 36,000 |
| Net Assets | 1,46,700 | 1,38,000 |
| Intangible assets: Patents, net | 8,000 | 9,000 |
| Noncurrent investment | 10,000 | 10,000 |

| | | |
|---------------------------|----------|----------|
| Current assets | | |
| Inventories | 1,53,000 | 85,000 |
| Trade Receivables | 95,425 | 54,000 |
| Cash and cash equivalents | 7,000 | 29,000 |
| Prepaid expenses | 1,100 | 8,000 |
| Total | 4,21,225 | 3,33,000 |

Additional Information:

- i. During the period loans of Rs. 20,00,000 were repaid.
- ii. Depreciation of Rs, 90,00,000 was included in cost of goods sold.
- iii. Plant costing Rs. 20,00,000 (accumulated dep of Rs. 700,000) was sold for Rs. 2,100,000
- iv. Equity shares of Rs, 30,00,000 were issued during the period.
- v. Dividends of Rs. 3,12,75,000 were paid.
- vi. Debentures of Rs, 4,90,00,000 were issued.
- vii. Plant costing Rs. 1,90,00,000 was exchanged for equity shares.
- viii. Investments are in the form of equity shares in an associate.

Required

- A. Prepare a cash flow statement for the Antariksh Materials Company for the year ended June 30, 2020. How much cash did the company generate internally during the year ended June 30, 2020? You may use either direct or indirect method for preparing CFS. (Marks 10) (CILO 1)
- B. Antariksh Materials Company approaches your bank for a loan of Rs. 9 lakhs. As a lending officer in the bank, write your recommendation for the loan using suitable financial statement analysis? (Marks 10) (CILO – 2)