PGDM, 2021-23
Financial Accounting
DM-104
Trimester – I, End-Term Examination: October 2021

Time allowed: 1 Hrs 30 Min
Max Marks: 30

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. There is internal choice in a few questions of Section A. Question of Section B are compulsory.

Sec A: Total 15 Marks: All questions are of 5 Marks each

Q1a). Identify and explain any two situations with appropriate concepts
(CILO 1-2.5 Marks each*2 = 5 Marks)

a) The non-Current assets are depreciated on the basis of expected life rather than on the basis of Market value.

b) In December 2020 Dean Jones agrees to buy an automobile from Universal motors for delivery in January 2021.However Universal motors decided not to recognize this transaction till January 2021.

c) Kapil and Gagan started a consulting partnership firm with an initial contribution of Rs 20,000 each. After 2 years, the firm has Rs 55,700 in cash and 75,000 of outstanding bills. Kapil and Gagan have personal savings of Rs 10,000 each and have no personal debts.

Q2. ABC Company bought the following assets:

Asset	Cost	Residual Value	Useful life	Depreciation Method
Machinery	Rs 500,000	Rs 25,000	5 years	WDV

After using these assets for three years, the company decided to change the depreciation Policy as follows at the beginning of the 4th year:

- Change the method of depreciation for machinery to the straight-line method;
- Revise the remaining useful life of 4 years, keeping its residual value at Rs 10,000

Required: Compute the depreciation expense for year 4 giving effect to the change in depreciation policy.

OR

Q2. Electronic Heaven, Inc., sells electronic merchandise, including a personal computer offered for the first time in September, which retails for $ 695. Sales of this personal computer for the next six-month period (ending February 28) totaled $52,125. Purchase records indicate the following on the amounts purchased and prices paid by Electronic Heaven:

Purchase Date	Units	Cost per Unit
September 10	12	$370
October 15	20	375
November 2	32	360
December 10	11	350
February 3	10	335

Required:

a. Prepare a statement for this personal computer showing its gross margin for the six-month period ending February 28 using the FIFO and average cost inventory methods.

b. What was the gross margin percentage earned on the $ 52,125 sales of this personal computer?

(CILO: 2) (5 Marks)

Q3. The following are the balance sheet excerpts.

	1st January 2021 (Rs.'000)	31st December 2021 (Rs.'000)
Accounts Receivables	50,000	47,000
Accounts Payable	98,000	102,000
Inventory	15,000	11,000

If Sales during the year is Rs. 500,000 and COGS is Rs. 490,000, calculate

- Cash collection from customers
- Cash Payment to Suppliers
- Total Cash Flow from the above transactions

OR

Q3. Operating Income of a company is Rs. 40,000, the tax rate is 30%, Rs. 5,000 is the interest expense, and gain from the sale of machinery is Rs. 10,000. The preference share capital of Rs. 50,000 with 9% dividends sits on the capital structure along with equity. No. of shares at the beginning of the year was 12,000. After 3 months, 8,000 more shares were issued. 3 months before the year end, 10,000 shares were bought back. You are required to calculate the EPS clearing showing the calculation of EAESH and the weighted average no. of shares?

(CILO: 3) (5 Marks)

Sec B: Total 15 Marks: Compulsory

Q4. Jensen and spencer pharmaceutical is in the business of manufacturing pharmaceutical drugs including the newly invented Covid vaccine. Due to increase in demand of Covid vaccines, the production had increased at all time high level and the company urgently needs a loan to meet the cash and investment requirements. It had already submitted a detailed loan proposal and project report to Expo-Impo bank, along with the financial statements of previous three years.

Statement of Profit and Loss (In $ '000)

	2018–19	2019–20	2020–21
Sales			
Cash	400	960	1,600
Credit	3,600	8,640	14,400
Total sales	4,000	9,600	16,000
Cost of goods sold	2,480	5,664	9,600
Gross profit	1,520	3,936	6,400
Operating expenses:			
General, administration, and selling expenses	160	900	2,000
Depreciation	200	800	1,320
Interest expenses (on borrowings)	120	316	680
Profit before tax (PBT)	1,040	1,920	2,400
Tax @ 30%	312	576	720
Profit after tax (PAT)	728	1,344	1,680

BALANCE SHEET (In $ '000)

	2018–19	2019–20	2020–21
Assets			
Non-Current Assets			
Fixed assets (net of depreciation)	3,800	5,000	9,400
Current assets			
Cash and cash equivalents	80	200	212
Accounts receivable	600	3,000	4,200
Inventories	640	3,000	4,500
Total	5,120	11,200	18,312
Equity & Liabilities			
Equity share capital (shares of ₹10 each)	2,400	3,200	4,000
Other Equity	728	2,072	3,752
Non-Current borrowings	1,472	2,472	5,000
Current liabilities	520	3,456	5,560
Total	5,120	11,200	18,312

INDUSTRY AVERAGE OF KEY RATIOS

Ratio	Sector Average
Current ratio	2.30:1
Acid test ratio (quick ratio)	1.20:1
Receivable turnover ratio	7 times
Inventory turnover ratio	4.85 times
Long-term debt to total debt	24%
Debt-to-equity ratio	35%
Net profit ratio	18%
Return on total assets	10%
Interest coverage ratio (times interest earned)	10

Required: As a loan officer of Expo-Impo Bank, you are required to apprise the loan proposal.

(CILO 4: 15 Marks)