

**PGDM, 2017-19**  
**Financial Accounting**  
**DM 101**

**Trimester – I, End-Term Examination: September 2017**

**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. Please carry a non-programmable calculator.

**Section: A (15 Marks).**

**Attempt 3 out of 5 questions, each question carries 5 marks.**

**A-1.** Lazard Company had sales of 783,400 for the year. The company reported accounts receivable of 87,500 at the end of last year and 77,600 at the end of this year. Lazard's cost of goods sold this year was 510,000. In last year's balance sheet, Lazard reported inventory of 131,000 and accounts payable of 53,700. In this year's balance sheet, Lazard reported inventory of 142,600 and accounts payable of 55,900. How much net cash outflow or inflow did Lazard collect from the above information during the year?

**A -2,** Describe the main purposes of any two major users of the financial statements of a limited company.

**A-3.** A public limited company bought a truck for Rs. 18.50 lacs. The truck is to be depreciated @ 37% on diminishing method over its estimate useful life of six years as per the Schedule – II of the companies Act 2013 with residual value Rs. 1.1 lacs. After three years of business use, the remaining life was revised to two years because of irresponsible maintenance of the truck. What is the amount of yearly depreciation for the next two years if straight line method is followed and the carrying cost at the end of the useful life?

**A-4.** 'Qualitative information revealed in Annual Report of a company is a useful source of information' – Critically evaluate this statement.

A-5 Determine the value of stock to be taken to the Balance Sheet of BT Ltd. as at March 31, 20X1 from the following information:

The stock was physically verified on 7th April and was valued at Rs 4,00,000. After 31st March, the following transactions had taken place till the date of stock-taking:

- (a) Purchases Rs 2,00,000 out of which 20% goods were returned.
- (b) Sales of good units Rs 2,00,000 out of which 20% goods were returned by the customers.
- (c) Sales of defective limits Rs 1,80,000 at 10% less than the normal selling price.
- (d) On 1st April, goods of the sale value of Rs 2,00,000 were sent a sale or return basis to a customer, the period of approval being two weeks. He returned 20% of the goods and approved 80% of the remaining on 6th April.
- (e) On 2nd April, goods of the sale value of Rs 2,00,000 were sent on consignment basis. 80% of these goods had been sold by 6th April.
- (f) On 3rd April, goods costing Rs 2,00,000 were received for sale on consignment basis. 80% of these goods had been sold by 6th April.

**Notes:**

- (i) Goods are sold by the trader at a profit of 25% or Cost.
- (ii) The sales referred to in (d), (e) & (f) are not included in (b) above.

**Section: B. Attempt 2 out of 3 questions, each question carries 10 marks.**

B-1. a) 'Substance over form' is the basic principles followed in Ind AS, Explain highlighting examples of Extended warranty in automobile industry, Depreciation, Other Comprehensive income(OCI) etc.

b) Discuss the road map of Ind As implementation in India for Corporate, NBFC and Banking Industry.

B -2. Ledger balances of CITY Garments Limited as of 31<sup>st</sup> March 2017 are given in the table.

	(Rs. In lakhs)
Storage System	27600
Accumulated Depreciation on Storage system	2000

3. Has Gerrard financed its purchase of new assets by borrowing additional money or by other means? What have been its primary sources of cash during the current year?

**Section: C. Compulsory 15 marks.**

K-L Fashions is a direct mail order company for quality "cut and sewn" products. Their financial statements are presented in Figure 1, 2 and 3. The company has a relatively simple capital structure and their income statement reflects typical revenues and expenses. Inventory consists primarily of merchandise obtained under contract from approved garment makers and held for resale. K-L Fashions uses trade credit for purchases, but its sales consist almost entirely of credit card sales. Consequently, we see a very low accounts receivable balance compared with accounts payable. Some of the items that would normally be seen on financial statements have been consolidated to simplify the presentations.

**Figure 1:-Income Statement of K-L Fashions, Inc**

(Dollars in thousands)	<u>2016</u>	<u>2015</u>
Net Sales	6,039,750	5,452,010
<u>Cost of Goods</u>	<u>3,573,070</u>	<u>3,135,730</u>
Gross Profit	2,466,680	2,316,280
Selling, General and Administrative		
<u>Expenses (including depreciation)</u>	<u>2,221,540</u>	<u>1,849,100</u>
Income from Operations	245,140	467,180
Interest and other income	14,470	19,510
<u>Interest Expense</u>	<u>(10,180)</u>	<u>(13,990)</u>
Income Before Income Taxes	249,430	472,700
<u>Income Tax Provision</u>	<u>102,000</u>	<u>181,990</u>

Opening Inventory	17130
Office Consumables	3690
Trade Receivable	4900
Cash and Bank Balance	2100
Prepaid Expenses	4200
Trade Payables	3900
Share Capital	10000
Retained earnings	2320
Dividends	5000
Revenues	93450
Purchase of Inventory	42220
Staff Compensation	9360
Travelling expenses	320
Other Office expenses	2750
Long-term borrowing	8000
Interest paid for 6 months	400

Depreciation for the year Rs. 1000/- lakhs and closing inventory of Rs. 23180/- lakhs are to be considered before compiling Income Statement and Balance Sheet. Compile the Income Statement and Balance sheet as per the Companies Act 2013 for the year 2017.

B-3. Gerrard Company reported the following cash flows for the year ending December 31 2016 (Figures are in Rupees):

**Cash flows from operations:**

- a) Cash receipts from sales of product 1,300,000
- b) Cash payments to suppliers (720,000)
- c) Cash payments to employees (410,000)
- d) Cash payments to others (120,000)
- e) Cash provided by operations 50,000

**Cash flows from investing activities:**

- a) Sale of investments 600,000
- b) Purchase of equipment (1,000,000)
- c) Cash used in investing activities (400,000)

**Cash flows from financing activities:**

- a) Issuance of equity shares 380,000

**Increase in cash 30,000**

**Beginning cash balance 10,000**

**Ending cash balance 40,000**

**Explain your answer to each of the following:**

1. Is Gerrard in a good position to pay a cash dividend in the near future?
2. Is Gerrard expanding or contracting its operations?

Net Income	147,430	290,710
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Figure 2:-Balance Sheet of K-L Fashions, Inc

<b>(Dollars in thousands)</b>	<b><u>2016</u></b>	<b><u>2015</u></b>
<b><u>Assets</u></b>		
<b><u>Current Assets:</u></b>		
Cash and Cash Equivalents	272,640	82,540
Receivables	12,090	3,480
Inventory	738,630	857,090
<u>Prepaid Expenses</u>	<u>54,880</u>	<u>54,030</u>
Total Current Assets	1,078,240	997,140
<b><u>Property, Plant &amp; Equipment (at cost):</u></b>		
Land and Buildings	531,270	383,350
Fixtures and equipment	476,460	411,230
Leasehold improvements	16,460	15,120
Construction in progress	----	46,370
<u>Less Accumulated Depreciation</u>	<u>(248,430)</u>	<u>(183,890)</u>
<u>Property, Plant &amp; Equipment, net</u>	<u>775,760</u>	<u>672,180</u>
Total Assets	1,854,000	1,669,320
<b><u>Liabilities and Stockholders' Equity</u></b>		
<b><u>Current Liabilities:</u></b>		
Accounts Payable	377,970	244,150

Advance Payment on Orders	4,460	2,030
Income Taxes Payable	70,800	53,020
<u>Other Current Obligations</u>	<u>154,510</u>	<u>139,950</u>
Total Current Liabilities	607,740	439,150
Long-Term Debt	78,000	84,130
<u>Stockholders' Equity:</u>		
Equity Share at par	2,010	2,010
Additional Capital, net	311,360	307,810
Retained Earnings	854,890	836,220
<u>Total Stockholders' Equity</u>	<u>1,168,260</u>	<u>1,146,040</u>
Total Liabilities and Equity	1,854,000	1,669,320

Figure 3:- Cash Flow Statement of K-L Fashions, Inc

	2016	2015
Net cash flows from operating activities	512,020	95,200
Net cash flows from investing activities	(175,410)	(250,560)
Net cash flows from financing activities	(146,510)	(83,490)
Net increase (decrease) In cash and cash	<u>190,100</u>	<u>(238,850)</u>

equivalents		
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**Answer the following five concerns of K-L Fashions, Inc. You are permitted to make your own assumptions.**

1. How well the company is managing the solvency?
2. How well the company is generating return to the equity holders. Using Du Pont ratio, evaluate the strategy of the company for generating RoE.
3. How well are the company's assets being employed to generate sales revenue?
4. Are receivables coming in too slowly?
5. Evaluate the quality of inventory management by the company