



**Programme: PGDM**

**Batch: 2016-18**

**Trimester: 1<sup>st</sup>**

PGDM, 2016-18

Financial Accounting

DM 101

Trimester – I, End-Term Examination: September 2016

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.

**Section: A (15 Marks): Attempt 3 out of 5 questions, each question carries 5 marks.**

A-1. "Earning Management occurs when managers use judgment in financial reporting and in structuring transactions to alter financial reports to either mislead some stakeholders about underlying economic performance of the company". Summarise five examples of earning management.

A-2. Keshav Company was set up in 2015 with equity capital of Rs. 30000/- (shares of Rs. 10/- each) to manufacture photocopiers. At the beginning of 2015, the company acquired machinery costing Rs.20000/- The machinery estimated useful life of 10 years and estimated residual value of Rs. 1000/- In 2015, the company sold 80 copiers at Rs. 5000/- per piece and incurred operating expenses of Rs. 10000/-. Keshav Company follows LIFO and diminishing value method (26%) of accounting for inventory valuation and depreciation respectively. Details of the company's purchases during 2015 are as follows:

Lot size	Units	Price per piece
1	10	2000
2	40	2400
3	50	3000

Compute Earnings per Share for Keshav company.

A-3. Maharashtra Bank is examining a loan request from a company for long-term financing. It has been the company's bank for many years, but makes an assessment every time a request comes. Select two important ratios from the list given below and justify your selection.

1. Profit Margin	2. Asset Turnover
3. Return on assets	4. Return on Equity
5. EPS	6. Current ratio
7. Debt-to-equity	8. Interest Cover
9. Price-Earning	

A-4. The accounting and disclosure requirements are greatly influenced by the regulators. Briefly explain the accounting environment in India.



A -5 "The matching principle poses major challenges to the accountant," Do you agree?

**Section: B (20 Marks) Attempt 2 out of 3 questions, each question carries 10 marks.**

B-1 What is the need for convergence towards global accounting standards? What is the rationale, benefits and challenges of adopting IFRS in India?

B-2. 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 20X9. 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, 2015

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, 2014 and 2015

EQUITY & LIABILITIES	2015	2014
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, 2015. How much cash did the company generate internally during the year ended June 30, 2015?
- B. Antariksh Materials Company approaches your bank for a loan of Rs. 60 million. As a lending officer in the bank, will you recommend the loan

B -3. City Garments Limited deals in a wide range of clothing. The latest trial balance of the company is given in the following table.

CITY GARMENTS LIMITED TRIAL BALANCE, March, 31st 2016		
	Debit side (Rs. In lakhs)	Credit Side (Rs. In lakhs)
Storage System	20,000	
Accumulated Depreciation on Storage system		2,000
Inventory	17,130	
Office Consumables	3,690	
Trade Receivable	4,900	
Cash and Bank Balance	2,100	
Prepaid Expenses	4,200	
Trade Payables		3,900
Share Capital		10,000
Retained earnings		2,320
Dividends	5,000	
Revenues		93,450
Purchase of Inventory	42,220	



Staff Compensation	9,360	
Travelling expenses	320	
Other Office expenses	2,750	
<b>Total</b>	<b>1,11,670</b>	<b>1,11,670</b>

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 2016.

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

Patanjali Ayurved Limited is a privately-held company that operates in the cosmetics & toiletries industry. Patanjali Ayurved Limited was founded in 2006. Following are the balance sheets and profit and loss accounts of Patanjali Ayurved Limited. Prepare a detailed report for the latest two years on the leverage, efficiency and profitability of the company based on the financial statements.

Statement of Profit & Loss for period ended 31st March

in Rs Crore

	Mar-15	Mar-14	Mar-13	Mar-12
Net Sales	2,006.75	1,186.71	843.92	451.22
<b>EXPENDITURE :</b>				
Increase/Decrease in Stock	-60.04	2.78	-13.03	-15.94
Raw Material Consumed	1,159.98	616.60	450.74	188.67
Power & Fuel Cost	16.3	16.43	11.37	10.74
Employee Cost	72.38	50.03	45.58	25.14
Other Manufacturing Expenses	216.76	137.89	113.78	69.78
General and Administration Expenses	26.72	15.47	11.29	8.07
Selling and Distribution Expenses	90.21	82.86	49.79	
Miscellaneous Expenses	26.37	25.34	22.59	27.23
Less: Expenses Capitalised				
Total Expenditure	1548.67	947.39	692.12	313.7
Operating Profit (Excl Other Income)	458.08	239.32	151.8	137.52
Other Income	7.34	7.87	5.07	2.7
Operating Profit	465.42	247.19	156.87	140.22
Interest	15.16	18.06	28.72	36.17
PBDT	450.26	229.13	128.15	104.05
Depreciation	41.53	31.35	32.95	33.85
Profit Before Taxation & Exceptional Items	408.73	197.78	95.2	70.21
Exceptional Income / Expenses		-1.47		
Profit Before Tax	408.73	196.31	95.2	70.21
Provision for Tax	99.94	41.61	19.58	14.31
Profit After Tax	308.79	154.7	75.62	55.89



Adjusted EPS

74.73

37.44

13.39

13.59

## Balance Sheet as on 31st March

in Rs Crore

	Mar-15	Mar-14	Mar-13	Mar-12
<b>EQUITY AND LIABILITIES</b>				
Share Capital	41.32	41.32	41.12	41.12
Total Reserves	634.69	357.31	187.38	119.94
<b>Shareholder's Funds</b>	<b>676.02</b>	<b>398.63</b>	<b>228.51</b>	<b>161.06</b>
Long-Term Borrowings				
Secured Loans	12.02	34.49	68.72	99.76
Deferred Tax Assets / Liabilities	7.92	10.98	10.81	10.41
Other Long Term Liabilities	24.57	20.55	18.42	21.06
<b>Total Non-Current Liabilities</b>	<b>44.5</b>	<b>66.02</b>	<b>97.95</b>	<b>131.22</b>
Current Liabilities				
Trade Payables	259.93	87.89	92.08	83.59
Other Current Liabilities	48.39	46.67	54.85	61.46
Short Term Borrowings	217.92	118.45	104.2	85.78
Short Term Provisions	116.05	41.44	19.18	14.4
Total Current Liabilities	642.29	294.45	270.31	245.23
<b>Total Liabilities</b>	<b>1362.8</b>	<b>759.1</b>	<b>596.77</b>	<b>537.51</b>
<b>ASSETS</b>				
<b>Non-Current Assets</b>				
Gross Block	403.81	380.97	355.21	328.85
Less: Accumulated Depreciation	177.48	137.05	105.7	72.74
Net Block	226.33	243.92	249.51	256.11
Capital Work in Progress	0.33	0.03	4.97	0.16
Non Current Investments	46.54	24.1	23.03	22.73
<b>Total Non-Current Assets</b>	<b>273.2</b>	<b>268.05</b>	<b>277.51</b>	<b>279</b>
<b>Current Assets Loans &amp; Advances</b>				
Inventories	487.23	192.01	169.99	131.78
Sundry Debtors	103.2	76.54	78.2	69.09
Cash and Bank	167.82	54.05	4.07	5.09
Other Current Assets	51.69	30.57	1.96	1.66
Short Term Loans and Advances	279.66	137.88	65.04	50.9
<b>Total Current Assets</b>	<b>1089.6</b>	<b>491.05</b>	<b>319.26</b>	<b>258.52</b>
<b>Total Assets</b>	<b>1362.8</b>	<b>759.1</b>	<b>596.77</b>	<b>537.51</b>

What other factors apart from company factors should be considered for analysis?