

<PGDM Batch 2013-15>

<Financial Accounting>

<DM-101>

Trimester – I, End-Term Examination: September 2013

Time allowed: 2.5 Hours

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**. In case of rough work please use answer sheet.

Sections	No. of Questions to attempt	Marks	Marks
A	3 out of 5 (Short Questions)	5 Marks each	3*5 = 15
B	2 out of 3 (Long Questions)	10 Marks each	2*10 = 20
C	Compulsory Case Study	15 Marks	15
		Total Marks	50

SECTION- A

A-1 The abridged income statement on accrual basis for the year 2012-13 is given below:

Sales	30000
COGS	17000
Expenses	5500
Depreciation	400
Net Profit	7100

Additional information:

- Cash-in-hand as of 31st March 2013 increased to Rs. 6800 from 31st March 2012 Rs.2000/-
- Inventory as of 31st March 2013 increased by Rs. 1000 from 31st March 2012 level.
- Bills Receivable as of 31st March 2013 decreased by Rs. 800 from 31st March 2012 level.
- Expenses Payable as of 31st March 2013 decreased by Rs. 500 from 31st March 2012 level.

Compile a summarised cash account for the year 2013.

A-2 The accounting and disclosure requirements are greatly influenced by the regulators. Briefly describe the accounting environment in India.

A-3 A company, ABC Ltd., prepares its accounts annually on 31st March. On 1st April, 20x1, it purchases a machine at a cost of Rs. 1,50,000. The machine has a useful life of three years and an expected scrap value of zero. Although it is eligible for a 100% first year depreciation allowance for tax purposes, the straight-line method is considered appropriate for accounting purposes. ABC Ltd. declared profits before depreciation and taxes of Rs. 2,00,000 each year and the corporate tax rate is 40 percent each year. The purchase of machine at a cost of Rs. 1,50,000 in 20x1 gives rise to a tax saving of Rs. 60,000. Work out Deferred Tax, Deferred Tax Asset or Deferred Tax Liability for all the three years.

A-4 Explain the basic principles which would guide you to differentiate capital expenditure or revenue expenditure.

A-5. Membership subscription received by Modern Cricket Club during the year 2011 amounted to Rs 15,600, which includes Rs 900 received in arrears for the year 2010 and Rs 2,100 received in advance for 2012. It is found that Rs 2,500 has not been received as subscription for the current year (2011) and that Rs 1,000 was received in advance in 2010 as subscription for 2011. Calculate the income from subscription for the year 2011 on the accrual basis of accounting.

SECTION – B

B-1 Explain the effects of changes in Foreign Exchange Rates on Foreign currency transactions and foreign operations and resultant impact on Financial Statements? Also explain what constitute Foreign Transactions & Foreign Operations.

B-2. Companies X, Y and Z are three of the largest merchandising companies in India. We have the following data on these companies for 2012 (Rupees in thousands):

Particulars	Company X	Company Y	Company Z
Rank (by sales) among merchandising firms	26	11	2
Sales revenues Rs.	6,27,349	12,93,765	54,58,824
Assets Rs.	1,20,363	2,74,603	8,84,001
Shareholder's equity Rs.	43,554	1,63,317	6,27,366
Net income Rs.	11,477	8,327	55,897
Interest expense Rs.	3,994	5,342	13,088

1. Calculate income as a percentage of sales, asset turnover, return on assets, return on equity and debt-asset ratio for each company. You should assume a 50% income tax rate.
2. For return on common equity, Company X ranked first, Company Y ranked 46th, and Company Z ranked 39th among the merchandising companies on the list. On the basis of your analysis of the financial statement data alone, explain the reasons for the difference between the relative sales ranking and the relative return on common equity ranking.

B-2 Cochin Marine Food Company's profit & loss account for the year ended December 31, 2012 and balance sheet on 31st December 2011 & 2012 are given below:

Cochin Marine Foods
Statement of Profit & loss for the year ended 31st December 2012

Sales	85800
Gain on sale of investments	300
Dividend income	900
Interest income	100
Total	87100
Cost of goods sold	86100
Selling & admin expenses	11200
Interest expense	4300
Loss on sale of plant	1100
Profit before tax	-15600
Income tax	0
Profit after tax	-15600

Cochin Marine Foods
Balance Sheet as on 31st December

Equity & Liabilities	2012	2011
Equity share capital	21500	19500
Profit & loss account	1900	17500
Secured loans	18300	13500
Unsecured loans	20700	11700
Current liabilities		
Creditors	11800	8600
Income tax Payable	100	800
Total	74300	71600
Assets		
Plant & Machinery at cost	60700	60900
Less accumulated depreciation	20300	17900
Net plant & machinery	40400	43000
Investments	1800	6900
Current assets		
Inventories	7600	7100
Debtors	9300	6500
Prepaid expenses	500	1200
Cash & cash equivalents	14700	6900
Total	74300	71600

Additional information:

- i. Purchased machinery with cash Rs 3300
- ii. Sold a plant for Rs 300 (cost Rs 3500, accumulated depreciation Rs 2100)
- iii. Sold investments, Rs 5400 (cost Rs 5100)
- iv. Redeemed secured debentures, Rs 400
- v. Cost of goods sold includes depreciation, Rs 4500.

Required:

- a) Present the cash flow statement according to the indirect method.
- b) Explain why there was an increase in cash in spite of a net loss.

SECTION – C

Section: C. Compulsory 15 marks.

Vinyl Chemicals (India) Limited is part of the Vinyl group of companies. It is well known for its Fevicol brand name and its flagship company, Pidilite Industries Limited. The principal activity of the company is to manufacture Vinyl acetate monomer. The company is also engaged in trading of chemicals and the production of processed air.

Following are the balance sheets and profit and loss accounts of Vinyl chemicals for two years. Prepare a detailed report on the solvency and profitability of the company based on the financial statements.

Vinyl Chemicals (India) limited, Balance Sheet as on 31st March
(All figures in Rs Crore)

Equity & liabilities	20X1	20X0
Net worth	53.18	49.55
Long term liabilities	12.33	8.09
Current liabilities & provisions	8.18	8.63
Total	73.69	66.27
Assets		
Fixed assets	37.22	32.43
Investments	3.42	4.41
Current assets		
Cash & bank balances	1.01	1.00
Inventories	11.53	11.98
Debtors	16.75	13.01
Loans & advances	3.76	3.44
Total	73.69	66.27

Vinyl Chemicals (India) limited Statement of Profit & Loss account period ended 31st March
(All figures in Rs Crore)

Particulars	20X1	20X0
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Total Sales	92.46	88.18
Other Income	3.18	1.11
Operational expenditure	84.64	87.62
Gross profit	11.00	1.67
Interest	0.82	0.58
Depreciation	2.53	2.42
Profit before tax	7.65	-1.33
Tax	1.62	0.00
Profit before tax	6.03	-1.33
Dividend to share holders	1.83	0.00
No. of Equity Shares of Rs 10 Par value	1.83	1.83