

**PGDM- [ Post Graduate Diploma in Management] IB ,2018-2020**  
**Financial Accounting**  
**IB-103**

**Trimester – I , End-Term Examination: September 2018**

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**

**Attempt any 3 questions**

**3\*5 Marks=15 Marks**

1. Gutthi Sharma provided the following information about her firm's balance sheet:

Cash	Rs. 1,000
Accounts receivable	Rs. 5,000
Shareholders' equity	Rs. 7,000
Accounts payable	Rs. 2,000
Project loans	Rs.10,000

What are the firm's external liabilities and Debt equity ratio? How is the liquidity of the firm? Comment.

2. Although accounting information is widely used by a variety of external parties, but financial reporting is primarily directed toward the information needs of Investors and creditors. Explain the statement mentioning users of Accounting Information.
3. Bharat Indian Oil is a bulk distributor of petrol. A periodic inventory of petrol on hand is taken when the books are closed at the end of each month. The following summary of information is available for the month:

Sales Rs. 9,45,000

General administration cost Rs. 25,000

Opening Stock: 1,00,000 litres @ Rs. 3 per litre Rs. 3,00,000

Purchases (including freight inward):

June 1 -2,00,000 litres @ Rs. 2.85 per litre

June 30-1,00,000 litres @ Rs. 3.03 per litre

June 30-Closing stock 1,30,000 litres

Calculate the value of inventory, cost of goods sold and profit on June 30 using FIFO method of inventory costing.

4." Benefits of Ind AS would start from this year (2018)". Do you agree? If Yes, what are major benefit India would receive from implementation of Ind AS?

5. Imagine a firm wherein, all costs were accrued in the first half of the year and all revenue earned in the second half? You would see a semi-annual income statement for the first half of the year reflecting a loss. The second half of the year would reflect a profit. What type of accounting system the firm is following? How it is different from cash basis of Accounting?

### Section B

Attempt any 2 questions ( 2\*10 Marks=20 Marks)

6. Virat, Dhoni and Ashwin formed a partnership to carry on the business of an diamond store in Bangkok. They are to receive equal shares of the profits and can make drawings during a year, not exceeding Baht (B) 20,000 each. They invested an amount of B 3,600,000.

Transactions of the first financial year are as follows:

(a) Delivery vans purchased during the year, B1,284,000. These vans are to be depreciated over 5 years, assuming a salvage value of 5%

(b) Sales are made on 30 days credit and collection losses during the year amounted to 1% of the sales. Total sales during the year amounted to B 4,800,000 and receivables outstanding, B 600,000.

(c) Purchases are on 45 days credit and total purchases during the year amounted to B 3,320,800. Payables outstanding at close of the year were B 368,000.

(d) Inventory of merchandise available at the end of the year was B 256,500. Wages and other operating expenses were B 785,000. The firm owed B12,890 in wages at the end of the year.

(e) They have signed promissory notes amounting to B 85,000.

(f) It is expected that 1.5% of the accounts receivable outstanding may be bad. Drawings by the partners amounted to: B 18,000 by Aswin, B 20,000 by Virat ad B 12,800 by Dhoni.

(g) All cash transactions were carried through the bank with which the firm had entered into an overdraft agreement, having a limit of B 1,200,000.

Prepare a profit and loss account for the year and a balance sheet as at the end of the year.

7. Incorporated in 1994, HDFC Bank Limited is the largest bank in India with market capitalization approximately Rs. 2.7 trillion. In fact, in January, it created a huge news. The stock market value of HDFC Bank was more than that of all the 20 nationalized banks put together. The bank's Managing Director has held his position since 1994, giving a signal on prime constituent behind the banks amazing growth and success. We present some financials from its annual report:

Financial Items of HDFC Bank	Amount in Rs. Billion
Total income from operations, etc.	602
Net profit / (loss) for the period	107
Net cash flow from operating activities	(212)
Net cash used in investing activities	(8)
Proceeds from issue of shares	97
Increase in borrowings	98

While HDFC Bank might be the largest bank in India – but the above numbers do not seem to be in sync with the write up there in fact the numbers show a scary picture. They create chaos and raise a lot of questions for a first time reader of financial information, such as:

- I. How can a company make profit but still need to dip its hands into its cash balance?
- II. How can a company having a huge negative net cash flow from operating activities still make a profit?
- III. Where was the need for such a giant organization to raise equity and borrowings to fund its negative cash flow from operating activities?
- IV. Why is the net cash used in investing activities so low?
- V. What could be the reason behind investors still willing to value this company so highly?
- VI. Is this not contradictory to the popular adage that 'cash is not king but also strategic'?

Refer to the HDFC Bank's above summary of Cash Flows Statement, briefly comment on the stated facts therein. How do you rationalize on the queries raised? How would that augur for the future of the organization?

8. There are various ways of analysing financial statements. Can you brief five of these techniques used by modern financial analyst. Which one you think can be considered as best technique and why?

### Section C

#### Compulsory Case Study

15 Marks

9. The pharmaceutical industry discovers, develops, produces, and markets drugs or pharmaceutical drugs for use as medications. Pharmaceutical companies may deal in generic or brand medications and medical devices. They are subject to a variety of laws and regulations that govern the patenting, testing, safety, efficacy and marketing of drugs.

Pharmaceutical Company	Merck Ltd.	Pfizer Ltd.
Mkt Cap Rs. (in Crores)	5096.34	13332.72
P/E	46.6	38.66
P/B	7.24	10.98
Div_Yield	0.47	0.6

Management Efficiency	Merck Ltd.	Peer Average	Pfizer Ltd.	Peer Average2
Return on Equity (%)	12.8	-10.93	33.24	-5.86
Return on Assets (%)	10.19	-3.03	27.23	5.77
Return on capital Employed (%)	12.1	6.39	13.13	8.79
Fixed Assets Turnover (x)	1.6	1.2	5.25	0.94

<b>Profitability and Growth</b>				
Gross Profit Margin (%)	10.07	-18.33	20.5	8.07
Operating Profit Margin(%)	14.02	-12.19	22.02	14.37
Net Profit margin (%)	8.5	-65.41	37.45	9.03
<b>Financial Strength</b>				
<b>Liquidity</b>				
Quick Ratio (x)	2.36	97.26	4.34	1.64
Current Ratio (x)	3.09	98.08	5.1	2.32
Cash ratio (x)	1.08	1.22	2.72	0.23
<b>Solvency</b>				
Debt Equity Ratio (x)	0	0.44	0	0.34
<b>Coverage Ratios</b>				
Cash flows to long term debt (x)	0	7.02	0	6.98

(Source: <https://economictimes.indiatimes.com/marketstats/> as on 24/08/2018)

Based on the above analysis you have to:

1. Recommend which company is best from the management viewpoint.
2. Recommend which company is the best from lenders perspectives.
3. Recommend which company is the best from creditors perspectives
4. Recommend which company is the best from the investor's viewpoint - both for short term and long-term duration