

PGDM-RM, 2018-20
Financial & Management Accounting
RM-105

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.

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

Qs 1 (1 marks each)

Analyze the effect of following business transactions on accounting equation:

- Mr John starts Zenith (IT firm) as a proprietary business by investing Rs 50,000 in cash.
- Mr John takes a loan of Rs 20,000 from ABC Ventures for Zenith.
- Zenith buys for cash a computer costing Rs 58,000.
- Zenith purchases supplies for Rs 6,000 on credit.
- Zenith completes its maiden software for a retail store and receives a fee of Rs 12,000.

Qs 2 (1 marks each)

For each of the following situations, indicate whether you agree or disagree with the financial reporting practice employed and state the basic accounting principle/concept that is applied (if you agree) or not applied (if you disagree)

- Davis Bicycle Company received a large order for the sale of 1,000 bicycles at \$100 each. The customer paid Davis the entire amount of \$100,000 on March 15. However, Davis did not record any revenue until April 17, the date the bicycles were delivered to the customer.
- Ace Appliance Company is involved in a major lawsuit involving injuries sustained by some of its employees in the manufacturing plant. The company is being sued for \$2,000,000, a material amount, and is not insured. The suit was not disclosed in the most recent financial statements because no settlement had been reached.
- Golden Book Company purchased a large printing machine for \$1,000,000 (a material amount) and recorded the purchase as an expense.
- The Klingon Company sells farm machinery. Revenue from a large order of machinery from a new buyer was recorded the day the order was received.
- Apple Computer, Inc., distributes an annual report to its shareholders.

Turn Over

Qs 3

State five differences between internal control and internal audit.

Qs 4

Given:

Quantity of material purchased 5,000 units

Value of material purchased Rs 15,000

Standard quantity of material required for one tonne of finished product 25 units

Standard rate of material Rs 2 per unit

Opening stock of material nil

Closing stock of material 200 units

Finished production during the period 180 tonnes.

Calculate material cost variance and interpret your result.

Qs 5

Given:

Selling price per unit Rs 50

Variable cost per unit Rs 30

Fixed Cost Rs 1,00,000

Calculate BEP in units and amount. How much sales in units should be targeted to earn a desired profit of Rs1,00,000?

SECTION B**Qs 1**

From the following Trial Balance of XYZ Ltd., prepare Statement of Profit & Loss and Balance Sheet as per schedule II of Companies Act 2013.

Trial Balance as on 31st March 2018

Accounts	Debit (Rs.)	Credit (Rs.)
Equity Share Capital		90,00,000
Other Equity		2,00,00,000
Non-Current Liabilities: Borrowings		50,00,000
Other Non-Current Liabilities		1,00,000
Short-Term Borrowings		5,00,000
Trade Payables		15,00,000
Property, Plant & Equipment	2,00,00,000	
Capital Work-In-Progress	40,00,000	
Intangible Assets	5,00,000	
Long-Term Financial Assets	90,00,000	
Opening Inventories	20,00,000	
Trade Receivables	35,00,000	
Cash & Cash Equivalents	1,00,000	
Short-Term Investments	20,00,000	
Sales		2,20,00,000
Cost of Material Consumed	1,00,00,000	
Employee Benefit Expense	10,00,000	
Finance Cost	5,00,000	
Depreciation & Amortization	10,00,000	
Other Expenses	45,00,000	
Total	5,81,00,000	5,81,00,000

Turn Over

Additional information:

1. Closing inventories Rs 30,00,000
2. Provide for depreciation on property, plant & equipment Rs 20,00,000.
3. Make provision for tax @ 30 percent of profit before tax.

Qs 2 (4+1+2+3)

Read the attached Cash Flow Statement of Reliance Industries Limited and answer the given questions.

1. Compare the cash flow statement between 2017-18 and 2016-17?
2. What was the major source of cash in the year 2017-18 that resulted in net increase in cash?
3. Does having negative cash flow under investing and financing activities will create problems in future and why?
4. Comment on the company's ability to meet its long-term obligation. Long-term borrowings in 2017-18 were Rs 81,596 crore as compared to Rs 78,723 crore in 2016-17.

Qs 3 (2.5 marks each)

Use the data in the following table of financial ratios for ABC limited and answer the four questions given after the table.

Ratio	2013-14	2014-15	Industry Average
Current ratio	1.80	1.83	1.50
Acid-test ratio	1.47	1.51	1.06
Accounts receivable turnover	4.58	4.77	4.87
Inventory turnover	8.82	9.59	5.78
Operating profit margin	16.60%	17.40%	8.30%
Total assets turnover	1.13	1.23	1.18
Fixed assets turnover	3.46	3.80	4.26
Debt ratio	46.00%	45.00%	57.80%
Interest coverage ratio	15.0	15.67	3.93
Return on equity	20.70%	23.00%	12.30%

1. Comment on the liquidity position of ABC limited?
2. Is ABC limited generating adequate operating profits on the firm's assets?
3. How ABC limited is financing its assets?
4. Are the equity shareholders receiving good return on their investment?

SECTION C

Qs 1

Entertainment plus is a leading player manufacturing Blu-ray Discs and DVDs. Mr J K Arora, Managing Director of the company in the meeting with top managers was concerned and alarmed by the operating losses of the company. The meeting remained inconclusive as half of the manager's present suggested to drop DVDs product and focus on Blu-ray Discs while the other half were in favor of continuing both products. He asked the company accountants to provide product wise revenue and cost information to understand the situation, analyze and take the right decision. Company accountants have prepared the following analysis to help make this decision:

	Total (\$)	Blu-ray Discs (\$)	DVDs (\$)
Sales revenue	437,000	301,000	136,000
Variable expenses	244,000	158,000	86,000
Contribution margin	193,000	143,000	50,000
Fixed expenses:			
Manufacturing	134,000	77,000	57,000
Marketing and administrative	64,000	53,000	11,000
Total fixed expenses	198,000	130,000	68,000
Operating income (loss)	(5,000)	13,000	(18,000)

Total fixed costs will not change if the company stops selling DVDs

Requirements:

1. Prepare an incremental analysis to show whether Entertainment Plus should discontinue the DVD product line.
2. Assume that the company can avoid \$20,000 of fixed expenses by discontinuing the DVD product line (these costs are direct fixed costs of the DVD product line). Prepare an incremental analysis to show whether the company should stop selling DVDs.
3. Now, assume that all \$68,000 of fixed costs assigned to DVDs are direct fixed costs and can be avoided if the company stops selling DVDs. However, marketing has concluded that Blu-ray disc sales would be adversely affected by discontinuing the DVD line (retailers want to buy both from the same supplier). Blu-ray disc production and sales would decline 10%. What should the company do?

Cash Flow Statement

For the year ended 31st March, 2018

(₹ in crore)

	2017-18	2016-17
A: CASH FLOW FROM OPERATING ACTIVITIES		
Net Profit Before Tax as per Statement of Profit and Loss	45,725	40,777
Adjusted for:		
(Profit) / Loss on Sale / Discard of Property, Plant and Equipment (Net)	(8)	(504)
Depreciation / Amortisation and Depletion Expense	9,580	8,465
Effect of Exchange Rate Change	(1,903)	(2,062)
Net Gain on Financial Assets	(3,446)	(4,116)
Dividend Income	(935)	(271)
Interest Income	(3,586)	(3,535)
Finance Costs	4,656	2,723
Operating Profit before Working Capital Changes	50,083	41,477
Adjusted for:		
Trade and Other Receivables	(11,397)	(1,857)
Inventories	(5,550)	(5,984)
Trade and Other Payables	37,479	27,374
Cash Generated from Operations	70,615	61,010
Taxes Paid (Net)	(8,615)	(9,560)
Net Cash Flow from Operating Activities	62,000	51,450
B: CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of Property, Plant and Equipment and Intangible Assets	(24,700)	(30,266)
Proceeds from disposal of Property, Plant and Equipment and Intangible Assets	75	1,452
Investments in Subsidiaries / Trusts	(34,973)	(66,498)
Disposal of Investments in Subsidiaries	-	26,461
Purchase of Other Investments	(4,99,789)	(6,09,377)
Proceeds from Sale of Financial Assets	5,04,318	6,19,551
Net Cash Flow for Other Financial Assets	(7,136)	1,304
Interest Income	2,162	2,153
Dividend Income from Associates	12	10
Dividend Income from Others	922	261
Net Cash Flow used in Investing Activities	(59,109)	(54,949)

Cash Flow Statement

For the year ended 31st March, 2018

(₹ in crore)

	2017-18	2016-17
C: CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from Issue of Equity Share Capital	125	692
Share Application Money	15	4
Proceeds from Borrowing - Non Current	28,328	10,065
Repayment of Borrowing - Non Current	(11,344)	(15,329)
Borrowing - Current (Net)	(7,855)	8,284
Dividends Paid (including Dividend Distribution Tax)	(3,916)	-
Interest Paid	(7,267)	(5,355)
Net Cash Flow used in Financing Activities	(1,914)	(1,639)
Net Increase/(Decrease) in Cash and Cash Equivalents	977	(5,138)
Opening Balance of Cash and Cash Equivalents	1,754	6,892
Closing Balance of Cash and Cash Equivalents* (Refer Note 8)	2,731	1,754

* Include towards Unclaimed Dividend of ₹ 259 crore (Previous Year ₹ 241 crore)

Change in Liability arising from financing activities

(₹ in crore)

	1st April, 2017	Cash flow	Foreign exchange movement	31st March, 2018
Borrowing - Non Current (Refer Note 15)	84,866	16,984	(208)	1,01,642
Borrowing - Current (Refer Note 19)	22,580	(7,855)	514	15,239
	1,07,446	9,129	306	1,16,881

As per our Report of even date

For **DTS & Associates**
Chartered Accountants
(Registration No.142412W)

T P Ostwal
Partner
Membership No. 030848

Alok Agarwal
Chief Financial Officer

Mumbai
Date: April 27, 2018

For **SRBC & COLLP**
Chartered Accountants
(Registration No.324982E/E300003)

Vikas Kumar Pansari
Partner
Membership No. 093649

Srikanth Venkatachari
Joint Chief Financial Officer

K. Sethuraman
Company Secretary

For and on behalf of the Board

M.D. Ambani
N.R. Meswani
H.R. Meswani
P.M.S. Prasad
P.K. Kapil
M.L. Bhakta
Y.P. Trivedi
Prof. Ashok Misra
Prof. Dipak C. Jain
Dr. R.A. Mashelkar
Adil Zainulbhai
Nita M. Ambani
Raminder Singh Gujral
Shumeet Banerji

Chairman & Managing Director

Executive Directors

Directors