

PGDM 2019-21
Financial Accounting
DM 104

Trimester – I, End-Term Examination: September 2019

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.

Sec A: Total 30 Marks: All questions are of 10 Marks each

Q1. Identify and explain any two accounting principles (5 Marks each*2 = 10 Marks)

- a) Out of the various methods prescribed by the accounting GAAP for any phenomena, there is unlimited flexibility in the first year but thereafter we must follow a pattern.
- b) The principle prescribing that financial statements reflect the assumption that the business will continue operating instead of being closed or sold, unless evidence shows that it will not continue
- c) To include the personal assets and transactions of a business's owner in the records and reports of the business would be in conflict with ... **(CILO: 1)**

Q2 a). Assuming a deflationary scenario, compare the following parameters of firms following LIFO with the firms following FIFO: Profitability, Total Assets, Current Liabilities, Retained Earnings and Fixed Assets. You may use hypothetical example to illustrate directional comparison. (CILO: 2) (5 Marks)

OR

Q2 a). Warner woods Company uses a perpetual inventory system. It entered into the following purchase and sales transactions for March. (For specific identification, the March 9 sale consisted of 80 units from beginning inventory and 340 units from the March 5 purchase; the March 29 sale consisted of 40 units from the March 18 purchase and 120 units from the March 25 purchase.)

Date	Activities	Units Acquired at Cost	Units sold at Retail
Mar. 1	Beginning inventory	100 units @ \$50.00 per unit	
Mar. 5	Purchase	400 units @ \$55.00 per unit	
Mar. 9	Sales		420 units @ \$85.00 per unit
Mar. 18	Purchase	120 units @ \$ 60.00 per unit	
Mar. 25	Purchase	200 units @ \$62.00 per unit	
Mar.29	Sales		160 units @ \$85.00 per unit
	Totals	820 units	580 units

Required: Compute cost of goods sold and gross profit by using (a) FIFO, and (b) specific identification (Round all amounts to cents.) **(CILO: 2) (5 Marks)**

Q2 b). Impairment and Depreciation are a close neighbor, yet very different from each other. Critically evaluate the above statement highlighting the similarities and differences between the two. You may take relevant examples from Indian incorporation to justify your points.

(CILO: 2) (5 Marks)

OR

Q2 b). Azad Company bought the following assets:

Asset	Cost	Residual Value	Useful life	Depreciation Method
Machinery	Rs 500,000	Rs 25,000	5 years	WDV
Building	Rs 700,000	Rs 100,000	25 years	Straight-Line

After using these assets for three years, the company decided to change the depreciation Policy as follows:

- Change the method of depreciation for machinery to the straight-line method;
- Revise the remaining useful life of building to 30 years, keeping its residual value at Rs 100,000

Required: Compute the depreciation expense for year 4 without giving effect to the change in depreciation policy. What is effect of change on the profit before tax for year 4?

(CILO: 2) (5 Marks)

Q3. Financials of Gemini Electronics are given below

Income Statement		
	2018	2019
Sales	12,17,54,76,500	13,66,47,14,160
Cost of Goods Sold	7,88,67,96,000	8,97,41,49,576
Gross Profit	4,28,86,80,500	4,69,05,64,584
Operating Costs		
Selling and Distribution	93,45,32,230	1,00,12,34,530
R&D	47,63,50,230	78,57,74,340
Administration	99,94,53,230	98,03,40,500
Amortization	28,82,16,088	39,44,40,051
Operating Costs	2,69,85,51,778	3,16,17,89,421
Operating Profit	1,59,01,28,722	1,52,87,75,163
Interest	27,76,86,944	32,99,23,700
Earnings Before Taxes	1,31,24,41,778	1,19,88,51,463
Taxes	45,93,54,622	41,95,98,012
Net Income	85,30,87,156	77,92,53,451
Balance Sheet		
	2018	2019
Cash	1,36,65,26,361	1,41,34,74,400
A/R	1,32,85,23,975	1,50,35,60,340
Parts Inventory	1,06,28,19,180	1,20,13,45,530
WIP Inventory	7,56,40,210	8,95,75,400
Finished Goods Inventory	1,60,56,60,505	1,80,53,40,520
Total Current Assets	5,43,91,70,231	6,01,32,96,190
L,P,&E, Net	2,28,10,77,095	3,36,38,91,508
Intangibles	60,10,83,781	58,05,09,006

Total Assets	8,32,13,31,107	9,95,76,96,704
A/P	1,50,94,30,300	1,56,44,30,450
Current Portion of LT Debt	65,18,47,287	78,55,32,620
Total Current Liabilities	2,16,12,77,587	2,34,99,63,070
Long-term Debt	3,25,92,36,437	3,92,76,63,101
Shareholders' Equity	2,90,08,17,082	3,68,00,70,533
Total Liabilities and Equities	8,32,13,31,106	9,95,76,96,704

Key Financial Ratios	Industry Averages 2019
Current Ratio	2.84
Cash Ratio	0.05
Parts Inv Turnover in days	32.26 days
WP Inv Turnover in Days	7.89 days
FG Inv Turnover in Days	188.33 days
A/R Turnover in Days	30.44 days
A/P Turnover in Days	66.11 days
Cash Conversion Cycle	192.81 days

Analyse Gemini's performance on the basis of above mentioned ratios. (CILO 4: 10 Marks)

OR

Q3. Liquidity is short term solvency and Solvency is long term liquidity. Do you agree? Justify your opinion. Which tool of financial analysis is the best to judge the solvency pressure on the company: Ratios, Common Sizing or Trend Analysis? (CILO 4: 10 Marks)

Sec B: Total 20 Marks: Compulsory

Q4. The adjusted trial balance for Chimera Company as of December 31, 2018, is as follows:

	Debit	Credit
Cash	75,000	
Accounts receivable	1,30,000	
Interest receivable	45,000	
Notes receivable (due in 90 day)	4,20,000	
Office supplies	40,000	
Automobiles	4,20,000	
Accumulated depreciation-Automobiles		1,25,000
Equipment	3,45,000	
Accumulated depreciation-Equipment		45,000
Land	1,95,000	
Accounts payable		2,40,000
Interest payable		50,000
Salaries payable		47,500
Unearned fees		75,000
Long-term payable		3,45,000
Common stock		50,000
Retained earnings		5,89,500
Dividends	1,15,000	
Fees earned		12,10,000
Interest earned		60,000
Depreciation expense-automobiles	65,000	
Depreciation expense-Equipment	45,000	

Salaries expense	4,70,000	
Wages expense	1,00,000	
Interest expense	80,000	
Office supplies expense	85,000	
Advertising expense	1,45,000	
Repairs expense-Automobiles	62,000	
Totals	28,37,000	28,37,000

Required

- Use the information in the adjusted trial balance to prepare (a) the income statement for the year ended December 31, 2018; (b) the statement of changes in equity for the year ended December 31, 2018; and (c) the balance sheet as of December 31, 2018.

(CILO 3: 12 Marks)

Q5. The financial statements for a manufacturing company are given below for the year ending 31st March 2018. Prepare CFO by indirect method clearly showing all four steps in the process. (All amounts are in INR'000)

Income Statement FY19		
	Sales	2,000
Less	COGS	700
Less	Salary Expense	100
Less	Rent Expense	200
Less	Depreciation	150
Less	Interest Expense	70
Less	Loss on Sale of Furniture	80
Less	Impairment of Furniture	50
	Profit Before Tax	650
Less	Tax Provision	195
	Profit After Tax	455

Balance Sheet Excerpts	FY18	FY19
Equity Share Capital	600	650
Retained Earnings	150	445
Preference Share Capital	150	200
11% Bonds payable	200	450
9% Notes Payable	150	180
Accounts Payable	60	80
Tax Payable	10	0
Outstanding Rent	20	30
Prepaid Salary	5	15
Plant and Machinery	500	400
Furniture and Fixtures	500	600
Trade Receivable	20	45
Inventory of Finished Goods	100	120
Cash & Bank	200	130

Required: Prepare CFO for the year ended March 31st, 2019 using the indirect method **(CILO 3: 8 Marks)**