

**PGDM - IB, 2019-21**  
**Financial Accounting)**  
**Subject Code: IB 103**

**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.

Sections	No. of Questions to attempt	Marks	Total Marks
A	Minimum 3 question with internal choices and CILO (Course Intended Learning Outcome) covered Attempt only one question out of two in each question against A-2 and A-3	3*10	30
B	Compulsory Case Study with 3 questions (10+10)	20	20
			<b>50</b>

**Section A**

A-1 'Despite knowing the final consequences manager gets enough motivation to go for Creative Accounting' Explain. Also explain the role of Board of Directors (BoD) and Audit committee (AC) to curb 'Creative Accounting'. (CILO-4)

A-2

**NAVIN PACKAGING LIMITED**  
**Trial balance, 31 Dec 2018**

	Debit Balances	Credit Balances
Packaging equipment	30000	
Accumulated depreciation, Packaging equipment		9000
Office equipment	10000	
Accumulated depreciation, Office equipment		3000
Packaging supplies	6280	
Office supplies	2650	
Trade receivables	2170	
Cash	8820	
Prepaid rent	9600	
Bills payable		2500
Trade payables		1360
Unearned revenue		1800
Share capital		35000

Retained earnings		1350
Dividends	2500	
Revenue from services		41260
Salaries expense	14910	
Electricity expense	2340	
Advertisement expense	4800	
Telephone expense	1200	
	95270	95270

**REQUIRED**

1. Compile an adjusted trial balance using the following information:

- Estimated depreciation on packaging equipment, ₹3,000
- Estimated depreciation on office equipment, ₹1,000
- Inventory of packaging supplies, ₹2,360
- Inventory of office supplies, ₹ 1,190.
- Prepaid rent includes rent for January to March, 2019 at ₹840 per month.
- Accrued interest on the bill payable at 15 per cent per annum from September 1, 2018.

- Prepare a statement of profit and loss statement (CILO-3).
- Substantiate your answer with a set of suitable assumptions.(CILO-1)

OR

A-2 Bashir Company sold 50,000 audio CDs at ₹28 during the year. Its beginning inventory consisted of 10,000 CDs at ₹18 per CD. The following purchases were made during the year: 15,000 CDs @ ₹19; 10,000 CDs @ ₹21; 20,000 CDs @ ₹22; 10,000 CDs @ ₹23. Operating expenses were ₹185,000. Income tax is payable at 40 per cent

**Required**

- Compute net profit using the FIFO methods.(CILO-2)
- Which method is more advantageous to the company for (a) income tax reporting and (b) shareholder reporting? Why? What trade – offs, any, are involved in this context? Assume that the company must use the same method for both purposes.(CILO-4)
- Suppose that the company makes a purchase of 15,000 CDs at ₹25 on the last day of the reporting period. How will the purchase affect the company's net profit and income tax expense under the two inventory costing methods?(CILO-4)

A-3 Azad Company bought the following assets:

Asset	Cost	Residual Value	Useful Life	Depreciation Method
Machinery	₹500,000	₹25,000	5 years	Written- down value

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

Change the method of depreciation for machinery to the straight – line method;

These changes are to be implemented in the financial statements for Year 4.



**Required (CILO-2)**

1. Compute the depreciation expense for Year 4 without giving effect to the change in depreciation policy. What is the effect of the change on the profit before tax for year 4?
2. What disclosures concerning the change should the company make in its financial statements for Year 4?

OR

A-3 A-3 Mohan &amp; Company bought the following assets:

Asset	Cost	Residual Value	Useful Life	Depreciation Method
Building	700,000	100,000	25 years	Straight - line

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

Revise the remaining useful life of building to 30 years, keeping its residual value at ₹100,000.

These changes are to be implemented in the financial statements for Year 4.

**Required (CILO-2)**

3. Compute the depreciation expense for Year 4 without giving effect to the change in depreciation policy. What is the effect of the change on the profit before tax for year 4?
4. What disclosures concerning the change should the company make in its financial statements for Year 4?

**Section B**

**Best Buy Co., Inc.**  
**Consolidated Statement of Cash Flows**  
**For the Fiscal Year Ended March 31, 2018**  
**(Rupees stated in thousands)**

**Operating Activities**

Net earnings \$ A	A
Charges to earnings not affecting cash:	
Depreciation and amortization	68330
Other	3254
Sub Total	166037

**Changes in operating assets and liabilities:**

Receivables	B
Merchandise inventories	C
Prepaid taxes and expenses	4657
Accounts payable D	D
Other liabilities	68103
Income taxes	33759
Deferred revenue	-24603

Total cash provided by operating activities	542388
<b>Investing Activities</b>	
Additions to property and equipment	-72063
Decrease in recoverable costs from developed properties	45270
Decrease in other assets	4494
Total cash used in investing activities	E
<b>Financing Activities</b>	
Decrease in obligations under financing arrangements \$ F	F
Long-term debt borrowings 10,000	10000
Long-term debt payments (22,694)	-22694
Common stock issued 14,869	14869
Total cash used in financing activities \$ G	G
Increase in Cash and Cash Equivalents \$ 430,319	430319
Cash and Cash Equivalents at Beginning of Period H	H
Cash and Cash Equivalents at End of Period \$ I	I

Best Buy Co., Inc.  
Consolidated Balance Sheets

Assets	March 31, 2018	March 31, 2017
Current Assets		
Cash and cash equivalents	520127	89808
Receivables	95702	79581
Recoverable costs from developed properties	8215	53485
Merchandise inventories	1060788	1132059
Refundable and deferred income taxes	16650	25560
Prepaid expenses	8795	4542
Total current assets	1710277	1385035
Property and Equipment		
Land and buildings	19977	18000
Leasehold improvements	160202	148168
Furniture, fixtures and equipment	372314	324333
Property under capital leases	29079	29326
<b>Sub-totals</b>	<b>581572</b>	<b>519827</b>
Less accumulated depreciation and amortization	248648	188194
Net property and equipment	332924	331633
Other Assets	13145	17639
<b>Total Assets</b>	<b>2056346</b>	<b>1734307</b>
<b>Liabilities and Shareholders' Equity</b>		
Current Liabilities		
Accounts payable	727087	487802
Obligations under financing arrangements	35565	127510
Accrued salaries and related expenses	48772	33663
Accrued liabilities	163744	122611
Income taxes payable	24608	0
Deferred service plan revenue	18975	24602
Current portion of long-term debt	14925	21391
<b>Total current liabilities</b>	<b>1033676</b>	<b>817579</b>



Deferred Income Taxes	7095	3578
Deferred Revenue and Other Liabilities	17578	28210
Long-Term Debt	210397	216625
Convertible Preferred Securities of Subsidiary	229854	230000
<b>Shareholders' Equity</b>		
Preferred stock, \$1.00 par value: Authorized—400,000 shares; Issued and outstanding—none		
Common stock, \$.10 par value: Authorized—120,000,000 shares		
Issued and outstanding—89,252,000 and 86,574,000 shares, respectively	4463	4329
Additional paid-in capital	266144	241300
Retained earnings	287139	192686
<b>Total shareholders' equity</b>	<b>557746</b>	<b>438315</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>2056346</b>	<b>1734307</b>

1. The above are the cash flow statement and balance sheets of Best Buy Co., Inc. Determine what amounts should appear in Best Buy's cash flow statement in the places marked by the letters A through I. You should show your working while specifying the figures. (CILO-3)
2. Does Best Buy Co. appear to be expanding or contracting its operations? How can you tell? What other financial statement information might you examine to determine if Best Buy is expanding or contracting? Does Best Buy appear able to maintain its productive capacity without additional financing? Explain. (CILO-4)