**JAIPURIA INSTITUTE OF MANAGEMENT, INDORE**

**PGDM**

**FIRST TRIMESTER (Batch 2022-24)**

**END TERM IMPROVEMENT EXAMINATION, DEC-2022**

|  |  |  |  |
| --- | --- | --- | --- |
| Course Name | **Accounting for Business** | Course Code | **40201** |
| Max. Time | **2 hours** | Max. Marks | **40** |

**INSTRUCTIONS:**

1. This is a closed-book examination. Access to Computers & the textbook/course materials are not permitted in the examination hall.
2. Use of calculator, including scientific or financial, is allowed.
3. Do not use pencils for answering the questions
4. Answers without proper analysis will be treated as incomplete.
5. Any academic dishonesty will fetch Zero marks in the examination.
6. All the questions given below are to be answered using the given data in the question paper only.
7. Present your answers in legible handwriting.
8. **The exam office will distribute a sheet consisting of the relevant ratios.**

**Part A: Construction of financial statements**

**Question: 1**

Kari Corporation was organized on January 1. The company will manufacture sporting goods. The following transactions occurred during its first month:

a. On January 1, the shareholders contributed cash of $100,000 in exchange for stock.

b. On January 31, the shareholders contributed land and a building in exchange for stock. On the date of the transaction, the land was worth $150,000 and the building was worth $350,000. The property was subject to a mortgage of $100,000, which Kari assumed.

c. On January 31, Kari borrowed $100,000 from the bank. The loan was payable on January 31 of the following year with interest at 8%. That is, Kari was obligated to give the bank $108,000 on January 31 of the following year.

d. On January 31, Kari bought equipment for $200,000. It paid half of the price in cash and agreed to pay the rest in six months. There was no interest.

e. On January 31, Kari bought raw materials for $75,000. It paid $50,000 of the price in cash and agreed to pay the rest in two months. There was no interest.

f. On January 31, Kari entered into a contract with a chain of men’s clothing stores to make neckties which the customer would buy for $225,000. Kari's management believed it could make the neckties at a cost of only $100,000, so they anticipated a profit of $125,000 on the deal. The customer paid $50,000 in advance, with the rest to be paid upon delivery of the product. Kari agreed to deliver the neckties in four weeks. Kari had not yet begun manufacturing the neckties at the end of the month.

|  |  |
| --- | --- |
|  |  |
|  | You are required to prepare a balance sheet as of the end of the month. |

**(10 Marks)**

**Question 2:**

The following financial statements are from the 2001 *Annual Report* of the Niagara Company:

**Income Statement for Year Ended December 31, 2001**

|  |  |
| --- | --- |
| Sales | $1,000 |
| Cost of goods sold | (650) |
| Depreciation expense | (100) |
| Sales and general expense | (100) |
| Interest expense | (50) |
| Income tax expense | (40) |
| Net income | $60 |

**Balance Sheets at December 31, 2000 and 2001**

|  |  |  |
| --- | --- | --- |
|  | **2000** | **2001** |
| Assets |  |  |
| Cash | $ 50 | $60 |
| Accounts receivable | 500 | 520 |
| Inventory | 750 | 770 |
| Current assets | $1,300 | $1,350 |
| Fixed assets (net) | 500 | 550 |
| Total assets | $1,800 | $1,900 |
| Notes payable to banks | $ 100 | $ 75 |
| Accounts payable | 590 | 615 |
| Interest payable | 10 | 20 |
| Current liabilities | $700 | $710 |
| Long-term debt | 300 | 350 |
| Bank Loan | 300 | 310 |
| Capital stock | 400 | 400 |
| Retained earnings | 100 | 130 |
| Total liabilities and equity | $1,800 | $1,900 |

Prepare a statement of cash flows for the year ended December 31, 2001

**(10 Marks)**

**Part B: Financial Analysis**

The financial statements of Harley Davidson, Inc. for the period 1985-1990 are presented below. Harley – Davidson was considered one of the success stories of the 1980s, having introduced world-class management techniques to turn around the company. At the same time, however, an examination of the company’s return on equity indicates that after initial growth, the ratio stabilized and then declined.

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Comparative Income Statements of Harley-Davidson Inc.**  **for the Year Ended 1985 to 1990 (in $ Millions)** | | | | | | | |
|  | | 1985 | 1986 | 1987 | 1988 | 1989 | 1990 |
| Sales | 287.48 | | 295.32 | 685.36 | 757.38 | 790.97 | 864.6 |
| Cost of goods sold | 209.69 | | 210.45 | 506.91 | 559.53 | 582.7 | 619.1 |
| Selling, general, and admin. expenses | 57.34 | | 60.06 | 104.14 | 111.91 | 127.61 | 144.27 |
| Depreciation | 7.53 | | 8.72 | 14.86 | 15.73 | 14.23 | 16.45 |
| Operating Profit | 12.92 | | 16.09 | 59.45 | 70.21 | 66.43 | 84.78 |
| Other Income | 0 | | 0.75 | 0.52 | 4.38 | 4.54 | 0 |
| Other Expense | 0.34 | | 0 | 3.6 | 3.9 | 0 | 10.72 |
| Profit Before Interest and Tax | 12.58 | | 16.84 | 56.37 | 70.69 | 70.97 | 74.06 |
| Interest | 9.41 | | 9.51 | 25.51 | 24.67 | 17.96 | 11.44 |
| Profit Before Tax | 3.17 | | 7.33 | 30.86 | 46.02 | 53.01 | 62.62 |
| Income Tax Expense | 0.53 | | 3.03 | 13.08 | 18.85 | 20.4 | 24.31 |
| Net Income | 2.64 | | 4.3 | 17.78 | 27.17 | 32.61 | 38.31 |

Condensed Comparative Balance Sheets of Harley-Davidson Inc, 1985 to 1990 (in $ Millions)

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | **1985** | **1986** | **1987** | **1988** | **1989** | **1990** |
| *Assets* |  |  |  |  |  |  |
| Current assets | $72.89 | $148.76 | $197.90 | $211.29 | $187.67 | $196.68 |
| Net property | 38.73 | 90.93 | 100.43 | 110.79 | 115.7 | 136.05 |
| Intangibles | -- | 82.11 | 74.16 | 70.21 | 66.19 | 63.08 |
| Other assets | 2.47 | 5.39 | 8.38 | 8.82 | 9.36 | 11.65 |
| **Total assets** | **$114.09** | **$327.19** | **$380.87** | **$401.11** | **$378.92** | **$407.46** |
| *Liabilities and Equity* |  |  |  |  |  |  |
| Current debt | $2.88 | $18.09 | $28.33 | $33.23 | $26.93 | $23.86 |
| Other current liabilities | 53.77 | 90.73 | 105.35 | 103.16 | 109.43 | 122.67 |
| Long-term debt | 51.5 | 191.59 | 178.76 | 135.18 | 74.79 | 48.34 |
| Other liabilities | 1.32 | 0.62 | 5.52 | 7.89 | 11.52 | 13.82 |
| Total liabilities | $109.47 | $301.03 | $317.96 | $279.46 | $222.67 | $208.69 |
| *Stockholders’ equity* | 4.62 | 26.16 | 62.91 | 121.65 | 156.25 | 198.77 |
|  |  |  |  |  |  |  |
| **Total liabilities & equity** | **$114.09** | **$327.19** | **$380.87** | **$401.11** | **$378.92** | **$407.46** |

1. Calculate the other relevant ratios under profitability, liquidity and solvency. (10 Marks)
2. Write an overall interpretation of the ratios calculated in question C. (10 Marks)

**(Marks 20)**

-------------------------------------End of Question Paper----------------------------------------------