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| **C:\Users\ADMIN\Desktop\j.png** | **JAIPURIA INSTITUE OF MANAGEMENT, INDORE**  Post Graduate Diploma in Management (Batch 2024-26) |
| **Course Title: Accounting for Business, (Course Code: 40204)**  **End Term Examination (Main exam), Term - I (Oct, 2024)** | |
| **Time Duration : 2 Hours Total Marks: 40** | |

***General Instructions*:**

*a)* Could you answer the questions as directed?*The break-up of the marks is given wherever necessary.*

*b)*      *Marks against each question are indicated to its below.*

*c)*       ***Answer all the questions of a ‘Section/Question’ in one place in continuation.***

*d)*      *Answers should be brief and to the point.*

*e)*      *Do not write on the question paper except your roll number.*

*f)*        *All the questions below will be answered using the given data in the question paper only.*

*g)*      *Present your answers in legible handwriting.*

*h)*      ***This is a close-book exam. A formula sheet on ratios will be distributed by the exam office during the exam***

**PART – A- 5 Marks**

**Case Study: Financial Manipulation at ABC Electronics Pvt. Ltd.**

**Background:**

ABC Electronics Pvt. Ltd. is a medium-sized company specializing in the manufacturing of consumer electronics such as smartphones and laptops. The company has been experiencing pressure to meet its revenue and profit targets for the fiscal year. To present more favorable financial results, the management is considering the following accounting adjustments:

**Scenario 1: Revenue Recognition Manipulation**

In the final quarter of the financial year, ABC Electronics received a large order worth ₹1,00,00,000 for a new line of smartphones from a major distributor. The order is expected to be delivered in the first month of the next financial year. However, the company’s management is considering recognizing the revenue for this order in the current year to meet the revenue targets, even though the products have not yet been delivered.

**Scenario 2: Depreciation Adjustment**

The company recently purchased new manufacturing machinery worth ₹50,00,000. Normally, the machinery would be depreciated over a 10-year period using the straight-line method, with an annual depreciation expense of ₹5,00,000. However, to reduce expenses and increase profitability, management is contemplating changing the depreciation period to 15 years, reducing the annual depreciation expense to ₹3,33,333.

**Scenario 3: Manipulation of Cost of Goods Sold (COGS)**

ABC Electronics uses the First-In, First-Out (FIFO) method for valuing inventory. Due to rising raw material costs, the latest batches of materials purchased are more expensive than those bought earlier in the year. The management is considering switching from the FIFO method to the Weighted Average Cost (WAC) method to reduce the reported COGS and thereby improve gross profit margins for the current financial year.

**Q1. Analyze the financial implications of these decisions and comment on the revenue recognition, Depreciation, and COGS.**

**PART – B -10 Marks**

**Case Study: XYZ Pvt. Ltd. – Transaction analysis**

XYZ Pvt. Ltd. is a mid-sized manufacturing company that operates in the textile industry. The company has provided you with its accounting transactions for the year ended March 31, 2024. As a finance professional, your task is to accurately record these transactions by placing them into the appropriate financial statements, i.e., the **Profit and Loss Statement (P&L)**, **Balance Sheet**, and **Cash Flow**.

**Scenario:**

You have been appointed to review the financial records of XYZ Pvt. Ltd., which carried out the following transactions during the financial year:

* **Purchase of Raw Materials on Credit**  
  The company purchased raw materials worth ₹2,00,000 on credit from suppliers.
* **Employee Salary Payments**  
  The company paid ₹50,000 in salaries to its employees for the month.
* **Sale of Goods on Credit**  
  XYZ Pvt. Ltd. sold finished goods to customers on credit worth ₹1,50,000. The cost of goods sold was ₹80,000.
* **Cash Collection from Customers**  
  XYZ collected ₹80,000 from a customer for a previous credit sale made earlier.
* **Purchase of Office Equipment**  
  The company purchased office equipment for ₹30,000, which was paid in cash.
* **Depreciation on Equipment**  
  Depreciation on fixed assets for the year amounted to ₹10,000.
* **Supplier Payment for Raw Materials**  
  The company paid ₹20,000 to suppliers for previous raw material purchases made on credit.
* **Loan Received from Bank**  
  XYZ Pvt. Ltd. secured a loan of ₹1,00,000 from a bank for working capital needs.
* **Interest Payment on Loan**  
  The company paid ₹5,000 as interest on the bank loan.
* **Issuance of Shares for Capital**  
  The company issued shares and received ₹3,00,000 as capital from investors.
* **Prepaid Insurance**  
  XYZ Pvt. Ltd. paid ₹12,000 in advance for an annual insurance policy.
* **Rent Payment for Office Space**  
  The company paid ₹40,000 in rent for its office space.
* **Purchase of New Machinery**  
  The company purchased new machinery for its factory for ₹2,50,000. ₹1,50,000 was paid in cash, and the remaining ₹1,00,000 was financed with a loan.
* **Dividend Declared**  
  XYZ Pvt. Ltd. declared dividends of ₹25,000, which were paid in cash to shareholders.
* **Utility Bill Payment**  
  The company paid ₹15,000 for utility bills (electricity, water, etc.).
* **Tax Payment**  
  XYZ paid ₹30,000 in corporate taxes to the government for the financial year.
* **Accrued Interest Income**  
  The company accrued ₹8,000 in interest income from its investment in bonds, but the cash has not yet been received.
* **Warranty Provision**  
  XYZ Pvt. Ltd. created a warranty provision of ₹5,000 for products sold, anticipating future repair costs.
* **Sale of a Vehicle**  
  The company sold an old delivery vehicle for ₹50,000. The book value of the vehicle was ₹60,000, resulting in a loss.
* **Investment in Stocks**  
  XYZ Pvt. Ltd. invested ₹75,000 in the stock market as part of its surplus cash management.

**Q2: Construct the Profit and Loss Statement (P&L), Balance Sheet, and Cash Flow postings.**

**PART– C - 10 marks**

**Cash Flow Statement for XYZ Pvt. Ltd.**

XYZ Pvt. Ltd. provides the following **Profit & Loss** and **Balance Sheet** information for the year ended March 31, 2024. Using this data, prepare the **Cash Flow Statement**, categorizing cash flows into **Operating**, **Investing**, and **Financing** activities.

**Profit & Loss Statement for the Year Ended March 31, 2024:**

| **Particulars** | **Amount (₹)** |
| --- | --- |
| Sales Revenue | 12,00,000 |
| Cost of Goods Sold | (6,00,000) |
| Gross Profit | 6,00,000 |
| Operating Expenses | (2,50,000) |
| Depreciation Expense | (50,000) |
| Interest Expense | (10,000) |
| Income Tax | (90,000) |
| **Net Income or PAT** | **3,00,000** |

**Balance Sheet as of March 31, 2023, and March 31, 2024:**

|  |  |  |
| --- | --- | --- |
| **Particulars** | **March 31, 2024 (₹)** | **March 31, 2023 (₹)** |
| **Assets** |  |  |
| Cash (CA) | 1,00,000 | 50,000 |
| Accounts Receivable (CA) | 1,60,000 | 1,20,000 |
| Inventory(CA) | 2,00,000 | 1,80,000 |
| Equipment (Net of Depreciation)(NCA) | 6,00,000 | 4,50,000 |
| **Total Assets** | **10,60,000** | **8,00,000** |
| **Liabilities & Equity** |  |  |
| Accounts Payable (CL) | 80,000 | 1,00,000 |
| Short Term Loan (CL) | 2,00,000 | 1,50,000 |
| Share Capital | 5,00,000 | 5,00,000 |
| Retained Earnings | 1,80,000 | 50,000 |
| **Total Liabilities & Equity** | **10,60,000** | **8,00,000** |

**Additional Information:**

1. **Dividends Paid** during the year: ₹70,000
2. The company purchased new equipment worth ₹2,00,000 during the year.
3. The company repaid ₹50,000 of the loan during the year.

**Q3. Construct a statement of cash flows for the year ended December 31, 2001.**

**Note:** You may refer to the following tables for correctly placing your numbers:

***Table-A***

|  |  |
| --- | --- |
| C A increases | **-** |
| C A decreases | **+** |
| C L increases | **+** |
| C L decreases | **-** |

***Table-B***  Non-Current Assets

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **+** | **NCA  T  account** | | **-** |  |
| Opening NCA |  | Closing NCA |  |  |
|  |  | + depreciation |  |  |
|  |  |  |  |  |
|  |  |  |  |  |

***Table-C*** Capital/ Non-current liabilities/Reserve and Surplus

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **+** | **NCA  T  account** | | **-** |  |
| Closing |  | Opening |  |  |
|  |  |  |  |  |
|  |  |  |  |  |
|  |  |  |  |  |

***Table-D*** Reclassification

|  |  |
| --- | --- |
| Expenses | Revenues |
| Interest paid  Depreciation  Amortization  Loss on sale of assets | Gain on sale of assets  Interest received  Dividend received |

**PART –D - 15 Marks**

**Case Study: XYZ Pvt. Ltd. - Financial Health Review**

**Background:**

XYZ Pvt. Ltd. is a mid-sized manufacturing company that specializes in producing electronic components for the consumer electronics industry. Over the past few years, the company has experienced moderate growth, driven by increased demand for its products in the domestic market. However, as the competition has intensified, XYZ’s management has been focusing on improving the company’s financial efficiency and profitability to stay ahead in the market.

The company's leadership team has asked for an in-depth analysis of its financial health for the fiscal years ending March 31, 2023, and March 31, 2024. They want to understand how effectively the company is managing its resources, maintaining liquidity, and handling its debt obligations.

Additionally, the company’s board is particularly concerned about its ability to meet short-term obligations and the impact of its debt on long-term sustainability. Management has implemented several cost-cutting measures during the year, such as reducing administrative expenses and optimizing inventory management, which they hope will improve profitability. They are also exploring the possibility of expanding into new international markets, which will require further investment in infrastructure and marketing.

To support the board’s decision-making, you have been tasked with analyzing XYZ Pvt. Ltd.'s **Profit & Loss Statement** (Exhibit 1) and **Balance Sheet**(Exhibit 2) for the years 2023 and 2024.

**Exhibit 1**

**Profit & Loss Statement for the Year Ended March 31, 2024**

| **Particulars** | **Amount (₹)** |
| --- | --- |
| **Revenue from Operations** | 25,00,000 |
| Less: Excise Duty | (1,00,000) |
| **Net Sales** | **24,00,000** |
| **Other Income** | 50,000 |
| **Total Revenue** | **24,50,000** |
|  |  |
| **Expenses:** |  |
| Cost of Goods Sold (COGS) | (11,00,000) |
| Employee Benefit Expenses | (3,00,000) |
| Selling & Distribution Expenses | (1,50,000) |
| Administrative Expenses | (1,20,000) |
| Research & Development Expenses | (70,000) |
| Depreciation & Amortization | (1,20,000) |
| Rent Expenses | (50,000) |
| Utility Expenses (Electricity, Water, etc.) | (40,000) |
| Repairs & Maintenance | (30,000) |
| Insurance | (20,000) |
| Other Operating Expenses | (25,000) |
| **Total Operating Expenses** | **(19,25,000)** |
|  |  |
| **Operating Profit (EBIT)** | **5,25,000** |
| Interest Expense | (60,000) |
| **Profit Before Tax (PBT)** | **4,65,000** |
| Income Tax (30%) | (1,39,500) |
| **Net Profit** | **3,25,500** |

**Exhibit 2**

**Balance Sheet as of March 31, 2023, and March 31, 2024**

|  |  |  |
| --- | --- | --- |
| **Particulars** | **March 31, 2024 (₹)** | **March 31, 2023 (₹)** |
| **Assets** |  |  |
| **Non-Current Assets:** |  |  |
| Property, Plant, & Equipment (Net) | 12,00,000 | 10,00,000 |
| Intangible Assets (Net) | 1,50,000 | 1,00,000 |
| Capital Work-in-Progress | 1,00,000 | 50,000 |
| Long-Term Investments | 3,50,000 | 3,00,000 |
| Deferred Tax Assets | 80,000 | 60,000 |
| Long-Term Loans & Advances | 90,000 | 70,000 |
| **Total Non-Current Assets** | **19,70,000** | **15,80,000** |
|  |  |  |
| **Current Assets:** |  |  |
| Inventories | 5,50,000 | 5,00,000 |
| Trade Receivables | 3,80,000 | 3,00,000 |
| Cash & Cash Equivalents | 3,00,000 | 2,50,000 |
| Short-Term Loans & Advances | 1,50,000 | 1,20,000 |
| Other Current Assets | 60,000 | 50,000 |
| **Total Current Assets** | **14,40,000** | **11,20,000** |
|  |  |  |
| **Total Assets** | **34,10,000** | **27,00,000** |
|  |  |  |
| **Equity & Liabilities** |  |  |
| **Equity:** |  |  |
| Share Capital | 10,00,000 | 10,00,000 |
| Reserves & Surplus | 7,25,500 | 4,00,000 |
| **Total Equity** | **17,25,500** | **14,00,000** |
|  |  |  |
| **Non-Current Liabilities:** |  |  |
| Long-Term Borrowings | 5,00,000 | 4,00,000 |
| Deferred Tax Liabilities | 1,00,000 | 80,000 |
| Long-Term Provisions | 60,000 | 50,000 |
| **Total Non-Current Liabilities** | **6,60,000** | **5,30,000** |
|  |  |  |
| **Current Liabilities:** |  |  |
| Trade Payables | 4,00,000 | 3,00,000 |
| Short-Term Borrowings | 3,50,000 | 2,00,000 |
| Other Current Liabilities | 1,50,000 | 1,00,000 |
| Short-Term Provisions | 75,000 | 70,000 |
| **Total Current Liabilities** | **9,75,000** | **6,70,000** |
|  |  |  |
| **Total Liabilities** | **16,35,000** | **12,00,000** |
|  |  |  |
| **Total Equity & Liabilities** | **34,10,000** | **27,00,000** |

**Q4.**

1. Analyze the performance of XYZ Pvt. Ltd. based on the profitability, Solvency, and liquidity ratios (select the three most relevant ratios in each category). Is the company’s performance improving in the year 2024 compared to its previous year, 2023? Provide your insights based on the ratio trends.  
   *(9+3 = 12 marks)*
2. How would you measure the overall efficiency of XYZ Pvt. Ltd.? Use relevant efficiency ratios to evaluate the company’s operational effectiveness. Explain your rationale for selecting these ratios.  
   *(3 marks)*

**Accounting for Business**

**End term examination**

**Term 1-2024-26**

Profitability Ratio:

1. Profit Margin= Net Income/Net Sales
2. Return on Equity=Net Income/Average Stockholders' Equity
3. Return on Assets= Net Income/Average Total Assets
4. Earning Per Share=Net Income/Average Number of Common Share Outstanding
5. Price to Earning =Current Stock Price Per Share/Earning Per Share
6. Gross Profit Margin = (Net Sales - COGS) / Net Sales
7. Operating Profit Margin = Operating Income / Net Sales
8. Return on Capital Employed (ROCE) = EBIT / Capital Employed
9. Net Profit Margin = Net Profit / Net Sales
10. Dividend Yield = Dividend per Share / Market Price per Share

Liquidity Ratio:

1. Current Ratio=Current Assets/Current Liabilities
2. Quick Ratio= (Cash + Short Term Investments +AR)/Current Liabilities or (CA-Inventory)/CL
3. Absolute quick ratio or cash ratio= Cash/CL
4. Receivables Turnover Ratio= Net Sales/Average Accounts Receivables
5. Inventory Turnover Ratio=Net Sales/Average Inventory
6. Cash Conversion Cycle = Days Inventory + Days Receivable - Days Payable
7. Operating Cash Flow Ratio = Operating Cash Flow / Current Liabilities
8. Defensive Interval Ratio = (Cash + Marketable Securities + Receivables) / Daily Operational Expenses
9. Working Capital Ratio = Current Assets / Current Liabilities

Solvency Ratio:

1. Debt To Assets Ratio=Total liabilities /Total Assets or Debt/Total assets
2. Debt To Equity Ratio=Total Liabilities/Total Equity or Debt/Total Equity
3. Time Interest Earned Ratio=(Net Income + Interest Expenses + Income Tax Expenses)/Interest Expenses or PBIT/Interest
4. Interest Coverage Ratio = EBIT / Interest Expense
5. Fixed Charge Coverage Ratio = (EBIT + Lease Payments) / (Interest + Lease Payments)
6. Debt Service Coverage Ratio (DSCR) = Net Operating Income / Total Debt Service
7. Equity Ratio = Shareholder's Equity / Total Assets
8. Cash Flow to Debt Ratio = Operating Cash Flow / Total Debt

Working Capital Ratio

1. WC=CA-CL

2. WC Turnover=Sales/WC

3. AP Turnover=Credit Purchase/AP

4. Days Payable=365 days/AP turnover

5. AR Turnover=Credit Sales/AR

6. Days Receivables= 365/AR turnover

7. Inventory Turnover= COGS/Inventory

8. Days Inventory =365/Inventory turnover

9. Cash Turnover = Net Sales / Average Cash

10. Operating Cycle = Days Inventory + Days Receivables

11. Net Working Capital Turnover = Sales / Net Working Capital

12. Current Cash Debt Coverage Ratio = Net Cash from Operating Activities / Average Current Liabilities