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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)****Improvement Exam, Term - I (November 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: Deferred Tax Assets and Liabilities in XYZ Ltd.**

**Background:**
XYZ Ltd. is a manufacturing company that has different depreciation policies for tax and financial reporting. For the financial year 2023-24, the accounting depreciation using the straight-line method is ₹1,20,000, whereas tax depreciation using the written-down value method is ₹2,00,000. The difference has resulted in a deferred tax liability. In addition, the company has recognized doubtful debts worth ₹50,000, which are not deductible for tax purposes. The corporate tax rate is 30%.

**Questions:**

1. Calculate the deferred tax liability and asset, if any, and explain how they will be presented in the financial statements.
2. Discuss the implications of deferred tax on the company’s financial health and how investors and stakeholders should interpret this information.

**PART – B - 10 Marks**

**Case Study: Financial Transactions Analysis for DEF Ltd.**

**Background:**
DEF Ltd., a mid-sized enterprise in the automotive sector, undertook the following transactions during the financial year 2023-24. As a financial analyst, you need to classify these transactions into the appropriate financial statements and evaluate their impacts.

1. Purchased raw materials worth ₹4,00,000, out of which ₹2,50,000 was on credit.
2. Paid employee salaries of ₹1,00,000 during the year.
3. Sold finished goods worth ₹3,50,000 on credit, with a cost of goods sold amounting to ₹2,00,000.
4. Paid an advance of ₹1,20,000 for rent covering the period from April to June 2024.
5. Declared a dividend of ₹80,000, which was fully paid during the year.
6. Purchased new machinery worth ₹5,00,000, financed ₹3,00,000 through a loan.
7. Paid ₹40,000 as interest on the loan and repaid principal of ₹50,000.
8. Received a grant of ₹1,00,000 from the government for adopting environmentally sustainable production methods.

**Questions:**

1. Construct Profit and Loss Statement (P&L), Balance Sheet, and Cash Flow Statement.
2. Analyse the financial implications of these transactions, focusing on liquidity, profitability, and solvency.

 **PART– C - 10 marks**

**Case Study: GHI Ltd. – Cash Flow Preparation**

**Background:**

GHI Ltd., a growing FMCG company, provided the following details for the financial year 2023-24:

Profit & Loss Account (₹ in Lakhs):

1. Sales Revenue: 60
2. COGS: 35
3. Operating Expenses: 15 (includes Depreciation ₹5).
4. Interest Expense: ₹3.
5. Tax Expense: ₹6.

Balance Sheet (₹ in Lakhs):

1. Opening Cash Balance: 5
2. Closing Cash Balance: 8
3. Accounts Receivable increased from 4 to 6.
4. Inventory decreased from 10 to 8.
5. Accounts Payable increased from 3 to 5.

Additional Transactions:

1. Dividend Paid: ₹5 Lakhs.
2. Purchase of Machinery: ₹12 Lakhs (₹8 Lakhs financed).
3. Loan Repaid: ₹6 Lakhs.

**Questions:**

1. Construct the cash flow statement for the year, categorizing transactions under Operating, Investing, and Financing activities.
2. Analyze the cash flow trends and suggest strategies for improving cash flow management.

**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 paidDepreciationAmortizationLoss on sale of assets | Gain on sale of assetsInterest receivedDividend received |

**PART –D - 15 Marks**

**Case Study: Comprehensive Financial Health Review and Strategic Analysis of JKL Pvt. Ltd.**

**Background:**

JKL Pvt. Ltd. is a prominent player in the consumer electronics sector. While the company has shown moderate growth in recent years, its management is concerned about several financial metrics indicating potential operational inefficiencies. The management has provided the following detailed financial and operational data for the fiscal years 2023 and 2024 to assess the company’s financial health:

**Key Financial Data**

**Profitability Ratios:**

1. **Net Profit Margin:** Increased from 8% to 10% due to reduced operational costs.
2. **ROCE (Return on Capital Employed):** Improved from 12% to 14% due to better asset utilization.
3. **Gross Profit Margin:** Decreased from 40% to 38%, indicating higher production costs.

**Liquidity Ratios:**

1. **Current Ratio:** Increased from 1.4 to 1.6 due to higher current assets, primarily inventory.
2. **Quick Ratio:** Increased from 1.1 to 1.3 due to higher receivables and liquid investments.

**Efficiency Ratios:**

1. **Inventory Turnover Ratio:** Declined from 9 to 7, indicating slower inventory movement.
2. **Receivables Turnover Ratio:** Improved from 8 to 10, reflecting better credit control policies.
3. **Asset Turnover Ratio:** Decreased from 1.5 to 1.3 due to additional investments in fixed assets without proportional revenue growth.

**Operational Highlights:**

1. The company increased its inventory levels significantly in 2024 to meet anticipated demand, but sales growth remained below expectations.
2. Significant investment in new production machinery was made, leading to higher depreciation expenses.
3. The company introduced extended credit terms to attract new customers, resulting in higher receivables.
4. Administrative costs were reduced by 15%, but marketing expenses increased by 20% to penetrate new markets.

**Management’s Strategic Goals:**

1. Improve operational efficiency by optimizing inventory and production processes.
2. Enhance profitability by reducing production costs and increasing revenue from high-margin products.
3. Expand market presence domestically and internationally by leveraging digital marketing and e-commerce platforms.

**Questions:**

1. **Detailed Ratio Analysis (9 Marks):**
	* Analyze the profitability, liquidity, and efficiency ratios provided for 2023 and 2024.
	* Identify and explain the implications of trends in these ratios.
	* Evaluate how these trends might impact the company’s long-term financial sustainability.
2. **Strategic Recommendations (6 Marks):**
	* Propose specific strategies for improving **operational efficiency** and justify how these can enhance inventory turnover and asset utilization.
	* Suggest ways to improve profitability by focusing on cost management and product pricing strategies.
	* Recommend approaches for maintaining a healthy liquidity position, especially with the increased reliance on receivables and inventory.
	* Discuss how JKL Pvt. Ltd. can leverage its improved receivables management to attract external funding or negotiate better credit terms with suppliers.

**Formula Sheet**

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