

SVKM's NMIMS

NMIMS – GLOBAL ACCESS SCHOOL FOR CONTINUING EDUCATION

Programme: DBM/PGDBM/DMM/PGDMM/DFM/PGDFM/DHRM/PGDHRM/DITM/
PGDITM/DSCM/PGDSCM/DBFM/PGDBFM

Examination: June 2017
Subject: Financial Accounting

Semester: II
Course : New
Marks : 70
Time: 11.00 a.m. to 2.00 p.m.

Date: 15.06.2017

Instructions:

1. Answer to each new question to be started on a fresh page.
2. Figures in bracket indicate full marks.

Q.1) Attempt any 2 out of 4

(Marks: 2X5=10)

- a) Discuss in brief the Error of Omission & Error of Commission.
- b) What are the merits & demerits of Straight Line Method of Depreciation?
- c) Discuss in brief the various Coverage ratios & its significance.
- d) Discuss the Cost Principle.

Q.2) Write Short Notes on any 2 out of 5

(Marks: 2X5=10)

- a) Discuss the significance of Return on Asset formula along with an example.
- b) Firm A has a Return on Equity (ROE) equal to 24%, while firm B has an ROE of 15% during the same year. Both firms have a total debt ratio (D/V) equal to 0.8. Firm A has an asset turnover ratio of 0.9, while firm B has an asset turnover ratio equal to 0.4. From this we know that:
 - 1) Firm A has a higher profit margin than firm B;
 - 2) Firm B has a higher profit margin than firm A;
 - 3) Firm A and B have the same profit margin;
 - 4) Firm A has a higher equity multiplier than firm B;
 - 5) You need more information to say anything about the firm's profit margin
- c) Briefly discuss the subsidiary books.
- d) From the following Balance Sheet of Gada Enterprises as on 31st December, 2015, calculate the ratios as under:
 - 1) Current Ratio
 - 2) Quick Ratio
 - 3) Proprietary Ratio
 - 4) Debt Equity Ratio

Liabilities	Rs	Assets	Rs
Equity Share Capital	400000	Goodwill	100000
Capital Reserve	80000	Other Fixed Assets	500000
12% Loan	200000	Stock	120000
Creditors	100000	Investments(Short term)	100000
Bank Overdraft	40000	Cash	180000
Provision for tax	60000		
Profit & Loss A/c	120000		
	1000000		1000000

e) State with reason whether the following items are of capital or revenue in nature:

- 1) Cost of acquiring of copyrights
- 2) Heavy repairs to the roof of factory building
- 3) Replacement of a worn out tyre of a delivery van
- 4) Planting rose bushes outside Director's office
- 5) Renewal of factory licenses

Q.3) Attempt any 3 out of 5

(Marks: 3X10=30)

a) Discuss the Principle & Implication of Management's Discussion & Analysis (MD&A)

b) Journalise the following transaction :

- 15th June : Ibrahim commenced business with a capital of Rs. 200,000 in cash.
 17th June : Bought furniture for cash Rs. 20,000.
 17th June : Paid rent to shop owner Mr. Murugan Rs. 5,000.
 18th June : Paid cash into bank Rs. 150,000.
 18th June : Bought goods for cash Rs.10,000 from M/s Shamir Jain & Co.
 18th June : Bought goods on credit Rs.10,000 from M/s Ramdas & Bros.
 19th June : Sold goods for cash Rs. 12,000 to Mr. Narayan Tiwari.
 20st June : Bought Machinery from M/s Boolani Machinery & paid by cheque Rs. 25,000
 21st June : Sold goods on credit to Mr. Natekar for Rs. 8,000.
 21st June : Paid weekly wages to workers Rs. 5,000.

c) The summarized Balance Sheet of Sun Traders Ltd. for the year ended 31-03-2017 is as follows:

Liabilities	Rs	Asstes	Rs
Equity Share Capital	14,000,000	Fixed Assets	21000000
Reserves & Surplus	4,500,000	Less : Depreciation	2500000
Profit & Loss A/c	2,000,000	Stock	2,500,000
Provision for tax	1,000,000	Debtors	3,000,000
Creditors	4,000,000	Cash	1,500,000
	25,500,000		25,500,000

Following further particulars are also given:

Sales	Rs. 1,20,00,000
Earnings Before Interest & Tax(EBIT)	Rs. 30,00,000
Net Profit After Tax	Rs. 20,00,000

Calculate & comment on the following:

- 1) Current Ratio
- 2) Liquidity Ratio
- 3) Profitability Ratio
- 4) Returns on Capital Employed
- 5) Debtors Turnover
- 6) Average Collection period
- 7) Return on Equity

d) Prepare a cash flow statement based on the following:

Liabilities	2013	2014	Assets	2013	2014
Share Capital	150,000	190,000	Cash	20,000	26,000
Secured Loan	30,000	-	Debtors	54,000	76,000
Other Loan	60,000	80,000	Stock	48,000	42,000
Creditors	50,000	56,000	Furniture	2,000	2,000
			Machinery	90,000	65,000
			Land	36,000	45,000
			Buildings	40,000	70,000
	290,000	326,000		290,000	326,000

During the year, a machine costing Rs.12,000 with a book value of Rs.8,000 was sold for Rs.5,000. Net profit for the year 2014 was Rs.60,000

e) X Ltd. made a profit of Rs.1, 00,000/- after charging depreciation of Rs.20,000/- on assets and a transfer to General Reserve of Rs.30,000/-. The Goodwill written off was Rs.7, 000/- and the gain on sale of machinery was Rs.3, 000/-. The other information available to you (changes in the value of current assets and current liabilities) is as follows:

At the end of the year Debtors showed an increase of Rs.6, 000/-, creditors an increase of Rs.10, 000/-, prepaid expenses an increase of Rs.200/-, Bills Receivable a decrease of Rs.3, 000/-, Bills Payable a decrease of Rs.4, 000/- and outstanding expenses a decrease of Rs.2, 000/-. Ascertain the cash flow from the operating activities.

Q.4) Solve the following

(Marks: 2X10=20)

a) From the following prepare cash flow statement as per AS-3

Liabilities	2010	2011	Assets	2010	2011
Share Capital	2,88,000	3,20,000	Fixed Assets	2,40,000	4,00,000
Reserves And Surpluses	64,000	80,000	Less Accumulated Dep.	64,000	1,20,000
Bank Loan	80,000	60,000		1,76,000	2,80,000
creditors	2,48,000	2,40,000	Goodwill	64,000	56,000
bills payable		4,000	Investments	72,000	88,000
Proposed Dividend	36,000	48,000	Stock	1,60,000	1,80,000
Income Tax Payable	20,000	24,000	Debtors	1,60,000	1,52,000
			Bank	1,04,000	20,000
	7,36,000	7,76,000		7,36,000	7,76,000

Additional information:
 (i) During the year a part of the machinery costing Rs. 40,000 was sold for Rs. 20,000.
 (ii) Depreciation provided during the year Rs. 80,000.
 (iii) Interim Dividend paid during the year Rs. 20,000.

b) You have been hired as an analyst for Mellon Bank and your team is working on an independent assessment of Daffy Duck Food Inc. (DDF Inc.) DDF Inc. is a firm that specializes in the production of freshly imported farm products from France. Your assistant has provided you with the following data for Flipper Inc and their industry.

Ratio	1999	1998	1997	1999- Industry Average
Long-term debt	0.45	0.40	0.35	0.35
Inventory Turnover	62.65	42.42	32.25	53.25
Depreciation/Total Assets	0.25	0.014	0.018	0.015
Days' sales in receivables	113	98	94	130.25
Debt to Equity	0.75	0.85	0.90	0.88
Profit Margin	0.082	0.07	0.06	0.075
Total Asset Turnover	0.54	0.65	0.70	0.40
Quick Ratio	1.028	1.03	1.029	1.031
Current Ratio	1.33	1.21	1.15	1.25
Times Interest Earned	0.9	4.375	4.45	4.65
Equity Multiplier	1.75	1.85	1.90	1.88

You are asked to provide the shareholders with an assessment of the firm's solvency and leverage. Be as complete as possible given the above information, but do not use any irrelevant information.