

**K.J. Somaiya Institute of Management Studies & Research**  
**Course: PGDM (Executive) Tri I**  
**Sub: Financial Reporting and Accounting Standards**  
 (End Term Examination)

**Time: 3 Hours**

**Marks: 50**

- Solve any three questions from Section A. Each question carries 12 marks
- Section B is compulsory, carry 14 marks
- If required make assumptions.

**Section A**

1. Ram Textile Ltd has provided following data and asking you to give answer the following questions-

- a) How liquid is Ram Textile Ltd?
- b) Is ram Textile Ltd generating adequate operating profits on the firm's assets?
- c) How is Ram Textile Ltd financing its assets?
- d) Are the equity shareholders' receiving a good return on their investments?

<b>Ratios</b>	<b>Last year</b>	<b>Current Year</b>	<b>Industry average</b>
<b>Liquidity</b>			
Current ratio	2	2	2
Acid-test ratio	1	2	1
Accounts receivable turnover	5	5	5
Inventory turnover	9	10	6
Average collection period	78 days	77 days	75 days
<b>Operating Profitability</b>			
Operating income ROI	19%	21%	10%
Operating profit margin	17%	17%	8%
Total assets turnover	1	1	1
Fixed assets turnover	3	4	4
<b>Financing Decision</b>			
Debt ratio	46%	45%	58%
Interest coverage ratio	15	16	4
Return on equity	21%	23%	12%

2. Prepare a Cash Flow Statement from the following information given below, indicating the operating activities, investing activities and financing activities.

<b>Item</b>	<b>Amount in Rs</b>	<b>Item</b>	<b>Amount in Rs</b>
Net profit before tax	30000	Purchase of fixed assets	1000
Sale of fixed assets	450	Loss of foreign exchange	600
Profit on sale of	100	Short term borrowings	8400

fixed assets			
Depreciation	9600	Repayment of borrowings	10000
Dividend received	400	Opening cash balance	1700
Dividend paid	1500	Tax paid	4750

3. Read the following statements individually and write the appropriate accounting principle or accounting assumption. (Going concern, Economic entity, monetary unit, Cost principle, Time period)

- Lester Company has a division in Germany. Before preparing the financial statements for the company and the foreign division, Lester translates the financial statements of its Germany division from the euro to Indian rupee.
- Matt enters in to a partnership to start a bike shop with a friend. Each partner makes an initial investment of Rs 8 lakhs. Matt opens a checking account in the name of company and transfers 8 lakhs from his personal account into the new account.
- Dreamland Inc has always prepared financial statement with a year-end of 31<sup>st</sup> March. However, the company is going to sell stock to the public for the first time and is required by the Stock Exchange to give quarterly financial reports.
- Platt Corporation purchases a fifty acre plot of land to build the world's largest factory. The company recorded the property at amount of cash given to acquire it.
- Lock box Copr is in its 19<sup>th</sup> year of business. The owner of the company is going to retire in two months and turn the company over to his son.

4. (a) In the year 2017-18 Bucy Research labs patented a new polymer. The patent was capitalized at Rs 55,00,000, but the market value is Rs 80,00,000. Bucy determines that the legal life of the patent is 8 years, although it knows that the useful life is only 5 years. How amount should be amortize every year. (3 Marks)

(b) Phigam Steel purchases a machine on 1<sup>st</sup> January for Rs 300000. The machine has an estimated useful life of seven years, during which time it is expected to produce 114800 units. Salvage value is estimated at Rs 13000. The produced 15500 and 16200 units in its first and second year of operation respectively. Calculate depreciation expenses for the machine for first two years using straight line method, diminishing balance method at 10% rate of depreciation and units-of-activity method of depreciation. (6 Marks)

(c) On jan 1<sup>st</sup> 2013, A& G Company pays Rs 400000 for equipment with a 10 year estimated life and a Rs 50000 estimated salvage value. On Jan 2016, A & G sells equipment for Rs 185000. Calculate the gain and loss on the sale assuming company uses straight line method. (3 Marks)

**Section B**  
**(Case Study)**  
**Maria Hernandez & Associates**