

XLRI JAMSHEDPUR – BM**End-term Examination, Time: 90 Minutes, Total Marks: 35, Date: 11 Sep. 2017**

NAME: _____

ROLL # _____

INSTRUCTIONS

This is a closed book examination. You are not allowed to borrow books, calculators, etc. Answer all questions. Please read all footnotes (some of them might contain crucial information). Marks in brackets at the start of each section indicate the marks assigned for that section. In case of multiple-choice questions, you are required to mark (tick) the appropriate choice in the question paper.

Anyone who resorts to unfair practices, as judged by the examiner, the minimum penalty will be zero in this segment of evaluation, while the maximum penalty could be expulsion from the institute. There will be no further warnings.

WELCOME TO THE MULTI-COURSE MEAL ...***Platter of Kebabs with Somras***

[Total Marks: 4.5, Each Correct Match: +½ mark, Each Wrong match: – ½ mark, No Attempt: – ½ mark]

1. Going concern concept assumes that the entity has neither the intention nor the need to _____
2. The bankers/lenders of Kingfisher Airlines believe that Vijay Mallya's way of doing things makes them feel that _____ accounting concept is an accounting fiction, as the law is also unwilling to accept the distinction.
3. Historically, the moving away of business entities from closed one-time ventures to "General Motors / Bank of Scotland /East India Company" type of enterprises, necessitated this _____ concept
4. _____ accounting concept is not to ensure artificially smoothening income, reducing profits in good years & the other way around; making it difficult to understand the entity's performance.
5. _____ can be considered to be the longest-lived non-current asset & found in almost all of your allocated company for continuous assignments.
6. _____ (item) can be considered as the key difference in the accounts listed in the balance sheet of 'merchandising companies' versus 'service companies'.
7. _____ Company (type of business entity) is not mandated to convene annual general meeting, extraordinary general meeting & other board meetings as per the latest Companies Act, 2013.
8. _____ (industry/sector) business entities will have the maximum contingent liabilities on account of outstanding foreign exchange and such contracts.
9. Companies use the LLP route of derisking themselves by creating _____ (while expanding in new geographical markets or product markets) and yet ensuring upside to their organizations.

Commented [PK1]: Solution from Quiz 1 of BM2016 ManAcc1 files (try putting them with the relevant reasoning).

Commented [PK2]: Answer will be subsidiaries. And reference will be Lehman Brothers mini case of chapter one.

Manchow Soup

[Total Marks: 7, Each Correct Match: 1 mark, Each Wrong Answer: – ½ mark, No Attempt: – ½ mark]

Please complete the cash flow statement of T.V. Today Network by filling the following items with figures at the appropriate blanks below: Amortization 60; Decrease in other long-term liabilities (2); Decrease in short-term loans and advances 40; Decrease in short-term provisions (3); Depreciation 240; Dividend distribution tax (10); Dividend paid (60); Fixed assets written off 1; Increase in long-term loans and advances (2); Increase in long-term provisions 3; Increase in other bank balances (268); Increase in other current assets (1); Increase in other current liabilities 69; Increase in trade payables 228; Increase in trade receivables (338); Interest and other finance costs paid (15); Interest and other finance costs 15; Interest Income (79); Interest received 74; Proceeds from share allotment under employee stock option scheme 11; Proceeds from short-term borrowings 67; Profit before taxation 1,228; Provision for doubtful debts and advances 86; Provisions/Liabilities written back to the extent no longer required (111); Purchase of tangible/intangible assets (571); Repayments of long-term borrowings (173); Sale of tangible assets 4; and Taxes paid (net of refunds) (389)

T.V. Today Network Limited	Amount in Rs.
Statement of Cash Flow for the year ended March 31, 20X5	Million
A. Cash Flow from Operating Activities	
?	?
Adjustments for:	
?	?
?	?
?	?
?	?
?	?
?	?
?	?
?	?
Operating profit before working capital changes	* _____ ?
Changes in working capital:	
?	?
?	?
?	?
?	?
?	?

?	?
?	?
?	?
?	?
?	?
?	?
?	?
Net cash generated from operating activities	* _____ ?
B. Cash Flow from Investing Activities	
?	?
?	?
?	?
Net cash provided by (used in) investing activities	* _____ ?
C. Cash Flow from Financing Activities	
?	?
?	?
?	?
?	?
?	?
?	?
Net cash provided by (used in) financing activities	* _____ ?
Net Increase (Decrease) in Cash and Cash Equivalents Due to (A) + (B) + (C)	107
Starting Cash and Cash Equivalents Balance	549
Ending Cash and Cash Equivalents Balance	* _____ ?

Please answer some multiple-choice questions on the above cash flow statement:

6. During the above period, the firms cash flow from operations were:
- A. Negative
 - B. Less than its (Capex + Dividend Paid + Interest/Similar Paid)
 - C. Less than its profit before taxes
 - D. None of the above

7. During the above period, we can disagree to the following interpretation:
- A. The firm invested funds in its working capital
 - B. The firm showed expansionary tendencies
 - C. Reduced its financial leverage
 - D. Made lot of non-core investment activities

Commented [PK3]: Solution from Chapter four exercises TN of FAM4e files (no need for reasoning).

Commented [PK4]: The answer is C (based on the figures of the above table).

Commented [PK5]: The answer is D (based on the figures of the above table).

Rotiyan Ka Tokri

[Total Marks: 7, Each Correct Match: 1 mark, Each Wrong match: – ½ mark, No Attempt: – ½ mark]

1. In accounting, from Chanakya's Arthasastra times to modern era (after say, Lehman Brothers) times suggest on importance of an approach of ethics that:
 - A. Emphasizes an individual's character as the key element of ethical thinking
 - B. Emphasizes on comprehensive rules about the acts themselves (deontology)
 - C. Emphasizes on focusing on rules consequences (consequentialism)
 - D. All of the above
2. Professionalism arrived late in accounting due to:
 - A. Lack of sociogram to sustain the profession
 - B. Lack of agreement on the monetary measurement concept
 - C. Lack of organized economic activity to sustain the profession
 - D. None of the above
3. Purposes of accounting information is:
 - A. Capital maintenance
 - B. Score keeping
 - C. Both (a) and (b)
 - D. None of the above
4. Which one of the following will you agree to as an illustration of unconditional conservatism:
 - A. Write off of fixed assets
 - B. Impairment of inventory
 - C. Diminution in value of non-current investments
 - D. Provision for doubtful debt
5. Among others a company had the following items in its balance sheet – (i) trade payables; (ii) trade receivables; (iii) fixed assets. Which of the following combined trends might indicate very dangerous signals in the balance sheet:
 - A. Consistent decrease in proportion of (i) along with consistent increase in proportions of (ii) and (iii)
 - B. Consistent increase in (i) and (iii) along with consistent decrease in (ii)
 - C. Consistent increase in (iii) along with consistent decrease in (i) and (ii)
 - D. Can't say
6. Which of the following manufacturing industries might include the interest element on the working capital in the inventories costs:
 - A. Pharmaceuticals

- B. Heavy engineering construction
 - C. Beer
 - D. None of the above
7. A buyer of a company cannot decide on its valuation based on balance sheet due to incomplete picture of the business due to:
- A. Exclusion of non-financial assets
 - B. Accounting concept Gong concern basis
 - C. All of the above
 - D. None of the above

Commented [PK6]: Solution from Quiz 1 of 2016 BM ManAcc1 files.

Chicken Chettinad / Palak Paneer

[Total Marks: 3.5, Each Correct Match: +½ mark]

Match the following. We show the same using one example. Please note that there is only one most appropriate match for each one.

Potential off balance sheet exposures by industry

Off balance sheet Issue	Industry
I. Take or pay contracts	A. Energy
II. Lease agreements	B. Insurers
III. Guarantees	C. Technology
IV. Environmental remediation	D. Banking
V. Forward purchase or sale commitments	E. Media & telecom
VI. Law suits	F. Aerospace
VII. Pension Obligations	G. Retailing
VIII. Joint Ventures	H. Capital goods
IX. Warranties	I. Transport

For example, (a) **Retailing**: The recent McDonald India issue with the local JV partner for the Northern part of India. (b) **Transport**: The commitments to have no fossil fuels use (i.e., use of petrol or diesel) vehicles by 2030 in the European countries impacts the transportation sector

Hyderabadi Biryani

[Total Marks: 6.5, Each Correct Match: +1 mark]

Mr. Silkwallah established the Fashion Clothing Company (FCC) to market designer clothes. The business was to get designer clothes produced by tailors, exclusively for FCC.

FCC provides the following information for the year ended and or as at March 31, 2015:

(all figures in Rs. 000's)

Sales	7,900
Cash in hand	800
Sales discount allowed	300
Marketable securities at cost (market value 1200)	1,000
Purchases	4,850
Accounts receivable	1,950
Wages	1,700
Land at cost	3,000
Advertising expense	100
Building and fixtures at cost	4,000
Supplies consumed	55
Insurance expense	60
Accumulated depreciation	1,550
Rent expense	130
Interest expense	30
Interest income	15
Other general expense	35
Income tax expense (payable)	254
Accounts payable	1,810
Notes payable (payable in equal annual installments over next five years)	1,000
Capital as of 01 April 2014	6,440
Merchandise inventory as of 01 April 2014	605
Merchandise inventory as of March 31, 2015	685

On April 01, 2015, FCC engaged Ms Kaptawallah as a new design manager, at a monthly salary of Rs 45,000, and at her instance, introduced several new designs. FCC purchased Rs 1,20,000 worth of new designs, during the quarter beginning April 2015, from a design agency. After Ms Kaptawallah joined FCC, they decided to go in for the manufacture of designer apparel.

FCC obtained a long-term loan of Rs 30,00,000 from Small Industries Finance Corporation and a working capital accommodation from the State Bank, in the form of an overdraft limit of 70% of the current assets, against their hypothecation.

During the quarter ending June 30, 2015, the following transactions were carried out by FCC:

- Purchased modern machinery and equipment, including cutting, stitching and finishing machines, at a cost of Rs 1,20,00,000, paying 20,00,000 down and balance in notes payable to be paid in equal annual installments over the next five years.

Transactions during the quarter ended June 30, 2015	(in Rs. 000's)
Purchase of materials for cash	2,200
Accounts payable paid	3,400
Cash sales	12,200
Credit sales	7,000
Wages	2,400
Supplies purchased	6,800
Electricity and fuel	85
Advertising	250
Five year insurance cover purchased	600
Additions to buildings	5,000
General expenses	65
General expenses payable	13
Tax paid in advance	960

On May 31, 2015, Mr. Silkwallah, owner of FCC, married Ms Kaptawallah and she was admitted as a partner in FCC with a 50% share of profits. She brought in Rs 50,00,000 towards the capital of FCC.

Dresses worth Rs 250,000 at list price, were given to Ms Kaptawallah as gifts at the time of marriage, from the business inventory. However, this was not included as sales during the year. All the marketable securities were sold during the quarter for Rs 1,200,000.

As on June 30, 2015: accounts receivable stood at Rs 13,50,000; accounts payable stood at Rs 8,50,000; finished goods inventory at Rs 8,35,000; Inventory of materials at Rs 40,000; supplies at Rs 18,00,000; work in progress at Rs 9,85,000.

Wages paid during the first quarter, ending June 30, 2015, included Rs 1,00,000 paid as advance to the workers. The advance will be repaid during the next quarter.

Buildings and fixtures are depreciated at the rate of 2.5% per annum on a straight-line basis; while machinery and equipment is depreciated at the rate of 25% per annum on a written down value basis. Cost of designs is expired during the year of acquisition.

The Tax rate applicable to the business is 40% of net profit.

A long-term loan was obtained on April 1, 2015, and it carries an interest of 12% per annum, to be paid during the first quarter of the next fiscal year. Overdraft carries an interest of 15% per annum, charged on the average of high and low balances during the quarter, for the whole year.

Make following assumptions for computations of June quarter: (a) wages are constant; (b) new fixed assets are installed on 1 April; (c) advance tax is for this quarter & (d) Ms. Kaptawallah keeps drawing salary.

Based on the above information – answer the following:

- Gross Profit for FY2015 i.e., "Net Sales Less Merchandize costs" is 2.83 m
- Net Profit Margin for FY2015 is 4.8 %

3. Total Assets at the end of FY2015 is 9.885
4. LT Solvency position at the end of FY2015 is Good as its Times Interest Earned Ratio is >20 and its Debt-to-Equity ratio is 0.45
5. Capital reserve at the end of Q1 of FY2016 equals 1.44 m
6. Current liabilities at the end of Q1 of FY2016 equals 3.153 m
7. Non-current liabilities at the end of Q1 of FY2016 equals 11.8 m
8. Non-current assets at the end of Q1 of FY2016 equals 21.64 m
9. Current assets at the end of Q1 of FY2016 equals 14.71 m
10. "Material and merchandize consumed" as a proportion of sales for Q1 of FY2016 is 9.47 %
11. Based on the Times Interest Earned Ratio, we can say that compared to the last year, the LT Solvency position of the company at the Q1 of FY2016 has Improved
12. "Salary and wage expenses" as a proportion of the total sales for Q1 of FY2016 range in percentage terms between "choose one of these" [12-13] / [14-15] / [16-17] / [18-19]
13. Supplies Consumed is the biggest expense item at the end of Q1 of FY2016

Commented [PK7]: Solution is in TN of Chapter 3

Nolen Gurer Sandesh

[Total Marks: 6.5, Each Correct Match: +½ mark, Each Wrong match: – ½ mark]

Fill the blanks with the most appropriate choice (there is one and only one appropriate choice).

Fill the first blank with the one of the right terms (*Managements personal agenda*; or *Off balance sheet item*) and the second blank with one of the right terms (*Understating Liabilities*; or *Overstating Assets*; or *Impact on key ratios & the big picture*)

Firms that adopt wrong practices usually employ:

Example: CEO salaries are a Managements personal agenda and is used for Impact on key ratios & the big picture

1. Capitalization of Expenses are a Managements personal agenda

- _____ and is used for ___ *Overstating Assets* ___
2. Contingent Liabilities are a ___ *Off balance sheet item* ___ and is used for ___
Impact on key ratios & the big picture _____
 3. Change to relatively unknown external auditor are a _____ *Managements personal agenda* _____ and is used for _____ *Impact on key ratios & the big picture* ___
 4. Discrepancy in valuing obsolete inventory are a _____ *Managements personal agenda* _____ and is used for ___ *Overstating Assets* ___
 5. Constant non-provision for advances/loans (along with a note mentioning the same) are a ___ *Managements personal agenda* _____ and is used for ___ **Understating Liabilities** _____
 6. Inflating Capital credit and simultaneously decrease trade Creditors are a _____ *Managements personal agenda* _____ and is used for _____ *Impact on key ratios & the big picture* ___
 7. Inflating Revenue through tweaking revenue recognition policy are a _____ *Managements personal agenda* _____ and is used for _____ *Impact on key ratios & the big picture* _____
 8. Material Derivative Contracts are a _____ **Off balance sheet item** _____ and is used for _____ *Impact on key ratios & the big picture* _____
 9. Operating leases are a ___ *Off balance sheet item* _____ and is used for _____ *Impact on key ratios & the big picture* _____
 10. Overbooking of project cost are a _____ *Managements personal agenda* _____ and is used for _____ *Overstating Assets* _____
 11. Receivables Discounting/ Securitization are a ___ *Off balance sheet item* _____ and is used for ___ *Understating Liabilities*; _____
 12. Significant Cost overrun are a _____ *Managements personal agenda* _____ and is used for _____ *Overstating Assets* _____
 13. Unconsolidated Legal entities are a _____ *Off balance sheet item* _____ and is used for _____ *Impact on key ratios & the*

Course: Basic Financial Accounting

Instructor: Ram Kumar Kakani

big picture _____

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