

**VPM's
DR VN BRIMS, Thane
Programme: MMS (2023-25)
First Semester Regular Examination December 2023**

Course Name:	Financial Accounting	Course Code	C102		
Roll No.		Marks	60		
Total No. of Questions	6	Duration	3 Hours		
Total No. of printed pages	6	Date	22/12/2023		
Course Outcome Statements:					
CO 1- To define and list the basic concepts and fundamentals of financial accounting.					
CO 2- To demonstrate comprehension of financial statements by using ratios, trend, and common size analysis to interpret them and make informed decisions.					
CO 3- To apply the intricacies of corporate financial statements to solve real-world problems.					
CO 4- To analyse financial reports of various companies to identify patterns and trends.					
CO 5- To critically evaluate the accuracy and completeness of financial reports, and justify the methods used to prepare the T-form/vertical form of balance sheet, income, and expenditure statements and depreciation Accounting.					
Instructions: -			Marks	BL	CO
(1) All questions are compulsory. (2) Use of scientific calculator is allowed. (3) Draw diagrams, flowcharts wherever necessary. (4) Complement your answers with relevant examples.					
Q. No.		Questions			
Q. 1		Case/Case-let Study (500-800 words)			
		<p>Individuals must pass a proficiency test before obtaining a driver's license. By contrast, investors need not pass any proficiency test before trying to use financial statements as part of their investment analysis. Investors are not required to have taken a course in accounting or financial statement analysis. They are not required even to have read or understood books written on the subject. Yet analysing financial statements requires at least as much knowledge and skill as driving an automobile. Perhaps each financial statement should contain a warning to potential users, similar to those found on many products. The warning would include at least the following 10 commandments.</p> <p>1. One shall not use financial statements in isolation, but only in the broader context of other available information. The additional information includes data on economy-wide conditions and industry-wide conditions.</p> <p>2. One shall not use financial statements as the - only source of firm-specific information. There are many other sources of information about the company. Consider, for example, the popular financial press and periodicals, as well as analysts'</p>			

reports.

3. One shall not avoid reading footnotes, which are an integral part of financial statements. Financial statements cannot be reasonably analysed without reading and understanding the footnotes. By analogy, a temperature of 10 degrees is meaningless in isolation, unless one knows whether it is being measured on the Celsius or Fahrenheit scale. In each country, a uniform temperature scale may be assumed. The same is not true of the accounting methods used under generally accepted accounting principles. GAAP, for example, permits a variety of inventory and depreciation methods. A description of a company's accounting policies is included as a part of the footnotes.

4. One shall not focus on a single number. The investor should read and understand all the -material presented in the financial statements. Financial statements are not designed to be reduced to a single number. Net income is not intended to be the number that summarizes all the information relevant to making an investment decision. A user must analyze growth and leverage, among other factors, as well as profitability.

5. One shall not overlook the implications of what is read. It is not sufficient simply to know that a company is a high-growth firm or a highly leveraged firm; one must also know that such -characteristics typically imply higher risk, as well.

6. One shall not ignore events subsequent to the financial statements. Financial statements are not forecasts of the future. The annual financial statements report the financial condition of the company as of year-end. They do not purport to capture the effects of events that occur after year-end. They thus become increasingly out-of-date as the year progresses. The rate of deterioration in timeliness is related to many factors, including the growth rate of the firm.

7. One shall not overlook the limitations of financial statements. Financial statements report on only a specified set of events, not all events or all possible financial effects of a single event. Financial statements do not generally represent estimates of the market values of the reported assets and liabilities, nor do they reflect changes in the market values of those assets and liabilities.

8. One shall not use financial statements without adequate knowledge. Investors should be sufficiently competent to read, understand and analyze financial statements. Otherwise, the investor cannot be called a user of financial statements in any meaningful sense.

	<p>9. One shall not shun professional help. If unwilling or unable to attain adequate knowledge, the investor should defer to someone who does have such ability, such as a financial analyst. If unwilling or unable to obtain help, the investor should hand over a portion of the investment process (hence a portion of the investment decision itself) to a professional manager.</p> <p>10. One shall not take unnecessary risks. If unwilling or unable to obtain professional help, the investor should undertake investments where investment risk is minimal, or where analysis of financial statements is not an issue. Investment in U.S. Treasury bills is one example.</p> <p>Of course, there may be more than 10 commandments for financial statement analysis, but these capture the primary issue.</p> <p>(Source- Ten Commandments of Financial Statement Analysis, William H. Beaver, Joan E. Horngren Professor of Accounting, Graduate School of Business, Stanford University)</p>																																																			
	<p>a. Commandment 3 considers ‘footnote’ as the integral part of financial statements. Analyse how ignoring the "temperature scale" analogy of accounting methods in financial statement footnotes can lead to misinterpretations of a company's financial health.</p>	6	Level 4	CO4																																																
	<p>b. Evaluate the potential effectiveness of the 10 commandments in improving investor decision-making. Are there any commandments you would prioritize or consider less impactful? Justify your answer with the reasoning.</p>	6	Level 5	CO5																																																
Q. 2	Answer Any one from the following. (6 Marks)																																																			
	<p>a. Evaluate the financial health of RR & Co. Ltd. using fund flow statement based on the information given below-</p> <p style="text-align: right;">(Level 5- CO 5)</p> <p style="text-align: center;">Balance Sheet of RR & Co Ltd.</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: center;">Liabilities</th> <th style="text-align: center;">2022</th> <th style="text-align: center;">2023</th> <th style="text-align: center;">Assets</th> <th style="text-align: center;">2022</th> <th style="text-align: center;">2023</th> </tr> </thead> <tbody> <tr> <td>Equity Capital</td> <td style="text-align: right;">1,00,000</td> <td style="text-align: right;">1,00,000</td> <td>Goodwill</td> <td style="text-align: right;">6,000</td> <td style="text-align: right;">6,000</td> </tr> <tr> <td>General Reserves</td> <td style="text-align: right;">14,000</td> <td style="text-align: right;">18,000</td> <td>Patents</td> <td style="text-align: right;">6,000</td> <td style="text-align: right;">6,000</td> </tr> <tr> <td>Profit & Loss A/c</td> <td style="text-align: right;">16,000</td> <td style="text-align: right;">13,000</td> <td>Building</td> <td style="text-align: right;">50,000</td> <td style="text-align: right;">46,000</td> </tr> <tr> <td>Bank Overdraft</td> <td style="text-align: right;">3,000</td> <td style="text-align: right;">2,000</td> <td>Machinery</td> <td style="text-align: right;">27,000</td> <td style="text-align: right;">26,000</td> </tr> <tr> <td>Sundry Creditors</td> <td style="text-align: right;">5,000</td> <td style="text-align: right;">3,400</td> <td>Investment</td> <td style="text-align: right;">10,000</td> <td style="text-align: right;">11,000</td> </tr> <tr> <td>Bills Payable</td> <td style="text-align: right;">1,600</td> <td style="text-align: right;">1,400</td> <td>Stock</td> <td style="text-align: right;">20,000</td> <td style="text-align: right;">13,000</td> </tr> <tr> <td>Provision for taxation</td> <td style="text-align: right;">10,000</td> <td style="text-align: right;">11,000</td> <td>Bills Receivable</td> <td style="text-align: right;">12,000</td> <td style="text-align: right;">13,200</td> </tr> </tbody> </table>	Liabilities	2022	2023	Assets	2022	2023	Equity Capital	1,00,000	1,00,000	Goodwill	6,000	6,000	General Reserves	14,000	18,000	Patents	6,000	6,000	Profit & Loss A/c	16,000	13,000	Building	50,000	46,000	Bank Overdraft	3,000	2,000	Machinery	27,000	26,000	Sundry Creditors	5,000	3,400	Investment	10,000	11,000	Bills Payable	1,600	1,400	Stock	20,000	13,000	Provision for taxation	10,000	11,000	Bills Receivable	12,000	13,200			
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Proposed Dividend	6,000	7,000	Debtor	18,000	19,000
			Cash at Bank	6,600	15,200
	155600	155800		155600	155800

Additional Information

- (1) Depreciation Charged on Machinery Rs.4,000 and on Building Rs.4,000.
(2) Provision for Taxation of Rs.19,000 was made during the year 2023.
(3) Interim Dividend of Rs.8,000 was Paid during the year 2023.

- b. Critically assess** cash position of the Hills Ltd. for the year ended 31st March 2023 based on summary of the cash account extracted from the company's accounting records.

Summary Cash Account

Particulars	Amount (in Rs.'000)	Amount (in Rs.'000)
Balance as on 1 st March 2023		35
Receipts from customers		2,783
Issue of shares		300
Sale of fixed assets		128
		3,246
Payment to suppliers	2,047	
Payment for fixed assets	230	
Payment for overheads	115	
Wages and salaries	69	
Taxation	243	
Dividends	80	
Repayment of bank loan	250	(3,034)
Balance on 31st March 2023		212

6

Level 5

CO5

Q. 3

Answer **Any one** from the following.

- a. Analyse and classify** the following items as Capital Expenditure, Revenue Expenditure, or Deferred Revenue Expenditure, providing reasoning for each classification.

- Rs. 35,000 was spent on repairing a second-hand machine which was purchased on 25th November 2023 and Rs. 2000 was paid on carriage and freight in connection with its acquisition.
- Purchased agricultural land for the mill for Rs. 60,000 and Rs. 500 was paid as annual tax for a period after purchase.

6

Level 4

CO4

		3) Heavy Advertising expenses of Rs. 75,000 were incurred for the launch and promotion of new product. This is expected to yield the benefits for 3 years.																																						
	b.	<p>You are working as Store Manager in South Indian Paper Ltd. The following information is presented to you by Factory Supervisor about the inventory in the factory.</p> <table border="1"> <thead> <tr> <th>Date</th> <th>Particulars</th> <th>Units</th> <th>Rate per Unit (in Rs.)</th> </tr> </thead> <tbody> <tr> <td>March 01, 2023</td> <td>Opening Balance</td> <td>600</td> <td>2.00</td> </tr> <tr> <td>March 4, 2023</td> <td>Purchased</td> <td>400</td> <td>2.20</td> </tr> <tr> <td>March 7, 2023</td> <td>Issued</td> <td>300</td> <td></td> </tr> <tr> <td>March 9, 2023</td> <td>Purchased</td> <td>400</td> <td>2.30</td> </tr> <tr> <td>March 15, 2023</td> <td>Issued</td> <td>300</td> <td></td> </tr> <tr> <td>March 20, 2023</td> <td>Issued</td> <td>400</td> <td></td> </tr> <tr> <td>March 25, 2023</td> <td>Purchased</td> <td>400</td> <td>2.40</td> </tr> <tr> <td>March 29, 2023</td> <td>Issued</td> <td>300</td> <td></td> </tr> </tbody> </table> <p>Analyse and compare the impact on the valuation of the inventory under Simple Average and Weighted Average Method.</p>	Date	Particulars	Units	Rate per Unit (in Rs.)	March 01, 2023	Opening Balance	600	2.00	March 4, 2023	Purchased	400	2.20	March 7, 2023	Issued	300		March 9, 2023	Purchased	400	2.30	March 15, 2023	Issued	300		March 20, 2023	Issued	400		March 25, 2023	Purchased	400	2.40	March 29, 2023	Issued	300		6	Level 4 CO4
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Q. 4		Answer Any two from the following.																																						
	a.	<p>Construct the Machinery account for three years using WDV Method of depreciation based on the information given as below: On 1st January 2023, Hindustan Ltd. purchased machinery for Rs. 12,00,000. On 30th June 2023, an additional machine worth Rs. 2,00,000 was acquired. On 31st March 2023, one of the original machines with a cost of Rs. 50,000 became obsolete and was sold as scrap for Rs. 7,000. It was replaced on that date by a new machine costing Rs. 80,000. The company applies depreciation at a rate of 15% per annum.</p>	6	Level 3 CO3																																				
	b.	<p>Make use of the accounting equation and journalise the following transactions-</p> <table border="1"> <thead> <tr> <th>Date (2023)</th> <th>Particulars</th> <th>Amount (In Rs.)</th> </tr> </thead> <tbody> <tr> <td>1st December</td> <td>Started business with cash</td> <td>10,00,000</td> </tr> <tr> <td>2nd December</td> <td>Invested in government bond through bank.</td> <td>1,00,000</td> </tr> <tr> <td>10th December</td> <td>Bough furniture from M/s Jalaram on credit</td> <td>80,000</td> </tr> </tbody> </table>	Date (2023)	Particulars	Amount (In Rs.)	1 st December	Started business with cash	10,00,000	2 nd December	Invested in government bond through bank.	1,00,000	10 th December	Bough furniture from M/s Jalaram on credit	80,000	6	Level 3 CO3																								
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		15 th December	Sold goods for Cash	2,20,000																																				
		17 th December	Paid salary to the employees	1,10,000																																				
		19 th December	Purchased plant from ABC Ltd on cash	45,000																																				
	c.	Apply cost accounting principles to produce the December 2022 Cost Sheet using the following information provided by the Factory Accountant of the company.				Level 3	CO3																																	
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	a.	Outline the reasons for unethical behaviour and frauds in accounting.			6	Level 2	CO2																																	
	b.	Summarise the various activities to be considered while preparing Cash Flow statement.			6	Level 2	CO2																																	
	c.	Illustrate the conventions of accounting principles with the help of an example.			6	Level 2	CO2																																	
Q. 6		Answer Any two from the following.																																						
	a.	What are the objectives of accounting?			6	Level 1	CO1																																	
	b.	How accounting standards are set in India?			6	Level 1	CO1																																	
	c.	Recall the classification of the costs based on the levels of the production.			6	Level 1	CO1																																	