Seat No. : _______________

NE-126

December-2015

4^{th} Year M.B.A., Integrated

Financial Accounting For Management

Time : 3 Hours] **[Max. Marks : 100**

1. Answer the following questions :

(1) 'Balance sheet conceals more than what it reveals.' Do you agree with the statement ? Discuss. **4**

(2) Stock of work-in-progress is generally valued at cost whereas stock of finished goods is valued at cost or market price whichever is less. Identify accounting concepts and explain. **4**

(3) Pass necessary adjustment entry for the below mentioned transactions as on March-31. **4**

(i) On March 15, a customer paid an advance of ₹ 10,000 for services to be provided later. During the month, services worth ₹ 7,500 were provided to the customer.

(ii) The inventory of office supplies on March 1 was ₹ 5,700. Supplies of ₹ 9,300 were purchased during March. The inventory of office supplies on March 31 amounted to ₹ 2,500.

(4) Compute the financial ratios for N Ltd. Evaluate its performance with reference to the standards. **8**

N Ltd. Balance Sheet, March 31, 2015

Liabilities	Amount	Assets	Amount
Equity capital	1,00,000	Fixed assets (net)	2,06,000
Reserves and surplus	65,000	Current assets	
Long-term debt	1,40,000	Cash and Bank	25,000
Short-term bank borrowing	70,000	Receivables	70,000
Trade creditors	24,000	Inventories	85,000
Provisions	19,000	Pre-paid expenses	20,000
		Other current assets	12,000
	4,18,000		**4,18,000**

N Ltd. Profit and Loss Account for the Year ended March 31, 2015

Net Sales	7,40,000
Cost of goods sold	5,20,000
Gross profit	2,20,000
Operating expenses	1,02,000
Operating profit	1,18,000
Non-operating surplus	12,000
Profit before interest and tax	1,30,000
Interest	22,000
Profit before tax	1,08,000
Tax	46,000
Profit after tax	62,000
Dividends	20,000
Retained earnings	42,000

Standard ratios

Current ratio	1.7	Average collection period	40 days
Debt-equity ratio	1.4	Total assets turnover ratio	2.0
Times interest covered ratio	5.5	Net profit margin ratio	8%
Inventory turnover ratio	6.0	Return on equity	35%

2. (a) Explain conditions for recognition of revenue in various situations. Also explain revenue recognition criteria in the following cases : **10**
Installment sales, Consignment sales, Sale or return, Membership fees, Financial charges

(b) M Ltd. of India purchased 10 moulding machines costing \$ 10,000 each from M Inc. of USA for sale on 1-3-15. The payment was to be made after two months. The company's accounting year ends on 31st March every year. Pass necessary entries in the books of M Ltd. assuming that the company has entered into forward contract on the date of transaction for the whole amount. The following exchange rates are available to you. **10**

Date	Exchange rate
1-3-15	\$ 1 = ₹ 60
1-5-15	\$ 1 = ₹ 62
31-3-15	\$ 1 = ₹ 63
Forward rate	\$ 1 = ₹ 61

OR

(a) The beginning inventory of merchandise at N.I. Ltd and data on purchases and sales for a three month period are as follows : **12**

Date	Transaction	No. of units	Price per unit (₹)
March 1	Inventory	60	1500
8	Purchase	120	1600
15	Sale	80	5000
30	Sale	50	5000
April 7	Purchase	100	2000
12	Sale	60	5000
21	Sale	30	5000
29	Purchase	100	2100
May 5	Sale	60	5200
16	Sale	80	5200
21	Purchase	180	2300
30	Sale	90	5200

Required :

(1) Record the inventory, purchases and cost of merchandise sold using the FIFO method.

(2) Determine ending inventory cost.

(3) Determine the total sales and gross profit for the period.

(b) Explain the concept of Deferred tax assets and Deferred tax liability with examples. **8**

3. (a) Moon Ltd. purchased a machine for its production expansion plan amounting to ₹ 17,00,000 on 1/1/2011. The installation and other incidental charges amounted to ₹ 4,00,000. The company estimated the useful life of the machine of 5 years and also estimated the sale value of ₹ 3,00,000 at the end of useful life. Method of depreciation is SLM.

On 1/1/2013, the company has re-estimated the useful life of further 5 years and the sale value at the end of it at ₹ 1,80,000. On 1/1/2014, the company decided to change the method of depreciation by 20% WDV. On 1/1/2015, the company revalued the net value of machine at ₹ 10,40,000.

Pass necessary entries in the books of the company from 1/1/2013 to 31/12/2015. **12**

(b) On 1/4/2014, A Ltd. acquires B Ltd. A is in the business of retailing. B is in the textile business. It has two divisions : cloth division and readymade garment division.

A Ltd. pays ₹ 1200 lakhs to the share holders of B Ltd. towards purchase consideration. The estimated fair value of identifiable assets of B Ltd. is ₹ 900 lakhs. A Ltd. recognizes goodwill in its balance sheet at ₹ 300 lakhs. After acquisition A Ltd. has three Cash Generating Units : Retail division, Cloth division and Readymade garment division. A Ltd. expects that its retail business will also benefit from this acquisition.

Consider the following two situations separately :

(1) A Ltd. allocates the goodwill as follows :
- Retail division : ₹ 30 lakhs
- Cloth division : ₹ 120 lakhs
- Readymade garment division : ₹ 150 lakhs

(2) A Ltd. is unable to allocate goodwill to individual CGUs.

The carrying amount of assets (excluding goodwill) of the three divisions and recoverable amounts are as follows :

(₹ in lakhs)

Division	Carrying Amount	Recoverable Amount
Retail	400	450
Cloth	350	440
Readymade Garment	500	700

You are required to calculate the impairment loss for each situation. **8**

4. Answer any **two** from a, b and c. **20**

(a) The following are the balance sheets of Jay Ltd. (Transferee Company) and Vijay Ltd, (Transferor Company) at the date of amalgamation :

(₹ in millions)

Liabilities	Jay	Vijay	Assets	Jay	Vijay
Paid-up share capital : equity share of ₹ 10 each	10	5	Fixed Assets	100	30
Securities premium	30	5	Current assets	30	12
Reserves and surplus	60	20			
Loan	20	10			
Creditors	10	2			
	130	42		130	42

Reserves and surplus in the balance sheet of Vijay Ltd. include a statutory reserve of ₹ 5 million. Jay Ltd. paid purchase consideration as per details given below :

	₹ Million
2,00,000 shares valued at ₹ 250 each	50
Cash	10
Total	60

The fair value of separately identifiable net assets acquired by Jay Ltd. is as follows :

	₹ Million
Fixed assets	45
Current assets	15
	60
Less : Liabilities	12
	48

Prepare the balance sheet of Jay Ltd. after amalgamation, if amalgamation is in the nature of purchase.

(b) Compute Basic EPS and Diluted EPS from the following details :

(₹ in millions)

Particulars	**Current Year**	**Previous Year**
Equity shares of ₹ 10 each, fully paid	50	40
Reserves and surplus	150	120
10% convertible bonds of ₹ 100 each	150	80
Net profit during the year	80	60

Every employee is entitled to 1000 ESOP at an exercise price of ₹ 60 per share. The current market price is ₹ 80 per share. The company has 1000 employees. The company has issued bonus shares during the current year @ 1:4 by capitalizing reserves. Each bond is convertible into 5 fully paid equity shares.

(c) (i) What is the meaning of "Related party" ? Which type of disclosure is required under AS – 18 for related party transactions ?

(ii) What is the meaning of Reportable segment ? Discuss criteria for Business segment and Geographical segment.

5. Write short notes on : (any **two**) **20**

(1) Regulatory frame work of financial reporting in India.

(2) Director's report and Corporate governance report.

(3) Value added statement and Balance score card.