



JAIPURIA INSTITUTE OF MANAGEMENT
POST GRADUATE DIPLOMA IN MANAGEMENT
FIRST TRIMESTER (BATCH 2017-19)
END TERM EXAMINATIONS

Course Name	Accounting for decision making	Course Code	FIN101
Max. Time	2 hrs	Max. Marks	40

Attempt All Questions

Q.1) Comment on the following

- P/E Ratio gives bird's eye view in understanding the valuation of share but may not be the sole criterion for it
- At time by following different Accounting Assumptions, there is creation of deferred tax assets. Explain with example
- Discuss that how in inflationary environment there will be change in valuation of stock if different methods of valuation FIFO, LIFO & WAC is used.
- Following is the extract of Balance Sheet of Company

Equity Share Capital	
1000000 shares of Rs 10 each	10000000
Reserve & Surplus	10000000

How will the Balance sheet extract changes if company issues Bonus Share of 1:2 (1 share for every 2 share held). What will be the change if there is stock split of 2:1 (2 shares for 1 share)

- High Debt Equity Ratio is a risky proposition but it may yield high returns to shareholders ($5 \times 1.5 = 7.5$ Marks)

Q.2a) Sigma Company had the following investing activities during the year ended March 31, 2016

- Purchased Investments Rs 65000
 - Sold Investments worth Rs 38000 at Loss of Rs 4000
 - Purchased a plant Rs 158000
 - Constructed a building for Rs 780000
 - Sold a plant Rs 52000 (Cost Rs 95000, Carrying Amount Rs 43000)
- Compute Cash from Investing Activities

Q.2b) The Company also had the following financing activities during the year ended March 31, 2016

- Paid Dividend Rs 1200
- Redeemed Debenture Rs 4700
- Repaid bank Loan Rs 2100
- Converted Debenture into equity Shares Rs 11000

v) Issued Convertible debenture Rs 17000
 Compute cash from financing activities

(2.5 + 2.5 = 5 Marks)

Q.3) Zenith Ltd sold 50000 audio CD's at Rs 30 during the year. Its beginning inventory consisted of 10000 CDs at Rs 19 per CD. The following purchases were made during the year 15000 CDs @ Rs 20, 10000 CDs @ Rs 21, 20000 CDs @ Rs 22, 10000 CDs @ Rs 23. Operating Expenses were Rs 185000. Income tax is payable @ 40%. The company follows Periodic Method of Valuation for Inventory

- a) Compute Net Profit using (i) FIFO (ii) LIFO method (iii) WAC (6 Marks)
- b) Which Method is more advantageous to the company from following perspective (i) Income Tax (ii) Shareholders reporting (1.5 marks)

Q4) You have been hired as an analyst for Delotte Plc. and your team is working on an independent assessment of Rosewood International. Rosewood International is an Indian company that specializes in the production of freshly imported farm products from France. Your assistant has provided you with the following data for the company and its Industry.

Ratio	2016	2015	2014	2016- 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
Leverage	1.75	1.85	1.90	1.88

- a. In the annual report to the shareholders, the CEO of Rosewood International wrote, "2016 was a good year for the firm with respect to our ability to meet our short-term obligations. We had higher liquidity largely due to an increase in highly liquid current assets (cash, account receivables and short-term marketable securities)." Is the CEO correct? Explain and use only relevant information in your analysis. (5 Marks)
- b. What can you say about the firm's asset management? Be as complete as possible given the above information. (5 Marks)
- c. You are asked to provide the shareholders with an assessment of the firm's solvency and leverage. (5 Marks)

Q.5) Comment on the following transactions on whether there is any violation of accounting principle

- a) Mr Rajesh having readymade garments shop took some shirts from stock for personal use and recording it in sales and also paying fees for his children and showing them as staff welfare expense
- b) Vikram has not paid salary of his employees for the month of March by 31st March 2016 and hence has not shown as an expense for the year 2015-16
- c) Raj has purchased fax machine worth Rs 30000 which has life of 5 years and entire amount has been shown as office expense for the year
- d) Mr Vikram having electrical store has stock whose value as per cost record is Rs 75000 and has market value of Rs 50000. Mr Vikram has recorded the closing stock in Final accounts as Rs 50000
- e) Mr. Pumbani Managing Director of Multibillion dollar company died and because of which company might have to suffer huge financial setback and thus it need to be recorded in books of account

(5 Marks)