

JAIPURIA INSTITUTE OF MANAGEMENT, NOIDA
PGDM / PGDM (M) / PGDM (SM)
FIRST TRIMESTER (Batch 2023-25)
END TERM EXAMINATION, OCTOBER 2023

Course Name	Accounting for Business	Course Code	20201
Max. Time	2 Hours	Max. Marks	40 MM

INSTRUCTIONS:

- It's an open book exam
- All questions are compulsory
- Marks for each question are given in the parenthesis
- Exchange or sharing of text book (Narayanawamy) is strictly prohibited

Qs 1 (6 + 4 = 10)

(CLO 1 and BT Level II and III)

- (a) Dharm & Company has furnished following transactions for the month of September 2023. Show the effect of these transactions on the accounting equation:
- Started business by investing Rs.10,00,000 as follows: Rs.90,000 in cash; Rs.195,000 in furniture; Rs.320,000 in machinery; and balance in office building.
 - Received an order worth Rs.60,000 from a customer. Received an advance of Rs.10,000 against this order.
 - Purchased raw material from Thukral Brothers at Rs.30,000 to fulfill the order mentioned in (ii) above.
 - Machine work on the raw material was carried out by spending Rs. 6,000 and some other finishing was done at Rs.4,000.
 - Rs. 5,000 as gifts were given away to the staff on the occasion of wedding of the owner's son.
 - Finished goods supplied to the customer as stated in (ii) above and received the amount due.
- (b) Information on accounting policies is listed below. Identify which accounting concept/ principle / convention is applied in formulating each of the accounting policy (write in the answer sheet only).

S.No.	Accounting Policy	Accounting Concept/ Principle / Convention
i	Revenue from the sale of goods is recognized only when the management is reasonably certain that the payment is realizable/will be received from the customer	
ii	Training expenses are recognized as expense in the accounting period in which these are incurred	
iii	Government grant receivable from the Government is not recognized in the books until the Government approval is received	
iv	Revenue from goods sold on credit is recorded when the customer accepts the goods even though cash payment has not been received	

v	Expenditure on research is recognized as expense in the period in which the expenditure is incurred	
vi	Personal expenses of the owner will not be treated as business expenses	
vii	Expenditure on repairs and maintenance should be recognized as expense in the profit and loss statement	
viii	Inventories are valued in the books of accounts at the cost or realizable value (market value), whichever is lower	

Qs 2 (7 + 1 = 8)

(CLO 2 and BT Level III and V)

Mr. Vinod Kumar owns a soap manufacturing firm and wants to know various profit levels from the given financial information for the year 2022-23.

Opening inventory of work in process (WIP)	Rs 10,25,000
Opening inventory of finished goods	Rs 46,48,500
Raw material consumed	Rs 13,18,000
Labor cost (wages)	Rs 7,20,000
Factory/manufacturing expenses	Rs 10,15,000
Operating expenses (includes depreciation and amortization of Rs 3,27,500)	Rs 14,66,200
Closing inventory of work in process	Rs 8,10,000
Closing inventory of finished goods	Rs 36,12,800
Revenue from sales	Rs 65,12,400

- Construct a functional profit & loss statement and estimate gross profit, EBITDA, and EBIT.
- He has set a target of 15% operating profit margin. Evaluate the firm's performance against this target.

Qs 3. (3+3+3+3 = 12)

(CLO 3 and BT Level V)

The financial ratios for the top three pharmaceutical companies are provided below:

S. No	Name of Companies	Financial Ratios of Pharmaceutical Companies	Mar 2023	Mar 2022	Mar 2021
1	Cipla	Current Ratio	3.84	3.70	2.90
2	Dr Reddys Laboratories		2.00	1.47	1.76
3	Sun Pharmaceutical Industries		1.95	1.30	1.48
1	Cipla	Quick Ratio	2.74	2.61	1.89
2	Dr Reddys Laboratories		1.33	2.22	2.07
3	Sun Pharmaceutical Industries		1.43	0.97	1.54
1	Cipla	Debt Equity Ratio	--	--	--
2	Dr Reddys Laboratories		--	0.12	0.07
3	Sun Pharmaceutical Industries		0.32	0.20	0.26

1	Cipla	Interest Coverage Ratio	135.21	132.68	75.34
2	Dr Reddys Laboratories		229.76	59.52	66.44
3	Sun Pharmaceutical Industries		10.91	6.48	9.73
1	Cipla	Inventory Turnover Ratio	4.82	4.09	4.5
2	Dr Reddys Laboratories		5.57	4.3	4.73
3	Sun Pharmaceutical Industries		5.22	4.58	4.04
1	Cipla	Receivable Turnover Ratio	6.54	5.26	4.22
2	Dr Reddys Laboratories		3.67	3.19	3.06
3	Sun Pharmaceutical Industries		3.66	2.94	2.04
1	Cipla	Total Assets Turnover Ratio	0.65	0.59	0.71
2	Dr Reddys Laboratories		0.94	0.78	0.84
3	Sun Pharmaceutical Industries		0.76	0.63	0.41
1	Cipla	Gross Profit Margin (%)	20.24	22.2	22.77
2	Dr Reddys Laboratories		19.4	12.35	17.24
3	Sun Pharmaceutical Industries		23.4	9.99	18.34
1	Cipla	Net Profit Margin (%)	15.91	22.59	17.75
2	Dr Reddys Laboratories		15.4	11.26	16.37
3	Sun Pharmaceutical Industries		8.12	-0.64	16.71
1	Cipla	Return On Investment (%)	14.82	15.87	17.04
2	Dr Reddys Laboratories		18.96	11.02	17.08
3	Sun Pharmaceutical Industries		16.43	8.53	7.92
1	Cipla	Return On Equity (%)	10.21	13.15	12.4
2	Dr Reddys Laboratories		12.76	8.85	12.87
3	Sun Pharmaceutical Industries		7.11	-0.4	8.54
1	Cipla	Basic EPS (Rs.)	31.15	36.67	30.61
2	Dr Reddys Laboratories		157.37	97.85	131.84
3	Sun Pharmaceutical Industries		7	-0.4	8.92

In the light of financial ratios above, interpret the following ratios of these Pharma Companies:

Short-term liquidity, Activity ratios, Solvency and Profitability

Provide the evaluation in the light of industry standards of Pharmaceutical Sector of India as below:

1. Current ratio	2.2: 1
2. Inventory turnover (times)	3.8
3. Average Collection period (days)	19
4. Total debt/shareholders' equity (percentage)	45
5. Interest coverage ratio (times)	100
6. Assets turnover (times)	1.35
7. Profit after tax/ Sales (percentage)	11.9
8. Return on equity (percentage)	10.9

Qs 4 (7 + 3 = 10)

(CLO 3 and BT Level IV and V)

You are a financial consultant and have been appointed by your client to evaluate the performance of two companies based on their cash flow statements. Below are **cash flows from operating activities** of the two firms for the year ended 31st March, 2023:

Particulars	Aksara Ltd. (Rs. in lakhs)	Dorathan Ltd. (Rs. in lakhs)
Net Profit before tax	106.28	129.45
Adjustments for non-operating and non-cash expenses:		
Amortization of intangible assets	7.27	8.94
Interest on borrowed funds	2.62	5.68
Depreciation	16.94	14.38
Loss on sale of PPE	1.25	1.39
Rental income	(0.96)	-
Interest income	(12.41)	(5.94)
Other non-operating income	-	(1.62)
Gain from sale of investments	(6.81)	(0.69)
Operating income before working capital changes	114.18	151.59
Adjustments for changes in working capital:		
Increase in inventory	(5.45)	(2.29)
Increase in trade receivables	(9.89)	(0.77)
Decrease in other current assets	0.80	2.01
Increase in short-terms loans	1.72	29.91
Decrease in trade payables	(5.87)	(1.20)
Increase in other current liabilities	0.81	9.48
Cash generated from operations	96.3	188.73
Taxes paid	(17.91)	(45.06)
Net cash generated from operating activities	78.39	143.67

Additional Information:

The net sales of Aksara Ltd. and Dorathan Ltd. are Rs. 723 lakhs and Rs. 984 lakhs, respectively. The current liabilities of Aksara Ltd. and Dorathan Ltd. are Rs. 46.5 lakhs and Rs. 124.47 lakhs, respectively.

As a financial consultant, you are required to:

a) Examine the relevant cash flow ratios of both the companies and recommend which company is in a better position to run its business and meets its obligations with its current cash flows, without disruption of its activities. Use all relevant information.

b) Your client wishes to know why the net cash from operating activities of Aksara Ltd is 83.27% lower than that of Dorathan Ltd. despite the fact that the net profit before tax for Aksara Ltd. was only 21.8% lower than that of Dorathan. Analyze the reasons for the same.