XLRI JAMSHEDPUR – BM I, MANAGEMENT ACCOUNTING 1 COURSE

End Term Paper, Time: 120 Minutes, Total Weightage: 40%, Month: September-2018

NAME: ________________________________ **ROLL #** ___________

INSTRUCTIONS

This is a closed book examination. It is based on a company's audited financial statements, namely, M/s Q Care Private Limited, Amarkantak, MP **(henceforth, Q Care).** You are not allowed to borrow books, calculators, etc. Answer all questions. 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 most appropriate choice in the question paper itself and also work out the solution (or given reasonable explanation) in the blank space provided below or on the other side of the page.

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.

SECTION I: Statement of Cash Flow

(Total: 9 Marks, Each Correct Answer +¾ mark, Each Wrong Answer –¼ mark)

Given information available to you for FY2018 on Q Care, prepare its cash flow statement. In other words, fill the blanks (only the ones with question mark will be evaluated).

Statement of Cash Flow (all figures in Rs.)	**FY2018**
Cash flows from operating activities	
Profit before taxation	
Adjustments for:	
Depreciation	?
Investment income	
Finance costs	
Profit / (Loss) on the sale of property, plant & equipment	?
Working capital changes:	
(Increase) / Decrease in trade and other receivables	
(Increase) / Decrease in Short Term Loans and Advances	?
Increase / (Decrease) in Other Current Liabilities	
Increase / (Decrease) in trade payables	?
Cash generated from operations before tax and miscellaneous items	**?**
Miscellaneous Adjustments including deferred items and taxes	(1,66,579)
Income taxes paid	32,004
Net cash from operating activities	?

Cash flows from investing activities	
CAPEX including Purchase of PPE & Intangibles	?
Investment income	
Net cash used in investing activities	?
Cash flows from financing activities	
Proceeds from issue of share capital	?
Finance charges paid	?
Dividend paid	
Share Application Money Pending Allotment	?
Net cash used in financing activities	?
Net increase in cash and cash equivalents	
Cash and cash equivalents at beginning of period	
Cash and cash equivalents at end of period	

SECTION II: Cash Flow Statement Analysis

(Total: 6 Marks, Each Correct Answer +¾ mark, Each Wrong Answer –¼ mark)

Please answer the following questions on Q Care's FY2018 Cash Flow Statement for the latest year (exactly as done in the class for Pioneer Distilleries):

Question	Items (with amount in Lakh's only, round figures)
i. What were the major sources of cash?	?
ii. What were the major uses of cash?	?
iii. Was cash flow from operations greater than or less than net income? Explain in detail the major reasons for the differences in these two figures.	?

iv. Was the firm able to generate enough cash from operations to pay for all of its expenditures?	
v. Did the cash flow from operations cover the following three items i.e., interest paid, the capital expenditures and the firm's dividend payments, if any? A. If it did, how did the firm invest excess cash? B. If not, what were the sources of cash the firm used to pay for the interest paid, capital expenditures and/or dividends?	? ?
vi. Were the working capital (current asset and current liability) accounts other than cash primarily sources of cash or uses of cash?	?
vii. What other major items affected cash flows?	
ix. Based on the evidence in the Statement of Cash Flow alone, what is your assessment of the financial strength of the business (Rate on a bankruptcy scale of 1 to 10 wherein 1 will be for the ones having the highest chance of bankruptcy)? Why (with in 50 words)?	? (for explanation) & ? (for rating)

SECTION III: PRELIMINARY RATIOS, Common Size Analysis & Index Based Analysis

(Total: 3 Marks, Each Correct Answer +½ mark, Each Wrong Answer –½ mark)

1. For FY2018, which of the following do you agree to? (i) The working capital of the company was positive; (ii) the computed tax rate was positive; (iii) the profit for 'ROCE' computation was negative; and (iv) Current Ratio and Quick ratio of the company are equal.

   Choose one of the following combinations from the above connotations:

a. Only (i), (ii) and (iii) are correct.
b. Only (ii) and (iv) are correct.
c. All four are correct.
d. Only (ii), (iii) and (iv) are correct.

Your reasons: ____

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2. For FY2018, which of the following do you agree to? (i) the business model at this stage is not capital intensive; (ii) secured lenders will find it impossible to fund the company; (iii) the common size income statement will reveal that few items are more than 100; and (iv) the common size income statement will reveal that interest expense will be in single digits.

   Choose one of the following combinations from the above connotations:

   a. Only (i), (ii) and (iii) are correct.
   b. Only (ii) and (iv) are correct.
   c. All four are correct.
   d. Only (ii), (iii) and (iv) are correct.

   Your reasons: ____

   ____

3. For FY2018, which of the following do you agree for index based analysis? (i) size of the total assets and total equity increased in nearly the same proportion; (ii) the current assets halved; (iii) the index number for net profit became less than 100; and (iv) the cash balance will be in single digits.

   Choose one of the following combinations from the above connotations:

   a. Only (i), (ii) and (iii) are correct.
   b. Only (i), (ii) and (iv) are correct.
   c. All four are correct.
   d. Only (iii) and (iv) are correct.

   Your reasons: ____

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4. For FY2018, which of the following do you agree for index based analysis? (i) total tax expense is a negative; (ii) the other income became more than 100; (iii) the short-term loans & advances became more than 100; and (iv) the other current liabilities & provisions (i.e., excluding trade payables) will be in single digits.

   Choose one of the following combinations from the above connotations:

   a. Only (i), (ii) and (iii) are correct.
   b. Only (ii) and (iv) are correct.
   c. All four are incorrect.

d. Only (iii) and (iv) are correct.

Your reasons: ____

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5. For FY2017, which of the following do you agree to? (i) The working capital of the company was negative; (ii) the computed tax rate was positive; (iii) the profit for 'ROCE' computation was negative; and (iv) Current Ratio and Quick ratio of the company are not equal.

   Choose one of the following combinations from the above connotations:

   a. Only (i), (ii) and (iii) are correct.
   b. Only (ii) and (iv) are correct.
   c. All four are incorrect.
   d. Only (ii), (iii) and (iv) are correct.

   Your reasons: ____

   ____

6. For FY2017, which of the following do you agree to? (i) the common size balance sheet will reveal that non-current liabilities and non-current assets constitute the biggest chunks; (ii) the common size balance sheet will reveal that receivables and payables nearly match with each other; (iii) the common size income statement will reveal that few items are more than 100; and (iv) the common size income statement will reveal that interest expense will be in single digits.

   Choose one of the following combinations from the above connotations:

   a. All four are incorrect.
   b. Only (i), (ii) and (iii) are correct.
   c. Only (ii) and (iv) are correct.
   d. Only (iii) and (iv) are correct.

   Your reasons: ____

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SECTION IV: Financial Ratio Analysis

(Total: 21 Marks, Each Correct Answer +¾ mark, Each Wrong Answer –½ mark)

Please strike off the unwanted words in the options given

1. For FY2018, the Cash Cover for daily expenses is ______ days and is can hint that Q Care's cash management is on the [**conservative / aggressive**] side.

2. For FY2018, the average payables period is [**more / less**] than the average collection period. It also hints that the net cash needed to fund its operating cycle *i.e., cash conversion period* will be [**negative / positive**].

3. For FY2018, Total Debt to Equity Ratio will **[dissuade / attract]** potential lenders; the Times Interest Covered Ratio will **[serenade / scare]** them.

4. For FY2018, credit rating agencies will give the company **[Investment Grade / Less Than Investment Grade / Junk Grade]** rating based on ______________ Times Interest Covered Ratio.

5. The **"Net gain from the total liabilities"** for Q Care in FY2018 was:

    a. Positive, around Rs. +1 Lakhs
    b. Negative, around Rs. –2 Lakhs
    c. Negative, around Rs. –1 Lakhs
    d. About Rs. Zero

    Your reasons: ____

    ____

6. For FY2018, the figures indicate that the company's (cash) burn rate seems to have stabilized at about Rs. _____ lacs per month (approximately). If that be the case then the company has quick assets to survive for about another ________months.

    a. Rs. 11 Lakhs and 11 months
    b. Rs. 4 Lakhs and 11 months
    c. Rs. 4 Lakhs and 4 months
    d. Rs. 11 Lakhs and 4 months

    Your reasons: ____

    ____

7. For FY2018, Gearing computation of the company shows that:
    a. For each 100 Rupee of outsider's money which was there, the company was losing about Twelve Rupees.
    b. For each 100 Rupee of outside liability which was there, the company was losing about nine Rupees.
    c. For each 100 Rupee of outsider's money which was there, the company was gaining about Seven Rupees.
    d. For each 100 Rupee of outsider's money which was there, the company was gaining about Two Rupees.

Your reasons: ____

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8. For FY2018, the Return on Equity (ROE) of Q Care was [**negative / positive**] due to [**negative / positive**] net profit margin and [**very high / very low**] total asset turnover and **[very high / very low]** equity multiplier**.**

9. Reflecting on Return on Operating Assets (ROOA) and ROE ratios for FY 2018 in the given company, we could say that:

    a. ROE of the company was positive and ROOA was negative.
    b. ROE of the company was positive and ROOA was also positive.
    c. ROE of the company was negative and ROOA was negative.
    d. ROE of the company was negative and ROOA was positive.

    Your reasons: ____

    ____

10. As per Ind AS, EPS of the company during the FY2017 will be in the range of _______ to ________ (mention to single decimal)

11. As per Ind AS, EPS of the company during the FY2018 will be in the range of _______ to ________ (please round it off)

12. For FY2018 compared to FY2017 was:
    a. Q Care EPS increased and DPS decreased
    b. Q Care EPS decreased and DPS did not change
    c. Q Care EPS increased and DPS did not change
    d. EPS cannot be computed for the given case

    Your reasons: ____

    ____

13. The Book value per equity share during FY2018 (compared to FY2017):
    a. More than doubled.
    b. Increased but less than double.
    c. Decreased

d. Can't say

Your reasons: ____

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14. The specified gross block, depreciation amounts, depreciation rates and useful life that is mentioned as part of the Financial Statements indicate that in FY2018, the company's new office equipment added during the period was about _________ months old.

    a. 2 months
    b. 8 months
    c. 4 months
    d. 11 months

Your reasons: ____

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15. In FY2018, the share premium of Q Care for the issue of new equity shares was ___________ per equity share (approx.).
    a. Rs. 89
    b. Rs. 940
    c. Rs. 3,200
    d. Can't compute

Your reasons: ____

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16. Write down the journal entries for the issue of new shares in FY2018 (assuming there was call of full money in application for such issue):

17. Given the figures and information provided in report, what kind of industry and the company's life cycle stage do you perceive this company to be in? Discuss within 20 words below:

18. During FY2018, what did the company do of the money raised from issue of new equity (if any) and what part of the balance sheet is that located in:

Your reasons: ____

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19. From FY2018, audited numbers of Q Care, we observe that within the note 11 of the company's numbers, ________________________________ error has been overlooked by the accountant and the auditor but can become a potential regulatory issue.

Your reasons: ____

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20. *"Computer and printers" are owned by the company as per its note 12 in FY2018 audited report. Does this mean that other non-current assets were not fully owned?* – Do you [**Agree** / **Disagree**]? Discuss within 10 words

21. *For FY2018, when depreciation is being computed using the given SLM rates as indicated in the note for non-current assets, we observe that the computed figures does not match with the exact amount mentioned in the same note.* Do you [**Agree** / **Disagree**]? Discuss within 10 words only.

22. *"There is no difference in the paid up share capital and the number of outstanding shares"* Do you [**Agree** / **Disagree**]. Discuss within 10 words only.

23. *The company's contingent liabilities were more than Rs. 10 lacs in FY2018.* – Do you [**Agree** / **Disagree**]? Discuss within 10 words

24. *AS on 31st March 2017, the capital reserves of the company were more than 215 times the revenue reserve of the company* – Do you [**Agree** / **Disagree**]? Discuss within 10 words

25. *The Deferred Tax item that comes during the year is because the depreciation as per income tax is more than depreciation as per the books.* – Do you [**Agree / Disagree**]? Discuss within 10 words

26. *If the company was to purchase a chair worth Rs. 3,899 then the same would be written off during the year.* – Do you [**Agree / Disagree**]? Discuss within 10 words

27. *The company has one non-amortizable intangible asset in FY 2017.* – Do you [**Agree / Disagree**]? Discuss within 10 words

28. In FY2017, Q Care's Income Statement mentions that its employee benefit expenses were equal to zero. It means that there were no employees? Do you [**Agree / Disagree**]? Discuss within 10 words

SECTION V: Corporate Governance Perspective

(Total: 3 Marks, Each Correct Answer +½ mark)

1. For FY2018, Q Care has not complied with the Ind AS. Why? (in 10 words)

2. For FY2018, Q Care has reached the following level of earnings management:
   a. There is no earnings management
   b. Employment of conventional GAAP flexibility
   c. Employment of flexibility that strains GAAP
   d. Behavior that is beyond the boundaries of GAAP
   e. Understating liabilities
   f. Fraudulent financial reporting

   Your reasons: ____

   ____

3. For FY2018, Q Care has employed the following ruses to do creative accounting:
   a. Record revenue early
   b. Record fictitious revenue

c. Overstating assets to understate expenses
d. Understate liabilities to understate expenses
e. Has taken big bath
f. There is no creative accounting

Your reasons: ____

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4. In Q Care, following *Internal Control* to prevent and detect fraud will be most important:
    a. Use a system of checks and balances to ensure no one person has control over all parts of a financial transaction.
    b. Provide Board of Directors oversight of agency operations and management.
    c. Prepare all fiscal policies and procedures in writing and obtain Board of Directors approval.
    d. Ensure that agency assets such as vehicles, cell phones, equipment, and other agency resources are used only for official business.
    e. Protect petty cash funds and other cash funds.

Your reasons: ____

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5. In Q Care, for 2018, the following is not important information to crack the puzzle:
    a. Investments in Subsidiaries
    b. Contingent Liabilities details
    c. Number of litigations
    d. Board meetings attendance
    e. Resignation of board of directors

Your reasons: ____

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6. In Q Care, for 2018, the following information would have helped better in financial statement investigation:
    a. Internal Audit Report
    b. Statutory Audit Report
    c. Tax Audit Report
    d. Bank / Corporate Guarantees
    e. Debtors / Receivables of Subsidiaries
    f. Loans and Advances to related parties

Your reasons: ____

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