

XLRI JAMSHEDPUR – PGCBM 30
End Term, Time: 120 Minutes, Total Marks: 40, Month: September - 2016

NAME: _____

ROLL # _____

INSTRUCTIONS

This is a closed book examination. 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: MULTIPLE CHOICE QUESTIONS

(Total: 15 Marks, Each Correct Answer +1½ mark, Each Wrong Answer – ½ mark)

1. For FY2016, which of the following do you agree to? (i) The working capital of the company increased; (ii) Current ratio of the company decreased; (iii) Quick ratio of the company decreased; 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 (i), (ii) and (iv) are correct.
- c. **All four are correct.**
- d. Only (ii), (iii) and (iv) are correct.

Your reasons: _____

2. If you are the regular relationship banker for *Pink Elephant Fitness Private Limited*, wherein the company also its running current account and has also parked almost all the deposits with you – then which of the following options will you choose?
- a. You will be happy to give it an increased overdraft facility.
 - b. You will also try to woo them with your varied investment products.
 - c. **Both a and b.**
 - d. None of the above.

Your reasons: _____

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3. Regarding long term solvency position of Pink Elephant, which of the following sentences do you agree to from the report shared with you? (i) Debt to Equity ratio of both the company was about zero for both the years; (ii) Long term Debt to Equity ratio of both the company was about zero for both the years; (iii) Times interest earned ratio was equal to infinite for both the years; and (iv) The company will not be able to get much money using the secured loans route.

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 (ii), (iii) and (iv) are correct.

Your reasons: _____

4. If you are part of the Government of India bureaucracy; and you wanted to contribute to the start-up India campaign, which of the following choices you will make use of?

- a. You would like to give this start-up a secured long term loan.
- b. **You would invest as a convertible preference shareholder in this company.**
- c. You would like to give this start-up an unsecured long term loan.
- d. You would like to give working capital finance to this company.

Your reasons: _____

5. The figures indicate that the company's (cash) burn rate seems to have stabilized at about Rs. 9 to Rs. 9.5 lacs per month (approximately). If that be the case then the company has quick assets to survive for about another _____ months.

- a. 6 months
- b. 8 months
- c. **10 months**
- d. 12 months

Your reasons: _____

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6. The Return on Equity (ROE) of Pink Elephant Fitness increased during the FY 2016 when compared to previous year due to:
- Increase in other income.**
 - Increase in operating profit margins.
 - Increase in operating asset utilization.
 - All of the above

Your reasons: _____

7. Reflecting on Return on Operating Assets (ROOA) and ROE ratios for FY 2016 in the given company, we could say that:
- ROE of the company was positive and ROOA was negative.**
 - ROE of the company was positive and ROOA was also positive.
 - ROE of the company was negative and ROOA was negative.
 - ROE of the company was negative and ROOA was positive.

Your reasons: _____

8. EPS of the company during the FY2016 compared to FY2015 has:
- Increased from 0.34 to 1.12**
 - Decreased from 1.12 to 0.34
 - EPS cannot be computed for the given case.
 - Basic EPS and Diluted EPS were unequal.

Your reasons: _____

9. The Book value per equity share during FY2016 for Pink Elephant Fitness (compared to FY2015):
- More than doubled.**
 - Increased but less than double.
 - Decreased
 - Can't say

Your reasons: _____

10. The specified gross block, depreciation amounts, depreciation rates and useful life that is mentioned for “computers and printers” as part of the Financial Statements indicate that in FY 2015, the company was holding that particular asset for a period of about _____ months.

- a. 6 months
- b. 9 months
- c. **1 month**
- d. 12 months

Your reasons: _____

SECTION II: FILL IN THE BLANKS

(Total: 5 Marks, Each Correct Answer +1 mark, Each Wrong Answer – ½ mark)

1. In FY2016, the share premium of Pink Elephant Fitness for the issue of new shares was _____ per share.

Ans: Rs. 2,647.50 [all answers in the range of 2,640-2655 would be given correct]

2. The books of the company indicate that _____ seems to be the largest trading partner of the company in FY2016.

Ans: Google

3. 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:

Ans: Internet/Mobile Application based startup or similar.

Reasons: (1) Mentioned in report that the company started in July 2014. (2) Company is capitalizing all its salary expenses which shows that the company has not even started its operations full-fledged in its business. Similarly, there are many other indicators.

4. During FY2016, 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:

Ans: The Company kept the money with PNB fixed deposits (refer the short term borrowings notes to account).

5. From FY2016 audited numbers of Pink Elephant, we observe that “within the note 9 of the company’s numbers, _____ item can become a potential governance issue (and this item ought to be keenly watched by present and potential investors).

Ans: **People invest in startups to focus on its core game plan (Remember: Arjuna and the Fish).** And, given that no body invests in a company that keeps giving money (small or big) to its CEO – hence, *Advance to the promoter Kumbhakarna* would be much disliked and questioned by them.

SECTION III: AGREE (YES) / DISAGREE (NO) WITH REASONING

(Total: 15 Marks (includes bonus), Each Correct Answer +1 mark, Each Wrong Answer – ½ mark)

1. *“The company issued 5952 shares at a premium of 22325457 (approximately) in the FY 2016”* – Do you Agree/Disagree? Discuss within 20 words

Ans: No. Details of Shareholder Funds movement are shared in Note 3 and Note 4 by the company.

2. The company seems to be assuming a lesser economic utility in future for a few items vis-a-vis income tax authorities. – Do you Agree/Disagree? Discuss within 20 words

Ans: Yes. Details are shared in Note 11 by the company.

3. *The company neither received any money against share warrants nor it received share application money pending allotment as on the dates 31.03 2015 and 31.03.2016.* – Do you Agree/Disagree? Discuss within 20 words

Ans: Yes... The Balance Sheet segment of *owners' equity* mentions the same clearly.

4. *The company's interest bearing liabilities as at the end of both the financial years were equal to each other* – Do you Agree/Disagree? Discuss within 20 words

Ans: Yes... The Balance Sheet segment of *liabilities* mentions the same clearly.

5. During the stated year FY 2016, while the trade payables of the company increased Y-o-Y but its short term provisions decreased Y-o-Y. – Do you Agree/Disagree? Discuss within 20 words

Ans: No... The Balance Sheet segment of *current liabilities* mentions the same clearly.

6. *In FY2016, Pink Elephant's liabilities, both current and non-current, increased by about five lacs ninety thousand.* Do you Agree/Disagree. Discuss within 20 words only.

Ans: Yes... The Balance Sheet segment of *liabilities* mentions the same clearly.

7. *During FY2016, in terms of percentages, the tangible non-current assets of the company grew more than the growth in intangible non-current assets.* – Do you Agree/Disagree? Discuss within 20 words

Ans: No... Intangibles grew by 200% while tangible FA measured by way Net block grew by 190-195%

8. *For FY 2016, the two biggest expense items of the company are depreciation & amortization expense and Income tax expense.* – Do you Agree/Disagree? Discuss within 20 words

Ans: No... (1) Depreciation and amortization and (2) Other Expenses, ... The Income Statement and its notes 12 and 14 indicates the same.

9. *For FY 2016, the two biggest owner(s) equity accretive items as part of company's income statement are other income and Deferred Tax Assets.* – Do you Agree/Disagree? Discuss within 20 words

Ans: Yes... The Income Statement indicates the same.

10. *The company's contingent liabilities were more than Rs. 10 lacs in FY 2016. – Do you Agree/Disagree? Discuss within 20 words*

Ans: No. Details are shared in Residual Notes 4 and 6 by the company. And no Contingent amount is mentioned therein.

11. *AS on 31st March 2016, the capital reserves of the company were more than 340 times the revenue reserve of the company – Do you Agree/Disagree? Discuss within 20 words*

Ans: Yes. Details of Shareholder Funds movement are shared in Note 3 and Note 4 by the company.

12. *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 20 words*

Ans: No. Details are shared in Note 11 by the company.

13. *If the company was to purchase a chair worth Rs. 4,369 then the same would be written off during the year.– Do you Agree/Disagree? Discuss within 20 words*

Ans: No. Details are shared in Note 12 by the company.

14. *The company purchased one trade mark in FY2015 and two trademarks in FY 2016. – Do you Agree/Disagree? Discuss within 20 words*

Ans: No. Details are shared in Note 12 by the company. It is created and not purchased and shown as intangible assets.

15. *In FY2016, Pink Elephant's Income Statement mentions that its employee benefit expenses were equal to zero. Does this mean that there were no employees? Do you Agree/Disagree? Discuss within 20 words on where that amount is (if any).*

Ans: No. Salaries to the employees of the company were added to Capital Work in Process.

SECTION IV: DESCRIPTIVE (Total: 5 marks, No negative marking)

A. *In the Pink Elephant Audit Report that is provided, Please identify - Variable, Semi-variable, and Fixed Cost?*

Ans: (1) Ideally A cost that has the characteristics of both variable and fixed cost is called semi-variable cost. For example, the rental charges of a machine might include Rs. 500 per month plus Rs. 5 per hour of use. The Rs. 500 per month is a fixed cost and Rs. 5 per hour is a variable cost. Variable costs are those costs that vary depending on a company's production volume (in the given case, revenue of the organization); they rise as production increases and fall as production decreases. Variable costs differ from fixed costs such as rent, advertising, insurance and office supplies, which tend to remain the same regardless of production output.

Here, since the revenue is zero, the variable cost is as good as NIL.

Depreciation & Amortization expenses are example Fixed costs.

Your responses to the given question will be evaluated based on the above thumb rules.

B. Please identify the Direct & Indirect Cost from Pink Elephant's perspective?

Ans: (1) Expenses which are used in creating a specific product, constitute the majority of direct costs. (2) Indirect costs are ones which makes the production possible but are not assigned to specific product.

Hence all the cost here are indirect cosgs.

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