SECTION I: Statement of Cash Flow

Statement of Cash Flows	
	2018
Cash flows from operating activities	
Profit before taxation	(60,71,956)
Adjustments for:	
Depreciation	18,09,098
Investment income	(3,44,382)
Interest expense (finance costs)	9,171
Profit / (Loss) on the sale of property, plant & equipment	-
Working capital changes:	
(Increase) / Decrease in trade and other receivables	(6,05,912)
(Increase) / Decrease in Short Term Loans and Advances	13,00,493
Increase / (Decrease) in Other Current Liabilities	(1,00,976)
Increase / (Decrease) in trade payables	4,04,865
Cash generated from operations before tax and miscellaneous items	(35,99,599)
Miscellaneous Adjustments including deferred items and taxes	(1,66,579)
Income taxes paid	32,004
Net cash from operating activities	(37,34,174)
Cash flows from investing activities	
Purchase of property, plant and equipment	(1,14,02,406)
Investment income	3,44,382
Net cash used in investing activities	(1,10,58,024)
Cash flows from financing activities	
Proceeds from issue of share capital	1,40,54,650
Finance charges paid	(9,171)
Dividend paid	-
Share Application Money Pending Allotment	(28,30,020)
Net cash used in financing activities	1,12,15,459
Net increase in cash and cash equivalents	**(35,76,739)**
Cash and cash equivalents at beginning of period	**37,43,334**
Cash and cash equivalents at end of period	**1,66,595**

SECTION II: Cash Flow Statement Analysis

Question	Items (with amount in Lakh's only)
i. What were the major sources of cash?	Eq. Shares Issue, Net 112 Decrease in Cash 36 Investment Income 3
ii. What were the major uses of cash?	Capex 114 Operations 37
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.	CFO (37) > PAT (48), both are –ve Due to following sources: *Depreciation 18* *Decrease in ST Loans & Advances 13* *Increase in Payables 4* However, the following uses: *Decrease in receivables 6* *Investment Income 3*
iv. Was the firm able to generate enough cash from operations to pay for all of its expenditures?	(37) < 114 No, Operations were a loss (37). So, no question of generating cash
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?	(37) < 0 + 114 + 0 No. Also interest was miniscule plus there were no dividends paid - Equity Shares Issue
vi. Were the working capital (current asset and current liability) accounts other than cash primarily sources of cash or uses of cash?	ST L & A and Trade Payables were sources. Receivables was a use.
vii. What other major items affected cash flows?	Miscellaneous item & tax adjustment
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)?	Poor cash balance and loss making operations are big negatives. No borrowings and recent capex using share capital are big positives. However, when combined with other audited information (see, schedules and notes to accounts) – the capex (in intangibles) sounds questionable. Q Care seems to be dire straits. Rating 2-4
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)?	Poor cash balance and loss making operations are big negatives. No borrowings and recent capex using share capital are positives. However, when combined with other audited & limited available information in the business model (see, schedules and notes to accounts) – capex in intangibles sounds questionable. Q Care seems to be dire straits. Rating 2-3

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

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.

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.

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.

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.

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.

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.

SECTION IV: Financial Ratio Analysis

Please strike off the unwanted words in the options given

1. For FY2018, the Cash Cover for daily expenses is ___13___ days and is can hint that S 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 _____–607________ 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

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

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.

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.**

10. As per Ind AS, EPS of the company during the FY2017 will be in the range of __+2.5_____ to _____+2.8___ (mention to single decimal)

11. As per Ind AS, EPS of the company during the FY2018 will be in the range of _−89______ to _−97_______ (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

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

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

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

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):

Old Sh App. Money A/c to
    Equity Share A/c & Share Premium A/c
New Cash to
    New SH App Money A/c
New Sh App. Money A/c to
    Equity Share A/c & Share Premium A/c

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:
Start up in IT / Digital and e-Commerce Space
~ most of the capex is in intangibles. The existence of trademarks and website add to the further proof of the same.

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:
For daily cash burn (operating) expenses purposes and these were afterwards capitalized as intangible assets

19. From FY2018, audited numbers of Q Care, we observe that within the note 11 of the company's numbers, **Difference in Deferred Tax Assets amounts of 31/03/2017** error has been overlooked by the accountant and the auditor but can become a potential regulatory issue.

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
Trademark

28. In FY2017, S 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
Capitalized them

SECTION V: Corporate Governance Perspective

1. For FY2018, Q Care has not complied with the Ind AS. Why? (in 10 words)
Not applicable on private limited companies

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

~ (i) deferred tax assets can be shown only if a company has sufficient confidence that it will be able to earn profits in the near future. (ii) capitalization of all past salaries and business development to intangibles – given invisible sources of revenue.

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

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.

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

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