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## **CHAPTER 6**

Case hints: These hints will help you to think on the holistic approach to solve the case in a more practical manner. While the initial cases are not complicated but as one moves to the last cases become more challenging. Most of the cases in this chapter are ordinary in nature. But case 6 & case 7 are tough, and require necessary assumptions with extensive set of detailed calculations. Readers are suggested to solve the cases in groups as different people can bring different perspectives to the same problem. This leads to an integrated case solution.

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**CHAPTER 6**  
**Case 1: Arati Drugs**

One of simplest case-lets in the book, it has been created to explain the issue of Forfeiture of Shares. The portion of the book which deals with forfeited shares will help you to solve this case easily.

**CHAPTER 6**  
**Case Study 2: Share Capital at Pioneer Distilleries**

This case though similar to case 1 is more complicated. It also makes you have a first hand experience of looking at a companies share capital involving forfeitures and preference shares. Please think about a few issues such as – why has the share premium account increased?; why has the share application money accounting become zero?; what has resulted in a decrease in the forfeited shares – is that reissue of new shares? As you start thinking on these lines, we are sure that you would start cracking the case.

**CHAPTER 6**  
**Case 3: Reliance Industries Limited**

This case has been taken with three objectives: (a) to explain the hybrid ways<sup>1</sup> in which large firms raise money from investors and institutions; (b) to explain the importance of covenants/conditions that are attached to loans and other long-term liabilities; (c) to explain the accounting treatment of these hybrid instruments. Apart from reading the relevant portions of Chapter six, readers would also do well to use a dictionary to understand some of the jargons used in the case (such as ‘mortgage’ or ‘pari-passu’).

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<sup>1</sup> Hybrid instruments include instruments which capture some aspects of equity shares and some aspects of secured loans (and are some where in between). Fully Convertible Debentures or Convertible Cumulative Participative Preference Shares or Triple Option Convertible Debentures are good examples of Hybrid instruments.

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### **Case 4: Deepak Fertilizers and Petrochemicals Corporation Limited**

This case is more difficult than the previous case. Reading the case twice and understanding the changes made in the schedules (during the financial year) helps in solving the case.

*Issue of ‘New’ Debentures along with simultaneous Repurchase and Extinguishment of ‘Old’ Debentures:*

*Debentures are ‘standardized loans’ issued to investors (either institutional or retail). Normally we observe companies redeeming their debentures (on maturity) – but in Deepak Fertilizers case, we observe the company repurchasing its debentures and canceling/extinguishing them.*

## **CHAPTER 6**

### **Case Study: 5 - Non –Profit Entity: Narayan Sewa**

This case has been included in this chapter to help the readers to understand the difference in presenting financial statement between joint stock companies & non profit entity. Before solving this case the readers should know the difference between a company & a non-profit organization. Readers need to know & appreciate the difference in nomenclature during presenting the similar items of non-profit organizations. Please go through the following files before solving the case.

[Fund Accounting.pdf](#)

[Narayan Sewa Statements.pdf](#)

**CHAPTER 6**  
**Case 6: Tropical Fruit Products**

Case 6 (Tropical Fruit Products) and Case 7 (Prima Footwear Limited) of this chapter are really tough, but the reader can come up with an acceptable solution (preferably solve it in a group of 4-5 members) if he/she following steps:

- (a) Read the case twice and understand the business setting.
- (b) Prepare the capital expenditure (i.e., fixed assets, etc.) involved to start the project
- (c) Prepare the plan for financing these capital expenditures (based on the case facts given)
- (d) Prepare the list of Prepare the monthly opening inventory, purchases, consumption, and ending inventory of the raw material involved (herein, mango juice, sugar, preservatives, etc.)
- (e) Compute the month-wise sales, and other variable expenses (such as manufacturing wages, etc.)
- (f) Computer the month-wise fixed costs that are incurred (such as advertising, overheads, warehouse charges, etc.)
- (g) Compute the annual expenses especially non-cash expenses incurred by the firm.
- (h) Finalize the financial statements for the period.
- (i) Now start answering the various questions.
- (j) The readers are requested to prepare two sets of financial statements ... the first set being financial plan prepared at the start of the project (wherein the projections of monthly inventory and sales are quite steady). The second set involves preparation of financial statements after looking at the actual production, sales and other issues involved.

**CHAPTER 6**  
**Case 7: Prima Footwear Limited**

The difference between this case and the previous one are two: (a) this is a case setting of a project proposal of an existing firm; (b) It is more complicated in terms of the production process (and hence involves greater time in understanding).

This case can be solved in different ways (depending on the assumptions and our understanding).