CHAPTER 7

Every alternate question has been solved. This gives you an opportunity to work on the rest.

Multiple Choice Questions

1. T
2. ……
3. T
4. ……
5. F
6. …..
7. F
8. …..
9. T
10. …..
11. F
12. …..
13. F
14. …..
15. F
16. …..

Multiple Choice Questions

1. d
2. ….
3. c
4. …..
5. b
6. …..
7. c
8. …..
9. c
10. …..
11. a
12. …..
13. a
14. …..

CHAPTER 7
Exercise

1 Pav Bhaji Limited:

This problem is a simple one. You are requested to comment on some aspect of the company’s financial health, based on the ratio provided. Always remember though each ratio can be termed as healthy or unhealthy within a given range, acceptable standard ratio depends on industry.

1➔a
3➔d

2 Mukta Arts Limited:

This problem will help you to understand to take some decision, given part information. You need to take necessary assumptions & comment as the following.

1➔ (a) it will be part of finished goods inventories. Inventories of under production films and serials are valued at actual amount spent. Similarly, old films will also be part of the inventory. The residual value of old films would be valued at '*NIL'* or '*near-zero amounts*' as total cost of production is charged to revenue at the time of first release of such film. So, the copyright related costs would be very minimal.

3 ➔ (d) the results provided are quarterly results while the dividend announced is for annual performance (wherein there are another three quarters to be looked at).

5 ➔ (a)

3 Hindustan Lever Limited:

This problem will give you insight how accounting treatment of some items change the profitability.

6➔ (a)

HLL argued that … with a view to harmonize the reporting of excise duty relating to outsourced products in line with that of in-house manufactured products, excise duty relating to outsourced products has been reduced from Purchase of Goods and adjusted as appropriate, in Net Sales. Hence, a first glance would tell us that the answer would be either (a) or (d) – since a change in the treatment of excise duty would not effect the net profit figures (or bottom line) of the company.

A small example below would clarify this further:

The following two tables present results for an imaginary company with excise duty included as part of purchased goods and also with excise duty excluded as part of the purchased goods.

Without excise	September-01	September-02	Change in Periods
Sales	100	95	-5.0%
Cost of Goods Sold	90	90	
Gross Profit	10	5	-50.0%

With excise @ 10% for purchased goods	September-01	September-02	Change in Periods
Sales	109	104	-4.6%
Cost of Goods Sold	99	99	
Gross Profit	10	5	-50.0%

4 Accounting for Results (by Governments):

This exercise will give you a perspective about change in accounting policy & its impact on public finance.

5 Rajnikanth Fans Ltd.

This problem will help you to prepare a balance sheet from different ratios provided. This problem can be used by the instructor to show the interconnection of different Ratios & its impact on balance sheet.

Balance sheet

Assets		**Liability & Owner's Equity**	
Current Assets	800000	Current Liability	400000
Fixed Assets	800000	Equity	600000
		Debenture	300000
		Net Profit & Reserve	300000
Total	**1600000**	**Total**	**1600000**