DIRECTORATE OF DISTANCE EDUCATION
NALSAR UNIVERSITY OF LAW, HYDERABAD

P.G.DIPLOMA IN FINANCIAL SERVICES & LEGISLATIONS

Academic Year: 2019-2020

II Semester – Take Home End-Term Repeat Examination (November, 2020)

Paper I - 1.2.4- Financial Reporting & Analysis

Instructions to questions:

a) ***Please mention your name, ID No. and Subject name on the Answer Sheet.***
b) ***Clearly indicate the question numbers while answering them.***
c) ***Answer the below given questions. Each question is for 25 Marks.***
d) ***Answer very elaborately to each question with minimum 1000 (One Thousand) words.***
e) ***You may use graphs and charts. But they shall be clearly cited.***
f) ***You must cite the source of your information. (Annual report, web source etc.)***
g) ***Since this is a take home exam, we expect your answers to be analytical rather than straight answers.***
h) ***Cut and paste of any material either from reading material or from internet will result in rejection of answer-sheet, which means a failure with zero marks. No plagiarism.***
i) ***If answer of two students is similar, it will be presumed that both the students consulted each other and two answer sheets will be cancelled.***

Answer the following Questions: **TOTAL MARKS: 50**

Question 1

Ravi is a young and brilliant engineer from IIT- Lucknow and pursued is Masters in Business Administration (MBA) from IIM – Ahmedabad. He is passionate about 'Creating Value' and chose entrepreneurship as his medium to pursue his passion. He started his own company on April 2019, a start-up that plans to revolutionize use of AI and IOT technologies in the field of tertiary healthcare (Hospitals).

Ravi spent a majority of the first 3 months getting the concept ready and preparing the prototypes for the 'proof of concept' of his work. While the expenditure incurred was not much, there were certain expenditures being incurred on office rent, travel, food, Cloud Systems and other materials need for his prototype. Being smart that he was, and also having learnt accounting as a part of his MBA, he decided to take care of preparing the accounts himself as there is no real need to hire an accountant in his company yet. However, given his difficult work schedule in preparing the prototype ready, he decided to adopt a cash based accounting system as it will give him the necessary control on 'cash burn' i.e. expenditure being incurred by his company.

After 6 months, the prototype was ready and Ravi began his quest for finding investors to invest in his company and launch the business on a commercial scale. While the investors were impressed with the technical demos, they requested Ravi to provide for the financial statements till date as a part of their review process. Ravi, proceeded to prepare an Profit & Loss statement and a Balance sheet for the investors rather unwillingly as he believed that this is an unnecessary procedural delay for a start-up which is less than an year old. Nevertheless, he was preparing the statements. While doing so, he pulled up his bank statement to record all the expenditure that he has incurred till date, so as to classify them properly. As a part of this exercise, he recorded the purchase of the Swift Desire that he got for his wife on her birthday as a part of the assets purchased, along with other tools and fixtures.

As a part of his discussion with the investors, he pointed out that the best of the businesses out there in the world are built on processes and frameworks that give very little room for human decision interference. He opined that in order to build a business to scale, the promoters, the team and everyone involved with the business should follow a code of conduct that is envisaged by the company. He strongly emphasized that only complete adherence to internal code of conduct can result in Value Maximization to the team, the company and the society at large. On further prodding by an investor as to what he meant, he went on to state that his loyalty will first and foremost lie with his company and then his investors and shareholders and would take any means necessary to justify their expectations.

Based on the Case-let given above address the following questions **(5 X 5 = 25 Marks)**

1. Given the effort required and his time being limited, Ravi was inclined to follow a 'cash system of accounting' as against an 'Accrual System of Accounting' to prepare books of accounts for his new company. Critically evaluate on the soundness of Ravi's decision.
2. Based on your understanding of the accounting system, explain what would be your suggestion to Ravi to establish an Accounting System in his company.
3. In the books of accounts of the firm, the entry for a Car that purchased by Ravi in December, 2019 as a gift for his wife on her birthday was recorded. It is observed that there is no depreciation provided at the end of the financial year. Comment on the book keeping procedure followed by Ravi at his company.
4. Schedule III of the companies Act, 2013 provides for a 'Framework for Presentation of Financial Statements'. Briefly elucidate the 'Framework' the purpose that it serves for listed companies.
5. Comment on the View offered by Ravi that a well regulated framework for accounting and business provides necessary incentive for Investor Trust and Confidence and it is not his personal responsibility to do so as long as he adheres to the framework.

Question 2

"The financial statements, Director's Report and Auditors Report are published in the firm's annual and quarterly reports sent to shareholders and the SEBI. Also included in the reports, among other items, is a discussion by management, providing an overview of company events. The annual reports are much more detailed and disclose more financial information to the investors and the analysts".

You are required to prepare a 'summary analysis report' based on your understanding and interpretation of the Financial Statements, Director's Report and Auditors Report of the company assigned to you as a part of your graded assignment?

(25 Marks)