**NMIMS**

**Course:** Financial accounting and analysis

**Internal Assignment for June 2020 Examination**

**1. Ms. Sandipa is the accounts executive for a company called SS Enterprises. Her job description requires her to supervise the process of recording of the transactions of business and to ensure that all accounting assumptions are taken care of. However, her junior executive is confused about the concepts of the accounting period assumption and the Separate entity assumption. Elaborate how Sandipa can explain the concepts to her junior with the help of suitable example.**

**Answer**: Many authorities have defined accounting and a study of these definitions will help in understanding the meaning of accounting. Some of the commonly accepted definitions are given here as stated by:

**1. American Institute of Certified Public Accountants ( AICPA)**

“The art of recording, classifying, summarising, analysing and interpreting the business transactions systematically and communicating business results to interested users is accounting”

**2. The American Accounting Association (AAA)**

“Accounting is the process of identifying, measuring and communicating economic information to permit informed judgments and decisions by the users of the information”

Accounting principles may be defined as those rules of action adopted by accountants universally while recording accounting transactions. ‘They are a body of doctrines commonly associated with the theory and procedures of accounting, serving as an explanation of current practices and as a guide for selection of conventions or procedures where alternatives exist’. These principles can be classified into the following two categories:

(i) Accounting concepts\

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**2. Marry Kom is planning to invest in the share market. She has a profile of risk seeker investor but she believes that before investing it’s important to understand market ratios effectively. Discuss any five market ratios with their importance that Marry Kom should look into before undertaking any investment decision.**

**Answer**: Ratio Analysis is “separation or breaking up of anything into its elements or component parts”. Ratio analysis is therefore a technique of analysis and interpreting various ratios for helping in making certain decisions. It involves the methods of calculating and interpreting financial ratios to assess the firm’s performance and status. The ratio analysis is one of the most powerful tools of financial analysis. The analysis is not restricted to any one aspect but takes into account all aspects such as earning capacity of the firm, financial obligation, liquidity and solvency aspects, liquidity and profitability concepts.

**Steps in Ratio Analysis**

Ratio analysis can provide you with this information in three steps:

1. Calculate the firm’s ratios for the current or recent period. Ratios are calculated from the firm’s income statement or balance sheet. It is helpful and sometimes necessary to have the financial statement independently audited.
2. Compare these ratios

**3. The following information is available in relation to Britannia Baby Company. The Company has profit before taxes of Rs 50 lacs.**

**a. Classify and give reasons for the cash flows falling under the operating activities**

**b. Classify and give reasons for the cash flows falling under the investing activities**

**Particulars Amount Rs in (Lacs)**

**1. Tangible assets purchased during the year 75**

**2. Depreciation charged on these tangible assets for the year @ 10% ?**

**3. Stock sold for the year 95**

**4. Loan given to Big Boy Company 150**

**5. Interest received from Big Boy company for the said loan @11.5% ?**

**6. Shares purchased of a company called as Arvind Mills 10**

**7. Dividend Received from Arvind Mills 1**

**8. Taxes paid for the year @ 30% ?**

**Answer**: **Cash flow from Operating Activities**:

Operating activities are the principal revenue producing activities of the enterprise. Therefore, they generally result from the transactions and other events that enter into the determination of net profit or loss. The amount of cash flows arising from operating activities is a key indicator of the extent to which the operations of the enterprise have generated sufficient cash flows to maintain the operating capability of the enterprise, pay dividends, repay loans and make new investments without recourse to external source of financing. Information about the specific