**Financial Accounting & Analysis**

**April 2024 Examination**

**Q1. Prachi Industries purchased a land worth 2 crores, office fixtures and furniture worth Rs 50 lakhs. Five years back the company has purchased an investment property for Rs 5 crores out of which today they disposed of 20% of the property, at a realizable value of Rs 3 crores. As a consultant to the company discuss as per the needs of corporate reporting the nature of these items, how the above items needs to be presented and disclosed in the corporate financial statement. (10 Marks)**

**Ans 1.**

**Introduction**

The realm of financial accounting and analysis necessitates a meticulous approach to the classification, presentation, and disclosure of various assets. In the case of Prachi Industries, the company's recent financial activities—including the purchase of land, office fixtures, furniture, and the disposal of a portion of their investment property—highlight the importance of these principles. This discussion focuses on the treatment of these items in corporate financial statements. The nature of each asset—whether it's a tangible fixed asset like land and office fixtures or an investment property—determines its accounting treatment in terms of recognition, measurement, and disclosure. The company's financial statements should not

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**Q2. Ms. Shravani , our accounts manager, is responsible for overseeing financial activities at Mogra Enterprises. She ensures accurate bookkeeping and compliance with accounting assumptions. Her junior executive is confused about how the various accounting assumptions plays a vital role in accounting. Further she wants Ms Shravani to help her in understanding the difference between the accounting period assumption and separate entity assumption, Discuss how (you being) Ms. Shravani would like to explain all these in simple terms. (10 Marks)**

**Ans 2.**

**Introduction**

In the dynamic field of financial accounting, the foundational principles, known as accounting assumptions, play a crucial role in guiding and standardizing the accounting practices. At Mogra Enterprises, Ms. Shravani, the accounts manager, stands at the forefront of implementing these assumptions to ensure the integrity and accuracy of financial reporting. Among these, the accounting period assumption and the separate entity assumption are particularly significant. These assumptions not only shape the framework of financial recording and analysis but also influence decision-making processes within the organization.

**Q3. Perform the common Size analysis for the year (5\*2----10 Marks)**

**a. 2021**

**b. 2022**

|  |  |  |
| --- | --- | --- |
| **Statements of Income** |  |  |
|  | **2021** | **2022** |
| **Operating revenues** | **9,56,690** | **9,12,813** |
| **Operating expenses** |  |  |
| **Personnel** | **1,13,433** | **1,32,080** |
| **Fuel** | **1,28,076** | **1,00,058** |
| **Purchased power** | **1,54,910** | **1,34,488** |
| **Depreciation** | **1,44,622** | **1,56,469** |
| **Maintenance** | **92,717** | **86,261** |
| **Taxes other than income taxes** | **63,266** | **63,220** |
| **Purchased services** | **38,392** | **35,948** |
| **Other** | **1,01,513** | **1,04,850** |

|  |  |  |
| --- | --- | --- |
|  | **8,36,929** | **8,13,374** |
| **Operating income** | **1,19,761** | **99,439** |
| **Other expenses (income):** |  |  |
| **Interest expense** | **36,727** | **36,771** |
| **Interest income** | **( 61)** | **( 82)** |
| **Loss on impairment of fixed assets** | **4,089** | **0** |
| **Other, net** | **4,325** | **1,556** |
|  | **45,080** | **38,245** |
| **Income before special item and****income taxes** | **74,681** | **61,194** |
| **Special item:** |  |  |
| **Reserve for drought** | **1,747** | **712** |
| **Provision for income taxes:** |  |  |
| **Current** | **25,061** | **28,457** |
| **Deferred** | **1,374** | **(7,504)** |
| **Net income** | **46,499** | **39,529** |

**Ans 3.**

**Introduction**

Common size analysis, a vital tool in financial accounting, plays a crucial role in understanding a company's financial health. This approach simplifies the comparison of financial statements over different periods by converting the figures into percentages of a common base. For a statement of income, this common base is typically the operating revenues. This method provides a clear picture of the company's operational efficiency, cost structure, and profitability trends over time. By examining the common size statements for the years 2021 and 2022, one can discern significant changes in the company's financial dynamics. This analysis is particularly useful for stakeholders, including investors, creditors,