**Financial Accounting**

**Dec 2024 Examination**

**Q1. Given the following information of ABC Ltd. as of March 31st:**

1. **Revenue: Rs. 5,00,000**
2. **Cost of Goods Sold (COGS): Rs. 3,00,000**
3. **Operating Expenses: Rs. 80,000**
4. **Depreciation: Rs. 30,000**
5. **Tax Rate: 30%**

**Prepare the Income Statement and calculate the Net Profit after Tax. Additionally, evaluate how the inclusion of non-cash items like depreciation affects the financial position of the company, and discuss its significance in decision-making for stakeholders. (10 Marks)**

**Ans 1.**

**Introduction**

An Income Statement, also known as a Profit and Loss (P&L) Statement, is a key financial document that summarizes a company’s revenues, expenses, and profits over a specific period. It serves as a critical tool for stakeholders, such as investors and creditors, to assess the company’s profitability and financial health. For ABC Ltd., the provided data will be used to construct an Income Statement for the financial year ending March 31st. Additionally, we will calculate the Net Profit after Tax to determine the company's earnings performance.

A unique aspect of this analysis includes the impact of non-cash items, such as depreciation. Although depreciation does not represent an actual cash outflow, it affects net income and provides a realistic picture of asset utilization

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**Q2A. Compare and contrast the role of journal entries and ledger accounts in the accounting process. How does the relationship between these two elements ensure accurate financial reporting? Support your answer with examples. (5 Marks)**

**Ans 1.**

**Introduction**

In financial accounting, journal entries and ledger accounts are fundamental components that form the backbone of the accounting process. Journal entries record business transactions in a chronological manner, while ledger accounts categorize and summarize these transactions based on specific accounts (e.g., cash, sales). Together, they provide a clear and structured method to track a company’s financial activities, ensuring accurate and complete financial reporting. Let’s explore their roles, differences,

**Q2B. Analyze how changes in accounting policies, such as revenue recognition, can alter the interpretation of a corporation's financial performance and position. Discuss the potential implications for investors and creditors using real-life corporate examples. (5 Marks)**

**Ans 2b.**

**Introduction**

Accounting policies, like revenue recognition, play a critical role in presenting a company’s financial performance and position. Changes in these policies can significantly affect how income, expenses, and profits are reported, influencing stakeholders' perception of a company's financial health. Revenue recognition determines when and how revenue is recorded, and any changes can alter reported earnings. Investors, creditors, and other stakeholders rely on consistent accounting practices to assess a company's profitability, stability, and risk. Let’s explore how