**Financial Accounting**

**Apr 2025 Examination**

**PLEASE NOTE: This assignment is application based, you have to apply what you have learnt in this subject into real life scenario. You will find most of the information through internet search and the remaining from your common sense. None of the answers appear directly in the textbook chapters but are based on the content in the chapter**

**Q1. ABC Ltd., a small manufacturing company, is struggling with maintaining accurate financial records due to the complexity of its transactions. The management has approached you, a financial consultant, for guidance.**

**Required:**

**1. Explain how the accounting process (from identifying transactions to preparing financial statements) can help the company streamline its financial records.**

**2. Highlight the potential risks of skipping key steps like journalizing or preparing a trial balance, using hypothetical examples.**

**Note: Your answer should include real-world applications of accounting principles and demonstrate how they align with ABC Ltd.’s operational challenges. (10 Marks)**

**Ans 1.**

**Introduction**

ABC Ltd., a small manufacturing company, faces difficulties in maintaining accurate financial records due to the complexity of its transactions. Financial accounting plays a crucial role in ensuring transparency, accuracy, and efficiency in financial record-keeping. The accounting process, which includes identifying, recording, summarizing, and reporting transactions, enables businesses to track financial health and make informed decisions. Properly structured financial statements help stakeholders assess profitability, liquidity, and solvency, aiding in future planning and compliance.

For a small manufacturing firm like ABC Ltd., transactions such as raw material purchases, production costs, sales revenue, and operational expenses need to be systematically recorded. Without a structured accounting framework, errors, discrepancies, and financial mismanagement may arise, leading to legal and operational risks. This paper discusses how the accounting process

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**Q2. XYZ Ltd. provides the following details from its Profit and Loss Statement for the year ended March 31, 2024:**

**- Revenue: Rs.25,00,000**

**- Cost of Goods Sold: Rs.15,00,000**

**- Selling and Administrative Expenses: Rs.4,00,000**

**- Depreciation Expense: Rs.1,50,000**

**- Interest Expense: Rs.50,000**

**- Income Tax Rate: 30% Additionally:**

**- The company sold a piece of machinery for Rs.1,00,000, resulting in a gain of**

**Rs.20,000.**

**Required:**

**1. Prepare the Income Statement for XYZ Ltd. for the year ended March 31, 2024.**

**2. Calculate the following ratios: Net Profit MarginOperating Profit**

**MarginInterest Coverage Ratio (10 Marks)**

## **Ans 2.**

## **Introduction**

The financial performance of a company is assessed using an income statement, which provides insights into revenues, expenses, and profitability. For XYZ Ltd., analyzing its financials will help understand its efficiency in generating profits from its operations. The income statement summarizes revenues, expenses, and net income, offering a detailed view of the company’s earnings. Additionally, financial ratios such as **Net Profit Margin, Operating Profit Margin, and Interest Coverage Ratio** provide further insights into profitability, operational efficiency, and debt-handling capacity.

A well-structured income statement helps investors, management, and stakeholders assess financial stability and make informed business decisions. The given financial data of XYZ Ltd. includes

**Q3 (A) Evaluate the impact of a high Debt-to-Equity ratio on the financial stability and future growth potential of a company. Using a hypothetical company's financial data, identify possible risks associated with the ratio and recommend strategies to improve the company's leverage position. Justify your recommendations based on financial principles and industry benchmarks. (5 Marks)**

## **Ans 3a.**

## **Introduction**

The **Debt-to-Equity (D/E) ratio** is a critical financial metric that measures a company's financial leverage by comparing total debt to shareholders' equity. A high D/E ratio indicates that a company relies heavily on borrowed funds, which can impact financial stability and future growth. While debt financing allows expansion without diluting ownership, excessive leverage increases financial risk, interest burden, and the possibility of bankruptcy. This discussion evaluates the risks of a high D/E

**Q3 (B) XYZ Ltd. has the following information from its cash flow activities for the year ended March 31, 2025:**

**- Net Income: Rs.5,00,000**

**- Depreciation: Rs.1,00,000**

**- Increase in Accounts Receivable: Rs.2,00,000**

**- Decrease in Accounts Payable: Rs.50,000**

**- Purchase of Machinery: Rs.3,00,000**

**- Dividend Paid: Rs.1,00,000**

**Required:**

**1. Prepare the Cash Flow from Operating Activities using the indirect method.**

**2. Analyze how changes in working capital components impacted the cash flow from operating activities. (5 Marks)**

**Ans 3b.**

## **Introduction**

The **Cash Flow Statement** is a crucial financial report that tracks the movement of cash in and out of a business. The **indirect method** for calculating cash flow from operating activities begins with **net income**, adjusting for non-cash expenses and changes in working capital. Understanding these cash movements helps assess liquidity and operational efficiency. This section prepares the