**Financial Accounting**

**Jun 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. Financial Analysis of AlphaEx Ltd.**

**You are given the following partial financial information for AlphaEx Ltd. for the year ended March 31, 2024:**

**Required:**

**1. Compute the Cost of Goods Sold (COGS) and Gross Profit for the year ended March 31, 2024. (2 Marks)**

**2. Prepare the Income Statement (from Net Sales down to Net Income) for the year ended March 31, 2024. Clearly show each line item, including your calculations for Cost of Goods Sold, Gross Profit, Operating Income, and Net Income after tax. (3 Marks)**

**3. Calculate the ending Retained Earnings on March 31, 2024, after the company closes its Net Income into Retained Earnings. Show your computation step by step. (2 Marks)**

**4. Using the year-end balances, compute and interpret two financial ratios—for example, the Current Ratio and the Debt-to-Equity Ratio. In a brief paragraph, discuss what these ratios indicate about AlphaEx Ltd.’s liquidity and long-term solvency. (3 Marks)**

**Total Marks: 10**

**1. Income Statement (Partially Reported)**

|  |  |
| --- | --- |
| **Item** | **Amount (₹)** |
| **Net Sales** | **9,00,000** |
| **Beginning Inventory (April 1, 2023)** | **60,000** |
| **Net Purchases** | **3,20,000** |
| **Ending Inventory (March 31, 2024)** | **50,000** |
| **Operating Expenses (excluding depreciation)** | **1,40,000** |
| **Depreciation Expense** | **30,000** |
| **Interest Expense** | **20,000** |
| **Income Tax Rate** | **25%** |

**2. Balance Sheet (Selected Items as at March 31, 2024)**

|  |  |
| --- | --- |
| **Item** | **Amount (₹)** |
| **Cash & Cash Equivalents** | **1,00,000** |
| **Accounts Receivable** | **80,000** |
| **Inventory** | **50,000** |
| **Property, Plant & Equipment (net)** | **4,00,000** |
| **Accounts Payable** | **40,000** |
| **Long-Term Debt** | **2,00,000** |
| **Common Stock** | **1,50,000** |
| **Retained Earnings (at the beginning)** | **80,000** |

**Ans 1.**

**Introduction**

Financial accounting plays a vital role in evaluating a company's financial health by analyzing its financial statements. It helps stakeholders such as investors, creditors, and management make informed decisions regarding profitability, liquidity, and solvency. One of the key aspects of financial accounting is the preparation of an income statement, which provides insights into a company's revenues, expenses, and net income. Additionally, financial ratios like the current ratio and debt-to-equity ratio help assess a company's ability to meet short-term obligations and its overall financial stability. In this analysis, AlphaEx Ltd.'s financial performance for the year

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**Q2A. A mid-sized manufacturing company has suffered significant losses over the past two years, casting doubt on its ability to continue as a going concern. Critically examine how the concept of going concern influences the accounting process in such a situation. In your analysis, discuss the ethical and professional judgments an accountant must make when deciding whether the business should continue applying going concern assumptions in its financial statements. (5 Marks)**

**Ans 2A**

**Introduction**

The going concern concept is a fundamental principle in financial accounting that assumes a business will continue its operations for the foreseeable future. However, when a company experiences financial distress, such as continuous losses, doubts arise regarding its ability to sustain operations. In such situations, accountants must assess whether financial statements should continue to be prepared under the going concern assumption or if adjustments and disclosures are necessary. This decision requires a balance between professional judgment and ethical considerations to ensure financial transparency and regulatory compliance. The going

**Q2B. Financial accounting is based on fundamental principles and assumptions that guide the preparation of financial statements. However, with the rapid advancement of technology and the increasing complexity of modern business transactions, some argue that traditional accounting frameworks may no longer be sufficient. Critically evaluate the relevance of traditional financial accounting principles (such as the historical cost principle, accrual basis, and consistency) in today’s business environment. In your response, analyze potential modifications or alternative approaches that could enhance financial reporting accuracy and decision-making for stakeholders. (5 Marks)**

**Ans 2B.**

**Introduction**

Traditional financial accounting principles, such as the historical cost principle, accrual basis, and consistency, provide a structured approach to financial reporting. These principles ensure comparability, reliability, and transparency in financial statements. However, as businesses evolve, technology advances, and financial transactions become more complex, traditional frameworks face challenges in maintaining relevance. Many argue that financial reporting should adapt to modern business needs, incorporating real-time reporting, fair value accounting, and integrated financial analysis. This discussion critically evaluates