**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**

Understanding the performance, stability, and future development prospects of a company depends critically on knowledge of financial analysis. Examining financial statements—including the balance sheet and income statement—helps one evaluate profitability, liquidity, and financial situation. Financial analysis helps companies decide strategically, control spending, and increase operational effectiveness. These assessments help stakeholders and investors ascertain whether making investments in a firm is feasible. Debt-to---equity ratios and current ratios help one understand financial risk and liquidity. Examining income, expenses, assets, and liabilities helps businesses to see areas of strength and weakness. This procedure guarantees openness in financial reporting and encourages data-driven decision-

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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 in accounting states that a corporation will always operate. If a company is losing money, its survival is questioned. Accountants must determine whether the going concern assumption is still valid and present the business's financial status. This hypothesis hurts financial transparency, liability recognition, and asset value. Financial reporting accountability and transparency rely on ethical and professional judgement.

**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**

Fundamental principles in financial accounting promote uniformity, comparability, and dependability in financial reporting. Accounting concepts including historical cost, accrual basis, and consistency have long governed financial statement creation. Traditional frameworks struggle to fulfil current company demands due to technology, globalisation, and complicated financial operations. Traditional accounting procedures must be updated to include digital assets, fair value accounting, and real-time reporting. This conversation questions established accounting concepts and examines alternative methods that improve