**Financial Accounting**

**Internal Assignment Applicable for 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 Rs. 3,00,000**

**3. Operating Expense 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.**

**Answer:**

**Introduction:**

An Income Statement summarizes a company’s revenue, expenses, and profits over a specific period. For ABC Ltd., we are tasked with preparing an Income Statement for the financial year ending March 31st, incorporating essential figures like revenue, costs, operating expenses, depreciation, and taxes. We will also analyze the impact of non-cash items like depreciation on the financial position.

**Concept:**

The Income Statement for ABC Ltd. is calculated as follows:

Income Statement

* Revenue: Rs. 5,00,000
* COGS: Rs. 3,00,000
* Operating Expenses: Rs. 80,000
* Depreciation: Rs. 30,000
* Earnings Before Tax: Rs. 90,000
* Tax (30%): Rs. 27,000
* Net Profit After Tax: Rs. 63,000

**Conclusion:**

The inclusion of non-cash items, like depreciation, reduces the taxable income and thus the tax burden. This affects the financial position by lowering profits, but it does not impact cash flow directly. For stakeholders, understanding depreciation is critical in assessing a company’s profitability, tax efficiency, and overall financial health, influencing investment and strategic decisions.

**This is partially solved sample answer**

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**Q2 (A) 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.**

**Answer:**

**Introduction:**

In the accounting process, journal entries and ledger accounts play crucial roles in recording and summarizing financial transactions. Their relationship ensures the accuracy of financial reporting, providing a clear, organized view of a company's financial health.

**Concept:**

Journal entries are the initial record of financial transactions, documenting them in chronological order. Each entry includes details like the date, accounts involved, and debit/credit amounts. These entries are then transferred to the ledger, a collection of accounts categorized by type (assets, liabilities, equity, etc.). Ledger accounts summarize the individual impacts of transactions on each account, helping to organize and group information for reporting. For example, if a company purchases equipment on credit, the journal entry would debit the equipment account and credit accounts payable. This entry is later posted to the respective ledger accounts, providing a structured view of the equipment asset and the corresponding liability.

**Conclusion:**

The relationship between journal entries and ledger accounts ensures that transactions are accurately recorded and classified, facilitating error-free financial reporting. The flow from journal to ledger helps create clear financial statements for analysis and decision-making.

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**Q2 (B) 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 and investors and creditors using real-life corporate examples.**

**Answer:**

**Introduction:**

Changes in accounting policies, such as revenue recognition, can significantly impact the way a corporation's financial performance and position are understood. These adjustments influence key financial metrics, potentially altering perceptions among investors, creditors, and other stakeholders.

**Concept:**

Accounting policies, like revenue recognition, determine how and when companies recognize income from their activities. For example, a shift from recognizing revenue at the point of sale to recognizing it over time can alter reported earnings. In 2017, the implementation of ASC 606 by the FASB impacted companies like Microsoft, requiring them to recognize software and cloud subscription revenues differently. While this method might provide a more accurate long-term picture, it can lead to short-term fluctuations in reported earnings, confusing investors or creditors who rely on consistent patterns to evaluate financial health and creditworthiness.

**Conclusion:**

Changes in accounting policies, such as revenue recognition, can influence financial reporting and decision-making. Both investors and creditors must understand these shifts to assess a company's financial stability accurately.

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