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## **CHAPTER 4**

Case Hints: These hints are not the exact solutions. They only provide you with suggestions regarding looking at the case in the right direction. Based on these backgrounds, you are supposed work them out, preferably in a group. You can make necessary assumptions & come up with concrete solutions.

**CHAPTER 4**  
**Case 1 : Vinyl Chemicals Limited**

You can start by preparing the Funds Flow Statement and Statement of Change in Working Capital in the traditional pattern.

**Vinyl Chemicals Limited**  
**Funds Flow Statement (all figures in Rs Crores)**

<b>Sources of Funds</b>	<b>Amount</b>
Funds from Operations	
Extraordinary Income	
Increase in Long Term Liabilities	
Sale of Investments (Other Assets)	
<b>Total</b>	
<b>Applications of Funds</b>	
Investment in Fixed Assets (Net)	
Payment of Dividend	
<b>Total</b>	
<b>Increase in Working Capital</b>	

**Vinyl Chemicals Limited**  
**Statement of Changes in Working Capital (all figures in Rs Crores)**

<b>Changes in Current Assets</b>
Increase in Accounts Receivable
Increase in Loans & Advances
Increase in Cash & Equivalents
Decrease in Inventories
<b>Total</b>
<b>Changes in Current Liabilities</b>
Decrease in Current Liabilities
<b>Total</b>
<b>Net Change in Working Capital</b>

There are multiple ways of improving the presentation to make it more useful to the managers. One of the ways is to concentrate on the bigger changes by clubbing all minor items. Another way is to split the sources and applications into Long-Term and Short-Term.

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**Vinyl Chemicals Limited**  
**FUNDS FLOW STATEMENT FOR FINANCIAL YEAR 2001**

All figures in Rs. crores

	Long Term	Short Term
<b>Sources of Funds</b>		
Decrease in Current Assets (except receivables)		
Decrease in Other Assets (basically investments)		
Increase in Long-term Liabilities (Loans)		
<b>Total</b>		
<b>Application of Funds</b>		
Decrease in Current Liabilities & Provisions		
Increase in Receivables		
Increase in Fixed Assets*		
Dividend Payments including taxes		
<b>Total</b>		
<b>Surplus/(Deficit)</b>		
<b>Funds generated from operations**</b>		

Once you have done the above tabulation – answering the following queries will not be big task.

- (a) *‘Vinyl Chemicals has essentially tapped short-term sources of financing for its long-term requirements’*
- (b) *The funds generated from operations were not sufficient to fund its increase of fixed assets*

**CHAPTER 4**  
**Case 2 : Four Cash Flow Statements**

It will immensely help a reader if he starts doing the analysis after answering the following series of questions (for each and every company).:

1. What were the major sources<sup>1</sup> of cash during the last two years?
2. What were the major uses<sup>2</sup> of cash during the last two years?
3. Was cash flow from operations greater than or less than net income? Explain in detail the major reasons for the differences in these two figures.
4. Did the cash flow from operations cover both the capital expenditures and the firm’s dividend payments, if any?  
If it did, how did the firm invest excess cash?  
If not, what were the sources of cash the firm used to pay for the capital expenditures and/or dividends?
5. Were the working capital (current asset and current liability) accounts other than cash primarily sources of cash or uses of cash?
6. Based on the evidence in the *Statement of Cash Flow* alone, what is your assessment of the financial strength of the business? Why?

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<sup>1</sup> (please consider operating activities as a single item – we will split and evaluate it from question three onwards)

<sup>2</sup> (please consider operating activities as a single item – we will split and evaluate it from question three onwards)

**CHAPTER 4**  
**Case 3 : Last Visit to CNBC India**<sup>3</sup>

This case wraps the discussion we had in chapters 2 and 3 on this company. It comprehensively takes a student through a firm in quite some detail (using limited publicly available information). It also helps you to relate a funds flow statement with a statement of cash flow. A firm going through a massive restructuring and growth phase is captured in its best stage.

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<sup>3</sup> Television Eighteen (TV18) is India's premier business and consumer news broadcaster and a leading media content provider. Besides that, it has, over the last decade, provided prime time television content to almost all leading satellite channels in India. It is among the fast growing media companies in India. TV18 owns studios in New Delhi and Mumbai and has a news gathering network of over 200 journalists across the country.

**CHAPTER 4**  
**Case Study 4: Pioneer Distilleries Ltd.**

One learns a lot about a firm when you look at the financial numbers over a longer time span. This case has been one of our favorites to capture a complete change in the financial performance. Two comparative cash flow statements at two different time horizons have been presented in the case. The first statement of cash flows is for the period FY2000-2002, whereas the next cash flow statement is more recent from FY2004-2006. Many things have happened to the firm ... just have a glance at the types of activities, the change in figures and the quantum of change.

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## **CHAPTER 4**

### **Case 5: Ram Traders: Statement of Cash Flow**

This case is the continuation of the case which the instructors have introduced to you all in chapter in chapter 2 & 3. Based on the derived balance sheet & profit and loss a/c figures, try to generate the cash flow statement using indirect method. In the direct method, we suggest you to look at each transaction, decide on the type of transaction activity (i.e., one among operating, financing, and investment activities) and its effect on cash.

You will enjoy the experience of selling Chili (Mirchi) ... without getting red on us ☺

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**CHAPTER 4**  
**Case 6: L&T: A Nice Dream**

This is a unique case where you will get answers based on your date of birth and your roll number. It is about around 10 transaction of a firm. This case is simple & easy [provided you are open to looking at accounting from an analytical fashion and assimilate the situation step by step].