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CHAPTER 8

Case hints: The notes below every case are not solutions – but they will give you some clues into ensuring that you are on the right track. Most of the cases in this chapter are simple.

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CHAPTER 8

Case 1: Inventory Valuation at the Gontermann Peipers

This case is not a difficult one (in terms of the questions therein). While looking at the case, we suggest the reader to revisit the relevant portions of a discussion on inventory valuation & reporting (see, chapters 2 and chapter 8). Answers for two of the questions are already mentioned therein. One would be able to observe that inventory issues for a manufacturing firm could be complicated and challenging.

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CHAPTER 8

Case 2 : The A to Z of Accounting

Many of us are rules and formats bound (and hence have conceptual problems). This is especially true with some of us who have a core background which stressed on rule, regulations, legalities and a lack of innovations. The core objective of this case is to take a student through a case wherein he has to prepare a company’s financial statements using his conceptual accounting knowledge and some assumptions. We suggest a reader to go through each sentence twice and crack the case.

Best wishes ☺

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CHAPTER 8

Case 3: Accounting at Bubbly Limited

A case prepared to capture the issues related to accounting policies related to depreciation, inventory and provisions. You should be it after going through illustrations capturing these accounting policies in the chapter. Going through the relevant accounting standards (in chapter 9) would improve your case analysis.

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Case 4: Adjustment in Depreciation Practices by Hexaware Technologies

Consider the example of the market price and economic utility of new laptop computers when they were introduced and six months hence. This case is an attempt to bring the importance of this aspect. We suggest the reader to at least browse through the accounting standards on ‘depreciation & amortization’ and ‘impairment of assets’ before solving this case (see, Chapter 9).

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CHAPTER 8

Case 5: Rights Issue by Cochin International Airport

Cochin International Airport Limited (CIAL) case introduces you to rights issues of equity shares and/or conversion of loans. It is also created to cover the changes in balance sheet of a firm due to its financial restructuring. CIAL has been created for that. It should not be difficult for a reader to jot down the journal entries after referring to the illustrations and discussion in the chapter 6 and 8 related to issue of equity shares.

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CHAPTER 8

Case 6: Bonus Issue by Marico Industries

Readers should appreciate that apart from cash dividends; there can be other ways of rewarding shareholders. While questions (a) and (b) can be easily answered after observing the relevant changes in the 10-year shareholders funds. The third question though sounding simple should be probed deeper (especially after looking at the notes to schedules). Readers may benefit by reviewing the domain knowledge related to issue of equity shares in chapters 6 and 8.

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Case 7: Television Eighteen: Computation of Corporate Tax

The numbers present in the case are going to create lot of issues. Readers browsing through this case would in all probability be surprised that the company has significantly improved its performance at the operating level but still ended up having negative numbers at the net profit level.

Readers are suggested to look for reasons and logic behind these large negative numbers at the final level. The cues will come when one starts evaluating ‘item-wise’ the new income statement in comparison to last year’s income statement.

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CHAPTER 8

Case 8: Splits & Redemption in Ashok Leyland Ltd.

This case will help you to understand the accounting of stock splits of equity shares & redemption of debentures. You also get to see the complex and multiple instruments which modern day companies use to raise capital (such as GDRs, and Various Series of Debentures) Please do not be bamboozled with the jargons used – these are just terms used by companies while financing themselves and for the one who is conceptually solid it is just a matter of time before he feels more confident.

CHAPTER 8

Case 9: Mutual Investments by Jet Airways

This course will introduce to you the concept of mutual fund. Moreover, you will know more about investments by companies. In case you have doubts on mutual funds, you can do some net search. We provide a few clues to take the discussion richer:

- (a) Mutual funds are generally less risky compared to individual shares & they are consistent in providing a certain percentage of return. Jet Airways have invested in mutual fund to utilize the cash balances in a better way (provided much higher rate of return compared to current account of a bank) with minimum risk.
- (b) The investments are generally valued at lower of cost (acquired price) or market price. But for long term investments, if the increase in price is consistent over a longer time frame. The increase can be considered as capital gain & necessary adjustments are done. To provide an idea to the investor about the fluctuation in market value of the invested mutual funds, every company provides necessary information on market price of those mutual funds.

CHAPTER 8

Case 10: Inventories & Investments of MRO-TEK

This is a more comprehensive case on receivables, inventories & investments. The case is relatively complex & you are requested to read the relevant portion thoroughly before you attempt this case. You will learn some new jargons like diminution in value of investments & letter of credit. Please make use of the glossary and also the relevant accounting standards while floating through this case. Some brief information about a few terms are provided below:

- LC is nothing but Letter of Credit which an importer issues to the company from where it is a company. It is like a guarantee given by the importer's bank that the bank will pay if the importer can't pay for the product purchased. After getting the LC from the importer, the seller ships the product. This LC can be cashed easily at the exporter's bank, but at a discount. The banker then collects the amount from the importer, based on their trade terms & conditions.
- If a company is having some doubt on the recovery from the debtors, it creates a provision for bad debts. If the debtors don't pay after a certain time period, this provision becomes bad debt expense.

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CHAPTER 8
Case 11: Desert Safari by Abdullah

This case is a comprehensive case & it will address almost all the concepts you have learned in this chapter. First you start with identifying the mistakes made in the profit & loss account & balance sheet. Once identified the mistakes and making the corrections try to prepare a new balance sheet after entering the new transactions (go through journal entry & ledger). This case is having another component where concept of bank reconciliation is tested. The case may look complex when you see all the components together. But break down it into pieces & I am sure you can solve this case easily. This case is bound to ignite the entrepreneur in you.