

INDIAN INSTITUTE OF TECHNOLOGY KHARAGPUR

Mid-Autumn Semester Examination 2023-24

Date of Examination: 22-09-2023 Session: (FN/AN) AN Duration: 2 Hrs. Full Marks:70 Subject No.: EP61203 Subject: Financial and Legal Aspects of New Technology Ventures Department/Center/School: Rajendra Mishra School Of Engineering Entrepreneurship Specific charts, graph paper, log book etc., required: None Special Instructions (if any) : Answer all questions. Make necessary assumptions, if required

1. A partial comparative balance sheet and statement of profit and loss information of VB & Co. are placed below (Amount in INR): [**18 marks**]

|  |  |  |
| --- | --- | --- |
|  | ***2020-2021*** | ***2019-2020*** |
| Inventory | 90,000 | 100,000 |
| Trade receivables | 350,000 | 250,000 |
| Marketable securities (i.e., Short term investments) | 50,000 | 40,000 |
| Cash and cash equivalents | 70,000 | 60,000 |
| Total current assets | 560,000 | 450,000 |
| Trade payables (the only current liability) | 80,000 | 60,000 |
|  |  |  |
| Revenue | 2,000,000 | 1,800,000 |
| Cost of goods sold | 1,400,000 | 1,300,000 |
| Gross margin | 600,000 | 500,000 |

The trade receivables and inventory as of March 31, 2019, were INR 300,000 and 80,000 respectively. Trade payable, the only current liability, was INR 60,000.

(a) Compute the **current ratio, quick ratio, Days Sales Outstanding (DSO), inventory turnover, Days in Inventory (DII), Days Payables Outstanding (DPO)** for each of the years 2020-2021 and 2019-2020.

(b) Comment on the change in the company’s liquidity position and cash conversion cycle.

1. **A.** KK & Co. reported net profit of INR 200,000 in the year 2021-2022. It also reported depreciation expense of INR 40,000 and loss of INR 10,000 on disposal of an item of property, plant, and equipment. The comparative balance sheet shows an increase in Trade Receivables by INR 20,000, increase in Trade Payables by INR 15,000 and increase in prepaid expenses by INR 5,000 during the year 2021-22. Calculate the **cash flow from operating activities.** [**5 marks**]
2. **B.** Explain what effect the following transactions would have on **cash and indicate against each transaction whether it resulted in cash flow from operating or investing or financial activities or noncash operating activities.**  [**15 marks**]

(i) Purchased equipment for INR 5,00,000 on credit

(ii) A corporate bond is retired with INR 8,00,000 in cash and the proceed of INR 2,00,000 from the issue of equity shares.

(iii) Issued equity shares at face value for INR 20,00,000 on conversion of convertible debentures.

(iii) Goods-in-trade purchased on credit for INR 3,00,000.

(iv) A dividend of INR 0.25 per share is paid on 8,00,000 outstanding shares.

(v) A piece of machinery is sold for INR 6,00,000. Its acquisition cost was INR 20,00,000 and at the time of sale accumulated depreciation was INR 18,00,000.

1. FG & Co. was incorporated on April 1, 2020. It is engaged in the trading business. The promoter introduced share capital of INR 10 lakhs. It has presented the following information about its operations for the first year ended on March 31, 2021:

|  |  |
| --- | --- |
| ***Particulars*** | ***Amount in INR lakhs*** |
| Trade Receivables | 30 |
| Trade payables | 20 |
| Cash and cash equivalents | 5 |
| Investments in units of mutual funds | 7 |
| Share capital | 10 |
| Dividends Received | 4 |
| Equipment | 3 |
| Sales | 200 |
| Stores rent | 6 |
| Cost of goods sold | 120 |
| Inventory at the end of the year | 5 |
| Salary | 12 |
| Carriage inward | 2 |
| Carriage outward | 4 |
| Travelling expenses | 8 |
| Income tax expense | 12 |
| Advance tax paid | 12 |

Prepare the statement of profit and loss for the year 2020-2021, statement of retained earnings and

balance sheet as at March 31, 2020, of FG & Co. [**20 marks**]

1. **A.** Mention the **different legal entitlements of a shareholder.**  [**5 Marks**]
2. **B.** Discuss **how the law regulates the raising of equity capital for a private limited company.** [**5 marks**]
3. **C.** Elaborate the following statement:

“**One Person Company (OPC)** is a recent social innovation to encourage young entrepreneurs to

commercially experiment with an innovative business idea.” [**2 marks**]