

**Faculty of Management
Tribhuvan University**

**MBM 3rd Semester
Model Question**

Financial Reporting and Taxation

Full Marks: 100

Time: 4 Hours

*Candidates are required to answer all the questions in their own words as far as practicable.
Figures in the bracket indicate full marks*

Group A

Case Analysis

(1x25=25)

MM Garment House a renowned garment company is planning to take over the YY Garment Udayog known for traditional designs of garment products in the market of India. The Financial Controller of MM Garment House has obtained the computer print of the Profit and Loss a/c, Balance Sheet and other required information of YY Garment Udayog by login on the web-site to appraise financial position.

Statement of Profit and Loss for the year 2023

Particulars	Amount (Rs.)
Revenue from operation (including credit amount of Rs.700,000)	1,000,000
Less: Cost of sales	(600,000)
Gross margin	400,000
Add Other income (including interest received Rs.6,000)	40,000
Total	440,000
Less: Distribution expenses	(90,000)
Less: Administrative expenses (write-off of goodwill Rs.10,000 and depreciation of Rs.90,000)	(240,000)
Operating Profit	110,000
Less: Finance cost (including interest expenses Rs.20,000)	(25,000)
Net profit before tax	85,000
Less: Provision for tax	(21,250)

Net profit after tax	63,750
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Statement of Financial Position of a company for 2022 and 2023

Assets	2022	2023
Non-Current Assets:		
Property, plant and equipment	500,000	600,000
Intangible assets (Goodwill)	30,000	20,000
Investments	140,000	210,000
Total Non-Current Assets	670,000	830,000
Current Assets:		
Inventories	40,000	60,000
Cash and cash equivalents	50,000	40,000
Account receivables	30,000	50,000
Trade and Other receivables	50,000	45,000
Total Current Assets	170,000	195,000
Fictitious Assets	-	-
Total Assets (Total Non-current and Current Assets)	840,000	1,025,000
Equity:		
Share capital @Rs.100 each	500,000	600,000
Reserve/Retained earnings	40,000	103,750
Non-controlling interests	-	-
Total Equity	540,000	703,750
Liabilities		
Non-Current Liabilities:		
10% Loans and borrowings	200,000	300,000
Total Non-Current Liabilities	200,000	300,000
Current Liabilities:		
Trade and other payable	80,000	-
Income tax liabilities	-	21,250
Provisions	20,000	-
Total Current-Liabilities	100,000	21,250
Total Liabilities (Total Non-current and Current)	300,000	321,250
Total Equity and Total Liabilities	840,000	1,025,000

Additional information: Number of employee during 2023 was 40

Required: Will it be reasonable to acquire YY Garment Udhyog give your comments on the basis of following ratios:

a. Profitability measurement ratios

{Net profit ratio (plus 12%) and Return on Equity (+7%)}

b. Productivity measurement ratios

{Income per employee (at least Rs.30,000) and Labour equipment ratio (at least Rs.15,000)}

c. Efficiency measurement ratios

{Account Receivable Turnover Ratio (more than 8 times)
and Total Assets Turnover Ratio (more than 1 time)}

d. Stability measurement ratios

{Quick Ratio (1 – 1.6 times) and Interest expense ratio (less than 25% of revenue)}

e. Possibility measurement ratios

{Net profit increase ratio (at least 10%) and Total capital increase ratio (at least 10%)}

f. Comment on the results

(5x4+5)

Group B

Problem Solving and Critical Analysis Questions

(3x15=45)

Attempt any three questions

2. “Accounting is the language of financial decisions”, comments.

3. “Tax planning is the process of analyzing a financial plan or a situation from a tax perspective. With the help of tax planning, one can ensure that all elements of a financial plan can function together with maximum tax-efficiency”, comments.

4. The ABC Company's Statement of Profit and Loss account and Statement of Financial Position for two years have been given below:

Statement of Profit and Loss for the year 2023

Particulars	Amount (Rs.)
Revenue from operation	900,000
Less: Cost of sales	(500,000)
Gross margin	400,000
Add: Other income	50,000
Total	450,000
Less: Distribution expenses	(100,000)
Less: Administrative expenses	(210,000)
Operating Profit	140,000
Less: Finance cost (all interest)	(15,000)
Net profit before tax	125,000
Less: Provision for tax	(31,250)
Net profit after tax	93,750
Less: Dividend Paid	(18,750)
Retained Earning	75,000

Statement of Financial Position of a company for 2022 and 2023

Assets	2022	2023
Non-Current Assets:		
Property, plant and equipment	600,000	700,000
Intangible assets	30,000	15,000
Investments (long term)	50,000	120,000
Total Non-Current Assets	680,000	835,000
Current Assets:		
Inventories/Stock	50,000	60,000
Cash and cash equivalents	40,000	70,000
Account receivables	40,000	55,000
Trade and Other receivables	40,000	30,000
Total Current Assets	170,000	215,000
Fictitious Assets	10,000	5,000
Total Assets (Total Non-current, Current and Fictitious Assets)	860,000	1,055,000
Equity:		
Share capital @Rs.100 each	500,000	600,000
Reserve/Retained earnings	60,000	135,000
Non-controlling interests	-	-
Total Equity	560,000	735,000
Liabilities		
Non-Current Liabilities:		
10% Loans and borrowings	200,000	150,000
Total Non-Current Liabilities	200,000	150,000
Current Liabilities:		
Trade and other payable	60,000	138,750
Income tax liabilities	-	31,250
Provisions	40,000	-
Total Current-Liabilities	100,000	170,000
Total Liabilities (Total Non-current and Current)	300,000	320,000
Total Equity and Total Liabilities	860,000	1,055,000

Additional information:

- Other income includes interest received of Rs.12,000
- Distribution expenses includes bad debts of Rs.10,000
- Administrative expenses includes depreciation of Rs.105,000, write off of intangible assets Rs.15,000 and write off of fictitious assets of Rs.5,000

Required:

- a. Statement of Cash Flow
- b. Interpretation of cash from different activities

(9+6)

5. X company is considering investing in Rs.2,000,000 in a special industry. Out of this total investment 80 percent is related with purchase and installation of plant and machinery. For the initial five year, the estimated profit before depreciation, transportation cost and tax are as follows.

Year	1	2	3	4	5
Outputs (units)	10,000	12,000	13,000	14,000	15,000
PBDTCT (Rs.)	1,050,00	1,200,000	1,350,000	1,500,000	1,600,000

The company has considered Pokhara and Nepalgunj are the two probable sites suitable for plant location. In both sides the required raw material are available at local level. However, average transportation cost is Rs.5 and Rs.8 per unit for collection of raw material is required respectively in Pokhara and Nepalgunj. It is necessary to process 2 units of raw material in order to produce one unit of final output. Kathmandu is the main market of the output. The transportation cost to Kathmandu from Pokhara and Nepalgunj are estimated to be Rs.10 and Rs.12 per unit of output respectively. The company has supposed that 20 percent and 30 percent rebates on applicable tax rate are available in Pokhara and Nepalgunj to this kind of industry.

Required: As a tax planner, suggest company to select most suitable site for plant location.

Group C

Concept Based Answer Questions (Attempt any six questions)

(6x5=30)

6. What is integrated reporting? Why it is needed?
7. Write in brief about the disclosures required as per NFRS.
8. Briefly explain about the Double Taxation Avoidance Treaty of Nepal.
9. Differentiate between withholding payment and final withholding payment with suitable example.
10. The Trial Balance of ABC Company as on 31st December 2023 is given below:

Particulars	Debit (Rs.)	Credit (Rs.)
Equity share capital	–	800,000
Building	500,000	–
Goodwill	40,000	–
10% Bank loan	–	120,000
Revenue from operations/sales	–	800,000
Purchase	462,000	–

Salaries	44,000	–
Cash at bank	66,000	–
Investment	200,000	–
Account payable	–	80,000
Account receivable	60,000	–
Commission received	–	20,000
Prepaid insurance	48,000	–
Office rent	60,000	–
Equipment	300,000	–
Promotional expenses	40,000	–
Total	1,820,000	1,820,000

Adjustments:

- i. Closing stock Rs.20,000
- ii. Depreciation rate of building 5% and equipment 25%
- iii. Salary to be paid Rs.4,000
- iv. Prepaid insurance expired Rs.36,000

Required: Statement of Profit and Loss for the year ending 31st December 2023 as per NFRS

11. The following are the balancing figures of ledger:

a. Revenue	Rs.300,000
b. Purchase	Rs.200,000
c. Fixed Assets	Rs.200,000
d. Cash	Rs.38,000
e. Account payable	Rs.80,000
f. Account receivable	Rs.68,000
g. Rent	Rs.42,000
h. Salary	Rs.40,000
i. Share Capital	Rs.200,000
j. Outstanding Salary	Rs.8,000

Required: Trial Balance

12. KK Manufacturing Company Limited expects the following operating profit and loss for the next seven year.

Year	1	2	3	4	5	6	7
Profit and loss	(60,000)	(45,000)	30,000	75,000	130,000	250,000	300,000

In the light of these expected financial performance, the company would like to know the effects of tax planning to reduce the tax liability. The planned financial activates of the company for next seven years are as following:

- To install a pollution control device at the cost of Rs.50,000.
- To buy a patent right having life of five years at Rs.225,000.
- To redeem bank loan of Rs.350,000.
- To provide fully deductible donation of Rs.100,000 to a social organization as per government notification.
- To pay cash dividend to shareholders @ 10 % of profit.

Required:

- i. Timing of activates with justification.
- ii. Tax payable in each year.

13. The XYZ Bakery Ltd. has been considering replacing its old 'Bread Slicing Machine' with a new machine. The new machine would cost Rs.800,000 as an initial outlay for outright purchase. However, the company could obtain a hundred percent lease for an annual payment of Rs.220,000 at the end of the year for five years. The company applies depreciation on its fixed assets as per IT Act. The corporate tax rate applicable to the company and cost of capital would be 20% and 10% respectively.

Required: Lease or purchase of new machine