

"Masking the Crisis: A Case on Business Agility During COVID-19"

Mr. Rinku was a born entrepreneur and had started and run many businesses successfully. He could find a business opportunity in any adversity. During the times of COVID-19, he set up part of his factory to store and supply PPE kits in Bangalore. He contacted manufacturers in Pune to get the supply of PPE kits. On 01 July 2019, he spent Rs. 6,00,000/- from his savings to set up the new facility. He also borrowed Rs. 1,00,000/- from ICICI bank at an interest rate of 10% pa. He did the following transactions during the period from 01 July 2019 to 30 June 2020:

All figures in Rs.

Mini Pickup truck	400000 (life – 5 years, scrap value – 50000) – 40000 yet to be paid to the dealer
Establishment expenses	20,000
Generator	25000 (life – 20 years, scrap value - 2500)
Purchase of PPE kits	2,00,000 (In this 20000, yet to be paid to the supplier)
Salary to salesman	3,60,000 plus salary of one part time driver yet to be paid – 20000.
Sale of PPE kits to hospitals	240000 (in this 40,000 is yet to be collected from customers)
Sale of PPE kits to other customers	5,60,000
Paid insurance premium for one year (policy covers factory and stock of materials)	24,000
Office supplies purchased and consumed	4,000
Other expenses	35,000

The business had a stock of PPE kits totally valued at Rs. 14000 on 31 July 2020. There was an electricity bill yet to be paid, amounting to Rs. 6000/-. He had collected an advance payment of Rs. 55000/- from a hospital for PPE kits to be supplied in August 2020.

Required to:

1. Prepare the Profit and Loss account for the period 01 April to 31 July 2020 (Apply straight line method of depreciation) – 5 marks
2. Calculate the cash balance as on 31 July 2020 – 2 marks
3. Prepare Balance sheet as on 31 July 2020 – 5 marks
4. If the company were to follow the written-down value method for charging depreciation, what would be the change in total depreciation, total expenses, profit, and equity?– 4 marks
5. If the ending inventory of PPE kits can be valued at Rs. 15000, what will be the change in profit and equity? What will be the profit and equity if it can be valued only at Rs 11000? (answer this question without considering the changes mentioned in part 4 above) – 4 marks