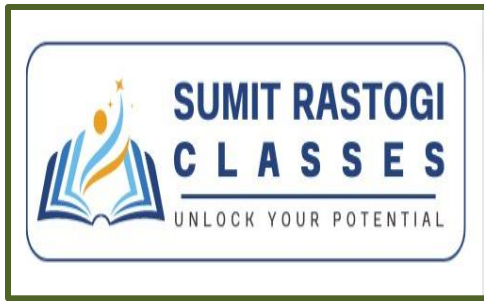




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FM & BDA

(TEST PAPER – 01)

(Chapters Covered – Fundamentals of Financial Management, Ratio Analysis, Cash Flow Statement and Fund Flow Statement)

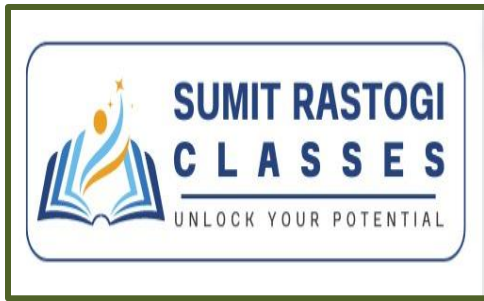
Time Allowed: 3 Hours

Full Marks: 100

Section A contains Question Number 1. All parts of this question are compulsory. Working notes should form part of the relevant answer.

SECTION – A

1. Choose the correct answer from the given alternatives (you may write only the Roman number and the alphabet of your answer. (2×15=30)
 - (i) ABC Ltd. has a Current Ratio of 2.4:1 and Working Capital of ₹ 25,20,000. What are the Current Assets?
 - (A) ₹10,50,000
 - (B) ₹23,60,000
 - (C) ₹43,20,000
 - (D) ₹60,48,000
 - (ii) In 2011-12, XYZ Pharma Ltd. had a profit margin of 20% and asset turnover of 3 times. At the end of year 2012-13, the profit margin decreases by 5% and asset turnover increased to 4 times. The return on investment for 2012-13 will be:
 - (A) 70%
 - (B) 50%
 - (C) 60%
 - (D) 80%
 - (iii) Which of the following forms of equity financing is especially designed for funding High Risk & High Reward projects?
 - (A) GDR
 - (B) Venture Capital
 - (C) ADR
 - (D) FCCB

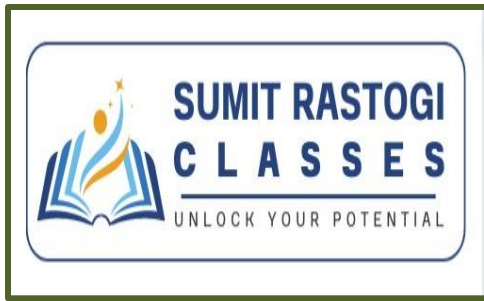


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- (iv) The RBI offers 91 Days Treasury Bills. X makes a bid at ₹98.93. Calculate the Yield to Price at the bid made by X.
(A) 1.0816%
(B) 1.0700%
(C) 4.2918%
(D) 4.3382%
- (v) Calculate the Risk-Free rate of return if the value of beta (β) is 1.5, Market return = 13% and Cost of Equity = 16%.
(A) 7%
(B) 6.75%
(C) 6.25%
(D) 5.5%
- (vi) What will be the present value of a perpetuity of ₹10,000 payables at the beginning of each period and growing @ 5% p.a. and the interest rate is 10% p.a.?
(A) 2,30,000
(B) 2,20,000
(C) 2,10,000
(D) 2,00,000
- (vii) ROI (Return on Investment) can be decomposed into the following ratios:
(A) Net Profit Ratio and Fixed Assets Turnover
(B) Working Capital Turnover Ratio and Net Profit Ratio
(C) Net Profit Ratio and Overall Turnover Ratio
(D) Overall Turnover Ratio and Current Ratio
- (viii) Compute the beta of Security X from the following information:

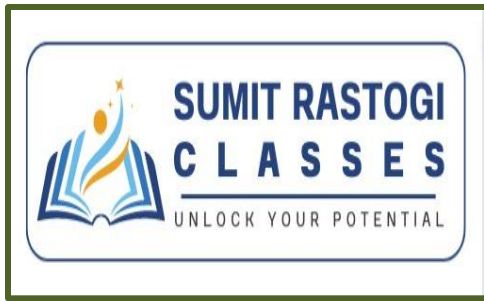
Standard Deviation of Security X	15%
Standard Deviation of Market Portfolio	12%
Regression Coefficient between returns of Security X and Market Portfolio	0.80%

- (A) 1.50
(B) 0.80
(C) 1.25
(D) 1.00



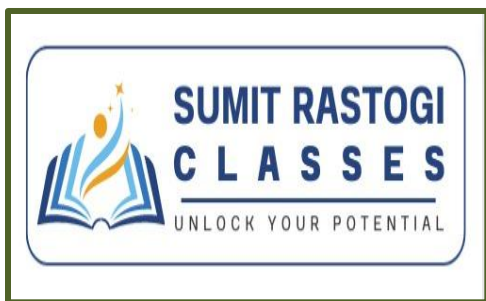
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- (ix) Which one of the following activities is outside the purview of financing decision in financial management?
- (A) Deciding on the time of raising the funds
 - (B) Identification of the source of funds
 - (C) Measurement of the cost of funds
 - (D) Deciding on the utilization of the funds
- (x) Shareholders' wealth" in a firm is reflected by:
- (A) the market price per share of the firm.
 - (B) the amount of salary paid to its employees.
 - (C) the book value of the firm's assets less the book value of its liabilities.
 - (D) the number of people employed in the firm.
- (xi) PJ Ltd. purchased a Machine on 01-10-2021 for ₹20,80,000 payable as to 25% by a cheque and 50% of the balance by an issue of 14% Preference Shares of ₹500 each at a premium of ₹20 per share and the remaining by an issue of 12% Debentures of ₹500 each at a premium of 4%. Unpaid interest on these debentures and Unpaid Preference Dividend on 31st March 2022 amounted to ₹5,000 and 2,500 respectively Calculate Cash flow from Financing Activities for Cash Flow Statement as per AS-3.
- (A) (90,000)
 - (B) (93,900)
 - (C) (1,80,000)
 - (D) (1,87,000)
- (xii) Interest from Fixed Deposits in Banks is shown as:
- (A) Cash Flows from Financing Activities
 - (B) Cash Flows from Operating Activities
 - (C) Cash Flows from Investing Activities
 - (D) None of the above
- (xiii) Funds required ₹10,00,000 to be arranged by the issue of 30% Equity Shares of ₹10 each to be issued at ₹20, 60% in 10% Debt and Balance by 15% Preference Shares, Tax Rate: 25% Return on Investment (ROI) is 30%, Return on Equity Shareholders Funds (ROE) will be:
- (A) 55%
 - (B) 60%
 - (C) 46.875%
 - (D) 47.50%



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- (xiv) Average collection period is 2 months, Cash sales and average receivables are ₹5,00,000 and ₹6,50,000 respectively. Find Total Sales.
- (A) ₹34,60,000
 - (B) ₹42,80,000
 - (C) ₹35,60,000
 - (D) ₹44,00,000
- (xv) Which of the following statements is correct?
- (A) Lower Debt-Equity Ratio means lower Financial Risk.
 - (B) higher Receivable Turnover is not desirable.
 - (C) Increase in Net Profit Ratio means increase in Sales.
 - (D) Interest Coverage Ratio depends upon Tax Rate.



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SECTION – B

Answer any five questions from question number 2 to 8. (14×5=70)

2 (a) The following financial parameters and Balance Sheet of BXA Ltd. for the year ended 31-3-2021 are given:

Gross profit on sales	25%
Total Assets Turnover Ratio	2 times
Inventory Turnover Ratio (Based on COGS and year end inventory)	4 times
Average collection period (360 days in year)	45 days
Total debt to net worth	1:3
Quick ratio	1.5

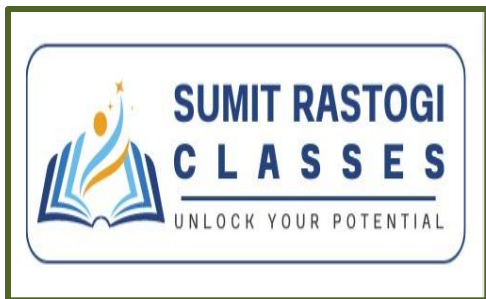
Balance Sheet as on 31-3-2021

Liabilities	Amount (₹)	Assets	Amount (₹)
Equity share capital	4,00,000	PPE	-
Other Equity	8,00,000	Current Assets:	
Total Debt:		Inventory	-
Current Liabilities	-	Debtors	-
		Cash and Cash Equivalents	2,00,000
	-		-

Based on the above information you are required to answer the following questions:

- What is the value of Current Liabilities?
- What is the value of Properties, Plants and Equipment (PPE)?
- What is the value of Inventory?
- The value of Debtors will be _____.

(7 marks)



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2 (b) The following accounting information and financial ratios of Bhalu Ltd. relate to the year ended 31st March, 2015:

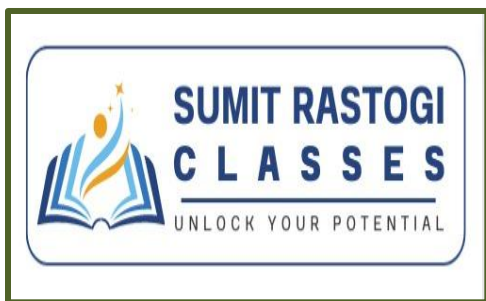
Particulars	Details
Inventory Turnover Ratio (Based on cost of goods sold)	6 times
Creditors Turnover Ratio	10 times
Debtors Turnover Ratio	12 times
Current Ratio	2.4
Gross Profit Ratio	25%

Total Sales 60 Lakhs; Cash Sales 25% of Credit Sales; Cash Purchases ₹4,60,000; Working Capital ₹7,14,000; Closing Inventory is ₹1,60,000 more than Opening Inventory.

You are required to calculate:

1. Average Inventory
2. Purchases
3. Average Debtors
4. Average Creditors
5. Average Payment Period
6. Average Collection Period
7. Current Assets
8. Current Liabilities

(7 marks)



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3 (a) From the information given below you are required to prepare a CASH FLOW STATEMENT for the year ended 31st March, 2017:

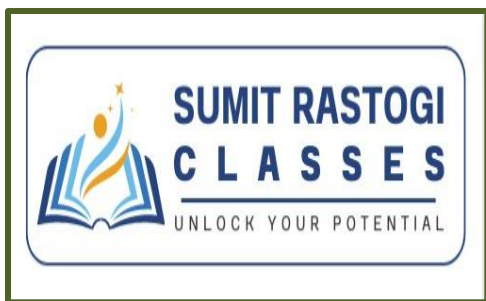
Balance Sheets as at

Particulars	31-03-2017	31-03-2016
Liabilities:		
Share Capital	90,000	70,000
Profit & Loss Account	10,000	7,000
Secured Loan	40,000	-
Trade Payables	37,000	14,000
Tax Provision	3,000	1,000
Total	1,80,000	92,000
Assets:		
Plant & Machinery	92,000	50,000
Inventory	40,000	15,000
Trade Receivables	20,000	5,000
Cash and Cash Equivalents	24,000	20,000
Prepaid Expenses	4,000	2,000
Total	1,80,000	92,000

Income Statement for the year ended 31-03-2017

Particulars	Amount (₹)	Amount (₹)
Sales		1,00,000
Closing Stock		40,000
		1,40,000
Opening Stock	15,000	
Purchases	98,000	(1,13,000)
Gross Profit		27,000
General Expenses	10,000	
Depreciation On Plant & Machinery	8,000	
Provision for Tax	5,000	(23,000)
Net Profit		4,000
Balance b/f		7,000
Dividend		(1,000)
Balance c/f		10,000

(7 marks)



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3 (b) Complete the Balance Sheet in the table below for TANISH LTD. using the following financial data:

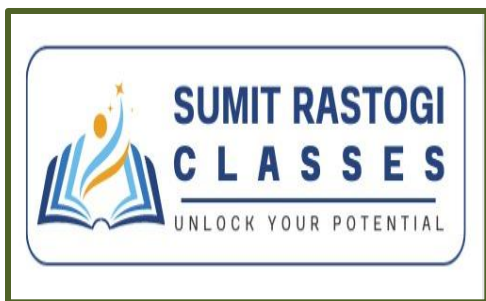
- (i) Total Debt to Net Worth = 1:2
(ii) Total Assets Turnover = 2
(iii) Gross Profit on Sales = 30%
(iv) Average Collection Period (Assume 360 Days in a Year) = 40 Days
(v) Inventory Turnover Ratio on Cost of Goods Sold and Year-End Inventory = 3
(vi) Acid Test Ratio = 0.75

Balance Sheet as on 31-03-2018

Liabilities	Amount (₹)	Assets	Amount (₹)
Equity share capital	4,00,000	Plant & Machinery and Other Fixed Assets	-
Reserve & Surplus	6,00,000	Current Assets:	
Total Debt:		Stock	-
Current Liabilities	-	Debtors	-
		Cash	-
	-		-

Assume that there is no Bank OD in this Balance Sheet format.

(7 marks)



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4 (a) INDOGROWTH LTD. provides the following data.

Comparative Trail Balance

	31-03-2018	31-03-2017	Increase/ (Decrease)
Debit Balance	₹	₹	₹
Working Capital	2,00,000	1,00,000	1,00,000
Investments	1,00,000	1,50,000	(50,000)
Building & Equipment	5,00,000	4,00,000	1,00,000
Land	40,000	50,000	(10,000)
	8,40,000	7,00,000	1,40,000
Credit Balance			
Accumulated Depreciation	2,00,000	1,60,000	40,000
Bonds	1,00,000	50,000	50,000
Reserves	3,40,000	3,40,000	-
Equity Shares	2,00,000	1,50,000	50,000
	8,40,000	7,00,000	1,40,000

Income Statement for the Period Ending March 31, 2018

Particulars	Amount (₹)	Amount (₹)
Sales		10,00,000
Cost Of Goods Sold		(5,00,000)
		5,00,000
Selling Expenses	50,000	
Administrative Expenses	50,000	(1,00,000)
Operating Income		4,00,000
Other Charges and Credits:		
Gain On Sale of Building & Equipment	5,000	
Loss On Sale of Investments	(10,000)	
Interest	(6,000)	
Taxes	(1,89,000)	(2,00,000)
Net Income After Taxes		2,00,000

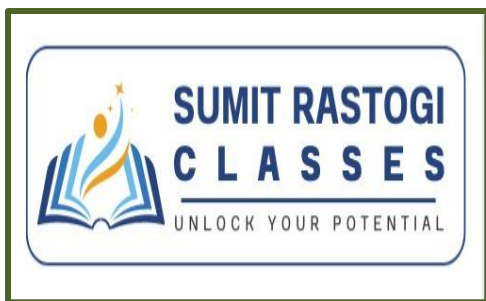
Notes:

- (i) The depreciation charged for the year ended March, 2018 ₹60,000.
- (ii) The book value of the building and equipment disposed of was ₹10,000.
- (iii) Land was sold at no profit no loss basis.

Required:

Prepare a FUNDS FLOW STATEMENT for the period ending March 31, 2018.

(7 marks)



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4 (b) The following information is given to you as on 31-3-2016 for a company:

Current Ratio	2.5
Liquid Ratio	1.5
Fixed Assets (Net)	1,80,000
Working Capital	60,000
Reserve & Surplus	40,000
Bank Overdraft (Short Term)	10,000

Assume that there is no long-term loan or fictitious assets.

Make a statement of proprietary fund and match it with fixed assets and as many details of current assets net of current liabilities. (7 marks)

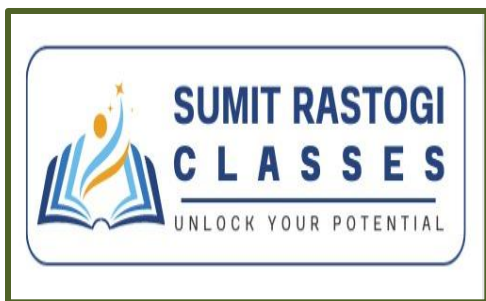
5 (a) The following balances are provided by M Ltd. for the years ended 31st March, 2014 and 2015:

Particulars	31-03-2014 (₹)	31-03-2015 (₹)
General Reserve	2,40,000	2,90,000
Profit & Loss	4,20,000	6,00,000
11% Debentures	10,00,000	6,00,000
Goodwill	2,00,000	1,60,000
Land & Building	14,00,000	13,00,000
Plant & Machinery	12,00,000	13,20,000
Investments (Non-Trading)	4,80,000	4,40,000
Creditors	3,70,000	4,30,000
Provision for Tax	1,60,000	2,10,000
Proposed Dividend	2,72,000	2,88,000
Stock	8,00,000	7,70,000
Debtors	5,76,000	8,30,000
Cash at Bank	1,76,000	1,86,000
Prepaid Expenses	30,000	22,000

Additional Information:

- Investment was sold during the year for ₹70,000.
- During the year an old machine costing ₹1,60,000 was sold for ₹ 72,000, Its written down value was ₹90,000.
- Depreciation was charged on plant and machinery @ 20% on the opening balance.
- There was no purchase or sale of land and building during the year.
- Provision for tax made during the year was ₹1,92,000.
- During the year premium on redemption of debentures written-off was ₹40,000.

You are required to prepare a statement showing the net CASH FLOW FROM OPERATING ACTIVITIES. (7 marks)



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5 (b) From the following information, prepare a POSITION STATEMENT of Assets and Liabilities as on 31st March, 2017:

(i) Working Capital	₹1,20,000
(ii) Reserves & Surplus	₹80,000
(iii) Bank Overdraft	₹20,000
(iv) Proprietary Ratio	0.75
(v) Current Ratio	2.50
(vi) Liquid Ratio	1.50

Your workings should form a part of your answer.

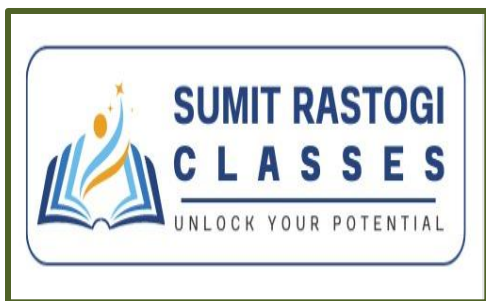
(7 marks)

6 (a) Prepare a SCHEDULE OF CHANGES IN WORKING CAPITAL AND FUND FLOW STATEMENT from the following information relating to XYZ Co. Ltd.

Particulars	31-3-2016 (₹)	31-3-2017 (₹)
Liabilities:		
Equity Share Capital	2,00,000	3,00,000
Share Premium	-	10,000
General Reserve	1,00,000	1,20,000
Profit & Loss Account	20,000	34,000
6% Debentures	1,40,000	1,00,000
Provision for Depreciation on Furniture	10,000	12,000
Provision for Depreciation on Plant	1,00,000	1,12,000
Provision for Tax	40,000	60,000
Sundry Creditors	1,72,000	1,90,000
	7,82,000	9,38,000
Assets:		
Land	2,00,000	2,00,000
Plant at Cost	2,08,000	2,00,000
Furniture at cost	14,000	18,000
Investments	1,20,000	1,60,000
Debtors	60,000	1,40,000
Stock	1,20,000	1,30,000
Cash	60,000	90,000
	7,82,000	9,38,000

A plant purchased for ₹8,000 (Depreciation 4,000) was sold on cash for ₹1,600 in October 2016. In July 2016, a piece of furniture was purchased for ₹4,000 and dividend of 22.5% was paid to Equity Shareholders.

(7 marks)



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6 (b) XBA Ltd. has furnished the following information for the year ended 31st March, 2021.

Particulars	(₹ in Lakhs)
Net profit after tax	160
Dividend (including interim dividend paid)	95
Provision for Income Tax	75
Income Tax paid during the year	60
Loss on sale of assets (net)	2
Book value of assets sold	10
Depreciation charged to P&L Account	250
Loss on Sale of investments	3
Value of investments sold	306
Interest paid during the year	145
Increase in working capital (excluding cash and bank balance)	505
Purchase of fixed assets	18
Investment in Joint venture	105
Opening cash and bank balances	12
Closing cash and bank balances	30

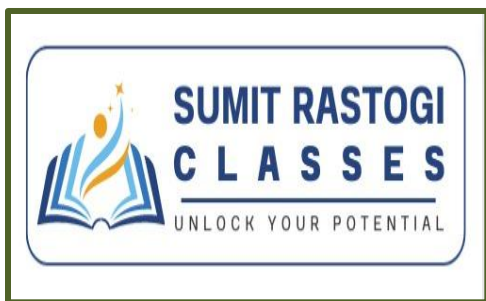
Based on the above information you are required to answer the following questions in accordance with AS-7 (Revised):

- What is the value of the Net Cash Flow from Operating Activities?
- Net Cash Flow from Investing Activities is
- What is the value of Net Cash flow from Financing Activities? (7 marks)

7 (a) Using the following data, find as many items as possible to prepare the balance sheet as at the end of the year:

Gross profits	₹5,40,000
Shareholders' Funds	₹40,00,000
Gross Profit Margin	30%
Credit Sales to Total Sales	80%
Total Assets Turnover Ratio (based on Sales Value)	0.3 times
Inventory Turnover Ratio (based on cost)	4 times
Average collection period (360 days in a year)	20 days
Current ratio	1.8
Long-term Debt to Equity	40%

(7 marks)



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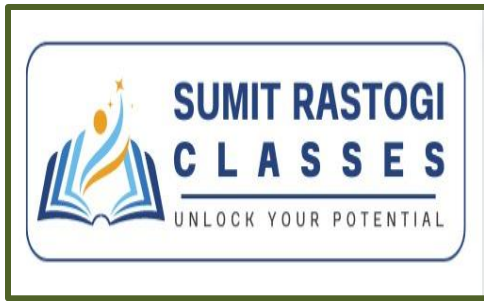
7 (b) From the following relevant extracts of the Balance Sheets of Oreo Ltd., calculate Cash Flow from Financing Activities to be disclosed in the CASH FLOW STATEMENT as per AS-7 issued by ICAI.

Particulars	31-3-2023 (₹)	31-3-2022 (₹)
Equity Share Capital (Shares of 10 each)	10,55,000	6,00,000
5% Pref. Share Capital (Shares of 100 each)	2,00,000	4,00,000
General Reserve	1,40,000	4,40,000
Profit and Loss A/c	6,42,000	(13,000)
Securities Premium	52,500	20,000
Capital Redemption Reserve	-	1,50,000
Non-Current Liabilities (12% Debenture)	2,75,000	1,50,000
Current Liabilities:		
Outstanding Interest on Debentures	10,000	-
Outstanding Underwriting Commission	5,000	-
Unclaimed Dividend on Equity Shares	20,000	-
Non-Current Assets (Machine)	30,000	-

Additional Information:

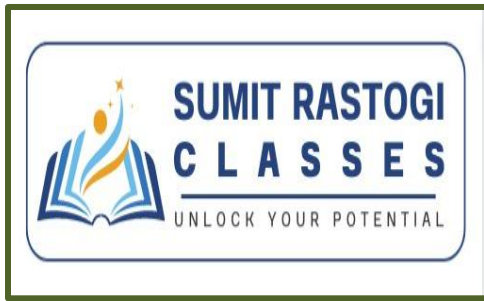
- On 1st April 2022, Dividends (including an Equity Dividend @ 35% were paid.
- On 1st May 2022, 20,000 Equity Shares of ₹10 each were issued to the public @₹15 to redeem Pref. Shares at a 5% premium.
- On 1st October 2022, 1,000 Pref. Shares of ₹100 each were issued to the public 150 to buy back 15,000 equity shares @₹15. On the same date, 50% of Debentures were redeemed at a 10% premium by converting into Equity Shares of ₹10 each @₹15 each and some New Debentures of ₹100 each were issued to the public.
- Underwriters were entitled to Commission on all public issues of securities at a maximum rate as per the Companies Act, 2013.
- On 31st March 2023, a Machine costing 30,000 was purchased by the issue of Equity Shares of 10 each at a premium of 20%.

(7 marks)



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- 8 (a)** Write a short note on Venture Capital. (5 marks)
- 8 (b)** Write a short note on differences between Fund Flow Statement and Cash Flow Statement. (5 marks)
- 8 (c)** Write a short note on Advantages of Ratio Analysis (any four). (4 Marks)



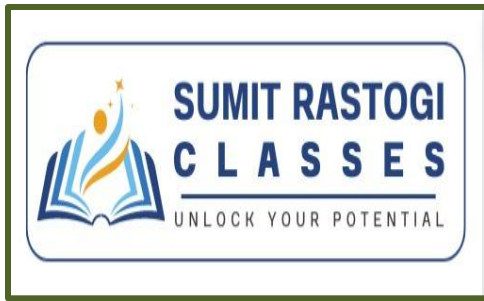
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SOLUTIONS (TEST PAPER-1)

SECTION - A

ANS. 1

- (i) (C) ₹43,20,000
- (ii) (C) 60%
- (iii) (B) Venture Capital
- (iv) (D) 4.3382%
- (v) (A) 7%
- (vi) (C) 2,10,000
- (vii) (C) Net Profit Ratio and Overall Turnover Ratio
- (viii) (D) 1.00
- (ix) (D) Deciding on the utilization of the funds
- (x) (A) the market price per share of the firm
- (xi) (A) (90,000)
- (xii) (C) Cash Flows from Investing Activities
- (xiii) (A) 55%
- (xiv) (D) ₹44,00,000
- (xv) (A) Lower Debt-Equity Ratio means lower Financial Risk.



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SECTION – B

ANS. 2 (a)

(i) Total Debt to net worth = 1:3

$$\text{Total Debt} / (4,00,000 + 8,00,000) = 1:3$$

$$\text{Total Debt} = 12,00,000 / 3 = \text{₹}4,00,000$$

$$\text{Total Debt} = \text{Current Liabilities} = \text{₹}4,00,000$$

$$\text{Total of Liabilities} = 4,00,000 + 8,00,000 + 4,00,000 = \text{₹}16,00,000$$

$$\text{Therefore, Total Assets} = \text{₹}16,00,000$$

Total Assets turnover = 2

$$\text{Sales} / \text{Total Assets} = 2$$

$$\text{Sales} \times 2 = 32,00,000 = \text{₹}32,00,000$$

$$\text{Gross Profit ratio} = 25\%$$

$$\text{COGS} = 75\% \text{ on Sales} = 75\% \text{ on } 32,00,000 = \text{₹}24,00,000$$

(ii) PPE = Total Assets - Debtors - Inventory - Cash

$$= 16,00,000 - 4,00,000 - 6,00,000 - 2,00,000 = \text{₹}4,00,000$$

(iii) Inventory turnover ratio = COGS / Closing Inventory

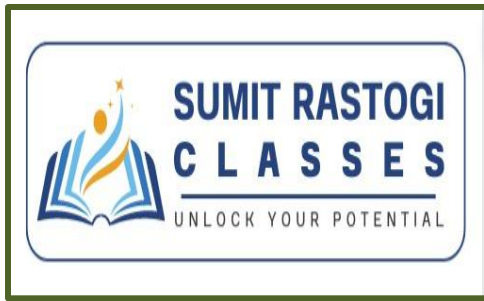
$$4 = 24,00,000 / \text{Closing Inventory}$$

$$\text{Closing Inventory} = \text{₹}6,00,000$$

(iv) Average collection period = Debtors x 360 / Credit Sales

$$45 = \text{Debtors} \times 360 / 32,00,000$$

$$\text{Debtors} = \text{₹}4,00,000$$



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ANS. 2 (b)

(i) Computation of Average Inventory:

Gross Profit = 25% of ₹60,00,000 = ₹15,00,000
Cost of goods sold (COGS) = ₹60,00,000 - ₹15,00,000 = ₹45,00,000
Inventory Turnover Ratio = COGS/Average Inventory
6 = ₹45,00,000/Average Inventory
Average Inventory = **₹7,50,000**

(ii) Computation of Purchases:

Purchases = COGS + Increase in Inventory = ₹45,00,000 + ₹1,60,000 = **₹46,60,000**

(iii) Computation of Average Debtors:

Let credit sales be 100 then cash sales = 25% of 100 = ₹25, and total sales = ₹125
When total sales = ₹60 lakhs then credit sales = ₹60,00,000 × 100/125 = 48,00,000 and Cash sales = ₹12,00,000
Debtors Turnover = Net Credit Sales/Average Debtors = 12
Average Debtors = ₹48,00,000/12 = **₹4,00,000**

(iv) Computation of Average Creditors:

Credit Purchase = Net Purchases - Cash purchases = ₹46,60,000 - ₹4,60,000 = ₹42,00,000
Creditors Turnover = Credit Purchases/Average Creditors
Average Creditors = ₹42,00,000/10 = **₹4,20,000**

(v) Computation of Average Payment Period:

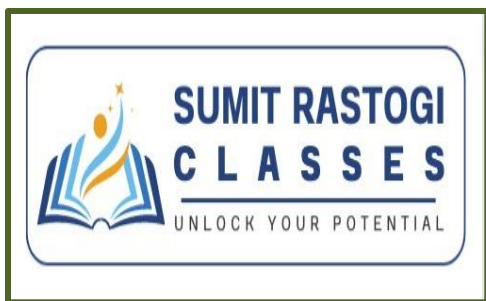
Average Payment Period = Average Creditors × 365/Credit Purchase
= ₹4,20,000 × 365/ ₹42,00,000 = **36.5 days**

(vi) Computation of Average Collection Period:

Average Collection Period = Average Debtors × 365/Net Credit Sales
= ₹4,00,000 × 365/48,00,000 = **30.417 days**

(vii + viii) Computation of Current Assets and Current Liabilities:

Current Ratio = Current Assets / Current Liabilities = 2.4
Let Current Liabilities be 'a' then Current Assets will be '2.4a' and Working Capital 2.4a - a = 1.4a
If working capital is ₹7,14,000. Then Current Liabilities = ₹7,14,000/1.4 = **₹5,10,000**
Current Assets = ₹5,10,000 × 2.4 = **₹12,24,000**



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ANS. 3 (a)

CASH FLOW STATEMENT for the year ended 31st March 2017

Particulars	Amount (₹)	Amount (₹)
(A) Cash flow from Operating Activities:		
Difference in Profit & loss Balance (10,000-7,000)		3,000
Depreciation	8,000	
Provision for tax	5,000	
Dividend	1,000	14,000
Operating profit before working capital changes		17,000
Changes in working Capital:		
Increase in Debtors	(15,000)	
Increase in inventory	(25,000)	
Increase in prepaid expenses	(2,000)	
Increase in creditors	23,000	(19,000)
Cash from Operation		(2,000)
Tax Paid		(3,000)
Net Cash flow from Operating activities		(5,000)
(B) Cash flow from Investing Activities:		
Purchase of Fixed Assets	(50,000)	
Net Cash flow from Investing Activities:		(50,000)
(C) Cash flow from Financing Activities:		
Loan Taken	40,000	
Issue of Shares	20,000	
Dividend Paid	(1,000)	
Net Cash flow from Financing activities		59,000
Net Increase in Cash and Cash Equivalents		4,000
Cash and Cash Equivalents at the Beginning		20,000
Cash and Cash Equivalents at the End		24,000

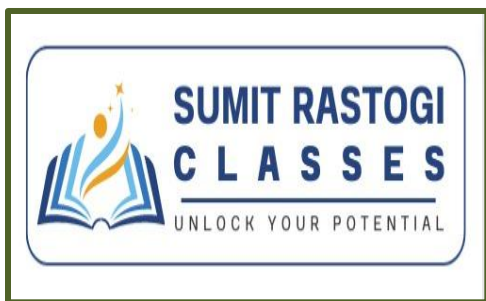
Working Notes:

1. Provision for tax:

Opening Balance	1,000
+ Provision	5,000
- Closing Balance	<u>3,000</u>
Tax Paid	3,000

2. Plant & Machinery:

Closing Balance	92,000
+ Depreciation	8,000
- Opening Balance	<u>50,000</u>
Purchase	50,000



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ANS. 3 (b)

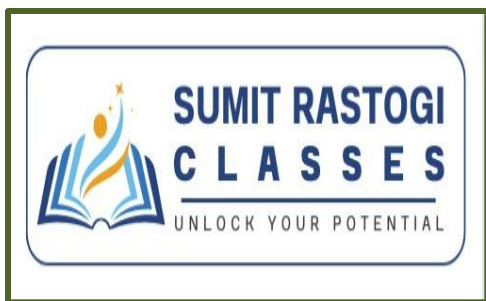
Working Notes:

- Net Worth = Equity Share Capital + Reserves & Surplus = ₹4,00,000 + ₹6,00,000 = **₹10,00,000**
- Total Debt/Net worth = $1/2$
 Total Debt = ₹10,00,000 = $1/2$
 Total Debt = ₹10,00,000/2 = **₹5,00,000**
- Total of Balance Sheet (on Liabilities) = ₹15,00,000 (after updating Working Note 2)
 Therefore, Total Assets = **₹15,00,000**
- Total Assets Turnover = Turnover/Total Assets = Turnover /15,00,000 = 2
 Turnover (i.e. Sales) = ₹15,00,000 × 2 = **₹30,00,000**
- Cost of Goods Sold (COGS) = Sales - Gross Profit = ₹30,00,000 - 30% = **₹21,00,000**
- Debtors Sales × (40/360) = ₹30,00,000 × 40/360 = **₹3,33,333**
- COGS/Closing Inventory = ₹21,00,000/Closing Inventory = 3 times
 ∴ Closing Inventory = ₹21,00,000/3 = **₹7,00,000**
- Acid Test Ratio = Quick Assets/Quick Liabilities = (Debtors + Cash)/Current Liability
 = (₹3,33,333 + Cash)/ ₹5,00,000 = 0.75
 ∴ Cash = **₹41,667**

Since there is no Bank OD in the Balance Sheet format, Quick Liabilities = Current Liabilities.

Balance Sheet as on 31-03-2018

Liabilities	Amount (₹)	Assets	Amount (₹)
Equity Share Capital	4,00,000	Plant & Machinery and Other	4,25,000
Reserve & Surplus	6,00,000	Fixed Assets (B/F)	
Total Debt:		Current Assets:	
Current Liabilities	5,00,000	Stock	7,00,000
		Debtors	3,33,333
		Cash	41,667
	15,00,000		15,00,000



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ANS. 4 (a)

FUNDS FLOW STATEMENT for the period ending March 31, 2018

Sources of Funds	Amount (₹)	Application of Funds	Amount (₹)
Funds from Operations	2,71,000	Purchase of Building & Equipment	1,30,000
Issue of Equity Shares	50,000	Interest on bonds	6,000
Issue of Bonds	50,000	Dividend paid	2,00,000
Sale of Investments	40,000	Increase in Working Capital (Given)	1,00,000
Sale of Land	10,000		
Sale of Building & Equipment	15,000		
	4,36,000		4,36,000

Statement of Funds from Operations

Particulars	Amount (₹)
Net Profit after taxes and Dividend (3,40,000- 3,40,000)	0
+ Dividend Paid	2,00,000
+ Depreciation	60,000
+ Interest	6,000
+ Loss on sale of investments	10,000
- Gain on sale of Building & Equipment	5,000
Funds From Operations	2,71,000

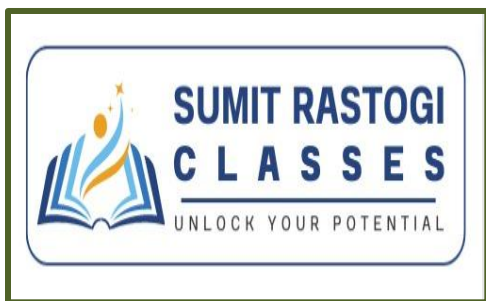
Working Notes:

1. Building & Equipment:

Opening Balance	4,00,000
- Sale	15,000
+ P&L	5,000
- Depreciation of Sale	20,000
- Closing Balance	<u>5,00,000</u>
Purchase	1,30,000

2. Accumulated Depreciation:

Opening Balance	1,60,000
+ Current year Depreciation	60,000
- Closing Balance	<u>2,00,000</u>
Accumulated Depreciation on Building & equipment sold	20,000



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ANS. 4 (b)

Current Assets/ Current Liabilities = 2.5

Current Assets = Current Liabilities $\times$ 2.5

Working Capital = Current Assets - Current Liabilities = ₹60,000

1.5 $\times$ Current liabilities = ₹60,000

Current Liabilities = 60,000/1.5 = ₹40,000

Current Assets = 60,000 + Current Liabilities

= 60,000 + 40,000 = ₹1,00,000

Bank Overdraft is not excluded from Current Liabilities as it is stated to be "short term"

Liquid Ratio (Quick Ratio) = (Current Assets - Stock) / Current Liabilities = 1.5

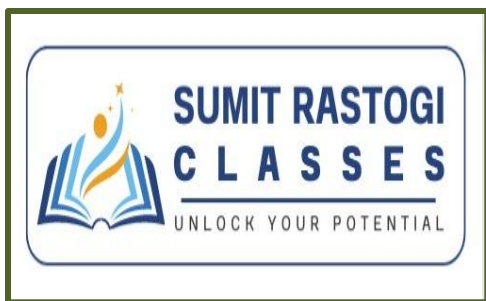
₹1,00,000 - Stock = 1.5 $\times$ 40,000

Stock = ₹1,00,000 - ₹60,000 = ₹40,000

Debtors and Cash = Current Assets - Stock = ₹1,00,000 - ₹40,000 = ₹60,000

Balance Sheet

Liabilities	Amount (₹)	Assets	Amount (₹)
Share Capital (Balancing Figure)	2,00,000	Fixed Assets	1,80,000
Reserves	40,000	Stock	40,000
Current Liabilities	40,000	Cash and Debtors	60,000
	2,80,000		2,80,000



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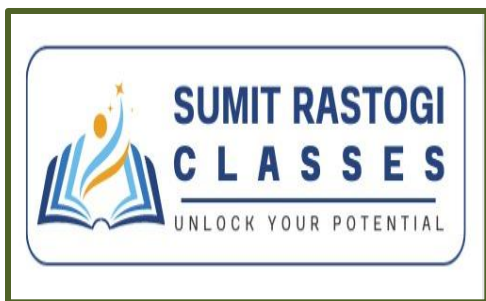
ANS. 5 (a)

CASH FLOW FROM OPERATING ACTIVITIES for the year ended 31-03-2015:

Particulars	Amount (₹)	Amount (₹)
Cash flow from Operating Activities:		
Increase in balance of Profit & loss (6,00,000- 4,20,000)		1,80,000
Transfer to general reserve	50,000	
Provision for tax	1,92,000	
Proposed Dividend	2,88,888	
Depreciation on Land & Building	1,00,000	
Depreciation on Plant & Machinery	2,40,000	
Profit on Sale of Investment	(30,000)	
Loss on Sale of Plant & Machinery	18,000	
Goodwill written off	40,000	
Premium on redemption of debentures	40,000	9,38,000
Operating profit before working capital changes		11,18,000
Changes in working Capital:		
Decrease in prepaid expenses	8,000	
Increase in debtors	(2,54,000)	
Decrease in stock	30,000	
Increase in creditors	60,000	(1,56,000)
Cash from Operation		9,62,000
Tax paid		(1,42,000)
Net Cash flow from Operating activities		8,20,000

Working Notes:

Provision for tax	₹
Opening balance	1,60,000
+ Tax provision	1,92,000
- Closing	2,10,000
Tax Paid	1,42,000



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ANS. 5 (b) Working Notes:

(i) **Current Ratio**= Current Assets (CA)/Current Liabilities (CL) = 2.5

Working Capital = ₹1,20,000

Current Assets / Current Liabilities = 2.5

CA = 2.5CL

CA - CL = 1, 20,000

2.5CL - CL = 1, 20,000

1.5CL = 1, 20,000

CL = 1,20,000/1.5 = **₹80,000**

CA = 2.5CL = 2.5 × 80000 = **₹2,00,000**

Note:

Bank Overdraft = ₹20,000, Other CL = CL – BOD = 80,000 – 20,000 = ₹60,000 (B/F)

(ii) **Liquid Ratio**= Quick Assets/QL (CL- BOD) = 1.50

Quick Assets = 1.5 × 60000 = ₹90,000

Stock = Current Assets -Quick Assets = 2,00,000-90,000 = **₹1,10,000**

(iii) **Proprietary Ratio** = (Fixed Assets/ Proprietary Funds) = 0.75

i.e., Working capital/ Proprietary Funds = 0.25

Proprietary Funds = 1,20,000/0.25 = ₹4,80,000

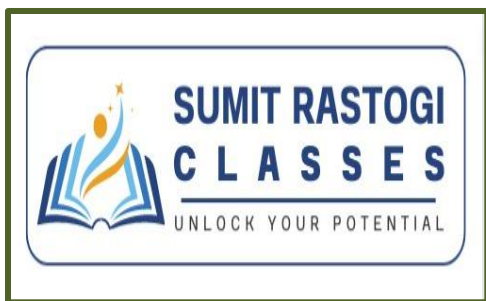
Less: Reserves & Surplus = ₹ 80,000

Share Capital = **₹ 4,00,000**

(iv) **Fixed Assets** = 4,80,000 × 0.75 = **₹3,60,000.**

Statement of Assets & Liabilities as on 31-3-2017

Liabilities	Amount (₹)	Assets	Amount (₹)
Share Capital	4,00,000	Fixed Assets	3,60,000
Reserves & Surplus	80,000	Inventory	1,10,000
Bank Overdraft	20,000	Quick Assets	90,000
Other Current Liabilities (QL)	60,000		
	5,60,000		5,60,000



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ANS. 6 (a)

Statement of Changes in Working Capital

	31-3-2016 (₹)	31-3-2017 (₹)
Current Assets:		
Debtors	60,000	1,40,000
Stock	1,20,000	1,30,000
Cash	60,000	90,000
	2,40,000	3,60,000
Current Liabilities:		
Provision for tax	40,000	60,000
Creditors	1,72,000	1,90,000
	2,12,000	2,50,000
Working Capital	28,000	1,10,000

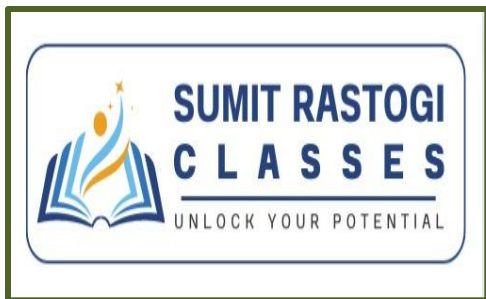
Net Increase in Working Capital = ₹1,10,000 – ₹28,000 = ₹82,000

FUNDS FLOW STATEMENT for the period ending March 31, 2017

Sources of Funds	Amount (₹)	Applications of Funds	Amount (₹)
Funds from operations	99,400	Investment purchased	40,000
Sale of Plant	1,600	Furniture purchased	4,000
Issue of Equity shares at premium	1,10,000	Dividend paid	45,000
		Increase in Working Capital	82,000
		Redemption of Debentures	40,000
	2,11,000		2,11,000

Statement of FUNDS FROM OPERATIONS

Particulars	Amount (₹)	Amount (₹)
Net Profit (34,000 – 20,000)		14,000
Dividend paid	45,000	
Depreciation	18,000	
Loss on sale of plant	2,400	
Transfer to General Reserve	20,000	85,400
Funds From Operations		99,400

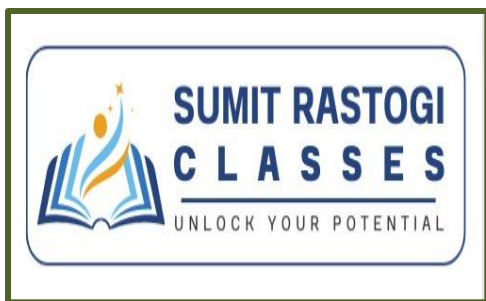


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Working Notes:

Calculation of Depreciation during the year:

Provision for Depreciation on Plant	₹
Opening Balance	1,00,000
Less: Depreciation on plant sold	4,000
Add: Depreciation during the year (b/f)	16,000
Deprecation Year end	<u>1,12,000</u>
Total Depreciation during the year:	
On plant	16,000
On furniture (12,000 – 10,000)	2,000
Total Depreciation	<u>18,000</u>



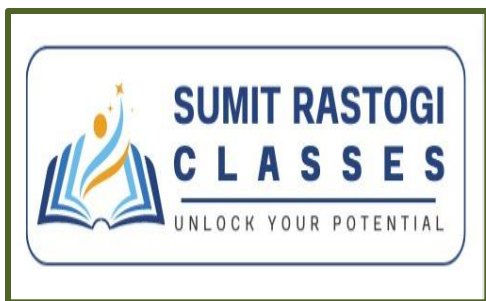
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ANS. 6 (b)

CASH FLOW STATEMENT for the year ended 31st March, 2021

Particulars	₹ in Lakhs	₹ in Lakhs
(A) Cash flow from Opening Activities:		
Net Profit after tax		160
Depreciation	250	
Provision for tax	75	
Loss on sale of assets	2	
Loss on sale of investments	3	
Interest Expense	145	475
Operating profit before working capital changes		635
Increase in Working Capital		(505)
Cash from Operation		130
Tax Paid		(60)
Net Cash flow from Operating activities		70
(B) Cash flow from Investing Activities:		
Sale of Assets (10 – 2)	8	
Sale of Investments (306 – 3)	303	
Purchase of Fixed Assets	(18)	
Investment in Joint Venture	(105)	
Net Cash flow from Investing activities		188
(C) Cash Flow from furnishing Activities		
Interest Paid	(145)	
Dividend Paid	(95)	
Net Cash flow from Furnishing activities		(240)
Net Increase in Cash and Cash Equivalents		18
Cash and Cash Equivalents at the beginning		12
Cash and Cash Equivalents at the end		30

- (i) Net Cash Flows from Operating Activities : ₹70 lakhs
(ii) Net Cash Flow from Investing Activities : ₹188 lakhs
(iii) Net Cash Flow from Financing Activities : (₹240) lakhs



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ANS. 7 (a) Working notes:

1. Total Sales:

GP Margin = 30%, GP = ₹5,40,000, Sales = ₹5,40,000/30% = ₹18,00,000

2. Credit Sales:

Credit sales = 80% of total sales = 18,00,000 × 80% = ₹14,40,000

3. Total Assets:

Total Assets Turnover = Sales/Total Assets = 0.3 times

Total Assets = 18,00,000/0.3 = ₹60,00,000

4. Inventory:

Inventory Turnover = Cost of Goods Sold/Inventory

4 = 18,00,000 - 5,40,000/Inventory

Inventory = 12,60,000/4 = ₹3,15,000

5. Debtors:

Debtors = Credit Sales × 20 days/360 days = 14,40,000 × 20/360 days = ₹80,000

6. Long-Term Debt:

Total Assets = ₹60,00,000, Total of Balance Sheet = ₹60,00,000

Now, Long-Term Debt/Equity = 40%

Long-Term Debt = 40% of Equity = 40,00,000 × 40% = ₹16,00,000

7. Current Liabilities = Total Assets - Equity - Long Term Debt

= ₹60,00,000 - ₹40,00,000 - ₹16,00,000 = ₹4,00,000

8. Cash and Bank:

Current Ratio = Current Assets/Current Liabilities

1.8 = (Debtors + Inventory + Cash and Bank)/Current Liabilities

1.8 = (80,000 + 3,15,000 + Cash and Bank)/4,00,000

7,20,000 = 3,95,000 + Cash and Bank

Cash and Bank = 7,20,000 - 3,95,000 = ₹3,25,000

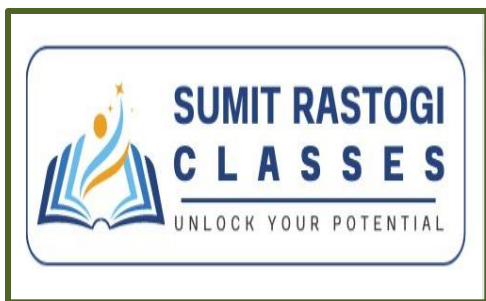
9. Fixed Assets:

Total Assets - Current Assets = ₹60,00,000 - (3,15,000 + 80,000 + 3,25,000) = ₹52,80,000

Sol:

Balance Sheet

Liabilities	Amount (₹)	Assets	Amount (₹)
Shareholders Fund	40,00,000	Fixed Assets	52,80,000
Long Term Liabilities	16,00,000	Inventory	3,15,000
Current Liabilities	4,00,000	Cash and Bank	3,25,000
		Debtors	80,000
	60,00,000		60,00,000



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ANS. 7 (b)

CASH FLOW FROM FINANCING ACTIVITIES for the year ended 31st March 2023

Particulars	₹
Cash Flow from Financing Activities	
Preference dividend paid $[4,00,000 \times 5\%]$	(2,00,000)
Equity Dividend Paid $[6,00,000 \times 35\%] - 20,000$	(1,90,000)
Issue of Equity Shares at premium $[20,000 \times 15]$	3,00,000
Redemption of Preferences Shares $[3,00,000 \times 105\%]$	(3,15,000)
Issue of Preference Shares at premium $[1,000 \times 150]$	1,50,000
Buy-Back of Equity Shares $[15,000 \times 15]$	(2,25,000)
Issue of Debentures $[2,75,000 - (1,50,000 - 75,000)]$	2,00,000
Underwriting Commission paid $[27,500 - 5,000]$	(22,500)
Interest on Debentures $[1,50,000 \times 12\% \times 6/12] + [2,75,000 \times 12\% \times 6/12] - 10,000$	(15,500)
Net Cash Used in Financing Activities	(3,18,000)

Working Notes:

(1) Underwriting Commission:

Issue of Equity Shares $[20,000 \times 15] \times 5\% = ₹15,000$

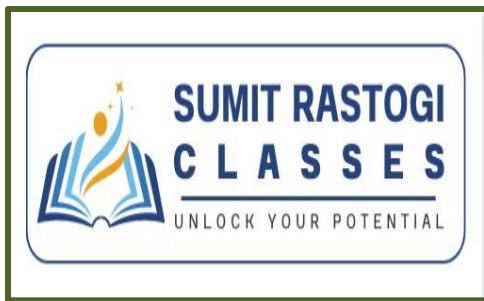
Issue of Preference Shares $[1,000 \times 150] \times 5\% = ₹7,500$

Issue of Debentures $[2,00,000 \times 2.5\%] = ₹5,000$

Total = ₹27,500

(2) Capital Redemption Reserve:

Opening Balance	1,50,000
Redemption of preference $(3,00,000 - 2,00,000)$	1,00,000
Buy-Back of Equity Shares $(1,50,000 - 1,00,000)$	50,000
Closing Balance	NIL
Issue of Bonus Shares	3,00,000



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(3) Securities Premium:

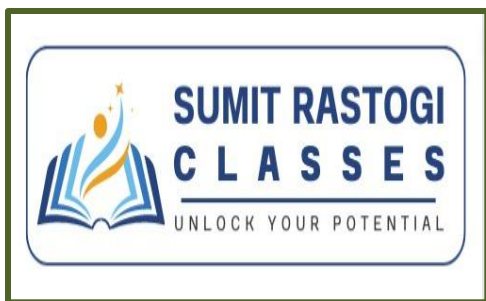
Opening Balance	20,000
Issue of Equity Shares	1,00,000
Redemption of Preference	(15,000)
Issue of Preference	50,000
Buy-Back of Equity	(75,000)
Redemption of Debentures	(7,500)
Issue of Equity (Conversion)	27,500
Issue of Equity (Machine)	5,000
Underwriting Commission	(27,500)
Closing Balance	(52,500)
Issue of Bonus Shares	25,000

(4) Issue of Equity Shares:

Opening Balance	6,00,000
Issued on 1st May, 2022	2,00,000
Buy-Back	(1,50,000)
Conversion of Debentures $(75,000 \times 110\% \times 10/15)$	55,000
Purchase of Machine $(30,000 \times 10/12)$	25,000
Issue of Bonus Shares	3,25,000
Total	10,55,000

(5) Redemption of Preference Share

Opening Balance	4,00,000
Issue	1,00,000
Closing Balance	(2,00,000)
Redemption	3,00,000



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ANS. 8 (a) SHORT NOTE ON VENTURE CAPITAL.

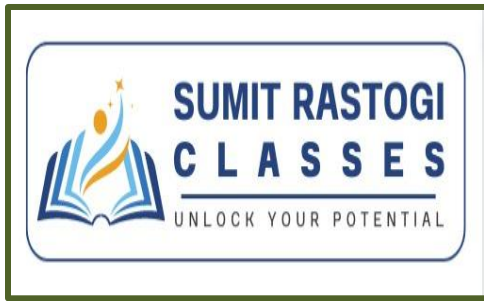
Venture Capital is a form of equity financing especially designed for funding high risk and high reward projects. There is a common perception that venture capital is a means of financing high technology projects. However, venture capital is investment of long-term financial mode in:

1. Ventures promoted by technically or professionally qualified but unproven entrepreneurs; or
2. Ventures seeking to harness commercially unproven technology; or
3. High risk ventures.

The term venture capital represents financial investment in a highly risky project with the objective of earning a high rate of return. Venture capital (VC) is a type of private equity, a form of financing that is provided by firms or funds to small, early-stage, emerging firms that are deemed to have high growth potential, or which have demonstrated high growth (in terms of number of employees, annual revenue, or both). It is a type of funding for a new or growing business. It usually comes from venture capital firms that specialize in building high risk financial portfolios. With venture capital, the venture capital firm gives funding to the startup company in exchange for equity in the startup.

ANS. 8 (b) DIFFERENCE BETWEEN FFS & CFS

FUNDS FLOW STATEMENT	CASH FLOW STATEMENT
1. FFS reveals the change in Working Capital between two Balance Sheet dates	1. CFS reveals the changes in Cash Position between two Balance Sheet dates
2. FFS is based on accrual basis of accounting	2. CFS is based on cash basis of accounting
3. In the case of FFS, a schedule of changes in Working Capital is prepared	3. No such schedule of changes in Working Capital is prepared for a CFS
4. FFS is useful in planning Intermediate and Long-term financing	4. CFS, as a tool of financial analysis is more useful for Short-term analysis and Cash Planning



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ANS. 8 (C) ADVANTAGES OF RATIO ANALYSIS:

- Ratio Analysis is useful and very relevant in assessing the performance of a firm in respect of the following purposes:
- Ratio analysis is the process of determining and interpreting numerical relationships based mainly on the financial statements.
- To measure the liquidity position, i.e. whether the firm will be able to meet its current obligations when they become due or not.
- To know the solvency position for assessing the long-term financial liability of the firm.
- Operating efficiency or turnover of the firm.
- To assess the profitability position of the firm, in respect of sales and the investments.
- For Trend Analysis, for ascertaining whether the financial position of a firm is improving or deteriorating over the years.
- Commercial Bankers and Trade Creditors are most interested in ratios like Current Ratio, Acid Test Ratio, Turnover of Receivables, Inventory Turnover, Coverage of interest by level of earnings, etc.