

QP Code : 22114

[Time : 2½ Hours]

[Total marks : 75]

- N.B :** (1) All questions are **compulsory** subject to internal choice.
 (2) Figures to the right indicate full marks.

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Q1. (A) Attempt any 8 from the following :

Multiple choice questions (**Rewrite the full sentence with correct option**).

- (1) Gross Profit is _____.
 - (a) Excess of sales over purchases
 - (b) Excess of sales over total cost
 - (c) Excess of sales over cost of Raw materials
 - (d) Excess of sales over cost of goods sold.
- (2) An asset which does not have physical identity is called as _____.
 - (a) Current asset
 - (b) Intangible asset
 - (c) Fixed asset
 - (d) Non current asset.
- (3) Current Ratio indicates _____.
 - (a) Long term solvency
 - (b) Operating efficiency
 - (c) Collection efficiency
 - (d) Short term financial position.
- (4) Borrowed funds does not include _____.
 - (a) Debentures
 - (b) Public Deposits
 - (c) Bank Overdraft
 - (d) Bonds.
- (5) In cash flow statement, Goodwill written off is _____.
 - (a) Added to Book Profit
 - (b) Deducted from Book Profit
 - (c) Treated as cash inflows
 - (d) Treated as cash outflows.
- (6) The excess current assets over current liabilities is called _____.
 - (a) Gross working capital
 - (b) Net working capital
 - (c) Permanent working capital
 - (d) Temporary working capital.
- (7) Shortage of working capital may result in _____.
 - (a) Poor credit standing
 - (b) Excess working capital
 - (c) Higher cash discount
 - (d) Higher trade discount.

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- (8) In response to market expectations the credit period has been increased from 30 days to 45 days. This would lead to _____.
- Decrease in sales
 - Increase in cost of goods sold
 - Increase in average collection period
 - Decrease in Debtors.
- (9) Credit evaluation of customer includes approval of _____.
- Character
 - Capital
 - Capacity
 - All of the above.
- (10) _____ is an example of balancesheet ratio.
- Capital gearing ratio
 - Net profit ratio
 - Debtors turnover ratio
 - Average collection period.
- (B) State whether the following statements are true or false (Attempt any 7) :
- Authorised capital is the minimum capital that can be raised by a company.
 - Profit on sale of machinery is an operating income.
 - Liquid ratio indicates the company's ability to meet its long term liabilities.
 - High proprietary ratio indicates low risk for the creditors.
 - For purpose of the statement of cash flows, "Cash" includes cash on hand, cash in the bank and cash equivalents.
 - Higher Bank Overdraft means higher working capital.
 - The permanent working capital will remain in the business until the business is closed down.
 - The statement of cash flows shows not only the amount of cash used during a particular time, but also how the cash was used.
 - Credit period is the time allowed to customers to pay for their purchases.
 - In order to minimize the level of receivables, a firm should follow a strict and aggressive collection procedure.

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2. Following is the Balancesheet of Tiger Ltd. as on 31st March, 2016.

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Liabilities	₹	Assets	₹
Share Capital	3,00,000	Goodwill	40,000
Securities premium	10,000	Land	1,60,000
General Reserve	1,20,000	Plant	88,000
Profit and Loss A/c	34,000	Furniture	6,000
11% Debentures	1,00,000	Trade Investment	1,60,000
Bank loan	70,000	Debtors	1,40,000
Bank overdraft	40,000	Inventories	1,20,000
Sundry creditors	1,20,000	Prepaid expenses	10,000
Provision for taxation	20,000	Cash	80,000
		Preliminary expenses	10,000
	8,14,000		8,14,000

Present the above Balancesheet in vertical form and calculate the following.

- | | |
|-----------------------|----------------------------|
| (1) Fictitious assets | (4) Current assets |
| (2) Net worth | (5) Long term liabilities. |
| (3) Working capital | |

OR

2. (A) You are furnished with the following Revenue statements. For the 3 years ended 31st March, 2016.

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Particulars	(₹) 2014	(₹) 2015	(₹) 2016
Sales	50,50,000	70,00,000	80,00,000
Less : Cost of sales	32,00,000	38,00,000	46,00,000
Gross margin	18,50,000	32,00,000	34,00,000
Admin Expenses	3,00,000	3,50,000	4,00,000
Selling Expenses	5,00,000	6,00,000	7,20,000
Interest on Loans	2,00,000	5,00,000	7,00,000
Total Expenses	10,00,000	14,50,000	18,20,000
Net Profit before Tax	8,50,000	17,50,000	15,80,000
Less Depreciation	5,00,000	4,50,000	6,00,000
Profit Before Tax	3,50,000	13,00,000	9,80,000
Less : Income Tax	80,000	2,00,000	1,85,000
Profit after Tax	2,70,000	11,00,000	7,95,000

You are asked to prepare Trend Analysis

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- (B) From the following information for year ending 2016. Prepare common size income statement in vertical form. 5

Particulars	2016 (₹)
Sales	7,50,000
Closing Stock	1,50,000
Opening Stock	1,25,000
Purchases	2,25,000
Wages	1,50,000
Manufacturing expenses	75,000
Administrative expenses	25,000
Selling & distribution expenses	37,500
Interest on debentures	5,000

3. The summarized accounts of Eagle Ltd. and Vulture Ltd. are as follows. 15
- Balancesheet

Liabilities	Eagle Ltd.(₹)	Vulture Ltd.(₹)	Assets	Eagle Ltd.(₹)	Vulture Ltd.(₹)
Share capital	88,000	88,000	Fixed assets	1,21,000	97,000
Reserves	42,000	35,000	Current Assets	1,25,000	1,03,000
8% Debentures	22,000	22,000			
Current Liabilities	94,000	55,000			
	2,46,000	2,00,000		2,46,000	2,00,000

Revenue statement for the year

Particulars	Eagle Ltd. (₹)	Vulture Ltd. (₹)
Sales	3,40,000	2,64,000
Less : Cost of sales	2,97,000	1,98,000
Gross profit	43,000	66,000
Less : Operating expenses	23,000	44,000
Net Profit Tax	20,000	22,000
Less Tax	12,000	9,000
Profit after Tax	8,000	13,000
Less : Dividend	1,000	7,000
Retained Earnings	7,000	6,000

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You are required to calculate following ratios and comment on performance of the companies.

- (1) Net Profit after tax ratio
- (2) Operating Ratio
- (3) Capital Gearing Ratio
- (4) Return on proprietors equity ratio

Note :— Conversion of statements in vertical form not required.

OR

3. Calculate the Ratios for Leopard Ltd. from following information.

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Liabilities	₹	Assets	₹
Equity Capital	24,00,000	Net Fixed Assets	12,10,000
10% Debentures	4,60,00	Cash	4,40,000
Sundry Creditors	3,30,000	Sundry Debtors	5,50,000
Bills Payable	4,40,000	Stock	16,50,000
Other Current Liabilities	2,20,000		
	38,50,000		38,50,000

Statement of profit for the year ended 31st March, 2016.

Particulars	₹	Total ₹
Sales		55,00,000
<u>Less : Cost of goods sold</u>		
Material	20,90,000	
Wages	13,20,000	
Factory overheads	6,49,000	40,59,000
Gross Profit		14,41,000
<u>Less : Selling Expenses</u>	5,50,000	
Admin Expenses	6,14,000	11,64,000
Earnings Before Int. and Tax		2,77,000
Less Interest		46,000
Earnings Before Tax		2,31,000
Less Tax (50%)		1,15,500
Earnings after tax		1,15,500

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Ratios to be calculated :

- (1) Current Ratio
- (2) Liquid Ratio
- (3) Proprietary Ratio
- (4) Operating Ratio
- (5) Stock Turnover Ratio
- (6) Capital Gearing Ratio
- (7) Return on Capital Employed

Note : Conversion of statements in vertical form are not required.

4. Falcon Ltd. gives you following Balancesheets for the year ended 31st March, 2016 and 2017. Prepare Cash Flows statements for the year ended 31st March, 2017. 15

Balancesheet as on

Liabilities	31/3/16	31/3/17	Assets	31/3/16	31/3/17
Equity Capital	1,20,000	1,20,000	Land	2,10,000	2,70,000
Preference Capital	90,000	60,000	Building	2,85,000	2,70,750
General Reserve	30,000	39,000	Stock	27,000	36,300
Profit and Loss A/c	15,240	28,080	Debtors	43,560	39,480
Outstanding Expenses	9360	11,040	Prepaid expenses	8880	9000
Reserve for Bad Debts	3120	5100	Bank	15,840	3,240
Creditors	3,28,560	3,70,950	Miscellaneous	6,000	5400
			Expenses		
	596280	634170		596280	634170

Other Information :

- (1) Preference shares were redeemed during the year @ 10% premium.
- (2) Income Tax paid during the year ₹15,000.

Note : use Indirect Method as per AS3 (revised).

OR

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4. (A) Dove Ltd. presents following information for 2016-17. Estimated yearly production and sales = 60,000 units. 8

Cost elements per unit

Raw materials	₹ 5
Wages	₹ 3
Overheads	₹ 2
Selling Price	₹ 12

Further information :

- (1) The company extends 2 months credit to debtors.
- (2) The company maintains one month's stock of raw materials.
- (3) The company maintains one months stock of finished goods.
- (4) The processing period is one month.
- (5) The company is allowed two months credit by suppliers.
- (6) Wages and overheads are paid one month in arrears.
- (7) Cash Balance is expected to be ₹ 25,000.
- (8) During the production process wages and overheads accrue evenly.
- (9) 20% of the customers pay one month in Advance.

Prepare statement showing an estimate of working capital.

- (B) Stork Ltd. has a present annual sales of 10,000 units at ₹ 300 per unit. The variable cost is ₹ 200 per unit and fixed cost amount to ₹ 3,00,000 per annum. The present credit period allowed by the company is 1 month. The company is considering a proposal to increase the credit period to 2 months and 3 months and has made following estimates. 7

Particulars	Existing	Proposed	
Credit Policy	1month	2 month	3 months
Increase in sales	—	15%	30%
% Bad Debts	1%	3%	5%

The company plans on Pre-Tax return of 20% on investment in receivables.

You are required to calculate the most beneficial credit policy for the company.

5. (A) Explain In detail 5C's of credit evaluation. 7
 (B) Distinguish between Contingent liability and current liability. 8

OR

5. Write short notes 15

Attempt any 3 out of five (5 marks each)

- (1) Fictitious Assets
- (2) Income Statement Ratios
- (3) Cash Flow from Investing Activities (As per Revised AS 3)
- (4) Working capital cycle (For Trader)
- (5) Limitations of Comparative Statements.