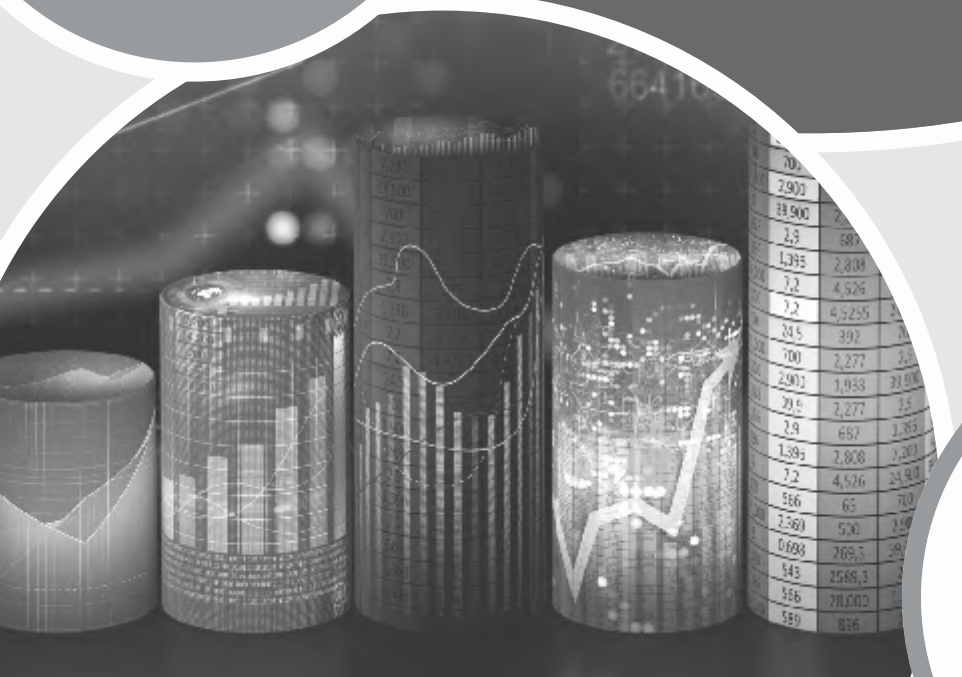
Analysis of Financial Statements

(Solutions)

Class XII



VK Global Publications Pvt. Ltd.

Printing History:
Edition: 2019-20
Reprint: 2020-21

ISBN:
978-93-5058-110-0

Syllabus Covered:
Central Board of Secondary Education, Delhi

Price:
One Hundred Rupees (₹100/-)

Published By:
VK Global Publications Pvt. Ltd.
Regd. Office:
4323/3, Ansari Road, Darya Ganj, New Delhi-110002
Ph: 91-11-23250105, 23250106 Fax: 91-11-23250141
Corporate Office:
15/1, Main Mathura Road, Faridabad (NCR) Haryana-121003
Phone: 0129-7117719-48 lines, Fax: 0129-2250322
Email: mail@vkpublications.com www.vkpublications.com

Printed At:
Neekunj Print Process

Contents

PART–B

Analysis of Financial Statements

PART– B

ACCOUNTANCY

(Analysis of Financial Statements)

(Solutions)

1

Financial Statements of a Company

Solution 1

Balance Sheet of X Ltd.

as at 31st March, 2018 (Extract)

Particulars	Note No.	31st March, 2018 (₹)	31st March, 2017 (₹)
I. EQUITY AND LIABILITIES			
1. Shareholders' Funds			
(a) Share Capital	1	5,88,500	
(b) Reserves and Surplus	2	3,000	
Total		5,91,500	

Notes to Accounts:

Particulars	(₹)
1. Share Capital:	
Authorised Capital:	
50,000 equity shares of ₹ 10 each	5,00,000
25,000, 8% preference shares of ₹ 10 each	2,50,000
	7,50,000
Issued Capital:	
45,000 equity shares of ₹ 10 each	4,50,000
25,000, 8% preference shares of ₹ 10 each	2,50,000
	7,00,000
Subscribed Capital:	
Subscribed and fully paid-up capital:	
25,000, 8% Preference shares of ₹ 10 each	2,50,000
Subscribed but not fully paid-up:	
42,250 equity shares of ₹ 10 each, ₹ 8 called-up	3,38,000

Less: Calls-in-arrears (500 × 2)	(1,000)
Add: Share Forfeited A/c (250 × 6)	1,500
	5,88,500
2. Reserves and Surplus:	
Capital Reserve	3,000

Solution 2

Notes to Accounts:

Particulars		(₹)
Reserves and Surplus		
Surplus, *i.e*, Balance in Statement of Profit and Loss		
Opening Balance	15,000	
Profit (Loss) for the period	(50,000)	
Balance		(35,000)

The balance of Surplus to be shown in the Balance Sheet under the head 'Reserves and Surplus' is (₹ 35,000).

Solution 3

Notes to Accounts:

Particulars		(₹)
Reserves and Surplus		
(i) Securities Premium Reserve (Opening balance)		2,00,000
(ii) Surplus, *i.e.*, Balance in Statement of Profit and Loss		
Opening balance	1,00,000	
Profit (loss) for the year	(30,000)	70,000
Balance		2,70,000

Solution 4

Notes to Accounts:

Particulars		(₹)
Reserves and Surplus		
(a) Debentures Redemption Reserve		
Opening Balance	75,000	
Add: Transfer during the year	50,000	1,25,000
(b) Capital Redemption Reserve		10,000

(c) Surplus, *i.e*, Balance in Statement of Profit and Loss			
Opening Balance	1,50,000		
Add: Profit during the year	2,50,000	4,00,000	
Less: Appropriations			
Transfer to DRR	50,000		
Proposed Dividend (for the year ended 31st March, 2018)	75,000	(1,25,000)	2,75,000
Balance of Reserves and Surplus [as shown in Balance Sheet (a) + (b)+ (c)]			4,10,000

Note: *Proposed dividend for the current year ₹80,000 (for the year ended 31st March, 2019) will be shown as Contingent liability in Notes-to-Accounts.*

Solution 5

Notes to Accounts:

Particulars			(₹)
Reserves and Surplus			
(a) Debentures Redemption Reserve			
Opening Balance	2,00,000		
Add: Transfer during the year	8,00,000		10,00,000
(b) Securities Premium Reserve			
Opening Balance	4,00,000		
Add: Transfer during the year	6,00,000		10,00,000
(c) General Reserve			
Opening Balance	—		
Add: Transfer during the year	2,00,000		2,00,000
(d) Surplus, *i.e*, Balance in Statement of Profit and Loss			
Opening Balance	18,00,000		
Add: Profit for the year	10,00,000	28,00,000	
Less: Appropriations			
Transfer to Debenture Redemption Reserve	8,00,000		
Transfer to Securities Premium Reserve	6,00,000		
Transfer to General Reserve	2,00,000		
Proposed Dividend (Previous year)	6,00,000	(22,00,000)	6,00,000
Balance of Reserves and Surplus [as shown in Balance Sheet: (a) + (b)+ (c) + (d)]			28,00,000

Note: *Proposed dividend ₹4,00,000 (for the current year) will be shown in Notes-to-Accounts as Contingent liability.*

Solution 6

Items shown under Long-term Borrowings:

(i) Debentures
(ii) Bonds
(iii) Long-term Loans from Bank or from other parties
(iv) Public Deposits

Solution 7

Items shown under sub-head 'Other Current Liabilities':

(i) Current maturities of Long-term Debts
(ii) Interest accrued and due on Borrowings
(iii) Interest accrued but not due on Borrowings
(iv) Unclaimed dividends

Solution 8

Items that classified as Non-current Investments:

(i) Investments in Equity instruments
(ii) Investments in Preference Shares
(iii) Investments in Debentures
(iv) Investments in Government or Trust Securities

Solution 9

S. No.	Items	Major Heads
(i)	Current Investments	Current Assets
(ii)	Shares in listed Companies	Non-current Investments
(iii)	Deposit with Custom Authorities (long-term)	Long-term Loans and Advances
(iv)	Prepaid Rent	Current Assets

Solution 10

S.No.	Items	Major Heads	Sub Heads
(i)	Calls-in-Arrears	Shareholders' Funds	Share Capital (Shown by way of deduction)
(ii)	Calls-in-Advance	Current Liabilities	Other Current Liabilities
(iii)	Gain on reissue of forfeited equity shares	Shareholders' Funds	Reserves and Surplus
(iv)	Trade payables to be settled beyond 12 months from the date of Balance Sheet	Non-current Liabilities	Other Non-current Liabilities

Solution 11

S. No.	Items	Major Heads
(i)	Securities Premium Reserve	Shareholders' Funds
(ii)	Balances with banks	Current Assets
(iii)	Term Loans from bank	Non-current Liabilities
(iv)	Goods-in-transit	Current Assets
(v)	Loans repayable on demand	Current Liabilities
(vi)	Computer software	Non-Current Assets
(vii)	Unclaimed dividends	Current Liabilities
(viii)	Vehicles	Non-Current Assets

Solution 12

S. No.	Items	Major Heads
(i)	Provision for Tax	Current Liabilities
(ii)	Loan Payable on Demand	Current Liabilities
(iii)	Computer and related Equipments	Non-Current Assets
(iv)	Goods acquired for Trading	Current Assets

Solution 13

S.No.	Items	Major Heads	Sub Heads
(i)	Bank Overdraft	Current Liabilities	Short-term Borrowings
(ii)	Cheques-in-Hand	Current Assets	Cash and Cash Equivalents
(iii)	Loose Tools	Current Assets	Inventories
(iv)	Long-term Provisions	Non-current Liabilities	Long-term Provisions

Solution 14

S.No.	Items	Sub-headings
(i)	Long-term Loans	Long-term Borrowings
(ii)	Capital Redemption Reserve	Reserves and Surplus
(iii)	Provision for Taxation	Short-term Provisions
(iv)	Goodwill	Fixed Assets (Intangible Assets)
(v)	Provisions for Warranties	Long-term Provisions
(vi)	Brand/Trademarks	Fixed Assets (Intangible assets)

Solution 15

S.No.	Items	Sub-heading
(i)	Stores and Spares	Inventories
(ii)	Trademarks	Fixed Assets—Intangible Assets
(iii)	Short-term Borrowings	Current Liabilities/Short-term Borrowings
(iv)	Provision for Employees Benefits	Long-term Provisions
(v)	Long-term Investments	Non-current Investments
(vi)	Accrued Incomes	Other Current Assets

Solution 16

S.No.	Items	Sub-heads	Heads
(i)	Mining Rights	Fixed Assets (Intangible)	Non-current Assets
(ii)	Encashment of employees earned leave payable on retirement	Long-term provisions	Non-current Liabilities
(iii)	Vehicles	Fixed Assets	Non-current Assets

Solution 17

S.No.	Items	Heading	Sub-heading
(i)	Leaseholds	Non-current Assets	Fixed Assets
(ii)	Livestock	Non-current Assets	Fixed Assets
(iii)	Bills Receivable	Current Assets	Trade Receivables
(iv)	Goodwill	Non-current Assets	Fixed Assets (Intangible)
(v)	Stock	Current Assets	Inventories
(vi)	Building	Non-current Assets	Fixed Assets
(vii)	Investment in Land	Non-current Assets	Non-current Investments
(viii)	Work-in-Progress	Current Assets	Inventories
(ix)	Capital Redemption Reserve	Shareholders' Funds	Reserves and Surplus
(x)	Bills Payable	Current Liabilities	Trade Payables

Solution 18

Particulars	Heading
(i) Loose tools	Current Assets
(ii) Bills Receivables	Current Assets
(iii) Patents	Non-Current Assets
(iv) General Reserve	Shareholders' Funds
(v) Debentures	Non-current Liabilities

Solution 19

Items	Major Headings
(i) Sundry Creditors	Current Liabilities
(ii) Provision for Tax	Current Liabilities
(iii) Loose Tools	Current Assets
(iv) Interest accrued on Investment	Current Assets
(v) Goodwill	Non-current Assets

Solution 20

Items	Heading
(i) Prepaid Expenses ₹1,40,000	Current Assets
(ii) Discount on Issue of Debentures ₹10,000	Shareholders' funds under Reserves and Surplus (as negative balance)
(iii) 10% Debentures ₹1,90,000	Non-current Liabilities
(iv) Stock-in-Trade ₹40,000	Current Assets
(v) Bills Receivable ₹12,000	Current Assets

(vi) Goodwill ₹20,000	Non-current Assets
(vii) Loose Tools ₹12,000	Current Assets
(viii) Provision for Taxation ₹6,000	Current Liabilities

Solution 21

Heading /Sub-heading	Items
(i) Reserves and Surplus	Capital Reserve, Debenture Redemption Reserve
(ii) Current Liabilities	Sundry Creditors, Bills Payable
(iii) Long-term Borrowings	Debentures, Term Loans from Bank
(iv) Intangible Assets	Goodwill, Trademarks

Solution 22

Items	Heading
(i) Capital Reserve	Reserves and Surplus under Shareholders' Fund
(ii) Outstanding Expenses	Current Liabilities
(iii) Securities Premium Reserve	Reserves and Surplus under Shareholders' Fund
(iv) Short-term Loans and Advances	Current Liabilities
(v) Debentures	Long-term Borrowings under Non-current Liabilities

Solution 23

Items	Heading
(i) Office Equipments	Non-current Assets (Fixed Tangible Assets)
(ii) Debentures issued by the company	Non-current Liabilities (Long-term Borrowings)
(iii) Prepaid Expenses	Current Assets (Other Current Assets)
(iv) Investment in Government Securities	Non-current Assets (Non-current Investments)
(v) Outstanding Salaries	Current Liabilities (Other Current Liabilities)
(vi) Work-in-progress	Current Assets (Inventories)

Solution 24

Items	Heading	Sub-heading
(i) Furniture and Fittings	Non-current Assets	Fixed Assets (Tangible)
(ii) Fixed Deposits of Public	Non-current Liabilities	Long-term Borrowings
(iii) Plant and Machinery	Non-current Assets	Fixed Assets (Tangible)
(iv) Interest Accrued and due on Long-term Borrowings	Current Liabilities	Other Current Liabilities
(v) Goodwill	Non-current Assets	Fixed Assets (Intangible)
(vi) Bills Payable	Current Liabilities	Trade Payables
(vii) Patents and Trade Marks	Non-current Assets	Fixed Assets (Intangible)
(viii) Unclaimed Dividends	Current Liabilities	Other Current Liabilities
(ix) Capital Reserve	Shareholders' Funds	Reserves and Surplus
(x) Securities Premium Reserve	Shareholders' Funds	Reserves and Surplus

Solution 25

Balance Sheet of Sri Ram Ltd.

as at …

Particulars	Note No.	Current Year (₹)	Previous Year (₹)
I. EQUITY AND LIABILITIES			
1. Shareholders' Funds			
(a) Share Capital	1	5,00,000	
(b) Reserves and Surplus	2	72,000	
2. Non-current Liabilities			
(a) Long-term Borrowings	3	1,40,000	
3. Current Liabilities			
(a) Trade Payables	4	70,000	
(b) Other Current Liabilities	5	29,000	
Total		8,11,000	

Notes to Accounts:

Particulars		(₹)
1. Share Capital		
50,000 equity shares of ₹ 10 each		5,00,000
2. Reserves and Surplus		
General Reserve	12,000	
Transferred to Debenture Redemption Reserve	50,000	
	62,000	
Securities Premium Reserve	10,000	72,000
3. Long-term Borrowings		
Debentures	1,00,000	
Fixed Deposits of Public	40,000	1,40,000
4. Trade Payables		
Bills payable	15,000	
Sundry Creditors	55,000	70,000
5. Other Current Liabilities		
Interest accrued and due on Long-term Borrowings	15,000	
Unclaimed Dividends	14,000	29,000

Solution 26

Balance Sheet of Creative Ltd.
as at 31st March, 2018

Particulars	Note No.	31st March, 2018 (₹)	31st March, 2017 (₹)
I. EQUITY AND LIABILITIES			
1. Shareholders' Funds			
(a) Share Capital	1	7,20,000	
(b) Reserves and Surplus		5,94,000	
2. Non-current Liabilities			
(a) Long-term Borrowings	2	2,70,000	
3. Current Liabilities			
(a) Short-term Borrowings	3	90,000	
(b) Other Current Liabilities		5,92,200	
(c) Short-term Provisions	4	2,70,000	
Total		25,36,200	
II. ASSETS			
1. Non-current Assets			
(a) Fixed Assets		12,60,000	
(b) Non-current Investments		3,42,000	
2. Current Assets			
(a) Short-term Loans and Advances		18,000	
(b) Inventories		36,000	
(c) Other Current Assets		8,80,200	
Total		25,36,200	

Notes to Accounts:

Particulars	(₹)
1. **Shareholders' Funds**	
Share Capital (7,200 Fully paid shares of ₹100 each)	7,20,000
2. **Long-term Borrowings**	
7% debentures	2,70,000
3. **Short-term Borrowings**	
Short-term Bank Loan	90,000
4. **Short-term Provisions**	
Provision for Taxation	2,70,000
There is a contingent liability in respect of a claim of ₹15,000 against the company, not acknowledged as debt.	

Solution 27

Balance Sheet of Hard Working Ltd.

as at 31st March, 2018

Particulars	Note No.	31st March, 2018 (₹)	31st March, 2017 (₹)
I. EQUITY AND LIABILITIES			
1. Shareholders' Funds			
(a) Share Capital		5,00,000	
(b) Reserves and Surplus	1	65,000	
2. Non-current Liabilities			
(a) Long-term Borrowings	2	3,00,000	
3. Current Liabilities			
(a) Trade Payables	3	1,00,000	
(b) Other Current Liabilities	4	10,000	
Total		9,75,000	
II. ASSETS			
1. Non-current Assets			
(a) Fixed Assets	5	6,00,000	
(b) Non-currrent Investments	6	2,00,000	
2. Current Assets			
(a) Inventories	7	1,75,000	
Total		9,75,000	

Notes to Accounts:

Particulars		(₹)
1. Reserves and Surplus		
Securities Premium Reserve	1,00,000	
Less: Discount on Issue of Debentures	(25,000)	
	75,000	
Surplus, *i.e.*, Balance in Statement of Profit and Loss (Debit Balance)	(10,000)	65,000
2. Long-term Borrowings		
15% Debentures		3,00,000
3. Trade Payables		
Creditors		1,00,000
4. Other Current Liabilities		
Outstanding Salary		10,000
5. Fixed Assets		
Plant and Machinery		6,00,000
6. Non-current Investments		
IFCI Bonds		2,00,000
7. Inventories		
Raw Materials		1,75,000

Solution 28

Balance Sheet of Queen Ltd.
as at 31st March, 2018

Particulars	Note No.	31st March, 2018 (₹)	31st March, 2017 (₹)
I. EQUITY AND LIABILITIES			
1. Shareholders' Funds			
(a) Share Capital		18,00,000	
(b) Reserves and Surplus	1	(1,20,000)	
2. Non-current Liabilities			
(a) Long-term Borrowings	2	4,00,000	
3. Current Liabilities			
(a) Short-term Borrowings	3	1,00,000	
(b) Trade Payables	4	50,000	
(c) Short-term Provisions	5	10,000	
Total		22,40,000	
II. ASSETS			
1. Non-current Assets			
(a) Fixed Assets	6	20,00,000	
2. Current Assets			
(a) Inventories	7	10,000	
(b) Trade Receivables	8	2,30,000	
Total		22,40,000	

Notes to Accounts:

Particulars		(₹)
1. Reserve and Surplus:		
Surplus, *i.e.*, Balance in Statement of Profit and Loss (Dr.)		(1,20,000)
2. Long-term Borrowings:		
12% Debentures		4,00,000
3. Short-term Borrowings		
Bank Overdraft		1,00,000
4. Trade Payables		
Sundry Creditors		50,000
5. Short-term Provisions		
Provision for Taxation		10,000
6. Fixed Assets (Tangible)		
Plant and Machinery	10,00,000	
Land and Building	10,00,000	20,00,000
7. Inventories		
Loose Tools		10,000
8. Trade Receivables		
Bills Receivables		2,30,000

Solution 29

Balance Sheet of Anzar Ltd.

as at 31st March, 2018 *(₹ in crores)*

Particulars	Note No.	31st March, 2018 (₹)	31st March, 2017 (₹)
I. EQUITY AND LIABILITIES			
1. Shareholders' Funds			
(a) Share Capital		360	
(b) Reserves and Surplus		297	
2. Non-current Liabilities			
(a) Long-term Borrowings	1	135	
3. Current Liabilities			
(a) Short-term Borrowings	2	45	
(b) Other Current Liabilities		296	
(c) Short-term Provisions	3	135	
Total		1,268	
II. ASSETS			
1. Non-current Assets			
(a) Fixed Assets		630	
(b) Non-current Investments		171	
2. Current Assets			
(a) Inventories	4	440	
(b) Short-term Loans and Advances		9	
(c) Other Current Assets	5	18	
Total		1,268	

Notes to Accounts: *(₹ in crores)*

Particulars	(₹)
1. Long-term Borrowings	
Bonds	135
2. Short-term Borrowings	
Bank Overdraft	45
3. Short-term Provisions	
Provision for Taxation	135
4. Inventories	
Loose Tools	440
5. Other Current Assets:	
Prepaid Expenses	18
There is a contingent liability in respect of ₹10 crores against the company, not acknowledged as debt.	

Solution 30

Balance Sheet of Vishal Ltd.
as at 31st March, 2018

Particulars	Note No.	31st March, 2018 (₹)	31st March, 2017 (₹)
I. EQUITY AND LIABILITIES			
1. Shareholders' Funds			
(a) Share Capital		1,00,000	
(b) Reserves and Surplus	1	60,000	
2. Non-current Liabilities			
(a) Long-term Borrowings	2	30,000	
3. Current Liabilities			
(a) Short-term Borrowings	3	5,000	
(b) Short-term Provisions	4	5,000	
Total		2,00,000	
II. ASSETS			
1. Non-current Assets			
(a) Fixed Assets	5	1,00,000	
(b) Non-current Investment	6	50,000	
2. Current Assets			
(a) Inventories	7	40,000	
(b) Trade Receivables	8	5,000	
(c) Other Current Assets	9	5,000	
Total		2,00,000	

Notes to Accounts:

Particulars	(₹)
1. **Reserves and Surplus:**	
Capital Redemption Reserve	60,000
2. **Long-term Borrowings**	
12% Debentures	30,000
3. **Short-term Borrowings**	
Loan from Monika Ltd.	5,000
4. **Short-term Provisions**	
Provision for Taxation	5,000
5. **Fixed Assets** (Tangible)	
Plant and Machinery	1,00,000
6. **Non-current Investments**	
Shares in Apte Ltd.	50,000
7. **Inventories**	
Stock-in-Trade	40,000

8. Trade Receivables	
Bills Receivable	5,000
9. Other Current Assets	
Dividend Receivable	5,000

Solution 31

Balance Sheet of Somic & Co. Ltd.

as at .....

Particulars	Note No.	Current Year (₹)	Previous Year (₹)
I. EQUITY AND LIABILITIES			
1. Shareholders' Funds			
(a) Share Capital	1	7,85,000	
(b) Reserves and Surplus	2	1,05,000	
2. Non-current Liabilities			
(a) Long-term Borrowings	3	6,00,000	
3. Current Liabilities			
(a) Trade Payables	4	1,66,000	
(b) Other Current Liabilities	5	28,000	
Total		16,84,000	
II. ASSETS			
1. Non-current Assets			
(a) Fixed Assets			
(i) Tangible Assets	6	12,08,400	
(ii) Intangible Assets	7	40,000	
(b) Non-current Investments		95,000	
2. Current Assets			
(a) Inventories	8	19,000	
(b) Trade Receivables		1,65,300	
(c) Cash and Cash Equivalents	9	71,300	
(d) Short-term Loans and Advances		85,000	
Total		16,84,000	

Notes to Accounts:

Particulars		(₹)
1. Share Capital:		
Authorised Share Capital (1,20,000 shares of ₹10 each)		12,00,000
Issued Share Capital (80,000 shares of ₹10 each)		8,00,000
Subscribed Share Capital: *Subscribed but not fully paid-up*		
80,000 shares of ₹10 each	8,00,000	
Less: Calls-in-Arrears	(15,000)	7,85,000

2.	**Reserves and Surplus:**		
	General Reserve	40,000	
	Surplus, *i.e.*, Balance in Statement of Profit and Loss	65,000	1,05,000
3.	**Long-term Borrowings:**		
	6% Debentures		6,00,000
4.	**Trade Payables:**		
	Sundry Creditors	1,00,000	
	Bills Payables	66,000	1,66,000
5.	**Other Current Liabilities:**		
	Outstanding Interest on Debentures		28,000
6.	**Tangible Assets:**		
	Buildings	6,00,000	
	Furniture	14,400	
	Plant and Machinery	5,94,000	12,08,400
7.	**Intangible Assets:**		
	Goodwill		40,000
8.	**Inventories:**		
	Stock (Inventories)	10,000	
	Work-in-progress	9,000	19,000
9.	**Cash and Cash Equivalents:**		
	Cash at Bank	69,800	
	Cash in Hand	1,500	71,300

Solution 32

Balance Sheet of Vijay Ltd.
as at 31st March, 2017

Particulars	Note No.	31st March, 2017 (₹)	31st March, 2016 (₹)
I. EQUITY AND LIABILITIES			
1. Shareholders' Funds			
(a) Share Capital		8,00,000	
(b) Reserves and Surplus	1	80,000	
2. Non-current Liabilities			
(a) Long-term Borrowings	2	4,00,000	

3. Current Liabilities			
(a) Trade Payables		1,00,000	
(b) Other Current Liabilities	3	70,000	
Total		14,50,000	
II. ASSETS			
1. Non-current Assets			
(a) Fixed Assets	4	10,00,000	
(b) Non-current Investments	5	2,00,000	
2. Current Assets			
(a) Inventories		2,50,000	
Total		14,50,000	

Notes to Accounts:

Particulars		(₹)
1. Reserves and Surplus:		
General Reserve	2,00,000	
Surplus, i.e, Balance in Statement of Profit and Loss (Dr.)	(90,000)	
Discount on Issue of 15% Debentures	(30,000)	80,000
2. Long-term Borrowings		
15% Debentures		4,00,000
3. Other Current Liabilities		
Unclaimed Dividend		70,000
4. Fixed Assets (Tangible)		
Building		10,00,000
5. Non-current Investments		
Investment in Government Securities		2,00,000

Solution 33

Balance Sheet of Bharat Textile Ltd.

as at 31st March, 2017

Particulars	Note No.	31st March, 2017 (₹)	31st March, 2016 (₹)
I. EQUITY AND LIABILITIES			
1. Shareholders' Funds			
(a) Share Capital	1	16,00,000	
(b) Reserves and Surplus	2	10,00,000	
2. Current Liabilities		5,60,000	
Total		31,60,000	
II. ASSETS			
1. Non-current Assets			
(a) Fixed Assets			
(i) Tangible Assets	3	15,40,000	

(ii) Intangible Assets	4	4,00,000	
2. Current Assets			
(a) Inventories		2,90,000	
(b) Trade Receivables	5	5,40,000	
(c) Cash and Cash Equivalents		3,50,000	
(d) Other Current Assets	6	40,000	
Total		31,60,000	

Notes to Accounts:

Particulars		(₹)
1. Share Capital:		
Equity Share Capital	12,00,000	
10% Preference Share Capital	4,00,000	16,00,000
2. Reserves and Surplus:		
General Reserve	3,00,000	
Surplus, *i.e.*, Balance in Statement of Profit and Loss	7,00,000	10,00,000
3. Tangible Assets:		
Plant and Machinery	1,00,000	
Building	14,40,000	15,40,000
4. Intangible Assets:		
Goodwill		4,00,000
5. Trade Receivables:		
Debtors	4,40,000	
Bills Receivable	1,00,000	5,40,000
6. Other Current Assets		
Prepaid Expenses		40,000

Solution 34

Balance Sheet

as at .....

Particulars	**Note No.**	**Current Year (₹)**	**Previous Year (₹)**
I. EQUITY AND LIABILITIES			
1. Shareholders' Funds			
(a) Reserves and Surplus	1	75,000	
2. Current Liabilities			
(a) Trade Payables		3,000	
(b) Other Current Liabilities	2	12,000	
Total		90,000	
II. ASSETS			
1. Non-current Assets			
(a) Fixed Assets		2,000	
(b) Non-current Investments	3	20,000	

2. Current Assets			
(a) Inventories	4	6,000	
(b) Trade Receivables		11,000	
(c) Cash and Cash Equivalents	5	50,000	
(d) Other Current Assets	6	1,000	
Total		90,000	

Notes to Accounts:

Particulars	(₹)
1. Reserves and Surplus	
Securities Premium Reserve	75,000
2. Other Current Liabilities	
Unclaimed dividend	12,000
3. Non-current Investments	
Shares in NPTC Ltd.	20,000
4. Inventories	
Stores and Spares	6,000
5. Cash and Cash Equivalents	
Marketable Securities	50,000
6. Other Current Assets	
Prepaid Rent	1,000

Solution 35

Balance Sheet of Varun Ltd.

as at 31st March, 2018

Particulars	Note No.	31st March, 2018 (₹)	31st March, 2017 (₹)
I. EQUITY AND LIABILITIES			
1. Shareholders' Funds			
(a) Share Capital	1	10,00,000	
(b) Reserves and Surplus	2	2,00,000	
2. Non-current Liabilities			
(a) Long-term Borrowings	3	2,00,000	
3. Current Liabilities			
(a) Short-term Borrowings	4	1,00,000	
(b) Trade Payables		1,00,000	
(c) Short-term Provisions	5	50,000	
(d) Other Current Liabilities	6	55,000	
Total		17,05,000	
II. ASSETS			
1. Non-current Assets			
(a) Fixed Assets			
(i) Tangible Assets	7	10,00,000	

(ii) Intangible Assets	8	2,00,000	
(b) Non-current Investments		2,00,000	
(c) Other Non-current Assets		5,000	
2. Current Assets			
(a) Inventories		1,00,000	
(b) Trade Receivables	9	2,00,000	
Total		17,05,000	

Notes to Accounts:

Particulars	(₹)
1. Share Capital:	
1,00,000 equity shares of ₹10 each	10,00,000
2. Reserves and Surplus:	
General Reserve	2,00,000
3. Long-term Borrowings	
12% Debentures	2,00,000
4. Short-term Borrowings	
Bank Overdraft	1,00,000
5. Short-term Provisions	
Provision for Taxation	50,000
6. Other Current Liabilities	
Unclaimed Dividend	55,000
7. Fixed Assets (Tangible)	
Land and Building	2,00,000
Plant and Machinery	8,00,000
	10,00,000
8. Fixed Assets (Intangible)	
Goodwill	2,00,000
9. Trade Receivable	
Bills Receivable	50,000
Debtors	1,50,000
	2,00,000

Solution 36

S.No.	Items	Heading
(i)	Sales	Revenue from operations
(ii)	Loss on Sale of Building	Other Expenses
(iii)	Depreciation on Building	Depreciation and Amortisation
(iv)	Salaries and Wages	Employees Benefit Expenses
(v)	Interest paid on Bank Loans	Finance Cost
(vi)	Carriage Outwards	Other Expenses

Solution 37

S.No.	Items	Heading
(i)	Depreciation on Vehicles	Depreciation and Amortisation
(ii)	Sale of Scrap	Other Income
(iii)	Goodwill written off	Depreciation and Amortisation
(iv)	Revenue from services rendered	Revenue from operations
(v)	Telephone and Internet charges	Other Expenses
(vi)	Gratuity Paid	Employees Benefit Expenses

Solution 38

Cost of material consumed = Opening inventory of material + Materials purchased – Closing inventory of materials

= 1,87,500 + 15,00,000 – 2,25,000

= 14,62,500.

Solution 39

Cost of material consumed = Opening inventory of material + Purchase of material – Closing inventory of material

= 68,750 + 2,81,250 – 56,250

= 2,93,750.

Note: *Opening inventory of finished goods ₹31,250 and Closing Inventory of finished goods ₹18,750 will be considered while calculating Inventories (changes in Inventories of finished goods).*

Solution 40

Cost of material consumed = Opening inventory of materials + Materials purchased – Closing inventory of materials

= 3,75,000 + 12,50,000 – 1,25,000

= 15,00,000.

Solution 41

Change in Inventory of Stock-in-Trade

= Opening inventory of Stock-in-Trade – Closing inventory of Stock-in-Trade.

= ₹8,00,000 – ₹5,50,000 = ₹2,50,000.

Solution 42

Change in Inventory of work-in-progress

= Opening Inventory of work-in-progress – Closing Inventory of work-in-progress

= ₹3,50,000 – ₹1,40,000 = ₹2,10,000.

Solution 43

Change in Inventory of Finished Goods

= Opening Inventory of Finished Goods
– Closing Inventory of Finished Goods
= ₹2,05,000 – ₹2,50,000 = (₹45,000).

Solution 44

Notes to Accounts:

Particulars	(₹)	(₹)
Change in Inventories of Finished Goods, WIP and Stock-in-Trade		
(*a*) Finished Goods		
Opening Inventories	5,00,000	
Less: Closing Inventories	5,50,000	(50,000)
(*b*) Work-in-Progress		
Opening Inventories	4,50,000	
Less: Closing Inventories	4,25,000	25,000
(*c*) Stock-in-Trade		
Opening Inventories	6,50,000	
Less: Closing Inventories	6,00,000	50,000
Net change to be shown in Statement of Profit and Loss (*a* + *b* + *c*)		₹25,000

Solution 45

Notes to Accounts:

Particulars	(₹)
Employee Benefit Expenses:	
Wages	80,000
Salaries	96,000
Bonus	18,000
Leave Encashment	15,000
Staff Welfare Scheme	9,000
	₹2,18,000

Solution 46

Notes to Accounts:

Particulars	31st March, 2018 (₹)
Employees Benefit Expenses:	
Wages	3,20,000
Salaries	6,00,000
Leave Encashment	35,000
Bonus	85,000
Staff Welfare Scheme Expenses	90,000
Gratuity Paid	75,000
Medical Expenses	75,000
Amount to be shown in the Statement of Profit and Loss	12,80,000

Solution 47

Notes to Accounts:

Particulars	(₹)
Finance Cost	
Interest paid on Bank Overdraft	45,000
Interest paid on Loan obtained from X Ltd.	90,000
Interest paid on fixed deposit	72,000
Discount on Issue of Debentures written off	7,000
Finance Cost to be shown in the Statement of Profit and Loss	2,14,000

Solution 48

Notes to Accounts:

Particulars	(₹)	31st March, 2018 (₹)
Depreciation and Amortisation Expenses		
(*a*) Depreciation		
Building	40,000	
Plant and Machinery	25,000	
Furniture and Fixtures	4,000	69,000
(*b*) Amortisation		
Goodwill Amortised	40,000	
Patents Amortised	15,000	55,000
Amount to be shown in Statement of Profit and Loss (*a* + *b*)		1,24,000

Solution 49

Following items will be included in 'Notes to Accounts on Other Expenses':

(iii) Rent of Godown
(iv) Advertisement Expenses
(v) Selling Expeneses
(vii) Courier Expenses
(ix) Sundry Expenses

Solution 50

Statement of Profit and Loss

for the year ended 31st March, 2018

Particulars	Note No.	31st March, 2018 (₹)	31st March, 2017 (₹)
I. Revenue from operations	1	4,52,250	
II. Other Income	2	3,600	
III. Total Revenue from operations (**I** + **II**)		4,55,850	

Notes to Accounts:

S. No.	Particulars		(₹)	(₹)
1.	**Revenue from operations**			
	Sales	4,68,000		
	Less: Sales Return	18,000	4,50,000	
	Sale of Scrap		2,250	4,52,250
2.	**Other Income**			
	Interest on securities		2,700	
	Dividend earned		900	3,600

Solution 51

Statement of Profit and Loss of MNO Finance Ltd.

for the year ended 31st March, 2018

Particulars	Note No.	2018 (₹)	2017 (₹)
I. Revenue from operations	1	62,00,000	
II. Other Income	2	30,10,000	
III. Total Revenue from operations (**I** + **II**)		92,10,000	

Notes to Accounts:

S. No.	Particulars	(₹)	(₹)
1.	**Revenue from operations**		
	Interest on Loans	60,00,000	
	Dividend received	2,00,000	62,00,000
2.	**Other Income**		
	Profit on sale of land	30,00,000	
	Miscellaneous Income	10,000	30,10,000

Solution 52

Statement of Profit and Loss

for the year ended 31st March, 2018

Particulars	Note No.	31st March, 2018 (₹)	31st March, 2017(₹)
I. Revenue from Operations		1,15,000	
II. Other Incomes	1	35,000	
III. Total Revenue (I + II)		1,50,000	
IV. Expenses:			
Cost of Materials Consumed		12,500	
Purchases of Stock-in-Trade		5,000	
Changes in Inventories		22,500	
Employees Benefit Expenses		10,000	
Finance Cost		6,000	
Depreciation		2,500	
Other Expenses	2	8,500	
Total Expenses		67,000	
V. Profit before Tax (III – IV)		83,000	

Notes to Accounts:

Particulars	(₹)
1. Other Incomes	
Commission Received	35,000
2. Other Expenses	
Advertising expenses	8,500

Solution 53

Statement of Profit and Loss

for the year ended.....

Particulars	Note No.	Current Year (₹)	Previous Year (₹)
I. Revenue from Operations		5,00,000	
II. Other Incomes		1,00,000	
III. Total Revenue (I + II)		6,00,000	
IV. Expenses		(3,00,000)	
V. Profit before Tax (III – IV)		3,00,000	
VI. Income Tax (50%)		(1,50,000)	
Profit after Tax (V – VI)		1,50,000	

Solution 54

Statement of Profit and Loss of Unique Solutions Ltd.

for the year ended 31st March, 2018

Particulars	Note No.	31st March, 2018 (₹)	31st March, 2017 (₹)
I. Revenue from operations (Sales)		4,25,000	
II. Other Income	1	3,150	
III. Total Revenue (I + II)		4,28,150	
IV. Expenses:			
Cost of Materials Consumed		3,00,000	
Changes in Inventories		(41,500)	
Employees Benefit Expenses	2	1,05,400	
Depreciation and Amortization Expenses		13,785	
Other Expenses	3	34,190	
		4,11,875	
V. Profit before Tax (III – IV)		16,275	

Balance Sheet of Unique Solutions Ltd.

as at 31st March, 2018

Particulars	Note No.	31st March, 2018 (₹)	31st March, 2017 (₹)
I. EQUITY AND LIABILITIES			
1. Shareholders' Funds			
(a) Share Capital	4	2,45,000	
(b) Reserves and Surplus	5	35,245	

2. Current Liabilities			
(a) Short-term Borrowings	6	15,700	
(b) Trade Payables	7	35,200	
(c) Other Current Liabilities	8	19,250	
Total		3,50,395	
II. ASSETS			
1. Non-current Assets			
(a) Fixed Assets			
(i) Tangible Assets	9	83,815	
2. Current Assets			
(a) Inventories	10	91,500	
(b) Trade Receivables		38,700	
(c) Cash and Cash Equivalents	11	1,34,700	
(d) Other Current Assets	12	1,680	
Total		3,50,395	

Notes to Accounts:

Particulars		**(₹)**
1. Other Income		
Discount received		3,150
2. Employees Benefit Expenses		
Wages [70,000 + 5,200 (outstanding wages)]	75,200	
Salaries [18,500 + 1,200 (outstanding salaries)]	19,700	
Bonus to Employees	10,500	1,05,400
3. Other Expenses		
Discount allowed	4,200	
Insurance [6,720 – 1,680 (prepaid)]	5,040	
Rent [6,000 + 600 (outstanding)]	6,600	
General expenses	8,950	
Printing and Stationery	2,400	
Advertisement Expenses	3,800	
Bad debts	3,200	34,190
4. Share Capital:		
Authorised Share Capital (5,000 Equity shares of ₹100 each)		5,00,000
Issued Share Capital (2,500 Equity shares of ₹100 each)		2,50,000
Subscribed capital: Subscribed but not fully paid-up		
2,500 Equity shares of ₹100 each	2,50,000	
Less: Calls-in-Arrears	(5,000)	
		2,45,000
5. Reserves and Surplus:		
General Reserve	25,000	
Balance of Statement of Profit and Loss	6,220	
Add: Profit for the year	16,275	
Less: Appropriations [Proposed Dividend of previous year (5% of 2,45,000)]	(12,250)	
		35,245

6. Short-term Borrowings:			
Loan from Managing Director			15,700
7. Trade Payables:			
Creditors			35,200
8. Other Current Liabilities:			
Outstanding Wages		5,200	
Outstanding Salaries		1,200	
Outstanding Rent		600	
Dividend Payable		12,250	19,250
9. Tangible Assets:			
Plant and Machinery	80,500		
Less: Depreciation on Plant & Machinery	(12,075)	68,425	
Furniture	17,100		
Less: Depreciation on Furniture	(1,710)	15,390	83,815
10. Inventories:			
Stock			91,500
11. Cash and Cash Equivalents:			
Cash at Bank			1,34,700
12. Other Current Assets:			
Prepaid Insurance			1,680
13. Proposed dividend for the current year for the year ended 31st March, 2018 is ₹9,800.			

Solution 55

Statement of Profit and Loss of Silver Ore Co. Ltd.

for the year ended 31st March, 2018

Particulars	Note No.	31st March, 2018 (₹)	31st March, 2017 (₹)
I. Revenue from Operations		1,79,500	
II.Other Incomes	1	8,540	
III. Total Revenue (I + II)		1,88,040	
IV. Expenses:			
Cost of Material consumed	2	6,500	
Change in Inventories	3	(15,000)	
Employee Benefit Expenses	4	74,220	
Depreciation and Amortisation Expenses	5	6,745	
Other Expenses	6	52,700	
Total Expenses		1,25,165	
V. Profit for the year (III – IV)		62,875	

Balance Sheet of Silver Ore Co. Ltd

as at 31st March, 2018

Particulars	Note No.	31st March, 2018 (₹)	31st March, 2017 (₹)
I. EQUITY AND LIABILITIES			
1. Shareholders' Funds			
(a) Share Capital	7	5,19,750	
(b) Reserves and Surplus	8	62,875	
Total		5,82,625	
II. ASSETS			
1. Non-current Assets			
(a) Fixed Assets			
Tangible Assets	9	2,91,155	
(b) Non-current Investments	10	1,70,440	
2. Current Assets			
(a) Inventories	11	15,000	
(b) Cash and Cash Equivalents	12	1,06,030	
Total		5,82,625	

Notes to Accounts:

Particulars			(₹)
1. Other Incomes:			
Interest @ 6% on F.D.	3,900		
Accrued Interest on 6% F.D. $\left[\left(89{,}000 \times \frac{6}{100}\right) - 3{,}900\right]$	1,440		
Dividend Received	3,200		8,540
2. Cost of Material Consumed:			
Coal and Oil			6,500
3. Change in Inventories:			
Closing Stock			(15,000)
4. Employee Benefit Expenses:			
Wages			74,220
5. Depreciation and Amortisation Expenses:			
Plant	4,000		
Railway Track and Wagon	1,700		
Building and Furniture	1,045		6,745
6. Other Expenses:			
Cartage on Plant	1,800		
Repair to Plant	900		
Promotional Expenses	6,000		
Royalties paid	10,000		
Selling Expenses	5,000		
Administrative Expenses	28,000		
Brokerage on Investment	1,000		52,700

7.	**Share Capital**			
	Authorised Capital:			
	60,000 shares of ₹ 10 each			6,00,000
	Issued Capital:			
	52,000 shares of ₹ 10 each			5,20,000
	Subscribed Capital:			
	Subscribed and fully paid-up (51,900 shares of ₹ 10 each)		5,19,000	
	Subscribed but not fully paid-up (100 shares of ₹ 10 each)	1,000		
	Less: Calls-in-Arrear (100 × 2.50)	250	750	5,19,750
8.	**Reserves and Surplus:**			
	Surplus, *i.e.*, Balance in Statement of Profit and Loss			62,875
9.	**Tangible Assets:**			
	Mines		2,20,000	
	Railway Track and Wagon	17,000		
	Less: Depreciation	(1,700)	15,300	
	Plant	40,000		
	Less: Depreciation	(4,000)	36,000	
	Furniture and Building	20,900		
	Less: Depreciation	(1,045)	19,855	2,91,155
10.	**Non-current Investments:**			
	6% FD in Syndicate Bank	89,000		
	Accrued Interest on FD	1,440	90,440	
	Investments		80,000	1,70,440
11.	**Inventories:**			
	Stock			15,000
12.	**Cash and Cash Equivalents:**			
	Cash at Bank		1,05,500	
	Cash in Hand		530	1,06,030

■■■

2

Tools for Financial Analysis

Solution 1

Comparative Balance Sheet of RSF Ltd.

as at 31st March, 2017 and 2018

Particulars	Note No.	2016-2017 (₹)	2017-2018 (₹)	Absolute Change (₹)	Percentage Change (%)
1.		2.	3.	4.	5.
		A	B	(B – A) = C	C/A × 100 = D
I. EQUITY AND LIABILITIES					
1. Shareholders' Funds					
(a) Share Capital		50,000	55,000	5,000	10.00
(b) Reserves and Surplus		10,000	12,000	2,000	20.00
2. Non-current Liabilities					
(a) Long-term Borrowings		18,000	22,000	4,000	22.22
3. Current Liabilities					
(a) Short-term Borrowings		12,000	11,000	(1,000)	(8.33)
Total		90,000	1,00,000	10,000	11.11
II. ASSETS					
1. Non-current Assets					
(a) Fixed Assets		70,000	80,000	10,000	14.28
2. Current Assets					
(a) Cash and Cash Equivalents		20,000	20,000	—	Nil
Total		90,000	1,00,000	10,000	11.11

Solution 2

Comparative Balance Sheet of Essex Ltd.

as at 31st March, 2017 and 2018

Particulars	Note No.	2016-2017 (₹)	2017-2018 (₹)	Absolute Change (₹)	Percentage Change (%)
1.		2.	3.	4.	5.
		A	B	(B – A) = C	C/A × 100 = D
I. EQUITY AND LIABILITIES					
1. Shareholders' Funds					
(a) Share Capital		3,00,000	3,50,000	50,000	16.67
(b) Reserves and Surplus		50,000	65,000	15,000	30.00
2. Non-current Liabilities					
(a) Long-term Borrowings		1,00,000	1,50,000	50,000	50.00
3. Current Liabilities					
Trade Payables		1,50,000	2,00,000	50,000	33.33
Total		6,00,000	7,65,000	1,65,000	27.50
II. ASSETS					
1. Non-current Assets					
(a) Fixed Assets		5,00,000	6,15,000	1,15,000	23.00
2. Current Assets					
(a) Cash and Cash Equivalents		1,00,000	1,50,000	50,000	50.00
Total		6,00,000	7,65,000	1,65,000	27.50

Comment: The analysis of the above Comparative Balance Sheet gives the following conclusions:

(i) Share Capital has increased by ₹ 50,000, *i.e.*, 16.67% increase.

(ii) Reserves and Surplus have increased by ₹ 15,000, *i.e.*, 30% which reflects the increase in profits.

(iii) Long-term Borrowings has increased by 50% which shows the increased participation of debt capital in business.

(iv) Increase of fixed assets means purchase of fixed Assets partly by issue of share capital and partly by debt capital.

(v) Current Liabilities have increased by 33.33% whereas current assets have increased by 50%. It has resulted in the increase in working capital of the firm.

Solution 3

Comparative Balance Sheet of Kumar Ltd.

Particulars	Note No.	31st March, 2017 (₹)	31st March, 2018 (₹)	Absolute Change (₹)	Percentage Change (%)
1.		2.	3.	4.	5.
		A	B	(B – A) = C	C/A × 100 = D
I. EQUITY AND LIABILITIES					
1. Shareholders' Funds					
(a) Share Capital		60,000	72,000	12,000	20.00
(b) Reserves and Surplus		24,000	30,000	6,000	25.00
2. Non-Current Liabilities					
(a) Long-term Borrowings		34,000	51,000	17,000	50.00
3. Current Liabilities					
(a) Trade Payables		30,000	24,000	(6,000)	(20.00)
Total		1,48,000	1,77,000	29,000	19.59
II. ASSETS					
1. Non-Current Assets					
(a) Fixed Assets		1,20,000	1,50,000	30,000	25.00
2. Current Assets					
(a) Cash and Cash Equivalents		28,000	27,000	(1000)	(3.57)
Total		1,48,000	1,77,000	29,000	19.59

Solution 4

Comparative Balance Sheet

as at 31st March, 2017 and 2018

Particulars	Note No.	31st March, 2017 (₹)	31st March, 2018 (₹)	Absolute Change (₹)	Percentage Change (%)
1.		2.	3.	4.	5.
		A	B	(B – A) = C	C/A × 100 = D
I. EQUITY AND LIABILITIES					
1. Shareholders' Funds					
(a) Share Capital		4,00,000	5,00,000	1,00,000	25.00
(b) Reserves and Surplus		20,000	20,000	—	Nil

2. Non-current Liabilities					
(a) Long-term Borrowings		3,00,000	4,20,000	1,20,000	40.00
3. Current Liabilities					
(a) Short-term Borrowings		40,000	50,000	10,000	25.00
(b) Trade Payables		20,000	14,000	(6,000)	(30.00)
(c) Short-term Provisions		14,000	20,000	6,000	42.86
Total		7,94,000	10,24,000	2,30,000	28.98
II. ASSETS					
1. Non-current Assets					
(a) Fixed Assets					
(i) Tangible Assets		2,00,000	1,80,000	(20,000)	(10.00)
(b) Non-Current Investment		4,00,000	6,00,000	2,00,000	50.00
2. Current Assets					
(a) Inventories		60,000	40,000	(20,000)	(33.33)
(b) Trade Receivables		30,000	60,000	30,000	100.00
(c) Cash and Cash Equivalents		90,000	1,20,000	30,000	33.33
(d) Short-term Loans and Advances		14,000	24,000	10,000	71.43
Total		7,94,000	10,24,000	2,30,000	28.98

Solution 5

Comparative Statement of Profit and Loss of Rajasthan Hardwares Ltd.

for the years ended 31st March, 2016 and 2017

Particulars	Note No.	2016 (₹)	2017 (₹)	Absolute Change (₹)	Percentage Change (%)
1		2	3	4	5
		A	B	(B – A) = C	C/A × 100 = D
I. Revenue from Operations		1,47,000	1,74,000	27,000	18.36
II. Expenses:					
Employees Benefit Expenses		87,000	1,04,000	17,000	19.54
Other Expenses		25,000	30,000	5,000	20.00
Total Expenses		1,12,000	1,34,000	22,000	19.64
III. Profit before Tax (I – II)		35,000	40,000	5,000	14.28
IV. *Less:* Tax @ 20%		7,000	8,000	1,000	14.28
V. Profit after Tax (III – IV)		28,000	32,000	4,000	14.28

Solution 6

Comparative Statement of Profit and Loss of Super Hardwares Ltd.

for the years ended 31st March, 2017 and 2018

Particulars	Note No.	31.03.2017 (₹)	31.03.2018 (₹)	Absolute Change (₹)	Percentage Change (%)
1		2	3	4	5
		A	B	(B – A) = C	C/A × 100 =D
I. Revenue from Operations		48,00,000	60,00,000	12,00,000	25.00
II. Expenses:					
Employees Benefit Expenses		24,00,000	30,00,000	6,00,000	25.00
Other Expenses		6,00,000	3,00,000	(3,00,000)	(50.00)
Total Expenses		30,00,000	33,00,000	3,00,000	10.00
III. Profit before Tax (I – II)		18,00,000	27,00,000	9,00,000	50.00

Solution 7

Comparative Statement of Profit and Loss

for the years ended 31st March, 2014 and 2015

Particulars	Note No.	31.03.2014 (₹)	31.03.2015 (₹)	Absolute Change (₹)	Percentage Change (%)
1		2	3	4	5
		A	B	(B – A) = C	C/A × 100 =D
I. Revenue from Operations		45,00,000	60,00,000	15,00,000	33.33
II. Expenses:					
Employee Benefit Expenses		22,50,000	30,00,000	7,50,000	33.33
Depreciation and Amortization Expenses		6,00,000	7,50,000	1,50,000	25.00
Other Expenses		10,00,000	15,50,000	5,50,000	55.00
Total Expenses		38,50,000	53,00,000	14,50,000	37.66
III. Profit before Tax (I–II)		6,50,000	7,00,000	50,000	7.69
Less: Tax @30%		1,95,000	2,10,000	15,000	7.69
Profit after Tax		4,55,000	4,90,000	35,000	7.69

Solution 8

Comparative Statement of Profit and Loss

for the years ended 31st March, 2014 and 2015

Particulars	Note No.	31.03.2014 (₹)	31.03.2015 (₹)	Absolute Change (₹)	Percentage Change (%)
1		2	3	4	5
		A	B	(B – A) = C	C/A × 100 = D
I. Revenue from Operations		12,00,000	16,00,000	4,00,000	33.33
II. Expenses:					
Purchase of Stock-in-Trade		4,80,000	7,20,000	2,40,000	50.00
Change in Inventories of Stock-in-Trade		1,20,000	80,000	(40,000)	(33.33)
Other Expenses		90,000	2,00,000	1,10,000	122.22
Total Expenses		6,90,000	10,00,000	3,10,000	44.93
III. Net Profit before Tax (I–II)		5,10,000	6,00,000	90,000	17.65
IV. *Less*: Tax		2,29,500	2,10,000	(19,500)	(8.50)
V. Net Profit after Tax		2,80,500	3,90,000	1,09,500	39.03

Working Note:

Calculation of other expenses:

Cost Revenue from Operations = Purchase of Stock-in-Trade + Change in Inventories of Stock-in-Trade

For the year ended 31st March, 2014 = ₹ 4,80,000 + ₹1,20,000 = ₹ 6,00,000

For the year ended 31st March, 2015 = ₹ 7,20,000 + ₹ 80,000 = ₹8,00,000

Other Expenses:

For the year ended 31st March, 2014 = ₹ 6,00,000 × ₹15/100= ₹ 90,000

For the year ended 31st March, 2015 = ₹ 8,00,000 × ₹ 25/100= ₹2,00,000

Solution 9

Comparative Statement of Profit and Loss

for the years ended 31st March, 2014 and 2015

Particulars	Note No.	2013-14 (₹)	2014-15 (₹)	Absolute Change (₹)	Percentage Change (%)
I. Revenue from operations		25,00,000	40,00,000	15,00,000	60.00
II. Expenses:					
(a) Employees benefit expenses		1,25,000	2,00,000	75,000	60.00
(b) Other expenses		5,90,000	6,80,000	90,000	15.25
Total Expenses		7,15,000	8,80,000	1,65,000	23.07
III. Profit before tax (I – II)		17,85,000	31,20,000	13,35,000	74.78
IV. *Less:* Taxes @35%		6,24,750	10,92,000	4,67,250	74.78
V. Profit after tax (III – IV)		11,60,250	20,28,000	8,67,750	74.78

Solution 10

Comparative Statement of Profit and Loss

for the years ended 31st March, 2017 and 2018

Particulars	Note No.	31.03.2017 (₹)	31.03.2018 (₹)	Absolute Change (₹)	Percentage Change (%)
1		2	3	4	5
		A	B	(B – A) = C	C/A × 100 = D
I. Revenue from Operations		10,00,000	15,00,000	5,00,000	50.00
II. Other Incomes		2,00,000	2,25,000	25,000	12.50
III. Total Revenue (I + II)		12,00,000	17,25,000	5,25,000	43.75
IV. Expenses		5,00,000	9,00,000	4,00,000	80.00
V. Profit before Tax (III – IV)		7,00,000	8,25,000	1,25,000	17.85

Solution 11

Comparative Statement of Profit and Loss of Good Services Ltd.

for the years ended 31st March, 2012 and 2013

Particulars	Note No.	2011-12 (₹)	2012-13 (₹)	Absolute Change (₹)	Percentage Change (%)
		A	B	(B – A) = C	C/A × 100 = D
I. Revenue from Operations		11,00,000	14,00,000	3,00,000	27.27
II. Other Income		3,00,000	4,00,000	1,00,000	33.33
III. Total Revenue (I + II)		14,00,000	18,00,000	4,00,000	28.57
IV. Expenses		12,00,000	11,00,000	(1,00,000)	(8.33)
V. Profit before Tax (III – IV)		2,00,000	7,00,000	5,00,000	250.00
VI. Tax @ 50%		1,00,000	3,50,000	2,50,000	250.00
VII. Profit after Tax		1,00,000	3,50,000	2,50,000	250.00

Solution 12

Comparative Statement of Profit and Loss of Ajanta Ltd.

for the years ended 31st March, 2012 and 2013

Particulars	Note No.	2011-12 (₹)	2012-13 (₹)	Absolute Change (₹)	Percentage Change (%)
		A	B	(B – A) = C	C/A × 100 = D
I. Revenue from Operations		18,00,000	20,00,000	2,00,000	11.11
II. Other Income		6,00,000	4,00,000	(2,00,000)	(33.33)
III. Total Revenue (I + II)		24,00,000	24,00,000	0	Nil
IV. Expenses		17,00,000	19,00,000	2,00,000	11.76
V. Profit before Tax (III – IV)		7,00,000	5,00,000	(2,00,000)	(28.57)
VI. Income Tax @50%		3,50,000	2,50,000	(1,00,000)	(28.57)
VII. Profit after Tax		3,50,000	2,50,000	(1,00,000)	(28.57)

Solution 13

Comparative Statement of Profit & Loss for the year ended 31st March, 2018

Particulars	31.03.2017 (₹)	31.03.2018 (₹)	Absolute Change (₹)	Percentage Change (%)
I. Revenue from Operations	4,00,000	6,00,000	2,00,000	50
II. *Less:* Expenses:				
Cost of Material Consumed	2,00,000	3,00,000	1,00,000	50
Other Expenses	50,000	45,000	(5,000)	(10)
Total Expenses	2,50,000	3,45,000	95,000	38
III. Profit before Tax (I–II)	1,50,000	2,55,000	1,05,000	70
IV. *Less:* Tax@40%	60,000	1,02,000	42,000	70
V. Profit after Tax	90,000	1,53,000	63,000	70

Solution 14

Comparative Income Statement

for the years ended 31st March, 2017 and 2018

Particulars	Note No.	2017 (₹)	2018 (₹)	Absolute Change (₹)	Percentage Change (%)
1		2	3	4	5
		A	B	(B – A) = C	C/A × 100 = D
I. Revenue from Operations		40,000	50,000	10,000	25.00
II. Other Incomes		2,000	3,000	1,000	50.00
III. Total Revenue from Operations (I + II)		42,000	53,000	11,000	26.19
IV. Expenses:					
Cost of Material Consumed		30,000	35,000	5,000	16.67
Other Expenses		2,500	3,000	500	20.00
Total Expenses		32,500	38,000	5,500	16.93
V. Profit before Tax (III – IV)		9,500	15,000	5,500	57.89
VI. *Less:* Income Tax		4,750	7,500	2,750	57.89
VII. Profit after Tax (V – VI)		4,750	7,500	2,750	57.89

Solution 15

Comparative Statement of Profit and Loss of Moontrack Ltd.

for the years ended 31st March, 2017 and 2018

Particulars	Note No.	2016-17 (₹)	2017-18 (₹)	Absolute Change (₹)	Percentage Change (%)
1		2	3	4	5
		A	B	(B – A) = C	C/A × 100 = D
I. Revenue from Operations		24,00,000	40,00,000	16,00,000	66.67
II. Other Incomes		18,00,000	24,00,000	6,00,000	33.33
III. Total Revenue from Operations		42,00,000	64,00,000	22,00,000	52.39
IV. Expenses		14,00,000	16,00,000	2,00,000	14.29
V. Net Profit before Tax (III – IV)		28,00,000	48,00,000	20,00,000	71.43

Solution 16

Comparative Income Statement of Shyam Ltd.

for the years ended 31st March, 2017 and 2018

Particulars	Note No.	2017 (₹)	2018 (₹)	Absolute Change (₹)	Percentage Change (%)
1		2	3	4	5
		A	B	(B – A) = C	C/A × 100 = D
I. Revenue from Operations		17,50,000	20,00,000	2,50,000	14.28
II. Expenses:					
Cost of Material Consumed		9,75,000	11,70,000	1,95,000	20.00
Other Expenses		67,700	91,500	23,800	35.16
Total Expenses		10,42,700	12,61,500	2,18,800	20.98
III. Profit before Tax (I – II)		7,07,300	7,38,500	31,200	4.41
IV. *Less:* Income Tax		2,82,920	2,95,400	12,480	4.41
V. Profit after Tax		4,24,380	4,43,100	18,720	4.42

Solution 17

Comparative Statement of Profit and Loss of Akansha Ltd.

for the years ended 31st March, 2017 and 2018

Particulars	Note No.	2017 (₹)	2018 (₹)	Absolute Change (₹)	Percentage Change (%)
1.		2.	3.	4.	5.
		A	B	(B – A) = C	C/A × 100 = D
I. Revenue from Operations		1,00,000	1,30,000	30,000	30.00
II. Expenses:					
Cost of Material Consumed		47,400	66,360	18,960	40.00
Other Expenses		4,600	1,900	(2,700)	(58.69)
Total Expenses		52,000	68,260	16,260	12.03
III. Profit before Tax (I – II)		48,000	61,740	13,740	28.63
IV. *Less*: Tax @ 50%		24,000	30,870	6,870	28.63
V. Profit after Tax (III – IV)		24,000	30,870	6,870	28.63

Solution 18

Comparative Income Statement

for the years ended 31st March, 2016 and 2017

Particulars	Note No.	2016 (₹)	2017 (₹)	Absolute Change (₹)	Percentage Change (%)
1.		2.	3.	4.	5.
		A	B	(B – A) = C	C/A × 100 = D
I. Revenue from Operations		4,00,000	6,00,000	2,00,000	50.00
II. Expenses:					
Cost of Material Consumed		3,20,000	4,00,000	80,000	25.00
Employees Benefits Expenses		16,000	20,000	4,000	25.00
Total Expenses		3,36,000	4,20,000	84,000	25.00
III. Profit before Tax (I – II)		64,000	1,80,000	1,16,000	181.25
IV. *Less*: Tax @ 50%		32,000	90,000	58,000	181.25
V. Net Profit after Tax		32,000	90,000	58,000	181.25

Solution 19

Comparative Income Statement

for the years ended 31st March, 2017 and 2018

Particulars	Note No.	31.03.2017 (₹)	31.03.2018 (₹)	Absolute Change (₹)	Percentage Change (%)
1.		2.	3.	4.	5.
		A	B	(B – A) = C	C/A × 100 = D
I. Revenue from Operations		2,92,000	4,54,000	1,62,000	55.47
II. Other Incomes		24,000	28,000	4,000	16.67
III. Total Revenue (I + II)		3,16,000	4,82,000	1,66,000	52.53
IV. Expenses:					
Cost of Material Consumed		1,26,000	1,28,000	2,000	1.59
Employees Benefits Expenses		25,000	27,000	2,000	8.00
Other Expenses		18,000	24,000	6,000	33.33
Total Expenses		1,69,000	1,79,000	10,000	5.91
V. Profit before Tax (III – IV)		1,47,000	3,03,000	1,56,000	106.12
VI. *Less:* Tax		—	—	—	—
VII. Net Profit after Tax (V – VI)		1,47,000	3,03,000	1,56,000	106.12

Solution 20

Comparative Income Statement of X Ltd.

for the years ended 31st March, 2017 and 2018

Particulars	Note No.	2017 (₹)	2018 (₹)	Absolute Change (₹)	Percentage Change (%)
1.		2.	3.	4.	5.
		A	B	(B – A) = C	C/A × 100 = D
I. Revenue from Operations		2,50,000	4,00,000	1,50,000	60.00
II. Expenses:					
Cost of Material Consumed		1,50,000	2,80,000	1,30,000	86.67
Other Expenses		15,000	18,000	3,000	20.00
Total Expenses		1,65,000	2,98,000	1,33,000	80.61
III. Profit before Tax (I – II)		85,000	1,02,000	17,000	20.00
IV. *Less:* Tax @ 20%		17,000	20,400	3,400	20.00
V. Profit after Tax (III – IV)		68,000	81,600	13,600	20.00

Solution 21

Comparative Income Statement of Mahavir Ltd.

for the years ended 2017 and 2018

Particulars	Note No.	2017 (₹)	2018 (₹)	Absolute Change (₹)	Percentage Change (%)
1.		2.	3.	4.	5.
		A	B	(B – A) = C	C/A × 100 = D
I. Revenue from Operations		6,00,000	9,00,000	3,00,000	50.00
II. Expenses:					
Cost of Material Consumed		3,50,000	5,00,000	1,50,000	42.85
Employees Benefit Expenses		60,000	75,000	15,000	25.00
Depreciation and Amortisation Expenses		30,000	40,000	10,000	33.33
Total Expenses		4,40,000	6,15,000	1,75,000	39.77
III. Profit before Tax (I – II)		1,60,000	2,85,000	1,25,000	78.12
IV. *Less*: Income Tax		40,000	99,750	59,750	149.37
V. Profit after Tax		1,20,000	1,85,250	65,250	54.37

Solution 22

Common Size Balance Sheet

as at 31st March, 2017 and 2018

Particulars	Note No.	Absolute Amounts		Percentage of Balance Sheet Total	
		31.3.2017 (₹)	31.3.2018 (₹)	31.3.2017 (%)	31.3.2018 (%)
I. EQUITY AND LIABILITIES					
Shareholders' Funds		10,00,000	12,00,000	50	48
Non-current Liabilities		6,00,000	6,00,000	30	24
Current Liabilities		4,00,000	7,00,000	20	28
Total		20,00,000	25,00,000	100	100
II. ASSETS					
Non-current Assets		12,00,000	13,00,000	60	52
Current Assets		8,00,000	12,00,000	40	48
Total		20,00,000	25,00,000	100	100

Solution 23

Common Size Balance Sheet of Maria Ltd.

as at 31st March, 2017 and 2018

Particulars	Note No.	Absolute Amounts		Percentage of Balance Sheet Total	
		2016-2017 (₹)	2017-2018 (₹)	2016-2017 (%)	2017-2018 (%)
I. EQUITY AND LIABILITIES					
1. Shareholders' Funds					
(a) Share Capital		20,00,000	15,00,000	66.67	60.00
(b) Reserves and Surplus		3,00,000	2,00,000	10.00	8.00
2. Non-current Liabilities					
(a) Long-term Borrowings		6,00,000	5,00,000	20.00	20.00
3. Current Liabilities					
(a) Trade Payables		1,00,000	3,00,000	3.33	12.00
Total		30,00,000	25,00,000	100	100.00
II. ASSETS					
1. Non-current Assets					
(a) Fixed Assets					
(i) Tangible Assets		20,00,000	15,00,000	66.67	60.00
(ii) Intangible Assets		1,00,000	3,00,000	3.33	12.00
2. Current Assets					
(a) Inventories		6,00,000	5,00,000	20.00	20.00
(b) Cash and Cash Equivalents		3,00,000	2,00,000	10.00	8.00
Total		30,00,000	25,00,000	100	100.00

Solution 24

Common Size Balance Sheet of X Ltd. and Y Ltd.

as at 31st March, 2018

Particulars	Note No.	Absolute Amounts (₹)		Percentage of Balance Sheet Total (%)	
		X Ltd.	Y Ltd.	X Ltd.	Y Ltd.
I. EQUITY AND LIABILITIES					
1. Shareholders' Funds					
(a) Share Capital		9,00,000	12,00,000	60.00	66.67
(b) Reserves and Surplus		4,00,000	3,50,000	26.67	19.44
2. Current Liabilities					
(a) Short-term Borrowings		2,00,000	2,50,000	13.33	13.89
Total		15,00,000	18,00,000	100.00	100.00

II. ASSETS					
1. Non-current Assets					
(a) Fixed Assets		10,00,000	16,00,000	66.67	88.89
2. Current Assets					
(a) Cash & Cash Equivalents		5,00,000	2,00,000	33.33	11.11
Total		15,00,000	18,00,000	100.00	100.00

Comment:

(i) The short-term financial position of X Ltd. is better as compared to Y Ltd. as current liabilities of X Ltd. are 13.33% of total funds invested and current assets are 33.33% of these funds. On the other hand, current liabilities of Y Ltd. are 13.89% of total funds and current assets are 11.11% of these funds.

(ii) Y Ltd. has invested more (88.89%) in fixed assets as composed to X Ltd. (66.67%).

(iii) The long-term financial position of both companies is almost equal and sound. Net worth is 86.67% (60 + 26.67) of total funds in case of X Ltd. and 86.11% (66.67 + 19.44) of total funds in case of Y Ltd.

Solution 25

Common Size Balance Sheet of Mahavir Steel Ltd.

as at 31st March, 2017 and 2018 (₹ *in Lakhs*)

Particulars	Note No.	Absolute Amounts		Percentage of Balance Sheet Total	
		31.03.2017 (₹)	31.03.2018 (₹)	31.03.2017 (%)	31.03.2018 (%)
I. EQUITY AND LIABILITIES					
1. Shareholders' Funds					
(a) Share Capital		18.00	18.00	45.00	40.00
(b) Reserves and Surplus		4.00	5.40	10.00	12.00
2. Non-current Liabilities					
(a) Long-term Borrowings		14.00	14.40	35.00	32.00
3. Current Liabilities					
(a) Other Current Liabilities		2.80	5.36	7.00	11.91
(b) Short-term Provisions		1.20	1.84	3.00	4.09
Total		40.00	45.00	100	100.00

II. ASSETS					
1. Non-current Assets					
(a) Fixed Assets		28.00	30.60	70.00	68.00
(b) Non-Current Investments		8.00	10.40	20.00	23.11
2. Current Assets					
(a) Other Current Assets		4.00	4.00	10.00	8.89
Total		40.00	45.00	100	100.00

Solution 26

Common Size Statement of Profit and Loss

for the years ended 2016 and 2017

Particulars	Note No.	Absolute Amounts		Percentage of Revenue from Operations	
		2016 (₹)	2017 (₹)	2016 (%)	2017 (%)
I. Revenue from Operations		1,00,000	1,20,000	100	100
II. Expenses:					
Cost of Material Consumed		60,000	66,000	60.00	55.00
Other Expenses		17,000	21,200	17.00	17.67
Total Expenses		77,000	87,200	77.00	72.67
III. Profit before Tax (I – II)		23,000	32,800	23.00	27.33
IV. *Less:* Income Tax		—	—	—	—
V. Profit after Tax		23,000	32,800	23.00	27.33

Solution 27

Common Size Statement of Profit and Loss of Janki Ltd.

for the years ended 31st March, 2017 and 2018

Particulars	Note No.	Absolute Amounts		Percentage of Revenue from Operations	
		31.03.2017 (₹)	31.03.2018 (₹)	31.03.2017 (%)	31.03.2018 (%)
I. Revenue from Operations		4,80,000	5,70,000	100	100
II. Other Incomes		20,000	30,000	4.17	5.26
III. Total Revenue (I + II)		5,00,000	6,00,000	104.17	105.26

IV. Expenses:					
Cost of Material Consumed		2,00,000	2,70,000	41.67	47.37
Purchases of Stock-in-trade		80,000	84,000	16.67	14.74
Employees Benefit Expenses		50,000	72,000	10.41	12.63
Other Expenses		70,000	90,000	14.58	15.79
Total Expenses		4,00,000	5,16,000	83.33	90.53
V. Profit before Tax (III – IV)		1,00,000	84,000	20.83	14.74

Solution 28

Common Size Income Statement of Jagat Ltd.

for the year ended 31st March, 2018

Particulars	Note No.	Absolute Amount (₹)	Percentage of Revenue from Operations (%)
I. Revenue from Operations		30,00,000	100.00
II. Other Incomes		20,000	0.67
III. Total Revenue (I + II)		30,20,000	100.67
IV. Expenses:			
Cost of Material Consumed		20,50,000	68.33
Other Expenses		40,000	1.33
Total Expenses		20,90,000	69.66
V. Profit before Tax (III – IV)		9,30,000	31.00
VI. *Less:* Tax		2,25,000	7.50
VII. Profit after Tax (V – VI)		7,05,000	23.50

Solution 29

Common Size Income Statement of Jayant Ltd.

for the year ended 31st March, 2018

Particulars	Note No.	Absolute Amount (₹)	Percentage of Revenue from Operations (%)
I. Revenue from Operations		25,00,000	100
II. Other Incomes		38,000	1.52
III. Total Revenue from Operations (I + II)		25,38,000	101.52
IV. Expenses:			
Cost of Material Consumed		14,00,000	56.00
Other Expenses		5,00,000	20.00
Total Expenses		19,00,000	76.00
V. Profit before Tax (III – IV)		6,38,000	25.52
VI. *Less:* Tax		3,38,000	13.52
VII. Profit after Tax (V – VI)		3,00,000	12.00

Solution 30

Common Size Income Statement of Kanpur Leather Ltd.

for the years ended 31st March, 2017 and 2018

Particulars	Note No.	Absolute Amounts		Percentage of Revenue from Operations	
		31.03.2017 (₹)	31.03.2018 (₹)	31.03.2017 (%)	31.03.2018 (%)
I. Revenue from Operations		98,000	1,37,200	100	100
II. Other Incomes		2,000	2,800	2.04	2.04
III. Total Revenue (I + II)		1,00,000	1,40,000	102.04	102.04
IV. Expenses:					
Cost of Material Consumed		65,000	88,200	66.32	64.29
Employees Benefits Expenses		11,000	19,600	11.22	14.29
Other Expenses		1,000	1,400	1.02	1.02
Total Expenses		77,000	1,09,200	78.57	79.59

V. Profit before Tax (III – IV)		23,000	30,800	23.47	22.44
VI. *Less:* Income Tax		14,000	16,800	14.29	12.24
VII. Profit after Tax (V – VI)		9,000	14,000	9.18	10.20

Solution 31

Common Size Income Statement

for the years ended 31st March, 2017 and 2018

Particulars	Note No.	Absolute Amounts		Percentage of Revenue from Operations	
		31.03.2017 (₹)	31.03.2018 (₹)	31.03.2017 (%)	31.03.2018 (%)
I. Revenue from Operations		42,00,000	40,00,000	100	100
II. Expenses:					
Cost of Material Consumed		26,88,000	24,00,000	64.00	60.00
Other Expenses		1,51,200	1,60,000	3.6	4.00
Total Expenses		28,39,200	25,60,000	67.6	64.00
III. Profit before tax (I – II)		13,60,800	14,40,000	32.4	36.00
IV. *Less:* Income Tax		5,46,000	5,60,000	13.00	14.00
V. Profit after Tax (III – IV)		8,14,800	8,80,000	19.40	22.00

■■■

3

Accounting Ratios

Solution 1

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

Current Assets = Total Assets – Non-current Assets

= 50,000 – 25,000 = ₹25,000

Total Liabilities = Total Assets (Matching concept of Balance Sheet)

Current Liabilities = Total Assets – Shareholders' Funds – Non-current Liabilities

= 50,000 – 30,000 – 10,000

= ₹10,000

$$\text{Current Ratio} = \frac{₹25,000}{₹10,000} = 2.5:1$$

Solution 2

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

Current Assets = Total Assets – Non-Current Assets

= ₹2,00,000 – ₹50,000

= ₹1,50,000

Current Liabilities = Total Assets – Shareholders' Funds – Non-current Liabilities

= ₹2,00,000 – ₹80,000 – ₹20,000

= ₹1,00,000.

$$\therefore \text{ Current Ratio} = \frac{₹1,50,000}{₹1,00,000} = 1.5 : 1.$$

Solution 3

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

Current Ratio after purchase of goods on credit:

$$\text{Current Ratio} = \frac{3,00,000 + 20,000}{1,40,000 + 20,000} = \frac{₹3,20,000}{₹1,60,000} = 2:1$$

Solution 4

(i) Current Assets after payment = 2,00,000 – 40,000 = ₹1,60,000

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}; \frac{2}{1} = \frac{1,60,000}{\text{Current Liabilities}}$$

$$\text{Current Liabilities} = \frac{1,60,000}{2} = ₹80,000 \text{ (After Payment)}$$

Working Capital after payment = 1,60,000 – 80,000 = ₹80,000

(ii) Current Liabilities before payment = 80,000 + 40,000 = ₹1,20,000

Working Capital before payment = 2,00,000 – 1,20,000 = ₹80,000.

Solution 5

Current Assets = ₹10,00,000; Current Liabilities = ₹4,00,000

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

$$= 2.5:1$$

Required Current Ratio = 3:1

$$\frac{3}{1} = \frac{\text{Current Assets}}{4,00,000}$$

Current Assets = ₹12,00,000

Current Assets which must be acquired = 12,00,000 – 10,00,000 = ₹2,00,000

Solution 6

$$\text{Quick Ratio} = \frac{\text{Quick Assets}}{\text{Current Liabilities}}$$

Quick Assets = Current Assets – Inventory – Prepaid Expenses

= 85,000 – 23,750 – 1,250 = ₹60,000

Current Liabilities = ₹60,000

$$\text{Quick Ratio} = \frac{₹60,000}{₹60,000} = 1:1$$

Solution 7

$$\text{Quick Ratio} = \frac{\text{Quick Assets}}{\text{Current Liabilities}}$$

Quick Assets = Current Assets – Inventory

= 4,00,000 – 80,000 = ₹3,20,000

Working Capital = Current Assets – Current Liabilities

Current Liabilities = Current Assets – Working Capital

$= 4,00,000 - 2,40,000$

$= ₹1,60,000$

Quick Ratio $= \frac{₹3,20,000}{₹1,60,000} = 2:1$

Solution 8

(*a*) Current Ratio $= \frac{\text{Current Assets}}{\text{Current Liabilities}}$

Current Assets = Current Investments + Inventories + Trade Receivables + Cash and Cash Equivalents + Short-term Loans and Advances

$= ₹70,000 + ₹8,750 + ₹3,500 + ₹17,500 + ₹7,000$

$= ₹1,06,750$

Current Liabilities = Short-term Borrowings + Trade Payables + Short-term Provisions + Other Current Liabilities

$= ₹35,000 + ₹4,375 + ₹5,250 + ₹8,750$

$= ₹53,375$

Current Ratio $= \frac{1,06,750}{53,375} = 2 : 1.$

(*b*) Quick Ratio $= \frac{\text{Quick Assets}}{\text{Current Liabilities}}$

Quick Assets = Current Assets – Inventories – Prepaid Expenses

$= ₹1,06,750 - ₹8,750 - \text{NIL}$

$= ₹98,000$

Current Liabilities = Short-term Borrowings + Trade Payables + Short-term Provisions + Other Current Liabilities

$= ₹35,000 + ₹4,375 + ₹5,250 + ₹8,750 = ₹53,375$

Quick Ratio $= \frac{₹\,98,000}{₹\,53,375} = 1.8 : 1$

Solution 9

Working Capital = Current Assets – Current Liabilities

Current Assets = Working Capital + Current Liabilities

Current Assets = 2,00,000 + Current Liabilities

Current Ratio $= \frac{\text{Current Assets}}{\text{Current Liabilities}}$

$\frac{3}{1} = \frac{2,00,000 + \text{Current Liabilities}}{\text{Current Liabilities}}$ $(\because \text{CA} = 2,00,000 + \text{CL})$

3 Current Liabilities = 2,00,000 + Current Liabilities

2 Current Liabilities = 2,00,000

$$\text{Current Liabilities} = \frac{2,00,000}{2} = ₹1,00,000$$

$$\text{Current Assets} = 2,00,000 + 1,00,000$$

$$= ₹3,00,000 \ (\therefore CA = WC + CL)$$

$$\text{Liquid Assets} = \text{Current Assets} - \text{Inventory}$$

$$= 3,00,000 - 2,20,000 = ₹80,000.$$

Solution 10

$$\text{Current Ratio} = 0.4:1$$

$$\text{Current Liabilities} = ₹60,000$$

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

$$\frac{0.4}{1} = \frac{\text{Current Assets}}{60,000}$$

$$\text{Current Assets} = 60,000 \times 0.4 = ₹24,000$$

$$\text{New Equity Shares issued} = ₹50,000$$

Increase in Current Assets, *i.e.,* Cash = ₹50,000

$$\text{New Current Assets} = 24,000 + 50,000 = ₹74,000$$

$$\text{Revised Current Ratio} = \frac{₹74,000}{₹60,000} = 1.23:1$$

Solution 11

Current Ratio = 3:1

Working Capital = Current Assets – Current Liabilities

Let Current Liabilities be x

$$\text{Current Assets} = 3x$$

$$\text{Working Capital} = CA - CL$$

$$= 3x - x = 2x$$

$$2x = 4,50,000$$

$$x = 2,25,000$$

$$\text{Current Liabilities} = ₹\ 2,25,000$$

$$\text{Current Assets} = 3x$$

$$= 3 \times 2,25,000$$

$$= ₹6,75,000.$$

$$\text{Quick Ratio} = \frac{\text{Liquid Assets}}{\text{Current Liabilities}}$$

$$\frac{1.2}{1} = \frac{\text{Liquid Assets}}{2,25,000}$$

$$\text{Liquid Assets} = 2,25,000 \times 1.2$$

$$= 2,70,000$$

Inventory = Current Assets – Liquid Assets
= 6,75,000 – 2,70,000 = ₹4,05,000.

Solution 12

$$\text{Quick Ratio} = \frac{\text{Quick Assets}}{\text{Current Liabilities}}$$

$$\frac{2}{1} = \frac{2,00,000}{\text{Current Liabilities}}$$

2,00,000 = 2 Current Liabilities

$$\text{Current Liabilities} = \frac{2,00,000}{2} = ₹1,00,000$$

Current Assets = Total Liquid Assets + Inventory + Prepaid Expenses
= 2,00,000 + 40,000 + 10,000 = ₹2,50,000

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

$$= \frac{2,50,000}{1,00,000} = 2.5:1$$

Solution 13

$$\text{Liquid Ratio} = \frac{\text{Liquid Assets}}{\text{Current Liabilities}}$$

Liquid Assets = Current Assets – Inventory – Prepaid Expenses
= 20,000 – 3,000 – 1,000 = ₹16,000

Current Liabilities = Current Assets – Working Capital
= 20,000 – 16,800 = ₹3,200

$$\text{Liquid Ratio} = \frac{₹16,000}{₹3,200} = 5:1$$

Solution 14

$$\text{Quick Ratio} = \frac{\text{Quick Assets}}{\text{Current Liabilities}}$$

Quick Assets = (Current Liabilities + Working Capital) – Inventory
= (2,00,000 + 1,20,000) – 70,000
= 3,20,000 – 70,000 = ₹2,50,000

$$\text{Quick Ratio} = \frac{₹2,50,000}{₹2,00,000} = 1.25:1$$

Solution 15

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

Current Assets = Current Investments + Inventories + Trade Receivables + Short-term Loans and Advances + Prepaid Insurance + Advance Payment of Tax + Cash and Cash Equivalents

= 40,000 + 2,05,000 + 1,65,000 + 5,000 + 9,000 + 10,000 + 14,000 = ₹4,48,000

Current Liabilities = Trade Payables + Short-term Borrowings +Short-term Provisions + Other Current Liabilities

= 90,000 + 30,000 + 12,500 + 30,000

= ₹1,62,500

$$\text{Current Ratio} = \frac{₹4,48,000}{₹1,62,500} = 2.76:1$$

$$\text{Liquidity Ratio} = \frac{\text{Liquid Assets}}{\text{Current Liabilities}}$$

Liquid Assets = Current Assets – Inventory – Prepaid expenses

= 4,48,000 – 2,05,000 – 9,000 – 10,000

= ₹2,24,000

$$\text{Liquid Ratio} = \frac{₹2,24,000}{₹1,62,500} = 1.38:1$$

Solution 16

S. No.		Reasons
(i)	Increase/Decrease	If Redemption of Debentures takes place in the current year when outstanding debentures are considered as current liability, in such case ratio will increase Alternatively, Redemption of Debentures will decrease cash but current liabilities will remain the same. In that case ratio will decrease.
(ii)	No change	It will increase cash and decrease debtors with the same amount, *i.e.*, conversion of one current asset (debtors) into another current asset (cash) . No change in current assets and current liabilities.
(iii)	No change	Both current assets and current liabilities are not affected.
(iv)	No change	No change in current assets and current liabilities. Because increase in one current liability (bills payable) results in decrease in another current liability (creditors) with the same amount.

Solution 17

S.No.	Particulars	Effect
(i)	Purchase of goods on credit	Reduce
(ii)	Sale of goods costing ₹10,000 for ₹12,000 on credit	Improve
(iii)	Selling a fixed asset at loss	Improve
(iv)	Purchase of goods for cash	No Change
(v)	Payment to trade creditors	Improve
(vi)	Borrowing money on a promissory note (B/P)	Reduce
(vii)	Giving promissory note to a creditor	No Change

Solution 18

S.No.	Effect on Current Ratio	Reason
(i)	Improve	Current assets are increased but current liabilities are same.
(ii)	Improve	Same as above.
(iii)	Reduce	Current assets are decreased but current liabilities remain the same.
(iv)	Reduce	The total current assets are reduced by the amount of loss, but total current liabilities remain unaffected.
(v)	No Change	One current asset is converted into another current asset.
(vi)	No Change	Same as (v) above.
(vii)	Improve	The total current assets are increased by the amount of sale profit and current liabilities remain unaffected.
(viii)	Reduce	Same as (iv) above.
(ix)	Reduce	Current assets are decreased but current liabilities remain same.
(x)	No Change	No effect on Current Ratio because total non-current assets and non-current liabilities have increased by the same amount.
(xi)	Reduce	Total current liabilities are increased but the current assets remain the same.
(xii)	No Change	No effect on Current Ratio because total non-current assets are increased and decreased by the same amount.
(xiii)	Improve	Same as (i) above.
(xiv)	Reduce	Both the current assets and current liabilities are increased by the same amount.
(xv)	No Change	One current asset is converted into another current asset.

Solution 19

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

$$2.5 = \frac{\text{Current Assets}}{1,00,000}$$

$$\text{Current Assets} = ₹2,50,000$$

Current ratio after paying ₹25,000 to a creditor is calculated as given below:

$$\text{Current Ratio} = \frac{\text{Current Assets} - 25,000}{\text{Current Liabilities} - 25,000}$$

$$= \frac{2,50,000 - 25,000}{1,00,000 - 25,000} = \frac{₹2,25,000}{₹75,000} = 3:1$$

Solution 20

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

$$\text{Current Assets} = \text{Total Assets} - \text{Fixed Assets}$$

$$= 2,75,000 - 1,25,000 = ₹1,50,000$$

$$\text{Current Liabilities} = \text{Total Assets} - \text{Capital Employed}$$

$$= 2,75,000 - 2,50,000 = ₹25,000$$

$$\text{Current Ratio} = \frac{₹1,50,000}{₹25,000} = 6:1$$

Solution 21

Current Ratio is 4 and Quick Ratio is 2.5. Difference between these two ratios is stock.

Therefore, inventory is $4 - 2.5 = 1.5$

If Inventory is 1.5, Current Assets = 4

If Inventory is 1, Current Assets $= \frac{4}{1.5}$

If Inventory is ₹22,500

$$\text{Current Assets} = \frac{4}{1.5} \times 22,500$$

Current Assets = ₹60,000

$$\text{Hence, Current Liabilities} = \frac{₹60,000}{4} = ₹15,000$$

Solution 22

Let the current liabilities be x

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

$$\frac{3.5}{1} = \frac{\text{Current Assets}}{x}$$

Current Assets = $3.5x$

$$\text{Liquid Ratio} = \frac{\text{Liquid Assets}}{\text{Current Liabilities}}$$

$$\frac{1.5}{1} = \frac{\text{Liquid Assets}}{x}$$

Liquid Assets = $1.5x$

Stock = Current Assets – Liquid Assets

$60,000 = 3.5x - 1.5x$

$60,000 = 2x$

$x = \frac{60,000}{2} = ₹30,000$ (Current liabilities)

Current Assets $= 3.5\,x = 3.5 \times 30,000 = ₹\ 1,05,000$

Solution 23

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

Suppose Current Liabilities are x

$$2.5 = \frac{\text{Current Assets}}{x}$$

$\therefore$ Current Assets $= 2.5x$

Working Capital = Current Assets – Current Liabilities

₹81,000 $= 2.5\,x - x$

$$x = \frac{81{,}000}{1.5} = 54{,}000$$

Current Liabilities = ₹54,000

Current Assets = 54,000 × 2.5 = ₹1,35,000.

Solution 24

$$\text{Quick Ratio} = \frac{\text{Quick Assets}}{\text{Current Liabilities}}$$

$$1.8 = \frac{\text{Quick Assets}}{₹30{,}000}$$

Quick Assets = ₹30,000 × 1.8 = ₹54,000.

Inventory = Current Assets – Quick Assets

= 80,000 – 54,000 = ₹26,000.

Solution 25

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

$$\text{or,} \quad 3 = \frac{\text{Current Assets}}{₹10{,}00{,}000}$$

Current Assets = ₹10,00,000 × 3 = ₹30,00,000

$$\text{Quick Ratio} = \frac{\text{Quick Assets}}{\text{Current Liabilities}}$$

$$\text{or,} \quad 1 = \frac{\text{Quick Assets}}{₹10{,}00{,}000}$$

Quick Assets = ₹10,00,000 × 1 = ₹10,00,000

Inventory = Current Assets – Quick Assets

= 30,00,000 – 10,00,000 = ₹ 20,00,000.

Solution 26

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

$$\frac{1.8}{1} = \frac{1{,}62{,}000}{\text{Current Liabilities}}$$

1.8 Current Liabilities = 1,62,000

$$\text{Current Liabilities} = \frac{1{,}62{,}000}{1.8}$$

Current Liabilities = ₹90,000

$$\text{Acid Test Ratio} = \frac{\text{Quick Assets}}{\text{Current Liabilities}}$$

Quick Assets = Current Assets – Stock
= 1,62,000 – 27,000
= ₹1,35,000

$$\text{Acid Test Ratio} = \frac{1{,}35{,}000}{90{,}000} = 1.5:1$$

Solution 27

Working Capital = ₹16,000
Let Current Assets = x
Working Capital = Current Assets – Current Liabilities
Current Liabilities = x – 16,000

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

Current Ratio = 2.25:1

$$\frac{x}{(x - 16{,}000)} = 2.25$$

$$x = 2.25x - 36{,}000$$

$$2.25x - x = 36{,}000$$

$$1.25x = 36{,}000$$

$$x = \frac{36{,}000}{1.25} = ₹28{,}800$$

Current Assets (x) = ₹28,800
Current Liabilities = x – 16,000
= 28,800 – 16,000
= ₹12,800

$$\text{Liquid Ratio} = \frac{\text{Liquid Assets}}{\text{Current Liabilities}}$$

$$\frac{1.2}{1} = \frac{\text{Liquid Assets}}{12{,}800}$$

Liquid Assets = 1.2 × 12,800 = ₹15,360
Inventory = Current Assets – Liquid Assets
= 28,800 – 15,360 = ₹13,440.

Solution 28

(i) $$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

$$= \frac{\text{Inventories} + \text{Trade Receivables} + \text{Cash-in-hand} + \text{Prepaid Expenses}}{\text{Bank Overdraft} + \text{Trade Payables} + \text{Provision for Taxation}}$$

$$= \frac{12,000 + 9,000 + 2,280 + 720}{6,000 + 23,400 + 600}$$

$$= \frac{₹24,000}{₹30,000} = 0.8:1$$

(ii) Quick Ratio $= \frac{\text{Quick Assets}}{\text{Current Liabilities}}$

Quick Assets = Current Assets – Inventories – Prepaid Expenses

= 24,000 – 12,000 – 720

= ₹11,280

Quick Ratio $= \frac{₹11,280}{₹30,000} = 0.38:1$

Solution 29

Debt-equity Ratio $= \frac{\text{Debt}}{\text{Equity}}$ or $\frac{\text{Long-term Loans}}{\text{Shareholders' Funds}}$

Long-term Loans = 15% Debentures + Loan from Bank

= 20,000 + 14,000 = ₹34,000

Shareholders' Funds = Equity Share Capital + 12% Preference Share Capital + Reserves and Surplus + Securities Premium Reserve + Surplus, *i.e.*, Balance in Statement of Profit and Loss

= 40,000 + 8,000 + 10,000 + 2,000 + 12,000

= ₹72,000

Debt-Equity Ratio $= \frac{₹34,000}{₹72,000} = 0.47:1$

Solution 30

Debt-equity Ratio $= \frac{\text{Debt}}{\text{Equity}}$ or $\frac{\text{Long-term Debts}}{\text{Shareholders' Funds}}$

Long-term Debt (Debt) = Total Debt – Current Liabilities

= 8,00,000 – 4,00,000 = ₹4,00,000

Shareholders' Funds (Equity) = Total Assets – Total Debt

= 10,00,000 – 8,00,000 =₹2,00,000

Debt-Equity Ratio $= \frac{₹4,00,000}{₹2,00,000} = 2:1$

Solution 31

Debt-equity Ratio $= \frac{\text{Debt}}{\text{Equity}}$

Debt = Long-term Borrowings = ₹75,000

Equity = Share Capital + Reserves and Surplus

$= 1,00,000 + 75,000 = ₹1,75,000$

Debt-equity Ratio $= \frac{₹75,000}{₹1,75,000} = 0.43:1$

Solution 32

Debt-equity Ratio $= \frac{\text{Debt}}{\text{Equity}}$

Debt (Total Long-term Debts) = Total Debts – Current Liabilities

$= 25,00,000 – 5,00,000$

$= ₹20,00,000$

Equity = Shareholders' Funds

= Total Assets – Total Debts

$= 37,00,000 – 25,00,000$

$= ₹12,00,000$

Debt-equity Ratio $= \frac{₹20,00,000}{₹12,00,000} = 1.67:1$

Solution 33

Debt to Equity Ratio $= \frac{\text{Debt}}{\text{Equity}}$

Debt = Long-term Borrowings + Long-term Provisions

$= 4,00,000 + 2,00,000$

$= ₹6,00,000$

Equity = Current Assets + Non-current Assets – Current Liabilities – Long-term Borrowings – Long-term Provisions

$= 1,80,000 + 7,20,000 – 1,00,000 – 4,00,000 – 2,00,000$

$= ₹2,00,000$

Debt to Equity Ratio $= \frac{6,00,000}{2,00,000} = 3:1$

Solution 34

Effect	Reasons
(a) No Change	Neither the equity nor the debts are affected.
(b) Increase	Debts are increasing.
(c) Decrease	Shareholders' funds or equity will increase.
(d) Increase	Because equity will be decreased.

Solution 35

S.No.	Particulars	Effect
(i)	Issue of equity shares	Decrease
(ii)	Redemption of debentures	Decrease
(iii)	Cash received from debtors	No Change
(iv)	Purchase of goods on credit	No Change
(v)	Sale of goods on cash	No Change

Solution 36

$$\text{Total Assets to Debt Ratio} = \frac{\text{Total Assets}}{\text{Long-term Debt}}$$

$$= \frac{₹4,00,000}{₹1,00,000} = 4:1$$

Solution 37

$$\text{Total Assets to Debt ratio} = \frac{\text{Total Assets}}{\text{Long-term Debts}}$$

$$\text{Total Assets} = \text{Non-current Assets} + \text{Current Assets}$$

$$= 6,00,000 + 2,40,000$$

$$= ₹\ 8,40,000$$

$$\text{Long-term Debts} = \text{Long-term Borrowings} + \text{Long-term Provisions}$$

$$= 3,60,000 + 1,80,000$$

$$= ₹5,40,000$$

$$\text{Total Assets to Debt ratio} = \frac{8,40,000}{5,40,000} = 1.55 : 1$$

Solution 38

$$\text{(a) Total Assets to Debt Ratio} = \frac{\text{Total Assets}}{\text{Debt}}$$

$$= \frac{\text{Share Capital} + \text{General Reserve} + \text{Long-term Borrowings} + \text{Trade Payables} + \text{Outstanding Expenses}}{\text{Long-term Loans}}$$

$$= \frac{50,000 + 40,000 + 35,000 + 20,000 + 5,000}{37,500}$$

$$= \frac{₹1,50,000}{₹37,500} = 4:1$$

$$\text{(b) Debt-equity Ratio} = \frac{\text{Debt}}{\text{Equity}}$$

$$= \frac{\text{Long-term Loans}}{\text{Share Capital} + \text{General Reserve}}$$

$$= \frac{35,000}{50,000 + 40,000}$$

$$= \frac{₹35,000}{₹90,000} = 0.39:1$$

Solution 39

$$\text{Proprietary Ratio} = \frac{\text{Shareholders' Funds}}{\text{Total Assets}}$$

Shareholders' Funds = Equity Share Capital + Preference Share Capital + Reserves and Surplus

= 2,50,000 + 2,50,000 + 1,00,000

= ₹6,00,000

Total Assets = ₹12,00,000

$$\text{Hence, Proprietary Ratio} = \frac{₹6,00,000}{₹12,00,000} = 0.50:1$$

Solution 40

$$\text{Proprietary Ratio} = \frac{\text{Shareholders' Funds}}{\text{Total Assets}}$$

Shareholders' Funds

= Current Assets + Non-current Assets – Long-term borrowings – Long-term provisions – Current Liabilities

= 80,000 + 5,00,000 – 2,50,000 – 1,40,000 – 75,000 = ₹1,15,000

Total Assets = Current Assets + Non-current Assets

= 80,000 + 5,00,000 = ₹ 5,80,000

$$\text{Proprietary Ratio} = \frac{₹1,15,000}{₹\ 5,80,000} = 0.198 : 1 \text{ or } 19.8\%.$$

Solution 41

(a) Debt to Equity Ratio $= \dfrac{\text{Long-term Debts}}{\text{Shareholders' Funds}}$

Or

$$= \frac{\text{Debt}}{\text{Equity}}$$

Long-term Debts = Long-term Borrowings + Long-term Provisions

= 1,50,000 + 2,50,000 = ₹4,00,000

Shareholders' Funds = Non-current Assets + Current Assets – Long-term Borrowings – Long-term Provisions – Current Liabilities.

= 2,50,000 + 3,00,000 –1,50,000 – 2,50,000 – 50,000

$$= ₹1,00,000$$

$$\text{Debt to Equity Ratio} = \frac{₹4,00,000}{₹1,00,000} = 4:1$$

$$\text{(b) Total Assets to Debt Ratio} = \frac{\text{Total Assets}}{\text{Long - term Debts}}$$

$$\text{Total Assets} = \text{Non-current Assets} + \text{Current Assets}$$

$$= 2,50,000 + 3,00,000$$

$$= ₹5,50,000$$

$$\text{Total Assets to Debt Ratio} = \frac{₹5,50,000}{₹4,00,000} = 1.375:1$$

$$\text{(c) Proprietary Ratio} = \frac{\text{Shareholders' Funds}}{\text{Total Assets}}$$

$$= \frac{₹1,00,000}{₹5,50,000} = 0.18:1$$

Solution 42

$$\text{Interest Coverage Ratio} = \frac{\text{Profit before Interest and Tax}}{\text{Interest on Long - term Debt}}$$

$$\text{Profit before Interest and Tax} = ₹13,00,000$$

$$\text{Interest on Debentures} = \frac{10}{100} \times 65,00,000$$

$$= ₹6,50,000$$

$$\text{Interest coverage Ratio} = \frac{₹13,00,000}{₹6,50,000} = 2:1 \text{ or } 2 \text{ Times}$$

Solution 43

$$\text{Interest Coverage Ratio} = \frac{\text{Net Profit before Interest and Tax}}{\text{Fixed Interest Charges}}$$

Net Profit after tax = ₹2,40,000

Tax rate = 25%

Net Profit before tax = ₹2,40,000 × 100/75 = 3,20,000

Add: Interest on 10% long-term Debt,

(*i.e.*, 10/100 × ₹40,00,000) = 4,00,000

Profit before Interest and Tax 7,20,000

$$\text{Interest Coverage Ratio} = \frac{₹7,20,000}{₹4,00,000}$$

$$= 1.8 \text{ times}$$

Solution 44

$$\text{Interest Coverage Ratio} = \frac{\text{Net Profit before Interest and Tax}}{\text{Interest on Long - term Debt}}$$

$$= \frac{₹\,7,82,000}{₹\,72,000} = 10.86 \text{ Times.}$$

Working Notes:

1. Interest on Debentures = 12% of ₹ 6,00,000 = ₹ 72,000
2. Calculation of Net Profit before Interest and Tax:

Profit after Interest and Tax	₹ 4,97,000
Rate of Tax	30%

Profit before Tax = ₹4,97,000 × 100/70 = ₹ 7,10,000.

Profit before Interest and Tax = Profit before Tax and Interest

= ₹7,10,000 + ₹ 72,000 = ₹ 7,82,000.

Solution 45

$$\text{Inventory Turnover Ratio} = \frac{\text{Cost of Revenue from Operations}}{\text{Average Inventory}}$$

Cost of Revenue from Operations = Revenue from Operations – Gross Profit

= 7,50,000 – 1,83,000

= ₹5,67,000

$$\text{Average Inventory} = \frac{\text{Opening Inventory} + \text{Closing Inventory}}{2}$$

$$= \frac{₹2,25,000 + ₹30,000}{2} = ₹1,27,500$$

$$\text{Inventory Turnover Ratio} = \frac{₹5,67,000}{₹1,27,500} = 4.45 \text{ times}$$

Solution 46

(i) Cost of Revenue from Operations = Revenue from Operations – Gross Profit

= 9,60,000 – 25% of 9,60,000

= 9,60,000 – 2,40,000 = ₹7,20,000

$$\text{Average Inventory} = \frac{\text{Opening Inventory} + \text{Closing Inventory}}{2}$$

$$= \frac{75,000 + 1,05,000}{2}$$

= ₹90,000

$$\text{Inventory Turnover Ratio} = \frac{\text{Cost of Revenue from operations}}{\text{Average Inventory}} = \frac{₹7,20,000}{₹90,000}$$

= 8 times.

(ii) Average Age of Inventory $= \dfrac{\text{Days in a Year}}{\text{Inventory Turnover Ratio}} = \dfrac{365}{8} = 46$ days.

Solution 47

Inventory Turnover Ratio $= \dfrac{\text{Cost of Revenue from Operations}}{\text{Average Inventory}}$

Cost of Revenue from Operations = Revenue from Operations + Gross Loss
= ₹28,00,000 + ₹1,40,000 = ₹29,40,000

Average Inventory = ₹ 3,50,000

Inventory Turnover Ratio $= \dfrac{₹\ 29,40,000}{₹\ 3,50,000} = 8.4$ times

Solution 48

Inventory Turnover Ratio $= \dfrac{\text{Cost of Revenue from Operations}}{\text{Average Inventory}}$

Cost of Revenue from Operations = Revenue from Operations + Gross Loss
= ₹16,00,000 + ₹80,000 = ₹16,80,000

Average Inventory = ₹ 2,20,000

Inventory Turnover Ratio $= \dfrac{₹\ 16,80,000}{₹\ 2,20,000} = 7.64$ times

Solution 49

Inventory Turnover Ratio $= \dfrac{\text{Cost of Revenue from Operations}}{\text{Average Inventory}}$

$8 = \dfrac{\text{Cost of Revenue from Operations}}{₹\ 2,00,000}$

Hence, cost of Revenue from Operations = ₹2,00,000 × 8 = ₹16,00,000

Thus, if cost of Revenue from Operations is ₹80, then profit = ₹20

If cost of Revenue from Operations is ₹1, then profit $= \dfrac{20}{80}$

If cost of Revenue from Operations is ₹16,00,000, then profit $= \dfrac{20}{80} \times 16,00,000$
= ₹4,00,000.

Solution 50

Cost of Revenue from Operations = Revenue from Operations – Gross Profit
= 3,00,000 – 25% of 3,00,000
= 3,00,000 – 75,000 = 2,25,000

Let the Inventory in the beginning be x,

So, the Inventory at the end would be x + 20,000

$$\text{Inventory turnover Ratio} = \frac{\text{Cost of revenue from operations}}{\text{Average stock}}$$

$$4 = \frac{2,25,000}{\text{Average stock}}$$

$$\text{Average stock} = \frac{2,25,000}{4} = 56,250$$

$$\text{Average stock} = \frac{x + x + 20,000}{2}$$

$$56,250 = \frac{2x + 20,000}{2}$$

$$x = \frac{56,250 \times 2 - 20,000}{2}$$

$$= 46,250 \text{ (Opening Inventory)}$$

Closing Inventory = 46,250 + 20,000 = 66,250

Let the current Assets be x

So, the Liquid Assets would be $x - 66,250$

$$\text{Liquid or Quick Ratio} = \frac{\text{Liquid Assets}}{\text{Current liabilities}}$$

$$0.75 = \frac{x - 66,250}{40,000}$$

$$x - 66,250 = 40,000 \times 0.75$$

$$x = 30,000 + 66,250 = 96,250 \text{ (Current Assets)}$$

Solution 51

$$\text{Inventory Turnover Ratio} = \frac{\text{Cost of Revenue from Operations}}{\text{Average Inventory}} \Rightarrow 8 \text{ (given)}$$

$$8 = \frac{6,00,000 \text{ (given)}}{\text{Average Inventory}}$$

$$\therefore \text{Average Inventory} = \frac{₹6,00,000}{8} = ₹75,000$$

Opening Inventory + Closing Inventory = Average Inventory × 2 = ₹75,000 × 2 = ₹1,50,000. Since closing inventory is 2 times more than that of in the beginning, ratio between opening inventory and closing inventory will be 1:3.

$$\therefore \text{Opening Inventory} = ₹1,50,000 \times \frac{1}{4} = ₹37,500$$

$$\text{Closing Inventory} = ₹1,50,000 \times \frac{3}{4} = ₹1,12,500$$

Solution 52

Gross Profit = $4,00,000 \times \frac{25}{125} = ₹\ 80,000$

Cost of Revenue from Operations = $4,00,000 - 80,000 = ₹3,20,000$

Closing Inventory = $4,00,000 \times \frac{25}{100} = ₹1,00,000$

Opening Inventory = $1,00,000 \times \frac{1}{4} = ₹25,000$

Average Inventory = $\frac{25,000 + 1,00,000}{2} = ₹62,500$

Inventory Turnover Ratio = $\frac{\text{Cost of Revenue from Operations}}{\text{Average Inventory}}$

$= \frac{₹3,20,000}{₹62,500} = 5.12$ times.

Solution 53

Gross Profit is 30% on cost. Therefore, goods costing ₹100 is sold for ₹130.

Hence, if Revenue from Operations are ₹130, Cost of Revenue from operations = ₹100

If Revenue from Operations are ₹3,90,000, Cost of Revenue from operations

$= \frac{100}{130} \times 3,90,000 = ₹3,00,000.$

Closing Inventory is 40% of sales

∴ Closing Inventory = $\frac{40}{100} \times 3,90,000 = ₹1,56,000;$

Opening Inventory = $\frac{1}{2} \times 1,56,000 = ₹78,000$

Average Inventory = $\frac{\text{Opening Inventory} + \text{Closing Inventory}}{2}$

$= \frac{78,000 + 1,56,000}{2}$

$= ₹1,17,000$

Inventory Turnover Ratio = $\frac{\text{Cost of Revenue from Operations}}{\text{Average Revenue from Operations}} = \frac{₹3,00,000}{₹1,17,000}$

$= 2.56$ times.

Solution 54

Inventory Turnover Ratio = $\frac{\text{Cost of Revenue from Operations}}{\text{Average Inventory}}$

Cost of Goods Sold = Total Revenue from Operations – Gross Profit

$= (1,00,000 + 3,00,000) - 1,00,000 = ₹3,00,000$

$$3 = \frac{3,00,000}{\text{Average Inventory}}; \text{ Average Inventory} = ₹1,00,000$$

Case (I) Average inventory $= \frac{\text{Opening Inventory} + \text{Closing Inventory}}{2}$

Let the opening inventory be x; Closing inventory is ₹1,00,000 more than the opening inventory.

Then, Closing Inventory $= x + 1,00,000$

$$1,00,000 = \frac{x + x + 1,00,000}{2}; 2,00,000 = 2x + 1,00,000$$

x (Opening Inventory) $= ₹50,000$

Closing Inventory $= x + 1,00,000$

$= 50,000 + 1,00,000 = ₹1,50,000.$

Case (II) If Inventory at the end was 3 times that of in the beginning:

Let the inventory in the beginning be x then, closing inventory will be $3x$

Average Inventory $= ₹1,00,000$

Average Inventory $= \frac{\text{Opening Inventory} + \text{Closing Inventory}}{2}$

$$1,00,000 = \frac{x + 3x}{2}; 2,00,000 = 4x$$

$$x = \frac{2,00,000}{4}; \; x \text{ (Opening Inventory)} = ₹50,000$$

Closing Inventory $=$ Opening Inventory $\times 3$

$= 50,000 \times 3 = ₹1,50,000.$

Case (III) If inventory at the end was 3 times more than that of in the beginning:

Let the opening inventory be x

then, Closing Inventory $= x + 3x = 4x$

Average Inventory $= ₹1,00,000$

Average Inventory $= \frac{\text{Opening Inventory} + \text{Closing Inventory}}{2}$

$$1,00,000 = \frac{x + 4x}{2}; 2,00,000 = 5x; x = ₹40,000$$

Opening Inventory (x) $= ₹40,000$

Closing Inventory $= 4x = 4 \times 40,000 = 1,60,000.$

Case (IV) If inventory in the beginning was $\frac{1}{3}$ of inventory at the end:

Let the closing inventory be x, then opening inventory be $\frac{x}{3}$

Average Inventory $= ₹1,00,000$

$$\text{Average Inventory} = \frac{\text{Opening Inventory} + \text{Closing Inventory}}{2}$$

$$1,00,000 = \frac{\frac{x}{3} + x}{2};\ 2,00,000 = x + \frac{x}{3}$$

$$4x = 6,00,000;\ x = \frac{6,00,000}{4};\ x = ₹1,50,000$$

$$\text{Closing Inventory} = ₹1,50,000$$

$$\text{Opening Inventory} = 1,50,000 \times \frac{1}{3} = ₹50,000.$$

Solution 55

$$\text{Inventory Turnover Ratio} = \frac{\text{Cost of Revenue from Operations}}{\text{Average Inventory}}$$

$$\text{Closing Inventory} = \text{Opening Inventory} + \text{Purchases} - \text{Cost of Revenue from Operations}$$

$$= 60,000 + 3,30,000 - 3,00,000$$

$$= ₹90,000$$

$$\text{Average Inventory} = \frac{\text{Opening Inventory} + \text{Closing Inventory}}{2}$$

$$= \frac{60,000 + 90,000}{2} = ₹75,000$$

$$\text{Inventory Turnover Ratio} = \frac{₹3,00,000}{₹75,000} = 4 \text{ times.}$$

Solution 56

$$\text{Inventory Turnover Ratio} = \frac{\text{Cost of Revenue from Operations}}{\text{Average Inventory}}$$

$$6 = \frac{9,00,000}{\text{Average Inventory}};\text{Average Inventory} = ₹1,50,000$$

Let the opening Inventory be x, then Closing Inventory $= 2x$

$$\text{Average Inventory} = \frac{\text{Opening Inventory} + \text{Closing Inventory}}{2}$$

$$1,50,000 = \frac{x + 2x}{2}$$

$$3,00,000 = x + 2x;\ 3x = 3,00,000$$

$$x = \frac{3,00,000}{3};\ x = ₹1,00,000$$

$$\text{Closing Inventory} = x \times 2;\ = 1,00,000 \times 2 = ₹2,00,000.$$

Solution 57

$$\text{Average Inventory} = \frac{\text{Opening Inventory} + \text{Closing Inventory}}{2} = \frac{₹1,60,000}{2}$$

$$= ₹\ 80,000$$

$$\text{Inventory Turnover Ratio} = \frac{\text{Cost of Revenue from Operations}}{\text{Average Inventory}}$$

$$8 = \frac{\text{Cost of Revenue from Operations}}{₹\ 80,000}$$

Cost of Revenue from Operations = ₹6,40,000

Gross Profit = 25% of ₹ 6,40,000

= ₹ 1,60,000

Revenue from Operations = Cost of Revenue from Operations + Profit

= ₹6,40,000 + ₹1,60,000

= ₹ 8,00,000

$$\text{Gross Profit Ratio} = \frac{\text{Gross Profit}}{\text{Revenue from Operations}} \times 100$$

$$= \frac{1,60,000}{8,00,000} \times 100 = 20\%.$$

Solution 58

$$\text{Inventory Turnover Ratio} = \frac{\text{Cost of Revenue from Operations}}{\text{Average Inventory}}$$

$$5 = \frac{\text{Cost of Revenue from Operations}}{1,20,000}$$

Cost of Revenue from Operations = $5 \times 1,20,000$ = ₹6,00,000

Profit is 20% on selling price.

Let the selling price be 100, then cost price is 80.

It means profit on cost is $\frac{1}{4}$, *i.e.*, $\frac{20}{80} \times 100 = 25\%$

If cost of Revenue from Operations is ₹6,00,000, then Gross Profit will be

$$= 6,00,000 \times \frac{1}{4} = ₹1,50,000.$$

Solution 59

Cost of Revenue from Operations = Revenue from Operations – Gross Profit

Cost of Revenue from Operations = 2,00,000 – 25% of 2,00,000

= 2,00,000 – 50,000

= ₹1,50,000

$$\text{Inventory Turnover Ratio} = \frac{\text{Cost of Revenue from Operations}}{\text{Average Inventory}}$$

$$5 = \frac{1{,}50{,}000}{\text{Average Inventory}}$$

$$\text{Average Inventory} = \frac{1{,}50{,}000}{5} = ₹30{,}000$$

Let opening inventory be x, then closing inventory will be $x + 4{,}000$.

$$\text{Average Inventory} = \frac{\text{Opening Inventory} + \text{Closing Inventory}}{2}$$

$$30{,}000 = \frac{x + x + 4{,}000}{2}; 60{,}000 = x + x + 4{,}000$$

$$2x + 4{,}000 = 60{,}000; x = \frac{60{,}000 - 4{,}000}{2}$$

x (opening inventory) = ₹28,000

Closing inventory = 28,000 + 4,000 = ₹32,000.

Solution 60

(i) $$\text{Inventory Turnover Ratio} = \frac{\text{Cost of Revenue from Operations}}{\text{Average Inventory}}$$

Cost of Revenue from Operations = Opening Inventory + Purchases + Direct Expenses – Closing Inventory

= 30,000 + 65,000 + 45,000 – 40,000

= ₹1,00,000

$$\text{Average Inventory} = \frac{\text{Opening Inventory} + \text{Closing Inventory}}{2}$$

$$= \frac{30{,}000 + 40{,}000}{2} = ₹35{,}000$$

$$\text{Inventory Turnover Ratio} = \frac{₹1{,}00{,}000}{₹35{,}000} = 2.86 \text{ times.}$$

Solution 61

$$\text{Inventory Turnover Ratio} = \frac{\text{Cost of Revenue from Operations}}{\text{Average Inventory}}$$

Cost of Revenue from Operations = Revenue from Operations – Profit (Gross Profit)

$$= 3{,}00{,}000 - \frac{3{,}00{,}000 \times 20}{120}$$

= 3,00,000 – 50,000

= ₹2,50,000

$$4 = \frac{2{,}50{,}000}{\text{Average Inventory}}$$

$$\text{Average Inventory} = \frac{2,50,000}{4}$$

$$= ₹62,500$$

$$\text{Average Inventory} = \frac{\text{Opening Inventory} + \text{Closing Inventory}}{2}$$

Let the Closing Inventory be x, then Opening Inventory will be $x + 5,000$

$$62,500 = \frac{x + x + 5,000}{2}$$

$$x = \frac{1,25,000 - 5,000}{2}$$

$$x = ₹60,000$$

Closing Inventory = ₹60,000

Opening Inventory = $x + 5,000 = 60,000 + 5,000 = ₹65,000$.

Solution 62

$$\text{Trade Receivables Turnover Ratio} = \frac{\text{Net Credit Revenue from Operations}}{\text{Average Accounts Receivable}}$$

Credit Revenue from Operations = Total Revenue from Operations – Cash Revenue from Operations

$$= 17,50,000 - 2,50,000$$

$$= ₹15,00,000$$

$$\text{Average Accounts Receivable} = \frac{\text{Opening (Debtors + B/R)} + \text{Closing (Debtors + B/R)}}{2}$$

$$= \frac{1,50,000 + 50,000 + 2,25,000 + 75,000}{2}$$

$$= ₹2,50,000$$

$$\text{Trade Receivables Turnover Ratio} = \frac{15,00,000}{2,50,000}$$

or Debtor Turnover Ratio = 6 times.

$$\text{Average Collection Period} = \frac{\text{Months in a Year}}{\text{DTR}} = \frac{12}{6} = 2 \text{ months.}$$

Solution 63

Let Credit Revenue from Operations be x, Cash Revenue from Operations = 25% of x or $\frac{x}{4}$, Total Revenue from operations $= x + \frac{x}{4} = \frac{5x}{4}$

$$1,75,000 = \frac{5x}{4}$$

x (Credit Revenue from Operations) $= ₹1,75,000 \times \frac{4}{5} = ₹1,40,000$

Cash Revenue from Operations = ₹1,40,000 × $\frac{25}{100}$ = ₹35,000

Opening Trade Receivables = Closing Debtors (Trade Receivables) – Excess of Closing Trade Receivables over Opening Trade Receivables

= 50,000 – 30,000

= ₹20,000

$$\text{Average Trade Receivables} = \frac{\text{Opening Trade Receivables} + \text{Closing Trade Receivables}}{2}$$

$$= \frac{20,000 + 50,000}{2} = ₹35,000$$

$$\text{Trade Receivables Turnover Ratio} = \frac{\text{Credit Revenue from Operations}}{\text{Average Trade Receivables}}$$

$$= \frac{1,40,000}{35,000} = 4 \text{ times.}$$

Solution 64

Gross Credit Revenue from Operations

= Cash received from Trade Receivables + Revenue from Operations Return + Closing Trade Receivables – Opening Trade Receivables

= 2,15,000 + 20,000 + 50,000 – 40,000 = ₹2,45,000

Net Credit Revenue from Operations

= Gross Credit Revenue from Operations – Revenue from Operations Return

= 2,45,000 – 20,000

= ₹2,25,000

$$\text{Average Trade Receivables} = \frac{\text{Opening Trade Receivables} + \text{Closing Trade Receivables}}{2}$$

$$= \frac{40,000 + 50,000}{2} = ₹45,000$$

$$\text{Trade Receivables Turnover Ratio} = \frac{\text{Net Credit Revenue from Operations}}{\text{Average Trade Receivables}} = \frac{₹2,25,000}{₹45,000}$$

= 5 times.

Solution 65

$$\text{Trade Receivables Turnover Ratio} = \frac{\text{Net Credit Sales}}{\text{Average Accounts Receivable}}$$

$$\text{Average Accounts Receivable} = \frac{\text{Opening Trade Receivables} + \text{Closing Trade Receivables}}{2}$$

$$= \frac{30{,}000 + 55{,}000}{2} = ₹42{,}500$$

$$\text{Trade Receivables Turnover Ratio} = \frac{2{,}55{,}000}{42{,}500} = 6 \text{ times}$$

$$\text{Average Collection Period} = \frac{\text{Number of days in a year}}{\text{DTR}}$$

$$= \frac{365}{6} = 61 \text{ days.}$$

Solution 66

$$\text{Debtors Turnover Ratio} = \frac{\text{Net Credit Revenue from Operations}}{\text{Average Accounts Receivable}}$$

$$6 = \frac{1{,}80{,}000}{\text{Average Accounts Receivable}}$$

$$\text{Average Accounts Receivable} = \frac{1{,}80{,}000}{6} = ₹30{,}000$$

$$30{,}000 = \frac{\text{Opening Trade Receivables} + \text{Closing Trade Receivables}}{2}$$

Let the opening Trade Receivables be x, then closing Trade Receivables will be $x + 5{,}000$.

$$30{,}000 = \frac{x + x + 5{,}000}{2}; 60{,}000 = 2x + 5{,}000$$

$$x = \frac{60{,}000 - 5{,}000}{2} = ₹27{,}500$$

Opening Trade Receivables = ₹27,500

Closing Trade Receivables = 27,500 + 5,000 = ₹32,500.

Solution 67

$$\text{Trade Payables Turnover Ratio} = \frac{\text{Credit Purchases}}{\text{Average Accounts Payable}}$$

$$\text{Average Accounts Payable} = \frac{\text{Opening Accounts Payable} + \text{Closing Accounts Payable}}{2}$$

$$= \frac{68{,}000 + 52{,}000}{2} = ₹60{,}000$$

$$\text{Trade Payables Turnover Ratio} = \frac{₹5{,}40{,}000}{₹60{,}000} = 9 \text{ times.}$$

Solution 68

$$\text{Trade Payables Turnover Ratio} = \frac{\text{Credit Purchases}}{\text{Average Accounts Payable}}$$

$$= \frac{8,00,000}{\frac{1,60,000 + 32,000 + 80,000 + 48,000}{2}}$$

$$= \frac{₹8,00,000}{₹1,60,000} = 5 \text{ times}$$

$$\text{Average Payment Period (in days)} = \frac{\text{Days in a Year}}{\text{Trade Payables Turnover Ratio}}$$

$$= \frac{365}{5} = 73 \text{ days.}$$

Solution 69

$$\text{Trade Payables Turnover Ratio} = \frac{\text{Credit Purchases}}{\text{Average Trade Payables}}$$

$$5 = \frac{₹3,00,000}{\text{Average Trade Payables}}$$

$$\text{Average Trade Payables} = \frac{₹3,00,000}{5} = ₹60,000$$

$$\text{Now, Average Trade Payables} = \frac{\text{Opening Trade Payables} + \text{Closing Trade Payables}}{2}$$

$$₹60,000 = \frac{\text{Opening Trade Payables} + ₹60,000}{2}$$

$$₹1,20,000 = \text{Opening Trade Payables} + ₹60,000$$

$$\text{Opening Trade Payables} = 1,20,000 - 60,000 = ₹60,000.$$

Solution 70

$$\text{Creditors Turnover Ratio} = \frac{\text{Net Credit Purchases}}{\text{Average Accounts Payable}}$$

$$\text{Average Accounts Payable} = \frac{\text{Opening Trade Payables} + \text{Closing Trade Payables}}{2}$$

$$= \frac{15,000 + 45,000}{2} = \frac{60,000}{2} = ₹30,000$$

$$\text{Creditors Turnover Ratio} = \frac{₹3,60,000}{₹30,000} = 12 \text{ times.}$$

Solution 71

$$\text{Creditors Turnover Ratio} = \frac{\text{Net Credit Purchases}}{\text{Average Accounts Payable}}$$

$$\text{Net Credit Purchases} = \text{Total Purchases} - \text{Purchases Return} - \text{Cash Purchases}$$

$$= 3,60,000 - 60,000 - 90,000$$

$$= ₹2,10,000$$

$$\text{Average Accounts Payable} = \frac{\text{Opening Trade Payables} + \text{Closing Trade Payables}}{2}$$

$$= \frac{65,000 + 45,000}{2} = \frac{1,10,000}{2} = ₹55,000$$

$$\text{Creditors Turnover Ratio} = \frac{₹\ 2,10,000}{₹\ 55,000} = 3.82 \text{ times.}$$

Solution 72

$$\text{Creditors Turnover Ratio} = \frac{\text{Net Credit Purchases}}{\text{Average Accounts Payable}}$$

$$\text{Net Credit Purchases} = \text{Total Purchases} - \text{Purchases Return} - \text{Cash Purchases}$$

$$= 5,47,000 - 23,000 - 74,000$$

$$= ₹4,50,000$$

$$\text{Average Accounts Payable} = \frac{\text{Opening (Creditors + B/P)} + \text{Closing (Creditors + B/P)}}{2}$$

$$= \frac{(28,000 - 8000) + 10,000 + (62,000 - 12,000) + 20,000}{2}$$

$$= \frac{20,000 + 10,000 + 50,000 + 20,000}{2}$$

$$= \frac{1,00,000}{2} = ₹50,000$$

$$\text{Trade Payables Turnover Ratio} = \frac{₹4,50,000}{₹50,000} = 9 \text{ times}$$

$$\text{Average Debt Payment Period} = \frac{\text{Months in a Year}}{\text{Trade Payables Turnover Ratio}} = \frac{12}{9} = 1.33 \text{ months.}$$

Solution 73

$$\text{Working Capital Turnover Ratio} = \frac{\text{Net Revenue from Operations}}{\text{Working Capital}}$$

$$\text{Working Capital} = \text{Current Assets} - \text{Current Liabilities}$$

$$\text{Current Liabilities} = \text{Total Assets} - \text{Total Non-current Liabilities} - \text{Shareholders' Funds}$$

$$= 2,00,000 - 1,00,000 - 50,000$$

$$= ₹50,000$$

$$\text{Working Capital} = 1,25,000 - 50,000 = ₹75,000$$

$$\text{Working Capital Turnover Ratio} = \frac{3,00,000}{75,000} = 4 \text{ times.}$$

Solution 74

$$\text{Working Capital Turnover Ratio} = \frac{\text{Revenue from Operations}}{\text{Working Capital}}$$

Revenue from Operations = ₹4,50,000

Working Capital = Current Assets – Current Liabilities

Current Assets = ₹1,87,500

Current Liabilities = Total Assets – Total Non-current Liabilities – Shareholders' Fund

= ₹3,00,000 – ₹1,50,000 – ₹75,000

= ₹75,000

Working Capital = ₹1,87,500 – ₹75,000

= ₹1,12,500

$$\therefore \quad \text{Working Capital Turnover Ratio} = \frac{₹4,50,000}{₹1,12,500} = 4 \text{ times.}$$

Solution 75

$$\text{Working Capital Turnover Ratio} = \frac{\text{Revenue from Operations}}{\text{Working Capital}}$$

Working Capital = Current Assets – Current Liabilities

Current Assets = Trade Receivables + Cash and Cash Equivalents

= 55,000 + 10,000 = ₹65,000

Current Liabilities = Trade Payables

= ₹30,000

Therefore, Working Capital = 65,000 – 30,000 = ₹35,000

$$\text{Working Capital Turnover Ratio} = \frac{₹80,000}{₹35,000} = 2.29 \text{ times.}$$

Solution 76

Cost of Revenue from Operations = Opening Inventory + Purchases – Returns Outward + Wages – Closing Inventory

or Cost of goods sold

or Cost of Production = 2,00,000 + 6,00,000 – 80,000 + 40,000 –1,60,000

= ₹ 6,00,000

(Net) Revenue from Operations = ₹10,00,000

Gross Profit = Revenue from Operations – Cost of Revenue from Operations

= 10,00,000 – 6,00,000 = ₹4,00,000

$$\text{Gross Profit Ratio} = \frac{\text{Gross Profit}}{\text{Net Revenue from Operations}} \times 100$$

$$= \frac{₹4,00,000}{₹10,00,000} \times 100 = 40\%.$$

Solution 77

Gross Profit is 35% on Cost.

Therefore, goods costing ₹100 must have been sold for ₹135.

Hence, If sales are ₹135, G.P. = ₹35

If sales are ₹9,45,000, G.P. $= ₹9,45,000 \times \frac{35}{135}$

$= ₹2,45,000$

Gross Profit Ratio $= \frac{\text{Gross Profit}}{\text{Net Sales}} \times 100$

$= \frac{₹2,45,000}{₹9,45,000} \times 100 = 25.93\%.$

Solution 78

Total Revenue from Operations = Cash Revenue from Operations × 3

= 1,40,000 × 3 = ₹4,20,000

Credit Purchases $= 50,000 \times \frac{100}{25} = ₹2,00,000$

Total Purchases = Cash Purchases + Credit Purchases

= 50,000 + 2,00,000 = ₹2,50,000

Cost of Goods Sold = Opening Stock + Purchases + Carriage – Closing Stock

= 30,000 + 2,50,000 + 12,000 – 40,000= ₹2,52,000

Gross Profit = Total Revenue from Operations – Cost of Goods Sold

= 4,20,000 – 2,52,000 = ₹1,68,000

Gross Profit Ratio $= \frac{\text{Gross Profit}}{\text{Net Revenue from Operations}} \times 100$

$= \frac{₹1,68,000}{₹4,20,000} \times 100 = 40\%.$

Solution 79

Increase in Revenue from Operations in 2017-18 $= \frac{₹49,75,000}{₹35,50,000} = 1.4$ times

Gross Profit Ratio:

31st March, 2017 $= \frac{₹10,65,000}{₹35,50,000} \times 100 = 30\%$

31st March, 2018 $= \frac{₹12,43,750}{₹49,75,000} \times 100 = 25\%.$

Comment: Though Revenue from Operations have increased by 1.4 times in the second year in comparison to first year, gross profit ratio has declined to 25 per cent from 30 per cent. Hence, the manager cannot be considered as an efficient manager. The reason for this decrease may be that cost of goods sold might have increased or selling price per unit might have decreased or both.

Solution 80

Cash Revenue from Operations = 25% of Total Revenue from Operations

Credit Revenue from Operations = ₹2,40,000 (75% of Total Revenue from Operations)

Total Revenue from Operations = Credit Revenue from Operations $\times \frac{100}{75}$

$= 2,40,000 \times \frac{100}{75} = ₹3,20,000$

Gross Profit = Total Revenue from Operations – Purchases – Change in Inventory (Excess of closing Inventory over opening Inventory)

Change in Inventory = Opening Inventory – Closing Inventory

= ₹– 20,000

Gross Profit = 3,20,000 – 2,76,000 – (–20,000)

= 3,40,000 – 2,76,000

= ₹64,000

$$\text{Gross Profit Ratio} = \frac{\text{Gross Profit}}{\text{Net Revenue from Operations}} \times 100$$

$$= \frac{₹64,000}{₹3,20,000} \times 100 = 20\%.$$

Solution 81

$$\text{Inventory Turnover Ratio} = \frac{\text{Cost of Revenue from Operations}}{\text{Average Inventory}}$$

$$\text{Average Inventory} = \frac{\text{Opening Inventory} + \text{Closing Inventory}}{2}$$

$$= \frac{80,000 + 1,64,000}{2}$$

= ₹1,22,000

$$6 = \frac{\text{Cost of Revenue from Operations}}{1,22,000}$$

Cost of Revenue from Operations = ₹7,32,000

Selling Price = 30% above cost

Revenue from Operations = 7,32,000 + 30% of 7,32,000

= 7,32,000 + 2,19,600

= ₹9,51,600

Gross Profit = Revenue from Operations – Cost of Revenue from Operations

= 9,51,600 – 7,32,000 = ₹2,19,600.

Solution 82

Cash Revenue from Operations = 30% of Total Revenue from Operations

Credit Revenue from Operations = ₹2,45,000 = 70% of Total Revenue from Operations

$$\text{Total Revenue from Operations} = \text{Credit Revenue from Operations} \times \frac{100}{70}$$

$$= 2,45,000 \times \frac{100}{70} = ₹3,50,000$$

Cost of Revenue from Operations = Purchases + Excess of Opening Inventory over Closing Inventory

= 2,40,000 + 10,000 = ₹2,50,000

Gross Profit = Total Revenue from Operations – Cost of Revenue from Operations

= 3,50,000 – 2,50,000 = ₹1,00,000

$$\text{Gross Profit Ratio} = \frac{\text{Gross Profit}}{\text{Net Revenue from Operations}} \times 100$$

$$= \frac{₹1,00,000}{₹3,50,000} \times 100 = 28.57\%.$$

Solution 83

Cash Revenue from Operations (25% of Total Sales) = ₹2,00,000

$$\text{Total Revenue from Operations} = 2,00,000 \times \frac{100}{25} = ₹8,00,000$$

Gross Profit = 25% of 8,00,000 = ₹2,00,000

Net Profit = Gross Profit – Indirect Expenses

= 2,00,000 – 50,000 = ₹1,50,000

$$\text{Net Profit Ratio} = \frac{\text{Net Profit}}{\text{Total Revenue from Operations}} \times 100$$

$$= \frac{₹1,50,000}{₹8,00,000} \times 100 = 18.75\%.$$

Solution 84

$$\text{Operating Ratio} = \frac{\text{Cost of Revenue from Operations} + \text{Operating Expenses}}{\text{Revenue from Operations}} \times 100$$

$$\text{Operating Ratio} = \frac{80,000 + 90,000}{2,40,000} \times 100$$

$$= \frac{1,70,000}{2,40,000} \times 100 = 70.83\%$$

Solution 85

$$\text{Operating Ratio} = \frac{\text{Cost of Revenue from Operations} + \text{Operating Expenses}}{\text{Revenue from Operations}} \times 100$$

$$= \frac{₹80,000 + ₹40,000}{₹2,00,000} \times 100 = 60\%.$$

Solution 86

$$\text{Operating Ratio} = \frac{\text{Cost of Revenue from Operations} + \text{Operating Expenses}}{\text{Net Sales}} \times 100$$

Cost of Revenue from Operations = Revenue from Operations – Gross Profit

= 1,00,000 – 46,000

= ₹54,000

$$\text{Operating Ratio} = \frac{54,000 + (2,500 + 3,500)}{1,00,000} \times 100$$

$$= \frac{₹60,000}{₹1,00,000} \times 100 = 60\%.$$

Solution 87

Operating Profit Ratio = 100 – Operating Ratio

= 100 – 79.93% = 20.07%.

Solution 88

Operating Ratio = 100 – Operating Profit Ratio

= 100 – 84.34%

= 15.66%.

Solution 89

$$\text{Operating Profit Ratio} = \frac{\text{Operating Profit}}{\text{Net Revenue from Operations}} \times 100$$

Gross Profit = Revenue from Operations – Cost of Revenue from Operations

= 5,50,000 – 3,70,000 = ₹1,80,000

Operating Profit = Gross Profit – Administrative Expenses – Selling and Distribution Expenses

= 1,80,000 – 39,000 – 81,000 = ₹60,000

$$\text{Operating Profit Ratio} = \frac{₹60,000}{₹5,50,000} \times 100 = 10.91\%.$$

Solution 90

$$\text{Operating Profit Ratio} = \frac{\text{Operating Profit}}{\text{Net Revenue from Operations}} \times 100$$

Net Revenue from Operations = ₹8,00,000 – ₹60,000 = ₹7,40,000

Cost of Revenue from Operations = Opening Stock + Purchases – Purchase return

– Closing Stock
= ₹ (50,000 +3,00,000 – 30,000 – 1,50,000)
= ₹ 1,70,000

Gross Profit = Net Revenue from Operations – Cost of Revenue from Operations
= ₹7,40,000 – ₹1,70,000 = ₹5,70,000

Operating Expenses = Selling Expenses + Administrative Expenses
= ₹1,00,000 + ₹80,000 = ₹1,80,000

Operating Profit = Gross Profit – Operating Expenses
= ₹5,70,000 – ₹1,80,000 = ₹3,90,000

$$\text{Operating Profit Ratio} = \frac{₹3,90,000}{₹7,40,000} \times 100 = 52.70\%$$

Solution 91

$$\text{Operating Profit Ratio} = \frac{\text{Operating Profit}}{\text{Net Revenue from Operations}} \times 100$$

Operating Profit = Gross Profit – Operating Expenses
= 75,500 – 25,300
= ₹50,200

$$\text{Operating Profit Ratio} = \frac{₹50,200}{₹80,000} \times 100 = 62.75\%.$$

Solution 92

Calculation of Net Profit:	(₹)
Revenue from Operations (Sales)	2,24,000
Less: Cost of Revenue from Operations	1,28,000
Gross Profit	96,000
Less: Indirect Expenses	40,000
Net Profit before Tax	56,000
*Less:*Tax @ 40%	22,400
Net Profit after Tax	33,600

$$\text{Net Profit Ratio (before Tax)} = \frac{\text{Net Profit Before Tax}}{\text{Revenue from Operations}} \times 100 = \frac{₹56,000}{₹2,24,000} \times 100 = 25\%.$$

$$\text{Net Profit Ratio (after Tax)} = \frac{\text{Net Profit After Tax}}{\text{Revenue from Operations}} \times 100 = \frac{₹33,600}{₹2,24,000} \times 100 = 15\%.$$

Solution 93

Calculation of Net Profit:	(₹)
Revenue from Operations	10,50,000
Less: Cost of Revenue from Operations	50,000
Gross Profit	10,00,000

Less: Office Expenses	5,50,000	
Selling and Distribution Expenses	30,000	
Interest on Debentures	20,000	
Loss by Fire	15,000	6,15,000
		3,85,000
Add: Interest received on Investments		20,000
Net Profit		4,05,000

$$\text{Net Profit Ratio} = \frac{\text{Net Profit}}{\text{Net Revenue from Operations}} \times 100 = \frac{₹4,05,000}{₹10,50,000} \times 100 = 38.57\%.$$

Solution 94

(a) Net Profit Ratio $= \dfrac{\text{Net Profit}}{\text{Revenue from Operations}} \times 100$

Net Profit = Gross Profit – all indirect expenses & Losses + All Incomes

= 2,25,000 – 45,000 – 78,000 – 15,000 – 36,000+7,500

= ₹58,500

Revenue from Operations = ₹6,00,000

(a) Net Profit Ratio $= \dfrac{58,500}{6,00,000} \times 100 = 9.75\%$

(b) Operating Profit Ratio $= \dfrac{\text{Operating Profit}}{\text{Revenue from Operations}} \times 100$

Operating Profit = Gross Profit – Operating Expenses

= 2,25,000 – 45,000 – 78,000

= ₹1,02,000

Operating Profit Ratio $= \dfrac{1,02,000}{6,00,000} \times 100 = 17\%$

Solution 95

Net Profit Ratio $= \dfrac{\text{Net Profit}}{\text{Net Revenue from Operations}} \times 100$

Net Profit = Gross Profit – Administrative Expenses – Selling and Distribution Expenses – Interest on Debentures – Loss by Fire + Income from Investments

= 1,00,000 – 14,000 – 16,000 – 10,000 – 12,500 + 2,500

= ₹50,000

Net Profit Ratio $= \dfrac{₹50,000}{₹2,50,000} \times 100 = 20\%.$

Solution 96

$$\text{Return on Investment (ROI)} = \frac{\text{Profit before Interest, Tax and Dividend}}{\text{Capital Employed}} \times 100$$

Profit before Interest, Tax and Dividend = Net Profit before Tax + Interest
= 30,000 + 12,000
= ₹42,000

Capital Employed = Share Capital + Reserves and Surplus + 12% Long-term Borrowings
= 25,000 + 12,500 + 1,00,000 = ₹1,37,500

Or

= Fixed Assets + Non-current Trade Investments + Current Assets – Current Liabilities
= ₹1,12,500 + ₹12,500 + ₹55,000 – ₹42,500
= ₹1,37,500

$$\text{Return on Investment} = \frac{₹42,000}{₹1,37,500} \times 100 = 30.54\%$$

Solution 97

$$\text{Return on Investment} = \frac{\text{Profit before Interest, Tax and Dividend}}{\text{Capital Employed}} \times 100$$

Profit before Interest, Tax and Dividend:

Profit after Interest	= ₹50,000
Add: Interest on Long-term Borrowings	= ₹10,000
Profit before Interest	= ₹60,000

Capital Employed = Fixed Assets + (Current Assets – Current Liabilities)
= 2,90,000 + (2,50,000 – 1,50,000) = ₹3,90,000

Or

= Share Capital + Reserves and Surplus + Long-term borrowings
= ₹2,00,000 + ₹90,000 + ₹1,00,000
= ₹3,90,000

$$\text{Return on Investment} = \frac{₹60,000}{₹3,90,000} \times 100 = 15.38\%.$$

Solution 98

Transaction	Effect on Return on Investment	Reasons
(i)	Decrease	No change in Net Profit before Interest and tax but capital employed will increase.
(ii)	Decrease	Decrease in Net Profit before Interest and tax and in capital employed, both will decline.

(iii)	Increase	No change in Net Profit before Interest and tax but capital employed will decrease.
(iv)	No Change	No change in Net profit before Interest and tax and Capital employed will remain the same.

Solution 99

$$\text{Return on Investment} = \frac{\text{Profit before Interest, Tax and Dividend}}{\text{Capital Employed}} \times 100$$

Calculation of Profit before Interest, Tax and Dividend:

Gross Profit	=	₹1,75,000
Less: Office and Administrative Expenses	=	₹10,000
Selling and Distribution Expenses	=	₹30,000
	=	₹1,35,000

Capital Employed = Fixed Assets + Current Assets – Current Liabilities

= 5,00,000 + (60,000 – 20,000) = ₹5,40,000

$$\text{Return on Investment} = \frac{₹1,35,000}{₹5,40,000} \times 100 = 25\%.$$

Solution 100

$$\text{Return on Investments} = \frac{\text{Net Profit before Interest, Tax and Dividend}}{\text{Capital Employed}} \times 100$$

Interest on Debentures = 10% of ₹8,00,000 = ₹80,000

Net Profit before Interest, Tax and Dividend = ₹2,50,000 + ₹80,000 = ₹3,30,000

Capital Employed = Share Capital + Reserves and Surplus + 10% Long-term borrowings

= ₹2,00,000 + ₹1,00,000 + ₹8,00,000

= ₹11,00,000

Or

= Net Fixed Assets + Non-Current Trade Investments + Current Assets – Current Liabilities

= ₹9,00,000 + ₹1,00,000 + ₹4,40,000 – ₹3,40,000

= ₹11,00,000

∴ Return on Investments or Return on Capital Employed $= \frac{₹3,30,000}{₹11,00,000} \times 100 = 30\%$

Solution 101

$$\text{Return on Investment} = \frac{\text{Profit before Interest, Tax and Dividend}}{\text{Capital Employed}} \times 100$$

$$25 = \frac{\text{PBITD}}{₹30,00,000} \times 100$$

$$\text{PBITD} = 30,00,000 \times \frac{25}{100} = ₹7,50,000$$

PBITD = ₹7,50,000

Less: Interest on loan (12% of 30,00,000) = ₹3,60,000

Less: Income Tax = ₹1,56,000

Net Gain to Shareholders = ₹2,34,000

Hence, the net gain to shareholders due to the loan raised by the company is ₹2,34,000.

Solution 102

$$\text{Return on Capital Employed} = \frac{\text{Net Profit before Interest and Tax}}{\text{Capital Employed}} \times 100$$

Profit before Interest and Tax = Profit after Interest and Tax + Interest + Tax

= 90,000 + 10% of 3,00,000 + 30,000

= 90,000 + 30,000 + 30,000 = ₹1,50,000

Capital Employed = Share Capital + Reserves and Surplus + 10% Debentures

= 1,50,000 + 1,70,000 + 3,00,000

= ₹6,20,000

$$\text{Return on Capital Employed} = \frac{₹1,50,000}{₹6,20,000} \times 100 = 24.19\%$$

Solution 103

$$\text{Return on Investment} = \frac{\text{Net Profit before Interest and Tax}}{\text{Capital Employed}} \times 100$$

Net Profit before Interest and Tax = Profit after Interest but before Tax + Interest

= 80,000 + 40,000 = ₹1,20,000

Capital Employed = Equity Share Capital + Preference Share Capital + Reserve and Surplus + 10% Debentures

= 4,00,000 + 1,00,000 + 1,89,000 + 4,00,000

$= ₹10,89,000$

Return on Investment $= \frac{₹1,20,000}{₹10,89,000} \times 100 = 11.02\%.$

Solution 104

Return on Investment $= 15,00,000 \times \frac{25}{100} = ₹3,75,000$

Interest on Loan $= 15,00,000 \times \frac{15}{100} = ₹2,25,000$

Net Income $= 3,75,000 - 2,25,000 = ₹1,50,000$

Income Tax $= 1,50,000 \times \frac{30}{100} = ₹45,000$

Gain to Shareholders due to Loan raised by the company

$= 1,50,000 - 45,000 = ₹1,05,000.$

Solution 105

$$\text{Total Assets to Debt Ratio} = \frac{\text{Total Assets}}{\text{Long Term Debt}}$$

$= 15,40,000/3,00,000 = 5.13$

Total Assets = Fixed Assets + Non Current Investments + Current Assets

= ₹ 15,40,000

Debt = Total Liabilities – Equity Share Capital – Preference Share Capital – Reserves and Surplus – Current Liabilities

= ₹3,00,000

Solution 106

Revenue from operations = 100/80 × 3,20,000 = 4,00,000

Let Credit Revenue from operations be = x

Cash Revenue = $x/3$

Therefore, total revenue = $x + x/3$

$= 4,00,000 = 4x/3$

$= x = 12,00,000/4 = ₹ 3,00,000$

Let Opening Trade Receivables be = y

Closing Trade Receivables = $y + 15,000$

$$\text{Trade receivable turnover ratio} = \frac{\text{Net Credit Revenue from operation}}{\text{Average Trade Receivables}}$$

$$= 4 = \frac{3,00,000 \times 2}{y + y + 15,000}$$

$= 8y = 6,00,000 - 60,000$

$= y = 5,40,000/8$

$= 67,500$

Opening Receivables = ₹67,500

Closing trade receivable = ₹67,500 + ₹15,000 = ₹82,500

Solution 107

$$\text{Inventory Turnover Ratio} = \frac{\text{Cost of Revenue from Operations}}{\text{Average Inventory}}$$

$$9 = \frac{\text{Cost of Revenue from Operations}}{1,38,000}$$

Cost of Revenue from Operations = 9 × ₹1,38,000

= ₹12,42,000

$$\text{Profit} = 20\% \text{ on Cost} = \frac{₹20}{₹100} \times 12,42,000 = ₹2,48,400$$

Solution 108

(a) Let the amount of Current Liabilities to be paid = X

$$\text{Thus,} \quad = \frac{₹3,00,000 - X}{₹2,00,000 - X} = 2$$

$$\text{or} \quad ₹4,00,000 - 2X = ₹3,00,000 - X$$

$$X = ₹1,00,000$$

Thus, Current Liabilities to the extent of ₹1,00,000 should be paid to achieve the current ratio at the level of 2:1.

(b) Let Cost of Revenue from Operations be X

Cost of Revenue from Operations + Gross Profit = Revenue from Operations

$$X + \frac{1}{5}X = ₹4,20,000$$

$$X = ₹4,20,000 \times \frac{5}{6} = ₹3,50,000$$

Gross Profit = Revenue from Operations – Cost of Revenue from Operations

Gross Profit = 4,20,000 – 3,50,000 = ₹70,000

$$\text{Gross Profit Ratio} = \frac{\text{Gross Profit}}{\text{Net Revenue from Operations}} \times 100$$

$$= \frac{₹70,000}{₹4,20,000} \times 100 = 16.67\%.$$

Solution 109

(i) Net profit before Interest and Tax = Net profit after Tax and Interest + Interest + Tax

= 3,00,000 + 50,000 + 2,00,000 = ₹ 5,50,000

Where, Interest = 10% of 5,00,000 = ₹ 50,000

Tax $= 3,00,000 \times \frac{100}{60} - 3,00,000 = ₹\ 2,00,000$

Return on Investment $= \frac{\text{Net profit before Interest and Tax}}{\text{Capital employed}} \times 100$

$= \frac{5,50,000}{40,00,000} \times 100 = 13.75\%$

(ii) Debt-Equity Ratio $= \frac{\text{Long - term Debt}}{\text{Equity}}$

$= \frac{10\%\ \text{Debentures}}{40,00,000 - 5,00,000}$

$= \frac{5,00,000}{35,00,000} = 1:7$

Solution 110

(*a*) Debt to Equity Ratio $= \frac{\text{Long-term Debts}}{\text{Shareholders' Funds}}$

Shareholders' Funds = Share Capital + General Reserve + Profit after Interest and Tax

= ₹90,000 + ₹50,000 + ₹60,000 = ₹2,00,000

Debt to Equity Ratio $= \frac{80,000}{2,00,000} = 0.4:1$

(*b*) Interest Coverage Ratio $= \frac{\text{Net Profit before Interest, Tax and Dividend}}{\text{Interest Charges}}$

$= \frac{\text{Net Profit after Interest and Tax + Tax + Interest}}{\text{Interest Charges}}$

$= \frac{₹60,000 + ₹25,000 + ₹9,600}{₹9,600} = \frac{₹94,600}{₹9,600} = 9.85$ times

Solution 111

Net profit before Interest and Tax = Net profit after Tax and Interest + Interest + Tax

= 6,00,000 + 1,00,000 + 4,00,000

= ₹ 11,00,000

Where,

Tax $= 6,00,000 \times \frac{100}{60} - 6,00,000 = ₹\ 4,00,000$

(i) Return on Investment $= \frac{\text{Profit before Interest and Tax}}{\text{Capital employed}} \times 100$

$$= \frac{11,00,000}{80,00,000} \times 100$$

$$= 13.75\%$$

(ii) Debt-Equity Ratio $= \dfrac{\text{Debt}}{\text{Equity}}$

$$= \frac{10,00,000}{70,00,000} = 1:7$$

Solution 112

Net Revenue from operations = Revenue from operations – Revenue from operations Return

$$= 12,00,000 - 80,000 = ₹\ 11,20,000$$

Operating Ratio $= \dfrac{\text{Cost of Revenue from operations} + \text{Operating Expenses}}{\text{Net Sales}} \times 100$

$$92 = \frac{\text{Cost of Revenue from operations} + 1,82,000}{11,20,000} \times 100$$

Cost of goods sold $= 11,200 \times 92 - 1,82,000 = ₹\ 8,48,400$

Solution 113

Gross profit = Revenue from operations – Cost of Revenue from operations

$$= 1,50,000 - 1,20,000 = 30,000$$

(a) Gross profit Ratio $= \dfrac{\text{Gross Profit}}{\text{Net Revenue from operations}} \times 100$

$$= \frac{30,000}{1,50,000} \times 100 = 20\%$$

(b) Inventory turnover Ratio $= \dfrac{\text{Cost of Revenue from operations}}{\text{Average stock}}$

$$= \frac{1,20,000}{\frac{29,000 + 31,000}{2}}$$

$$= \frac{1,20,000}{30,000} = 4 \text{ times}$$

(c) Operating Ratio $= \dfrac{\text{Cost of Revenue from operations} + \text{Operating expenses}}{\text{Net Sales}}$

$$= \frac{1,20,000 + 16,000}{1,50,000} \times 100$$

$$= \frac{1,36,000}{1,50,000} \times 100 = 90.66\%$$

Solution 114

$$(a)\ \text{Return on Investment} = \frac{\text{Net Profit before Interest, Tax and Dividend}}{\text{Capital Employed}} \times 100$$

Net Profit before Interest, Tax and Dividend = ₹16,00,000

Capital Employed = Fixed Assets + Current Assets – Current Liabilities

= ₹80,00,000 + ₹45,00,000 – ₹35,00,000 = ₹90,00,000

$$\text{Return on Investment} = \frac{₹16,00,000}{₹90,00,000} \times 100 = 17.77\%$$

$$(b)\ \text{Total Assets to Debt Ratio} = \frac{\text{Total Assets}}{\text{Long-term Debts}}$$

Total Assets = Fixed Assets + Current Assets = 80,00,000 + 45,00,000

= ₹1,25,00,000

Long-term Debts = 12% Debentures = ₹90,00,000

$$\text{Total Assets to Debt Ratio} = \frac{1,25,00,000}{90,00,000} = 1.39 : 1.$$

Solution 115

$$\text{Inventory turnover Ratio} = \frac{\text{Cost of revenue from Operations}}{\text{Average Stock}}$$

$$\frac{6}{1} = \frac{\text{Cost of revenue from operations}}{80,000}$$

Cost of Revenue from Operations = 80,000 × 6 = ₹ 4,80,000

Selling price/Revenue from operations = 4,80,000 + 25% of 4,80,000

= 6,00,000

Gross profit = 6,00,000 – 4,80,000 = ₹ 1,20,000

Solution 116

Cash Sales = 25% of total Sales

Credit Sales = 75% of total Sales, *i.e.,* ₹ 2,40,000

$$\text{So, total sales} = 2,40,000 \times \frac{100}{75} = ₹\ 3,20,000$$

Cost of goods sold = Purchases + Change in inventory

= 2,76,000 + (– 20,000)

= 2,76,000 – 20,000 = ₹ 2,56,000

Gross profit = Sales – Cost of goods sold

= 3,20,000 – 2,56,000 = ₹ 64,000

$$\text{Gross profit ratio} = \frac{\text{Gross profit}}{\text{Total sales}} \times 100$$

$$= \frac{64,000}{3,20,000} \times 100 = 20\%$$

Solution 117

$$\text{(i) Quick Ratio} = \frac{\text{Quick Assets}}{\text{Current Liabilities}}$$

$$= \frac{5,00,000 - 1,50,000}{2,00,000}$$

$$= \frac{₹3,50,000}{₹2,00,000} = 1.75:1$$

$$\text{(ii) Inventory Turnover Ratio} = \frac{\text{Cost of Revenue from Operations}}{\text{Average Inventory}}$$

$$\text{Average Inventory} = \frac{50,000 + 1,50,000}{2} = ₹1,00,000$$

$$\text{Inventory Turnover Ratio} = \frac{₹12,00,000}{₹1,00,000} = 12 \text{ times}$$

$$\text{(iii) Debt-equity Ratio} = \frac{\text{Long-term Debt}}{\text{Shareholders' Funds}}$$

Shareholders' Funds = Equity Share Capital + 10% Preference Share Capital + General Reserve

= 7,00,000 + 3,00,000 + 2,00,000

= ₹12,00,000

$$\text{Debt-equity Ratio} = \frac{₹2,00,000}{₹12,00,000} = 0.17:1$$

Solution 118

$$\text{(i) Quick Ratio} = \frac{\text{Liquid Assets}}{\text{Current Liabilities}}$$

$$= \frac{₹80,000}{₹50,000} = 1.6:1$$

$$\text{(ii) Proprietary Ratio} = \frac{\text{Shareholders' Funds}}{\text{Total Assets}}$$

Shareholders' Funds = Equity Share Capital + Preference Share Capital + General Reserve

= ₹1,20,000 + ₹1,00,000 + ₹18,000

$= ₹2,38,000$

Total Assets = Closing Inventory + Other Current Assets + Fixed Assets

$= ₹25,000 + ₹80,000 + ₹2,50,000$

$= ₹3,55,000$

$$\text{Proprietary Ratio} = \frac{₹\ 2,38,000}{₹\ 3,55,000} \times 100 = 67.04\%.$$

Solution 119

(i) Gross Profit Ratio $= \dfrac{\text{Gross Profit}}{\text{Net Revenue from Operations}} \times 100$

Gross Profit = Revenue from Operations – Cost of Revenue from Operations

$= 30,00,000 - 20,00,000$

$= ₹10,00,000$

$$\text{Gross Profit Ratio} = \frac{10,00,000}{30,00,000} \times 100 = 33.33\%$$

(ii) Net Profit Ratio $= \dfrac{\text{Net Profit}}{\text{Net Revenue from Operations}} \times 100$

$$= \frac{₹3,00,000}{₹30,00,000} \times 100 = 10\%$$

(iii) Working Capital Turnover Ratio $= \dfrac{\text{Net Revenue from Operations}}{\text{Net Working Capital}}$

Working Capital = Current Assets – Current Liabilities

$= 6,00,000 - 2,00,000 = ₹4,00,000$

$$\text{Working Capital Turnover Ratio} = \frac{30,00,000}{4,00,000} = 7.5 \text{ times.}$$

Solution 120

(i) Debt-equity Ratio $= \dfrac{\text{Long-term Debt}}{\text{Shareholders' Funds}}$

Long-term Debt = 12% Debentures + Long-term Loan (provisions)

$= 2,80,000 + 1,10,000 = ₹3,90,000$

Shareholders' Funds = Share Capital + General Reserve

$= 2,00,000 + 75,000 = ₹2,75,000$

Debt-equity Ratio $= \frac{₹3,90,000}{₹2,75,000} = 1.42:1$

(ii) Current Ratio $= \frac{\text{Current Assets}}{\text{Current Liabilities}}$

Current Assets = Trade Receivables + Cash at Bank

= 55,000 + 35,000

= ₹90,000

Current Liabilities = Trade Payables

= ₹60,000

Current Ratio $= \frac{₹90,000}{₹60,000} = 1.5:1$

Solution 121

(i) Inventory Turnover Ratio $= \frac{\text{Cost of Revenue from Operations}}{\text{Average Inventory}}$

Average Inventory $= \frac{18,000 + 22,000}{2} = ₹20,000$

Cost of Revenue from Operations = Opening Inventory + Purchases + Employees Benefit Expenses + Carriage Inwards – Closing Inventory

= 18,000 + 46,000 + 14,000 + 4,000 – 22,000

= ₹60,000

Inventory Turnover Ratio $= \frac{₹60,000}{₹20,000} = 3$ times.

(ii) Gross Profit Ratio $= \frac{\text{Gross Profit}}{\text{Net Revenue from Operations}} \times 100$

Gross Profit = Revenue from Operations – Cost of Revenue from Operations

= 80,000 – 60,000 = ₹20,000

Gross Profit Ratio $= \frac{₹20,000}{₹80,000} \times 100 = 25\%$.

Solution 122

(i) Current Ratio $= \frac{\text{Current Assets}}{\text{Current Liabilities}}$

Current Assets = Inventories + Trade Receivables + Short-term Advances + Cash

$= 50,000 + 50,000 + 4,000 + 30,000 = ₹1,34,000$

Current Liabilities $=$ Trade Payables + Bank Overdraft

$= 1,00,000 + 4,000 = ₹1,04,000$

Current Ratio $= \frac{₹1,34,000}{₹1,04,000} = 1.29:1$

(ii) Net Profit Ratio $= \frac{\text{Net Profit}}{\text{Net Revenue from Operations}} \times 100$

$= \frac{₹30,000}{₹7,00,000} \times 100 = 4.29\%$

(iii) Gross Profit Ratio $= \frac{\text{Gross Profit}}{\text{Net Revenue from Operations}} \times 100$

$= \frac{₹50,000}{₹7,00,000} \times 100 = 7.14\%.$

Solution 123

(i) Gross Profit Ratio $= \frac{\text{Gross Profit}}{\text{Net Revenue from Operations}} \times 100$

$= \frac{₹6,00,000}{₹25,20,000} \times 100 = 23.81\%$

(ii) Inventory Turnover Ratio $= \frac{\text{Cost of Revenue from Operations}}{\text{Average Inventory}}$

$= \frac{₹19,20,000}{₹8,00,000}$

$= 2.4$ times

(iii) Current Ratio $= \frac{\text{Current Assets}}{\text{Current Liabilities}}$

Current Assets $=$ Inventory + Other Current Assets

$= 8,00,000 + 7,60,000 = 15,60,000$

Current Ratio $= \frac{₹15,60,000}{₹6,00,000} = 2.6:1$

(iv) Liquid Ratio $= \frac{\text{Liquid Assets}}{\text{Current Liabilities}} = \frac{₹7,60,000}{₹6,00,000} = 1.27:1$

(v) Proprietary Ratio $= \frac{\text{Shareholders' Funds (Net worth)}}{\text{Total Assets}}$

Total Assets $=$ Fixed Assets + Inventory + Other Current Assets

$= 14,40,000 + 8,00,000 + 7,60,000$

$$= ₹30,00,000$$

$$\text{Proprietary Ratio} = \frac{15,00,000}{30,00,000} = 0.50:1$$

Solution 124

(*i*) $$\text{Inventory Turnover Ratio} = \frac{\text{Cost of Revenue from Operation}}{\text{Average Inventory}} = \frac{1,18,000}{46,500} = 2.54 \text{ times}$$

$$\text{Cost of Revenue from Operations} = \text{Opening Inventory} + \text{Purchases} + \text{Carriage Inward} - \text{Closing Inventory}$$

$$= ₹55,000 + ₹95,000 + ₹6,000 - ₹38,000 = ₹1,18,000$$

$$\text{Average Inventory} = \frac{\text{Opening Inventory} + \text{Closing Inventory}}{2}$$

$$= \frac{₹55,000 + ₹38,000}{2} = \frac{₹93,000}{2} = ₹46,500$$

(*ii*) $$\text{Operating Ratio} = \frac{\text{Cost of Revenue from Operations} + \text{Operating Expenses}}{\text{Net Revenue from Operations}} \times 100$$

$$= \frac{₹1,27,000}{₹1,65,000} \times 100 = 76.97\%$$

(*a*) Operating Expenses = Office Expenses + Selling and Distribution Expenses

$$= ₹6,000 + ₹3,000 = ₹9,000$$

(*b*) Net Revenue from Operations

$$= \text{Revenue from Operations} - \text{Revenue from Operations Return}$$

$$= ₹1,80,000 - ₹15,000 = ₹1,65,000$$

(*iii*) $$\text{Net Profit Ratio} = \frac{\text{Net Profit}}{\text{Net Revenue from Operations}} \times 100$$

$$\text{Net Profit} = \text{Net Revenue from Operations} - \text{Cost of Revenue from Operations} - \text{All operating and Non-operating Expenses}$$

$$= ₹1,65,000 - ₹1,18,000 - ₹9,000 = ₹38,000$$

$$\text{Net Profit Ratio} = \frac{₹38,000}{₹1,65,000} \times 100 = 23.03\%$$

Solution 125

$$\text{Debt to Equity Ratio} = \frac{\text{Debt}}{\text{Equity}}$$

Long-term Debts = Total Debts – Current Liabilities
= ₹9,00,000 – ₹2,88,000
= ₹6,12,000

Shareholders' Funds (Equity) = Total Assets – Total Debts
= ₹12,60,000 – ₹9,00,000
= ₹3,60,000

$$\text{Debt to Equity Ratio} = \frac{₹\,6,12,000}{₹\,3,60,000}$$

= 1.7:1.

Solution 126

(a) $$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

$$\text{Current Ratio} = \frac{₹70,000}{₹35,000} = 2:1$$

(b) $$\text{Acid Test Ratio} = \frac{\text{Quick Assets}}{\text{Current Liabilities}}$$

Quick Assets = Current Assets – Inventory
= 70,000 – 30,000 = ₹40,000

$$\text{Acid Test Ratio} = \frac{₹40,000}{₹35,000} = 1.14:1$$

(c) $$\text{Gross Profit Ratio} = \frac{\text{Gross Profit}}{\text{Revenue from Operations}} \times 100$$

Gross Profit = Revenue from Operations – Cost of Revenue from Operations
= 1,20,000 – 30,000
= ₹90,000

$$\text{Gross Profit Ratio} = \frac{₹90,000}{₹1,20,000} \times 100 = 75\%.$$

Solution 127

(i) Current Ratio $$= \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

$$= \frac{\text{Other Current Assets} + \text{Closing Inventory}}{\text{Current Liabilities}}$$

$$= \frac{1,00,000+10,000}{30,000}$$

$$= \frac{₹1,10,000}{₹30,000} = 3.67:1$$

(ii) Debt-equity Ratio $= \dfrac{\text{Debt}}{\text{Equity}}$

$$= \frac{\text{12\% Debentures}}{\text{Equity Share Capital} + \text{Preference Share Capital} + \text{Reserves and Surplus}}$$

$$= \frac{60,000}{1,00,000 + 70,000 + 80,000}$$

$$= \frac{₹60,000}{₹2,50,000} = 0.24:1$$

Solution 128

(i) Gross Profit Ratio $= \dfrac{\text{Gross Profit}}{\text{Net Revenue from Operations}} \times 100$

$$= \frac{₹30,000}{₹1,50,000} \times 100 = 20\%$$

(ii) Net Profit Ratio $= \dfrac{\text{Net Profit}}{\text{Net Revenue from Operations}} \times 100$

$$= \frac{₹14,000}{₹1,50,000} \times 100 = 9.33\%.$$

Solution 129

(i) Current Ratio $= \dfrac{\text{Current Assets}}{\text{Current Liabilities}}$

$$= \frac{₹1,05,000}{₹52,500} = 2:1$$

(ii) Acid Test Ratio $= \dfrac{\text{Quick Assets}}{\text{Current Liabilities}}$

Quick Assets $=$ Current Assets – Inventory

$= 1,05,000 - 45,000$

$= ₹60,000$

$$= \frac{₹60,000}{₹52,500} = 1.14:1$$

(iii) Operating Ratio $= \dfrac{\text{Cost of Revenue from Operations} + \text{Operating Expenses}}{\text{Net Sales}} \times 100$

$$= \frac{90,000+60,000}{1,80,000}\times 100$$

$$= \frac{₹1,50,000}{₹1,80,000}\times 100 = 83.33\%$$

(iv) Gross Profit Ratio $= \dfrac{\text{Gross Profit}}{\text{Net Revenue from Operations}} \times 100$

Gross Profit = Revenue from Operations – Cost of Revenue from Operations

= 1,80,000 – 90,000 = ₹90,000

Gross Profit Ratio $= \dfrac{₹90,000}{₹1,80,000}\times 100 = 50\%.$

Solution 130

(*a*) Working Capital Turnover Ratio $= \dfrac{\text{Net Sales}}{\text{Working Capital}}$

$$= \frac{\text{Cash Sales} + \text{Credit Sales} - \text{Sales Return}}{\text{Current Assets} - \text{Current Liabilities}}$$

$$= \frac{1,50,000+4,80,000-60,000}{1,60,000+1,00,000-1,20,000}$$

$$= \frac{₹5,70,000}{₹1,40,000} = 4.07 \text{ times}$$

(*b*) Debt to Equity Ratio $= \dfrac{\text{Long - term Debts}}{\text{Equity}}$

Long-term Debts = Total Debts – Current Liabilities

= ₹3,50,000 – ₹1,20,000 = ₹2,30,000

Shareholders' Funds (Equity) = Total Assets – Total Debts

= ₹4,50,000 – ₹3,50,000 = ₹1,00,000

Debt to Equity Ratio $= \dfrac{₹\,2,30,000}{₹1,00,000}$

= 2.3:1

Solution 131

(i) Gross Profit Ratio $= \dfrac{\text{Gross Profit}}{\text{Net Revenue from Operations}} \times 100$

Gross Profit = Net Revenue from Operations – Cost of Revenue from Operations

= 50,000 – 30,000 = ₹20,000

Gross Profit Ratio = $\frac{₹20,000}{₹50,000} \times 100 = 40\%$.

(ii) Working Capital Turnover Ratio = $\frac{\text{Net Revenue from Operations}}{\text{Working Capital}}$

Working Capital = Current Assets – Current Liabilities

= 20,000 – 14,000

= ₹6,000

Working Capital Turnover Ratio = $\frac{₹50,000}{₹6,000} = 8.33$ times

(iii) Debt-equity Ratio = $\frac{\text{Debt}}{\text{Equity}} = \frac{\text{12\% Mortgage Debentures}}{\text{Paid–up Share Capital}}$

= $\frac{₹10,000}{₹25,000} = 0.4:1$

Solution 132

(i) Current Ratio = $\frac{\text{Current Assets}}{\text{Current Liabilities}}$

Current Liabilities = Bank Overdraft + Trade Payables + Provision for Taxation

= 40,000 + 1,60,000 + 80,000 = ₹2,80,000

Current Ratio = $\frac{₹2,80,000}{₹2,80,000} = 1:1$

(ii) Quick Ratio = $\frac{\text{Quick Assets}}{\text{Current Liabilities}} = \frac{\text{Current Assets} - \text{Inventory}}{2,80,000}$

= $\frac{2,80,000 - 1,20,000}{2,80,000} = \frac{₹1,60,000}{₹2,80,000}$

= 0.57:1

(iii) Debt-equity Ratio = $\frac{\text{Debt}}{\text{Equity}}$

= $\frac{\text{12\% Mortgage Loan}}{\text{Equity Share Capital} + \text{Capital Reserve} + \text{Accumulated Profits}}$

= $\frac{2,00,000}{4,00,000 + 80,000 + 1,20,000} = \frac{₹2,00,000}{₹6,00,000}$

= 0.33:1

Solution 133

(a) Debt-Equity Ratio $= \frac{\text{Debt}}{\text{Equity}} = \frac{\text{12\% Loan}}{\text{Share Capital} + \text{General Reserve} + \text{Profit after Interest and Tax}}$

$= \frac{37,500}{60,000 + 30,000 + 30,000} = \frac{₹37,500}{₹1,20,000}$

$= 0.31:1$

(b) Interest Coverage Ratio $= \frac{\text{Net Profit before Interest and Tax}}{\text{Interest on Long - term Debt}}$

$= \frac{\text{Profit after Interest and Tax} + \text{Interest} + \text{Tax}}{\text{12\% of } 37,500}$

$= \frac{30,000 + 4,500 + 15,000}{4,500}$

$= \frac{₹49,500}{₹4,500} = 11 \text{ times}$

Solution 134

(i) Current Ratio $= \frac{\text{Current Assets}}{\text{Current Liabilities}}$

Current Assets = Inventories + Trade Receivables + Cash and Cash Equivalents

$= 20,000 + 1,00,000 + 80,000 = ₹2,00,000$

Current Liabilities = Trade Payables + Outstanding Salary

$= 1,50,000 + 50,000$

$= ₹2,00,000$

Current Ratio $= \frac{₹2,00,000}{₹2,00,000} = 1:1$

(ii) Inventory Turnover Ratio $= \frac{\text{Cost of Revenue from Operations}}{\text{Average Inventory}} \times 100$

Cost of Revenue from Operations = Purchases + Change in Inventories + Employees Benefit Expenses

$= 2,50,000 + 20,000 + 32,000 = ₹3,02,000$

Average Inventory $= \frac{\text{Opening Inventory} + \text{Closing Inventory}}{2}$

$$= \frac{₹40,000 + 20,000}{2}$$

$$= \frac{₹60,000}{2} = ₹30,000$$

Inventory Turnover Ratio $= \frac{3,02,000}{30,000} = 10.06$ times

(iii) Proprietary Ratio $= \frac{\text{Shareholders' Funds}}{\text{Total Assets}}$

Shareholders' Funds = Equity Share Capital + Reserves and Surplus

= 3,00,000 + 1,00,000 = ₹4,00,000

$= \frac{4,00,000}{6,00,000} \times 100 = 67\%$

Solution 135

(i) Debt to Equity Ratio $= \frac{\text{Long - term Debts}}{\text{Shareholders' Funds}}$

Long-term Debts = 6% Debentures + 9% Loan from Bank

= 3,00,000 + 7,00,000

= ₹10,00,000

Shareholders' Funds = Paid-up Share Capital + Debenture Redemption Reserve

= 17,00,000 + 3,00,000

= ₹20,00,000

Debt to Equity Ratio $= \frac{₹10,00,000}{₹20,00,000} = 0.5:1$

(ii) Working Capital Turnover Ratio $= \frac{\text{Net Revenue from Operations}}{\text{Working Capital}}$

Net Revenue from Operations = Cash Revenue from Operations + Credit Revenue from Operations

= 40,00,000 + 20,00,000 = ₹60,00,000

Working Capital = Current Assets – Current Liabilities

= (8,00,000 + 1,00,000) – (4,00,000)

= ₹5,00,000

Working Capital Turnover Ratio $= \frac{₹60,00,000}{₹5,00,000} = 12$ times.

Solution 136

(*a*) Debt to Equity Ratio $= \frac{\text{Long - term Debts}}{\text{Shareholders' Funds}}$ or $\frac{\text{Debt}}{\text{Equity}}$

Long-term Debts = 12% Debentures = ₹4,00,000

Shareholders' Funds = Equity Share Capital +General Reserve+Profit after tax and Interest

= 10,00,000 + 1,00,000 + 3,00,000

= ₹14,00,000

Debt to Equity Ratio = $\frac{₹4,00,000}{₹14,00,000} = 0.29:1$

(*b*) Working Capital Turnover Ratio = $\frac{\text{Net Revenue from Operations}}{\text{Working Capital}}$

Net Revenue from Operations = ₹30,00,000

Working Capital = Current Assets – Current Liabilities

Current Assets = Trade Receivables + Cash

= 2,90,000 + 1,10,000 = ₹4,00,000

Current Liabilities = Trade Payables = ₹3,00,000

Working Capital = 4,00,000 – 3,00,000 = ₹1,00,000

Working Capital Turnover Ratio = $\frac{₹30,00,000}{₹1,00,000}$ = 30 times.

(*c*) Return on Investment = $\frac{\text{Profit before Interest, Tax and Dividend}}{\text{Capital Employed}} \times 100$

Profit before Interest and Tax = Profit after Tax and Interest + Interest + Tax

= 3,00,000 + 48,000 + 3,00,000 = ₹6,48,000

Capital Employed = Equity Share Capital + General Reserve + 12% Debentures + Profit after Tax and Interest

= 10,00,000 +1,00,000+ 4,00,000 + 3,00,000

= ₹18,00,000

Return on Investment = $\frac{6,48,000}{18,00,000} \times 100 = 36\%$

Solution 137

(*a*) Operating Profit Ratio = $\frac{\text{Operating Profit}}{\text{Revenue from Operations}} \times 100$

$$= \frac{34,000}{2,00,000} \times 100 = 17\%$$

(*b*) Working Capital Turnover Ratio $= \frac{\text{Revenue from Operations}}{\text{Working Capital}} = \frac{₹\ 2,00,000}{₹\ 50,000} = 4$ Times

Notes: 1. Operating Profit = Gross Profit – Operating Expenses (*i.e.,* Office Expenses + Selling Expenses)

= ₹34,000.

2. Working Capital = Current Assets – Current Liabilities = ₹50,000.

Solution 138

(*a*) Working Capital Turnover Ratio $= \frac{\text{Revenue from Operations or Net Sales}}{\text{Working Capital}}$

$$= \frac{₹\ 25,00,000}{₹\ 5,00,000} = 5 \text{ Times}$$

Working Notes:

1. Let the cost = ₹100; Gross Profit = ₹25, Sales = ₹100 + ₹25 = ₹125
   When Gross Profit is ₹25, Sales = ₹125
   When Gross Profit is ₹5,00,000, Sales = ₹5,00,000 × ₹125/₹25
   Revenue from Operations or Sales = ₹25,00,000
2. Working Capital = Capital Employed – Non-current Assets

   Or

   (Equity Share Capital + Reserves and Surplus + Long-term Loan) – Non-current Assets
   = ₹10,00,000 + ₹2,00,000 + ₹3,00,000 – ₹10,00,000 = ₹5,00,000

(*b*) Return on Investment $= \frac{\text{Net Profit before Interest and Tax}}{\text{Capital Employed}} \times 100$

$$= \frac{₹\ 1,65,000}{₹\ 8,00,000} \times 100 = 20.63\%$$

Working Notes:

1. Calculation of Net Profit before Interest and Tax:

	₹
Profit after Interest and Tax (given)	1,00,000
Profit after Interest but before tax (₹1,00,000 × 100/80)	1,25,000
Add: Interest on Long-term Debt (10% of 4,00,000)	40,000
Net Profit before Interest and Tax	1,65,000

2. Capital Employed = Current Assets + Fixed Assets – Current Liabilities
   = ₹4,00,000 + ₹6,00,000 – ₹2,00,000 = ₹8,00,000

■■■

4

Cash Flow Statement

Solution 1

Classification of the activities as (a) Operating Activities, (b) Investing Activities, (c) Financing Activities, (d) Cash and Cash Equivalents:

S.No.	Activities	Classification/Type of Activity
1.	Purchase of Office Building	Investing Activity
2.	Proceeds from Issuance of Preference Share Capital	Financing Activity
3.	Cash Purchases	Operating Activity
4.	Proceeds from Issue of Debentures	Financing Activity
5.	Proceeds from Sale of Machinery	Investing Activity
6.	Cash receipts from Sundry Debtors	Operating Activity
7.	Trading Commission Received	Operating Activity
8.	Purchase of Investments	Investing Activity
9.	Redemption of Preference Shares	Financing Activity
10.	Cash Sales	Operating Activity
11.	Purchase of Goodwill	Investing Activity
12.	Proceeds from Sale of Machinery	Investing Activity
13.	Cash Paid to Suppliers	Operating Activity
14.	Interim Dividend Paid on Equity Shares	Financing Activity
15.	Wages & Salaries Paid	Operating Activity
16.	Proceeds from Sale of Patents	Investing Activity
17.	Interest Received on Debentures held as Investments	Investing Activity
18.	Interest Paid on Debentures	Financing Activity
19.	Manufacturing Overheads Paid	Operating Activity
20.	Office and Administration Expenses Paid	Operating Activity
21.	Dividend Received on Shares held as Investments	Investing Activity
22.	Rent Received on Property held as Investment	Investing Activity
23.	Income Tax Paid	Operating Activity

24.	Selling and Distribution Expenses Paid	Operating Activity
25.	Underwriting Commission Paid	Financing Activity
26.	Dividend Paid on Preference Shares	Financing Activity
27.	Rent Paid	Operating Activity
28.	Brokerage Paid on Issue of Shares	Financing Activity
29.	Brokerage Paid on Purchase of Investments	Investing Activity
30.	Bank Overdraft raised	Financing Activity
31.	Marketable Securities	Cash and Cash Equivalents
32.	Refund of Income Tax Received	Operating Activity
33.	Buy-back of equity shares	Financing Activity

Solution 2

Categorisation of Activities into Investing, Operating and Financing Activities:

Activities	Classification
(i) Redemption of 2,00,000 preference shares of ₹10 each at a premium of ₹4 per share	Financing Activity
(ii) Sale of Machinery of ₹40,000	Investing Activity
(iii) Interim dividend paid of ₹1,00,000	Financing Activity
(iv) Interest collected from Non-current Investment ₹28,000	Investing Activity

Solution 3

Classification of the activities into cash flow from investing activities/financing activities while preparing a Cash Flow Statement:

S.No.	Activities	Classification
(i)	Redemption of Preference Shares	Financing Activity
(ii)	Sale of Fixed Assets	Investing Activity
(iii)	Receipt of Dividend	Investing Activity
(iv)	Interest Received	Investing Activity

Solution 4

Classification of the activities into cash flow from investing activities/financing activities while preparing a Cash Flow Statement:

S.No.	Activities	Classification
(i)	Redemption of Debentures	Financing Activity
(ii)	Fixed Assets Purchased	Investing Activity
(iii)	Dividend Paid	Financing Activity
(iv)	Interest Received	Investing Activity

Solution 5

Classification of the activities into cash flow from operating, investing and financing activities while preparing a Cash Flow Statement:

S.No.	Activities	Classification
(i)	Purchase of Machinery	Investing Activity
(ii)	Issue of 14% Debentures	Financing Activity
(iii)	Payment of Dividend	Financing Activity
(iv)	Payment of Income Tax	Operating Activity

Solution 6

Cash flow from operating activities for a financial company:

(ii) Dividend received on shares

(iii) Loans taken

Solution 7

Cash flow from operating activities for a financial company:

(i) Loans taken from bank

(ii) Loans given

(iii) Dividend received on shares

Solution 8

Statement showing the Effect of Transactions on Cash and Cash Equivalents

Transactions	Effect on Cash and Cash Equivalents	Reasons
(a)	Inflow	Cash is increased by ₹2,20,000
(b)	Inflow	Cash is increased by the amount of stock
(c)	Outflow	Cash is decreased
(d)	No Effect	Cash is not transacted
(e)	No Effect	It is capitalisation of profit
(f)	No Effect	Cash includes bank deposits also
(g)	Outflow	Cash is decreased by the amount of dividend
(h)	No Effect	Proposed dividend of current year will be paid in the next year

Solution 9

Calculation of Net Profit made before Tax and Extraordinary items:

Particulars	(₹)
Surplus, *i.e.* Balance in Statement of Profit and Loss (closing)	3,10,000
Less: Surplus, *i.e.*, Balance in Statement of Profit and Loss (opening)	1,55,000
	1,55,000
Add: Proposed dividend for the previous year paid	70,000
Interim dividend paid for the year	34,000

Transfer to General Reserve	28,000
Provision for taxation made during the current year	45,000
Net profit before Tax and Extraordinary items	3,32,000

Solution 10

Calculation of Net Profit made before Tax and Extraordinary items:

Particulars	(₹)
Surplus, *i.e.* Balance in Statement of Profit and Loss (closing)	1,30,000
Less: Surplus, *i.e.*, Balance in Statement of Profit and Loss (opening)	72,000
	58,000
Add: Proposed dividend for the previous year paid	22,000
Interim dividend paid during the year	35,000
Transfer to General Reserve	40,000
Provision for taxation made during the year	32,000
	1,87,000
Less: Refund of tax	3,200
	1,83,800
Add: Extraordinary item (Loss due to flood)	80,000
Less: Extraordinary item (Insurance claim received)	(25,000)
Net Profit before Tax and Extraordinary item	2,38,800

Solution 11

Cash Flow from Operating Activities

Particulars		(₹)
Net Profit before Taxation (WN)		1,11,000
Adjustments for non-cash and non-operating items:		
Add: Depreciation written off	6,000	
Loss on Sale of Plant	3,000	
Goodwill written off	12,000	21,000
		1,32,000
Less: Profit on Sale of Land	(12,000)	(12,000)
Cash generated from Operating Activities		1,20,000
Less: Tax Paid (15,000 – 12,000)		3,000
Net Cash from Operating Activities		1,17,000

Working Note:

	(₹)
Profit for the period as per Statement of Profit and Loss	1,08,000
Add: Provision for taxation	15,000
	1,23,000
Less: Income Tax Refund	(12,000)
Net Profit before taxation	1,11,000

Solution 12

Cash Flow from Operating Activities

Particulars		(₹)
Net Profit before Taxation		(10,000)
Add: Decrease in Current Assets:		
Trade Receivables	12,000	
Less: Increase in Current Assets:		
Prepaid Expenses	(4,000)	
Less: Decrease in Current Liabilities:		
Outstanding Rent	(18,000)	
Trade Payables	(12,000)	(22,000)
Cash used in Operating Activities		(32,000)

Solution 13

Cash Flow from Operating Activities

Particulars		(₹)
Net Profit before Tax and Extraordinary items (WN)		1,54,200
Adjustments for non-cash and non-operating items:		
Add: Depreciation written off	6,000	
Goodwill written off	3,000	9,000
		1,63,200
Less: Profit on Sale of Land		(1,800)
Operating profit before working capital changes		1,61,400
Add: Increase in Creditors	3,000	
Decrease in Debtors	1,800	
Decrease in Bills Receivable	3,800	8,600
		1,70,000
Less: Increase in Inventories		(1,200)
Cash generated from Operating Activities		1,68,800

Working Note: Calculation of Net Profit before Tax and Extraordinary Items:

Difference between Closing and Opening Surplus	1,50,000
Add: Transfer to General Reserve	4,200
	1,54,200

Solution 14

Calculation of Cash Flow from Operating Activities for the year ended 31st March, 2015

Particulars	(₹)	(₹)
Net Profit before tax and extraordinary items (WN 1)		58,000
***Add*:** Non-Cash and Non-operating items:		
Goodwill written off	5,000	
Depreciation on Plant (WN 2)	42,000	47,000
		1,05,000
Less: Gain (Profit) on Sale of Plant (WN 3)		4,000
Operating Profit before Working Capital Changes		1,01,000
Add: Increase in Current Liabilities and Decrease in Current Assets:		
Outstanding Expenses	8,000	
Trade Payables	24,000	
Prepaid Expenses	6,000	38,000
		1,39,000
Less: Increase in Current Assets:		
Trade Receivables		10,000
Cash Flow from Operating Activities before Tax		1,29,000
Less: Income Tax Paid		30,000
Cash Flow from Operating Activities		99,000

Working Notes: 1. Calculation of Net Profit before Tax and Extraordinary Items:

	₹	₹
Closing Surplus, *i.e.*, Balance in the Statement of Profit and Loss		80,000
Less: Opening Surplus, *i.e.*, Balance in the Statement of Profit and Loss		1,00,000
Net Loss during the year		(20,000)
Add: Tax Paid	30,000	
Dividend paid	18,000	
Transfer to General Reserve	30,000	78,000
Net Profit before Tax and Extraordinary Items		58,000

2. Dr. **Provision for Depreciation on Plant Account** Cr.

Particulars	(₹)	Particulars	(₹)
To Plant A/c (₹60,000 – ₹36,000)	24,000	By Balance b/d	82,000
(Transfer of Accumulated Depreciation on Plant sold)		By Depreciation A/c (Statement of Profit & Loss)	42,000
To Balance c/d	1,00,000		
	1,24,000		1,24,000

3. Profit on Sale of Plant = ₹40,000 (Sale) – ₹36,000 (Book Value) = ₹4,000.

Solution 15

Calculation of Cash Flow from Operating Activities for the year ended 31st March, 2015

Particulars	(₹)	(₹)
Net Profit before tax and extraordinary items (WN)		41,000
Add: Non-Cash and Non-operating items:		
Depreciation on Machinery	18,000	
Loss on Sale of Machinery (₹50,000 – ₹20,000 – ₹10,000)	20,000	38,000
Operating Profit before Working Capital Changes		79,000
Add: Increase in Current Liabilities:		
Outstanding Expenses (₹14,600 – ₹10,000)		4,600
Less: Increase in Current Assets:		83,600
Inventory (₹12,000 – ₹4,000)	8,000	
Trade Receivables (₹58,000 – ₹45,000)	13,000	21,000
Cash Generated from Operating Activities before Tax		62,600
Less: Tax Paid		23,000
Cash Flow from Operating Activities after Tax		39,600

Working Note:

Calculation of Net Profit before Tax and Extraordinary Items:		₹
Surplus (*i.e.*, Balance in the Statement of Profit and Loss as on 31st March, 2015)		71,000
Less: Surplus (*i.e.*, Balance in the Statement of Profit and Loss as on 31st March, 2014)		89,000
Net Loss during the year		(18,000)
Add: Dividend Paid	36,000	
Tax paid	23,000	59,000
Net Profit before Tax and Extraordinary Items		41,000

Solution 16

Cash Flow from Operating Activities

Particulars	(₹)	(₹)
Net Profit before Tax (Net Profit ₹23,750 + Income tax ₹5,000)		28,750
Adjustments for non-cash and non-operating items:		
Add: Depreciation	7,500	
Loss on Sale of Machinery	3,750	11,250
Operating profit before working capital changes		40,000
Add: Decrease in Current Assets:		
Debtors	1,250	
Inventories	5,000	
Add: Increase in Current Liabilities:		
Creditors	1,250	
Bills Payables	750	8,250
		48,250

Less: Increase in Current Assets:		
Bills Receivables	(500)	
Prepaid Expenses	(125)	
Less: Decrease in Current Liabilities:		
Outstanding Expenses	(250)	(875)
Cash generated from Operations		47,375
Less: Income Tax Paid		(5,000)
Net Cash Flow from Operating Activities		42,375

Solution 17

Cash Flow from Operating Activities

Particulars	(₹)	(₹)
Net Profit before Tax (WN)		9,07,500
Adjustment for non-cash and non-operating items:		
Add: Depreciation on Fixed Tangible Asset	60,000	
Loss on sale of fixed Tangible Asset	6,000	
Goodwill written off	27,000	93,000
		10,00,500
Less: Gain on sale of fixed Tangible Asset		(24,000)
Operating profit before working capital changes		9,76,500
Add: Decrease in Current Assets:		
Inventories	12,000	
Increase in Current Liabilities:		
Trade Payables	30,000	42,000
		10,18,500
Less: Increase in Current Assets:		
Trade Receivables	(36,000)	
Prepaid Expenses	(15,000)	
Decrease in Current Liabilities:		
Income Received in Advance	(24,000)	
Outstanding Expenses	(9,000)	(84,000)
Cash generated from Operating activities		9,34,500
Less: Tax Paid		(1,12,500)
Cash Flows from Operating Activities		8,22,000

Working Note: Calculation of Net profit before Tax:

Particulars		(₹)
Net Profit for the year		7,50,000
Provision for taxation		1,12,500
Transfer to General Reserve		45,000
Profit before tax		9,07,500

Solution 18

Cash Flow from Operating Activities

Particulars	(₹)	(₹)
Net Profit before Taxation (WN)	1,78,000	
Adjustments for non-cash and non-operating items:		
Add: Items to be added back		
Amortisation of Goodwill	12,500	
Depreciation	6,000	
Loss on Sale of Land	3,200	1,99,700
Less: Items to be deducted:		
Profit on Sale of Furniture	(600)	(600)
Net Operating Profit before working capital changes		1,99,100
Add: Increase in Current Liabilities:		
Trade Payables	14,000	
Less: Increase in Current Assets:		
Trade Receivables	(2,500)	
Inventories	(9,000)	
Less: Decrease in Current Liabilities:		
Outstanding Expenses	(7,500)	(5,000)
Cash Flow from Operating Activities		1,94,100

Working Note: Calculation of Net Profit before Tax

	(₹)
Profit earned during the year	1,60,000
Proposed Dividend for previous year paid	18,000
	1,78,000

Solution 19

Calculation of Cash Flow from Operating Activities

for the year ended 31st March, 2018

Particulars	(₹)
Net Profit before Taxation	17,50,000
Adjustments for non-cash and non-operating items:	
Add: Depreciation on Building	1,30,000
Depreciation on Plant and Machinery	40,000
Goodwill Written off	25,000
Loss on Sale of Machinery	9,000
Operating Profit before working capital changes	19,54,000
Add: Increase in Current Liabilities and Decrease in Current Assets:	
Decrease in Trade Receivables	9,000
Increase in Creditors	9,000
Less: Decrease in Current Liabilities and Increase in Current Assets:	
Increase in Inventories	(17,000)
Decrease in Other Current Liabilities	(3,000)
Decrease in Bill Payables	(14,000)
Net Cash Flow from Operating Activities	19,38,000

Solution 20

Calculation of Cash Flow from Operating Activities

Particulars	(₹)	(₹)
Net Profit before Tax and Extraordinary Items (WN)		49,000
Adjustments for non-cash and non-operating items:		
Add: Goodwill written-off	8,000	
Loss on Sale of Building	5,000	
Depreciation	20,000	33,000
		82,000
Less: Profit on Sale of Machinery	(10,000)	
Dividend Received	(3,000)	(13,000)
Operating profit before working capital changes		69,000
Less: Increase in Current Assets:		
Commission Accrued	(4,000)	(4,000)
Cash generated from operations		65,000
Less: Tax Paid		(10,000)
Net Cash Flow from Operating Activities		55,000

Working Note:

Net Profit before Tax and Extraordinary Items

= Net Profit + Provision for Taxation + Interim Dividend paid

= 29,000 + 10,000 + 10,000

= ₹49,000.

Solution 21

Cash Flow from Operating Activities

for the year ended 31st March, 2018

Particulars		(₹)	(₹)
Net Profit before Tax (WN)			60,000
Adjustment for non-cash and non-operating items:			
Add: Item to be added back:			
Depreciation	20,000		
Loss on Sale of Machinery	10,000		
Underwriting Commission written off	10,000		40,000
Less: Non-operating Incomes:			
Profit on Sale of Furniture			(5,000)
Operating Profit before working capital changes			95,000
Add: Decrease in Current Assets and Increase in Current Liabilities:			
Decrease in Bills Receivable	2,000		
Increase in Bills Payable	10,000		

Increase in Outstanding Expenses	1,000	13,000	
Less: Increase in Current Assets and Decrease in Current Liabilities:			
Increase in Debtors	(5,000)		
Increase in Inventories	(3,000)		
Increase in Prepaid Expenses	(1,000)		
Decrease in Creditors	(2,000)	(11,000)	
Net Cash generated from Operating Activities			97,000

Working Note: Calculation of Net Profit before Tax

Net Profit for the Year	50,000
Add: Transfer to General Reserve	10,000
	60,000

Solution 22

Cash Flow from Investing Activities

Particulars	(₹)
Sale of Building (WN1)	80,000
Sale of Plant and Machinery	20,000
Purchase of Plant and Machinery (WN 2)	(1,30,000)
Purchase of Investments	(30,000)
Net Cash used in Investing Activities	(60,000)

Working Notes:

1. Dr. **Building Account** Cr.

Particulars	(₹)	Particulars	(₹)
To Balance b/d	1,00,000	By Cash A/c (Sale) (Bal. fig.)	80,000
To Statement of Profit and Loss (Profit on sale of Building)	30,000	By Balance c/d	50,000
	1,30,000		1,30,000

2. Dr. **Plant and Machinery Account** Cr.

Particulars	(₹)	Particulars	(₹)
To Balance b/d	4,25,000	By Cash A/c (Sale)	20,000
To Cash A/c (Purchases) (Bal. fig)	1,30,000	By Statement of Profit and Loss (Loss on Sale)	10,000
		By Depreciation A/c	25,000
		By Balance c/d	5,00,000
	5,55,000		5,55,000

Solution 23

Calculation of Cash Flows from Investing Activities:

Particulars		(₹)
Cash received from sale of Building	7,20,000	
Cash received from sale of Investment	1,92,000	
Cash received from sale of Machinery	2,52,000	
Cash received for permission granted for use of Trademarks	1,08,000	
Cash received for interest or Debentures held as investment	24,000	
Cash received for dividend on shares held as investment	36,000	13,32,000
Cash used for purchase of Business Premises	(6,00,000)	
Cash used for purchase of non-current Investment	(3,24,000)	
Cash used for purchase of Machinery	(5,40,000)	(14,64,000)
Net Cash used in Investing Activities		(1,32,000)

Solution 24

Cash Flows from Investing Activities

Particulars	(₹)	(₹)
Cash flows from Investing Activities:		
Purchase of Plant	(5,00,000)	
Sale of Long Term investments	75,000	
Interest on Long Term Investments	20,000	
Purchase of Plant and Machinery (WN 2)	(94,000)	
Sale of Plant and Machinery	17,500	
Purchase of Goodwill	(32,500)	
Net Cash used in Investing Activities		(5,14,000)

Working Notes:

1. It has been assumed that long-term Investments were sold at the end of the year.

2. Dr. **Plant and Machinery Account** Cr.

Particulars	(₹)	Particulars	(₹)
To Balance b/d	1,00,000	By Cash A/c	17,500
To Statement of Profit & Loss	3,500	By Depreciation A/c	30,000
To Cash A/c (Bal. Fig.) (Purchase)	94,000	By Balance c/d	1,50,000
	1,97,500		1,97,500

Solution 25

Cash Flow from Investing Activities

Particulars	(₹)
Proceeds from Sale of Machinery	6,300
Proceeds from Sale of Investment	9,000
Proceeds from Sale of Patents	7,200
Interest received on Debentures	720
Dividend received on Shares	1,080
Rent received from Building	3,600
Purchase of Machinery	(45,000)
Purchase of Goodwill	(18,000)
Purchase of Investment	(27,000)
Net Cash used in Investing Activities	(62,100)

Solution 26

Cash Flow from Investing Activities

Particulars	(₹)
Proceeds from Sale of Plant	10,000
Proceeds from Sale of Investment	20,000
Proceeds from Sale of Patents	20,000
Interest received on Debentures (Investment)	1,200
Dividend received on Shares (Investment)	2,000
Rent Received	6,000
Purchase of Plant	(88,000)
Purchase of Investments	(36,000)
Purchase of Goodwill	(40,000)
Net Cash used in Investing Activities	(1,04,800)

Solution 27

Dr. **Provision for Depreciation Account** Cr.

Particulars	(₹)	Particulars	(₹)
To Machinery A/c (Dep. on sold asset)	10,000	By Balance b/d	1,00,000
To Balance c/d	1,50,000	By Statement of Profit and Loss (Depreciation charged)	60,000
	1,60,000		1,60,000

Dr. **Machinery Account** Cr.

Particulars	(₹)	Particulars	(₹)
To Balance b/d	8,00,000	By Provision for Depreciation A/c	10,000
To Statement of Profit and Loss (Profit on Sale)	5,000	By Bank A/c (Sale)	25,000
To Bank A/c (Purchase)	6,30,000	By Balance c/d	14,00,000
	14,35,000		14,35,000

Inflow of Cash ₹25,000 (Sale of Machinery)

Outflow of Cash ₹6,30,000 (Purchase of Machinery).

Solution 28

Cash Flow from Financing Activities

Particulars	(₹)
Proceeds from issue of Equity Share Capital	4,00,000
Proceeds from issue of 12% Long-term Borrowings (Debentures)	2,00,000
Payment of interest on Debentures	(24,000)
Payment of Dividend	(1,00,000)
Cash flow from Financing Activities	4,76,000

Solution 29

Calculation of Cash Flows from Financing Activities:

Particulars	(₹)
Cash received from issue of Equity Share Capital	2,40,000
Cash received from issue of Long-Term Borrowings (12% Debentures)	1,20,000
Cash used in payment of interest on Long-Term Borrowings (12% Debentures)	(14,400)
Cash used in payment of dividend	(60,000)
Net Cash flow from Financing Activities	2,85,600

Solution 30

Cash Flow from Financing Activities

Particulars	(₹)
Cash Flow from Financing Activities:	
Proceeds from Issue of Equity Share Capital (14,00,000 + 2,10,000)	16,10,000
Proceeds from long-term borrowings (14% Debentures) (7,00,000 – 7,000)	6,93,000
Redemption of Preference Shares (14,00,000 + 70,000)	(14,70,000)
Interest paid on long-term borrowings (Old Debentures)	(1,96,000)
Interim Dividend paid on Equity Shares	(6,30,000)
Interest paid on Long-term Bank Loan	(5,04,000)
Underwriting Commission paid	(70,000)
Share Issue Expenses paid	(15,000)
Net Cash used in Financing Activities	(5,82,000)

Solution 31

Cash Flow from Financing Activities

Particulars	(₹)
Cash Flow from Financing Activities:	
Proceeds from Issue of Equity Share Capital	
[3,00,000 + 15,000 (Premium)]	3,15,000
Proceeds from Long-term Borrowings [(15% Debentures) (8,00,000 – 8,000)]	7,92,000
Redemption of Preference Shares (2,00,000 + 20,000)	(2,20,000)
Interest paid on old Debentures	(30,000)
Dividend paid on old Preference Shares	(50,000)
Interim Dividend paid on Equity Shares	(75,000)
Payment of underwriting Commission	(15,000)
Net Cash from Financing Activities	7,17,000

Solution 32

Cash Flow Statement

for the year ending 31st March, 2013

Particulars		(₹)	(₹)
1. **Cash Flow from Operating Activities:**			
(A) Net Profit before Tax		15,000	
(B) Adjustments for non-cash and non-operating items		—	
(C) Operating profit before working capital changes		15,000	
(D) *Add:* Decrease in Current Assets and Increase in Current Liabilities			
Decrease in Trade Receivables		13,500	
Decrease in Inventories		1,500	
(E) *Less:* Increase in Current Assets and Decrease in Current Liabilities			
Decrease in Trade Payables		(66,000)	
Cash used in Operating Activities (C + D – E)	(X)		(36,000)
2. **Cash Flow from Investing Activities:**			
Purchase of Fixed Tangible Assets		(47,500)	
Purchase of Non-current Investments		(3,000)	
Net Cash used in Investing Activities	(Y)		(50,500)
3. **Cash Flow from Financing Activities:**			
Issue of Share Capital		50,000	
Cash generated from Financing Activities	(Z)		50,000
4. Net Decrease in Cash and Cash Equivalents (X + Y + Z)			(36,500)
5. *Add:* Cash and Cash Equivalents in the beginning of the year (84,000 + 33,500)			1,17,500
6. Cash and Cash Equivalents at the end of the year (68,500 + 12,500)			81,000

Solution 33

Cash Flow Statement
for the year ended 31st March, 2013

Particulars	(₹)	(₹)
1. Cash Flow from Operating Activities:		
(A) Net Profit before Tax	1,00,000	
(B) Adjustments for non-cash and non-operating items	—	
(C) Operating profit before working capital changes	1,00,000	
(D) *Add:* Decrease in Current Assets and Increase in Current Liabilities		
Decrease in Trade Receivables	54,000	
Decrease in Inventories	6,000	
(E) *Less:* Decrease in Current Liabilities and Increase in Current Assets		
Decrease in Trade Payables	(8,000)	
Net Cash generated from Operating Activities (C + D – E) (X)		1,52,000
2. Cash Flow from Investing Activities:		
Purchase of Fixed Assets	(2,90,000)	
Purchase of Non-current Investments	(72,000)	
Net Cash used in Investing Activities (Y)		(3,62,000)
3. Cash Flow from Financing Activities:		
Issue of Share Capital	2,00,000	
Repayment of Loan (Long-term Borrowings)	(50,000)	
Cash generated from Financing Activities (Z)		1,50,000
4. Net Decrease in Cash and Cash Equivalents (X + Y + Z)		(60,000)
5. *Add:* Cash and Cash Equivalents in the beginning of the year (70,000 + 1,34,000)		2,04,000
6. Cash and Cash Equivalents at the end of the year (94,000 + 50,000)		1,44,000

Solution 34

Cash Flow Statement
for the year ended 31st March, 2018

Particulars	(₹)	(₹)
A. Cash Flow from Operating Activities:		
Net Profit before Tax (WN)	8,125	
Add: Items to be added back (Goodwill written off)	625	
Operating Profit before working capital changes	8,750	
Add: Decrease in Current Assets and Increase in Current Liabilities		
Inventories	5,000	
Trade Receivables	2,500	

Prepaid Expenses (Other Current Assets)		375	
Trade Payables		1,875	
Cash from Operations		18,500	
Less: Income Tax paid		(3,750)	
Net Cash from Operating Activities	(A)		14,750
B. Cash Flow from Investing Activities:			
Purchase of Tangible Asset (Land)		(6,250)	
Net Cash used in Investing Activities	(B)		(6,250)
C. Cash Flow from Financing Activities:			
Proceeds from issue of Equity Share Capital		6,250	
Premium Received on Issue of Equity Shares		6,250	
Proceeds from Bank Loan		2,500	
Redemption of Debentures		(25,000)	
Net Cash used in Financing Activities	(C)		(10,000)
D. Net decrease in cash and cash Equivalents for the year (A + B + C)			(1,500)
E. *Add:* Cash and Cash Equivalents in the beginning of the year			1,500
F. Cash and Cash Equivalents at the end of the year			Nil

Working Note:

1. Calculation of Net Profit before Tax

Particulars	(₹)
Surplus, i.e., Balance in Statement of Profit and Loss	3,125
Add: Provision for taxation for the current year	5,000
	8,125

2. It is assumed that debentures are redeemed in the beginning of the current year.

Solution 35

Cash Flow Statement

Particulars		(₹)	(₹)
A. Cash Flow from Operating Activities:			
Net Profit for the year before Taxation		24,000	
Add: Decrease in Current Assets:			
Inventories	96,000		
Add: Increase in Current Liabilities:			
Trade Payables	1,44,000	2,40,000	
Net Cash from Operating Activities	(A)		2,64,000

B. Cash Flow from Investing Activities:			
Sale of Fixed Assets		3,60,000	
Net Cash from Investing Activities	(B)		3,60,000
C. Cash Flow from Financing Activities:			
Repayment of Long-term Borrowings		(6,00,000)	
Net Cash used in Financing Activities	(C)		(6,00,000)
Net Increase in Cash and Cash Equivalents	(A + B + C)		24,000
Add: Cash and Cash Equivalents in the beginning of the period			1,80,000
Cash and Cash Equivalents at the end of the period			2,04,000

Solution 36

Cash Flow Statement

for the year ended 31st March, 2018

Particulars		(₹)	(₹)
A. Cash Flow from Operating Activities:			
Profit for the year before Tax (3,30,000 – 2,40,000)		90,000	
Adjustments for non-cash and non-operating items:			
Add: Depreciation		45,000	
Profit before working capital changes		1,35,000	
Add: Increase in Current Liabilities:			
Other Current Liabilities		15,000	
Less: Decrease in Current Liabilities:			
Trade Payables		(30,000)	
Less: Increase in Current Assets:			
Inventories		(1,20,000)	
Trade Receivables		(30,000)	
Net Cash used in Operating Activities	(A)		(30,000)
B. Cash Flow from Investing Activities:			
Purchase of Fixed Assets (4,20,000 – 3,00,000)		(1,20,000)	
Net Cash used in Investing Activities	(B)		(1,20,000)
C. Cash Flow from Financing Activities:			
Issue of Long-term Borrowings		90,000	
Net Cash Flow from Financing Activities	(C)		90,000
D. Net Decrease in Cash and Cash Equivalents	(A + B + C)		(60,000)
E. *Add:* Cash and Cash Equivalents in the beginning			90,000
F. Cash and Cash Equivalents at the end			30,000

Solution 37

Cash Flow Statement

Particulars		(₹)	(₹)
A. Cash Flow from Operating Activities:			
Net Profit before Tax and Extraordinary items (WN)		70,000	
Adjustments for non-cash and non-operating items:			
Add: Underwriting commission written off		15,000	
Loss on Sale of Machinery		20,000	
Operating profit before working capital changes		1,05,000	
Add: Decrease in Current Assets and Increase in Current Liabilities:			
Increase in Trade Payables		80,000	
		1,85,000	
Less: Increase in Current Assets and Decrease in Current Liabilities:			
Increase in Trade Receivables		(1,40,000)	
Net Cash from Operating Activities	(A)		45,000
B. Cash Flow from Investing Activities:			
Purchase of Building		(3,10,000)	
Sale of Machinery		70,000	
Net Cash used in Investing Activities	(B)		(2,40,000)
C. Cash Flow from Financing Activities:			
Issue of Equity Shares		1,80,000	
Net Cash from Financing Activities	(C)		1,80,000
D. Net Decrease in Cash and Cash Equivalents	(A + B + C)		(15,000)
E. *Add:* Opening Balance of Cash and Cash Equivalents			60,000
F. Closing Balance of Cash and Cash Equivalents			45,000

Working Note:

Calculation of Net Profit before Tax and Extraordinary items

Net Profit for the year	60,000
Add: Transfer to General Reserve	10,000
	70,000

Solution 38

Cash Flow Statement of Asian Books House

for the year ending 31st March, 2018

Particulars	(₹)	(₹)
A. Cash Flow from Operating Activities:		
Net Profit before tax and extraordinary items (WN)	10,200	
Adjustments for non-cash and non-operating items:		
Add: Depreciation (15,000 – 11,000)	4,000	

Operating profit before working capital changes		14,200	
Less: Increase in Current Assets and Decrease in Current Liabilities:			
Increase in Trade Receivable		(4,000)	
Increase in Inventories		(5,000)	
Increase in Prepaid Expenses		(200)	
Decrease in Trade Payables		(1,000)	
Cash generated from Operations		4,000	
Less: Tax paid		(8,000)	
Cash from Operating Activities	(A)		(4,000)
B. Cash Flow from Investing Activities:			
Sale of Fixed Assets		1,000	
Net Cash from Investing Activities	(B)		1,000
C. Cash Flow from Financing Activities:			
Issue of Preference Shares		10,000	
Proceeds from Long-term Borrowing		1,000	
Repayment of short-term Bank Loan		(5,700)	
Net Cash from Financing Activities	(C)		5,300
D. Net Increase in Cash and Cash Equivalents	(A + B + C)		2,300
E. *Add:* Opening Balance of Cash and Cash Equivalents			1,200
F. Closing Balance of Cash and Cash Equivalents			3,500

Working Note: Calculation of Net Profit before Tax and Extraordinary items:

Net Profit for the year (1,200 – 1,000)	200
Add: Provision for Taxation	10,000
	10,200

Solution 39

Cash Flow Statement of Liva Ltd.
for the year ended 31st March, 2018

Particulars	(₹)	(₹)
1. Cash Flow from Operating Activities:		
(A) Net Profit before Taxation	1,29,600	
(B) Adjustments for non-cash and non-operating items	—	
(C) Operating profit before working capital changes	1,29,600	
(D) *Add*: Decrease in Current Assets and Increase in Current Liabilities		
Increase in Trade Payables	57,600	
(E) *Less*: Increase in Current Assets and Decrease in Current Liabilities		
Increase in Trade Receivables	(27,000)	
Increase in Inventories	(99,600)	

Cash generated from Operating Activities: (C + D –E)	(X)		60,600
2. Cash Flow from Investing Activities:			
Purchase of Fixed Assets		(50,400)	
Purchase of Non-Current Investments		(36,000)	
Net Cash used in Investing Activities	(Y)		(86,400)
3. Cash Flow from Financing Activities:			
Issue of Share Capital		36,000	
Net Cash from Financing Activities	(Z)		36,000
4. Net Increase in Cash and Cash Equivalents	(X –Y + Z)		10,200
5. *Add:* Cash and Cash Equivalents at the beginning of the year (72,000 + 11,400)			83,400
6. Cash and Cash Equivalents at the end of the year (64,800 + 28,800)			93,600

Solution 40

Cash Flow Statement

for the year ending 31st March, 2018

Particulars		(₹)	(₹)
A. Cash Flow from Operating Activities:			
Net Profit before Taxation (WN 1)			51,250
Adjustment for non-cash and non-operating items:			
Add: Depreciation		12,500	
Interest on Debentures		6,000	
Interest on Public Deposit		700	19,200
Operating Profit before working capital changes			70,450
Add: Decrease in Current Assets and Increase in Current Liabilities			
Trade Receivables		7,500	
Outstanding Expenses		500	8,000
Less: Increase in Current Assets and Decrease in Current Liabilities			
Inventories		(25,000)	
Prepaid Expenses		(750)	
Trade Payables		(18,500)	(44,250)
Cash generated from Operations			34,200
Less: Tax Paid			20,000
Net cash from Operating Activities	(A)		14,200
B. Cash Flow from Investing Activities:			
Purchase of Fixed Assets		(37,500)	
Net Cash used in Investing Activities	(B)		(37,500)
C. Cash Flow from Financing Activities			
Proceeds from issue of Equity shares		25,000	
Proceeds from issue of Public Deposit		5,500	
Proceeds from raising of Loan on Mortgage		12,500	
Redemption of 6% Debentures		(25,000)	
Interest on 6% Debentures		(6,000)	
Interest on 6% Public Deposit		(700)	

Net Cash flow from Financing Activities	(C)		11,300
D. Net Decrease in Cash and Cash Equivalents	(A + B + C)		(12,000)
E. *Add:* Cash and Cash Equivalents in the beginning of the year (Cash at Bank ₹25,000 + Current Investments ₹7,000)			32,000
F. Cash and Cash Equivalents at the end of the year (Cash at Bank ₹7,500 + Current Investments ₹12,500)			20,000

Working Notes:

1. Calculation of Net Profit before Tax:

Particulars	(₹)
Statement of Profit and Loss Balance	6,250
Add: General Reserve	7,500
Provision for Tax	37,500
Net Profit before Tax	51,250

2. Dr. **Fixed Assets Account (At Original Cost)** Cr.

Particulars	(₹)	Particulars	(₹)
To Balance b/d	3,00,000	By Balance c/d	3,37,500
To Bank A/c (Purchases) (Bal. fig.)	37,500		
	3,37,500		3,37,500

Dr. **Accumulated Depreciation Account** Cr.

Particulars	(₹)	Particulars	(₹)
To Balance c/d	1,12,500	By Balance b/d	1,00,000
		By Statement of Profit and Loss (Bal. fig.) (Current Year's Depreciation)	12,500
	1,12,500		1,12,500

Solution 41

Cash Flow Statement of M.M. Ltd.

for the year ended 31st March, 2015 as per AS-3 (Revised)

Particulars	Amount (₹)	Amount (₹)
A. Cash Flows from Operating Activities:		
Net Profit before tax & extraordinary items (WN 1)	3,00,000	
Add: Non-cash and Non-operating items		
Goodwill written off	10,000	
Depreciation on machinery	99,000	
Interest on debentures	60,000	
Operating profit before working capital changes	4,69,000	

Less: Increase in Current Asset		
Increase in Inventories	(62,000)	
Cash from operations	4,07,000	
Less: Tax paid	(70,000)	
Net Cash generated from Operating Activities		3,37,000
B. Cash Flows from Investing Activities:		
Purchase of machinery	(3,82,000)	
Purchase of non-current investments	(25,000)	
Net Cash used in Investing Activities		(4,07,000)
C. Cash flows from Financing Activities:		
Issue of Share Capital	1,00,000	
Redemption of 12% Debentures	(50,000)	
Interest on Debentures paid	(60,000)	
Bank Overdraft raised	1,00,000	
Net Cash flow from Financing Activities		90,000
Net increase in Cash and Cash Equivalents (A + B + C)		20,000
Add: Cash and Cash Equivalents in the beginning of the year		
Current Investments	60,000	
Cash and Cash Equivalents	60,000	1,20,000
Cash and Cash Equivalents at the end of the year		
Current Investments	50,000	
Cash and Cash Equivalents	90,000	1,40,000

Working Notes:

1. Calculation of Net Profit before tax:

Net profit as per Statement of Profit and Loss	2,50,000
Add: Provision for tax made	50,000
Net Profit before tax and extraordinary items	3,00,000

2. Dr. **Provision for Tax Account** Cr.

Particulars	Amount (₹)	Particulars	Amount (₹)
To Bank A/c (Tax Paid)	70,000	By Balance b/d	90,000
		By Statement of Profit and Loss	50,000
To Balance c/d	70,000	(Balancing Figure)	
	1,40,000		1,40,000

Solution 42

Cash Flow Statement of XYZ Ltd.
for the year ending 31st March, 2017

Particulars		(₹)	(₹)
A. Cash Flow from Operating Activities:			
Net Profit before Tax (WN1)			80,400
Adjustment for non-cash and non-operating items:			
Add: Depreciation		16,000	
Goodwill written off		8,000	
Less: Interest received on Non-current investment		(1,200)	31,200
Operating Profit before working capital changes			1,03,200
Add: Decrease in Current Assets		NIL	
Increase in Current Liabilities:			
Trade Payables		16,000	
Less: Increase in Current Assets:			
Inventories		(74,000)	(58,000)
Net Cash Flow from Operating Activities	(A)		45,200
B. Cash Flow from Investing Activities:			
Purchase of Tangible Asset (WN2)			(52,000)
Purchase of Non-current Investments			(20,000)
Interest received on Non-current Investment			1,200
Net Cash used in Investing Activities	(B)		(70,800)
C. Cash Flow from Financing Activities:			
Proceeds from issue of Share capital			20,000
Proceeds from issue of Long-term Borrowing (Debentures)			16,000
Proposed dividend for the previous year paid			(8,400)
Net Cash from Financing activities	(C)		27,600
D. Net increase in Cash and Cash Equivalents	(A + B + C)		2,000
E. *Add:* Cash and Cash Equivalents in the beginning of the year (Current Investments + Cash and Cash Equivalents, *i.e.*, 40,000 + 10,000)			50,000
F. Cash and Cash Equivalents at the end of the year (Current Investments + Cash and Cash Equivalents, *i.e.*, 36,000 + 16,000)			52,000

Working Notes:

1. Calculation of Net Profit before tax

Particulars	(₹)
Net Profit for the Current Year [28,000 – (–24,000)]	52,000
Add: Transfer to General Reserves (60,000 – 40,000)	20,000
Proposed Dividend	8,400
Net Profit before Tax	80,400

2. Dr. **Machinery Account (Tangible Assets)** Cr.

Particulars	(₹)	Particulars	(₹)
To Balance b/d	1,28,000	By Depreciation A/c	16,000
To Cash A/c (Purchases) (Bal. fig)	52,000	By Balance c/d	1,64,000
	1,80,000		1,80,000

3. Current Investments to be taken as short-term marketable securities unless otherwise specified.

Solution 43

Cash Flow Statement

for the year ending 31st March, 2018

Particulars		(₹)	(₹)
A. Cash Flow from Operating Activities:			
Net Profit before Taxation (36,400 – 16,450)		19,950	
Adjustments for non-cash and non-operating items:			
Add: Provision for Doubtful Debts (2,100 – 1,400)		700	
Depreciation on Building		4,200	
Depreciation on Plant and Machinery		3,150	
Interest on Debentures		7,560	
Operating profit before working capital changes		35,560	
Add: Increase in Current Liabilities:			
Creditors		4,900	
Outstanding Expenses		700	
		41,160	
Less: Increase in Current Assets:			
Debtors		(7,000)	
Inventories		(5,600)	
Net Cash from Operating Activities	(A)		28,560
B. Cash Flow from Investing Activities:			
Proceeds from sale of Investments		14,000	
Purchase of Fixed Tangible Asset (Building) (WN1)		(10,500)	
Purchase of Fixed Tangible Asset (Plant and Machinery) (WN2)		(10,500)	
Net Cash used in Investing Activities	(B)		(7,000)
C. Cash Flow from Financing Activities:			
Issue of Equity Share Capital		35,000	
Redemption of Long-term Borrowing (Debentures)		(38,500)	
Interest paid on Debentures (Long-term Borrowing)		(7,560)	
Net Cash used in Financing Activities	(C)		(11,060)
D. Net Increase in Cash and Cash Equivalents	(A + B + C)		10,500
E. *Add:* Cash and Cash Equivalents in the beginning			30,100
F. Cash and Cash Equivalents at the end			40,600

Working Note:

1. Dr. **Building Account** Cr.

Particulars	(₹)	Particulars	(₹)
To Balance b/d	44,100	By Depreciation A/c	4,200
To Bank A/c (Purchase) (Bal. Fig.)	10,500	By Balance c/d	50,400
	54,600		54,600

2. Dr. **Plant and Machinery Account** Cr.

Particulars	(₹)	Particulars	(₹)
To Balance b/d	15,400	By Depreciation A/c	3,150
To Bank A/c (Purchase) (Bal. Fig.)	10,500	By Balance c/d	22,750
	25,900		25,900

Solution 44

Cash Flow Statement

for the year ended 31st March, 2018

Particulars		(₹)	(₹)
A. Cash Flow from Operating Activities:			
Net Profit before Taxation		2,00,000	
Adjustments for non-cash and non-operating items:			
Add:			
Depreciation		80,000	
Goodwill written off		80,000	
Interest on Debentures		48,000	
Profit before working capital changes		4,08,000	
Add: Increase in Current Liabilities: Trade Payable	3,00,000		
Decrease in Current Assets: Other current Assets	20,000	3,20,000	
Less: Increase in Current Assets:			
Trade Receivables		(2,00,000)	
Inventories		(1,00,000)	
Net cash generated from Operating Activities	(A)		4,28,000
B. Cash Flow from Investing Activities:			
Purchase of Land and Building		(2,80,000)	
Net Cash used in Investing Activities	(B)		(2,80,000)
C. Cash Flow from Financing Activities:			
Proceeds from issue of Share Capital		2,00,000	
Interest paid on Debentures		(48,000)	
Redemption of Debentures		(2,00,000)	

Net Cash used in Financing Activities	(C)		(48,000)
Net Increase in Cash and Cash Equivalents	(A + B + C)		1,00,000
Add: Cash and Cash Equivalents in the beginning			3,00,000
Cash and Cash Equivalents at the end			4,00,000

Working Note:

(1) Dr. **Fixed Tangible Assets Account** Cr.

Particulars	(₹)	Particulars	(₹)
To Balance b/d	5,00,000	By Depreciation A/c	80,000
To Bank A/c (Purchase) (Bal. Fig.)	2,80,000	By Balance c/d	7,00,000
	7,80,000		7,80,000

Solution 45

Cash Flow Statement of SRS Ltd.

for the year ended 31st March, 2016 as per AS-3 (Revised)

	Particulars	Details (₹)	Amt.(₹)
1.	**Cash Flows from Operating Activities:**		
	Net Profit before tax & extraordinary items (WN1)	1,75,000	
	Add: Non Cash and non-operating charges to be added back		
	Goodwill written off	25,000	
	Depreciation on machinery (WN3)	55,000	
	Interest on debentures	21,000	
	Loss on sale of machinery	5,000	
	Operating profit before working capital changes	2,81,000	
	Less: Increase in Current Assets		
	Increase in inventories	25,000	
	Net Cash generated from Operating Activities (A)		2,56,000
	Less: Tax paid during the year		62,500
	Cash Flows from Operating Activities		1,93,500
2.	**Cash Flows from Investing Activities:**		
	Purchase of machinery (WN2)	(3,55,000)	
	Sale of machinery	15,000	
	Purchase of non-current investments	(25,000)	
	Net Cash used in Investing Activities (B)		(3,65,000)
3.	**Cash Flows from Financing Activities:**		
	Issue of share capital	1,00,000	
	Issue of 12% debentures	50,000	
	Interest on debentures paid	(21,000)	
	Bank overdraft raised	37,500	
	Net Cash Flow from Financing Activities (C)		1,66,500
4.	Net decrease in cash & cash equivalents (A + B + C)		(5,000)
5.	*Add:* Opening balance of cash & cash equivalents		
	Current Investments	35,000	
	Cash & Cash Equivalents	26,500	61,500
6.	Closing Balance of cash & cash equivalents		
	Current Investments	20,000	
	Cash and Cash Equivalents	36,500	56,500

Working Notes:

1. Calculation of Net Profit before taxation:

Net profit as per Statement of Profit and Loss	75,000
Add: Provision for Taxation	1,00,000
Net Profit before tax & extraordinary items	1,75,000

2. Dr. **Machinery Account** Cr.

Particulars	(₹)	Particulars	(₹)
To Balance b/d	5,22,500	By Cash A/c	15,000
To Cash A/c (Purchase) (Bal. Fig.)	3,55,000	By Statement of Profit and Loss	5,000
		By Accumulated Depreciation A/c	20,000
		By Balance c/d	8,37,500
	8,77,500		8,77,500

3. Dr. **Accumulated Depreciation Account** Cr.

Particulars	(₹)	Particulars	(₹)
To Machinery A/c	20,000	By Balance b/d	70,000
To Balance c/d	1,05,000	By Statement of Profit and Loss (Balancing Figure)	55,000
	1,25,000		1,25,000

Solution 46

Cash Flow Statement

for the year ended 31st March, 2014

Particulars		(₹)	(₹)
A. Cash Flow from Operating Activities			
Net profit before Tax (WN1)		2,70,000	
Adjustments for non-cash and non-operating items:			
Add:			
Depericiation on Machinery (WN3)		2,06,000	
Loss on sale of Machinery		4,000	
Operating Profit before Working Capital Changes		4,80,000	
Less: Increase in Current Assets and Decrease in Current Liabilities:			
Increase in Inventories	90,000		
Decrease in Trade Payables	50,000	(1,40,000)	
Cash Generated from operations		(3,40,000)	
Less: Income Tax Paid		60,000	
Cash Flow from Operating Activities	(A)		2,80,000

B. Cash Flow from Investing Activities:			
Purchase of Machinery (WN2)		(6,30,000)	
Proceeds from Sale of Machinery		20,000	
Goodwill Purchased		(2,00,000)	
Cash Used in Investing Activities	(B)		(8,10,000)
C. Cash Flow from Financing Activities			
Proceeds from Issue of Shares		5,00,000	
Proceeds from Long-term Borrowing		1,00,000	
Cash Flow from Financing Activities	(C)		6,00,000
D. Net Increase in Cash and Cash Equivalents (A + B + C)			70,000
E. *Add:* Opening Balance of Cash and Cash Equivalents			1,20,000
F. Closing Balance of Cash and Cash Equivalents			1,90,000

Working Notes:

1. Calculation of Net Profit before Tax:

	(₹)
Surplus, *i.e.*, Balance in Statement of Profit and Loss (₹5,00,000 – ₹3,00,000)	2,00,000
Add: Provision for Tax	70,000
Net Profit before Tax	2,70,000

(2) Dr. **Machinery Account** Cr.

Particulars	(₹)	Particulars	(₹)
To Balance b/d	21,00,000	By Bank A/c (Sale)	20,000
To Bank A/c (Balancing Figure) (Purchase)	6,30,000	By Accumulated Depreciation A/c	6,000
		By Statement of Profit and Loss (Loss on Sale of Machinery)	4,000
		By Balance c/d	27,00,000
	27,30,000		27,30,000

(3) Dr. **Accumulated Depreciation Account** Cr.

Particulars	(₹)	Particulars	(₹)
To Machinery A/c (Depreciation on asset sold)	6,000	By Balance b/d	6,00,000
To Balance c/d (Purchase)	8,00,000	By Statement of Profit and Loss (Bal. Fig.) (Depreciation)	2,06,000
	8,06,000		8,06,000

Solution 47

Cash Flow Statement of AXE Ltd.

for the year ending 31-3-18 (As per AS-3)

Particulars	(₹)	(₹)
A. Cash Flow from Operating Activities		
Profit before Tax and extraordinary items	1,98,000	
Non Operating and Non Cash Items–		
Depreciation charged during the year	6,000	
Profit on sale of assets/machinery	(42,000)	
Operating Profits before tax and changes in working Capital	1,62,000	
Changes in working Capital		
Increase in trade payables	26,000	
Decrease in other current liabilities	(14,000)	
Decrease in inventories	56,000	
Increase in trade receivables	(2,10,000)	
Cash from Operating Activities (A)		20,000
B. Cash Flows from Investing Activities:		
Purchase of Machinery	(1,32,000)	
Sale of machinery	56,000	
Cash Used in Investing Activities (B)		(76,000)
C. Cash Flows from Financing Activities		
Issue of Shares	70,000	
Cash from Financing Activities (C)		70,000
D. Net Cash Inflow During the year (A + B + C)		14,000
E. ***Add:*** Opening Cash Equivalents		70,000
F. Closing Cash Equivalents		84,000

Working Notes:

Dr. **Machinery Account** Cr.

Particulars	(₹)	Particulars	(₹)
To Balance b/d	3,60,000	By Accumulated Depreciation (prev. Depr)	28,000
To Statement of P&L (Profit)	42,000	By Bank A/c	56,000
To Bank A/c (Purchase) (Balancing Figure)	1,32,000	By Balance c/d	4,50,000
	5,34,,000		5,34,000

Dr. **Accumulated Depreciation Account** Cr.

Particulars	(₹)	Particulars	(₹)
To Machinery A/c (previous depreciation)	28,000	By Balance b/d	80,000
To Balance c/d	58,000	By Depreciation A/c (Charged)	6,000
	86,000		86,000

Solution 48

Cash flow Statement of DCX Ltd.

for the year ending 31st March, 2018

Particulars	(₹)	(₹)
A. Cash Flows from Operating Activities:		
Net Profit before Tax	(24,000)	
Add: Depreciation on Machinery	4,20,000	
Add: Interest on Debentures	64,000	
Less: Gain on sale of machinery	(1,60,000)	
Operating Profits before the working Capital changes	3,00,000	
Add: Increase in Trade Payables	50,000	
Less: Increase in Inventories	(4,00,000)	
Cash generated from Operations before tax	(50,000)	
Less: Tax Paid	(56,000)	
Net Cash used in Operating Activities (A)		(1,06,000)
B. Cash flows from Investing Activities:		
Purchase of Machinery	(16,00,000)	
Purchase of Intangible Assets	(1,00,000)	
Sale of Machinery	6,40,000	
Net Cash used in Investing Activities (B)		(10,60,000)
C. Cash Flows from Financing Activities:		
Issue of Shares	9,00,000	
Issue of Debentures	3,00,000	
Interest paid on Debentures	(64,000)	
Cash Flows from Financing Activities (C)		**11,36,000**
Net Decrease in Cash and Cash Equivalents (A + B + C)		**(30,000)**
***Add:* Opening Balance of Cash and Cash equivalents**		
Current Investments	78,000	
Cash and cash equivalents	78,000	**1,56,000**
Closing Balance of Cash and Cash equivalents		
Current Investments	89,000	
Cash and cash equivalents	37,000	**1,26,000**

Working Notes:

1. Calculation of Profit before Tax:	₹
Net Profit for the year	=(1,00,000)
Add: Provision for tax	= 76,000
Net profit before tax	= (24,000)

2. Dr. **Machinery Account** Cr.

Particulars	(₹)	Particulars	(₹)
To Balance b/d	25,00,000	By Acc. Depreciation A/c	3,20,000
To Statement of Profit and Loss	1,60,000	By Bank A/c	6,40,000
To Bank A/c (Bal. Fig.)	16,00,000	By Balance c/d	33,00,000
	42,60,000		42,60,000

3. Dr. **Accumulated Depreciation Account** Cr.

Particulars	(₹)	Particulars	(₹)
To Machinery A/c	3,20,000	By Balance b/d	5,00,000
To Balance c/d	6,00,000	By Statement of P & L (Bal. figure)	4,20,000
	9,20,000		9,20,000

Solution 49

Cash Flow Statement

for the year ended 31st March, 2013

Particulars		(₹)	(₹)
A. Cash Flows from Opening Activities			
Net Profit before Tax (₹3,08,000 – ₹1,82,000)			1,26,000
Adjustments for non-cash and non-operating items:			
Add: Depreciation			28,000
			1,54,000
Less: Gain (Profit) on Sale of Machinery (WN)			(14,000)
Operating Profit before Working Capital Changes			1,40,000
Add: Increase in Trade Payable		98,000	
Decrease in Inventories		42,000	1,40,000
			2,80,000
Less: Increase in Trade Receivables			(2,10,000)
Cash Flow from Operating Activities	(A)		70,000
B. Cash Flows from Investing Activities			
Sale of Machinery		56,000	
Purchase of Machinery (WN)		(1,82,000)	

Cash Used in Investing Activities	(B)		(1,26,000)
C. Cash Flows from Financing Activities			
Issue of Share Capital		70,000	
Cash Flow from Financing Activities	(C)		70,000
D. Net Increase in Cash and Cash Equivalents (A + B + C)			14,000
E. *Add:* Opening Cash and Cash Equivalents			84,000
F. Closing Cash and Cash Equivalents (D + E)			98,000

Working Note:

Dr. **Plant and Machinery Account** Cr.

Particulars	(₹)	Particulars	(₹)
To Balance b/d	2,80,000	By Bank A/c (Sale)	56,000
To Statement of Profit and Loss	14,000	By Depreciation A/c	28,000
(Gain/Profit on Sale of Machinery)		By Balance c/d	3,92,000
To Bank A/c—Balancing Figure	1,82,000		
(Purchase)			
	4,76,000		4,76,000

Solution 50

Cash Flow Statement of SKF Ltd.

for the year ended 31st March, 2018

Particulars		(₹)	(₹)
A. Cash Flow from Operating Activities:			
Net Profit before Tax (WN 1)			90,000
Adjustment for non-cash and non-operating items:			
Add: Goodwill written off		30,000	
Depreciation		1,00,000	
Interest paid on fixed deposits		22,500	1,52,500
Operating Profit before working capital changes			2,42,500
Less: Increase in Current Assets:			
Inventories		(25,000)	
Trade Receivables		(1,00,000)	(1,25,000)
Cash generated from operations before Tax			1,17,500
Less: Tax paid			(30,000)
Net Cash Flow from Operating Activities	(A)		87,500
B. Cash Flow from Investing Activities:			
Purchase of Tangible Asset (Machinery) (WN 2)		(4,50,000)	
Net Cash used in Investing Activities	(B)		(4,50,000)
C. Cash Flow from Financing Activities:			
Proceeds from issue of Share capital		2,00,000	
Proceeds from issue of Long-term borrowings		2,00,000	
Interest paid on Long-term borrowings		(22,500)	

Cash flow from Financing Activities	(C)		3,77,500
D. Net increase in Cash and Cash Equivalents	(A + B + C)		15,000
E. *Add:* Cash and Cash Equivalents in the beginning of the year			30,000
F. Cash and Cash Equivalents at the end of the year			45,000

Working Notes:

1. Calculation of Net Profit before Tax

Particulars	(₹)
Net Profit during the Year	50,000
Add: Provision for Taxation	40,000
Net Profit before tax	90,000

2. Dr. **Machinery Account** Cr.

Particulars	(₹)	Particulars	(₹)
To Balance b/d	4,50,000	By Depreciation A/c	1,00,000
To Cash A/c (Purchases) (Bal. fig)	4,50,000	By Balance c/d	8,00,000
	9,00,000		9,00,000

Solution 51

Cash Flow Statement

for the year ending 31st March, 2018

Particulars	(₹)	(₹)
A. Cash Flow from Operating Activities:		
Net Profit before Taxation (WN1)	45,100	
Adjustments for non-cash and non-operating items:		
Add: Depreciation on Plant and Machinery	30,000	
Depreciation on Land and Building	40,000	
Operating profit before working capital changes	1,15,100	
Less: Decrease in Current Liabilities:		
Trade Payables	(14,800)	
	1,00,300	
Add: Decrease in Current Assets:		
Inventories	41,800	
Cash generated from Operations	1,42,100	
Less: Tax Paid	(30,000)	
Net Cash from Operating Activities (A)		1,12,100

B. Cash Flow from Investing Activities:			
Purchase of Fixed Tangible Asset (Land and Building) (WN2)		(30,000)	
Purchase of Fixed Tangible Asset (Plant and Machinery) (WN3)		(49,000)	
Purchase of Goodwill		(5,000)	
Net Cash used in Investing Activities	(B)		(84,000)
C. Cash Flow from Financing Activities:			
Issue of Equity Share Capital		50,000	
Redemption (repayment) of Bank Loan		(70,000)	
Net Cash used in Financing Activities	(C)		(20,000)
D. Net Increase in Cash and Cash Equivalents	(A + B + C)		8,100
E. *Add:* Cash and Cash Equivalents in the beginning of the period			500
F. Cash and Cash Equivalents at the end of the period			8,600

Working Notes:

(1) Calculation of Net Profit before Taxation:

Particulars	(₹)	(₹)
Profit as per Balance Sheet (30,600 – 30,500)	100	
Add: Transfer to General Reserve (60,000 – 50,000)	10,000	
Add: Provision for Taxation	35,000	45,100

(2) Dr. **Land and Building Account** Cr.

Particulars	(₹)	Particulars	(₹)
To Balance b/d	2,00,000	By Depreciation A/c	40,000
To Bank A/c (balancing figure being purchase)	30,000	By Balance c/d	1,90,000
	2,30,000		2,30,000

(3) Dr. **Plant and Machinery Account** Cr.

Particulars	(₹)	Particulars	(₹)
To Balance b/d	1,50,000	By Depreciation A/c	30,000
To Bank A/c (balancing figure being purchase)	49,000	By Balance c/d	1,69,000
	1,99,000		1,99,000

Solution 52

Cash Flow Statement

for the year ended 31st March, 2017

Particulars		(₹)	(₹)
A. CASH FLOW FROM OPERATING ACTIVITIES			
Surplus, *i.e.*, Balance in the Statement of Profit and Loss (closing)			5,00,000
Less: Surplus, *i.e.*, Balance in the Statement of Profit and Loss (beginning)			2,20,000
NET PROFIT			2,80,000
Add: Provision for Tax (WN3)			46,000
Net Profit before Tax and Extraordinary Items			3,26,000
Add: non-cash and non-operating items:			
Depreciation (WN2)		1,80,000	
Loss on Sale of Machine		16,000	1,96,000
Operating profit before working capital changes			5,22,000
Add: Decrease in Current Assets and Increase in Current Liabilities			
Inventories			44,000
			5,66,000
Less: Increase in Current Assets and Decrease in Current Liabilities			
Trade Receivables		(6,000)	
Trade Payables		(1,36,000)	(1,42,000)
Cash generated from Operations			4,24,000
Less: Tax Paid			(32,000)
Cash Flow from Operating Activities	(A)		3,92,000
B. CASH FLOW FROM INVESTING ACTIVITIES			
Sale of Machinery			4,000
Purchase of Machinery (WN1)			(7,00,000)
Purchase of Patents			(40,000)
Cash used in Investing Activities	(B)		(7,36,000)
C. CASH FLOW FROM FINANCING ACTIVITIES			
Proceeds from Issue of Share Capital			2,00,000
Proceeds from Long-term Borrowings			1,50,000
Increase in Bank Overdraft			4,000
Cash Flow from Financing Activities	(C)		3,54,000
D. NET INCREASE IN CASH AND CASH EQUIVALENTS (A + B + C)			10,000
E. *Add:* CASH AND CASH EQUIVALENTS IN THE BEGINNING OF THE YEAR			
Current Investments		10,000	
Cash and Cash Equivalents		24,000	34,000
F. CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR			
Current Investments		16,000	
Cash and Cash Equivalents		28,000	44,000

Working Notes:

1. Dr. **Machinery Account** Cr.

Particulars	(₹)	Particulars	(₹)
To Balance b/d	34,00,000	By Bank A/c (Sale)	4,000
To Bank A/c (Purchase) (Bal. fig.)	7,00,000	By Statement of Profit and Loss (Loss on Sale of Machinery)	16,000
		By Accumulated Depreciation A/c	80,000
		By Balance c/d	40,00,000
	41,00,000		41,00,000

2. Dr. **Accumulated Depreciation Account** Cr.

Particulars	(₹)	Particulars	(₹)
To Machinery A/c (Depreciation on Sold Machinery)	80,000	By Balance b/d	1,80,000
		By Statement of Profit and Loss (Bal. fig.)	1,80,000
To Balance c/d	2,80,000		
	3,60,000		3,60,000

3. Dr. **Provision for Taxation Account** Cr.

Particulars	(₹)	Particulars	(₹)
To Bank A/c (Tax paid)	32,000	By Balance b/d	22,000
To Balance c/d	36,000	By Statement of Profit and Loss (Provision made) (Bal. fig.)	46,000
	68,000		68,000

Solution 53

Cash Flow Statement of XYZ Ltd.

for the year ended 31st Mar., 2018

Particulars	(₹)	(₹)
A. Cash Flow from Operating Activities:		
Net Profit before tax (WN)		12,700
Adjustments for non-cash and non-operating items:		
Add: Decrease in Current Assets		
Inventories	300	
Increase in current Liabilities		
Creditors	20	
Less: Increase in Current Assets		
Trade Receivable	(300)	
Prepaid Expenses	(50)	
Decrease in Current Liabilities		

Bills Payable		(20)	(50)
Cash generated from operations			12,650
Less: Tax paid			(11,200)
Cash Flow from operating Activities	(A)		1450
B. Cash flow from Investing Activities:			
Purchase of Buildings		(1,250)	
Purchase of Non-current Investment		(250)	(1,500)
Net Cash used in Investing Activities	(B)		(1,500)
C. Cash Flow from Financing Activities:			
Proceeds from issue of Equity shares			1,000
Redemption of Preference shares			(500)
Net Cash flow from Financing Activities	(C)		500
D. Net increase in Cash and Cash Equivalents	(A + B + C)		450
E. *Add:* Cash and Cash equivalents in the beginning			1450
F. Cash and Cash Equivalents at the end			1,900

Working Note:

Calculation of Net Profit before Tax:

Particulars	(₹)
Surplus, *i.e.*, Balance in Statement of Profit and Loss (Difference between opening and closing balance)	1,200
Add: Transfer to General Reserve	300
Add: Tax Paid during the year	11,200
Net Profit before Tax	12,700

Solution 54

Cash Flow Statement of Ice Castle Ltd.

for the year ended 31st March, 2018 as per AS-3 (Revised)

Particulars		Amount (₹)	Amount (₹)
A. Cash Flows from Operating Activities:			
Net Profit before tax and extraordinary items (WN 1)		7,80,000	
Add: Non-cash and non-operating charges			
Goodwill written off		26,000	
Depreciation on machinery		2,57,400	
Interest on debentures		1,56,000	
Operating-profit before working capital changes		12,19,400	
Less: Increase in Current Assets:			
Increase in Inventories		(1,61,200)	
Cash from operations		10,58,200	
Less: Tax paid		(1,82,000)	
Net Cash generated from Operating Activities	(A)		8,76,200

B. Cash Flows from Investing Activities:			
Purchase of machinery		(9,93,200)	
Purchase on non-current investments		(65,000)	
Net Cash used in investing activities	(B)		(10,58,200)
C. Cash Flows from Financing Activities:			
Issue of share capital		2,60,000	
Redemption of 12% debentures		(1,30,000)	
Interest on debentures paid		(1,56,000)	
Bank overdraft raised		2,60,000	
Net Cash flow from financing activities	(C)		2,34,000
Net increase in cash and cash equivalents (A + B + C)			52,000
Add: **Cash and Cash Equivalents in the beginning of the year**			
Current investments		1,56,000	
Cash and Cash Equivalents		1,56,000	3,12,000
Cash and Cash Equivalents at the end of the year			
Current investments		1,30,000	
Cash and Cash Equivalents		2,34,000	3,64,000

Working Notes:

1. Calculation of Net Profit before tax:

Net profit as per Statement of Profit and Loss	6,50,000
Add: Provision for tax made	1,30,000
Net Profit before tax and extraordinary items	7,80,000

2.

Dr. **Provision for Tax Account** Cr.

Particulars	Amount (₹)	Particulars	Amount (₹)
To Bank A/c (Tax Paid)	1,82,000	By Balance b/d	2,34,000
To Balance c/d	1,82,000	By Statement of Profit and Loss (Balancing Figure)	1,30,000
	3,64,000		3,64,000

Solution 55

Cash Flow Statement of Purity Mills Ltd.

for the year ended 31st March, 2018

Particulars	(₹)	(₹)
A. Cash Flow from Operating Activities:		
Net Profit before Tax and Extraordinary Items	1,32,000	
Adjustments for non-cash and non-operating items:		
Add: Depreciation on Plant and Machinery	28,000	
Depreciation on Factory Premises	20,000	

Operating profit before working capital changes		1,80,200	
Add: Decrease in Current Assets and Increase in Current Liabilities:			
Decrease in Trade Receivables		52,000	
Decrease in Inventories		31,600	
		2,63,800	
Less: Increase in Current Assets and Decrease in Current Liabilities:			
Decrease in Bills Payable		(20,000)	
Decrease in Creditors		(9,600)	
Cash generated from Operations		2,34,200	
Less: Payment of Tax (WN2)		(56,000)	
Net Cash Flows from Operating Activities	(A)		1,78,200
B. Cash Flow from Investing Activities:			
Purchase of Machinery (WN3)		(66,000)	
Net Cash used in Investing Activities	(B)		(66,000)
C. Cash Flow from Financing Activities:			
Issue of Equity Share Capital		1,00,000	
Payment of Long-term Borrowings (Bank Loan)		(1,40,000)	
Payment of Proposed Dividend for the previous year		(46,000)	
Net Cash used in Financing Activities	(C)		(86,000)
D. Net Increase in Cash and Cash Equivalents	(A + B+ C)		26,200
E. *Add:* Opening Balance of Cash and Cash Equivalents			1,000
F. Closing Balance of Cash and Cash Equivalents			27,200

Working Notes:

(1) Calculation of Net Profit before Tax

Particulars	(₹)
Net Profit for the year (61,200 – 61,000)	200
Add: Transfer to General Reserve	20,000
Provision for Taxation	66,000
Proposed Dividend Paid for the previous year	46,000
Net Profit before tax and extraordinary items	1,32,200

(2) Dr. **Provision for Taxation Account** Cr.

Particulars	(₹)	Particulars	(₹)
To Cash A/c (Tax Paid) (balancing figure)	56,000	By Balance b/d	60,000
To Balance c/d	70,000	By Statement of Profit and Loss	66,000
	1,26,000		1,26,000

(3) Dr. **Machinery Account** Cr.

Particulars	(₹)	Particulars	(₹)
To Balance b/d	3,00,000	By Depreciation A/c	28,000
To Bank A/c (balancing figure being purchase)	66,000	By Balance c/d	3,38,000
	3,66,000		3,66,000

(4) It is assumed that 14% long-term loan has been repaid at the end of the previous year.

Solution 56

Cash Flow Statement

for the year ended 31st March, 2018

Particulars		(₹)	(₹)
A. Cash Flow from Operating Activities:			
Net Profit before Tax (WN1)			4,42,000
Adjustment for non-cash and non-operating items:			
Add: Depreciation		1,20,000	
Premium on redemption of 8% preference shares		30,000	
Loss on Sale of Machinery		30,000	
Interest on Debentures		40,000	2,20,000
Operating Profit before Working Capital changes			6,62,000
Add: Increase in Current Liabilities, Decrease in Current Assets			
Trade Payables		1,60,000	
Other Prepaid Expenses		10,000	
Less: Increase in Current Assets			
Trade Receivables		(1,00,000)	
Inventories		(1,00,000)	(30,000)
Net Cash Flow from Operating Activities	(A)		6,32,000
B. Cash Flow from Investing Activities:			
Purchase of Fixed Tangible Asset (Machinery) (WN 2)			(4,20,000)
Purchase of Non-current Investments			(1,00,000)
Sale of Fixed Tangible Asset (Machinery)			50,000
Net Cash used in Investing activities	(B)		(4,70,000)
C. Cash Flow from Financing Activities:			
Proceeds from issue of equity Share Capital		1,00,000	

Proceeds from issue of Long-tern Barrowings (14% Debentures)	2,00,000	
Redemption of 8% Preference Shares	(2,00,000)	
Premium on redemption of 8% Preference shares	(30,000)	
Preference Dividend	(32,000)	
Dividend on equity shares	(90,000)	
Interest on Debentures	(40,000)	
Net Cash used in Financing Activities (C)		(92,000)
D. Net Increase in Cash and Cash Equivalents (A + B + C)		70,000
E. *Add:* Cash and Cash Equivalents in the beginning of the year		80,000
F. Cash and Cash Equivalents at the end of the year		1,50,000

Working Note:

(1) Calculation of Net Profit before Tax

Particulars	(₹)
Net Profit during the year (5,40,000 – 2,20,000)	3,20,000
Add: Equity dividend paid	90,000
Preference dividend paid	32,000
	4,42,000

(2) Dr. **Machinery Account** Cr.

Particulars	(₹)	Particulars	(₹)
To Balance b/d	10,20,000	By Depreciation A/c	1,20,000
To Cash A/c (Purchase) (Bal. fig.)	4,20,000	By Cash A/c (Sale)	50,000
		By Statement of Profit and Loss (Loss)	30,000
		By Balance c/d	12,40,000
	14,40,000		14,40,000

Solution 57

Cash Flow Statement of Grace Ltd.

for the year ended on 31st March, 2018

Particulars	(₹)	(₹)
A. Cash Flow from Operating Activities:		
Net Profit before Tax (WN1)		2,70,000
Add: Depreciation	18,000	

Patents written off		5,000	
Loss on Sale of equipment		12,000	35,000
Operating Profit before working capital changes			3,05,000
Less: Increase in Current Assets:			
Inventories		(75,000)	
Trade Receivables		(67,000)	
			(1,42,000)
Cash generated from operations before tax			1,63,000
Less: Tax paid			(80,000)
Net Cash Flow from Operating Activities	(A)		83,000
B. Cash Flow from Investing Activities:			
Sale of Fixed Tangible Assets (Equipments) (WN2)			70,000
Purchase of Equipments			(1,00,000)
Purchase of Non-current Investments			(1,00,000)
Cash used in Investing Activities	(B)		(1,30,000)
C. Cash Flow from Financing Activities:			
Proceeds from issue of Share capital			2,00,000
Repayment of Bank Loan			(50,000)
Payment of Bank Overdraft			(3,000)
Net Cash Flow from Financing Activities	(C)		1,47,000
D. Net increase in Cash and Cash Equivalents	(A+B+C)		1,00,000
E. *Add:* Cash and cash Equivalents in the beginning of the year			2,00,000
F. Cash and cash Equivalents at the end of the year			3,00,000

Working Notes:

1. Calculation of Net Profit before tax

Particulars	(₹)
Balance as per Statement of Profit and Loss	1,50,000
Add: Provision for Tax during the year	1,20,000
	2,70,000

2. Dr. **Equipments Account** Cr.

Particulars	(₹)	Particulars	(₹)
To Balance b/d	5,00,000	By Depreciation A/c	18,000
To Cash A/c (Purchases)	1,00,000	By Cash A/c (Sale) (Bal. Fig.)	70,000
		By Statement of Profit and Loss (Loss)	12,000
		By Balance c/d	5,00,000
	6,00,000		6,00,000

Solution 58

Cash Flow Statement
for the year ending 31st March, 2018

Particulars	(₹)	(₹)
A. Cash Flow from Operating Activities:		
Net Profit before Taxation (WN1)	2,25,600	
Adjustments for non-cash and non-operating items:		
Add: Depreciation (WN 3)	1,68,000	
Loss on Sale of Fixed Assets	48,000	
Interest on Debentures	21,600	
Operating profit before working capital changes	4,63,200	
Less: Increase in Current Assets:		
Debtors	(96,000)	
Stock	(1,20,000)	
Prepaid Expenses	(4,800)	
Less: Decrease in Current Liabilities		
Trade payables	(24,000)	
Cash generated from operations	2,18,400	
Less: Tax paid	(64,800)	
Net Cash Flow from Operating Activities (A)		1,53,600
B. Cash Flow from Investing Activities:		
Sale of Fixed Assets	1,20,000	

Purchase of Fixed Assets (WN 2)		(2,16,000)	
Net Cash used in Investing Activities	(B)		(96,000)
C. Cash Flow from Financing Activities:			
Issue of 12% Preference Shares		2,40,000	
Issue of 15% Debentures		24,000	
Interim Dividend Paid		(1,08,000)	
Payment of short-term borrowings (Bank Overdraft, *i.e.*, 3,00,000–1,63,200)		(1,36,800)	
Interest on Debentures		(21,600)	
Net Cash used in Financing Activities	(C)		(2,400)
D. Net Increase in Cash and Cash Equivalents	(A + B + C)		55,200
E. *Add*: Cash and Cash Equivalents in the beginning of the period			
(Cash at Bank 28,800)			28,800
F. Cash and Cash Equivalents at the end of the period			
(Cash at Bank 84,000)			84,000

Working Notes:

(1) Net Profit before Taxation:

Closing balance of Statement of Profit and Loss	28,800
Less: Opening balance Statement of Profit and Loss	24,000
	4,800
Provision for tax for the current year	1,12,800
Interim Dividend Paid	1,08,000
Net profit before Taxation	2,25,600

(2) Dr. **Fixed Assets Account *(at cost)*** Cr.

Particulars	(₹)	Particulars	(₹)
To Balance b/d	9,84,000	By Accumulated Depreciation A/c	72,000
To Bank A/c (bal. fig., being purchase)	2,16,000	By Bank A/c (Sale)	1,20,000
		By Statement of Profit and Loss (Loss on sale)	48,000
		By Balance c/d	9,60,000
	12,00,000		12,00,000

(3) Dr. **Accumulated Depreciation Account** Cr.

Particulars	(₹)	Particulars	(₹)
To Fixed Assets A/c (Dep. on sold Assets)	72,000	By Balance b/d	2,64,000
To Balance c/d	3,60,000	By Statement of Profit and Loss (current year's depreciation) (balancing figure)	1,68,000
	4,32,000		4,32,000

(4) Dr. **Provision for Tax Account** Cr.

Particulars	(₹)	Particulars	(₹)
To Bank A/c (Tax paid) (balancing figure)	64,800	By Balance b/d	1,92,000
To Balance c/d	2,40,000	By Statement of Profit and Loss	1,12,800
	3,04,800		3,04,800

Solution 59

Cash Flow Statement of Alpha Ltd.
for the year ended 31st March, 2018

Particulars		(₹)	(₹)
A. Cash Flow from Operating Activities:			
Net Profit before Taxation (WN 1)		21,950	
Adjustments for: Non-cash and Non-operating items			
Add: Items to be added			
Depreciation (1,500 + 3,000)		4,500	
Goodwill written off		3,750	
Operating profit before working capital changes		30,200	
Add: Increase in Current Liabilities:			
Trade Payables (Creditors)		3,600	
		33,800	
Less: Increase in Current Assets:			
Trade Receivables		(4,800)	
Inventories		(6,300)	
Cash generated from operating activities before tax		22,700	
Less: Payment of Tax		(5,250)	
Net Cash generated from Operating Activities	(A)		17,450
B. Cash Flow from Investing Activities:			
Purchase of Tangible Asset (Plant and Machinery) (WN 2)		(19,500)	

Sale of Tangible Asset (Land and Building) (WN 3)		1,500	
Net Cash used in Investing Activities	(B)		(18,000)
C. Cash Flow from Financing Activities:			
Issue of Equity Shares		15,000	
Redemption of Preference Shares		(7,500)	
Payment of proposed dividend for the previous year (2017)		(5,000)	
Payment of Interim Dividend		(3,000)	
Net Cash used in Financing Activities	(C)		(500)
D. Net Decrease in Cash and Cash Equivalents	(A + B + C)		(1,050)
E. *Add:* Cash and Cash Equivalents in the beginning of the period (Cash in hand + Cash at Bank)			3,750
F. Cash and Cash Equivalents at the end of the period (Cash in hand + Cash at Bank)			2,700

Working Notes:

(1) Calculation of net profit before taxation

Net Profit during the year (Difference between opening and closing balance of surplus)	2,700
Add: Interim Dividend	3,000
Proposed Dividend for the previous year (2017)	5,000
Provision for Taxation (WN 4)	6,750
Transfer to General Reserve	4,500
	21,950

(2) Dr. **Plant and Machinery Account** Cr.

Particulars	(₹)	Particulars	(₹)
To Balance b/d	12,000	By Depreciation A/c	1,500
To Bank A/c (Purchase)		By Balance c/d	30,000
(Balancing Figure)	19,500		
	31,500		31,500

(3) Dr. **Land and Building Account** Cr.

Particulars	(₹)	Particulars	(₹)
To Balance b/d	30,000	By Depreciation A/c	3,000
		By Bank A/c (Sale) (Balancing fig.)	1,500
		By Balance c/d	25,500
	30,000		30,000

(4) Dr. **Provision for Taxation Account** Cr.

Particulars	(₹)	Particulars	(₹)
To Cash A/c (Paid during year)	5,250	By Balance b/d	6,000
To Balance c/d	7,500	By Statement of Profit and Loss (Balancing fig.) (Provision made)	6,750
	12,750		12,750

■■■

Project Work

5

Solution 1

Introduction to the Project:

The Project requirements are:

(i) to make accounting records of all the accounting transactions.

(ii) to prepare a Trial Balance of the business.

(iii) to prepare financial statements of the business.

(iv) to assess the profitability of the business.

(v) to assess the solvency of the business.

Execution of the Project:

(i) Pass journal entry for each transaction and prepare ledger.

(ii) Prepare the Trial Balance of the business.

(iii) Prepare Profit and Loss Account and Balance Sheet at the end of the year.

(iv) Calculate Gross Profit Ratio and Net Profit Ratio to assess the profitability of the business.

(v) Calculate Current Ratio and Debt-Equity Ratio to assess the solvency of the business.

Journal

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
2017	Cash A/c	Dr.		18,20,000	
Jan. 1	To Capital A/c				18,20,000
	(Being capital invested)				
Jan. 1	Bank A/c	Dr.		12,48,000	
	To Cash A/c				12,48,000
	(Being account opened in bank)				
Jan. 1	Building A/c	Dr.		5,20,000	
	To Cash A/c				5,20,000
	(Being building purchased for cash)				
Jan. 1	Bank A/c	Dr.		15,60,000	
	To Bank Loan A/c				15,60,000
	(Being loan taken from bank)				
Jan. 1	Machines and Equipments A/c	Dr.		20,80,000	
	To Bank A/c				20,80,000
	(Being machines and equipments purchased)				

Jan. 1	Electricity Board A/c	Dr.		5,200	
	To Bank A/c				5,200
	(Being security deposits made with Electricity Board)				
Jan. 1	Furniture and Fixtures A/c	Dr.		1,30,000	
	To Bank A/c				1,30,000
	(Being showroom furnished)				
Jan. 1	Computers A/c	Dr.		5,07,000	
	VSNL Deposit A/c	Dr.		13,000	
	To Bank A/c				5,20,000
	(Being cash paid for computers and VSNL connection)				
Jan. 1	Advertisement A/c	Dr.		23,400	
	To Bank A/c				23,400
	(Being amount paid for advertisement)				
2017	Bank A/c	Dr.		25,89,600	
Dec. 31	To Revenue from Sales A/c				25,89,600
	(Being total revenue received)				
Dec. 31	Purchases A/c	Dr.		2,86,000	
	To Bank A/c				2,86,000
	(Being designer garments purchased)				
Dec. 31	Telephone Charges A/c	Dr.		44,200	
	Petty Expenses A/c	Dr.		62,400	
	Entertainment Expenses A/c	Dr.		52,000	
	Maintenance Expenses A/c	Dr.		52,000	
	Wages A/c	Dr.		1,63,800	
	To Bank A/c				3,74,400
	(Being expenses paid)				
Dec. 31	Drawings A/c	Dr.		3,74,400	
	To Bank A/c				3,74,400
	(Being amount withdrawn by proprietor)				
Dec. 31	Interest on Bank Loan A/c	Dr.		1,04,000	
	To Bank Loan A/c				1,04,000
	(Being interest on bank loan due)				
Dec. 31	Bank Loan A/c	Dr.		6,24,000	
	To Bank A/c				6,24,000
	(Being instalment of bank loan paid including interest)				
Dec. 31	Depreciation A/c	Dr.		5,59,000	
	To Buildings A/c				26,000
	To Machines and Equipments A/c				5,20,000
	To Furniture and Fittings A/c				13,000
	(Being depreciation provided)				
Dec. 31	Electricity Charges A/c	Dr.		1,61,200	
	To Electricity Charges Payable A/c (outstanding)				1,61,200
	(Being outstanding electricity charges)				

Dec. 31	Salaries A/c Dr.		4,83,600	
	To Outstanding Salaries A/c			4,83,600
	(Being salaries outstanding)			

Ledger

Dr. **Bank Account** Cr.

Date	Particulars	J.F.	(₹)	Date	Particulars	J.F.	(₹)
2017				2017			
Jan. 1	To Cash A/c		12,48,000	Jan. 1	By Machines and Equipments A/c		20,80,000
Jan. 1	To Bank Loan A/c		15,60,000		By Electricity Board A/c		5,200
Dec. 31	To Revenue from Sales A/c		25,89,600		By Furniture and Fixtures A/c		1,30,000
					By Advertisement A/c		23,400
					By Computers A/c		5,07,000
					By VSNL Deposit A/c		13,000
					By Purchases A/c		2,86,000
				Dec.31	By Telephone Expenses A/c		44,200
					By Petty Expenses A/c		62,400
					By Entertainment Expenses A/c		52,000
					By Maintenance Expenses A/c		52,000
					By Wages A/c		1,63,800
					By Drawings A/c		3,74,400
					By Bank Loan A/c		6,24,000
					By Balance c/d		9,80,200
			53,97,600				53,97,600
2018							
Jan.1	To Balance b/d		9,80,200				

Dr. **Cash Account** Cr.

Date	Particulars	J.F.	(₹)	Date	Particulars	J.F.	(₹)
2017				2017			
Jan. 1	To Capital A/c		18,20,000	Jan. 1	By Bank A/c		12,48,000
				Jan. 1	By Building A/c		5,20,000
				Dec. 31	By Balance c/d		52,000
			18,20,000				18,20,000
2018							
Jan. 1	To Balance b/d		52,000				

Dr. **VSNL Deposit Account** Cr.

Date	Particulars	J.F.	(₹)	Date	Particulars	J.F.	(₹)
2017				2017			
Jan. 1	To Bank A/c		13,000	Dec. 31	By Balance c/d		13,000
			13,000				13,000
2018							
Jan. 1	To Balance b/d		13,000				

Dr. **Telephone Expenses Account** Cr.

Date	Particulars	J.F.	(₹)	Date	Particulars	J.F.	(₹)
2017				2017			
Dec. 31	To Bank A/c		44,200	Dec. 31	By Profit and Loss A/c		44,200
			44,200				44,200

Dr. **Petty Expenses Account** Cr.

Date	Particulars	J.F.	(₹)	Date	Particulars	J.F.	(₹)
2017				2017			
Dec. 31	To Bank A/c		62,400	Dec. 31	By Profit and Loss A/c		62,400
			62,400				62,400

Dr. **Entertainment Expenses Account** Cr.

Date	Particulars	J.F.	(₹)	Date	Particulars	J.F.	(₹)
2017				2017			
Dec. 31	To Bank A/c		52,000	Dec. 31	By Profit and Loss A/c		52,000
			52,000				52,000

Dr. **Furniture and Fixtures Account** Cr.

Date	Particulars	J.F.	(₹)	Date	Particulars	J.F.	(₹)
2017				2017			
Jan. 1	To Bank A/c		1,30,000	Dec. 31	By Depreciation A/c		13,000
					By Balance c/d		1,17,000
			1,30,000				1,30,000
2018							
Jan. 1	To Balance b/d		1,17,000				

Dr. **Advertisement Account** Cr.

Date	Particulars	J.F.	(₹)	Date	Particulars	J.F.	(₹)
2017				2017			
Jan. 1	To Bank A/c		23,400	Dec. 31	By Profit and Loss A/c		23,400
			23,400				23,400

Dr. **Purchases Account (Designer Dresses)** Cr.

Date	Particulars	J.F.	(₹)	Date	Particulars	J.F.	(₹)
2017				2017			
Dec. 31	To Bank A/c		2,86,000	Dec. 31	By Trading A/c		2,86,000
			2,86,000				2,86,000

Dr. **Electricity Charges Account** Cr.

Date	Particulars	J.F.	(₹)	Date	Particulars	J.F.	(₹)
2017				2017			
Dec. 31	To Electricity Charges Payable A/c		1,61,200	Dec. 31	By Profit and Loss A/c		1,61,200
			1,61,200				1,61,200

Dr. **Salaries Account** Cr.

Date	Particulars	J.F.	(₹)	Date	Particulars	J.F.	(₹)
2017				2017			
Dec. 31	To Outstanding Salaries A/c		4,83,600	Dec. 31	By Profit and Loss A/c		4,83,600
			4,83,600				4,83,600

Dr. **Maintenance Expenses Account** Cr.

Date	Particulars	J.F.	(₹)	Date	Particulars	J.F.	(₹)
2017				2017			
Dec. 31	To Bank A/c		52,000	Dec. 31	By Profit and Loss A/c		52,000
			52,000				52,000

Dr. **Wages Account** Cr.

Date	Particulars	J.F.	(₹)	Date	Particulars	J.F.	(₹)
2017				2017			
Dec. 31	To Bank A/c		1,63,800	Dec. 31	By Trading A/c		1,63,800
			1,63,800				1,63,800

Dr. **Drawings Account** Cr.

Date	Particulars	J.F.	(₹)	Date	Particulars	J.F.	(₹)
2017				2017			
Dec. 31	To Bank A/c		3,74,400	Dec. 31	By Capital A/c		3,74,400
			3,74,400				3,74,400

Dr. **Capital Account** Cr.

Date	Particulars	J.F.	(₹)	Date	Particulars	J.F.	(₹)
2017				2017			
Dec. 31	To Drawings A/c		3,74,400	Jan. 1	By Cash A/c		18,20,000

Dec. 31	To Balance c/d		14,45,600				
			18,20,000				18,20,000
				2018			
				Jan. 1	By Balance b/d		14,45,600

Dr. **Building Account** Cr.

Date	Particulars	J.F.	(₹)	Date	Particulars	J.F.	(₹)
2017				2017			
Jan. 31	To Cash		5,20,000	Dec. 31	By Depreciation A/c		26,000
					By Balance c/d		4,94,000
			5,20,000				5,20,000
2018							
Jan. 1	To Balance b/d		4,94,000				

Dr. **Machines and Equipments Account** Cr.

Date	Particulars	J.F.	(₹)	Date	Particulars	J.F.	(₹)
2017				2017			
Jan. 1	To Bank A/c		20,80,000	Dec. 31	By Depreciation A/c		5,20,000
					By Balance c/d		15,60,000
			20,80,000				20,80,000
2018							
Jan. 1	To Balance b/d		15,60,000				

Dr. **Bank Loan Account** Cr.

Date	Particulars	J.F.	(₹)	Date	Particulars	J.F.	(₹)
2017				2017			
Dec.31	To Bank A/c		6,24,000	Jan. 1	By Bank A/c		15,60,000
Dec.31	To Balance c/d		10,40,000	Dec. 31	By Interest on Bank Loan A/c		1,04,000
			16,64,000				17,16,000
				2018			
				Jan. 1	By Balance b/d		10,40,000

Dr. **Computers Account** Cr.

Date	Particulars	J.F.	(₹)	Date	Particulars	J.F.	(₹)
2017				2017			
Jan. 1	To Bank A/c		5,07,000	Dec. 31	By Balance c/d		5,07,000
			5,07,000				5,07,000
2018							
Jan. 1	To Balance b/d		5,07,000				

Dr. **Depreciation Account** Cr.

Date	Particulars	J.F.	(₹)	Date	Particulars	J.F.	(₹)
2017				2017			
Dec. 31	To Building A/c		26,000	Dec. 31	By Profit and Loss A/c		5,59,000

Dec. 31	To Machines and Equipments A/c		5,20,000				
Dec. 31	To Furniture and Fixtures A/c		13,000				
			5,59,000				5,59,000

Dr. **Interest on Bank Loan Account** Cr.

Date	Particulars	J.F.	(₹)	Date	Particulars	J.F.	(₹)
2017				2017			
Dec. 31	To Bank Loan A/c		1,04,000	Dec. 31	By Profit and Loss A/c		1,04,000
			1,04,000				1,04,000

Dr. **Electricity Board Account (Security Deposit)** Cr.

Date	Particulars	J.F.	(₹)	Date	Particulars	J.F.	(₹)
2017				2017			
Jan. 1	To Bank A/c		5,200	Dec. 31	By Balance c/d		5,200
			5,200				5,200
2018							
Jan. 1	To Balance b/d		5,200				

Dr. **Outstanding Salaries Account** Cr.

Date	Particulars	J.F.	(₹)	Date	Particulars	J.F.	(₹)
2017				2017			
Dec. 31	To Balance c/d		4,83,600	Dec. 31	By Salaries A/c		4,83,600
			4,83,600				4,83,600
				2018			
				Jan. 1	By Balance b/d		4,83,600

Dr. **Revenue from Sales Account** Cr.

Date	Particulars	J.F.	(₹)	Date	Particulars	J.F.	(₹)
2017				2017			
Dec. 31	To Trading A/c		25,89,600	Dec. 31	By Bank A/c		25,89,600
			25,89,600				25,89,600

Dr. **Electricity Charges Payable Account** Cr.

Date	Particulars	J.F.	(₹)	Date	Particulars	J.F.	(₹)
2017				2017			
Dec. 31	To Balance c/d		1,61,200	Dec. 31	By Electricity Charges A/c		1,61,200
			1,61,200				1,61,200
				2018			
				Jan.1	By Balance b/d		1,61,200

Trial Balance

Dr. *as on 31st December, 2017* Cr.

Particulars	(₹)	Particulars	(₹)
Machines and Equipments A/c (Less depreciation)	15,60,000	Capital A/c	14,45,600
Depreciation A/c	5,59,000	Revenue from Sales A/c	25,89,600
Interest on Bank Loan A/c	1,04,000	Bank Loan A/c	10,40,000
Electricity Board A/c	5,200	Electricity Charges Payable A/c	1,61,200
VSNL A/c	13,000	Outstanding Salaries A/c	4,83,600
Telephone Expenses A/c	44,200		
Petty Expenses A/c	62,400		
Entertainment Expenses A/c	52,000		
Furniture and Fixtures A/c (Less depreciation)	1,17,000		
Advertisement A/c	23,400		
Purchases A/c	2,86,000		
Electricity Charges A/c	1,61,200		
Maintenance A/c	52,000		
Wages A/c	1,63,800		
Salaries A/c	4,83,600		
Buildings A/c (Less depreciation)	4,94,000		
Cash A/c	52,000		
Bank A/c	9,80,200		
Computers A/c	5,07,000		
	57,20,000		57,20,000

Trading and Profit and Loss Account

Dr. *for the year ending 31st December, 2017* Cr.

Particulars	(₹)	Particulars	(₹)
To Purchases A/c	2,86,000	By Revenue from Sales A/c	25,89,600
To Wages A/c	1,63,800		
To Gross Profit c/d	21,39,800		
	25,89,600		25,89,600
To Interest on Bank Loan A/c	1,04,000	By Gross Profit b/d	21,39,800

To Telephone Expenses A/c	44,200		
To Petty Expenses A/c	62,400		
To Entertainment Expenses A/c	52,000		
To Advertisement Expenses A/c	23,400		
To Electricity Charges A/c	1,61,200		
To Maintenance A/c	52,000		
To Salaries A/c	4,83,600		
To Depreciation A/c:			
Machines and Equipments 5,20,000 Buildings 26,000 Furniture and Fixtures 13,000	5,59,000		
To Net Profit	5,98,000		
	21,39,800		21,39,800

Balance Sheet

as at 31st December, 2017

Liabilities		(₹)	Assets	(₹)
Capital	18,20,000		Machines and Equipments (Less Depreciation)	15,60,000
Less:Drawings	3,74,400		Computers	5,07,000
	14,45,600		Buildings (*Less* depreciation)	4,94,000
Add: Net Profit	5,98,000	20,43,600	Furniture and Fixtures (*Less* depreciation)	1,17,000
Bank Loan		10,40,000	VSNL (security deposit)	13,000
Electricity Charges Payable		1,61,200	Electricity Board (security deposit)	5,200
Outstanding Salaries		4,83,600	Cash in Hand	52,000
			Bank	9,80,200
		37,28,400		37,28,400

Profitability Ratios:

1. **Gross Profit Ratio** $= \frac{\text{Gross Profit}}{\text{Net Sales}} \times 100 = \frac{21,39,800}{25,89,600} \times 100 = 82.63\%$

2. **Net Profit Ratio** $= \frac{\text{Net Profit}}{\text{Net Sales}} \times 100 = \frac{5,98,000}{25,89,600} \times 100 = 23.09\%$

Bank will Consider the following ratios before granting the loan:

1. **Current Ratio** $= \dfrac{\text{Current Assets}}{\text{Current Liabilities}}$

$$= \frac{\text{Cash + Bank}}{\text{Electricity Charges Payable A/c + Outstanding Salaries}}$$

$$= \frac{10,32,200}{6,44,800} = 1.6 : 1$$

2. **Debt-equity Ratio** $= \dfrac{\text{Debt}}{\text{Equity}} = \dfrac{10,40,000}{20,43,600} = 0.51 : 1$

After calculating these ratios, we can say that Mr. Prakash Kapoor can easily obtain the loan from the Bank as both Current Ratio and Debt-Equity Ratio are favourable.

Solution 2

Introduction to the Project:

1. The aim of this project work is to assess the efficiency of the manager, during the year ended on 31st March, 2018 in comparison to the last year.

   The project work is planned and executed as follows:

   (i) Ascertain the gross profit ratio of both the year.

   (ii) Assess the efficiency by comparing these ratios.

Particulars	31st March, 2017	31st March, 2018
(i) Gross Profit Ratio = $\dfrac{\text{Gross Profit}}{\text{Net Sales}} \times 100$	$\dfrac{7,20,000}{36,00,000} \times 100 = 20\%$	$\dfrac{10,80,000}{72,00,000} \times 100 = 15\%$

Conclusion: It is true that gross profit has increased from ₹7,20,000 to ₹10,80,000 but to judge the efficiency of the manager, we will compare the gross profit ratio. Gross profit ratio has been decreased from 20% to 15%. Therefore, we can say that management is not justified in owners' opinion.

Solution 3

Introduction to the Project:

The Project is to make comparison of actual ratios and standard ratios and make conclusion.

Following comments can be made on the basis of given ratios both about the actual condition and the standards selected:

1. The current ratio (*i.e.*, the ratio of current assets to current liabilities) is greater than the ideal (standard) ratio which is 2. This ratio is very favourable for the creditors but it gives indication that the company is not in a good position to use its funds effectively. The funds

can be utilised in a better way by making investments (long-term) so the company can earn interest.

2. The ratio of cash to current liabilities is also greater than the standard ratio. It indicates that the company is unable to make better utilisation of its funds. It shows that the short-term financial planning is not effective.
3. The ratio of fixed assets to net worth is lower than the standard ratio. The actual ratio is 4 whereas standard ratio is 7.The reason for this may be that available surplus cash is used for the purchase of fixed assets.
4. The ratios of sales to stock shows that the company is turning over the stock at a high speed as the actual turnover is higher than the standard turnover.
5. The ratios of sales to net worth, sales to fixed assets and net profit to net worth are not satisfactory. These actual ratios are lower than their standard ratios. It shows that the company is not in a position to utilise its available funds efficiently.

   Conclusion: After the examination of ratios, it is concluded that company has idle resources and missing some profitable opportunities by not using resources effectively and efficiently.

Solution 4

The project is to make a study of liquidity and activity or turnover ratios of three consecutive years to enables the bank officials to take a decision regarding granting loan. Following comments can be made on the basis of Comparative study of 3 years of these ratios:

(i) Liquidity ratio is constantly decreasing bit by bit. for the year ended, 2016 it is 1.2:1 which is satisfactory for every rupee of current liabilities, there is a rupee of liquid assets. But for the year ended 2017 and 2018, this ratio shows decreasing trend which shows decreasing liquidity status of the concern.

(ii) Current ratio shows increasing trend in three years. For the year ended 2016, it is ideal but in 2017 and 2018 it is getting higher which shows idle working capital lying or show clearance of the inventory due to less sales because of poor management policy.

(iii) Trade Receivables turnover ratio is showing decreasing trend to some extent in these years. Lower trade receivable turnover ratio means inefficient credit sales policy.

(iv) Inventory turnover ratio is also decreasing continuously which indicate over investment in inventories, dull business and losses due to obsolete or unsaleable goods.

Conclusion: After the Comparative study of 3 years of these ratios, it can be concluded that short-term financial planning of Shekhar Electronics Ltd. is not effective. Hence, it is not advisable to grant short-term loans.

Solution 5

Introduction to the Project:

The Project work is to submit a report to the bank which would enable the banker to arrive at a decision regarding granting a loan.

Necessary data is provided in the form of Balance Sheets as at 31st March, 2017 and as at 31st March, 2018 along with the additional information.

The banker will require a report regarding the sources and utilisation of cash during the period to assess the ability of the enterprise to generate future cash flows.

Hence, the project work is planned and executed by preparing a Cash Flow Statement.

Cash Flow Statement

for the year ended 31st March, 2018

Particulars		(₹)	(₹)
A. Cash Flow from Operating Activities:			
Net Profit before Taxation and extraordinary items:		1,57,680	
Add: Non-cash Items:			
Loss on sale of Fixed Assets		22,400	
Depreciation		78,400	
Interest on Debentures		8,736	
Operating Profit before Working Capital Changes		2,67,216	
Less: Increase in Current Assets and decrease in Current Liabilities			
Increase in Stock		(56,000)	
Increase in Debtors		(44,800)	
Increase in Prepaid Expenses		(2,240)	
Decrease in Trade payables		(11,200)	
Cash generated from Operating Activities		1,52,976	
Less: Income Tax Paid		(39,200)	
Net Cash from Operating Activities	(A)		1,13,776
B. Cash Flow from Investing Activities:			
Sale of Fixed Assets		56,000	
Purchase of Fixed Assets		(1,00,800)	
Net Cash used in Investing Activities	(B)		(44,800)
C. Cash Flow from Financing Activities:			
Issue of Share Capital		1,40,000	
Redemption of Preference Shares		(28,000)	
Repayment of Bank overdraft		(63,840)	

Issue of Debentures		11,200	
Proposed dividend paid for the previous year		(30,000)	
Interim dividend paid		(50,400)	
Preference Dividend Paid		(13,440)	
Interest on Debentures		(8,736)	
Net Cash used in Financing Activities	(C)		(43,216)
Net Increase in Cash and Cash Equivalents	(A + B + C)		25,760
Add: Cash and Cash Equivalents in the beginning of the year			13,440
Cash and Cash Equivalents at the end of the year			39,200

Working Notes:

(1) Net Profit before Taxation:

Profit and Loss Balance	(2,240)
Adjustments for:	
Transfer to General Reserve	4,480
Preference Dividend paid	13,440
Interim Dividend Paid	50,400
Proposed Dividend	30,000
Provision for Taxation	61,600
	1,57,680

(2) Dr. **Fixed Assets Account** Cr.

Date	Particulars	(₹)	Date	Particulars	(₹)
2017			2018		
April 1	To Balance b/d	4,59,200	Mar. 31	By Cash A/c (Sale)	56,000
2018	To Bank A/c	1,00,800		By Provision for Depreciation A/c	33,600
Mar. 31	(Balancing Figure being purchase)			By Statement of Profit and Loss (loss on sale)	22,400
				By Balance c/d	4,48,000
		5,60,000			5,60,000

(3) Dr. **Provision for Depreciation Account** Cr.

Date	Particulars	(₹)	Date	Particulars	(₹)
2018			2017		
Mar. 31	To Fixed Assets A/c	33,600	April 1	By Balance b/d	1,23,200
Mar. 31	To Balance c/d	1,68,000			

			2018		
			Mar. 31	By Statement of Profit and Loss (Balancing Figure)	78,400
		2,01,600			2,01,600

(4) Dr. **Provision for Taxation Account** Cr.

Date	Particulars	(₹)	Date	Particulars	(₹)
2018			2017		
Mar. 31	To Bank A/c	39,200	April 1	By Balance b/d	89,600
Mar. 31	To Balance c/d	1,12,000	2018		
			Mar. 31	By Statement of Profit and Loss (Balancing Figure)	61,600
		1,51,200			1,51,200

Report on Cash Position of the Company

(i) Cash generated from all the activities is positive which is a good sign.

(ii) Cash generated from operations is ₹1,13,776 which has been used for financing of investing activities.

(iii) Stock, debtors and prepaid expenses show increasing trend. The managers are advised to keep the optimum inventory level and they should take necessary steps for prompt collection of debtors.

(iv) Trade Payables and bank overdraft show decreasing trend which means more outflow of cash.

Solution 6

Introduction to the Project:

The project is to prepare a Cash Flow Statement of Pragati Enterprises and comment about the same with report on cash position. The data provided are Balance Sheets of Pragati Enterprises for the years ended 31st March, 2017 and 31st March, 2018 with the additional information for the year ended 31st March, 2018.

The project is executed by preparing Cash Flow Statement.

Cash Flow Statement

for the year ended on 31st March, 2018

Particulars	(₹)	(₹)
A. Cash Flow from Operating Activities:		
Net Profit before Tax and extraordinary Items	40,000	
Add: Depreciation on Plant and Machinery	18,750	

Interest on Mortgage Loan		30,375	
Less: Gain on Sale of Land		(37,500)	
Net profit before working capital changes		51,625	
Less: Increase in Current Assets:			
Increase in Trade Receivables		(3,06,250)	
Less: Decrease in Current Liabilities:			
Decrease in Trade Payables		(42,500)	
Add: Decrease in Current Assets:			
Decrease in Inventories		37,500	
Profit before Tax		(2,59,625)	
Less: Income Tax paid		(93,750)	
Cash used in Operating Activities	(A)		(3,53,375)
B. Cash Flow from Investing Activities:			
Purchase of Plant and Machinery		(56,250)	
Purchase of Goodwill		(12,500)	
Sale of Land		1,75,000	
Cash Flow from Investing Activities	(B)		1,06,250
C. Cash Flow from Financing Activities:			
Proceeds from Mortgage Loan		3,37,500	
Interest on Mortgage Loan		(30,375)	
Cash Flow from Financing Activities	(C)		3,07,125
Net Increase in Cash and Cash Equivalents	(A + B + C)		60,000
Add: Cash and Cash Equivalents in the beginning of the year			1,86,250
Cash and Cash Equivalents at the end of the year			2,46,250

Working Notes:

(1)	Profit during the year	27,500
	Add: Provision for Taxation	12,500
	Net Profit before Taxation	40,000

(2) Dr. **Plant and Machinery Account** Cr.

Particulars	(₹)	Particulars	(₹)
To Balance b/d	1,87,500	By Depreciation A/c	18,750
To Cash A/c (Purchase)	56,250	By Balance c/d	2,25,000
	2,43,750		2,43,750

(3) Dr. **Land and Building Account** Cr.

Particulars	(₹)	Particulars	(₹)
To Balance b/d	3,12,500	By Cash A/c (Sale)	1,75,000
To Statement of Profit and Loss (Profit)	37,500	By Balance c/d	1,75,000
	3,50,000		3,50,000

Report on the Cash Position of the company:

(*i*) Cash generated from operating activities is negative (₹3,53,375) which is not a good sign. In other words, ₹3,53,375 has been used in operating activities.

(*ii*) Cash flows from financing and investing activities are positive which is a good sign. Net increase in the cash generated during the year is ₹60,000.

■■■