SUGGESTED SOLUTION

CA INTERMEDIATE

SUBJECT- F.M.

Test Code – CIM 8612

BRANCH - () (Date :)

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ANSWER -1

Working Notes:

(i) $\frac{\text{Net Profit}}{\text{Capital}} = \frac{1}{4}$

$\frac{\text{Net Profit}}{25,00,000} = \frac{1}{4}$

Net Profit = 6,25,000

(ii) $\frac{\text{Net Profit}}{\text{Sales}}$ = 20%

Sale = $\frac{6,25,000}{0.20} = 31,25,000$

(iii) Gross Profit Ratio = $\frac{\text{Gross Profit}}{\text{Sales}} \text{ x } 100$

25 = $\frac{\text{Gross Profit}}{31,25,000} \text{ x } 100$

Gross Profit = $\frac{31,25,000 \text{ x } 25}{100}$

= 7,81,250

(iv) Stock Turnover = $\frac{\text{COGS}}{\text{Average Stock}}$

5 = $\left(\frac{31{,}25{,}000\text{-}7{,}81{,}250}{\text{Average Stock}}\right)$

Average Stock = $\frac{23,43,750}{5}$

= 4,68,750

(v) Average Stock = $\frac{\text{Closing Stock + Opening Stock}}{2}$

4,68,750 = $\frac{6,00,000 \text{ + Opening Stock}}{2}$

Opening Stock = 9,37,500 – 6,00,000 = 3,37,500

(5*1 = 5 MARKS)

Trading A/c for the year ending 31st March, 2014

	Rs.		**Rs.**
To Opening Stock	3,37,500	By Sales	31,25,000
To Purchases (Balancing figure)	26,06,250	By Closing Stock	6,00,000
To Gross Profit c/f to P&L A/c	7,81,250		
	37,25,000		**37,25,000**

(3 MARKS)

Profit & Loss A/c for the year ending 31st March, 2014

	Rs.		Rs.
To Miscellaneous Expenses (balancing figure) To Net Profit	1,56,250 6,25,000	By Gross Profit b/f from Trading A/c	7,81,250
	7,81,250		**7,81,250**

(2 MARKS)

ANSWER -2

Workings:

(i) $\frac{\text{Fixed Assets}}{\text{Total Current Assets}} = \frac{5}{7}$

Or, Total Current Assets $= \frac{\text{Rs.40,00,000 x 7}}{5} = \text{Rs.56,00,000}$

(ii) $\frac{\text{Fixed Assets}}{\text{Capital}} = \frac{5}{4}$ Or, Capital $= \frac{\text{Rs.40,00,000 x 4}}{5} = \text{Rs.32,00,000}$

(iii) $\frac{\text{Capital}}{\text{Total Liabilities*}} = \frac{1}{2}$ = Or, Total liabilities = Rs. 32,00,000 × 2 = Rs. 64,00,000

*It is assumed that a Total liability does not include capital.

(iv) $\frac{\text{Net Profit}}{\text{Capital}} = \frac{1}{5}$ = Or, Net Profit = Rs. 32,00,000 × 1/5 = Rs. 6,40,000

(v) $\frac{\text{Net Profit}}{\text{Sales}} = \frac{1}{5}$ = Or, Sales = Rs. 6,40,000 × 5 = Rs. 32,00,000

(vi) Gross Profit = 25% of Rs. 32,00,000 = Rs. 8,00,000

(vii) Stock Turnover $= \frac{\text{Cost of Goods Sold (i.e. Sales - Gross Profit}}{\text{Average Stock}} = 10$

$= \frac{\text{Rs.32,00,000-Rs.8,00,000}}{\text{Average Stock}} = 10$

Or, Average Stock = Rs. 2,40,000 Or, $\frac{\text{Opening Stock + Rs.4,00,000}}{2} = \text{Rs.2,40,000}$

Or, Opening Stock = Rs. 80,000

(6*1 = 6 MARKS)

Trading Account

Particulars	(Rs.)	Particulars	(Rs.)
To Opening Stock To Manufacturing exp./ Purchase (Balancing figure)	80,000 27,20,000	By Sales	32,00,000
To Gross Profit b/d	8,00,000	By Closing Stock	4,00,000
	36,00,000		**36,00,000**

Profit and Loss Account

Particulars	(Rs.)	Particulars	(Rs.)
To Operating Expenses (Balancing figure) To Net Profit	1,60,000 6,40,000	By Gross Profit c/d	8,00,000
	8,00,000		**8,00,000**

(2 MARKS)

Balance Sheet

Capital and Liabilities	(Rs.)	Assets	(Rs.)
Capital Liabilities	32,00,000 64,00,000	Fixed Assets Current Assets: Closing Stock Other Current Assets (Bal. figure)	40,00,000 4,00,000 52,00,000
	96,00,000		**96,00,000**

(2 MARKS)

ANSWER -3

ANSWER -A

1. Quick Ratio=

$$\frac{\text{Current Assets - Stock - Prepaid Expenses}}{\text{Current Liabilities}} = \frac{30,50,000 - 21,60,000 - 10,000}{10,00,000} = 0.88 \text{ times.}$$

2. Debt Equity Ratio =

$$\frac{\text{Debt (i.e. 10\% Debentures)}}{\text{Equity (i.e. ESC + Retained Earnings}} = \frac{16,00,000}{(20,00,000 + 8,00,000)} = 0.57:1$$

3. ROCE = $\frac{\text{EBIT}}{\text{Equity + Debt}} = \frac{12,00,000}{[(20,00,000 + 8,00,000) + 16,00,000]} = 27.27\%$

4. Debtors T/O Ratio = $\frac{\text{Credit Sales}}{\text{Average Debtors}} = \frac{\text{80\% of 40,00,000}}{[\text{Assumed as given Debtors = 4,00,000}]} = 8 \text{ times}$

So, Average Collection Period = $\frac{360}{8}$ = 45 days.

(5 MARKS)

ANSWER –B

(i) Net Profit Margin = Net Income (Rs. 3,60,000) ÷ Revenue = 0.12

So, Revenue isRs.30,00,000

(ii) Asset Turnover = Revenue (Rs.30,00,000) ÷ Assets = 2.5 times

So, Assets isRs. 12,00,000

(iii) Equity Multiplier = Assets (Rs.12,00,000) ÷ Shareholders' Equity (Rs. 4,00,000) = 3

Return on Equity = Net Profit Margin × Asset Turnover × Equity Multiplier

= (0.12) × (2.5) × (3) = 0.9, or 90%

(5 MARKS)

ANSWER -4

(a) G.P. Ratio = $\frac{\text{Gross Profit}}{Sales} = 25\%$

Sales = $\frac{\text{Gross Profit}}{25}$ x 100 = $\frac{Rs.8,00,000}{25}$ x 100 = Rs.32,00,000

(b) Cost of Sales = Sales – Gross profit

= Rs. 32,00,000 - Rs. 8,00,000

= Rs. 24,00,000

(c) Receivable turnover = $\frac{\text{Sales}}{\text{Receivables}} = 4$

= Receivables = $\frac{\text{Sales}}{4} = \frac{\text{Rs.32,00,000}}{4}$ =Rs.8,00,000

(d) Fixed assets turnover = $\frac{\text{Cost of Sales}}{\text{Fixed Assets}} = 8$

Fixed Assets = $\frac{\text{Cost of Sales}}{8} = \frac{\text{Rs.24,00,000}}{8}$ =Rs.3,00,000

(e) Inventory turnover = $\frac{\text{Cost of Sales}}{\text{Average Stock}} = 8$

Average Stock = $\frac{\text{Cost of Sales}}{8} = \frac{Rs.24,00,000}{8} = Rs.3,00,000$

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

Average Stock = $\frac{\text{Opening Stock + Opening Stock + 20,000}}{2}$

Average Stock = Opening Stock + Rs. 10,000

Opening Stock = Average Stock - Rs.10,000

= Rs. 3,00,000 - Rs.10,000

= Rs. 2,90,000

Closing Stock = Opening Stock + Rs. 20,000

= Rs. 2,90,000 + Rs. 20,000

= Rs. 3,10,000

(f) Payable turnover = $\frac{\text{Purchases}}{\text{Payables}} = 6$

Purchases = Cost of Sales + Increase in Stock

= Rs. 24,00,000 + Rs. 20,000

= Rs. 24,20,000

Payables = $\frac{\text{Purchase}}{6} = \frac{\text{Rs.}24{,}20{,}000}{6} = \text{Rs.}4{,}03{,}333$

(g) Capital turnover = $\frac{\text{Cost of Sales}}{\text{Capital Employed}} = 2$

Capital Employed = $\frac{\text{Cost of Sales}}{2} = \frac{\text{Rs.}24{,}00{,}000}{2} = Rs.12{,}00{,}000$

(h) Share Capital = Capital Employed – Reserves & Surplus

= Rs. 12,00,000 – Rs. 2,00,000 = Rs. 10,00,000

(7 MARKS)

Balance Sheet of Tirupati Ltd as on……………

Liabilities	**Amount (Rs.)**	**Assets**	**Amount (Rs.)**
Share Capital	10,00,000	Fixed Assets	3,00,000
Reserve & Surplus	2,00,000	Closing Inventories	3,10,000
Payables	4,03,333	Receivables	8,00,000
		Other Current Assets	1,93,333
	16,03,333		**16,03,333**

(Fixed Asset turnover, inventory turnover capital turnover is calculated on cost of sales)

(3 MARKS)

ANSWER -5

Net worth = Capital + Reserves and surplus

= 4,00,000 +6,00,000 =Rs.10,00,000

$$\frac{\text{Total Debt}}{\text{Networth}} = \frac{1}{2}$$

$\therefore$ Total debt = Rs. 5,00,000

Total Liability side = Rs. 4,00,000 +Rs. 6,00,000 +Rs. 5,00,000

= Rs. 15,00,000

= Total Assets

Total Assets Turnover = $\frac{\text{Sales}}{\text{Total Assets}}$

= $2 = \frac{\text{Sales}}{Rs.15,00,000}$

$\therefore$ Sales = Rs. 30,00,000

Gross Profit on Sales : 30% i.e. Rs. 9,00,000

$\therefore$ Cost of Goods Sold (COGS) = Rs. 30,00,000 – Rs. 9,00,000

= Rs. 21,00,000

Inventory turnover = $\frac{\text{COGS}}{\text{Inventory}}$

3 = $\frac{\text{Rs.21,00,000}}{\text{Inventory}}$

$\therefore$ Inventory = Rs. 7,00,000

Average collection period = $\frac{\text{Average debtors}}{\text{Sales/day}}$

4 = $\frac{\text{Debtors}}{Rs.30,00,000/360}$

$\therefore$ Debtors =Rs. 3,33,333

Acid test ratio = $\frac{\text{Current Assets - Stock (Quick Asset)}}{\text{Current Liabilities}}$

0.75 = $\frac{\text{Current Assets - Rs.7,00,000}}{Rs.5,00,000}$

$\therefore$ Current Assets = Rs.10,75,000.

$\therefore$ Fixed Assets = Total Assets – Current Assets

= Rs. 15,00,000 –Rs. 10,75,000 =Rs. 4,25,000

Cash and Bank balance = Current Assets – Inventory – Debtors

= Rs. 10,75,000 – Rs. 7,00,000 – Rs. 3,33,333

= Rs. 41,667.

(8*1 = 8 marks)

Balance Sheet as on March 31, 2016

Liabilities	**Rs.**	**Assets**	**Rs.**
Equity Share Capital	4,00,000	Plant and Machinery and other	
Reserves & Surplus	6,00,000	Fixed Assets	4,25,000
Total Debt:		Current Assets:	
Current liabilities	5,00,000	Inventory	7,00,000
		Debtors	3,33,333
		Cash	41,667
	15,00,000		**15,00,000**

(2 marks)