INTER CA – MAY 2018

Sub: Accountancy & FM
Topics: Hire purchase & Instalment selling, Branch Accounts, Estimation of Working Capital, Cash Budget, Cash Flow Statement.
Test Code – M14
Branch: MULTIPLE Date: 31.12.2017
(50 Marks)

*Note: **All** questions are compulsory.*

Question 1 (6 marks)

In the books of ABC Ltd.
New York Branch Trial Balance in (`)
as on 31st March, 2015
(6 marks)

	Conversion (`)	*Dr.* `	*Cr.* `
Stock on 1.4.14 **(1 mark)**	40	6,000	–
Purchases and sales **(1 mark)**	41	16,400	30,750
Sundry debtors and creditors **(1 mark)**	42	8,400	6,300
Bills of exchange **(1 mark)**	42	2,520	5,040
Sundry expenses **(1/2 mark)**	41	22,140	–
Bank balance **(1 mark)**	42	8,820	–
Delhi head office A/c **(1/2 mark)**	–	–	22,190
		64,280	64,280

Question 2 (4 Marks)

Statement showing differences between Hire Purchase and Installment System (1/2 mark for each point)

	Basis of Distinction	***Hire Purchase***	***Installment System***
1.	Governing Act	It is governed by Hire Purchase Act,1972.	It is governed by the Sale of Goods Act, 1930.
2.	Nature of Contract	It is an agreement of hiring.	It is an agreement of sale.
3.	Passing of Title (ownership)	The title to goods passes on last payment.	The title to goods passes immediately as in the case of usual sale.
4.	Right to Return goods	The hirer may return goods without further payment except for accrued installments.	Unless seller defaults, goods are not returnable.
5.	Seller's right to repossess	The seller may take possession of the goods if hirer is in default.	The seller can sue for price if the buyer is in default. He cannot take

			possession of the goods.
6.	Right of Disposal	Hirer cannot hire out sell, pledge or assign entitling transferee to retain possession as against the hire vendor.	The buyer may dispose of the goods and give good title to the bonafide purchaser.
7.	Responsibility for Risk of Loss	The hirer is not responsible for risk of loss of goods if he has taken reasonable precaution because the ownership has not yet transferred.	The buyer is responsible for risk of loss of goods because of the ownership has transferred.
8.	Name of Parties involved	The parties involved are called Hire purchaser and Hire vendor.	The parties involved are called buyer and seller.
9.	Component other than cash price	Component other than Cash Price included in installment is called Hire charges.	Component other than Cash Price included in Installment is called Interest.

Question 3 (6 Marks)

Machinery Account (3 marks)

		Rs.			Rs.
I Yr.	To Hire Vendor A/c	15,533	I Yr.	By Depreciation A/c	1,553
				By Balance c/d	13,980
		15,533			15,533
II Yr.	To Balance b/d	13,980	II Yr.	By Depreciation A/c*	1,398
				By Balance c/d	12,582
		13,980			13,980
III Yr.	To Balance b/d	12,582	III Yr.	By Depreciation A/c*	1,258
				By Hire Vendor	11,000
				By Profit & Loss A/c (Loss on Surrender)	324
		12,582			12,582

Hire Vendor Account (3 marks)

		Rs.			Rs.
I Yr.	To Bank A/c	6,000	I Yr.	By Machinery A/c	15,533
	To Balance c/d	12,639		By Interest A/c	3,106
		18,639			18,639
II Yr.	To Bank A/c	6,000	II Yr.	By Balance b/d	12,639
	To Balance c/d	9,167		By Interest A/c	2,528
		15,167			15,167
III Yr.	To Machinery A/c (transfer)	11,000	III Yr.	By Balance b/d	9,167
				By Interest A/c	1,833
		11,000			11,000

Note : Alternatively, total interest could have been debited to Interest Suspense A/c and credited to Hire Vendor A/c with consequential changes.

*It has been assumed that depreciation has been written off on written down value method. Alternatively straight line method may be assumed.

Depreciation has been directly credited to the Machinery Account; it could have been accumulated in provision for depreciation account.

Working Notes: (2 marks)

		Instalment Amount	Interest	Principal
4th Instalment		6,000	Rs.	Rs.
Interest	6,000 x 20/120	1,000	1,000	5,000
		5,000		
Add : 3rd Instalment		6,000		
		11,000		
Interest	11,000 x 20/120	1,833	1,833	4,167
		9,167		
Add : 2nd Instalment		6,000		
		15,167		
Interest	15,167 x 20/120	2,528	2,528	3,472
		12,639		
Add : Ist Instalment		6,000		
18369 x 20/120		18,639		
		3,106	3,106	2,894
		15,533	8,467	15,533

Question 4 (8 marks)

Particulars	Lakhs
1. Present Capital Employed = Equity + Debt = (200 + 140) + (360 + 200) [or] = Fixed Assets + NWC= 500 + (300 + 240 + 60 – 120 – 80) **Note:** Bank Borrowings are also included in the computation of capital Employed **(1 mark)**	900,00
2. Additional Capital reqd to meet extra sales = Capital Employed x % of sales Increase = ` 900 Lakhs x 20% **(1 mark)**	180
3. Internal Cash Accruals = Sales x Net Profit Ratio x After Dividend, i.e. Retention Rate = (` 600 Lakhs x 12%) x 4% NP Ratio x 50% post – dividend **(1 mark)**	14.40
4. External Funds required = Total Additional Funds required (Less) Internal Cash Accruals = (2 – 3) **(1 mark)**	165.60
5. Constrains for raising External Funds of ` 165.60 Lakhs (2 marks)	

(a) Current Ratio = $\frac{\text{Current Assets}}{\text{Current Liabilities}} = \frac{\text{(Inventories + Receivables + Cash) x 120\%}}{\text{(Payables+Provision) x 120\% + Short Term Bank Borrowings}} =$ 1.33 On Substitution, $\frac{(300 + 240 + 60) \text{ x } 120\%}{(120 + 80) \text{ x } 120\% + \text{Short Term Bank Borrowings}} = 1.33$ So, Short Term Bank Borrowings = $\frac{720-319.20}{1.33}$ = 301.35 Lakhs. Since existing Short Term Bank Borrowings = 200.00 Additional Borrowings = 301.35 – 200.00	101.35
(b) $\frac{\text{Fixed Assets}}{\text{Long TErm Loans}} = \frac{500 \text{ x } 120\%}{\text{Long Term Loans}}$ = 1.5 times. So, Long Term Loans = $\frac{600}{1.5}$ = 400.00 Lakhs Since existing Long Term Loans = 360.00, Additional Long – Term Loans = 400.00 – 360.00	40.00
6. Manner of raising additional capital: (Required = ` 180,000 Lakhs) (a) Internal Cash Accruals (WN 3) (b) Short Term Bank Borrowings (WN 5a) (c) Long Term Loans (WN 5b) (d) Equity Capital (balancing figure, on comparing with ` 180 Lakhs) **(1 mark)**	 14.40 101.35 40.00 24.25
Total Additional Funds Employed	**180.00**
7. Confirmation of Long Term Debt to Equity Ratio: Long Term Debt to Equity Ratio = $\frac{400}{(200.00 + 24.25 + 140.00 + 14.40)}$ = 1.05 times. **(1 mark)**	

Question 5 (8 marks)

Computation of Collection from Debtors (1 mark)

Particulars	Nov	Dec	Jan	Feb	Mar
Sales	` 18, 00,000	` 25,80,000	` 9,00,000	` 12,60,000	` 18,00,000
Receipt Pattern: 50%	50% x 18,00,000 = ` 9,00,000	50% x 25,80,000 = ` 12,90,000	50%x 9,00,000 = ` 4,50,000	50%x12,60,000 = ` 6,30,000	50%x18,00,00 = ` 9,00,000
40%		40% x 18,00,000 = ` 7,20,000	40% x25,80,000 = ` 10,32,000	40% x9,00,000 = ` 3,60,000	40%x12,60,00 0
9%			9%x18,00,000 = ` 1,62,000	9%x25,80,000 = ` 2,32,200	= ` 5,04,000 9%x9,00,000 = ` 81,000
Total Receipts			**` 16,44,000**	**` 12,22,200**	**` 14,85,000**

2. Computation of Closing Stock of RM required for Jan, Feb and Mar (1 mark)

Month	Closing Stock of RM = Next 3 months Sales x 50%	`
January	50% of (Feb+Mar+Apr) Sales = 50% of (` 12,60,000 + ` 18,00,000 + ` 16,20,000)	23,40,000
February	50% of (Mar+Apr+May) Sales = 50% of (` 18,00,000 + ` 16,20,000 + ` 14,40,000)	24,30,000
March	50% of (Apr+May+Jun) Sales = 50% of (` 16,20,000 + ` 14,40,000 + ` 12,00,000)	21,30,000

3. Computation of Purchases and Payment to Creditors (1 mark)

Particulars	Jan	Feb	Mar
Opening Stock of Raw Materials(` 25,20,000 - ` 90,000)	` 24,30,000	` 24,30,000	` 24,30,000
Add: Purchases(balancing figure) (by reverse working)	**` 3,60,000**	**` 7,20,000**	**` 6,00,000**
Sub – Total (derived by reverse working)	` 27,90,000	` 30,60,000	` 30,30,000
Less: Closing Stock of RM **(WN 2)** Next 3 months Sales x 50%	` 23,40,000	` 24,30,000	` 21,30,000
Raw Material Cost of Goods Sold = 50% of Sales	` 4,50,000	` 6,30,000	` 9,00,000
Payment to Creditors Previous month purchases	` 6,95,000	` 3,60,000	` 7,20,000

4. Cash Budget for the months of January, February and March (amount in `)(5 marks)

Particulars	Jan	Feb	Mar
A. Opening Balance	3,00,000	6,78,140	10,24,940
B. Receipts / Inflows			
Debtors (WN 1)	16,44,000	12,22,200	14,85,000
Sales of Obsolete Stock $\frac{`90,000}{50\%}$ x 75%	-	-	1,35,000
Sale of Machinery (given)	-	1,00,000	-

Total Receipts		**16,44,000**	**13,22,200**	**16,20,000**
C. Payments / Outflows				
Creditors	(WN 3)	6,95,000	3,60,000	7,20,000
Fixed and Variable Expenses	(given)	4,81,860	3,56,400	4,75,200
Equipment Repair Expenses	(given)	9,000	9,000	9,000
Ex-gratia	(given)	30,000	-	45,000
Dividends	(given)	-	-	1,20,000
Income Tax and Pf	(given)	50,000	50,000	1,00,000
Capital Expenditure	(given)	-	2,00,000	-
Loan Interest & Principle 8,40,000 + (8,40,000 x15% x $\frac{3}{12}$)		-	-	8,71,500
Total Payments		**12,65,860**	**9,75,400**	**23,40,700**
D. Closing Balance / (Overdraft) (A + B – C)		**6,78,140**	**10,24,940**	**3,04,240**

Question 6 (8 marks)

Projected Statement of Cash Flow for the year ended 31st March 20X8

	(Rs.)
Cash flow from Operating Activities	
Profit before taxation	1,04,500
Adjustments:	
Less: Profit on sale of machine (Rs. 38,000 – (Rs. 95,000 – Rs.66,500))	(9,500)
Add: Depreciation	1,14,000
Operating profit before working capital changes	2,09,000
Increase in Inventories & Trade receivable (Rs.5,60,500 – Rs.4,75,000)	(85,500)
Increase in Trade payables (Rs.1,48,200 – Rs.1,14,000)	34,200
Increase in Bills payable (Rs. 98,800 – Rs. 76,000)	22,800
Cash generated from operations	1,80,500
Less: Income tax paid*	Nil
Net Cash from Operating activities (A)	1,80,500
Cash flow from Investing Activities	
Purchase of plant	(1,90,000)
Sale of machine	38,000
Net cash from Investing activities (B)	(1,52,000)
Cash Flow from Financing Activities	
Dividend paid	(57,000)
Dividend distribution tax (Working note)	(19,000)
Net cash from Financing activities (C)	(76,000)
Net Increase/(Decrease) in cash and cash equivalents (A+B+C)	(47,500)
Cash and cash equivalent at the beginning of the year	66,500
Cash and cash equivalent at the end of the year	**19,000**

(2 marks) **(2 marks)** **(2 marks)**

* No information is given on corporate tax.

Working note:

Dividend distribution tax is paid on the gross amount of dividend paid. The gross dividend is calculated as : $\frac{\text{Dividend Payable}}{(1-\text{tax rate})}$

Gross Amount of Dividend = $\frac{\text{Rs. } 57,000}{(1-0.25)}$ = Rs.76,000

Dividend Distribution Tax = Rs.76,000 × 25% = Rs.19,000 **(2 marks)**

Question 7 (8 marks)

Cash Flow Statement
As on 31st March, 2015

	Amount(')	Amount(')
A. Cash Flow from Operating Activities (3 marks)		
Profit and Loss A/c(Closing)		
Less: Profit and Loss A/c(Opening)		
Add: Transfer to General Reserve	6,75,000	
Provision for Tax	4,50,000	
Proposed Dividend	9,10,000	20,35,000
Profit before Tax		24,10,000
Adjustment for Depreciation		
Land and Building (on building)	6,80,000	
Plant and Machinery	15,02,400	21,82,400
Loss on Sale of Plant and Machinery		1,75,000
Goodwill written off		2,25,000
Interest 13% Debentures		5,65,500
Premium on Redemption		1,45,000
Operating Profit before Working Capital Changes		57,02,900
Adjustment Working Capital Changes		
Decrease in Stock	5,50,000	
Increase in Debtors	(11,75,000)	
Increase in Current Liabilities	2,50,000	(3,75,000)
Cash generated from Operating		53,27,900
Income tax paid		(225,000)
Net Cash Inflow from Operating Activities (a)		51,02,900
B. Cash flow from Investing Activities (1mark)		
Sale of Investment		4,50,000
Sale of Plant and Machinery		6,25,000
Purchase of Plant and Machinery		(55,85,400)
Net Cash Inflow from Operating Activities (b)		(45,10,400)
C. Cash flow from Financing Activities(1 ½ marks)		
Issue of Equity Shares		27,50,000
Redemption of Debentures		(14,50,000)
Redemption of Debentures at premium		(1,45,000)
Dividend Paid		(7,50,000)
Interest paid to Debentures holders		(5,65,500)
Net Cash Outflow from Financing Activities (c)		(1,60,500)
Net increase in Cash and Cash Equivalent during the year **(a+b+c)**		4,32,000
Cash and Cash Equivalent at the beginning of the year		14,93,000
Cash and Cash Equivalent at the end of the year		19,25,000

Working Notes:

1. Provision for the Tax Account (1/2 mark)

To Bank(paid)	2,25,000	By Balance b/d	22,50,000
To Balance c/d	24,75,000	By Profit and Loss A/c (Provision)	4,50,000
	27,00,000		27,00,000

2. Investment Account (1/2 mark)

To Balance b/d	25,00,000	By Bank A/c (bal Figure sale)	4,50,000
To General Reserve A/c (Profit on Sale)	75,000	By Balance c/d	21,25,000
	25,75,000		25,75,000

3. Plant and Machinery Account (1/2 mark)

To Balance b/d	75,12,000	By Bank (Sale)	6,25,000
To Bank A/c (Purchase –Bal. figure)	55,85,400	By Profit and Loss A/c (Loss on sale)	1,75,000
		By Profit and Loss A/c (Depreciation)	15,02,400
		By Balance c/d	1,07,95,000
	1,30,97,400		1,30,97,400

4. Proposed Dividend Account (1/2 mark)

To Bank(paid)	7,50,000	By Balance b/d	7,50,000
To Balance c/d	9,10,000	By Profit and Loss A/c	9,10,000
	16,60,000		16,60,000

5. **General Reserve Account (1/2mark)**

		By Balance b/d	42,50,000
		By Profit & Loss (transfer from)	6,75,000
To Balance c/d	50,00,000	By Investment (Gain on Sale)	75,000
	50,00,000		50,00,000

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