CA INTERMEDIATE

SUBJECT- F.M.

Test Code – CIM 8509

(Date :)

(Marks - 50)

TOPICS: Ratio, Leverage

QUESTION 1(A) (4 MARKS)

The total sales (all credit) of a firm are Rs. 6,40,000. It has a gross profit margin of 15 per cent and a current ratio of 2.5. The firm's current liabilities are Rs. 96,000; inventories Rs. 48,000 and cash Rs. 16,000. (a) **Determine the average inventory** to be carried by the firm, if an inventory turnover of 5 times is expected? (Assume a 360 day year). (b) **Determine the average collection period** if the opening balance of debtors is intended to be of Rs. 80,000? (Assume a 360 day year).

QUESTION 1(B) (7 MARKS)

XY Ltd. provides the following information for the year ending 31st March, 2017:

Equity Share Capital	Rs. 8,00,000
Closing Stock	Rs. 1,50,000
Stock Turnover Ratio	5 times
Gross profit ratio	20%
Net profit/Sales	16%
Net Profit/Capital	25%
Equity Share Capital	Rs.8,00,000

You are required to prepare:

Trading and Profit & Loss Account for the year ending 31st March, 2017.

QUESTION 1(C) (5 MARKS)

Consider the following information for Omega Ltd.:

	Rs. in lakhs
EBIT (Earnings before Interest and Tax)	15,750
Earnings before Tax (EBT):	7,000
Fixed Operating costs:	1,575

Required:

Calculate percentage change in earnings per share, if sales increase by 5%.

QUESTION 2(A) **(4 MARKS)**

A company is presently working with an Earnings before interest and taxes (EBIT) of Rs. 15 lacs. Its present borrowings are:

	Rs. (in lacs)
15% Term-loan	50
Borrowing from bank @ 20%	33
Public deposit @ 14%	15

The sales of the company are growing and to support this the company proposes to obtain additional borrowings from bank of Rs. 25 lacs. The increase in EBIT is expected to be 20%. **Calculate the change in interest coverage ratio after the additional borrow-ing and commitment**.

QUESTION 2(B) **(10 MARKS)**

The capital structure of ABC Ltd. as at 31.3.15 consisted of ordinary share capital of Rs.5,00,000 (face value Rs. 100 each) and 10% debentures of Rs. 5,00,000 (Rs. 100 each).In the year ended with March 15, sales decreased from 60,000 units to 50,000 units. During this year and in the previous year, the selling price was Rs. 12 per unit; variable cost stood at Rs. 8 per unit and fixed expenses were at Rs. 1,00,000 p.a. The income tax rate was 30%.

You are required to calculate the following:

(i) The percentage of decrease in earnings per share.

(ii) The degree of operating leverage at 60,000 units and 50,000 units.

(iii) The degree of financial leverage at 60,000 units and 50,000 units.

QUESTION 2(C) **(5 MARKS)**

Following information are related to four firms of the same industry:

Firm	**Change in Revenue**	**Change in Operating Income**	**Change in Earning per Share**
P	27%	25%	30%
Q	25%	32%	24%
R	23%	36%	21%
S	21%	40%	23%

Find out:

(i) degree of operating leverage, and

(ii) degree of combined leverage for all the firms.

QUESTION 3 **(10 MARKS)**

The following are the Ratios extracted from the Balance Sheet of a company as at 31st December, 2010. **Draw up the Balance Sheet of the firm.**

Current liabilities	1.0
Current Assets	2.5
Working Capital	Rs. 3,00,000
Liquidity Ratio	1.5
Stock Turnover Ratio	6
Gross Profit Ratio	20%
Debt Collection period	2 months
Shareholders' Capital	Rs. 5,00,000
Reserve and Surplus	Rs. 2,50,000
Fixed Asset Turnover (on Cost of Sales)	2

QUESTION 4 **(5 MARKS)**

From the following financial data of Company A and Company B: **Prepare their Income Statements.**

	Company A (Rs.)	**Company B (Rs.)**
Variable Cost	56,000	60% of sales
Fixed Cost	20,000	-
Interest Expenses	12,000	9,000
Financial Leverage	5 : 1	-
Operating Leverage	-	4 : 1
Income Tax Rate	30%	30%
Sales	-	1,05,000