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IPCC NOVEMBER 2016 EXAM

FINANCIAL MANAGEMENT

Test Code - I N J 1 0 8 0

BRANCH - (MULTIPLE) (Date : 11.09.2016)

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Answer-1 :

(a) Schedule of Changes in Working Capital

Particulars	31.3.08	31.3.09 Effect on Working Capital		
	Rs.	Rs.	Increase Rs.	Decrease Rs.
Current Assets:				
Stock	3,60,000	3,50,000	-	10,000
Debtors	3,00,000	3,90,000	90,000	-
Cash and Bank	1,00,000	95,000	-	5,000
Prepaid Expenses	<u>15,000</u>	<u>20,000</u>	5,000	-
Total (A)	<u>7,75,000</u>	<u>8,55,000</u>		
Current Liabilities:				
Creditors	2,05,000	3,00,000	-	95,000
Bills Payable	<u>45,000</u>	<u>81,000</u>	-	36,000
Total (B)	<u>2,50,000</u>	<u>3,81,000</u>		
Net Working Capital (A-B)	5,25,000	4,74,000	-	
Net Decrease in Working Capital	-	51,000	51,000	-
	5,25,000	5,25,000	1,46,000	1,46,000

(6 Marks)

(b) Funds Flow Statement for the year ended 31st March, 2009

	Rs.
Sources of Fund	
Funds from Operation	7,49,000
Issue of 9% Preference Shares	5,00,000
Sales of Plant & Machinery	32,000
Refund of Income Tax	<u>4,000</u>
Financial Resources Provided (A)	<u>12,85,000</u>
Applications of Fund	
Purchase of Land and Building	1,50,000
Purchase of Plant and Machinery	3,60,000
Redemption of Debentures	2,06,000
Redemption of Preference Shares	3,15,000
Payment of Tax	1,05,000
Payment of Interim Dividend	50,000
Payment of Dividend (2007-08)	<u>1,50,000</u>
Financial Resources Applied (B)	<u>13,36,000</u>
Net Decrease in Working Capital (A - B)	51,000

(6 Marks)

Working Notes:

	Rs.
Estimation of Funds from Operation	
Profit and Loss A/c Balance on 31.3.2009	3,00,000
Add: Depreciation on Land and Building	50,000
Depreciation on Plant and Machinery	1,20,000
Loss on Sale of Plant and Machinery (40,000 – 32,000)	8,000
Preliminary Expenses written off (40,000 – 35,000)	5,000
Transfer to General Reserve	50,000
Proposed Dividend	2,60,000
Provision for Taxation	1,06,000
Interim Dividend paid	<u>50,000</u>
	<u>6,49,000</u>
	9,49,000
Less: Profit and Loss A/c balance on 31.3.08	<u>2,00,000</u>
Funds from Operation	<u>7,49,000</u>

(2 Marks)

Plant & Machinery A/c

	Rs.		Rs.
To Balance b/d	9,00,000	By Depreciation	1,20,000
To Bank [Purchase (Bal. Fig.)]	3,60,000	By Bank (Sale)	32,000
		By P/L A/c (Loss on Sale)	8,000
		By Balance c/d	11,00,000
	12,60,000		12,60,000

Provision for Taxation A/c

	Rs.		Rs.
To Advance tax payment A/c	76,000	By Balance b/d	70,000
To Balance c/d	1,00,000	By P/L A/c (additional provision for 2007-08)	6,000
		By P/L A/c (Provision for 08-09)	1,00,000
	1,76,000		1,76,000

Advance Tax Payment A/c

	Rs.		Rs.
To Balance b/d	80,000	By Provision for taxation A/c	76,000
To Bank (paid for 08-09)	1,05,000	By Bank (Refund of tax)	4,000
		By Balance c/d	1,05,000
	1,85,000		1,85,000

8% Debentures A/c

	Rs.		Rs.
To Bank (2,00,000 x 103%)(redemption)	2,06,000	By Balance b/d	3,00,000
		By Premium on redemption of Debentures A/c	6,000
To Balance c/d	1,00,000		
	3,06,000		3,06,000

(4 x 0.5 = 2 marks)

9% Preference Share Capital A/c

	Rs.		Rs.
To Bank A/c (3,00,000 x 105%) (redemption)	3,15,000	By Balance b/d	3,00,000
To Balance c/d	5,00,000	By Premium on redemption of Preference shares A/c	15,000
		By Bank (Issue)	5,00,000
	8,15,000		8,15,000

Securities Premium A/c

	Rs.		Rs.
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To Premium on redemption of debentures A/c.	6,000	By Balance b/d	25,000
To Premium on redemption of preference shares A/c	15,000		
To Balance c/d	4,000		
	25,000		25,000

General Reserve A/c

	Rs.		Rs.
To Bonus to Shareholders A/c	2,00,000	By Balance b/d	3,50,000
To Balance c/d	2,00,000	By P/L A/c (transfer) b/f	50,000
	4,00,000		4,00,000

Land and Building A/c

	Rs.		Rs.
To Balance b/d	6,00,000	By Depreciation	50,000
To Bank (Purchase) (Bal. Fig.)	1,50,000	By Balance c/d	7,00,000
	7,50,000		7,50,000

Answer-2 :

Preparation of Statement of Cash Flow for XYZ Limited

Cash flow statement as per AS 3 for the year ending 31st March, 2011

(a) Cash flow from Operating Activities	Rs.	Rs.
Profit before tax (2,75,000 + 1,70,000)	4,45,000	
Add: Depreciation on machinery	80,000	
Foreign exchange loss	1,600	
Preliminary expenses written off	<u>20,000</u>	
Cash flow before working capital adjustment	5,46,600	
Add: Stock obtained on acquisition	25,000	
Increase in Current Liabilities	2,60,000	
Less: Increase in current assets	<u>(2,31,000)</u>	
Cash flow before tax paid	6,00,600	
Less: Tax paid	(1,40,000)	
Cash flow from operating activities		4,60,600
(b) Cash flow from Investing Activities		
Purchase of Machinery	(95,000)	
Purchase of investment	<u>(80,000)</u>	(1,75,000)
(c) Cash flow from Financing Activities		
Issue of shares at premium	1,10,000	
Payment of dividend (1,60,000)		
Redemption of preference shares at premium	<u>(2,20,000)</u>	(2,70,000)
Net increase/decrease in cash and cash equivalent(a+b+c)		15,600
Cash and cash equivalent at the beginning of the year		1,50,000
Cash and cash equivalent at the end of the year		1,65,600

(6 Marks)

Working Notes:**1. Plant and Machinery Account**

	Rs.		Rs.
To balance b/d	7,00,000	By depreciation	80,000
To bank	95,000		
To acquired from other	1,05,000	By balance c/f	8,20,000
	9,00,000		9,00,000

2. Provision for Tax Account

	Rs.		Rs.
To bank	1,40,000	By balance b/d	1,50,000
To balance c/f	1,80,000	By P & L	1,70,000
	3,20,000		3,20,000

3. Profit for the year 2011

	Rs.
P&L Account (1,75,000-1,30,000)	45,000
Transfer to general reserve (1,20,000+1,00,000 for redemption-opening2,00,000)	20,000
Proposed dividend	<u>2,10,000</u>
Net Profit	2,75,000

4. Cash and Cash Equivalent

Opening balance + short term investment = Rs. 1,00,000 + Rs. 50,000 = Rs. 1,50,000

Closing balance = Closing cash + short term investment + foreign exchange loss

= Rs. 80,000+Rs. 84,000+Rs. 1,600=Rs. 1,65,600

(4 x 1 = 4 Marks)

Answer-3 (a) :

Computation of Rate of Interest and Revised Maturity Value

Principal = Rs. 10,000

Amount = Rs. 12,625

$$10,000 = \frac{12,625}{(1+i)^4}$$

$$P_n = A \times (PVF_{n,i})$$

$$10,000 = 12,625 (PVF_{4,i})$$

$$0.7921 = (PVF_{4,i})$$

According to the Table on Present Value Factor (PVF_{4,i}) of a lump sum of Re. 1, a PVF of 0.7921 for half year at interest (i) = 6 percent. Therefore, the annual interest rate is 2 x 0.06 = 12 percent.

i = 6% for half year

i = 12% for full year.

Therefore, Rate of Interest = 12% per annum

$$\text{Revised Maturity Value} = 10,000 \left(1 + \frac{12}{100} \times \frac{1}{4}\right)^{2 \times 4} = 10,000 \left(1 + \frac{3}{100}\right)^8 = 10,000 (1.03)^8$$

$$= 10,000 \times 1.267 \text{ [Considering } (CVF_{8,3}) = 1.267]$$

Revised Maturity Value = 12,670.

(6 Marks)

Answer-3 (b) :

Cash flow Statement of X Ltd. for the year ending 31.03.2012

(A)	Cash flow from Operating Activities :	(Rs.)	(Rs.)
	Net Profit before Tax (80,000 + 50,000 + 1,78,000)	3,08,000	
	Add : Depreciation	2,05,000	
	Loss on Sale of Machine	15,000	
	Interest Paid on Debentures	14,000	
	Preliminary Expenses written off	<u>10,000</u>	
	Cash flow before working capital adjustments	5,52,000	
	(-) Increase in Stock	(1,85,000)	
	(-) Increase in Debtors	(2,55,000)	
	(+) Increase in Creditors	65,000	
	Cash flow from Operating Activities	1,77,000	
	Less : Tax paid	<u>(1,58,000)</u>	19,000
(B)	Cash flow from Investing Activities		
	Sale of Machine	65,000	
	Purchase of Fixed Assets	<u>(1,10,000)</u>	
	Net cash used in Investing activities		(45,000)
(C)	Cash flow from Financing activities		
	Issue of Equity Shares	2,00,000	
	Redemption of Debentures	(1,05,000)	
	Interest paid on Debentures	<u>(14,000)</u>	
	Net cash used in Financing Activities		81,000
	Net Increase in Cash and Cash Equivalent during year		55,000
	Add : Opening Balance of Cash		1,25,000
	Closing Balance of Cash		1,80,000

(5 Marks)

Working Notes:

Fixed Assets Account

To Balance b/d	20,50,000	By Bank	65,000
To Bank	1,10,000	By P&L a/c	15,000
		By Depreciation a/c	2,05,000
		By Balance c/d	18,75,000
21,60,000		21,60,000	

Provision for Tax

To Balance b/d	1,58,000	By balance c/d	1,45,000
To Bank	1,65,000	By P & L a/c	1,78,000
3,23,000		3,23,000	

General Reserve A/c

To Equity share capital a/c	2,00,000	By Balance b/d	7,50,000
To Balance c/d	6,00,000	By P & L a/c	50,000
8,00,000		8,00,000	

(3 Marks)

Answer-4 :**Preparation of Monthly Cash Budget****Cash Budget for four months from June, 2014 to September, 2014**

Particulars	June (Rs.)	July (Rs.)	August (Rs.)	September (Rs.)
Opening Balance	45,000	45,500	45,500	45,000
Receipts:				
Cash Sales	1,00,000	98,000	1,08,000	1,22,000
Collection from debtors	3,48,000	3,80,000	3,96,000	4,12,000
Dividends	25,000	-	-	-
Total (A)	5,18,000	5,23,500	5,49,500	5,79,000
Payments:				
Creditors for Materials	2,00,000	2,10,000	2,60,000	2,82,000
Wages	1,62,500	1,65,000	1,65,000	1,67,500
Overheads	40,000	38,000	37,500	60,800
Installment for Machine	-	20,000	20,000	20,000
Interest on Debentures	30,000	-	-	-
Advance Tax	-	-	15,000	-
Total (B)	4,32,500	4,33,000	4,97,500	5,30,300
Surplus (A – B)	85,500	90,500	52,000	48,700
Fixed Deposits	40,000	45,000	7,000	3,000
Closing Balance	45,500	45,500	45,000	45,700

(8 Marks)**Working Notes:****(1) Cash Sales and Collection from Debtors:**

Month	Total Sales Rs.	Cash Sales Rs.	Credit Sales Rs.	Collection from Debtors			
				June Rs.	July Rs.	Aug. Rs.	Sept. Rs.
April, 2010	4,20,000	84,000	3,36,000	1,68,000	-	-	-
May, 2010	4,50,000	90,000	3,60,000	1,80,000	1,80,000	-	-
June, 2010	5,00,000	1,00,000	4,00,000	-	2,00,000	2,00,000	-
July, 2010	4,90,000	98,000	3,92,000	-	-	1,96,000	1,96,000
Aug., 2010	5,40,000	1,08,000	4,32,000	-	-	-	2,16,000
Sept., 2010	6,10,000	1,22,000	4,88,000	-	-	-	-
			Total	3,48,000	3,80,000	3,96,000	4,12,000

(1 Mark)**(2) Payment of Wages**

June = 80,000 + 82,500 = 1,62,500;

July = 82,500 + 82,500 = 1,65,000;

Aug. = 82,500 + 82,500 = 1,65,000; and

Sept. = 82,500 + 85,000 = 1,67,500.

(Note: It has been assumed that the company wants to keep minimum cash balance of Rs. 45,000.)**(1 Mark)**