MANAGEMENT ACCOUNTING

Definition, Objectives, Nature and Scope.

Relationship between FA, CA and MA

Meaning and Definition

- It is a Modern Concept of Accounting
- Deals with simplification of Accounting Information of a firm to help the Management in Decision Making.(PODCC)
- According to Robert Anthony “MA is concerned with accounting information that is useful to Management”

Objectives of MA

- To help Management in Decision Making
- To help in Comparison
- To help in Forecasting
- To help in Controlling
- To help in Coordinating
- To simplify big data
- To provide meaningful required data and analysis

Nature and Scope

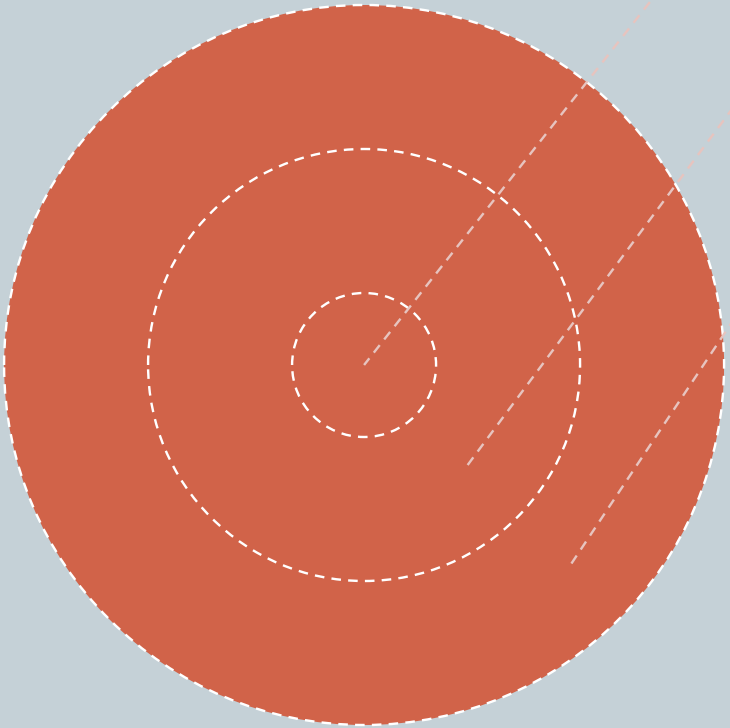
Nature	Scope
Useful in DM	Budgeting
It is Derived out of FA and CA	Tax planning
Only for Internal purpose Usage	Reporting to Management
It is Optional	Statistical Tools
Flexibility in Preparation	Financial Tools
Concerned with Forecasting	

Relationship between FA,CA & MA

MA- Assisting Management in Planning, Decision Making and Controlling

CA- Analysis of Cost, Estimation, Control and Maximising Efficiency

FA- Preparation of Balance Sheet and P&L A/c



Techniques of Management Accounting

- Ratio Analysis
- Fund Flow Statement
- Cash Flow Statement
- Budgeting
- Marginal Costing and CVP Analysis
- Standard Costing and variance Analysis
- Financial Statement Analysis
- Responsibility Accounting
- Differential Cost Analysis

Advantages of MA

- (i) Provides data: Management accounting serves as a vital source of data for management planning. The accounts and documents are a repository of a vast quantity of data about the past progress of the enterprise, which are a must for making forecasts for the future.
- (ii) Modifies data: The accounting data required for managerial decisions is properly compiled and classified. For example, purchase figures for different months may be classified to know total purchases made during each period product-wise, supplier-wise and territory-wise.

Advantages of MA

- (iii) Analyses and interprets data: The accounting data is analyzed meaningfully for effective planning and decision-making. For this purpose the data is presented in a comparative form. Ratios are calculated and likely trends are projected.
- (iv) Serves as a means of communicating: Management accounting provides a means of communicating management plans upward, downward and outward through the organization. Initially, it means identifying the feasibility and consistency of the various segments of 8 the plan. At later stages it keeps all parties informed about the plans that have been agreed upon and their roles in these plans.

Advantages of MA

- (v) Facilitates control: Management accounting helps in translating given objectives and strategy into specified goals for attainment by a specified time and secures effective accomplishment of these goals in an efficient manner. All this is made possible through budgetary control and standard costing which is an integral part of management accounting.
- (vi) Uses also qualitative information: Management accounting does not restrict itself to financial data for helping the management in decision making but also uses such information which may not be capable of being measured in monetary terms. Such information may be collected form special surveys, statistical compilations, engineering records, etc

Limitations of MA

- Based on Historical Data
- Very Expensive
- Skilled exercise
- Assumptions based
- Lack of sufficient knowledge
- Personal Bias

Management Reporting

- management reporting can be expressed broadly as **reports that management uses to run the organization, make business decisions, and monitor progress**. Management reports help managers monitor the smaller details of their department.

Requisites of Good Reporting System

1. Promptness: It means that report must be prepared and presented on time.
2. From and content: A good report should have a suggestive title, headings, sub-headings, paragraph divisions, statistical figures, facts, dated etc.
3. Comparability: Reports are also meant for comparison.
4. Consistency: consistency envisages the presentation of the same type of information as between different reporting periods. Uniform procedure should be followed over period of time.

Requisites of Good Reporting System

5. Simplicity: The report should be in a simple unambiguous and concise form
6. Controllability: It is necessary that every report should be addressed to a responsibility center and present controllable and uncontrollable factors separately.
7. Appropriateness: Reports are sent to different levels of management and the form should be designed to suit the respective levels.
8. Cost considerations: The cost of maintaining the reporting system should commensurate with the benefits derived there form.
9. Accuracy: The report should be reasonably accurate.

Requisites of Good Reporting System

Principles of Good Reporting System

- A good reporting system is helpful to the management in planning and controlling. Every level of management needs information relating to its activities center so that effective planning may be undertaken and current activities may be controlled and necessary corrective action may also Notes be taken in time, if needed.
- Some general principles are followed for making the reporting system effective. These principles are discussed below:

Principles of Good Reporting System

- Proper Flow of Information:A good reporting system should have a proper flow of information. The information should flow from the proper place to the right levels of management. The information should be sent in the right form and at proper time so that it helps in planning and coordination.
- Proper Timing:Since reports are used as a controlling device they should be presented at the earliest or immediately after the happenings of an event. The time required for preparation of reports should be reduced to the minimum; for routine reports the period should be known and strictly adhered to. It will be a waste of time and effort to prepare information that is too late to be of any use

Principles of Good Reporting System

- Accurate Information: The information should be as accurate as possible. However, the degree of accuracy may differ in different reports. Sometimes, part information may be supplied as a guide for future policy making, so the degree of accuracy may be less. The supply of exact figures may involve a problem of understanding.
- Basis of Comparison: The information supplied through reports will be more useful when it is supplied in comparison with past figures, standards set or objectives laid down

Principles of Good Reporting System

- Reports should be Clear and Simple: The information should be presented in a clear manner by avoiding extraneous data. Only relevant important information should become the part of a report. If supporting information cannot be avoided, then it should be given in appendix or separate chart should be attached to it.
- Cost: The benefits derived from reporting system must be commensurate with the cost involved in it.
- Evaluation of Responsibility: The reporting system should enable the evaluation of managerial responsibility. So, management reporting should be devised in a way that it helps in evaluating the work assigned to various persons.

Kinds of Reports

The managerial reports can be classified.

A. On the basis purpose of the management.

B. On the basis of period of submission.

C. On basis of operations of the organization and.

D. On the basis of administrative needs of the management

Kinds of Reports

A. On the basis of need and situation or users of the report it can be classified as

1. Internal Report
2. External Report

Classification of Reporting According to the users or purpose or Need of the situation

1.Internal report:

Reports prepared for use of the internal people like directors, managers, supervisors, etc. for the purpose of decision making is said to be internal reports, Internal report are not meant for public circulation. therefore, they need not conform to any legal standards further, such report can be categorized as internal report for.

a. Top level management,

b. Middle level management and

c. Lower level management

2.External Reports: A reports prepared for the use of out spiders is known as external report. Report meant for persons outside the business, such as govt, the creditors the shareholders, the bank and financial institutions, stock exchange, company registrar, court of law and the general public.

Kinds of Reports

B. submission reports can be classified into two kinds.: 1.Routine reports and 2.Special report.

1. Routine Reports:

Reports prepared on a certain period is said to be routine reports. It covers the day-to-day aspect of the departmental activities. they are submitted to different level of management as per the fixed time schedule.

2.Special Reports:

Special reports are those, which are preparation for the specials purpose. It is generally situation based.

Kinds of Reports

C. Classification of Reports According to the Function or Operation: Based on operation of a concerns reports can be classified as 1. Functional report and 2. Financial reports

Kinds of Reports

1. Functional Reports; Functional or operating reports are report which provide information about the operations at different functional level of the concern.
2. Financial Report; It is a report on the financial performance of a concern on given accounting date. It provides useful information about the financial position of the concern.

Drafting of Reports under different situations

Ratio Analysis - Meaning and Definition

- Ratio – Mathematical relationship between one number and another.
- Ratio Analysis – It is a mathematical tool used in accounting to establish the relationship between one item with another Eg: Current Asset Vs Current Liabilities.

Uses and Limitation

Uses	Limitations
1. Helps in Decision Making	1. Very Expensive
2. Helps in Comparison	2. No Standard Methods
3. Helps in Forecasting	3. Sometimes assumptions plays role
4. Helps is Reporting and Communicating	4. Value of price, time factor is not considered.
5. Helps to coordinate and control	5. Only quantitative aspects are taken and not qualitative aspects
6. Simplifies Complex Financial data	6. It suits large scale business organizations
	7. It is not compulsory

Classification of Ratios

Nature	Objective
Balance Sheet Ratios or Position ratios	Liquidity Ratios / Short term Solvency ratios
Income Statement Ratios or Performance Ratios	Capital Structure Ratios
Combined Ratios	Activity ratios
	Turnover Ratios
	Profitability Ratios

Types of Ratios

Liquidity Ratios	Capital Structure Ratios	Activity Ratios	Profitability Ratios
Current Ratios	Debt Equity Ratios	Stock Turn over Ratios	G.P Ratio
Quick Ratios	Net-worth Ratios	Debtors turn over Ratios	N.P Ratio
Absolute Liquid Ratios	Fixed Assets to Net-worth Ratio	Creditor Turnover Ratios	Operating Profit Ratio
	Current Asset to Net-worth ratios	Fixed Assets Trun over Ratios	Operating Ratio
	Capital Gearing Ratio	Cash Turnover Ratios	P/E ratio

Liquidity ratios (Short term Solvency Ratios)

1. Current Ratio:

- Meaning – This ratio is also called as working capital ratio, this ratio gives the numerical measures of Current Asset with Current Liability.
- Formula = $\frac{\text{Current Assets}}{\text{Current Liabilities}}$

Current Assets include : cash in hand, cash at bank, debtors(less provision), bills receivables, short term marketable securities/investments, stock and pre-paid expenses

Current Liabilities include : creditors, BP, OD, tax payable, dividends payable and out-standing expenses.

Liquidity ratios (Short term Solvency Ratios)

2.Quick Ratio(Acid test Ratio/Liquid Ratio) – this ratio shows the ability of the business to meet its immediate financial commitments.

Quick ratio = Quick Assets/ Quick liabilities

Quick assets = CA- (Stock + prepaid exp's)

Quick Liabilities = CL - Bank O.D

3. Absolute Liquid Ratio

$$\frac{\text{Cash in hand + Cash at Bank +Short term investments}}{\text{Current Liabilities}}$$

ILLUSTRATION No 1 Page No 4.5 MN Arora

Calculation of Current Ratio.
Current Ratio = Current Assets / Current Liabilities

Current Assets

Short Term Invt's	=16,000
stock intrade	=50,000
Debtore	=59,000
Pre-parid exp's	= 1,000
cash in hand	= 4,000
Total	= 1,30,000

Current Liabilities

Creditors	=48,000
BP	=10,000
Bank OD	= 5,000
O/s Exp's	= 2,000
	65,000

CR= CA/CL
CR= 1,30,000/65,000 =2:1
the stad ratio of CR = 2:1. the firm's Current solvency or shortterm solvency satisfies the standard of CR. Hence, the firms liquidity position is satisfactory.

ILLUSTRATION No 1 Page No 4.5 MN Arora

Quick Ratio or Acid test ratio or Liquid ratio
QR= QA/QL
QA =CA- (Stock+pre paid Exp's)
QA = 1,30,000 - (50,000 + 1,000)
QA = 1,30,000 - 51,000
QA = 79,000
QL = CL- Bank OD
QL = 65,000-5,000
QL = 60,000
QR = 79,000/60000 = 1.31:1
the Quick Ratio standard is 1:1
the firm posess QR above the standard.
hence, the short term solvency of the firm is satisfactory.

Absolute Liquid Ratio=
CIH+CAB+SMI / CL
CIH = 4,000
CAB = 0
SMI = 16,000
20,000

ALR = 20,000/ 65,000
0.30:1
the ALR standard is 0.5:1
the firm does not satisfies with the standards. hence we can conclude the the immediate short term obligation of the is not satisfactory.

Illustrations

- BBA\Management Accounting\Chapter_9_Ratio_Analysis.pdf

Illustrations

- 1. CR= 3.75, working Capital is Rs.3,57,500. Calculate CA and CL.
- 2. CR =2.5, CA=1,00,000 and QR=1.5, calculate CL and Stock.
- 3. CR =2.5, Working Capital Rs.9,00,000. Calculate CA and CL.
- 4. CL Rs.3,00,000, CR=3:1 and QR=0.75:1 calculate the value of stock.
- 5. CR=3.5, Acid test ratio 1.5 and Net working Capital= Rs.6,50,000 Calculate CA, Cl and Liquid assets

Solution -1

WC= CA-CL,

CA=3.75 and CL =1

CA-CL= 3.75-1= 2.75

if 2.75 ---------- is 3,57,500

1---------- ?

$\frac{1 \times 3,57,500}{2.75} = 1,30,000.$ (CL)

if 1-----1,30,000

3.75------ ?

3.75x1,30,000 = 4,87,500 (CA)

Solution - 2

Stock = CA-QA

Given, CA= 2.5 and QA= 1.5

If 2.5----------1,00,000

1.5---------- ?

$\frac{1.5 \times 1,00,000}{2.5}$ =60,000

Therefore, 1,00,000 – 60,000 = 40,000 (Stock)

Solution - 3

WC=CA-CL CA=2.5 and CL=1

WC=2.5-1=1.5

WC—1.5-------9,00,000

1--------- ?

$\frac{1 \times 9,00,000}{1.5}$ = 6,00,000 (CL)

If 1 ---------- 6,00,000

2.5--------- ?

Therefore, $\frac{2.5 \times 6,00,000}{1}$ = 15,00,000 (CA)

Solution - 4

Stock= CA-QA

CR=CA:CL = 3:1, QR=QA:QL =0.75:1

CA= 3, QA= 0.75

Stock = 3-0.75=2.25

if CL –1---------- 3,00,000

Stock – 2.25------- ?

2.25 x 3,00,000 = 6,75,000 (Stock)

3 x 3,00,000 = 9,00,000 (CA)

0.75 x 3,00,000 = 2,25,000 (QA)

Solution - 5

WC= CA-CL (Given CR= 3.5:1)

WC = 3.5 – 1 = 2.5

If 2.5----------6,50,000

1 ---------- ?

$\frac{1 \times 6,50,000}{2.5}$ = 2,60,000 (CL)

if 1---------- 2,60,000

3.5 ---------- ?

$\frac{3.5 \times 2,60,000}{1}$=9,10,000 (CA)

If 1 ---------- 2,60,000

1.5 --------- ?

$\frac{1.5 \times 2,60,000}{1}$ = 3,90,000 (QA)

Capital Structure or Long term solvency Ratio

Capital Structure Ratio- These ratios are also called as Long term Solvency Ratios and Gearing ratios or Leverage Ratios. This ratio measures the long term solvency of a firm. There are 2 aspects of the long term solvency.

1. ability to pay Principal amount when it is due.
2. regular payment of interest.

Following are some of the Long term ratios.

1. Debt Equity Ratio
2. Proprietary Ratio
3. Interest Coverage Ratio
4. Debt to Total Funds Ratio
5. Capital Gearing Ratio.

Debt Equity Ratio

There are two methods of calculating Debt Equity ratios .(1:1 is the General Standard applicable)

1. DER = $\frac{\text{Long Term Debts}}{\text{Share Holders Funds}}$

Long term Debts = Debentures + Long term Loans

Share Holders funds = Equity Share Capital + Preference Share capital + P&L A/c Bal (Cr) + General reserve + Reserve Fund + Capital Reserve + any other reserves of funds belonging to share holder – (P&L a/c Bal (Dr) + Preliminary expenses)

Debt Equity Ratio

DER = Total Debts(Short term Debts+ Long term Debts)

Share Holders funds

Or

Internal Equities

External Equities

Long term Debt = Debentures + Long term Loans

Short Term Debts = all Current Liabilities

Share Holders Funds =Equity Share Capital + Preference Share capital + P&L A/c Bal (Cr) + General reserve + Reserve Fund + Capital Reserve + any other reserves of funds belonging to share holder – (P&L a/c Bal (Dr) + Preliminary expenses)

Proprietary ratio

This Ratio measures the relation ship between Shareholders funds and Total Assets. It also indicates the extent to that share holders own the assets of the business. If PR is higher(to some extent) it establishes the long term stability and greater protection of the firm.

$$PR = \frac{\text{Share Holders funds}}{\text{Total Assets}}$$

Interest Coverage ratio

This ratio indicates whether the business earns sufficient profit to pay periodically the interest charges. It indicates the ability of the firm to pay interest out of its profits. The standard for this ratio is that the interest charges should be covered 6 to 7 times.

$$\text{ICR} = \frac{\text{EBIT}}{\text{Fixed Interest Charges}}$$

(interest on debentures and Long term loans)

Debt to Total Fund ratio

This ratios shows the relationship between the debt and the total funds employed in the firm. This ratio indicates the proportion of the funds supplied by the out siders in the total funds employed in the business. Higher the debt ratio higher the risk and visa versa. This ratio also helps in making decision on raising additional funds.

$$\text{Debt to Total funds} = \frac{\text{Debt}}{\text{Total Funds Employed}}$$

Debt = long term debt

Total Funds employed = total Liabilities

Capital Gearing Ratios Or Trading on Equity

This ratio determines the relationship between the fixed income bearing securities and the equity share capital. If a company is highly geared (higher earnings on Equity) if the ratio is more than 1, it is less geared (less earnings on Equity) if the ratio is less than 1 and if it s1 it is evenly geared.

Fixed income securities include = Debentures and Preference Share Capital

$$CGR = \frac{\text{Fixed Income Securities}}{\text{Equity Share holders funds}}$$

Illustration -1

1. Calculate Debt Equity Raito, Proprietary Ratio, Interest Coverage Ratio and Capital Gearing Ratio

Liabilities		Assets	
Particulars	Amount	Particulars	Amount
Equity Capital	1,50,000	Good will	50,000
10% Preference Capital	50,000	P/M	1,80,000
General Reserve	70,000	L/B	1,20,000
P&L A/c Bal	30,000	Stock	60,000
9% Debentures	50,000	Investments	40,000
10% Loan	50,000	Cash	35,000
Sundry Creditors	95,000	Prlm Exp's	15,000
O/S Wages	5,000		
	5,00,000		5,00,000
Assume EBIT = 20,000			

Solution-1

Debt Equity Ratio: Method 1 DER= $\frac{\text{Long term Debts}}{\text{S.H.F}}$

Long Term Debt =9% Debentures + 10% Loan

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

S.H.F. =Equity Capital + Pref. capital + Reserves + P&L. A/c Bal – Preliminary Expenses

= 1,50,000 + 50,000 + 70,000 +30,000 – 15,000

=2,85,000

$= \frac{1,00,000}{2,85,000} = 0.35:1$

Solution-1

DER – Method 2 = Total Debt / S.H.F. Or Internal Equities / External Equities

Total Debt = Long term Debt + Short Term Debt (CL)

LTD = 1,00,000

STD = Creditors + o/s Wages

(Current Liabilities)

STD = 95,000 + 5,000= 1,00,000

Total Debt = 1,00,000+ 1,00,000= 2,00,000

S.H.F = 2,85,000

DER = 2,00,000 / 2,85,000 =0.70:1

Solution-1

Proprietary ratio = $\frac{\text{S.H.F.}}{\text{Total Assets}}$

S.H.F. = 2,85,000

Total Assets = 5,00,000

PR= $\frac{2,85,000}{5,00,000}$ = 0.57:1

Interest Coverage Ratio = $\frac{\text{EBIT}}{\text{Fixed Interest Charges}}$

EBIT = 20,000

Fixed Interest Charges = 9% on debe're. + 10% on Loan

50,000x0.09 + 50,000x0.10 = 4,500+5,000= 9,500

ICR = $\frac{20,000}{9,500}$ = 2.10 times

Solution-1

Capital Gearing Ratio = $\frac{\text{Fixed Income Securities}}{\text{Equity Shareholders Fund}}$

Fixed Income Securities =

Interest on Deb. + Dividends on Prefe. Share

4,500 + 5,000 = 9,500

Equity Share holders Fund = Equity Capital + reserves + P&L A/c Bal.- Prilm. Exp's

=1,50,000 + 70,000 + 30,000 – 15,000 = 2,35,000

CGR = $\frac{9,500}{2,35,000}$ = 0.040:1

Illustration – 2 (2016)

SECTION – C

Answer **any three** questions. **Each** carries **fourteen** marks. **(3×14=42)**

7. Following is the Balance Sheet of Mahesh Ltd. as on 31-3-2016

Liabilities	₹	**Assets**	₹
Equity Share Capital (₹ 100)	5,00,000	Freehold premises	4,50,000
10% Pref. Share Capital	3,00,000	Plant and Machinery	3,30,000
Reserve Fund	1,20,000	Furniture	84,000
P/L Account	55,000	Stock	2,30,000
15% debentures	2,40,000	Debtors	1,95,000
Bank Overdraft	40,000	Marketable Securities	50,000
Sundry Creditors	1,15,000	Bills Receivable	45,000
Bills Payable	35,000	Cash	20,000
Tax Provision	50,000	Advances	36,000
		Preliminary Expenses	15,000
	14,55,000		**14,55,000**

Total sales during the year ₹ 21,60,000 and Net Profit after tax ₹ 3,00,000.

You are required to compute :

1) Current Ratio.
2) Acid test Ratio
3) Debt Equity Ratio.
4) Proprietary Ratio.

Solution 2

Current Ratio = Current Assets / current Liabilities

CA		CI	
Stock	=2,30,000	Bank OD	= 40,000
Debtors	=1,95,000	creditors	= 1,15,000
Marketable securities	=50,000	BP	= 35,000
BR	= 45,000	Tax Prvosion	= 50,000
Cash	=20,000		2,40,000
Advances	=36,000		
	5,76000		

CR = 576000/2,40,000 =2.4:1

Acid tests Ratio or Liquid ratiio = Qucik Assets/Quick Liabilities

Quick Aseets = CA- (Stock + Prepaid Exp's)

= 5,76,000 - 2,30,000

= 3,46,000.

QL = CL- Bank OD, 2,40,000-40,000 = 2,00,000. QR = 3,46,000/2,00,000 = 1.73:1

Solution 2

Quick ratio = QA/QL

QA= CA - (Stock +Pre-paid Exp's)

QA = 5,76,000 – 2,30,000 = 3,46,000

QL = CL - Bank OD

QL = 2,40,000 – 40,000 = 2,00,000

$$QR = \frac{3,46,000}{2,00,000} = 1.73:1$$

Solution 2

Debt Equity Ratio = $\frac{\text{Long Term Debt}}{\text{Share Holders Fund}}$

Long term Debt = 15% Debentures = 2,40,000

SHF = Eq. Capital + Pref. Capital + Reserve fund + P&L a/c Bal – Prilm. Exp's.

SHF= 5,00,000+ 3,00,000+1,20,000+50,000-15,000

SHF=9,55,000

DER = $\frac{2,40,000}{9,55,000}$ = 0.251:1

Solution 2

Proprietary Ratio = $\frac{\text{SHF}}{\text{Total Assets}} = \frac{9,55,000}{14,55,000} = 0.656:1$

Illustration – 3 (2018)

Following is the B/S of Akshara Limited as at 31-03-2016 :

Liabilities	Amount in Rs.	Assets	Amount in Rs.
Equity share capital	3,00,000	Land and Building	2,00,000
General Reserve	1,75,000	Plant and Machinery	1,00,000
Dividend Equalization Reserve	25,000	Furniture	1,37,500
Debentures	80,000	Investments	1,25,000
Long-term loans	20,000	Stock	1,50,000
Creditors	1,00,000	Bills receivable	67,500
Bills payable	50,000	Cash in hand	60,000
Provision for tax	25,000	Preliminary expenses	40,000
P and L Account :			
Previous year balance	5,000		
Current year balance	1,00,000		
Total	**8,80,000**	**Total**	**8,80,000**

Calculate :

1) Current ratio
2) Liquid ratio
3) Net working capital
4) Fixed assets to net-worth ratio
5) Debt-Equity ratio
6) Return on capital employed
7) Proprietary ratio
8) Return on equity.

Solution - 3

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

CA = Stock + BR + Cash

CA = 1,50,00 + 67,500 + 60,000 = 2,77,500

CL = Creditors + BP + Provision for tax

CL = 1,00,000 + 50,000 + 25,000 = 1,75,000

CR = $\frac{2,77,500}{1,75,000}$ = 1.585 : 1

Solution - 3

Net working Capital = CA – CL

NWC = 2,77,500 - 1,75,000 = 1,02,500

LR = LA : LL

LA= CA – (Stock + Prepaid Exp's.)

LA = 2,77,500 – 1,50,000 =1,27,500

LL = CL – Bank OD

LL = 1,75,000 – 0= 1,75,000

LR= $\frac{1,27,500}{1,75,000}$ = 0.728 : 1

DER = $\frac{\text{LTD}}{\text{SHF}}$

LTD = Deb're. + Lg. Te. Loan = 80,000+20,000 = 1,00,000

SHF = Eq.Capital + General Reserve + Divi'd Eq. Fund + p&l a/c bal (CY)- Prlm Exp's

SHF = 3,00,000 + 1,75,000 + 25,000 + 1,00,000 – 40,000 = 5,60,000

DER = $\frac{1,00,000}{5,60,000}$ = 0.178:1

Solution - 3

Proprietary Ratio = $\frac{\text{SHF}}{\text{TA}}$

SHF = 5,60,000

TA = 8,80,000

PR = $\frac{5,60,000}{8,80,000}$ = 0.636:1

Fixed Assets to Net-worth (SHF) = $\frac{\text{FA}}{\text{NE or SHF}}$

FA= FA- Dep'n

= L&B + P&M + Furniture + Investments

=2,00,000 + 1,00,000 + 1,37,500 + 1,25,000 =5,62,500

= $\frac{5,62,500}{5,60,000}$ = 1.004:1

Turnover Ratio or Performance Ratio or Activity Ratio

Turnover Ratios are those ratios that indicates the efficiency with the assets and resources of the firm that are being used or utilised. These ratios indicate the speed or velocity of the assets that are being converted or turnover into sales or various assets. (It is expressed in the number of times)

Following are the important turnover ratios

1. Inventory Turnover ratio or Stock turn over Ratio

$$\frac{\text{Cost of Goods Sold or Sales}}{\text{Average Stock}}$$

Cost of Goods Sold = Sales – Gross Profits or

CGS = Opening Stock + Purchases + Carriage In-wards – closing Stock

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

If there is no information of Opening Stock, Closing Stock will ne assumed as Average Stock.

Turnover Ratio or Performance Ratio or Activity Ratio

1a. Inventory Turn over period or Velocity

$$= \frac{365}{ITR} \text{ or } \frac{12}{ITR}$$

or

$$= \frac{\text{Average Stock}}{\text{cost of goods sold}} \times 365 \text{ or } 12$$

Turnover Ratio or Performance Ratio or Activity Ratio

2. Debtors turn over Ratio = $\frac{\text{Net Credit Sales}}{\text{Average Debtors}}$

Net Credit Sales
Total Sales – Cash Sales = Gross Credit sales.
Gross Credit sales – Sales Returns = Net Credit Sales

Ave. Dr's = $\frac{\text{Op'g Dr's + OP'g BR + Cl Dr's +Cl BR}}{2}$

If opening value is not given then take Closing value as average value.

2a. Debtors Turnover period or Velocity = $\frac{365}{\text{DTR}}$ or $\frac{12}{\text{DTR}}$

or

= $\frac{\text{Average Debtors}}{\text{Net Credit Sales}}$ x 365 or 12

Turnover Ratio or Performance Ratio or Activity Ratio

3. Creditors turnover Ratio $= \frac{\text{Net Credit Purchases}}{\text{Average Creditors}}$

Net Credit Purchases:

Total Purchases – Cash Purchases = Gross Credit Purchases

Net Credit Purchases= Gross Credit Purchases - Pu. Returns

Average Creditors = $\frac{\text{Opg Cr's+OP'g BP+Clg Cr's+ Clg BP}}{2}$

Purchases = co. go. so – op'g Stock + Clo'g stock

3a. Creditors turn over period or Velocity = $\frac{365}{\text{CTR}}$ or $\frac{12}{\text{CTR}}$

or $\frac{\text{Average Cr's}}{\text{Net Credit Purchases}} \times 365$ or 12

Turnover Ratio or Performance Ratio or Activity Ratio

4. Fixed Assets Turnover Ratio = $\frac{\text{Sales (co.go.so.)}}{\text{Net F.A}}$

Net F.A. = F.A. – Dep'n

5. Woking Capital Turnover Ratio = $\frac{\text{Sales (co.go.so.)}}{\text{Net W.C.}}$

6. Capital Turnovers Ratio = $\frac{\text{Sales (co.go.so.)}}{\text{Total Capital Employed}}$

CE= FA+ WC

Profitability Ratio

1. Profitability Ratio in relation to sales

a. Gross Profit Ratio = $\frac{\text{Gross Profit}}{\text{Net Sales}}$ x 100

b. Net Profit Ratio

i. Net Operating Profit ratio = $\frac{\text{NOP}}{\text{Net Sales}}$

NOP = GP- Adm'n and Selling Exp's

ii. NP Ratio = $\frac{\text{NP}}{\text{Net Sales}}$ x100

NP= GP - all other exp's +all other incomes

c. Operating Ratio = $\frac{\text{co.go.so. + operating Exp's}}{\text{Net sales}}$

Operating Exp's = Adm'n Exp's + S&D Exp's

Profitability Ratio

2. Profitability ratios based on Investments

a. Return of Investments (ROI)

$$ROI = \frac{PBIT}{CE} \times 100$$

b. Return of Equity (ROE)

i. ROE

$$ROE = \frac{PAT}{CE} \times 100$$

ii. Return on Equity Capital =

$$\frac{\text{NP after interest, tax and Preference dividend}}{\text{Equity Share Holders Fund}}$$

Equity Share holders fund = S.H.F – Pref . Capital

Profitability Ratio

3. Earnings Per Share = $\frac{\text{PAT- Pref. Dividend}}{\text{No. of Equity Shares}}$

4. Dividend Yield Ratio = $\frac{\text{Dividend Per Eq. Share}}{\text{Market Price Per Eq. Share}}$

5. Dividend Pay-out Ratio = $\frac{\text{Dividend Per Eq. Share}}{\text{Earnings per Share}}$

6. Price Earning Ratio (P/E Ratio) = $\frac{\text{Market Price per Eq. Share}}{\text{Earnings Per Share}}$

Illustration 4 & 5

4. From the following calculate Debtors turnover ratio and period.

Total Sales Rs. 5,00,000

Cash Sales Rs. 1,00,000

Debtors at the beginning and at the end Rs.1,90,000 and 2,10,000 respectively.

5. Sales Rs.10,00,000,Gross Profit 20% on sales, Fixed Assets (gross) Rs.2,50,000 & Depreciation Rs. 50,000 Calculate Fixed Asset Turn over Ratio.

Illustration 6& 7

6. Sales Rs.10,00,000, GP 20%, Current Assets Rs.2,50,000 and Current Liabilities Rs.90,000.

Calculate Working Capital Ratio and period.

7. Calculate Fixed Assets Turnover ratio, Working Capital Ratio and Capital Turnover Ratio. Sales during the year amounted to Rs. 4,80,000.

Share Capital	**2,30,000**	**L&B**	**3,00,000**
General Reserve	1,00,000	P&M	1,80,000
Debenture	2,20,000	Debtors	1,90,000
P/L a/c	1,70,000	Cash in Hand	12,000
Creditors	1,30,000	Cash at Bank	1,88,000
BP	50,000	Prilm. Exp's.	30,000
	9,00,000		9,00,000

Solution 7

6. Working Capital Turn Ratio = Cost of Goods Sold/ Net Working Capital
Cost of Goods Sold = Sales - Gross Profits
Gross Profits = 20% on what ? if nothing is mentioned, it is always calculated on Sales.
therefore, GP = 10,00,000 x 0.20 = 2,00,000
10,00,000 - 2,00,000 = 8,00,000
WC = CA - CL = 2,50,000 - 90,000 = 1,60,000
8,00,000/1,60,000 = 5 times.
Working Capital Turn over period = 365/ WCTR or 12 WCTR 365/5 = 73 days or 12/5=2.4 months.

7. Fixed Assets Turn over Ratio = Sales/ Net FA Net FA= P&M + L&B= 1,80,000 + 3,00,000 4,80,000. 4,80,000/4,80,000 = 1 time.
Working Capital Ratio = Sales/ Net Working Capital, WC = CA - CL
CA= DR's + Cash in hand + Cash At Bank, = 1,90,000 + 12,000 + 1,88,000 = 3,90,000
CL = Cr's + BP = 1,30,000+50,000 = 1,80,000.
WC = 3,90,000 - 1,80,000 = 2,10,000
4,80,000/2,10,00 = 2.28 times

Solution 7

Capital Turn over Ratio = Sales/ CE

CE= FA+ WC, 4,80,000 + 2,10,000 = 6,90,000

Share Capital	- 2,30,000		
+ GR	- ~~2,20,000~~	1,00,000	
P/L a/c bal.	- 1,70,000		
Debentures	- 2,20,000		
Total	- ~~7,10,000~~	~~8,40,000~~	7,20,000
Less: Prlm. Exp's			30,000
Capital Employed			6,90,000

4,80,000/6,90,000 = 0.695 times.

Illustration 8

8. Net sales Rs. 5,00,000

Cost of Goods Sold Rs. 3,50,000

Selling Expenses 12,000

Administration Expenses Rs.8,000

Interest income Rs. 5,000

Loss on the sale of old Machine Rs.12,000

Calculate GP Ratio, NP Ratio & Net Operating Profit Ratio.

Solution - 8

Gross Profit Ratio = GP/ Net Sales x 100
GP= Sales - Co. go.sol. = 5,00,000 - 3,50,000 = 1,50,000
1,50,000/5,00,000 x 100 = 30%
Net Profit Ratio = Net Profit / Net Sales x 100
NP=GP - All other Exp's + All other Incomes
150,000 - (12,000 + 8,000 + 12,000) + 5,000 = 1,23,000
1,23,000/5,00,000 X 100 =24.6%
Net Operating Profit Ratio = NOP/ NS x 100
NOP = GP - (Selling Exp's + Adm'n Exp's)
= 1,50,000 - (12,000 + 8,000) =1,30,000
= 1,30,000/1,50,000 x 100 =26%

Illustration 9,10 & 11

9. Stock turn over 5 times, Total Sales Rs. 2,00,000 and GP 25% on Sales. Clo Stok. Value was more than the Opening stock by Rs. 4,000. Calculate Opg Stock and Clo Stock.

10. Rate of GP is 25% on cost. Total Sales Rs. 5,00,000 Average Stock RS.80,000. Calculate STR.

11. Opening Creditors Rs. 25,000. Purchase Returns Rs. 5,000 Cash Paid to customers Rs. 1,30,000 and Closing Creditors Rs. 15,000. Calculate CTR and Period.

Solution 9

given, STR = 5 times, total sales Rs. 2,00,000 and GP 25% on sales. Clo Stk was more than Rs.4000 than Opg Sstock. Cal OS and CS

STR= Co go So / Avg. Stock

Co go so = Sales - GP, Sales 2,00,000 GP = 2,00,000 X 0.25 = Rs. 50,000. therefore,

Co Go Sol = 2,00,000 - 50,000 = 1,50,000.

Avg Stock = OPg Stk + Clog Stk / 2

Let Opg Stk be = x and then Coslg Stk will be x + 4000

$$5 = \frac{1,50,000}{\frac{x + x + 4000}{2}}$$

$5 (x + x + 4000) = 1,50,000 \times 2$

$5 (2x + 4000) = 3,00,000$

$10x + 20,000 = 3,00,000$

$10x = 3,00,000 - 20,000$

$10x = 2,80,000$

$x = 2,80,000 / 10$

$x = 28,000$ (Opening Stock)

$X + 4000 = 28,000 + 4000 = 32,000$ (Closing Stock)

Solution 10

given Rate of GP = 25% on cost, Total Sale Rs,5,00,000 and Avg Stk = Rs. 80,000.
Calcualte STR=
STR = Co go sol / Sales
Cos go so = Sales - GP
Gp = 25% on Cost
Let cost be 100 and GP will be 25
100 = 125 - 25
If 125 ------- 5,00,000
100 -------- ?

$$\frac{100 \times 5,00,000}{125} = 4,00,000$$

$$STR = \frac{4,00,000}{80,000}$$ 5 times

St. Tur. Period = 365/STR
= 365/5 = 73 days

Solution 11

Given, OPg Cr's = Rs. 25,000, Pu Rtu = Rs.5,000, Cash Pd to Customers 1,30,000
Cosg Crs Rs. 15,000. calculate Cr's Tu Ratio and period

CTR= Net Credit Purchases
Avg. Creditors

in this illus'n, credit purchases is not given. but, there are some information of Cred's a/c is given. therfore, we need to prepare a total Creditors a/cto calculate Cre. Purchase.

Part's	Amt	Part's	Amt
to Purc Ret	5,000	By Bal b/d	25,000
To Cash	1,30,000	By Cre. Puch	1,25,000
To Bal c/d	15,000	Bal. Figure	
	1,50,000		1,50,000

Net Cr pur = 1,25,000

AVg Cres = OPg Crs + Clo Crs
2

Avg. Crs =25,000 + 15,000
2

Avg. Crs = 40,000
2

= 20,000

CTR = 1,25,000
20,000

6.25 times

CTP = 365/ 6.25 = 58.4 days.

Illustration 12,13 and 14

5. Calculate the current assets of a company from the following information :
   a) Stock turnover :5 times
   b) Closing stock is ₹ 5,000 more than the opening stock.
   c) Total sales (all credit) ₹ 2,00,000.
   d) Gross Profit Ratio 20%.
   e) Current Liabilities ₹ 60,000.
   f) Quick Ratio 0.6.

Given : Current Ratio : 1.4, Liquid Ratio : 1, Stock turnover ratio : 8, Gross Profit ratio : 20% and Sales for the year 12,00,000. Calculate Working Capital.

) If the fixed asset ratio is 1 : 1.5 and value of goods sold is Rs. 5,00,000. Calculate the value of fixed assets.

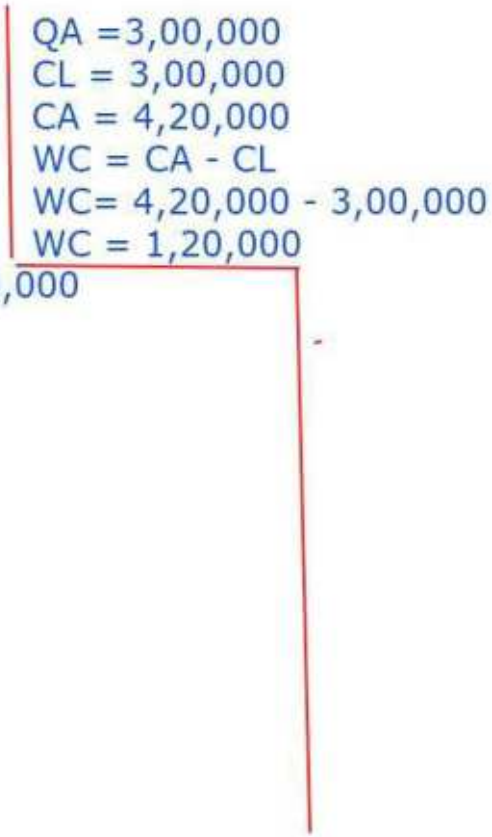
Solution 12

calculate Current Asset
Quick Ratio = QA:QL(CL)
QR = 0.6:1
If QL(CL) = 60,000------1
QA ? ------0.6
therefore, 0.6 x 60,000 = 36,000
QA + Stock = CA
STR = Co Go So / Av. Stk
Av Stk = OPg Stk + Clo Stk/2
Let Opg Stk be X and Clos Stk will bw x+5000
Cost of Goods sold = Sales - GP
= 2,00,000 - 40,000
co go so = 1,60,000

$$5 = \frac{1,60,000}{\frac{X + X + 5000}{2}}$$

5(2x +5000) = 1,60,000 x2
10x + 25,000 = 3,20,000
10x = 3,20,000-25,000
10x = 295000
x= 295000/10 = 29500(Op Stk)
x+5000 = 29500 + 5000 = 34,500 (Clo stk)
QA+ Stk = CA
36,000 + 34,500 = 70,500

Solution 13



Working Capital = CA - CL
CR= CA: CL, 1.4:1
LR = LA:LL(CL)1:1
CA-LA= Stock
STR = co go so/Av stk
co go so = Sales - GP
Co Go So = 12,00,000 - 2,40,000= 9,60,000
8 = 9,60,000/ Av Stk
Av stk = 9,60,000/8
Av Stk = 1,20,000
(Clo. Stk)
1.4 -1 =0.4(Stock)
if 0.4-----1,20,000
1------- ?
1x 1,20,000/0.4= 3,00,000(CL or QL)
if 1 ------ 3,00,000
1.4------- ?
1.4x3,00,000 = 4,20,000(CA)

QA =3,00,000
CL = 3,00,000
CA = 4,20,000
WC = CA - CL
WC= 4,20,000 - 3,00,000
WC = 1,20,000

Solution 14

FA turn over Ratio = $\frac{\text{sales or Co go so}}{\text{Net FA}}$

FA Ratio = 1:1.5
if Sales = 1
Net FA = 1.5
Sales 1 ------- 5,00,000
FA 1.5 ------- ?
FA = 1.5 x 5,00,000
FA = 7,50,000

Illustration 15

7. The gross profit of X Ltd. for the year 2013 is Rs. 80,000. This is $\frac{1}{4}^{th}$ of the year's sales. Out of the total sales $\frac{3}{4}^{th}$ is on credit. The stock turnover is 10 times and average collection period is 15 days (assume 360 days). Total assets turnover is 4 times and long term debt to equity is 50%. Share holders equity is Rs. 40,000. The current ratio is 2 : 1. Find out (1) Credit sales (2) Long term debt (3) Cash in hand (4) Debtors (5) Closing stock (6) Fixed assets and also prepare Balance Sheet of X Ltd. for the year 2013.

Solution 15

Gross Profit Rs. 80,000 ------- 1/4th of total sales

if GP is------80,000-------1/4

what is sales ? 1

$\frac{80,000 \times 1}{1/4}$ 80,000x4 = 3,20,000 total Sales

3,20,000 x3/4 =2,40,000 Credit Sales

Stock turn over = 10 times

STR = Co go So / Av. Stk

Co go So = Sales - GP

Co go So = 3,20,000 - 80,000

Co Go So = 2,40,000

10 = 2,40,000 / Av. Stock

Av. Stock = 2,40,000 / 10

Av. stock = 24,000

Debtors Collection Period = 15 days

Dr's Coll Period = Av. Debtors x360 / Net crdeit sales

15 = 360 Av. Dr's / 2,40,000

360 Av.Dr's = 2,40,000x15

360 Av.Drs' 36,00,000

Av. Drs' = 36,00,000 / 3 60

Av. Drs = 10,000.

.Total turn over ratio = Sales / T.A

4 = 3,20,000 / TA

TA= 3,20,000 / 4

TA = 80,000

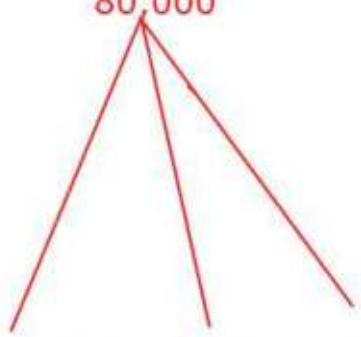
Solution 15

Long term to debt to equity = 50%

Share Holders equity is Rs. 40,000, Debt = 50% of Equity, 40,000x0.50 = 20,000

Total Liabilities = Total Assets

80,000 80,000



equity debt cl's

40,000 20,000 20,000

CR =CA: CL

2:1

If CL-- 20,000 ----1

CA ? 2

there fore, 20,000x2= 40,000

Total Assets = CA+ FA

80,000 = 40,000+ FA

FA= 80,000 - 40,000

FA = 40,000

CA = Stk +Drs' + Cash

CA= 24,000 + 10,000 + Cash

40,000 = 34,000 + Cash

Cash = 40,000-34,000 = 6000

Solution 15

Liab's	Amount	Assets	Amount
Equity	40,000	FA's	40,000
Debt	20,000	CA's	40,000
Cl's	20,000	Stk 24,000	
		Dr's 10,000	
		Cash 6,000	
	80,000		80,000

Illustration 16

Current ratio 2.5
Liquid ratio 1.5
Stock turnover 6 times,
GP ratio 20%,
Fixed assets turnover 2 times,
Average Debt collection period 2 months,
Fixed Assets to Share holders net-worth 1:1
Long term liabilities to shareholders net-worth 0.4,
Net working capital Rs. 4,50,000
Reserves : Share capital 0.5:1
Prepare a Balance Sheet form the above data

Solution 16

Net Working Capital = CA - CL
4,50,000 = 2.5 - 1
1.5 = 4,50,000
if 1.5------ 4,50,000
2.5------ ?
2.5 x 4,50,000 = 7,50,000 (CA)
1.5
if 2.5 ----- 7,50,000
1 ----- ?
1 x 7,50,000 = 3,00,000 (CL)
2.5
Stock = CA-LA
CA= 7,50,000------2.5
LA= ? -------1.5
1.5 x 7,50,000 = 4,50,000 (LA)
2.5
Stock = 7,50,000 - 4,50,000
=3,00,000 Av. Sk or Clo Sk.

STR = Co GO So
Av. Stk
6 = Co Go So
3,00,000

Co Go So = 6 x 3,00,000 = 18,00,000
Co Go So = Sales - GP (GP = 20%)
Let Sales Be 100 and GP will be 20
80 = 100 - 20
if Co Go So is 80-------18,00,000
sales 100 ------ ?
sales = 100 x 18,00,000 = 22,50,000
80
Fixed Assets Turn Ratio = Sales / Net FA
2= 22,50,000
Net FA
Net FA = 22,50,000 = 11,25,000
2
Fixed Assets to Net Worth = 1:1
So FA= 11,25,000
Net Worth = 11,25,000

Solution 16

Av. Collection Period = 2 months
Av. Co. Pe = Av Dr's x 12
Sales
2 = 12 Av. Dr's
22.50,000

2 x 22,50,000 = 3,75,000
12

Eq	750000	FA	1125000
Res	375000		
Cl	300000	CA	750000
			1875000

Net worth or Sh ho. fund = Equ + Pref + All types of Reserves
11,25,000 = 1 +0 + 0.5
1.5 = 11,25,000
~~If 1,5~~
if 1.5----- 11,25,000
1------ ?
11,25,000 = 7,50,000
1.5
11,25,000 - 7,50,000 =
3,75,000

CE= FA + WC
11,25,000 - 300000
8,25,000

Solution 16

CE + CL = Total Lib's
Total Lib's = Total Assets
CE = Equity(Net Worth) + Debt
Equity + Debt + CL = FA + CA
11,25,000 + Debt + 3,00,000 = 11,25,000 + 7,50,000
Debt + 14,25,000 = 18,75,000
Debt = 18,75,000 - 14,25,000
Debt = 4,50,000

net woth = Equity + Reser + Pref
11,25,000 = 1 +0.5 + 0
1.5= 11,25,000
if 1.5 ------ 11,25,000
1-------- ?
7,50,000 (Equity)
11,25,000 - 7,50,000 =
3,75,000(Res)

Equity	11,25,000	Fixed Assets	11,25,000
Eq Capt 7,50,000		Current Asset	7,50,000
Rese 3,75,000		Stock - 3,00,000	
		Dr's - 3,75,000	
Debt	4,50,000	Cash - 75,000	
CL's	3,00,000		
	18,75,000		18,75,000

Illustration 17

- 9% preference Shares of Rs. 10/- each Rs.3,00,000
- Equity Shares of Rs. 10/- each Rs. 8,00,000
- 8% Debentures Rs. 10,00,000
- Profit after Tax Rs. 2,70,000
- Equity dividend paid 20%
- Market price of equity shares Rs. 40
- Calculate
- Debt equity ratio, Capital Gearing Ratio EPS and Price Earning ratio

Solution 17

Debt Equity Ratio = Debt / Equity
Debt = 8% debentures 10,00,000
Equity(Share Holders Fund or Net Worth) =
Equity Capital = 8,00,000
9% pref. share capital = 3,00,000
profit after tax = 2,70,000
Total = 13,70,000
DE Ratio = 10,00,000/ 13,70,000 =0.729:1
Captial Gearing Ratio = Fixed income Securities/Equity Share Holders fund
fixed income securities = Debentures + Pref. Share Capital =10,00,000 + 3,00,000=13,00,000
Equity Share holders fund = Equity Capt'l + profit after tax = 8,00,000+2,70,000= 10,70,000
CGR = 13,00,000/10,70,000=1.214:1
Price Earning Ratio = Market price per equity share / Earnings per sahre
= 40/~~3.077~~ =13.170

EPS= Profit after tax(after paying preference share dividend) / No. of equity shares

2,70,000- 27,000/ 80,000 = ~~3.077~~
3.037

3.037

Illustration 18

GP= 20%

Net profit = 15%

Sales/Stock = 6

FA/CA =2/2

FA/Capital= 3/2

Capital/ Outsider Liabilities = 2/4

Closing Stock = 3,00,000

Fixed Assets = 20,00,000.

Prepare P/L a/c and Balance Sheet. (Dec- 2109)

Sol - 18

- sales /stock = 6
- Sales = 6
- 3,00,000
- sales = 3,00,000 x 6 = 18,00,000
- GP = 20% on sales, 18,00,000 x 0.20 = 3,60,000
- NP = 15% on sales, 18,00,000 X 0.15 = 2,70,000

P&L a/c

		By Sales	**18,00,000**
To Co go So	17,40,000	By Closing Stock	3,00,000
To GP	3,60,000		
	21,00,000		21,00,000

Sol - 18

To Operating Exp's	90,000	By Gp b/d	3,60,000
To NP	2,70,000		
	3,60,000		3,60,000

Sol - 18

- FA/CA = 2:2 , FA = 20,00,000 & CA = 20,00,000
- Asset = FA+CA = 20,00,000 + 20,00,000 = 40,00,000
- FA/Capital = 3:2- i.e, if FA----20,00,000 --- 3
  Capital ? 2
- $\frac{20,00,000 \times 2}{3}$ = 13,33,333 ---- Capital

Capital /out side Lib's = 2:4 If Captl—13,33,333 –2
O/s Lib's ? - 4

$\frac{13,33,333 \times 4}{2}$ = 26,66,666

Sol - 18

Balance Sheet

Liabilities		Asset		
Capital	13,33,333	FA		20,00,000
Out siders Lib's	26,66,666	CA		20,00,000
		cl.Stk	3,00,000	
		Other CA's	17,00,000	
			20,00,000	
	40,00,000			40,00,000

Illustration 19

GP = 20% (Rs. 1,20,000)

Share Holders Equity Rs. 1,00,000

Credit Sales to Total Sales = 80%

Total Assets turn over (Sales/ TA) =3 times

Inventory Turn over (Co go So) = 8 times

Average Collection Period = 18 days based on 360 days

Creditors to Current Assets = 60 %

Long term Debt to Total Equity Capital = 40%

Prepare Balance Sheet. (May 2017)

Solution 19

GP ----------20% --- 1,20,000

Co Go So--- 80% ------ ?

$\frac{80 \times 1,20,000}{20}$ = 4,80,000 (Co Go So)

Co Go So + GP= Sales

4,80,000+ 1,20,000= 6,00,000 (Sales)

Credit Sales = 80% of Total Sales

6,00,000x0.80 = 4,80,000

Av. Debt Collection period = $\frac{\text{Av Dr's}}{\text{Net Cre. Sales}} \times 360$

$18 = \frac{\text{Av. Drs}}{4,80,000} \times 360$

4,80,000 x 18 = 360 Av.Drs

86,40,000 = Av. Dr's 360

Av. Dr's = $\frac{86,40,000}{360}$

Av. Dr's = 24,000

Solution 19

Inventory Turn over Ratio = 8 times

$$ITO = \frac{Co\ Go\ So}{Av.\ Stk.}$$

$$8 = \frac{4,80,000}{Av.\ Stk.}$$

$$Av.\ Stk. = \frac{4,80,000}{8}$$

Av. Stk. = 60,000.

$$\frac{Sales}{Total\ Assets} = 3$$

Solution 19

Total Assets = $\frac{\text{Sales}}{3} = \frac{6,00,000}{3} = 2,00,000$

Long term Debt to Total Equity 40%

$\frac{\text{Debt}}{\text{Equity}} = 0.40$ = Debt = 0.40 x 1,00,000 = 40,000

Debt = 40,000.

Total Assets = Total Liabs.

2,00,000 = 2,00,000

Equity = 1,00,000

Debt = 40,000

CL's = 60,000

Cr's = 60%

CA

CA = $\frac{60,000}{0.60} = 1,00,000$

Solution 19

BALANCE SHEET			
Liabilities	Amount	Assets	Amount
Equity	1,00,000	FA	1,00,000
Debt	40,000	CA	1,00,000
CL's	60,000	Stk. 60,000 Dr's 24,000 Cash 16,000	
	2,00,000		2,00,000

Illustration 20

A company having a Net Working Capital of Rs. 2.8 lakhs as on 30/06/2008 indicates the following financial ratios and performance figures.

Current Ratio = 2.4

Liquidity Ratio = 1.6

Inventory turnover Ratio = 8

Gross profit on Sales = 20%

Credit allowed = 1.5 months

The Coy's. Fixed Assets is equivalent to 90% of its net-worth (Share Capital and Reserves)

While the reserves amounted to 40% of the share capital.

Prepare a Balance sheet. (MNA 4.33)

Solution 20

W.C= CA - CL'S, CR = 2.4, CA =2.4 and CL's =1,
WC= 2.4 - 1= 1.4
IF WC 1.4 ------- 2,80,000
2.4-------- ?
2.4X 2,80,000 = 4,80,000 (CA)
1.4
If 2.4 ----- 4,80,000
1 ------ ?
4,80,000 = 2,00,000 (CL)
2.4

Inventory turn over ratio = 8,
ITR = Co Go So
Av Stk.

CA= 4,80,000
CL = 2,00,000

L.R=1.6:1 (LA:LL) stock= CA-LA, Stk = 2.4-1.6 =0.8

CA 2.4----4,80,000

~~LA~~ Stk 0.8---- ?

0.8x4,80,00 0 1,60,000 (Stock)
2.4

S.T.R= Co Go So
Av. Stk

8 = Co. Go. So.
1,60,000

Co Go So = 8x1,60,000 =12,80,000

GP ratio = 20% on Sales

Sales= Co Go So + GP

Sales = Cost + Profit

Let us assume Sales as 100

so, 100 = 80 + 20

Cos Go So ---12,80,000--- 80

Sales --- ? ----- 100

12,80,000x100
80

= 16,00,000

Credit allowed = Debtors Collection Period

Dr's Coll Period = Avg. Dr's / sales x 12

1.5 = Avg. Dre's X 12
16,00,000

Avg. Dr's = 1.5x16,00,000
12

Avg. Dr's = 2,00,000

Fised Assets is equal to 90%of Net worth(Share Holders Funds)

CA= 4,80,000
CL = 2,00,000

L.R=1.6:1 (LA:LL) stock= CA-LA, Stk = 2.4-1.6 =0.8

CA 2.4----4,80,000

~~LA~~ Stk 0.8---- ?

0.8x4,80,00 0 1,60,000 (Stock)
2.4

S.T.R= Co Go So
Av. Stk

8 = Co. Go. So.
1,60,000

Co Go So = 8x1,60,000 =12,80,000

GP ratio = 20% on Sales

Sales= Co Go So + GP

Sales = Cost + Profit

Let us assume Sales as 100

so, 100 = 80 + 20

Cos Go So ---12,80,000--- 80

Sales --- ? ----- 100

12,80,000x100
80

= 16,00,000

Credit allowed = Debtors Collection Period

Dr's Coll Period = Avg. Dr's / sales x 12

1.5 = Avg. Dre's X 12
16,00,000

Avg. Dr's = 1.5x16,00,000
12

Avg. Dr's = 2,00,000

Fised Assets is equal to 90%of Net worth(Share Holders Funds)

Capital Employed = FA + WC
Capital Employed = SHF + Debt
CE = SHF + 0
CE= SHF
Let SHF be 100

100 = 90 + 10

WC = CA- CL
WC= 4,80,000-2,00,000= 2,80,000

If WC---10 ------ 2,80,000
FA ----90-------- ?
90x2,80,000
10
25,20,000

CE=
25,20,000+2,80,000=28,00,000

SHF = Equity+ Pref + Res
SHF = Eq +0 + Res
Let Sahre Capital be 100
SHF = 100 + 40
SHF + 140
SHF =28,00,000 -----140
Equ ?----------100
Res ? ---------- 40
Equity = 100x 28,00,000
140
=20,00,000
Reserves = 40 x 28,00,000
140
= 8,00,000

Balance Sheet

Liabilities	Amount	Assets	Amount
Equity Share Cptl	20,00,000	Fixed Assets	25,20,000
Reserves	8,00,000	Current Assets	4,80,000
Current Liabilities	2,00,000	Stock-- 1,60,000 Dr's -- 2,00,000 Cash – 1,20,000	
	30,00,000		30,00,000

Illustration 21

Stock Velocity = 6
GP margin= 20%
Capital Turnover 2
Fixed Assets Turnover = 4
Debt Collection period = 2 months
Creditors Payment period = 73 days
GP = Rs. 60,000
Excess of Closing Stock over Opening Stock was Rs. 5,000.
Difference on Balance Sheet represents bank balance.
The entire sales and purchases are made on credit basis.
(MNA 4.36)

Solution 21

Stock Velocity = Co Go So
Av. Stk

Co Go So = Sales - GP

GP = 20% (on Sales)

Let sales be 100

GP will be 20

Co Go So = 100- 20

= 80

If GP --20-----60,000

sales-- 100----- ?

Sales = 100x60,000
20

Sales = 3,00,000

Co GO So = 3,00,000 - 60,000

Co Go So= 2,40,000

Stk Velo = 6

6 = 2,40,000
Av. Stk

Av. Stk = 2,40,000
6

Av. Stk = 40,000

Av. STk = Opg Stk + Clo Stk
2

Let Opg Stk Be X

then Clo Stk will be x+ 5000

40,000= x+x+5000
2

40,000x2 = 2x+5000

80,000= 2x+ 5,000

2x= 80,000-5000

2x= 75,000

x= 75,000
2

x= ~~35,000~~ 37,500 (Opg. Stk)

x+5,000

37,500+5,000

=42,500 (Clo Stk)

DebtCollection Period= 2 Months

De Co Pe= Av Dr's / Sales x 12

2 = Av Dr's / 3,00,000 x 12

2x 3,00,000 = 12 Av. Dr's

Av Dr's = 6,00,000
12

A. Dr's= 50,000.

Solution 21

Credit Payment Period = 73 days

$$\text{Cr Pay Per} = \frac{\text{Av.Cr's}}{\text{Purchses}} \times 365$$

Co Go So = Op Stk + Purchases - Clo Stk

Puchases = Co Go So - Op Stk + Clo Stk

Pur = 2,40,000 - 37,500 + 42,500

Pur = 2,45,000

$$73 = \frac{\text{Av. Cr's}}{2,45,000} \times 365$$

$$\text{Av. Cr's} = \frac{73 \times 2,45,000}{365}$$

Av. Cr's = 49,000.

$$\text{Capital Turnover ratio} = \frac{\text{Co Go So}}{\text{CE(Capital)}}$$

$$2 = \frac{2,40,000}{\text{CE}}$$

$$\text{CE} = \frac{2,40,000}{2}$$

CE= 1,20,000

$$\text{FA Turn over Ratio} = \frac{\text{Co Go So}}{\text{FA}}$$

$$4 = \frac{2,40,000}{\text{FA}}$$

$$\text{FA} = \frac{2,40,000}{4}$$

FA= 60,000

Balance Sheet

Capital	1,20,000	FA	60,000
Cr's	49,000	Dr's	50,000
		Stock	42,500
		Cash	16,500
	1,69,000		1,69,000

FUND FLOW STATEMENT

Fund Flow Statement

The Techniques of MA
1.Ratio Analysis
2. Fund-Flow Statements
3. Cash-Flow Statements
4.Marginal Costing (CVP Analysis)
5.Budgeting
6. Financial Statement Analysis
7. Responsibility Accounting

FUND = Difference beetween Current Asset and Current Liability (CA-CL= WC)

FLOW = Inflow of Fund and Outflow of Fund

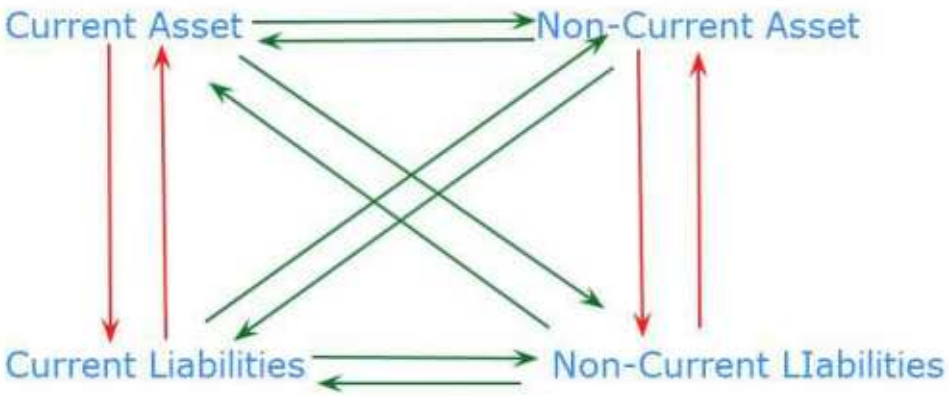
Statement = Systematic presentation of Facts

Inflow of Funds = Source of Funds(Increase in Funds)
Outflow of Funds =Application of Funds (Decrease in Funds)
W

FUND FLOW STATEMENT

Why we need to prepare FFS, FFS is prepared to know how much funds and from where it was sourced and how funds were applied or used and where it is used.

when there will be flow of funds
Flow of Funds will be there if any transaction of a business that involves with Current Items(CA&CL's) and Non-Current Item (FA&FL's)



Liabilities	Amount	Assets	Amount
Share Capital	1,00,000	Blg's	1,00,000
Debt	55,000	Fur're	52,000
Cr's	5,000	Dr's	10,000
BP	5,000	Cash	3,000
	1,65,000		1,65,000
Fund = CA-CL 13,000-10,000=3000. a. Cash received from Dr's Rs.5,000			
SC	1,00,000	Blg's	1,00,000
Debt	55,000	Fur're	52,000
Cr's	5,000	Dr's	5,000
BP	5,000	Cash	8,000
	1,65,000		1,65,000
Fund = CA-CL	13,000-10,000= 3,000		

Liabilities	Amount	Assets	Amount
Share Capital	1,00,000	Blg's	1,00,000
Debt	55,000	Fur're	52,000
Cr's	5,000	Dr's	10,000
BP	5,000	Cash	3,000
	1,65,000		1,65,000
Fund = CA-CL	13,000-10,000=3000. b. Cash paid to Cr's Rs.2,000		
SC	1,00,000	Blg's	1,00,000
Debt	55,000	Fur're	52,000
Cr's	3,000	Dr's	10,000
BP	5,000	Cash	1,000
	1,63,000		1,63,000
Fund = CA-CL =11,000-8,000= 3,000			

Liabilities	Amount	Assets	Amount
Share Capital	1,00,000	Blg's	1,00,000
Debt	55,000	Fur're	52,000
Cr's	5,000	Dr's	10,000
BP	5,000	Cash	3,000
	1,65,000		1,65,000
Fund = CA-CL 13,000-10,000=3000. c. Goods Purchased for Credit Rs.5,000			
SC	1,00,000	Blg's	1,00,000
Debt	55,000	Fur're	52,000
Cr's	10,000	Dr's	10,000
BP	5,000	Cash	3,000
		stock	5,000
	1,70,000		1,70,000
Fund = CA-CL =18,000-15,000= 3,000			

Liabilitieso	Amount	Assets	Amount
Share Capital	1,00,000	Blg's	1,00,000
Debt	55,000	Fur're	52,000
Cr's	5,000	Dr's	10,000
BP	5,000	stock	3,000
	1,65,000		1,65,000
Fund = CA-CL 13,000-10,000=3000. d. Goods sold for Credit Rs.2,000			
SC	1,00,000	Blg's	1,00,000
Debt	55,000	Fur're	52,000
Cr's	5,000	Dr's	12,000
BP	5,000		
		stock	1,000
	1,65,000		1,65,000
Fund = CA-CL =13,000-1,0000= 3,000			

Liabilities	Amount	Assets	Amount
Share Capital	1,00,000	Blg's	1,00,000
Debt	55,000	Fur're	52,000
Cr's	5,000	Dr's	10,000
BP	5,000	cash	3,000
	1,65,000		1,65,000
Fund = CA-CL 13,000-10,000=3000. e. purchased Blgs Rs.5,000 by issuing Shares of Rs.5,000			
SC	1,05,000	Blg's	1,05,000
Debt	55,000	Fur're	52,000
Cr's	5,000	Dr's	10,000
BP	5,000	Cash	3,000
	1,75,000		1,70,000
Fund = CA-CL =13,000-10,000= 3,000			

Liabilities	Amount	Assets	Amount
Share Capital	1,00,000	Blg's	1,00,000
Debt	55,000	Fur're	52,000
Cr's	5,000	Dr's	10,000
BP	5,000	cash	3,000
	1,65,000		1,65,000
Fund = CA-CL 13,000-10,000=3000. f. redeemed Debentures in cash Rs. 2,000			
SC	1,00,000	Blg's	1,00,000
Debt	53,000	Fur're	52,000
Cr's	5,000	Dr's	10,000
BP	5,000	Cash	1,000
	1,63,000		1,63,000
Fund = CA-CL =11,000-10,000= 1,000			
Fund Flow = decrease in fund (outflow or application)			

Liabilities	Amount	Assets	Amount
Share Capital	1,00,000	Blg's	1,00,000
Debt	55,000	Fur're	52,000
Cr's	5,000	Dr's	10,000
BP	5,000	cash	3,000
	1,65,000		1,65,000
Fund = CA-CL 13,000-10,000=3000. g. issued shares of Rs. 10,000 in cash			
SC	1,10,000	Blg's	1,00,000
Debt	55,000	Fur're	52,000
Cr's	5,000	Dr's	10,000
BP	5,000	Cash	13,000
	1,75,000		1,75,000
		Fund = CA-CL =23,000-10,000= 13,000	
Fund Flow = increase in fund (inflow or Source)			

Illustration 1

From the following transactions answer, if there is flow or fund or not

1. Cash paid to Creditors Rs.3,000 –CA & CL—NO FLOW OF FUNDS
2. Cash collected from Debtors Rs.5,000 –CA & CA –NO FLOW OF FUNDS
3. Bills Receivables realised Rs. 4,000---CA& V=CA – NOFLOW OF FUNDS
4. Purchased good on cash Rs. 2,000– CA & CA – NO FLOW OF FUNDS
5. Purchased goods on Credit Rs.5,000– CA &CA NOFLOW OF FUNDS
6. Sale of Short term investments Rs. 10,000 –CA & CA NO FLOW OF FUNDS
7. Machinery Purchased Rs. 8,000 NCA & CA FLOW OF FUNDS DECREASE IN FUNDS
8. Issue of shares or debentures Rs. 1,00,000 NCL & CA FLOW OF FUNDS DEC FUNDS
9. Sale of Fixed Assets Rs.5,000 NCA & CA FOF INC OF FUNDS
10. Repayment Long term Loans Rs. 8,000 NCL & CA FOF DEC IN FUNDS
11. Stock Acquired through issue of Shares or Debentures Rs.10,000 NCL & CA IN IN FU
12. Redemption of debentures or pref. shares at premium Rs.20,000 NCL & CA DE IN FU
13. Issue of Shares or debentures at premium Rs.15,000 NCL & CA FOF IN IN FU
14. Issue of Bonus Shares Rs. 5,000 NFOF
15. Purchase of Fixed Assets by issue of Shares or Debentures RS.20,000NFOF
16. Write-off Good Will or preliminary Expenses Rs.5,000 NFOF
17. Transfer to reserves Rs. 3,000 NFOF

5. State with reasons whether the following Transactions result in increase or decrease of working capital or do not effect on the working capital.

i) Bill Receivable realised ₹ 40,000.

ii) Fixed Assets purchased by issue of shares ₹ 3,00,000.

iii) Advance Income tax paid ₹ 10,000.

iv) Goodwill written off ₹ 10,000.

v) 10 % Debentures ₹ 80,000 redeemed at 5% premium.

18.Issue of Equity Shares of Rs. 5,00,000/- in cash FOF

19. Redemption of Debentures worth Rs.2,00,000/- FOF

20. Furniture Sold for Rs. 40,000 FOF

21. Amount Received from Debtors Rs. 10,000 (2018)NFOF

22. Machinery purchased for Rs. 1,00,000 by issue of equity sharesNFOF

23. Buildings purchased for cash Rs. 5,00,000 FOF

24. BR Rs.20,000 was discounted for Rs. 18,000FOF & NFOF

25.12% Debentures of Rs.1,00,000/- redeemed at a premium of 10% FOF

26. Good will written off Rs. 5,000 NFOF

Preparation of Fund Flow Statement

Steps to be followed to prepare Fund Flow Statement.

1. Prepare a Statement of Changes in Working Capital
2. Prepare Adjusted P&L A/c
3. Prepare Fund Flow Statement.

From the following Prepare a Statement Showing Changes in Working Capital.

Particulars	Amount(07)	Amount(08)
Share capital	2,00,000	2,60,000
P&L a/c	39,690	41,220
Reserves	50,000	50,000
Creditors	39,500	41,135
BP	33,780	11,525
Overdraft	59,510	--------
Tax Provision	40,000	50,000
	4,62,480	4,53,880
Good will	----------	20,000
Land & Buildings	1,12,450	1,16,200
Plant and Machinery	1,48,000	1,44,250
Stock	1,11,040	97,370
Dr's	85,175	72,625
BR	2,315	735
Cash	2,500	2,700
	4,61,480	4,53,880

Particulars	Amount-07	Amount-08	Increase	Decrease
Stock	1,11,040	97,370	----------	13,670
Dr's	85,175	72,625	----------	12,550
BR	2,315	735	----------	1,580
Cash	2,500	2,700	200	----------
A	2,01,030	1,73,430		
Cr's	39,500	41,135	----------	1,635
BP	33,780	11,525	22,255	----------
OD	59,510	----------	59,510	----------
Pro'n. for tax	40,000	50,000	----------	10,000
B	1,72,790	1,02,660	----------	----------
WC= CA-CL (A-B)	28,240	70,770	----------	----------
	42,530	----------	----------	42,530
	70,770	70,770		
			81,965	81,965

2. From the following prepare statement showing changes in working capital

Particulars	Amount	Amount
Share Capital	1,00,000	2,00,000
Reserves	50,000	40,000
P&L a/c	5,000	15,000
Cr's	12,000	8,000
BP	15,000	30,000
Bank OD	8,000	10,000
O/S Salaries	-	6,000
Dr's	20,000	45,000
stock	8,000	29,000
BR	12,000	6,000
Cash in hand	-	8,000
Cash at Bank	5,000	-
FA	2,00,000	4,50,000
Pre paid exp's	-	10,000

Solution-2

Particulars	Amount(PY)	Amount(CY)	Increase	Decrease
Stock	8,000	29,000	21,000	
Dr's	20,000	45,000	25,000	
BR	12,000	6,000		6,000
Cash in hand	0	8,000	8,000	
Cash at Bank	5,000	0		5,000
Pre-paid Exp's	0	10,000	10,000	-
A	45,000	98,000		
Cr's	12,000	8,000	4,000	
BP	15,000	30,000		15,000
Bank OD	8,000	10,000		2,000
O/S Salaries	0	6,000		6,000
B	35,000	54,000		
W.C = CA-CL	10,000	44,000		
	34,000			34,000
	44,000	44,000	68,000	68,000

- Non-Fund Items-
  - Depreciation
  - Writing off Goodwill and Prilm. Exp's
  - Loss o sale of Fixed Assets
- Appropriation of Profits
  - Transfer to Reserves
  - Dividends Paid
- Non-operating Incomes
  - Profit on Sale of Fixed Assets
  - Dividends received
  - Interest received

Adjusted P&L a/c

It is important to note that the Net Profit as shown by the P/L a/c does not always correctly represent the amount of fund form operations, because there are certain items which appears in P/L a/c but does not involve any cash payment E.g. Depreciation, Writing off Goodwill and Prilm. Exp's, Loss o sale of Fixed Assets,, Transfer to Reserves, Dividends Paid, Profit on Sale of Fixed Assets Dividends received, Interest received etc., these type of items do not have any effect on the working capital and are termed as Non-Fund items, Appropriation of Profits and Non- operating incomes. The net profit as shown by the Profit and loss a/c to be adjusted for these Non-Fund items and appropriation of profits so as to arrive at the real fund from operations.

- P&L a/c--- we can not check the actual inflow of funds and the actual outflow of funds, to know the actual inflow and out flow of funds, the P&L a/c has to be adjusted with some of the items like

1. Non-Fund items --Depreciation, Writing off Goodwill and Prilm. Exp's and Loss on sale of Fixed Assets
2. Appropriation of Profits---Transfer to Reserves and Dividends Paid
3. Non- Operating Income Items---Profit on Sale of Fixed Assets, Dividends received and Interest received

Adjusted P/L a/c

Items to be added (Debited)	Items to be deducted or (Credited)
▪ Depreciation on FA ▪ Write-off of Goodwill and Prilm. Exp's. ▪ Loss on Sale of FA ▪ Dividends on Shares ▪ Transfer to reserves ▪ Premium on redemption of prf. Share or Debt're ▪ Loss on revaluation	▪ Interest Received ▪ Dividends Received ▪ Profit on Sale of FA ▪ Profit on revaluation

Illustration 3

From the following prepare Adjusted P&L a/c.
The N/P bal. Rs. 1,85,720/-
Provision for bad debts Rs. 1,500--- (CL)
Salaries Rs. 8,500
Depreciation Written off Rs. 15,300
Profit on sale of fixed asset Rs. 14,000
Discount on issue of Debentures written off Rs. 20,000
Loss on sale of fixed assets Rs. 2,000
Preliminary Expenses written off Rs. 20,000
Proposed Divided Rs. 50,000
Transfer to debenture redemption fund Rs. 20,000
Interim-dividend paid Rs. 1,000
Dividend received Rs. 4,500

Adjusted P&L a/c

Particulars	Amount	Particulars	Amount
To Depr'n	15,300	By Profit on sale of FA	14,000
To Dis. On issue of Deb. Written off	20,000	By Dividends received	4,500
To Loss of Sale of FA	2,000	Funds from Operation	2,95,520
To Prilm. Exp's wri.off	20,000		
To Proposed Dividend	50,000		
To Transfer to fund	20,000		
To Interim Divd's Paid	1,000		
To N/P	1,85,720		
	3,14,020		3,14,020
Credit side Bal figure is funds from operation			
Debit side Bal figure is funds lost in operation			

Calculate funds from operation Illustration- 4 (2016)

- Net Profit for the current year Rs. 50,000/-
- Loss on sale of furniture Rs. 10,000/-
- Depreciation on Machinery Rs. 20,000/-
- Amortization (Write-off) of Goodwill Rs. 25,000/-
- Profit on Revaluation Rs. 2,500/-
- Prilm. Exp's Written off Rs. 2,000/-
- Profit on sale of building Rs. 12,000/-
- Premium paid on redemption of debentures Rs. 1,500
- Dividend income received Rs. 4,000/-

Solution-4

Particulars	Amount	Particulars	Amount
To Loss on sale of Fur're.	10,000	By Profit on Revaluation	2,500
To Depr'n on Mac'y.	20,000	By Profit on sale of Bl'g	12,000
To Amort'n. of Goodwill	25,000	By Dividend received	4,000
To Prilm. Exp's. Wr. off	2,000	Funds from Operation	90,000
To Premium paid of Deb're.	1,500		
To N/P	50,000		
	1,08,500		1,08,500

Illustration - 5

1. The N/P for the year Rs.5,650/-
2. Dep'n on Building Rs.1,000/-
3. Goodwill w. off Rs. 2,500/-
4. Transfer to reserve Rs. 450/-
5. Loss on Sale of Machine Rs. 400/-
6. Profit on sale of Plant Rs.3,500/-

Solution 4

Particulars	Amt	Particulars	Amt
To Dep'n on Blg.	1,000	By profit on sale of Plant	3,500
To G.will W.off	2,500	Funds from operation	6,500
To Transfer to reserve	450		
To Loss on sale of Mac'y	400		
To N/P	5,650		
	10,000		10,000

Illustration 5

Particulars	Amt 05	Amt 06	Particulars	Amt 05	Amt 06
Share Capt'l	12,00,000	15,00,000	Bulg's	8,00,000	7,60,000
14% Deb're	6,00,000	4,00,000	Mac'y	5,00,000	7,20,000
P&l a/c	1,00,000	1,50,000	Sho. te- Ivt's	3,00,000	4,50,000
General Re'v	3,00,000	3,50,000	Inventories	4,00,000	4,70,000
Cr's	4,90,000	5,60,000	Dr's	6,70,000	5,30,000
ProposedDiv	1,20,000	1,80,000	Cash	2,20,000	3,30,000
Pro. Tax	1,00,000	1,30,000	Prepaid exp's	20,000	10,000
	29,10,000	32,70,000		29,10,000	32,70,000

Adj's- 1. Debentures were redeemed at a premium of 10% 2.Tax paid during the year amounted to Rs.1,40,000 3. a Machine that appeared at a WDV of Rs.80,000 was sold for Rs. 1,30,000 and a new machinery was purchased for Rs. 3,60,000 Prepare a statement of sources and application or Fund flow statement

Illustration 6

Particulars	Amount 04	Amount 05	Particulars	Amount 04	Amount 05
Share Capital	12,00,000	16,00,000	P&M(at cost)	8,00,000	12,90,000
Debentures	4,00,000	6,00,000	L&B (at cost)	6,00,000	8,00,000
P&L a/c	2,50,000	5,00,000	Stock	6,00,000	7,00,000
Cr's	2,30,000	1,80,000	Prilm. Exp's	54,000	92,000
Provision: ▪ Bad Debts ▪ Dep'n on P&M ▪ Dep'n on L&B	 12,000 60,000 40,000	 6,000 70,000 48,000	Dr's	1,38,000	1,22,000
	21,92,000	30,04,000		21,92,000	30,04,000

1. During the year a part of the machinery costing Rs.1,40,000/- (accumulated Depreciation thereon Rs. 4,000/-) was sold for Rs. 12,000/-
2. Dividend of Rs.1,00,000/- was paid during the year.

Illustration 7

Particulars	03	04	Particulars	03	04
Share Capital	2,00,000	2,50,000	Good will	7,500	5,000
GR	10,000	25,000	Buildings	1,42,500	1,57,500
P&L a/c	15,000	50,000	P&M	93,000	75,000
12% Debt're	2,00,000	2,35,000	Invet's (LT)	75,000	75,000
Cr's	1,25,000	60,000	Stock	2,00,000	1,80,000
BP	75,000	40,000	Dr's	1,50,000	1,65,000
Prop'd Div'nd	40,000	40,000	Cash	6,250	12,500
Pro'n for tax	60,000	50,000	Bank	50,750	80,000
	7,25,000	7,50,000		7,25,000	7,50,000

Adj: 1. During the year investments costing Rs. 20,000/- were sold at a profit of Rs.10,000/-

2. An interim dividend was paid Rs.25,000/- during the year.

3.Tax paid during the year Rs.60,000/-

4. Dep'n of Blg Rs. 15,000

5. Dep'n on Machn'y Rs. 9,300/-

Prepare Fund flow Statement.