Illustration 5: (Commonsize balance sheets of different firms)

The following are the balance sheets of 'X' Ltd., and 'Y' Ltd., as on 31st March 2000. Comment on their position by preparing common size balance sheets.

Balance sheet as on 31st March 2000

Liabilities	*X Ltd.* Rs.	*Y Ltd.* Rs.	*Assets*	*X Ltd.* Rs.	*Y Ltd* Rs.
Share capital	25,00,000	40,000	Fixed assets	60,00,000	80,000
Reserves	10,00,000	60,000	Stock	20,00,000	20,000
10% Debentures	40,00,000	–	Debtors	50,00,000	15,000
Term Loans	60,00,000	10,000	Bills Receivable	10,00,000	10,000
Creditors	20,00,000	20,000	Cash at Bank	20,00,000	15,000
Bills payable	5,00,000	10,000			
	1,60,00,000	1,40,000		1,60,00,000	1,40,000

Solution: *[Madras B.Com (gen) & B.Com (A.F) (BPZ6B, BPW6C) April 2011]*

Common size balance sheet of 'X' Ltd., and 'Y' Ltd.

As on 31 st March 2000

	X Ltd. Amount Rs.	*X Ltd.* %	*Y Ltd.* Amount Rs.	*Y Ltd.* %
Assets				
Current Assets:				
Cash at Bank	20,00,000	12.50	15,000	10.72
Bills Receivable	10,00,000	6.25	10,000	7.14
Debtors	50,00,000	31.25	15,000	10.72
Stock	20,00,000	12.50	[illegible]0,000	14.28
Total current Assets (A)	1,00,00,000	62.5[illegible]	[illegible]0	42.86
Fixed Assets (B)	60,00,000	37.5[illegible]	[illegible]0	57.14
Total Assets (A + B)	1,60,00,000	10[illegible]	[illegible]0	100.00
Current Liabilities				
Bills payable	[illegible]000	3.[illegible]	[illegible]0	[illegible]
Creditors	[illegible]000	1[illegible]	[illegible]0	[illegible]
Total Current Liabilities (A)	[illegible].000	[illegible]	[illegible]	[illegible]
Long term liabilities:				
10% Debentures	[illegible]	[illegible]	[illegible]	[illegible]

We may conclude that the liquidity position of both companies is good but X Co., relies heavily on borrowings for its requirement of funds whereas Y Co., relies mostly on own funds. X Co., is more 'risk prone' and Y Co., is highly conservative.

Note: Balance sheet total of each company is taken as 100 and all the assets and liabilities of each company are shown as a percentage of the total of their respective balance sheets.

(C) TREND PERCENTAGES

Illustration 6

The following are the extracts from the income statements of Bright Ltd., for the 6 years ending 1999. You are required to calculate trend percentages, taking 1994 as the base year and give two major conclusions you can draw.

(figures in thousands)

Particulars	*1994*	*1995*	*1996*	*1997*	*1998*	*1999*
Sales	300	340	420	480	520	600
Cost of goods sold	180	204	256	287	300	330
Office Expenses	40	42	45	50	55	60
Selling expenses	20	25	30	40	50	60
Net profit/loss	60	69	89	103	115	150

Solution:

Bright Limited

Statement showing Trend percentages

For the period 1994 to 1999

Particulars	*Year end (Rs. in thousands)*						*Trend percentages Base year 1994*					
	1994	*1995*	*1996*	*1997*	*1998*	*1999*	*1994*	*1995*	*1996*	*1997*	*1998*	*1999*
Sales	300	340	420	480	520	600	100	113	140	160	173	200
***Less:* Cost of goods sold**	180	204	256	287	300	330	100	113	142	159	167	183
Gross profit (A)	120	136	164	193	220	270	100	113	137	161	183	225
Office expenses	40	42	45	50	55	60	100	105	112	125	137	150
[illegible] expenses	20	25	30	40	50	60	100	125	150	200	250	300

Illustration 7

From the following balance sheet extracts, compute trend percentages and comment on the liquidity position of X Ltd. You may take 1990 as base year.

Particulars	1990 Rs.	1991 Rs.	1992 Rs.	1993 Rs.	1994 Rs.	1995 Rs.
Stock	1,50,000	1,70,000	1,90,000	2,30,000	2,20,000	2,00,000
Debtors	1,40,000	1,20,000	80,000	90,000	1,00,000	1,00,000
Cash	60,000	50,000	50,000	60,000	90,000	1,00,000
Current liabilities	3,00,000	3,20,000	3,00,000	2,80,000	2,40,000	2,00,000

[Periyar, B.Sc. (Old) April / May 2004]

Solution:

X Ltd.

Statement showing Trend percentages

Particulars	Year end (Rs. in thousands)						Trend percentages Base year 1990					
	1990	1991	1992	1993	1994	1995	1990	1991	1992	1993	1994	199
Stock	150	170	190	230	220	200	100	113	127	153	147	13
Debtors	140	120	80	90	100	100	100	86	57	64	71	7
Cash	60	50	50	60	90	100	100	83	83	100	150	16
Total current Assets	350	340	320	380	410	400	100	97	91	109	117	11
Less: Current liabilities	300	320	300	280	240	200	100	107	100	93	80	6
Working capital	50	20	20	100	170	200	100	40	40	200	340	40

Comment: In the first three years i.e., 1990, 91 and 92 liquidity position was highl unsatisfactory. However during 1993 and 1994 it improved and by 199 liquidity position has become normal and satisfactory. The growing trend working capital is reassuring.

5. From the following profit and loss account and balance sheet of Gopal Industries, prepare a comparative income statement and a comparative balance sheet.

Profit & Loss Account *(Rupees in lakhs)*

	1992	1993		1992	1993
To Cost of goods sold	500	640	By Sales	700	900
Operating expenses :					
Administrative	20	20			
Selling	30	40			
To Net Profit	150	200			
	700	900		700	900

Balance sheet as on 31st December *(Rs. in lakhs)*

Liabilities	1992	1993	*Assets*	1992	1993
Bills payable	50	75	Cash	50	70
Tax payable	100	150	Debtors	300	450
Creditors	150	200	Stock	100	200
Debentures	100	150	Land	100	120
Preference share capital	300	300	Buildings	200	180
Equity share capital	200	200	Machinery	250	225
Reserves	200	250	Furniture	100	80
	1,100	1,325		1,100	1,325

[Madras, B.Com., Sept. 1994]

[Ans : Sales: + 28.57%; G.P.: + 30%; N.P.: + 33.33%; Total assets and Total

[Ans :

	2006	2007
Cost of sales	50%	44%
Gross profit	50%	56%
Operating expenses	10%	6%
Net profit	25%	43%]

7. Following is the P&L A/c of Shekar Fibres Ltd., for the year ended 31.12.85 & 31.12.86. You are required to prepare a common size income statement.

Profit & Loss Account *(Rs. in lakhs)*

Particulars	*1985*	*1986*	*Particulars*	*1985*	*1986*
To Cost of goods sold	300	375	By Net Sales	400	500
To Operating exp :					
Administrative	10	10			
Selling	15	20			
Net profit	75	95			
	400	500		400	500

[Madras, B.Com., March 1988; B.Com., March 1990 (double figures); B.Com., Sept. 1990 (double figures) M.Com. April 1987 (double figures)]

[Ans :

	1985	1986
Cost of goods sold	75%	75%
Gross Profit	25%	25%
Operating expe	25%	6%
Net profit	75%	19%]

8. From the following Income Statement of Spega Ltd., f[illegible] prepare common size income stateme[illegible] 2006 and 2007.

	[illegible]	2007 Rs.
Gross sales	[illegible]	8,15,000
Less : Sales returns	[illegible]	15,000
Net sales	[illegible]	[illegible]000
Cost of sales	[illegible]	[illegible]
Gross profit (A)	[illegible]	[illegible]

Operating expenses (B)		
Selling and Distribution expenses	23,000	24,000
Administrative expenses	12,700	12,500
	35,700	36,500
Operating income (A – B)	69,300	1,48,500
Other incomes	1,200	8,050
	70,500	1,56,550
Non-operating expenses	1,750	1,940
Net profit	68,750	1,54,610

[Ans :

	2006	2007
Sales	100	100
Cost of Sales	85	76.875
Gross Profit	15	23.125
Operating Expenses	5.1	4.562
Operating Profit	9.90	18.5625
Net Profit	9.82	19.33]

Sales
(–) COS
G.P.
(–) Op exp.
Op. P.

9. From the following assets side of the balance sheet of Sundaram Computers Ltd., for the years ended 31.12.01 and 31.12.02, prepare a common size balance sheet for 2001 and 2002.

	Rupees in Lakhs	
Assets	*2001*	*2002*
Cash	100	140
Debtors	200	300
Stock	200	300
Land & Buildings	400	370
Plant	300	270
Furniture	100	140
	1,300	1,520

[Madras, B.Com (ICE) Oct. 2009; B.Com., April 2003; March 1994; March 1991]

[Ans: Current Assets: 2001: 28.46%: 2002: 48.68%;

Fixed Assets: 2001: 61.54%; 2002: 51.32%]

12. The summary of Balance Sheet data in respect of A Ltd. and B Ltd. is as under:

	A Ltd. Rs.	B Ltd. Rs.
Buildings	1,00,000	4,50,000
Machinery	3,00,000	7,50,000
Share capital	4,50,000	14,50,000
Retained earnings	50,000	33,000
Debtors	1,15,000	1,60,000
Stocks	60,000	2,17,000
Cash	10,000	5,000
Prepaid expenses	5,000	3,000
Creditors	91,000	1,00,000
Liability for expenses	9,000	17,000
Preliminary expenses	10,000	15,000

Prepare common-size balance sheets.

[Madras, 1st M.Com. April 2005]

[Ans : B/S Total : A Ltd. Rs. 6,00,000
B Ltd : Rs. 16,00,000]

13. Big Ltd., and Small Ltd., furnish you the following balance sheets and you are requested to prepare a common size balance sheet as on 31st March 2007 so that they can make a comparative assessment of their financial position.

Balance Sheet

Liabilities	*Big Ltd.* *Rs.*	*Small Ltd.* *Rs.*	*Assets*	*Big Ltd.* *Rs.*	*Small Ltd.* *Rs.*
Share capital	50,00,000	25,000	Fixed assets	60,00,000	10,000
Reserves	5,00,000	20,000	Inventories	25,00,000	5,000
Term Loans	20,00,000	–	Debtors	10,00,000	20,000
Current Liabilities	25,00,000	5,000	Cash	5,00,000	15,000
	1,00,00,000	50,000		1,00,00,000	50,000

14. The following are the balance sheets of X Ltd. and Y Ltd. for the year ending 31st of December, 2003. Prepare common-size balance sheet.

Liabilities	*X Ltd. Rs.*	*Y Ltd. Rs.*	*Assets*	*X Ltd. Rs.*	*Y Ltd. Rs.*
Equity share capital	2,50,000	1,70,000	Land and building	3,50,000	2,75,000
Preference share capital	1,20,000	80,000	Plant and machinery	2,70,000	3,00,000
Reserves and surplus	50,000	70,000	Investment (temporary)	72,000	12,000
Loans	3,50,000	2,79,000	Book-debts	47,500	25,000
Bills payable	25,000	14,000	Prepaid expenses	35,400	–
Sundry creditors	18,000	8,000	Cash and bank	48,690	21,000
Outstanding expenses	8,590	4,500			
Dividend declared	2,000	7,500			
	8,23,590	6,33,000		8,23,590	6,33,000

[Madras, 1st, M.Com. Nov. 2005]

[Ans :

	X Ltd. %	*Y Ltd.* %
S.H. Funds	51	51
LTB	43	44
CL	6	5
F Assets	75	91
C Assets	25	9.]

19. From the following data, you are required to calculate the trend percentages taking 2001 as base year.

(Rupees in '000s)

	2001	2002	2003	2004
Cash	100	120	80	140
Debtors	200	250	325	400
Stock-in-trade	300	400	350	500
Other Current assets	50	75	125	150
Land	400	500	500	500
Building	800	1,000	1,200	1,500
Plant	1,000	1,000	1,200	1,500
	2,850	3,345	3,780	4,690

[Madras, BBA; May 2005 (ICE); B.Com., March 1995, Sept. 1988; M.Com., April 1995]

[Ans :

	2001	2002	2003	2004
Fixed assets	100	114	132	159
Current assets	100	130	135	183
Total assets	100	117	133	165]

20. A partial list of trend and common–size percentages for ABC Co. Ltd. is given below.

	December Current Year	December Previous Year
Trend Percentages :		
Sales (net)	120%	100%
Cost of goods sold	?	100%
Gross profit on sales	?	100%
Operating expenses and Income taxes	?	100%
Net income	?	100%
Common-size percentages :		
Sales (net)	100%	100%
Cost of goods sold	?	?
Gross profit on sales	40%	?
Operating expenses and Income taxes	20%	25%
Net income	20%	10%

Illustration 11

Profit and Loss Account of X Ltd., is given below

Profit and Loss Account

Particulars	Rs.	Particulars	Rs.
To Opening stock	2,00,000	By Sales	16,00,000
To Purchases	12,00,000	By Closing stock	3,20,000
To Administration expenses	1,20,000	By Dividend	4,000
To Selling expenses	80,000		
To Financial expenses	40,000		
To Loss on sale of assets	5,000		
To Net profit	2,79,000		
	19,24,000		19,24,000

Calculate the profitability ratios

Solution:

It is appropriate to redraft the Profit and Loss Account given before calculating profitability ratios:

Profit and Loss Account

Particulars	Rs.	Particulars	Rs.
To Opening stock	2,00,000	By Sales	16,00,000
To Purchases	12,00,000	By Closing stock	3,20,000
To Gross profit c/d.	5,20,000		
	19,20,000		19,20,000
To Administration expenses	1,20,000	By Gross profit b/d	5,20,000
To Selling expenses	80,000		
To Operating profit c/d	3,20,000		
	5,20,000		5,20,00
To Finance expenses	40,000	B... profit b/d	3,20,0
To Loss on sale of assets	5,000	B... ceived	4,0
To Net profit c/d	2,79,000		
	3,24,000		3,24,

Profitability Ratios

(1) Gross profit ratio

Gross profi

Net sales

20,000

(4) Oper

Cost

Opera

Opera

Note: Fin

(5) Expe

(a) Admi

(b) Selling

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

$$= \frac{1,75,000 + 1,45,000}{2}$$

$$= \text{Rs. } 1,60,000$$

$$\therefore \text{Stock turnover ratio} = \frac{8,00,000}{1,60,000} = 5 \text{ times}$$

$$\text{Stock turnover period} = \frac{\text{Days / months in the year}}{\text{Stock turnover ratio}}$$

$$\text{Stock turnover period in days} = \frac{365}{5} = 73 \text{ days}$$

$$\text{Stock turnover period in months} = \frac{12}{5} = 2.4 \text{ months}$$

Illustration 13

Pankajam Ltd. sells goods on cash as well as on credit basis. The following information is extracted from their books of accounts for 1993:

	Rs.
Total sales	1,00,000
Cash sales (included in the above)	20,000
Sales returns	7,000
Total debtors for sales as on 31-12-1993	9,000
Bills receivables as on 31-12-1993	2,000
Provision for doubtful debts	1,000
Trade creditors as on 31-12-93	10,000

You are required to calculate

(1) Debtors/Receivables turnover ratio;

(2) The average collection period

dras B.Com., B.Com(CS) etc Nov. 2010. April 2010; M.Com(CA2A) Ap. 2010; M.Com(ICE) 2009; Oct. 2008; B.Com(CS) Ap.2008; B.Com., BBA etc., April 2007; BBA April 2005]

ition:

Debtors/Receivables turnover ratio

$$= \frac{\text{Credit sales}}{\text{Average ... eivables}}$$

lit sales:

To...

Les... ...00

80,000

7,000

73,000

Illustration 25

paust

The following are the Profit and Loss Account and Balance sheet of Jai Hind Ltd. Redraft them for the purpose of analysis and calculate: (1) Gross profit ratio (2) Net profit ratio (3) Operating profit ratio (4) Operating ratio (5) Return on capital employed (6) Debtors turnover ratio (7) Creditors turnover ratio (8) Stock turnover ratio (9) Fixed assets turnover ratio (10) Current ratio (11) Quick ratio (12) Debt equity ratio (13) Proprietary ratio (14) Fixed assets ratio (15) Capital gearing ratio.

Profit and Loss Account of Jai Hind Ltd.

Particulars	*Rs.*	*Particulars*	*Rs.*
To Opening stock:		By Sales	10,00,000
of raw materials	50,000	By Closing stock:	
of finished goods	1,00,000	of raw materials	1,50,000
To Purchase of raw materials	3,00,000	of finished goods	1,00,000
To Direct wages	2,00,000	By Profit on sale of investments	50,000
To Manufacturing expenses	1,00,000		
To Administration expenses	50,000		
To Selling expenses	30,000		
To Distribution expenses	20,000		
To Loss on sale of plant	55,000		
To Interest on debentures	10,000		
To Net profit	3,85,000		
	13,00,000		13,00,000

Balance Sheet

Liabilities	*Rs.*	*Assets*	*Rs.*
Share capital:		Fixed assets	2,50,000
Equity share capital	1,00,000	Stock of raw mat[illegible]	1,50,000
10% Preference share capital	1,00,000	Stock of finish[illegible]	1,00,000
Retained earnings	1,00,000	Sundry debtor[illegible]	1,00,000
5% Debentures	2,00,000	Bank balance	50,000
Sundry creditors	1,00,000		
Bills payable	50,000		
	6,50,000		[illegible]

[Bharat[illegible]

Balance Sheet

Liabilities	Rs. in lakhs	Assets	Rs. in lakhs
Share capital	200	Plant & Machinery	200
Creditors	100	Cash	100
	300		300

[Madras, M.Com., April 1994]

[Ans : (a) 40%; (b) 65%; $\left(\frac{195}{300} \times 100\right)$; (c) 92.5%; (d) 10%]

Hint : 1. Average interest rate is taken as 'interest as % of creditors' in the absence of any other borrowings.

2. Return on assets is profit after tax but before interest as percentage of tangible assets.

9. Jasmine manufacturing company has drawn up the following P & L A/c for the year ended 31st March 1986.

Particulars	Rs.	Particulars	Rs.
To Opening Stock	26,000	By Sales	1,64,000
To Purchases	80,000	By Closing Stock	34,000
To Wages	24,000		
To Manufacturing expenses	16.000		
To Gross profit c/d	52,000		
	1,98,000		1,98,000
To Selling & distribution expenses	4,000	By Gross profit b/d	52,000
To Administration expenses	22,800	By Compensation for acquisition of land	4,800
To General expenses	1,200		
To Value of furniture lost by fire	800		
To Net profit c/d	28,000		
	56,800		56,800

You are required to find out the following ratios :

(i) Operating ratio
(ii) Ratio of operating net profit
(iii) Gross profit ratio
(iv) Selling and distribution expenses ratio
(v) Administration expenses ratio.

[Madras, B.Com., March 1986]

[Madras, B.Com., April 2001]

[Ans : (1) 2.67; (b) 1; (c) 1.375; (d) 0.36]

4

33. From the following particulars, pertaining to assets and liabilities of a company calculate (a) liquid ratio, (b) proprietary ratio (c) debt equity ratio and (d) capital gearing ratio.

Liabilities	Rs.	Assets	Rs.
5,000 equity shares of Rs. 50 each	2,50,000	Building	3,00,000
1,000 8% preference shares of Rs. 100 each	1,00,000	Machinery	2,50,000
2,000 9% Debentures of Rs. 100 each	2,00,000	Stock	1,20,000
Reserves	1,50,000	Debtors	1,00,000
Creditors	75,000	Cash at Bank	27,500
Bank overdraft	25,000	Prepaid expenses	2,500
	8,00,000		8,00,000

[Madras, B.C.A (PK4B) Nov. 2010 (2 times) Nov. 2007 (2 Times), B.C.S. (ICE) Oct. 2003 (Double Figs.); B.C.A./B.Sc.(ICE) May 2003; April 2002 (Double figures); B.Com. (Old) Oct. 2002; 4 Times]

[Ans : (a) 1.275; (b) 0.625; (c) 0.40; (d) 0.75]

Hint : Prepaid expenses is not a liquid asset. Bank overdraft is also taken as a current liability. Preference capital is also included in shareholders' funds for proprietary and debt equity ratios. Preference capital is a part of long-term debt for capital gearing ratio.

34. Following is the Balance Sheet of Kovalan & Co. Ltd.

Liabilities	Rs.	Assets	Rs.
Equity shares capital	1,00,000	Cash	2,000
6% Preference share capital	1,00,000	Bank	10,000
7% Debentures	40,000	Bills receivable	30,000
8% Public debt	20,000	Investments	20,000
Bank overdraft	40,000	Debtors	70,000
Creditors	60,000	Stock	40,000

67. From the following details prepare statement of proprietary funds with as many details as possible.

(i) Stock velocity	=	6
(ii) Capital turnover ratio	=	2
(iii) Fixed assets turnover ratio	=	4
(iv) Gross profit turnover ratio	=	20 per cent
(v) Debtors velocity	=	2 months
(vi) Creditors velocity	=	73 days

The Gross profit was Rs. 60,000. Reserves and surplus amount to Rs. 20,000. Closing stock was Rs. 5,000 in excess of opening stock.

[Madras, B.Com., B.Com(AF) April 2011; M.Com(KCA2A) Nov. 2010; B.Com(CS) April 2009; BBA Nov. 2007; M.Com. (ICE) May 2007; B.Com.(Old) April 2007; BBA (MG3B) Nov. 2004]

[Ans : Proprietary funds : Rs. 1,20,000; Capital : Rs. 1,00,000; Reserves : Rs. 20,000; Current liabilities : Rs. 49,000; Debtors : Rs. 50,000; Closing stock : Rs. 42,500; Other current assets : Rs. 16,500; (Bal. fig in balance sheet) fixed assets Rs. 60,000]

Hint: Both fixed assets turnover and capital turnover are calculated on cost of sales basis. It is assumed that there are no long-term borrowings.

E-2 Reconstruction of Balance Sheet

68. From the following given ratios and figures prepare a summarised Balance Sheet of XYZ Co. Ltd., for the year ended 31-12-2005.

(a) Working capital	–	Rs. 60,000
(b) Reserves and surplus	–	Rs. 40,000
(c) Bank overdraft	–	Rs. 10,000
(d) Asset (fixed) proprietorship ratio	–	0.75
(e) Current ratio	–	2.50
(f) Liquid ratio	–	1.50

[Madras, BBA., April 2011; (2 times) BBA(Sem) Ap 2006; BCS (PYE) Ap 2005; B.C.S.(ICE) May 2004; (2 Times); M.Com., 1st year April 2003; [Double Figs] B.Com., April 2001 (Old) double figures, B.Com., April 1999]

[Ans : Assets – Total : Rs. 2,80,000; Fixed assets : Rs. 1,80,000; Stock : Rs. 40,000; Other current assets : Rs. 60,000; Liabilities – Total : Rs. 2,80,000;

76. From the following data, prepare the Balance Sheet of Vijay Raghavan as on 31-12-1992:

Fixed assets	–	Rs. 6,00,000
Working capital	–	Rs. 4,00,000
Current ratio	–	2 times
Fixed assets to turnover	–	4 times
Gross profit ratio	–	25%
Debtors velocity	–	1.5 months
Creditors velocity	–	2 months
Stock	–	2 months
Net profit	–	5% of turnover
Reserve	–	2/3 of net profits
Capital gearing	–	1 : 1

[Madras, M.Com., April 199...]

[Ans : Assets – Total : Rs. 14,00,000; Fixed assets : Rs. 6,00,000
Debtors : Rs. 3,00,000; Stock : Rs. 3,00,000
Other current assets : Rs. 2,00,000
Liabilities – Total : Rs. 14,00,000; Capital : Rs. 4,20,000
Reserves : Rs. 80,000
Long-term borrowings : Rs. 5,00,000
Current liabilities : Rs. 4,00,000

Hint: Total assets – Current liabilities = Capital employed
= 14,00,000 – 4,00,000 = Rs. 10,00,000.

Since capital gearing is 1 : 1, Shareholders funds : Rs. 5,00,000 and Long-term borrowings are the Balance : Rs. 5,00,000.

77. From the following particulars relating to Alacrity and Co., prepare a Balance Sheet as on 31-12-86.

Fixed assets turnover ratio	=	2 : 1
Debt collection period	=	2 months
Gross profit to sales	=	25%
Consumption of raw materials	=	40% of cost
Stock of raw materials	=	4 months consumption
Finished goods	=	20% of turnover at cost
Fixed assets to current assets	=	1 : 1
Current ratio	=	2

78. The following ... 30-9-1992. You are required to reconstruct Balance Sheet as on 30-9-1992 :

Fixed assets (after 30% depreciation)	–	Rs. 10,50,000
Finished goods/Turnover ratio (on cost of sales)	–	6 (times)
Fixed assets/Turnover ratio (on cost of sales)	–	2 (times)
Gross profit % on sales	–	25%
Net profit (before interest)/Sales	–	8%
Interest cover (Debenture interest at 7%)	–	8
Debt collection period (months)	–	1.5
Materials consumed / Sales	–	30%
Stock of raw materials (months of consumption)	–	3
Current ratio	–	2.4
Quick ratio	–	1
Reserves / capital	–	0.21

[Madras, M.Com., Oct. 1993]

[Ans : Assets – Total : Rs. 20,10,000; Fixed assets : Rs. 10,50,000; Debtors : Rs. 3,50,000; Stock of raw materials : Rs. 2,10,000; Stock of finished goods : Rs. 3,50,000; Other liquid assets : Rs. 50,000; Liabilities – Capital : Rs. 10,00,000; Reserves : Rs. 2,10,000; Debentures : Rs. 4,00,000; Current Liabilities : Rs. 4,00,000]

Hint: Finished goods Turnover Ratio = Cost of Sales ÷ Finished goods.

E-3 Reconstruction of P & L A/c and Balance Sheet

79. With the following information relating to SVP. Ltd. in respect of the year ended 31-12-1988, prepare a Trading and Profit and Loss Account.

Gross profit ratio	–	25%
Net profit ratio	–	20%
Stock turnover ratio	–	10

Net profit / capital	–	1/5
Fixed assets / capital	–	5/4
Fixed assets	–	Rs. 6,00,000
Closing stock	–	Rs. 48,000

[Madras, M.Com., Oct. 1989]

[Ans : Sales : Rs. 4,80,000; Closing stock : Rs. 48,000; Opening stock : Rs. 24,000; Purchases (Bal. fig. in tr. A/c) : Rs. 3,84,000; Gross profit : Rs. 1,20,000; Expenses : Rs. 24,000; Net profit : Rs. 96,000]

80. From the following ratios, prepare Trading and Profit and Loss Account and Balance Sheet as on 31-12-1992.

Current ratio	–	2.5
Liquid ratio	–	1.5
Working capital	–	Rs. 9,00,000
Opening stock	–	Rs. 2,00,000 less than closing stock
Stock turnover ratio	–	6 times
Gross profit ratio	–	25% on sales
Debtors velocity	–	73 days
Creditors velocity	–	[illegible]ths
Fixed assets turnover ratio (on cost of goods sold)	–	[illegible]
Debt equity ratio	–	[illegible]
Reserves to share capi[illegible]	–	[illegible]
Net profit ratio	–	[illegible]

[illegible] capital.

[illegible] : Rs. 40[illegible] [Madr]as, B.Com., Sep. 199[illegible]

Illustration 5 3 Doubt

From the following details, ascertain 'Funds From Operations'.

Particulars	*1998* *Rs.*	*1999* *Rs.*
P & L A/c Balance at the end	50,000	60,000
General Reserve	30,000	40,000
Goodwill	20,000	12,000
Preliminary expenses	6,000	4,000
Depreciation provision (accumulated)	25,000	40,000
Income from non trading investments	–	20,000

Preference shares of the face value of Rs. 1,00,000 were redeemed during the year at premium of 10%. The premium on redemption was charged to the Profit and Loss A/c.

Solution:

Adjusted Profit & Loss Account for the year 1999

Particulars	*Rs.*	*Particulars*	*Rs.*
To Transfer to general reserve (40,000 – 30,000)	10,000	By Balance B/d	50,000
To Goodwill written off (20,000 – 12,000)	8,000	By Income from no[illegible] investments	20,000
To Preliminary expenses written off (6,000 – 4,000)	2,000	By Funds from [illegible] (Bal. fig.)	35,000
To Provision for depreciation (40,000 – 25,000)	15,000		
To Prem. on Redem. of Pref.shares	10,000		
To Balance c/d	60,000		
	1,05,000		1,05,000

Note: (1) Transfer to general reserve, goodwill writt[illegible] written

Illustration 14 (Partnership Firm)

Balance Sheets of M/s. Raman and Krishnan as on 1st January 1998 and 31st December 1998 were as follows:

Balance Sheet

Liabilities	*1-1-98* Rs.	*31-12-98* Rs.	*Assets*	*1-1-98* Rs.	*31-12-98* Rs.
Bills Payable	80,000	88,000	Cash	25,000	22,000
Mrs. Krishnan's loan	50,000	–	Debtors	30,000	80,000
Loan, secured on			Stock	75,000	40,000
Building	80,000	80,000	Bills receivable	25,000	30,000
Creditors	30,000	60,000	Building	1,00,000	90,000
Capitals:			Furniture	1,05,000	86,000
Raman	40,000	50,000			
Krishnan	80,000	70,000			
	3,60,000	3,48,000		3,60,000	3,48,000

During 1998, furniture costing 10,000, (accumulated depreciation Rs. 6,000) was sold for Rs. 3,000. Net profit for the year was Rs. 80,000, divided equally to the partners.

Prepare a statement of sources and uses of funds for the year 1998.

Solution:

M/s. Raman and Krishnan

Statement of Sources and Uses of Funds for the year 1998

Particulars	Rs.	Rs.
Sources of Funds		
Funds From Operations (W. N. 1)	1,06,000	
Furniture sold	3,000	
...ources (A)		1,09,000
Applications of ...		
R... ...rishnan's Loan	50,000	
...s: (W. N. 2)		
Raman	30,000	
Krishnan	50,000	
		1,30,000

W. N. 3

Investments Account

Particulars	*Rs.*	*Particulars*	*Rs.*
To Balance b/d	20,000	By Bank (sale)	3,000
To Bank (purchase Bal. fig.)	5,000	By Balance c/d	22,000
	25,000		25,000

W. N. 4

Provision for Tax Account

Particulars	*Rs.*	*Particulars*	*Rs.*
To Bank (Tax paid)	30,000	By Balance b/d	32,000
To Balance c/d	34,000	By P & L A/c (Provision made Bal. fig.)	32,000
	64,000		64,000

Illustration 16 (With Income Statement)

The Comparative Balance Sheets of Anbarasan Ltd. are given below:

Balance Sheets

Liabilities	*1998 Rs.*	*1999 Rs.*	*Assets*	*1998 Rs.*	*1999 Rs.*
Share capital	1,00,000	1,00,000	Fixed Assets (net)	1,00,000	1,10,000
P & L A/c	80,000	90,000	Stock	80,000	90,000
Bank Loan	60,000	75,000	Trade debtors	90,000	1,20,000
Current Liabilities	65,000	80,000	Cash at Bank	40,000	40,000
Provision for Tax	20,000	25,000	Preliminary Exp.	15,000	10,000
	3,25,000	3,70,000		3,25,000	3,70,000

The income statement of the company for 1999 is as under:

	Rs.	Rs.
Sales		5,00,000
Less: Cost of good sold:		3,00,000
Gross profit		2,00,000
Less: Operating Expenses:		
Depreciation	20,000	
Administration & Selling expenses	70,000	90,000
Operating profit		1,10,000
Less: Non operating expenses & losses:		
Preliminary expenses	5,000	
Provision for tax	22,000	27,000
Profit after tax		83,000

You are required to prepare:

(a) Statement showing changes in working capital

(b) F...

(5D) Funds Flow Statements – With Sale of Fixed Assets and Provision for Depreciation on Assets

Illustration 20

The following are the summarised Balance Sheets of Shekar Ltd., on 31-12-93 and 31-12-94.

Balance Sheets

Liabilities	*1993 Rs.*	*1994 Rs.*	*Assets*	*1993 Rs.*	*1994 Rs.*
Share capital	12,00,000	16,00,000	*Assets:*		
Debentures	4,00,000	6,00,000	Plant & Machinery		
P & L A/c	2,50,000	5,00,000	(at cost)	8,00,000	12,90,000
Creditors	2,30,000	1,80,000	Land & Building		
Provision for:			(at cost)	6,00,000	8,00,000
Bad & Doubtful			Stock	6,00,000	7,00,000
debts	12,000	6,000	Bank	40,000	80,000
Depreciation on			Preliminary exp.	14,000	12,000
land and building	40,000	48,000	Debtors	1,38,000	1,22,000
Depreciation on					
Plant & Machinery	60,000	70,000			
	21,92,000	30,04,000		21,92,000	30,04,000

Additional Information:

(i) During the year, a part of the machinery, costing Rs. 1,40,000 [accumulated depreciation thereon Rs. 40,000] was sold for Rs. 1,02,000.

(ii) Dividend of Rs. 1,00,000 was paid during the year.

Ascertain:

(1) Changes in working capital for 1994

(2) Funds Flow Statement for 1994

[Madras, B.Com (PZK) Nov. 2007 $\left(\frac{1}{2}\right.$ *Figs.*$\left.\right)$ *; M.Com., May 1995]*

(5E) Funds Flow Statement – With issue of shares for fixed assets

Illustration 22

Following are the summarised Balance Sheets of X Ltd., as on 31-12-95 and 31-12-96

Balance Sheets

Liabilities	31.12.95 Rs.	31.12.96 Rs.	Assets	31.12.95 Rs.	31.12.96 Rs.
Share capital	2,00,000	2,50,000	Land & Buildings	2,00,000	1,90,000
General Reserve	50,000	60,000	Machinery	1,50,000	1,69,000
P & L A/c	30,500	30,600	Stock	1,00,000	74,000
Bank Loan (Long-term)	70,000	–	Sundry Debtors	80,000	64,200
			Cash	500	600
Sundry creditors	1,50,000	1,35,200	Bank	–	8,000
Provision for tax	30,000	35,000	Goodwill	–	5,000
	5,30,500	5,10,800		5,30,500	5,10,800

Additional Information:

During the year ended 31-12-96

(a) Dividend of Rs. 23,000 was paid.

(b) Assets of another company were purchased for a consideration of Rs. 50,000, payable in shares. The following assets were purchased: Stock Rs. 20,000; Machinery Rs. 25,000.

(c) Machinery was further purchased for Rs. 8,000.

(d) Depreciation written off machinery Rs. 12,000

(e) Income tax provided during the year Rs. 33,000.

(f) Loss on sale of machine Rs. 200 was written off to general reserve.

Prepare a Funds Flow Statement.

[Madras, 1st M.Com.(CA2A) Nov. 2006; Nov. 2004; B.Com.(ICE) May ... Oct. 2001; B.Com., C&M. Oct. ...

Solution:

'X' Ltd.

Funds Flow Stateme... the year ending 31-12-96

Particulars	*Rs.*
Sources of Funds:	
Funds from operations (W.N.	88,300
Issue of shares (for stock)	20,000
Sale of machinery (W.N.2)	

[Madras, B.C.A (PK4B) April 2008; B.C.A./B.Sc. (ICE) May 2003; B.C.S. Oct. 2002; B.C.S. (ICE) May 2002]

[Ans: Increase in working capital: Rs. 4,700]

4. Find out the funds from operations from the details given below :

	Rs.
Net Profit for the year 2006-2007	95,000
Depreciation charged on Fixed assets	42,000
Profit on Sale of Long term Investments included in the P&L A/c	13,000
Goodwill written off	20,000

[Ans : Rs. 1,44,000]

5. Ascertain the funds from operations from the data provided for the year 2004 :

	Rs.
(a) P&L A/c Balance on 1-1-2004	5,00,000
P&L A/c Balance on 31-12-2004	12,40,000
(b) Discount on issue of Debentures written off during 2004	50,000
(c) Profit on sale of Furniture	26,000
Loss on Sale of Buildings	1,32,000

[Ans : Rs. 8,96,000]

6. Calculate funds ... eration from the following particulars :

(a) Net prof... ar ended 31.3.2000, Rs. 6,50,000.

(b) Profit ... ding, Rs. 40,000

(c) Goo... f during the year Rs. 10,000

(d) O... h Rs. 8,000 has been sold for Rs. 6,500

(e) ... een provided on plant at 20% per year. The value of plant is

... (Old) April 2001]

3. From the following prepare a statement showing changes in working capital during 2002:

Balance sheets of Premier Ltd., as on 31st Dec.

Liabilities	*2001* *Rs.*	*2002* *Rs.*	*Assets*	*2001* *Rs.*	*2002* *Rs.*
Share capital	5,00,000	6,00,000	Fixed Assets	10,00,000	11,20,000
Reserves	1,50,000	1,80,000	Less : Depreciation	3,70,000	4,60,000
P&L Account	40,000	65,000		6,30,000	6,60,000
Debentures	3,00,000	2,50,000	Stock	2,40,000	3,70,000
			Book debts	2,50,000	2,30,000
Creditors for goods	1,70,000	1,60,000	Cash in hand and at bank	80,000	60,000
Provision for income tax	60,000	80,000	Preliminary exp.	20,000	15,000
	12,20,000	13,35,000		12,20,000	13,35,000

[Madras, B.C.S. (ICE) Oct. 2002; B.Com., March 1996]

[Ans : Increase in working capital : Rs. 1,00,000]

Hint : Provision for income tax is treated as a 'Non current item'.

4. **Prepare a statement of changes in working capital from the following details of 'R' Ltd.**

Liabilities	*31-12-99* *Rs.*	*31-12-2000* *Rs.*	*Assets*	*31-12-99* *Rs.*	*31-12-2000* *Rs.*
Equity capital	5,00,000	5,00,000	Fixed assets	6,00,000	7,00,000
Debentures	3,70,000	4,50,000	Long-term investments	2,00,000	1,00,000
Tax payable	77,000	43,000	Work-in-progress	80,000	90,000
Creditors	96,000	1,92,000	Stock	1,50,000	2,25,000
Dividend payable	87,000	80,000	Debtors	70,000	1,40,000
			Cash	30,000	10,000
				11,30,000	12,65,000

(c) Income tax paid Rs. 60,000

(d) Provision for depreciation, 31-12-89 – Rs. 1,00,000

31-12-90 – Rs. 1,50,000

[Madras, B.A. Corp. C & M, Sep. 19[illegible]

[Ans : Increase in working capital : Rs. 60,[illegible]

Total sources of funds : Rs. 3,60,[illegible]

Uses of funds : Rs. 3,00,000; Funds from operations : Rs. 2,12,[illegible]

Fixed assets purchased : Rs. 2,40,[illegible]

Depreciation charged in 1990 : Rs. 80,[illegible]

Provision for tax made in 1990 : Rs. 80,[illegible]

49. Prepare a Funds Flow Statement from the following particulars:

Balance Sheets of X Ltd., as on 31st December

Liabilities	1987 Rs.	1986 Rs.	*Assets*	1987 Rs.	1986 Rs.
Share capital	2,60,000	2,00,000	Goodwill	–	20,000
Retained Earnings	68,000	59,000	Fixed Assets (net)	2,92,000	1,79,000
Mortgages	60,000	40,000	Investments	–	20,000
Accrued expenses	38,000	26,000	Stock	1,60,000	1,40,000
Trade creditors	1,70,000	1,94,000	Debtors	1,08,000	1,00,000
			Cash	36,000	60,000
	5,96,000	5,19,000		5,96,000	5,19,000

Additional Information:

(a) Depreciation provided on fixed assets during 1987 amounted to Rs. 27,000.

(b) A part of the fixed assets was sold during 1987 for Rs. 7,000. The original cost of the asset sold was Rs. 10,000 and accumulated depreciation thereon was Rs. 6,000.

(c) Dividend paid in 1987 amounted to Rs. 14,000. Show you workings.

[Madras, M.Com., Sep. 1988]

[Ans : Increase in w[illegible] capital : Rs. 16,000;

So[illegible]ds : Rs. 1,74,000;

Uses of funds : Rs. 1,58,000; Funds [illegible]ons : Rs. 67,000;

Purchase [illegible] : Rs. 1,44,000;

[illegible]fit [illegible] : Rs. 3,000]

Hint : Dividend and investments are treated [illegible]