NEW SYLLABUS

524

***Roll No.* ....**

Time allowed : 3 hours ***Maximum marks : 100***

Total number of questions : 6 ***Total number of printed pages : 16***

NOTE : *Answer **ALL** Questions.*

PART–I

1. Prabhuji is a first-generation entrepreneur engaged in the bakery business. Prabhuji is the proprietor of B & Sons – a Mumbai based concern manufacturing bakery products, confectioneries and sweets. The products are manufactured and sold in wholesale to retailers under a brand name ‘‘Bread & More’’. Products were essentially sold to retailers who would then sell the final customer. Since the year 2020 – the next generation of Prabhuji’s family started participating in the business. The new generation is technologically aware and suggested direct sales to customers through omni channel (online sales). The bakery brand was only known locally. However, due to sales online and due to the good quality of the products – the bakery product’s started gaining traction nationally. Demand for the products increased. As a result, there was a need to increase manufacturing capacity. The new members in the business suggested borrowing or setting up a Special Purpose Vehicle for the new manufacturing unit. Private Equity players can then invest in the Special Purpose Vehicle. Prabhuji is a conservative businessman. While not being average to expansion – Prabhuji suggests minimizing the need for external finance while relying more on internal accruals.

Following are some financial details :

Particulars	**Amount (₹)**
Inventory at 1st April 2022	1,00,000
Inventory at 31st March, 2023	2,00,000
Revenues	25,00,000
Credit Sales	80% of sales
Purchases	9,50,000
Wages	7,00,000
Carriage inwards	1,50,000
Receivables 1st April, 2022	2,50,000
Receivables 31st March, 2023	3,00,000
Total assets	24,00,000
Admin. Expenses	2,50,000
Depreciation	2,00,000
Finance charges	50,000
Total debt	4,00,000
Total equity	20,00,000
Tax	30%

Jimsha is a financial expert and consultant and is a school friend of Prabhuji. One of the key questions was on improvement in cash flows. Jimsha made a suggestion regarding study of working capital management. A number of firms ignore funds blocked in working capital. Prabhuji was also concerned about the return on funds invested in business as capital. Jimsha advised Prabhuji to use Du Pont Analysis to check whether funds are used efficiently.

Prabhuji mentions the increase in demand and possible need to increase capacity. There are various options available to meet the demand.

- Outsource the production to third party.
- Expand the production capacity by incurring certain capital expenditure.

There are concerns around manufacturing quality if production is outsourced. The cost of the additional capacity is likely to be substantial. A capex of ₹ 5,00,000 financed 80% by debt raiseed at 10% and remaining through new equity is required. Financial projections are given below :

Information for 2023-24	**Current**	**New**
Revenues	25,00,000	Increase by 30%
Total assets	24,00,000	26,00,000
Admin. Expenses	2,50,000	2,75,000
Depreciation	2,00,000	3,00,000
Financial charges	50,000	50,000 + Interest on new debt
Total equity	20,00,000	New Equity amount
Tatal debt	4,00,000	
Tax	30%	30%

Gross profit ratio remains same as provious year.

On the basis of above information, answer the following questions :

(*a*) Calculate inventory turnover, average collection period and interpret the ratios.

(*b*) Calculate Return on Equity by using Du Pont Analysis. Comment on how can Return on Equity be improved.

(*c*) Prepare the estimate of Profit & Loss A/c for 2023-24. What will be the Owner's capital as on 31st March, 2024 ?

(*5 marks each*)

2. (*a*) Following information is provided for X Ltd :

Balance Sheet of X Ltd.

(As on 31st March, 2023)

I. **Equity and Liability**	**Amount (₹ in lakh)**	**Amount (₹ in lakh)**
1. Shareholders' Funds		
(*a*) Share Capital		
Equity Capital		
Divided in shares of face value ₹ 10/-	XX	
Preference Capital		
Divided in shares of face value ₹ 1,000/-	XX	XX
(*b*) Reserves and Surplus		
General Reserve	7,800	
P & L A/c	15,000	**22,800**
2. Non-Current Liabilities		
(*a*) Long-term Borrowings		XX
3. Current Liabilities		
Short-term Borrowings	5,000	
Trade Payables	3,000	
Short-term Provisions	500	
Outstanding Expenses	100	**8,600**

II.	**Assets**		
	1. Non-Current Assets		
	(*a*) Property, Plant and Equipment and Intengible Assets		
	(*i*) Property, Plant and Equipment	30,000	
	(*ii*) Intangible Assets	1,000	
	(*iii*) Capital Work in Progress	2,500	**33,500**
	2. Non-Current Assets		XX
	3. Current Assets		
	(*a*) Inventories	XX	
	(*b*) Trade Receivables	5,000	
	(*c*) Cash and Cash Equivalents	300	XX

Complete the above balance sheet. Other relevant information is given below :

(*i*) The investments are in fixed income securities and have an interest rate of 8%. The payout of interest is ₹ 100 lakh. (ignore tax or TDS).

(*ii*) Inventory turnover ratio is 5. The Cost of Goods sold is ₹ 15,000 lakh. Opening and Closing inventory figures are same.

(*iii*) Issued equity share capital of ₹ 10 each is twice of preference share capital.

(*v*) Long-term borrowings have an interest payout of ₹ 1,000 lakh and rate of interest is 10%.

(*7 marks*)

(*b*) Calculate net profit margin from the following given information :

Particulars	Amount (₹)
Revenue from operations	17,00,000
Cost of Revenue from operations	10,00,000
Selling Expenses	2,00,000
Administrative Expenses	1,00,000
Depreciation	2,00,000
Interest expenses	50,000
Other Income	45,000
Tax Rate	30%

(*3 marks*)

(*c*) M2 Ltd. is a company and has an ESOP programme, for the following ESOP related exercise :

Date	
1st Apirl 2018	10,000 options were granted at ₹ 400 each when market price was ₹ 1,000. Vesting period was three years Maximum exercise period was one year
31st March, 2021	2,000 unvested options lapsed
31st March, 2021	7,000 options were exercised
31st March, 2022	1,000 options lapsed.

Assume face value of share is ₹ 10. Company follows April-March year end. You are required to pass necessary journal entries.

(*5 marks*)

3. (*a*) New Ltd. issued 1,00,000 shares which were underwritten as under :

	Number of shares underwritten	**Applications for firm underwriting**	**Marked applications**
Underwriter A	60,000	8,000	10,000
Underwriter B	25,000	3,000	20,000
Underwriter C	15,000	10,000	5,000

Total subscriptions excluding firm underwriting (including market applications) were 50,000 shares. Prepare a statement calculating net underwriter liability. Consider firm underwriting shares are treated as unmarked applications.

(*5 marks*)

(*b*) The summarized balance sheet of H Ltd. and S Ltd. as on 31 March, 2023 are given below :

Equity and Liabilities	**H Ltd. (₹)**	**S Ltd. (₹)**
Share Capital :		
Shares of Rs. 10 each	1,00,00,000	20,00,000
Reserves	16,00,000	6,00,000
Profit & Loss A/c	12,00,000	8,00,000
Total	**1,28,00,000**	**34,00,000**
Assets		
Sundry Assets	1,00,00,000	34,00,000
Equity in S Ltd. 1,60,000 shares	28,00,000	
	1,28,00,000	**34,00,000**

S Ltd. had reserves of ₹ 6,00,000 when H Ltd. acquired shares in S Ltd. but P & L balance was fully earned after the purchase of shares by H Ltd.

S Ltd. decided to issue bonus shares out of the post-acquisition profits in the ratio of 1 share for every 5 shares held.

(*i*) Calculate cost of control before issue of bonus shares and after issue of bonus shares.

(*ii*) What will be the journal entry passed in the books of S Ltd. and H Ltd. on issue of bonus shares by S Ltd ?

(*5 marks*)

(*c*) The summarized information of CBA Limited is given below :

Balance Sheet of CBA Ltd. on 1st April 2022 to 31st March, 2023

		Amount (in ₹)	
	Particulars	**1st April 2022**	**31st March, 2023**
I.	**Equities and Liabilities**		
	Equity Share Capital	9,00,000	10,50,000
	Share Premium	—	90,000
	General Reserve	1,35,000	1,95,000
	Profit and Loss Account	90,000	2,42,400
	10% debentures	—	2,10,000

	Sundry Creditors	2,55,000	2,72,100
	Provision for Taxation	67,500	1,21,500
	Proposed Dividend	90,000	1,05,000
	Total	**15,37,500**	**22,86,000**
II.	**Assets**		
	Land and Building	6,90,000	11,70,000
	Plant and Machinery	2,56,200	4,20,000
	Furniture	16,500	19,500
	Stock	2,47,200	2,87,100
	Sundry Debtors	2,25,000	2,56,500
	Bank	1,02,600	1,32,900
		15,37,500	**22,86,000**

Depreciation during the year :	**Amount (in ₹)**
Land and Building	1,80,000
Plant and Machinery	1,50,000
Furniture	3,600

Debentures were issued on 1st October, 2022.

Prepare Cash Flow Statement of CBA Limited for the financial year ended 31st March, 2023.

(*5 marks*)

Attempt all parts of either Q. No. 4 or Q. No. 4A

4. (*a*) Rainbow Ltd. has issued 10,000, 12% redeemable preference shares (Face value ₹ 1,000 each).

The shares are to be redeemed at a premium of 20%. The redemption proceeds will be raised through issue of equity share capital. Number of equity shares to be issued are 50,000 shares of 10 each at ₹ 240 a share.

The whole amount is received and paid out towards redemption of preference share capital.

Pass the necessary journal entries.

(*5 marks*)

(*b*) An unlisted company – other than AIFI, Bank, NBFC and HFC – has debentures on its balance sheet as on 31st March, 2022. Balances are as follows :

Particulars	**Amount (₹)**
10% mortgage debentures of ₹ 10 each Number 25,00,000	2,50,00,000
Debenture Redemption Reserve (DRR)	1,25,00,000
Unencumbered Investments in Fixed deposits of Scheduled Commercial Banks (Interest @ 7%)	37,50,000
Bank Balance	3,25,00,000

The interest on debentures is paid until 31st March, 2022.

The debentures were repaid on 30th June, 2022 at 10% premium. The investments were realized at par.

Prepare the following ledgers :

- Debenture Account, Debenture Interest Account and Debentures Redemption Reserve Investment Account.
- Debenture Redemption Reserve Account.
- Extract of bank account relating to above transactions.

(*5 marks*)

(*c*) Zedux Ltd. decided to issue 60,000 shares of ₹ 10 each at a premium of ₹ 2 per share. The amount on shares was payable as follows :

On application	₹ 2.00
On allotment	₹ 5.00 (Including premium)
First Call	₹ 2.00
Final Call	₹ 3.00

Applications were received for 1,00,000 shares. Shares were allotted on a pro rata basis. Walter was allotted 1,000 shares. Walter did not pay the allotment money and subsequent calls. Walter's shares were forfeited.

Pass the necessary journal entries.

(*5 marks*)

OR (Alternate question to Q. No. 4)

4A. (*i*) Define Small and Medium Companies. Describe applicability of Accounting Standards to Small and Medium Companies.

(*ii*) Define Leverage. What is ''Trading on Equity'' ?

(*iii*) Mention the records of Accounts to be maintained by a Company. Can a Company maintain accounts in electronic form ?

(*5 marks each*)

PART–II

5. Magma Ltd. is a manufacturing industry which has a mix of equity and debt to finance its business. The company is growing at a considerable rate prompting the management to go for expansion. The company is considering various alternatives to raise funds for the same. The capital structure of Magma Ltd. is as follows :

Particulars	**Amount (₹)**
12% Debentures (first issue)	3,00,000
13% Debentures (second issue)	2,00,000
10% Cumulative Preference Shares	2,50,000
Equity Shares (Face Value of ₹ 10 per share)	6,00,000
Retained Earnings	1,50,000

Additional Information :

(1) Equity shares are sold in the market at ₹ 25 per share. The company is contemplating the declaration of dividend of ₹ 3 per share at the end of the current financial year. The company has a practice of paying all earnings in the form of dividend.

(2) ₹ 100 per debenture (first issue) redeemable at par has 2% floatation cost and 8 years of maturity. The market price per debenture is ₹ 120.

(3) The second issue of debentures (₹ 100 each) is redeemable after 5 years and are currently selling at ₹ 90 per debenture.

(4) ₹ 100 per preference share redeemable at par has 3% floatation cost and 10 years of maturity. The market price per preference share is ₹ 108.

(5) The tax rate applicable to the company is 30%.

(6) The shareholder's tax liability may be assumed as 25% whereas the capital gain tax is 20%.

The CFO of the company is keen at understanding the cost of capital. Accordingly, you are appointed to complete the following tasks :

(1) Find out the weighted average cost of capital using :

(*a*) Book value weights.

(*b*) Market value weights.

(2) Further the company also intends to know the market price of the equity shares at the end of the current year using MM approach along with citing the assumptions of the theory.

(3) Assuming the company has sales of ₹ 20 lakh, variable cost of ₹ 12 lakh and fixed cost of ₹ 5 lakh (excluding of interest), calculate operating leverage, financial leverage and combined leverage.

(*10+5+5=20 marks*)

Attempt all parts of either Q. No. 6 or Q. No. 6A

6. (*a*) An investor is considering purchase of a new investment for ₹ 15,00,000. The Investor has two options – Option M and Option N and their expected cash inflow are as below :

Year	**Option M (Amount in ₹)**	**Option N (Amount in ₹)**
1	1,52,000	3,45,000
2	2,36,000	7,25,000
3	7,00,000	8,00,000
4	5,00,000	3,00,000
5	3,57,000	10,00,000

The investor has a target return of 12%. Risk premium rates are 3% for Investment Option M and 7% for Investment Option N.

Discount factors	**10.00%**	**12.50%**	**15.00%**	**18.00%**	**19.00%**
1	0.909	0.889	0.870	0.847	0.840
2	0.826	0.790	0.756	0.718	0.706
3	0.751	0.702	0.658	0.609	0.593
4	0.683	0.624	0.572	0.516	0.499
5	0.621	0.555	0.497	0.437	0.419

Which investment should be preferred ?

(*5 marks*)

(*b*) ABD Limited has provided the following information :

Earnings per share = ₹ 25

Dividend per share = ₹ 9

Cost of capital = 12%

Internal rate of return (IRR) on investment = 16%.

You are required to compute the market price per share using :

(*a*) Gorden's formula

(*b*) Walter's formula.

(*5 marks*)

(*c*) Two components A and B are used as follows :

Normal usage	3,000 units
Maximum usage	4,500 units
Minimum usage	1,500 units

Units	**A**	**B**
Re-order Quantity (units)	20,000	40,000
Re-order Period	4 to 6 weeks	2 to 4 weeks

Calculate :

(*i*) Re-order Level

(*ii*) Maximum Level

(*iii*) Minimum Leval

(*iv*) Average Inventory.

(*5 marks*)

(*d*) Share price of P Limited was trading at the following prices at NSE on various trading sessions :

Trading Session	**Share Price of P Limited (₹)**
1	4344
2	4254
3	4211
4	4308
5	4487
6	4213
7	4240
8	4112
9	4061
10	4414
11	4030
12	4336
13	4230
14	4392

Calculate RSI from the above data. Comment if share is overbought.

(*5 marks*)

OR (Alternate question to Q. No. 6)

6A. (*i*) "The concept of negative working capital is a sign of strong bargaining power," Comment and explain with an example.

(*ii*) What is Systematic Risk ? Describe its types.

(*iii*) What is Price Rate of Change and Advance-Decline Ratio ?

(*iv*) What is Economic Value Added and Market Value Added ? Under what conditions will EVA increase ?

(*5 marks each*)

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