



Pre-Board Exam -2072

Subject: Accounting for financial Analysis & Planning

Level: BBS-I
Time: 3 Hrs.

F.M.: 100
P.M.: 40

Candidates are required to give their answer in their own words as far as practicable. The figures in the margin indicate full marks.

Set B
Group A

Attempt All Questions.

Brief Questions Answer

[10 x 2 = 20]

1. What is operating leverage? Discuss.
2. What are the objectives of cash flow statement?
3. Give the meaning of Depreciation. Mention its importance.
4. What are the limitations of ratio analysis?
5. What is unrealized profit? Illustrate with example.
6. The following information is provided

Contribution margin.....	1,60,000
Earning before tax.....	80,000
Tax rate.....	40%

Required: Calculate Degree of Combined Leverage

7. A company has two alternative financial;

Plan I	1,000, equity share of Rs. 100 each
	1,000, 10% debenture of Rs. 100 each
Plan II	500, equity share of Rs. 100 each
	1500, 10% preference share of Rs. 100 each

Required: Indifference point of EBIT

8. The following information are provided

Inventory turnover ratio	5 times
Inventory	Rs 200,000
Debtors	Rs 250,000

Gross profit margin 25%

Required: Sales amount and, debtor turnover ratio

9. Global company purchased an asset for Rs 85,000 and spent Rs 5,000 for its erection .The useful life of the asset is 6 years. The residual value at the end of its life estimated to be Rs 6,000.

Required: Amount of depreciation to be written for 4th and 5th year under sum-of-year's digits method.

10. The following information are extracted from the financial statement of Mariya Enterprises.

Sales revenue	5,00,000	Beginning Inventory
Purchase	2,20,000	Ending Inventory
Carriage	15,000	Administrative expenses
Selling expenses	30,000	Rent
Interest	35,000	Depreciation
Tax paid.....	15,000	Dividend paid

Required: Value added statement

Group B

Descriptive Questions (any five)

[5 x 10 = 50]

11. a) What is liquidation? Explain the reasons for companies' failures.
b) Calculate Stock, Current Liabilities, Current Assets and Quick assets from the following information

- Cash sales – 1/4 th of total sales
- Credit sales – Rs. 180,000
- Prepaid expenses – Rs. 1,500
- Stock Turnover Ratio – 8 times
- Quick Ratio – 1.5 times
- Working capital – Rs. 36,000
- Gross Profit Ratio – 20%
- Closing stock was Rs. 3,000 excess of opening stock [1+1+1+1+1=5]

12. A machine purchased four years ago for Rs. 70,000 has been depreciated to a book value of Rs. 50,000. The machine originally has a projected life of 14 years and zero salvage value. A new machine will cost Rs. 130,000. Its installation cost estimated by the technician is Rs. 20,000. The technician also estimates that the installation of the new machine will result in a reduced operating cost of Rs. 15,000 per year for the next 10 years. The old machine could be sold for Rs. 80,000. The new machine will have ten year life with no salvage value. The

company's normal income is taxed at 55% and capital gain 30%. Assume the cost of capital 10% .

- Required:**
- i) Net cash outlay (NCO)
 - ii) CFAT
 - iv) Net Present Value
 - v) Decision regarding replacement of old machine (2.5X4 = 10)

13. The following are the balance sheets of Holding Company and Subsidiary Company as on 31st Dec 2014.

Liabilities	A. Ltd	B. Ltd	Assets	A. Ltd	B. Ltd
Share Capital of Rs100 each	10,00,000	2,00,000	Fixed Assets	8,00,000	1,00,000
Bills Payable	—	30,000	Stock	5,80,000	2,40,000
Creditors	2,00,000	1,00,000	Debtors	1,50,000	1,70,000
Profit & Loss Reserve	4,00,000	1,20,000	Bills Receivable	40,000	—
	1,20,000	60,000	Shares in B.Ltd,1500 Shares at cost	1,50,000	—
	17,20,000	5,10,000		17,20,000	5,10,000

Additional information:-

- (i) The bills accepted by B. Ltd are all in favor of A. Ltd.
- (ii) The Stock of A. Ltd includes of Rs. 50,000 bought from B. Ltd at a profit of 20% on sales.
- (iii) There was reserve of Rs. 60,000 in B. Ltd of the date of acquisition. There was no profit at the date of acquisition.

Required:- Consolidated Balance Sheet [10]

14. A Ltd company went into voluntary liquidation. The assets of the company realized of Rs 6,60,000 and the liquidator made a call of Rs 4 on 10,000 partly paid ordinary share of Rs 10 each. A holder of 1,000 shares failed to respond the liquidator's call. The liquidator paid Rs 200,000 to secured creditors, Rs 54,000 to preferential creditors and Rs 250,000 to the unsecured creditors. His expenses and remuneration were Rs 20,000. The capital of the company was of 10,000 preference shares of Rs 10 each fully paid and 10,000 ordinary share of Rs 10 each of Rs 6 paid.

Required: Liquidator's final statement of account. [10]

15. A company has acquired a lease of building for a term of 5 years by payment of Rs. 10,00,000. It is proposed to depreciate the lease by the annuity method charging interest at 6 percent per annum. Reference to the annuity table shows that the amount for Re 1 for 6% is 0.237396. Calculations are made to the nearest rupee.

Required:- (i) Leasehold Building A/C

(ii) Depreciation A/C [7+3=10]

16. The extracted from the two years' Balance sheet of CCA Co. Ltd. are as under:

Items	Year 1(Rs)	Year 2(Rs)
Fixed Assets	12,50,000	12,50,000
Acc Depreciation	3,75,000	5,00,000
Stock	2,00,000	3,00,000
Account Receivable	2,75,000	3,60,000
Cash and Bank	1,00,000	90,000
Account payable	2,50,000	3,00,000
Debentures	5,50,000	5,00,000
Equity capital	5,00,000	5,00,000
Reserve and surplus	1,50,000	200000

Specific Index are:

Items	Beginning	Average	Closing
Inventory, debtors, creditors	100	110	120
Fixed assets	125	-	150

Index at the time of fixed assets acquisition was 100

Required: (a) Fixed asset adjustment

(b) Depreciation adjustment

(c) Cost of Sales adjustment (COSA)

(d) Monetary working Capital Adjustment (MWCA)

(e) Gearing adjustment [2+2+2+2+2=10]

Group C

Analytical Questions Answer [Any Two] [2 x 15 = 30]

17. The company's income statement and balance sheets for two years have been given below:

Income Statement for this year

Sales revenue	Rs. 600,000
Cost of goods sold	Rs. 350,000
Gross margin	Rs. 250,000
Less: Operating expenses	
Depreciation	Rs. 80,000
Other operating expenses	Rs. 100,000
Debenture premium	Rs. 10,000
Total operating expenses	Rs. 190,000
Net income before other income	Rs. 60,000
Add: Profit on sale of fixed assets (book value being 20,000)	Rs. 10,000
Less: Dividend paid	(Rs. 20,000)
Retained earnings	Rs. 50,000

Comparative Balance Sheet

	This year (Rs.)	Last year (Rs.)		This year (Rs.)	Last year (Rs.)
Share capital	600,000	500,000	Fixed assets	800,000	600,000
Share premium	60,000	50,000	Inventories	100,000	50,000
10% debenture	50,000	100,000	Accounts receivable	100,000	150,000
Bills payable	40,000	50,000	Cash at bank	50,000	100,000
Account payable	150,000	100,000			
Retained earning	150,000	100,000			
	1,050,000	900,000		1,050,000	900,000

Required:

Statement of sources and application of cash showing cash flow from operating, investing and financing activities. [5+5+5=15]

18. A company shows the following balances on 31 , Chaitra 2071.

Particulars	Debit Rs	Credit Rs
Cash	5000	-
prepaid insurance	4,000	-
Office supplies	8,000	-

Equipments	70,000	-
Acc. depreciation	-	10,000
Account payable	-	6,000
Share capital	-	40,000
Sales revenues	-	60,000
Utility expenses	15,000	-
Salaries	14,000	-
Total	1,16,000	1, 16,000

Additional Adjustments:

- a) Outstanding salaries Rs 4000
- b) supplies in hand Rs 3,000
- c) Prepaid insurance expired Rs 1,000
- d) Depreciation on equipment Rs 4,000

Required: a) Work sheet b) Income statement c) Balance sheet [5x3=15]

19. What is purchase consideration? Discuss its methods of calculation with examples. [5+10 =15]

Best of Luck



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Set A
Group A

Attempt All Questions.

Brief Questions Answer [10 x 2 = 20]

- 1. Write about the types of Preference Share Capital.
2. What do you understand by unrealized profit?
3. Define the meaning of cash from operating activities.
4. What do you mean by ratio analysis?
5. Why is capital budgeting significant for an organization?
6. A company presents the following information.
Equity Share Capital of Rs. 100 each Rs.2,00,000
8% Preference share capital of Rs. 100 each Rs. 1,20,000
6% Debentures Rs. 80,000

The company is within 40% tax bracket

Required: EPS at EBIT level of Rs. 2,00,000

- 7. You are provided the following information.
Sales = Rs. 1,50,000
Wages to workers = Rs. 25,000
Rent received = Rs. 5,000
Cost of bought in materials and services = Rs. 90,000

Required: Amount of value added.

- 8. A company whose NPAT was Rs. 120000, has 10% Debenture of Rs. 200000 and 8% Preference Share Capital Rs. Rs. 200000. If tax rate is 40%, find out Interest Coverage Ratio.
9. The following information are provided
Monetary working capital adjustment= Rs 30,000
Cost of sales adjustment =Rs. 10,000
Current cost adjustment =Rs. 60,000

Required: Depreciation adjustment

- 10. A machine was purchased on 1st Baisakh, 2071 for Rs. 45000 and incurred Rs. 5000 each for transportation and installation. It was estimated that the machine will have a scrap value of Rs. 5000. The total life of the machine will be 5000 hours. If machine runs for 1500 hours during 2071, find out the amount of depreciation for the year 2071.

Group B

Descriptive Questions (any five) [5 x 10 = 50]

- 11. a) Ratio Analysis is used to measure financial performance of the organization, comment. [5]
b) The following information are given.
Stock turnover ratio 5 times
Stock at the end is Rs 10,000 more than the stock in the beginning.
Sales (all credit) Rs 200,000
Gross profit 25 % on cost
Current liabilities Rs 1,20,000
Quick ratio 0.75
Required: (a) Cost of goods sold
(b) Opening stock
(c) Closing stock
(d) Quick assets
(e) Current assets [1+1+1+1+1=5]

- 12. The Royal Industries is considering the replacement of one of its molding machines. The existing machine is in good operating condition but is smaller than required if the firm is to expand its operation. The old machine is 5 year old. Has a current salvage value of Rs. 30,000 and a remaining depreciable life of 10 years. The machine was originally purchased for Rs. 75,000 and is being depreciated at Rs. 5,000 per year for tax purposes. The new machine will cost Rs. 150,000 and will be depreciated on a straight line basis over 10 years, with no salvage value. The management anticipates with the expand operations, there will be need of additional net working capital of Rs. 30,000. The new machine will allow the firm to expand the current operations and thereby increases annual sales from Rs. 400,000 to 440,000; annual variable operating costs from Rs. 200,000 to Rs. 210,000. The company's tax rate is 55% and its cost of capital is 10%. Should the company replace its existing machine? [(2 + 2 + 2 + 2 + 2=10)]

- 13. On 1st January 2014.Oxford Ltd, purchased a machine for Rs 1,10,000 and spent Rs 6,000 on its installation. The expected life of the machine is 4 years after which it is expected to have salvage value of Rs 16,000.The company decided to invest the depreciation amount to earn interest at 5 % p.a. Re 0.23200 invested at 5% p.a. will

give Re. 1 at the end of 4 years as per sinking fund table. At the end of 4th year, the investments were sold for Rs 70,000.

Required:

- a) Depreciation fund account
- b) Depreciation fund investment account [5+5=10]

14. The Balance Sheet under Historical Costing system for year 2013 and 2014 have been presented below:

Liabilities	2013	2014	Assets	2013	2014
Creditors	5,000	5,000	Fixed Assets	25,000	25,000
10 % Loan	20,000	20,000	Acc. Depreciation	-	(5000)
Share Capital	55,000	55,000	Inventory	15,000	10,000
Retained Earning	-	5,000	Account receivables	10,000	15,000
			Land	20,000	20,000
			Cash	10,000	20,000
	80,000	85,000		80,000	85,000

Additional information:

Price index at the end of 20013 was 200 and it reached to 250 at the end of 2014. The value of fixed assets is increased by Rs 45,000 and Rs 40,000 in year 2013 and 2014 respectively. The value of inventory and depreciation are increased by Rs 4,000 and Rs. 5,000 respectively in year 2014 only.

Required: (a) Gearing Ratio

(b) CCAR

(c) Cost of Sales adjustment (COSA)

(d) Monetary working Capital Adjustment (MWCA) [4 x 2.5 = 10]

15. The balance sheet of a company is as follows:

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
3000 Equity Share Capital of Rs. 100 each, Rs. 75 called up	225,000	Land & Building	200,000
10% Preference Share Capital of Rs. 100 each, fully paid up	100,000	Plan & Machinery	240,000
8% Debenture	200,000	Inventory	190,000
Account Payable	225,000	Account Receivable	62,000
Preference dividend due	12,000	Cash	20,000
		P/L account	50,000
	762,000		762,000

The company went into voluntary liquidation. The assets except cash realized Rs. 450,000 including Rs. 180,000 on sale of plant and machinery, which was mortgaged against 8% debenture. The liquidator was entitled to a remuneration of 4% on value of assets realized and 2% on amount paid to equity shareholders. The cost of liquidation was Rs. 12,000.

Required:

- Liquidator's final statement of account [10]

16. The Trial balance of a firm as on 31st December, last year is given below:

Particulars	Amount (Dr)	Amount (Cr)
Beginning stock	32,000	-
Purchases	1,50,000	-
Wages	80,000	-
Sundry debtors	70,000	-
Carriage	10,000	-
Sales	-	3,80,000
Drawing	20,000	-
Cash at bank	40,000	-
Salaries	20,000	-
Rent and taxes	78,000	-
Sundry creditors	-	20,000
Capital	-	1,00,000
Total	5,00,000	5,00,000

Additional Information:

- Closing stock Rs.40,000
- Wages prepaid Rs.10,000

Required: Value added statement [10]

Group C

Analytical Questions Answer

[Any Two]

[2 x 15 = 30]

16. The Balance sheet and Income Statement of a company have been given below:

Liabilities	Year I	Year II	Assets	Year I	Year II
Share capital	Rs.400,000	Rs.500,000	Land and building	Rs.100,000	Rs.100,000
Share premium	20,000	25,000	Plant and machinery (Net)	250,000	300,000
10% debenture	100,000	50,000	Investment at cost	100,000	150,000
Bank overdraft	–	20,000	Inventories	100,000	50,000
Accounts payable	80,000	50,000	Prepaid expenses	4,000	6,000
Outstanding expenses	10,000	5,000	Accounts receivable	96,000	74,000
Provision for taxation	30,000	40,000	Cast at bank	30,000	50,000
Profit and loss A/C	40,000	40,000			
	680,000	730,000		680,000	730,000

Income Statement Year II

Sales revenue		Rs.400,000
Less: Cost of goods sold:		
Beginning inventory	40,000	
Purchases	150,000	
Less: Ending inventory	(30,000)	160,000
Wages		90,000
Total Cost of goods sold		250,000
Gross margin		150,000
Less: Operating expenses:		
Operating expenses (including depreciation Rs. 30,000 and interest Rs. 10,000)		80,000
Debenture premium		10,000
Provision for taxation		40,000
Total operating expenses		130,000
Net income before other income		20,000
Add: Gain on sale of plant (Cost Rs. 30,000, Accumulated depreciation Rs. 10,000)		20,000
Total net income c/d		40,000

Required:

Statement of Cash collection and disbursements showing, net cash available from operating, investing and financing activities.

17. The balance sheet of Going Co. Ltd on 31st Chaitra of last year was as follows:

Liabilities	Rs.	Assets	Rs.
10% Preference shares of Rs.10 each	2,00,000	Land and Building	6,00,000
40000 ordinary shares of Rs10 each	4,00,000	Plant&Machinery	1,80,000
10% Debentures of Rs. 100 each	1,20,000	Stock	80,000
Reserve fund	1,80,000	Debtors	60,000
Employee's Provident fund	20,000	Cash at bank	64,000
Trade Creditors	60,000	Preliminary exps	16,000
Profit and Loss A/C	20,000		
	10,00,000		10,00,000

The business of the company is taken over by coming Co. Ltd on that date. The purchase consideration is to be discharged as follows:

- i) A payment in cash at Rs. 90 each for every debenture in Going Co. in full discharge of debenture.
- ii) A further payment of cash at the rate of Rs.5 for every ordinary share in Going Co. Ltd.
- iii) The holders of every four 10% preference share of Going Co. will be allotted five Preference shares of Rs. 10 each in Coming Co. Ltd.
- iv) An exchange of 6 ordinary shares in Coming Co. Ltd. Of Rs. 10 each at the market value of Rs. 15 per share for every 8 shares held in Going Co. Ltd. The expenses of liquidation of Rs. 5000 were borne by vendor Company

Required:

- i) **purchase consideration**
- ii) **Closing entries in the books of Going Company..**
- iii) **Realization Account(4+8+3=15)**

18. "Discounted cash flow criteria is more superior than non-discounted cash flow criteria to evaluate the investment proposal" Examine this statement [15]

Best of Luck