

Roll No.

Maximum marks : 100

Time allowed : 3 hours

Total number of printed pages : 15

Total number of questions : 6

NOTE : Answer ALL Questions.

PART-I

1. Vibha Project Ltd., a mid-sized manufacturing company, is reviewing its financial performance for the year ended 31st March 2025. The Finance Director has sought a detailed analysis of the company's working capital efficiency and profitability position. During an internal review, the following key performance indicators and financial information were identified :

- Debtors Collection Period : 3 months
- Inventory Holding Period (Stock Velocity) : 6 months
- Creditors Payment Period : 2 months
- Gross Profit Ratio : 20%.

It was further observed that :

- The Gross Profit for the year amounted to ₹ 5,00,000.
- The closing stock exceeded the opening stock by ₹ 20,000.
- The value of Bills Receivable stood at ₹ 60,000, while Bills payable amounted to ₹ 36,667.

The Finance Director is particularly interested in understanding how efficiently the company is managing its receivables, payables, and inventory and how these factors impact liquidity and profitability.

: 2 :

Based on the above information, you are required to :

- (a) Calculate the Total Sales of the company
- (b) Determine the value of Sundry Debtors.
- (c) Compute the value of Sundry Creditors.
- (d) Ascertain the Closing Stock.
- (e) Analyse the working capital cycle of the company based on the given turnover ratios.
- (f) Comment on the liquidity position and efficiency in managing receivables, payables, and inventory.
- (g) Draft a brief note to the Finance Director highlighting :
 - (i) Key observations from the financial analysis
 - (ii) Strengths and weaknesses in working capital management
 - (iii) Suggestions for improvement.

10 → 12
↓
10 + 2.5

(2+2+2+2+2+2+3=15 marks)

2. (a) X applied for 2,000 shares of ₹ 10 each at a premium of ₹ 2.50 per share. He was allotted 1000 shares. After having paid ₹ 3 per share on application, he did not pay the allotment money of ₹ 4.50 per share (including premium) and on his subsequent failure to pay the first call of ₹ 2 per share, his shares were forfeited. These shares were reissued @ ₹ 8 per share credited as fully paid-up. Pass Journal entries to record forfeiture and reissue of shares.

(5 marks)

: 3 :

390K

- (b) On 1st April, 2024, XY Ltd. took over assets of ₹ 4,50,000 and liabilities of ₹ 60,000 of Himalyan Ltd. for the purchase consideration of ₹ 4,40,000. It paid the purchase consideration by issuing 8% Debenture of ₹ 100 each at 10% premium. On same date it issued another 3,000, 8% Debenture of ₹ 100 at discount of 10%, redeemable at premium of 5% after 5 years. According to the terms of the issue ₹ 30 is payable on application and the balance on the allotment of debentures. You are required to pass journal entries for the financial year 2024-25 in the books of XY Ltd. to record the above transactions.

(5 marks)

- (c) The following balances are extracted from XYZ Ltd. at the end of the year 2024-25 :

Assets	01.04.2024 ₹	31.03.2025 ₹	Liability	1.04.2024 ₹	31.03.2025 ₹
Land & Building	75,000	75,000	Share Capital	1,15,000	1,15,000
Machinery	26,000	35,000	Profit & Loss A/C	8,000	11,500
Temporary Investment	55,000	37,000	Reserve for Contingencies	30,000	30,000
Stock in Trade	41,000	53,000	Depreciation Fund (Prov.)	20,000	22,000
Sundry Debtors	33,500	21,500	8% Debentures	45,000	35,000
Cash and Bank Balance	45,000	45,000	Sundry Creditors	51,500	48,000
Prepaid Expenses	500	1,000	Outstanding Expenses	6,500	6,000

44
44
03

Additional Information :

- (i) 10% dividend was paid in cash,
 (ii) New machinery for ₹ 15,000 was purchased and old machinery costing ₹ 6,000 was sold for ₹ 2,000; accumulated depreciation was ₹ 3,000.
 (iii) ₹ 10,000, 8% debentures were redeemed by purchase from open market @ ₹ 96 for a debenture of ₹ 100.
 (iv) An investment of ₹ 18,000 was sold at a book value.

You are required to prepare a cash flow statement for the year ended 31.03.2025 as per AS 3 (revised) using the indirect method.

(5 marks)

3. (a) The Summary Balance Sheet of ABC Ltd. as on 31st March, 2025 read as under :

Liabilities	Amount	Assets	Amount
Share Capital: Authorized share Capital: 40,000 Equity Shares of ₹ 10 each.	4,00,000	Freehold property Stock Trade Receivables Cash Balance at Bank	1,15,000 1,35,000 75,000 30,000 2,00,000
Issued and Subscribed: 20,000 Equity Shares of ₹ 10 each fully paid.	2,00,000		
Profit and Loss Account	1,20,000		
12% Debentures	1,20,000		
Trade Payables	1,15,000		
	5,55,000		5,55,000

Contd.

Handwritten notes: $\frac{1}{4} \times 20,000 = 5,000$, $20k$, $SK \times 10$, 10000 , 50000 , $: 5 :$

The Annual General Meeting of ABC Ltd, it was resolved that :

- To issue one bonus share for every four shares held.
- To give option to existing shareholders to be purchased one share of ₹ 10 at a premium of ₹ 5 for every four share held (held prior to the bonus distribution), this option being taken up by all shareholders.
- To repay the debentures at a premium of 3%.

You are requested to pass necessary journal entries and after completion of these transactions, prepare the Balance Sheet of ABC Ltd. as per Company Act 2013.

(5 marks)

- (b) Raj Ltd recently reported the following income Statement :

Particulars	₹ in Cr.
Sales	700
Operating Cost	500
EBIT	200
Interest	40
PBT	160
Taxes @40 %	64
PAT (Net Income)	96
Dividend	32
Retained Earnings	64

: 6 :

This year company is forecasting 25% increase in sales and it expects that its year end operating cost will be around 70% of sales. It is expected that tax rate, interest and dividend pay-out ratio will be constant.

You are required to compute projected Net Income and expected growth rate in dividend.

(5 marks)

- (c) A company made a public issue of ₹ 1,25,000 equity shares of ₹ 100 each as on 15th March, 2026, ₹ 50 payable on application. The entire issue was underwritten by A, B, C, and D in the proportion of ⁶30%, ⁵25%, ⁵25% and ⁴20% respectively.
 37500 31250 25K 2SK

Under the terms agreed upon a maximum limit of underwriting commission was payable to underwriters. A, B, C and D also agreed on firm underwriting of 4000, 6000,

Nil, 15,000 shares respectively. The total subscription excluding firm underwriting but

including marked application received were 90,000. Marked applications were received

from ^{market} A-24,000, B-20,000, C-12,000 and D-24,000. Consider firm underwriting shares

are treated as unmarked application.

Prepare a statement showing net underwriter liability.

(5 marks)

; 7 ;

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

4. (a) The Balance Sheets of H Ltd. and S Ltd. as on 31st March 2026 were as under :

Particulars	H Ltd. (₹)	S Ltd. (₹)
I. EQUITY AND LIABILITIES		
(1) Shareholder's Funds		
a) Authorised Share Capital:		
Issued and Subscribed Equity Shares capital of Rs. 100 each	5,00,000	2,00,000
b) Reserves and Surplus : General Reserve 1-4-2025	1,00,000	60,000
P. & L. A/c	1,40,000	90,000
(2) Non-Current Liabilities	-	-
(3) Current Liabilities		
Bills Payables	-	40,000
Trade Payables (Creditors)	80,000	50,000
Total	8,20,000	4,40,000
II ASSETS		
(1) Non-Current Assets		
a) Fixed Assets:		
(i) Tangible Assets	3,60,000	2,20,000
(ii) Intangible Assets: Goodwill	40,000	30,000
b) Non-Current Investments		
1,500 Shares in S Ltd.	2,40,000	-
c) Other Non-Current Assets	-	-
(2) Current Assets		
Stock	1,00,000	90,000
Bills Receivables (Debtors)	20,000	75,000
Cash and Cash Equivalent	60,000	25,000
Total	8,20,000	4,40,000

: 8 :

The Profit & Loss Account of S Ltd. showed a credit balance of ₹ 50,000 on 01.04.2025. A dividend of 15% was paid in January 2026 for the year 2024-2025. This dividend was credited by H. Ltd. to its Profit & Loss Account. The shares were acquired on 1st October 2025. The bills payable was all issued in favour of H Ltd. included in the creditors of S Ltd. ₹ 20,000 are related to goods sold by S Ltd. included in the stock of S Ltd. are goods of the value of ₹ 8,000 supplied by H Ltd. at a profit of $33\frac{1}{3}\%$ on cost.

You are required to calculate consolidated profit of the companies, Net Worth of S Ltd. as on 1st October 2025 and minority interest.

(6 marks)

- (b) Solar Equipment Ltd. wants to arrange overdraft facilities with its bankers during the period March to May. Prepare a cash budget for the above period on the basis of the under-mentioned data indicating the extent of bank overdraft facilities, the company will require at the end of each month :

Month	Sales (₹ in Lakh)	Purchases (₹ in Lakh)	Wages (₹ in Lakh)
January	9000	6,240	600
February	9600	7,200	700
March	5400	12,150	550
April	8700	12,300	500
May	11,300	13,400	750

Contd.

Additional Information :

- (i) 50% of the credit sales will be realized in the month following the month of sales and remaining 50% in the second month following the month of sales.
- (ii) The creditors for purchases will be paid in the month following the month of purchases.
- (iii) Workers are paid in the same month for their wages.
- (iv) Cash at bank on 1st March, is estimated to be ₹ 1,250 lakh.

(5 marks)

- (c) PQR Ltd. has issued 10000, 12% convertible debentures ₹ 100 each redeemable after a period of five years at a premium of 5%. The debenture holders also had the option at the time of redemption to convert 30% of their holdings into equity shares of ₹ 10 each at a price of ₹ 20 per share and balance in cash. Debenture holders amounting ₹ 2,00,000 opted to get their debentures converted into equity shares as per terms of the issue. You are required to calculate the number of shares issued and cash paid for redemption of remaining debentures.

(4 marks)

OR (Alternate question to Q. No. 4)

- 4A. (i) What are differences between Ind AS 16 and IGAAP 10 ?

(5 marks)

- (ii) Explain the components and factors of financial forecasting.

(5 marks)

- (iii) "The accounting standards seek to describe the accounting principles, valuation techniques, and the methods of applying these accounting principles in the preparation and presentation of the financial statements so that they represent a true and fair view of the financial position and financial performance of the enterprise."

Discuss the need for Accounting Standards.

(5 marks)

PART-II

5. A capital budgeting decision is faced by Sunrise manufacturing company. The company is planning to introduce a new product line requiring additional machine. The management must choose between two imported machines with same capital cost but different annual operating costs, operating lives, overheads and cash flow implications. Based on projected sales, operating costs, advertisement expenditure, depreciation, taxation and additional equipment requirements, the company evaluates the financial feasibility of the imported machine and identifies one of the most suitable machines in current scenario.

The company is planning to diversify its operations by launching a new product line. The decision to introduce the product is driven by changing market conditions, technological advancements and the need to remain competitive. The management team, led by the CEO and supported by the financial analyst, operations manager and marketing manager, undertakes a detailed evaluation of market demand, pricing strategy, desired quality product of additional output and production requirements. Due to fast changing technology, the expected life span of machine is not for longer period.

: 11 :

After carefully marketing the new product line and analysis of both the imported machines, the management team desires to consider the most profitable machine out of two imported machines.

The details of both the machines and expected sales revenue and cost associated with output from these machines are as follows :

Particulars	Machine X	Machine Y
Expected economic life of machine	2 years	3 years
Capital cost of machine (₹ in Lakh)	60,000	60,000
Annual sales of additional output at standard price (₹ in Lakh)	1,00,000	80,000
Annual cost (other than depreciation of machine) related to additional output: (₹ in lakh)		
Wages	10,000	6,000
Material	8,000	10,000
Factory Overhead	12,000	10,000
Administration Cost	4,000	2,000
Selling cost	2,000	2,000
Salvage value at the end of the economic life of machine	NIL	NIL
Depreciation for tax purposes	(straight line method)	(straight line method)
Effective tax rate on company taxable income	@ 35 %	@ 35 %
Ignore interest on capital cost of machine.		
The discount factors at appropriate discount rate of 10 % are		
1 st year	2 nd year	3 rd year
0.909	0.826	0.751

On the basis of above facts given, you are required to calculate the most profitable investment option by following method :

- (a) Average Accounting Rate of Return Method;
- (b) Pay-back period Method;
- (c) Equivalent Net Present Value Method;
- (d) Determine Annual profit after tax and Annual Cash Flow after tax.

(5 × 4 = 20 marks)

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

6. (a) The CFO of KKK Limited started restructuring of company's capital structure. He is concerned with what the company has to pay for the capital it has mobilized through various sources of finance. The cost of capital has to be specially considered because cost of capital has direct effect on profit earning capacity of the company. Therefore, it is necessary for the CFO to take into consideration the cost of capital which should not be burdensome for the company and should try to develop an optimum capital structure so that the cost of capital can be minimized.

The CFO is considering the restructuring plan and possibility of raising ₹ 50,00,000 by issuing equity shares, preference shares and debentures. The details are as follows :

(i)	2,00,000 Equity Shares of ₹ 10 each	20,00,000
(ii)	1,00,000 10% Debenture of ₹ 10 each	10,00,000
(iii)	1,00,000 11% Preference Shares of ₹ 10 each	10,00,000
(iv)	Retained Earnings	10,00,000
	Total	<u>50,00,000</u>

: 13 :

$$K_e =$$

Market Price of :

Equity shares is ₹ 18,

Preference shares is ₹ 12, and

Debenture is ₹ 12.

$$K_d = I$$

Earnings per share of the company are ₹ 2. The corporate tax rate is 50%.

You are the Company Secretary of the Company, help the CFO in determining weighted average cost of capital (using weights based on market values.)

(5 marks)

- (b) Calculate operating and financial leverage under situations A, B and C and financial plans 1, 2 and 3 respectively from the following information and find which plan will give the highest value and the least value.

Installed capacity ~~1,200~~ (units)

Actual production and sales 800 (units)

Selling price per unit ₹ 15

Variable cost per unit ₹ 10

Fixed costs (₹)

Situation A 1,000

Situation B 2,000

Situation C 3,000

Financial Plan			
Sources of Fund	1	2	3
Equity ₹	5,000	7,500	2,500
Debt ₹	5,000	2,500	7,500
Cost of debt	12 per cent per annum		

(5 marks)

M / O/h

RM period = $\frac{RM}{\text{RM per unit}}$

: 14 :

- (c) The Production of ABC Ltd., during the previous year was 1000000 units. The same level of activity is intended to be maintained during the current year also. ^{1000000, 2000000, 2000000}

The expected ratios of cost to selling price are :

Raw material 40%

Direct Wages 20%

Overheads 20%

The raw materials ordinarily remain in stores for 3 months before production. Every unit of production remains in the process for 2 months and is assumed to be consisting of 100% raw material, wages and overheads.

Finished goods remain in the warehouse for 3 months. Credit allowed by creditors is 4 months from the date of the delivery of raw material and credit given to debtors is 3 months from the date of dispatch.

The estimated balance of cash is to be held ₹ 2,00,000.

Lag in payment of wages 1/2 month.

Lag in payment of expenses 1/2 month.

Selling price is ₹ 8 per unit. Both production and sales are in a regular cycle.

Company makes a provision of 10% for contingency (except cash).

Prepare a working capital forecast from the above information.

(5 marks)

- (d) The value of the company can be maximized if the shareholders' wealth is maximized. The par value of equity share of COMOS Limited is ₹ 100 per share. The company's earning per share is ₹ 10. The return on retained earnings of the company is 15% and the rate of capitalization of the market is 10%.

Contd.

: 15 :

The following are the alternates available before the management regarding the distribution of dividend :

- (i) To have a pay-out ratio of 20%
- (ii) To have a pay-out ratio of 40%
- (iii) To have a pay-out ratio of 60%
- (iv) To have a pay-out ratio of 0% or To have a retention of earning 100%.

You are required to calculate market price of the equity shares of the company in all above circumstances and suggest which alternative consider the best by using Walters' Model.

(5 marks)

OR (Alternate question to Q. No. 6)

- 6A.** (i) "Cash Flow Analysis is an important financial tool for management in decision making." Explain this statement and discuss the advantages of cash flow analysis.
- (ii) "Capital Budgeting is important not only because of the high investment cost of capital projects, but also due to their irreversible nature, long-term commitment and impact on profitability." Explain this statement and discuss the importance of capital budgeting.
- (iii) Decisions on investments are determined by various factors like risk involved, return, purpose, period etc. Do you think there are differences between investment and speculation? If so, what are the differences ? Give examples.
- (iv) One of the main objectives of a business organization is profit maximization though there are other objectives like service to society, nation's development, providing employment opportunities etc. Are there any arguments against the goal of profit maximization by business organization ?

(5 marks each)