

GUJARAT NATIONAL LAW UNIVERSITY
GANDHINAGAR
 Course: **Managerial Accounting**
Semester-II (Batch: 2019-24)

End Semester Online Examination: February 2021

Date: 12th February, 2021

Duration: 8 hours

Max. Marks: 50

Instructions:

- The respective marks for each question are indicated in-line.
- Indicate correct question numbers in front of the answer.
- No questions or clarification can be sought during the exam period, answer as it is, giving reason, if any.

Marks

- Q.1 As an adviser of a financial services company, you have received a proposal seeking a term loan of Rs. 300 lakh, from a firm planning an investment in fixed assets of Rs. 500 lakh in a new project. The loan is indicated to be repayable in five annual instalments commencing from the end of the third year. The following information concerning the project's financial estimate is available. (10)

(Rs. In Lakh)

Particulars	Year			
	2017	2018	2019	2020
EBDIT	75	100	150	150
Depreciation	50	45	40	35
Interest on Term Loan	25	45	30	15
Working capital interest	10	15	20	20
Provision for Tax	-	-	10	10

Assuming other techno-economic criteria to be satisfactory, you are required to:

- a. Compute appropriate financial ratio which, in your opinion, would guide the financing decision, and
 - b. Interpret briefly the ratio so computed and give your views on the proposal.
- Q.2 Winner Limited is engaged in the manufacturing of pharmaceutical formulations. The management of the firm has presented the following Income statement for the year ended March 31, 2020 and balance sheet as on that date for perusal of the shareholders. (20)

Income statement and reconciliation of earnings for the year ended 31st March, 2020

	Rs.	Rs.
Net sales		40,32,000
Less: Cost of sales	31,68,000	
Depreciation	96,000	
Employees cost	3,84,000	
Operating expenses	1,28,000	
Provision for taxation	<u>1,40,800</u>	39,16,800
Net operating profit		1,15,200

<u>Non-recurring income:</u>		
Profit on sale of equipment		<u>19,200</u>
Profit for the year		1,34,400
Retained earnings (Balance in profit & loss account brought forward)		<u>2,42,880</u>
Profit for the year		3,77,280
Dividend declared and paid during the year		<u>1,15,200</u>
Profit & loss account balance as at March, 2020		2,62,080

Comparative Balance sheet

Particulars	Rs. As at 31.03.2019	Rs. As at 31.03.2020
Fixed Asset:		
Land	76,800	1,53,600
Building & equipment	5,76,000	9,21,600
	<u>6,52,800</u>	<u>10,75,200</u>
Current Assets:		
Cash	96,000	1,15,200
Debtors	2,68,800	2,97,600
Stock	4,22,400	1,53,600
Advances	12,480	14,400
	<u>7,99,680</u>	<u>5,80,800</u>
Total	<u>14,52,480</u>	<u>16,56,000</u>
Shareholder's funds:		
Capital	5,76,000	7,10,400
Surplus in P & l A/c.	2,42,880	2,62,080
	<u>8,18,880</u>	<u>9,72,480</u>
Other liabilities:		
Sundry creditors	3,84,000	3,74,400
Outstanding expenses	38,400	76,800
Income tax payable	19,200	21,120
Accumulated depreciation on buildings and equipment	1,92,000	2,11,200
	<u>6,33,600</u>	<u>6,83,520</u>
	<u>14,52,480</u>	<u>16,56,000</u>

The management of the company approaches a foreign investor, who is your client, for the term loan of Rs. 25 lakh @ 5% p.a. The company wishes to invest the borrowed money for its business expansion and assures to repay the loan over a period of next 10 years.

You are required to advise your client on the debt servicing ability of the firm. For the said purpose you need to prepare cash flow statement for the firm. While analyzing the detailed report of the firm you could gather that the cost of equipment sold during the year was Rs. 1, 15,200.

- Q.3 The financial statistics pertaining to profitability of Indica Paints Ltd. for the period 2007 to 2012 are tabulated below: (20)

(Amt. in Rs. Crore)

Particulars	Year, March 31					
	2007	2008	2009	2010	2011	2012
EBIT	107.06	120.77	125.82	163.47	177.20	194.99
Interest	<u>21.68</u>	<u>19.58</u>	<u>22.33</u>	<u>20.29</u>	<u>22.12</u>	<u>14.59</u>
EBT	85.38	100.19	103.49	143.18	155.08	180.40
Tax provisions	<u>30</u>	<u>33</u>	<u>24</u>	<u>45.75</u>	<u>49.50</u>	<u>66.09</u>
EAT	55.38	67.19	79.49	97.43	105.58	114.31
Sales	938.11	1046.80	1158.38	1383.55	1526.01	1659.72
Total assets	534.49	647.66	685.84	771.09	882.20	893.52
Average Total Assets (ATA)	-	591.07	666.75	728.46	826.64	887.86
Equity funds	226.41	260.50	304.51	357.41	411.20	410.56
Average Equity Funds (AEF)	-	243.45	282.50	330.96	384.30	410.88
Net fixed assets	194.28	256.68	306.87	333.29	382.95	375.76
Inventory (Finished goods)	72.66	81.60	86.58	106.50	114.50	88.26
Sundry debtors	66.92	80.74	79.95	86.67	121.65	118.96
Average Fixed Assets (AFA)	-	225.48	281.77	320.08	358.12	379.35
Average inventory	-	77.13	84.09	96.54	110.50	101.38
Average debtors	-	73.83	80.34	83.31	104.16	120.30

You are required to compute maximum possible ratio from the above and prepare horizontal analysis using important parameters from the above.
