The expect cash flows have perfect correlation overtime and company cost of capital is 10%.

Required: a. The desirability of the project from NPV point of view.
b. The change of NPV being less than zero (0) or more than Rs. 15,000 (or more)
c. The standard deviation the probability distribution of possible present values (assume normal distribution).

Ans: (a) Accepted NPV = Rs. 10,879.60 (b) Rs. 9,137.05 (c) 11.62%; 32.64%

19. 2039 Q.No. 4

A company is considering investing in a new product project with an expected life of three years. It is estimated that if the demand for the product is favourable in the first year, then it is certain to be favourable in the subsequent years. And if it is low in the first year, it would remain low in years 2 and 3. The company thus, fells appropriately that cash flows overtime are perfectly correlated. The cost of the project is Rs. 50,000 and the possible cash flow for the three years are:

Year 1		Year 2		Year 2	
Cash flow	**Probability**	**Cash flow**	**Probability**	**Cash flow**	**Probability**
Rs. 0	0.10	Rs. 5,000	0.15	Rs. 0	0.15
10,000	0.20	20,000	0.20	7,500	0.20
20,000	0.40	35,000	0.30	15,000	0.30
30,000	0.20	50,000	0.20	22,500	0.20
40,000	0.10	65,000	0.15	30,000	0.15

Assume a risk free discount rate of 5%, calculate the expected value and standard deviation of the probability distribution of possible net present value. Assuming a normal distribution, what is the probability of the project providing a net present value of zero or less, or Rs. 15,000 or more? [10]

Ans: (a) NPV = 13,745 (b) σ_{NPV} = 35,837.74 (c) 35.20% (d) 48.40%

13. THE STATEMENT OF CASH FLOWS

MBS

1. 2071 Q.No. 6

Everest Company has just completed another very successful year. The chairman has asked the manager questions about the year's results. He is very impressed with the profit margin of 18% (net income divided by sales revenue). He is bothered, however, by the decline in the cash balance during the year. One of the conditions of the existing bank loan is that the company maintains a minimum cash balance of Rs. 50,000.

Cash flow statement for the period ended Chaitra 2069

A. Cash from operating activities (CFOA):	
a. Sales and collection:	
Sales revenue	1,300,000
Add: Account Receivable last year	140,000
Less: Account Receivable this year	(240,000)
Cash sales and collection from customers	1,200,000
b. Purchase and payments:	
Cost of goods sold	700,000
Add: Inventory of this year	240,000
Less: Inventory of last year	(210,000)
Add: Account payable of last year	158,000
Less: Account payable of this year	(140,000)
Cash paid to suppliers	748,000
c. Cash operating expenses:	
Cash operating expenses	100,000
Add: Advance payment this year	20,000

Less: Advance payment last year	(30,000)
Add: Other accrued liabilities last year	70,000
Less: Other accrued liabilities this year	(75,000)
Cash paid for operating expenses	85,000
d. Interest expenses:	25,000
e. Tax expenses	
Income tax expenses as per income statement	160,000
Add: Income tax payable last year	100,000
Less: Income tax payable this year	(90,000)
Cash paid to Government for income tax	170,000
A. Cash from operating activities (CFOA):	172,000
B. Cash from Investing Activities (CFIA):	
Purchase of land	(100,000)
Purchase of plant and equipment	(250,000)
Cash from Investing Activities (CFIA):	350,000
C. Cash from financing activities (CFFA):	
Issue share capital	150,000
Borrow of bank loan	50,000
Dividend paid	(60,000)
Cash from financing activities	140,000
D. Net cash increased/ decreased (A+B+C)	(38,000)
Add: Opening cash balance	90,000
Closing cash balance	52,000

Required: On the basis of cash flow statement

a. Comment upon the overall scenario of sources and application of cash from the view point of operating, investing and financing activities.

b. Draft a brief memo to the chairman to explain the reason of decrease in cash during a profitable year. Give recommendations for improving the company's cash position.

[6+6=12]

Ans: (a) CFOA = Rs. 172,000; CFIA = Rs. (350,000); CFFA = Rs. 140,000

2. 2070 Q.No. 4

The summary of cash flow statement of the current year of two companies given below:

	A Co. Ltd. (Rs.)	B Co. Ltd. (Rs.)
Cash collection from customers	40,000	60,000
Cash paid to supplier	(36,000)	(26,000)
Cash paid for operating expenses	(20,000)	(10,000)
Net cash from operating activities	(16,000)	24,000
Net cash from investing activities	(48,000)	(4,800)
Net cash from financing activities	72,000	(3,200)
Net increase in cash	8,000	16,000

Required: ❶ Net cash flow ratio of the companies, if sales of company A Co. and B Co. are Rs. 50,000 and Rs. 100,000 respectively.

❷ Gross cash flow ratio of two companies.

❸ Comment calculated ratios.

[2+2+3]

Ans: ❶ 32%(–ve) and 24%(+ve) ❷ 10% and 56.67%

3. 2069 Q.No. 6 OR

Cash flow statement and other information of a company for 2011 and 2012 are given below:

Years	2011	2012
Net sales	Rs. 1,000,000	Rs. 1,200,000
Changes in account receivables	(100,000)	50,000
Cost of goods sold	(400,000)	(500,000)
Changes in inventory	(50,000)	40,000

Changes in account payables	60,000	(50,000)
Operating expenses	(200,000)	(300,000)
Interest paid	(20,000)	(50,000)
Tax paid	(40,000)	(60,000)
i. Cash from operating activities	250,000	330,000
ii. Cash from investing activities		
Sales of plant	50,000	–
Purchase of plant	(400,000)	–
Purchase of land	–	(400,000)
	(350,000)	(400,000)
iii. Cash from financing activities		
Issue of shares	100,000	200,000
Bank loan	200,000	–
Dividend paid	(50,000)	(70,000)
	250,000	130,000
Net cash change	150,000	60,000
Add: Opening cash balance	80,000	230,000
Closing cash balance	230,000	290,000
Other information:		
Fixed assets (net)	Rs. 800,000	1,200,000
Working capital	Rs. 200,000	300,000
Net income for the year	Rs. 200,000	300,000

Expected rate of return: 15%

Required: i. Comment the cash flow of the company on the basis of cash from operating, investing and financing activities for year 2011 and 2012.

ii. Comment on the performance of the company by using return on investment residual income.

[6+6=12]

Ans: (ii) ROI: 22% and 23.33%; RI: Rs. 70,000 and Rs. 125,000

4. 2069 (Old) Q.No. 3

The income statement and beginning and ending balances of assets and liabilities of year 5 of Fluke Company are as follows:

Assets and liabilities	Beginning	Ending
Share capital	600,000	800,000
Share premium	60,000	80,000
Accounts payable	90,000	70,000
Accounts receivable	75,000	100,000
Investment	100,000	140,000
Stock	60,000	90,000
Fixed assets, net of depreciation	700,000	920,000

Income statement of year 5

Particulars		Rs.
Sales revenue		520,000
Less: Cost of goods sold:		
Material purchase	290,000	
Beginning stock	60,000	
Ending stock	(90,000)	
Material used	260,000	
Wages	104,000	
Costs of goods sold		364,000
Gross margin		156,000
Less: Operating expenses including depreciation of Rs. 21,000		90,000
		66,000
Add: Interest on investment 10,000 profit on sale of		

fixed assets costing Rs. 80,000 on which Rs. 15,000 accumulated depreciation was recorded 24,000		34,000
Net income		100,000

The beginning cash balance of the company was Rs. 25,000.

Required: Cash flow statement showing cash inflows and cash outflows from operating, investing and financing activities. [3+1+2=6]

Ans: CFOA = Rs. 12,000; CFIA (Rs. 247,000) and CFFA = Rs. 220,000

5. 2068 Q.No. 6

Cash flow statement of a company for the year 1 and year 2 are given below.

	Year 1(Rs.)	Year 2 (Rs.)
Net profit	500,000	600,000
Depreciation	125,000	135,000
Deferred tax	45,000	30,000
Increase in account receivable	(100,000)	(550,000)
Increase in inventories	(300,000)	(325,000)
Increase in payable	90,000	150,000
Cash from operating activities	360,000	40,000
Purchase of fixed assets	(180,000)	(200,000)
Investment made	(70,000)	–
Sale of investment	–	30,000
Cash from investing activities	(250,000)	(170,000)
Debentures issued	100,000	400,000
Dividend paid	(40,000)	(60,000)
Repayment of long term loan	(400,000)	–
Cash from financing activities	(340,000)	340,000
Net increase (decrease) in cash	(230,000)	210,000
Add: Opening balance of cash	370,000	140,000
Ending cash balance	**140,000**	**350,000**

Required:
1. Explain the difference between net income and cash from operating activities in year 2.
2. Comment on cash from operating, investing and financing activities for year 1 and Year 2.
3. Give your conclusion. [3+6+3=12]

6. 2068 (Old) Q.No. 3

The following are the Balance Sheets of a company for the 2066 and 2067:

Liabilities & equities	2066 (Rs.)	2067 (Rs.)	Assets	2066 (Rs.)	2067 (Rs.)
Share capital	180,000	270,000	Cash	40,000	50,000
Retained profit	80,000	100,000	Accounts receivable	88,000	124,000
10% debenture	–	80,000	Inventory	120,000	90,000
Accounts payable	110,000	84,000	Fixed assets	260,000	480,000
Bank overdraft	60,000	40,000	Accumulated		
Provision for tax	40,000	100,000	depreciation	(38,000)	(70,000)
	470,000	**674,000**		**470,000**	**674,000**

Income statement for the year 2067 are as follows:

Particulars		**Rs.**
Sales revenue		1600,000
Less: Cost of goods sold		1,120,000
Gross profit		480,000
Less: Operating expenses:		
Administration	200,000	
Selling	76,000	
Depreciation	60,000	
Provision for tax	100,000	436,000
Profit before other income		44,000

Add: Profit on Sale of fixed assets (cost Rs. 60,000; accumulated depreciation, Rs. 28,000)		8,000
Net profit		**52,000**

Required: Cash flow statement showing cash from operating activity, investing activity and financing activity using direct method. [3+1+2=6]

Ans: Rs. 112,000; Rs. (240,000), Rs. 138,000

7. 2067 (I) Q.No.4

Given cash flow statement: [1+2+2+2 = 7]

Cash Flow Statement		
A.	Cash from operating activities:	
	Sales revenue	89,000
	Increase in A/R	(3,600)
(i)	Sales and collection	85,400
	Cost of goods sold	(57,000)
	Increase in inventory	(4,900)
	Increase in A/P	3,100
(ii)	Payment supplier	(58,800)
	Salaries	(12,000)
	Other expenses	(3,200)
	Increase in prepaid expenses	(1,400)
	Decrease in salaries payable	(2,400)
	Tax paid	(2,600)
(iii)	Cash paid for operating expenses and tax	(21,600)
	Net cash from operating activities	5,000
B.	Cash from investing activities:	
	Purchase of land	(65,000)
	Sales of land	27,500
	Net cash from investing activities	(37,500)
C.	Cash from financing activities:	
	Issue of share	40,000
	Dividend paid	(1,500)
	Net cash from financing activities	38,500
	Net increase in cash	6,000
Add: Opening cash		4,000
	Closing balance of cash	10,000

Required: ❶ Cash from operating activities to sales ❷ Comment on cash from operating activities ❸ Comment on cash from investing activities ❹ Comment on financing activities

Ans: ❶ 5.62%

8. 2067 (II) (Old) Q.No.3

Following information is supplied to you.

Interest & dividend received	Rs. 15,000
Beginning cash & cash equivalent	38,600
Interest paid	22,000
Income tax paid	75,000
Cash collection from customers	819,000
Cash purchase of plant	25,000
Dividend paid	80,000
Sales of plant	12,000
Cash paid to suppliers & employees	635,000
Short-term borrowing made	15,000

Required: Cash Flow Statement showing cash flows from ❶ operating activity ❷ investing activity ❸ financing activity ❹ closing cash & cash equivalents. [3+1+1+1=6]

Ans: (1) CFOA = Rs. 102,000 (2) CFIA = (Rs. 13,000) (3) CFFA = (Rs. 65,000); Closing cash balance = Rs. 62,600

9. 2066 Q.No. 6

The financial team of Platinum International Company was excited to have remarkable cash balance of the year 2009 despite thé company's similar sales revenues of the couple of years.

	20X8	20X9
Sales revenues	800,000	800,000
Equity share capital	100,000	300,000
Sales of plant	150,000	-
Purchase of plant	-	(250,000)
Debentures retired	(200,000)	(100,000)
Raw materials purchased	(500,000)	(400,000)
Dividend discharged	(30,000)	(60,000)
Payment of productive wages	(150,000)	(120,000)
Overheads paid	(80,000)	(60,000)
Interest	(50,000)	(30,000)
Account payable 01. 01.	(50,000)	(20,000)
Amount receivable 01. 01.	60,000	40,000
Account payable 31. 12.	20,000	60,000
Account receivable 31. 12.	(40,000)	(25,000)
Increase in cash and cash equivalent items	30,000	135,000
Cash balance 01. 01.	50,000	80,000
Cash balance 31. 12.	**80,000**	**215,000**

Required: (1) Comment on the cash from operating activities, financing activities and investing activities. (2) Account receivables turnover ratios of 20X8 and 20X9 and comment on the ratios. (3) Can the company buy plant if it does not issue shares? [6 + 3+ 3 = 12]

Ans: (1) Ending cash balance Rs. 80,000 and Rs. 215,000 (2) 16 times and 24.62 times (3) No.

10. 2066 Partial Q.No. 3

The Income Statement and other details of assets and liabilities of a company for the year ended are as under:

Income statement for the year ended 2

	Rs.
Sales revenue	400,000
Less: Cost of good sold	200,000
Gross profit	200,000
Less: Operating expenses	100,000
Operating profit	100,000
Add: Profit on sale of fixed assets	20,000
Net income	**120,000**

Assets and liabilities:

	Year 1	Year 2
Share capital	Rs. 400,000	Rs. 500,000
Share premium	40,000	50,000
Debentures	50,000	30,000
Accounts receivable	50,000	30,000
Accounts payable	30,000	60,000
Fixed assets, net	500,000	650,000
Inventory	80,000	100,000

Additional information:

(i) Operating expenses includes depreciation of Rs.25,000 Premium on redemption of debentures Rs.20,000 and interest on debentures Rs.5,000.

(ii) The book value of fixed assets sold was Rs.40,000.

(iii) The ending cash balance of first year was Rs. 10,000.

Required: Cash Flow Statement showing cash flows from operating by applying direct method, Investing and Financing Activities. [3+1 +2]

Ans: (i) CFOA = Rs. 175,000, CFIA = Rs. (155,000), CFFA = Rs. 70,000

11. 2065 Q.No. 3

A Soap Factory's Managing Director was surprised with increasing amount of cash balance despite their effort to maintain required cash balance. The Chief Accountant therefore, was told to prepare a report showing movement of cash of the factory for which he has obtained computer prints of Balance Sheet of 2063 and 2064 and Income Statement of 2064.

Balance Sheet
as at Chaitra 30 of 2063 and 64

Liabilities & equity	2063 Rs.	2064 Rs.	Assets	2063 Rs.	2064 Rs.
Shareholders' equity	550,000	880,000	Land & building (at cost)	480,000	670,000
Long term debts	400,000	300,000	Plant & machinery (net of depreciation)	445,000	525,000
Dividend payables	-	20,000	Stock	40,000	60,000
Accounts payables	60,000	75,000	Account receivables	125,000	90,000
Pofit & loss a/c	110,000	150,000	Cash	30,000	80,000
Total	**1,120,000**	**1,425,000**	**Total**	**1,120,000**	**1,425,000**

Income Statement
For the year ended Chaitra 30, 2064

		Rs.
Sales		1,400,000
Less: Cost of goods sold		
Stock - 01.01.2064	40,000	
Add: Purchase of raw materials	720,000	
Less: Stock - 30.12.2064	(60,000)	
Value of raw materials consumed	700,000	
Add: Wages	250,000	
		950,000
Less: Manufacturing overheads	235,000	450,000
Depreciation on plant & machinery	35,000	270,000
		180,000
Add: Profit on sale of plant & machinery (book value Rs. 85,000)		20,000
Net profit before tax		200,000
Less: Income tax at 40%		80,000
Net profit after tax		120,000

Required: Cash flow statement showing cash flows from operating activities (direct method), investing activities and financing activities. [3+1+2=6]

Ans: NCFOA = Rs 165,000; NCFFA = Rs 170,000; NCFIA = (Rs 285,000)

12. 2064 Q.No. 3

A Company's Finance Department furnishes the condensed Income Statement with additional information as under:

Income Statement

Net sales	Rs. 612,500	
Gain on sales of plant	2,500	
Interest income	32,500	Rs. 647,500
Cost of goods sold	325,000	
Operating expenses	206,250	
Interest expenses	25,000	
Income taxes	31,250	587,500
Net income		60,000

Additional information:

- Prepayments decreased by Rs. 2,000
- Accrued interest payable decreased by Rs. 1,000
- Accrued operating expenses increased by Rs. 10,000

- Income tax payable increased by Rs. 2,250
- Account payable increased by Rs. 20,000
- Accrued interest receivable increased by Rs. 3,750
- Inventory increased by Rs. 25,000
- Operating expenses includes depreciation of Rs. 50,000
- Account receivable decreased by Rs. 12,500

Items	Entries	
	Debit	Credit
Plant assets	156,250	12,500
Share capital	-	50,000
Share premium	-	50,000
Retained earnings	37,500	60,000

- The Rs. 12,500 in credit entries in plant assets represents the book value of plant sold during the year.
- The debit to retained earnings of Rs. 37,500 represents dividends declared and paid during the year and the Rs. 60,000 credit entry represents the net income shown in the income statement.
- The cash and cash equipment amounted to Rs. 52,500 at the beginning of the year.

Required: Cash flow statement showing cash flows from (a) Operating activity (b) Investing activity and (c) Financing activity. [3+1+1+1]

Ans: (a) Rs. 124,500 (b) Rs. (141,250) (c) Rs. 62,500

13. 2063 Q.No. 6

The Income Statement and the Balance Sheets of Kathmandu Trading House, have been summarized below:

Income Statement

Sales less discount	Rs. 400,000
Less: Cost of goods sold:	250,000
Gross margin	150,000
Less: Operating expenses	
Operating expenses (including provisions for A/R)	50,000
Depreciation on plant	40,000
Interest expenses	10,000
Premium on redemption of debentures	5,000
Provision for taxation	20,000
Provision for dividend	20,000
Total operating cost	145,000
Net income before gain on sale of fixed assets	5,000
Add: Profit on sale of plant (Cost Rs. 60,000 and depreciation of Rs. 20,000)	20,000
Net income for the year	**25,000**

Balance Sheets for Year I and Year II

	Year I	Year II		Year I	Year II
Equity share capital	100,000	200,000	Plant & machinery	200,000	300,000
Share premium	20,000	40,000	Inventory	60,000	100,000
10% Debenture	100,000	50,000	Accounts receivable	100,000	80,000
Accounts payable	40,000	60,000	Prepaid insurance	10,000	20,000
Accrued wages	10,000	15,000	Cast at bank	10,000	15,000
Accumulated depreciation	50,000	70,000			
Provision for account receivable	10,000	5,000			
Provision for taxation	20,000	20,000			
Provision for dividend	10,000	20,000			
Retained earnings	20,000	35,000			
	380,000	515,000		380,000	515,000

Required: a. Cash available from operating activities [4]
b. Cash available from investing activities [2]
c. Cash available from financing activities [2]
d. Balance of cash and cash equivalent at the end [2]

Ans: Rs. 60,000 (b) (Rs. 1,00,000); (c) Rs. 45,000

14. 2062 Q.No. 1 OR

The Income Statement and the Balance Sheet of a company have been provided:

	2003 (Rs.)	2004 (Rs.)		2003 (Rs.)	2004 (Rs.)
Equity share capital	400,000	600,000	Land and building	300,000	500,000
Share premium	40,000	60,000	Plant and machinery	400,000	500,000
10% Debenture	200,000	150,000	Marketable securities	90,000	30,000
Bank overdraft	60,000	40,000	Inventory	60,000	40,000
Accounts payable	80,000	100,000	Accounts receivable	100,000	150,000
Accumulated depreciation on Plant & machinery	100,000	140,000	Cash at bank	50,000	30,000
Provision for doubtful debts	20,000	30,000			
Provision for taxation	40,000	30,000			
Provision for dividend	40,000	60,000			
Retained earning	20,000	40,000			
	1000,000	1250,000		1000,000	1250,000

Income Statement for 2004

Sales net		Rs. 700,000
Less: Cost of goods sold:		
Purchases	300,000	
Add: Beginning inventory	60,000	
Less: Ending inventory	(40,000)	320,000
Wages and other direct cost		130,000
Total cost of goods sold		450,000
Gross margin		250,000
Less: Operating cost:		
Operating expenses		40,000
Depreciation on plant & machinery		60,000
Interest on debenture		20,000
Provision for doubtful debts		15,000
Premium for redemption of debenture		5,000
Provision for taxation		40,000
Provision for dividend		60,000
Total operating cost		240,000
Net operating profit		10,000
Add: Profit on sale of plant (cost Rs. 50,000) Accumulated depreciation Rs. 20,000)		10,000
Total profit for the year		**20,000**

Required: Cash flow analysis showing: cash from operating, investing and financing activities.[4+3+2+1]

Ans: Rs. 1,25,000; (Rs. 2,50,000); Rs. 1,05,000

15. 2061 (I) Q.No. 1 OR

The income statement of a M/S Home Product Ltd. has been provided below:

Sales		Rs. 500,000
Less: Cost of goods sold:		
Materials (Beg. Inv. + Purchase – Ending inventory) 50,000 + 120,000 – 30,000	140,000	
Wages and salaries	180,000	
Total cost of goods sold		320,000
Gross margin		180,000

Less: Operating expenses		
Operating expenses (including insurance premium)	40,000	
Discount on issue of debenture	5,000	
Depreciation on plant	50,000	
Interest expenses	15,000	
Provision for tax	30,000	
Provision for dividend	20,000	
Loss on sale of plant (book value Rs. 70,000 cost Rs.100,000)	10,000	
Total operating cost		170,000
Net income		**10,000**

In the year company issued equity shares of Rs. 100,000 at a premium of 10% and 10% debentures of Rs. 100,000 at a discount of 10%.

Accounts receivable and the prepaid insurance in the year decreased by Rs. 40,000 and Rs. 5,000 respectively. Accounts payable in the same period decreased by 20,000, where as outstanding interest expenses increased by Rs. 5,000.

The depreciated value of plant increased from Rs. 300,000 to 560,000 and the company purchased long-term investment worth Rs. 100,000.

Company paid tax of Rs. 20,000 and dividend of Rs. 15,000 for the last year.

The ending balance of cash at the end of the period decreased to Rs. 50,000 negative balance against the beginning balance of Rs. 30,000. [4+2+2+2]

Required: a. Cash from operating activities b. Cash from investing activities.
c. Cash from financing activities.
d. Ending balance of cash and cash equivalent.

Ans: (a) Rs. 155,000; (b) (Rs.420,000) (c) Rs. 185,000 (d) (Rs. 50,000)

16. 2061 (II) Q.No. 6

The following are the Income Statement and the Balance Sheet items of a manufacturing company.

Income Statement Dec. 31st 2004		
Sales		Rs.600,000
Less: Cost of goods sold		
Purchase	150,000	
Add: Beginning inventory	30,000	
Less: Ending inventory	(50,000)	130,000
Wages and other expenses		150,000
Total cost of goods sold		280,000
Gross margin		320,000
Less: Operating expenses		
Operating expenses (including insurance premium)		100,000
Depreciation on plant and machinery		50,000
Amortization of goodwill		10,000
Interest on debenture		20,000
Premium on debenture redemption		10,000
Provision for taxation		80,000
Loss on sales of plant & machinery (book value 60,000)		20,000
Total operating expenses		290,000
Net income		30,000

Changes on Other Balance Sheet Items

	Rs.			Rs.	
Share capital	100,000	Increase	Goodwill	10,000	Decrease
Share premium	10,000	Increase	Plant & machinery	50,000	Increase
10% debenture	100,000	Decrease	Prepaid insurance	10,000	Increase
Account payable	10,000	Increase	Account receivable	30,000	Decrease
Outstanding wages	10,000	Decrease	Cash at bank reached to Rs. 20,000 from		

& others			Rs. 10,000
Provision for taxation	30,000	Increase	

Required Cash flow analysis-showing cash from operating, investing and financing activities.

Ans: Rs. 150,000; (Rs. 1,20,000); (Rs. 20,000)

17. 2060 Q.No. 6

The Nepal Ltd., a semi manufacturing company, made a sales of Rs.6,00,000 in then year and the receivable of the company increased by Rs.20,000. It purchased materials worth Rs.1,80,000 and incurred the wage expenses of Rs.2,40,000. During the year the accounts payable and outstanding wages increased by Rs.20,000 and Rs.5,000 respectively. Company incurred Rs.80,000 in operating expenses, and paid Rs.15,000 as interest on Debenture. During the year prepaid expenses increased by 10,000 and cash balance reached to Rs.10,000 from Rs.30,000.

Gross cost of equipment increased to Rs.350,000 from Rs.2,50,000 after selling equipment costing Rs.50,000 with accumulated depreciation of Rs.20,000 at a profit of Rs.10,000. After this movement of equipment the accumulated depreciation on equipment increased to Rs.80,000 from Rs.60,000. It also purchased building worth Rs.1,00,000 in the year. Company paid tax of Rs.40,000 and dividend of Rs.10,000 in the year. The company issued 2000 Equity Shares of Rs.100 each at a premium of 10% it also redeemed 10% Debenture worth Rs.50,000 at a premium of 20%.

Required: Cash flow from operating, investing and financing activities. [4+2+2+2]

Ans: Operating activities = Rs. 40,000; Investing activities = (Rs. 210,000) and Financing activities = Rs. 150,000

18. 2059 Q.No. 1 OR

The following information necessary for preparing cash flow analysis was provided.

Operating profit after depreciation of Rs.50,000 and Interest on debenture of Rs.12,000	Rs.1,50,000
Less:	
Provision for taxes	30,000
Provision for dividend	30,000
Balance of profit	90,000
Add: Profit on sale of fixed assets (Book value is Rs.80,000)	20,000
Retained earning	110,000

Other Assets and Liabilities	2056	2057
Fixed assets less depreciation	580,000	550,000
Investments (long term)	50,000	250,000
Inventories	40,000	60,000
Accounts receivable	80,000	50,000
Accounts payable	60,000	90,000
Cash at bank	30,000	60,000
Provision for taxes	40,000	30,000
Provision for dividend	20,000	30,000
12% debenture	100,000	50,000
Share capital	200,000	300,000

Required: Cash from operating, investing and financing activities. [4+2+2+2]

Ans: Cash from operating = Rs. 200,000; Investment activities = (Rs. 200,000) and Financing activities = Rs. 30,000

19. 2058 Q.No. 3

Teku Spare Parts Ltd. is a wholesaler of automobile parts. By the end of 19×6 the company's cash balance had dropped from Rs.25,000 to Rs.12,000; despite net income of Rs.23,000. The company's 19×6 transaction affecting income or cash were as follows:

I. Sales of Rs.2,00,000. Increase in accounts receivable Rs.20,000.

II. The cost of goods sold, Rs.100.000. Increase in inventory and in trade accounts payable were Rs.40,000 and Rs.68,000 respectively.

III. Wages and salary expenses Rs.36,000. Increase in wages and salaries payable Rs.21,000.
IV. Depreciation Rs.17,000
V. Interest expenses all paid in cash, Rs.4,000
VI. Income taxes paid in cash Rs.20,000.
VII. Fixed assets, gross in 19X5, Rs.330,000 and in 19X6, Rs.581,000. Accumulated depreciation in 19X5 Rs. 110,000 and in 19X6Rs.101,000
VIII. In 19X6 shareholders' equity including retained earning increased for Rs.315,000 to Rs.413,000 and long-term debt, Rs.120,000.

Required: Prepare a statement of cash flows using direct method. [10]

Ans: Rs. 69,000; (Rs. 277,000); Rs. 195,000

20. 2057 Q.No. 1 OR

The income statement of the year and the balance sheets of last year and this year have been given below:

Income Statement for the Year

Sales revenue		Rs.800,000
Less: Cost of goods sold		
Purchases	300,000	
Add: Beginning in inventory	50,000	
Less: Ending inventory	80,000	
Direct material consumed	270,000	
Wages	210,000	
Total cost of goods sold		480,000
Gross profit		320,000
Less: Operating expenses:		
Office salaries and other expenses	120,000	
Depreciation	50,000	
Interest on debenture	30,000	
Provision for taxation	40,000	
Provision for dividend	20,000	
Premium on debenture redemption	10,000	
Total operating expenses		270,000
Net income		**50,000**
Profit on sale of plant (cost Rs.100,000 accumulated depreciation Rs.40,000)		20,000
Retained earning		**Rs.70,000**

Balance Sheets

Assets	Last Year (Rs.)	This Year (Rs.)
Land & building at cost	400,000	500,000
Plant & machinery at cost	500,000	650,000
Inventory	50,000	80,000
Accounts receivable	50,000	70,000
Accumulated depreciation	(200,000)	(210,000)
Cash at Bank	20,000	40,000
	820,000	**1,130,000**
Liabilities	**Last Year (Rs.)**	**This Year (Rs.)**
Share capital	500,000	700,000
Share premium	50,000	70,000
15% Debenture	200,000	100,000
Provision for taxation	20,000	40,000
Provision for dividend	10,000	20,000
Accounts payable	40,000	80,000
Bank loan	-	50,000
Retained earning	-	70,000
	8,20,000	**11,30,000**

Required: Cash available from: (a) Operating activities. (b) Investing activities (c) Financing activities. [4+3+3]

Ans: (a) Rs. 1,40,000 (b) (Rs. 2,70,000) (c) Rs. 1,50,000

14. ANALYSIS OF FINANCIAL STATEMENTS [RATIO ANALYSIS]

MBS

1. 2069 Q.No. 2

The following data are given relating to a division of a company for a year:

Operating assets (invested capital)	Rs. 200,000
Operating income	Rs. 36,000
Sales	Rs. 400,000

Required:
i. ROI profit margin and capital turnover.
ii. Residual income, if the minimum required rate of return is 13%
iii. If management sets a 20% ROI, new operating income and new capital investment.
iv. If operating income increased to Rs. 38,000 and capital investment reduced by Rs. 10,000 find out new ROI. [3+1+2+1=7]

Ans: (i) 18%; 9% and 2 times (ii) Rs. 10,000 (iii) Rs. 40,000 (iv) 20%

2. 2068 Q.No. 4

The following data are given for a division of a company for the year:

Operating assets	Rs. 1,000,000
Operating income	Rs. 250,000
Required rate of return	15%

The division is presented with an investment project yielding a 20% return on its investment. The investment project requires a cash outlay of Rs. 150,000.

Required:
1. Return on investment and residual income without new investment
2. Return on investment and residual income with investing on new project.
3. Would the manager accept the new investment? Give reasons. [2+3+2=7]

Ans: (1) 25%; Rs. 100,000 (2) 24.35%; Rs. 107,500 (iii) Accepted

3. 2067 (II) Q.No.4 OR

An investment centre of a corporation has an opportunity to make an additional investment of Rs. 20,00,000 that will gives return of Rs. 400,000 per year. Present position of the centre is given as under.

Present level of investment: Rs. 4,000,000. Operating income from existing investment: Rs. 1,000,000. Return on investment at present 25%. The corporation has a cost of capital of 15 percent. Residual income at present amount to Rs. 400,000 (Rs. 1,000,000 - 15% of 4,000,000)

Required: Evaluate the worthiness of additional investment using ROI and RI [3.5+3.5=7]

Ans: ROI: 20% and 23.33%; RI: Rs. 100,000 and Rs. 500,000

4. 2066 Q.No. 4

A company provides the following information:

Net profit after tax	Rs. 60,000
Sales revenue	Rs. 400,000
Invested capital	Rs. 600,000

The company's cost of capital (interest) 8% and company is in tax bracket of 50%.

Required:
a. Return on investment (ROI)
b. Residual income
c. Comment on the performance of the company based on ROI & RI [2.5+2.5+2 = 7]

Ans: (a) 28% (b) Rs. 120,000

5. 2061 (I) Q.No. 4

Sales details and other related information of M/S Product Ltd. have been summarized below:

Normal capacity	20,000 unit	Selling price	Rs. 50 per unit
Production	25,000 unit	Direct material cost	5 per unit

Sales	22,000 unit	Direct labour cost	12 per unit
No. of employee	20 Nos.	Variable MOH cost	2 per unit
		Fixed MOH cost (depreciation Rs. 50,000)	200,000
		Variable administrative & Distribution	3 per unit
		Fixed adm. & dist. (interest cost Rs. 50,000)	150,000

Required: a. Income statement under absorption costing.

b. Productivity measurement in relations to sales/employee, net added value/employee, wage distribution and wage base. [3+3]

Ans: (a) Profit = Rs. 296,000 (b) NAV = Rs. 646,000

6. 2061 (II) Q.No. 5

The sales and cost details of a Soft Drink Company have been presented below:

Production units	30,000
Sales unit	30,000
Variable costs manufacturing:	
Direct materials	Rs. 5 per unit
Direct labours	Rs. 8 per unit
Variable manufacturing overhead cost	Rs. 4 per unit
Fixed cost:	
Manufacturing repairs and renewals	Rs. 10,000
Rent of factory	Rs. 40,000
Depreciation of equipment at 10% of original cost	Rs. 50,000
Other cost	Rs. 50,000
Administrative, selling and distribution cost	
Sales commission	Rs. 2 per unit
Rent, rates and telephone	Rs. 40,000
Interest cost	Rs. 20,000
Other cost	Rs. 40,000

No. of employee employed 10 labourers.

Required: a. Income statement under variable costing.

b. Measurement of productivity. [3+3]

Ans: (a) Assume SPPU = Rs. 25; Net profit = Rs. 20,000 (b) Sales per employee = Rs. 75,000; Added value per employee = Rs. 60,000; Labour equipment ratio = Rs. 9,000; Wage distribution = 40%; Wage base = Rs. 24,000 per employee

7. 2057 Q.No. 5

The income statement and other related data have been given below: *Rs. in '000*

Sales revenue			4,000
Less: Cost of goods sold			
Beginning inventory of raw material	500		
Purchases of raw material	1,000		
Carriage in purchases	50		
Ending inventory of raw material	(600)	950	
Direct labour		1,500	
Supplies and stocks		150	
Manufacturing overhead cost		400	
Total cost of goods sold			3,000
Gross margin			1,000
Less: Operating expenses			600
Operating income			400
Add: Non-operating income			50
Net income before tax			**450**

Average number of employee	30
Investment in fixed assets (in '000)	2400

Required: a. Sales per employee. b. Net added value per employee.
c. Labour equipment ratio. d. Wage distribution ratio.
e. Wage base. f. Decision regarding over all productivity of labour. [1×6]

Ans: (a) Rs. 133,333 (b) Rs. 65,000 (c) Rs. 80,000 (d) 76.92% (e) Rs. 50,000 (f) Not satisfactory

MBA

1. 2064 Q.No. 6 a

The balance sheet of A Co. Ltd, as on 31st December last year was as under

Liabilities	Rs.	Assets		Rs
Equity Share Capital of Rs. 100 each	4,00,000	Fixed Assets	5,00,000	
		Less: Depreciation	70,000	4,30,000
Reserve & surplus	65,000	Investment		1,00,000
10% Debentures	1,00,000	Marketable Securities		10,000
Sundry Creditors	20,000	Sundry debtors		18,000
Bills Payable	10,000	Stock		30,000
Outstanding expenses	5,000	Prepaid expenses		2,000
		Cash		10,000
	6,00,000			6,00,000

Additional Information

I. The net profit margin for the period was 25 % and net profit for the year was Rs. 80,000
II. The price-earning ratio was 10.
III. Dividend payout ratio was 25 %

Required: (1) Fixed Assets Turnover Ratio (2) Market value per share (3) Dividend per share (4) Debt equity ratio (5) Quick Ratio [10]

2. 2061 (I) Q.No. 7 d

The following are extracted from the accounts of a company.

Gross profit	Rs. 1,00,000
Gross profit margin	20%
Total assets (including preliminary expenses Rs. 20,000)	Rs. 2,20,000
Debtor's turnover	10 times

Required: a. Amount of sales b. Total assets turnover c. Debtors [5]

Ans: (a) Rs. 5,00,000 (b) 2.27 times (c) Rs. 50,000

3. 2060 Q.No. 6 a

The comparative balance sheet of a manufacturing company are as follows: [4+4+2]

Assets	Yr 1	Yr 2	Liabilities	Yr 1	Yr 2
Net fixed assets	15,00,000	17,00,000	Share capital	12,00,000	14,00,000
Inventory	2,00,000	2,80,000	Long-term liabilities	3,00,000	3,00,000
Debtors	1,00,000	1,70,000	Current liabilities	2,00,000	2,50,000
Cash	50,000	80,000	Profit and loss a/c	1,50,000	2,80,000
	18,50,000	22,30,000		18,50,000	22,30,000

Required: Evaluation debt paying capability and capital structure position of the two periods.

Ans: Strong debt paying capability exist in both year

4. 2059 Q.No. 4 b

The following is the capital structure:

Equity share capital of Rs. 10 each Rs. 10,00,000. 10% preference share capital of Rs. 10 each Rs. 5,00,000. The company has earned after tax profit of Rs. 2,50,000. Dividend paid on equity share capital is 25%. Market value per share is Rs. 25.

Required: (a) Dividend yield on the equity shares (b) Earning per share (c) Price earning ratio[3+4+3]

Ans: (a) 25% (b) Rs. 2 (c) 12.5 times

5. 2058 Q.No. 6 a

The balance sheets of a company as 31st Chaitra are as given below:

Liabilities	Yr 1	Yr 2	Assets	Yr 1	Yr 2
Share capital	3,00,000	3,50,000	Plant and machinery	40,000	1,02,000
Share premium	25,000	45,000	Land and building	2,00,000	3,00,000

10% debentures	1,00,000	1,80,000	Investment	50,000	70,000
Reserve and surplus	50,000	75,000	Inventory	1,80,000	2,00,000
Sundry creditors	60,000	80,000	Sundry debtors	40,000	50,000
Bills payable	30,000	20,000	Bills receivable	30,000	10,000
Bank overdraft	20,000	30,000	Cash in hand	20,000	30,000
Outstanding expenses	15,000	20,000	Preliminary expenses	30,000	20,000
			Discount on debentures	10,000	16,000
	6,00,000	8,00,000		6,00,000	8,00,000

Net profit for the year 2 was Rs. 40,000.

Required: Calculate the following ratios and comment them.

a. Current ratio b. Quick ratio
c. Debt-equity ratio d. Return on asset e. Return on shareholder's equity[2×5]

Ans: (a) 2.4:1 (b) 1.07:1 (c) 38.30% (d) 5.71% (e) 8.51%

6. 2057 Q.No. 5 a

Following is the summarized balance sheet of a company as on 31st Chaitra, last year.

Liabilities	Rs.	Assets	Rs.
10% preference share capital	2,00,000	Land and building	4,00,000
Equity share capital	3,00,000	Plant and machinery	1,50,000
General reserve	20,000	Furniture	70,000
Retained earning	30,000	Inventories	1,50,000
10% debentures	2,00,000	Account receivable	30,000
Account payable	50,000	Cash at bank	20,000
Bills payable	30,000	Goodwill	20,000
Accrued expenses	20,000	Preliminary expenses	10,000
	8,50,000		8,50,000

Additional information

i. Total sales for the year was Rs. 6,00,000 of which 20% was credit sales.
ii. Gross profit and net profit after tax for the year amounted to Rs. 1,20,000 and Rs. 30,000 respectively.

Required: Analysis of the financial conditions by using appropriate ratios. [10]

Ans: Current ration = 2:1; Interest coverage = 3.2 time; Long-term debt to equity = 36.36%; Fixed assets turnover = 0.98 times; Average accounts receivable = 4 times; Net profit margin = 0.5%

7. 2056 Q.No. 5 a

The balance sheet of a company for the previous year has been presented below:

Liabilities	Rs.	Assets	Rs.
Equity capital	5,00,000	Net fixed assets	7,50,000
10% Debenture	2,00,000	Current assets including bank balance	4,50,000
Bills payable	1,00,000		
Accounts payable	2,00,000		
Retained earnings	2,00,000		
	12,00,000		12,00,000

Additional information:

Net profit margin of the company for the previous year after tax (tax 25%) was Rs. 1,50,000. Liquid ratio was 1. The inventory turnover ratio was 10 times and debtors turnover of 60 days. Sales were all credit sales. The company has been considering to float additional 20% second debenture of Rs. 5,00,000 to expand its operation. The expansion of which would bring the company additional earning of Rs. 2,00,000 before interest and tax.

Required: Detailed working for whether or not the debentures should be bought. [10]

Ans: Debt equity ratio = Rs. 1:1; Debt to total assets = 16.67%; Debt to fixed assets = 56^; Interest coverage = 3.5 times; Return on investment = 24.71%; Return on capital = 38.22%; Current ration = 1.5:1

8. 2055 Q.No. 6 a

An acute shortage of working capital has compelled a company to look for a short-term loan of Rs. 300,000 at an interest rate of 16%. The audited balance sheet of the company for the previous year has been presented below:

Liabilities	Rs.	Assets	Rs.
Share capital	4,00,000	Fixed assets	5,50,000
15% long-term loan	2,00,000	Current assets:	
Short-term liabilities	1,50,000	Inventory	2,50;000
Retained earning:		Account receivable	1,50,000
Last year 1,50,000		Cash at bank	50,000
Current year 1,00,000	2,50,000		
	10,00,000		10,00,000

Additional information:

Net profit margin is 10% and tax rate applicable is 50%. Additional working capital would provide some latitude to the company and expects an additional profit before tax of Rs. 60,000.

Required: The safety, profitability and liquidity factors for bank lending. [3+3+4]

Ans: Current ratio = 3 times; Liquid ratio = 1.33 times; Debt-equity ratio = 0.31%; Debt to total assets ratio = 20%. The company can generate an additional profit of Rs. 6,000. Therefore, the company's condition is better for bank lending.

9. 2054 Q.No. 5 a

A company approached to a bank for loan and furnished the following Balance Sheet and additional information regarding current year:

Balance Sheet for this year

Liabilities	Rs.	Assets	Rs.
Share capital	5,00,000	Long term assets	6,50,000
10% debenture	2,00,000	Inventories	2,00,000
Trade liabilities	2,00,000	Accounts receivable	1,25,000
Retained earnings	1,00,000	Cash at bank	25,000
(Current years Rs. 50,000)			
	10,00,000		10,00,000

Additional information:

Beginning balance of inventories Rs. 1,00,000. Sales are of Rs. 16,00,000. Gross profit margin was 25%. Tax rate is 50%. Loan of Rs. 2,00,000 was requested and bank charges 20% as interest.

Required: a. Analysis of the financial conditions by using appropriate ratios. [6]

b. Recommendation as to the loan should or should not be advanced [4]

Ans: Average stock inventory = Rs. 150,000; Cost of goods sold = Rs. 1,200,000; Inventory turnover ratio = 8 times; Present current ratio = 1.75; Present quick ratio= 0.75; Debt-equity ratio = 66.67%; Debt to total capital ratio = 40%; Debtors turnover ratio= 12.8 times; Assume days in a year = 360 days; Average collection period = 28.125 days; Fixed assets turnover ratio = 2.46 times; Total assets turnover ratio = 1.6 times; Current ratio = 1.375:1; Quick ratio = 0.875:1; Debt-equity ratio = 100%; Debt to total capital ratio = 50% Loan should not be granted.

10. 2053 Q.No. 5 a

Mr. Hari Krishna Shrestha, a prospective investor have been interested with the prospectus issued by accompany, approached to you with following balances sheet and additional information:

Balance Sheet as on 31 Chaitra ...

Equity capital	Rs. 5,00,000	Net fixed assets	Rs. 6,00,000
10% Debenture	2,00,000	Short-term assets	4,00,000
Short-term liabilities	2,00,000		
Retained earning	1;00,000		
(Rs. 50,000 current year's)			
	10,00,000		10,00,000

Interest coverage ratio was 5 items, sales were Rs. 10,00,000 and all in credits. Account receivable amounted to Rs. 2,50,000 and quick ratio was 1.5:1. The company offered additional 15% redeemable debenture loan of Rs. 2,00,000.

Required: Advice with detailed working regarding whether or not Mr. Shrestha should buy the debentures. [6+4]

Ans: (a) Ratios before debenture purchases: Debt equity ratio = 33.33%; Dept to total capital ratio = 25%; Debt to total assets ratio = 40%; Current ratio = 2:1; Total assets turnover ratio = 1 times; Fixed assets

turnover = 1.67 times (approx); Capital employed turnover = 1.25 times; (b) Ratios after debentures purchases; Debt equity ratio = 66.67%; Dept to total capital ratio = 40%; Debt to total assets ratio = 50%; Current ratio = 2:1; Total assets turnover ratio = 0.83 times; Fixed assets turnover = 1.25 times (approx); Capital employed turnover = 1 times; It is suggested to Mr. Shrestha that he should buy the debentures of the company.

11. 2051 Q.No. 4 a

Balance Sheets of a company for two years are presented below:

Balance Sheets *Amount in 1,000 (Rs.)*

Liabilities	Last Year	This Year	Assets	Last Year	This Year
Sundry creditors	500	400	Cash at bank	100	150
Bills payable	300	50	Sundry debtors	400	350
Liabilities for expenses	50	-	Stock in trade	250	300
Provision for taxation	100	200	Investments	150	250
Provision for dividend	50	100	Plant and Machinery (net)	600	700
Profit and loss balance	200	250	Furniture (net)	100	150
Equity capital of Rs. 100 each	800	1,300	Land and building	900	900
Share premium	-	50			
8% Debentures	400	300			
Capital reserve	100	150			
	2,500	**2,800**		**2,500**	**2,800**

Required: a. Net changes in current ratio and its interpretation.
b. Net changes in net worth of the company.
c. Net changes in debt equity ratio. [10]

Ans: (a) 42.22% (b) 60.87% (c) 52.86%

12. 2050 Q.No. 4

A prospective investor welling to invest Rs. 100 thousand in the equity share of a company approached you, with the following comprehensive. Balance Sheet and Profit and Loss Account of A Ltd. Company to seek your help to reach on his investment planning decision either desirable or undesirable.

Profit and Loss for the year ended (in thousand)

Particulars	Rs.	Particulars	Rs.
To Operating cost	200	By Gross margin b/d	500
To Interest on long term debts	100		
To Net profit	200		
	500		500

Balance Sheet as at ......at (in thousand)

Liabilities	Rs.	Assets	Rs.
Shareholder's equity	400	Long term assets	1,100
Long term debts	500	Short term assets	400
Short term liabilities	200		
Reserve and surplus	400		
	1,500		1,500

Required: A detailed and comprehensive explanation with supporting calculation to convince him.[20]

Ans: ROA = 20%; ROE = 25%; Debt equity = 62.50%; Current ratio = 2 times

13. 2048 Q.No. 6 a

Compute Debtors Turnover and Inventory, turnover Ratio of a company for each of the three years shown below and give your interpretation of the results. [10]

Years	2042 (Rs.)	2043 (Rs.)	2044 (Rs.)
Cost of goods sold	5,00,000	4,00,000	6,00,000
Average inventory	2,00,000	3,00,000	5,00,000
Sales	7,00,000	6,50,000	8,50,000
Debtors	1,40,000	81,250	1,06,250

Ans: Interest overage after borrowing = 0.93 times

14. 2046 Q.No. 6 a

A company is currently earning an EBIT of Rs. 12 lakhs. Its present borrowing are:

11% term loans	Rs. 40 lakhs
Working capital:	
Borrowing from bank at 16%	33 lakhs
Public deposit at 12%	15 lakhs

The sales of the company is growing and to support this the company propose to obtain an additional bank borrowing Rs. 25 lakhs. The increase in EBIT is expected to be 20%.

Calculate the change in interest coverage ratio after the additional borrowing and comment. [10]

15. 2045 Q.No. 6 a

A corporation had sales of Rs. 19.5 lakhs last year and earned a 3 percent retrieve, after tax on total assets. Although its term of purchases are thirty days its creditors represent sixty purchases. The management is seeking to increase bank borrowing in order to meet trade obligations. The corporation's balance sheet is shown below:

Liabilities	Rs.	Assets	Rs.
Equity	1,25,000	Land and building	2,50,000
Reserve	2,50,000	Plant and equipment	2,50,000
Mortgage	2,50,000	Inventories	6,50,000
Creditors	3,00,000	Debtors	1,25,000
Bank loan	2,50,000	Cash	25,000
Accruals	1,25,000		
	13,00,000		13,00,000

How much bank financing is needed to eliminate "Overdue" creditors? Would you as a banker grant the loan? [10]

Ans: Overdue creditors = Rs. 50,000; No.

16. 2042 Q.No. 6 b

The Balance Sheet of M/s Khanal & Company as on 31st December 1984 stood as follows:

Liabilities	Rs. (in '000)	Assets	Rs. (in '000)
Equity capital	400	Fixed assets	500
Reserve fund	50	Stock in trade	300
Long-term debts	200	Other current assets	200
Current liabilities	300		
Profit for the year	50		
	1,000		1,000

Other data: Total sales for the year was Rs. 24,00,000

Required: a. Calculate inventory turnover ratio, and interpret its effects.
b. Calculate return on capital employed. [10]

Ans: (a) 8 times (b) 10%

17. 2041 Q.No. 6 b.

The balance sheet of a limited company as on 31st December 1984 are as follows:

Liabilities	Rs. (in '000)	Assets	Rs. (in '000)
Equity capital	400	Fixed assets	500
Reserve fund	50	Stock in trade	300
Long-term debts	200	Other current assets	200
Current liabilities	300		
Profit for the year	50		
	1,000		1,000

Required: a. Debt equity ratio and its interpretations.
b. Debt to total capital ratio and its interpretations. [10]

Ans: (a) 40$ (b) 28.57%

15. ANALYSIS OF VALUE ADDED STATEMENT

1. 2067 (II) Q.No.4

The net value added applied of Phewa Public Enterprise and Rupa Public Enterprise are given along with required information

Public Enterprise	**Phewa PE**	**Rupa PE**
Net value-added applied for		Rs. (Rs. in '000)
Employees	20,660	22,446
Government (tax)	579	804
Capital & loan (interest)	1760	1702
Profit retained for growth	875	272
Net value added	23,874	25,224
Additional information:		
No. of employees	568	556
Net worth (Rs. in '00,000)	428	225
Fixed assets (Rs. in '00,000)	457	212
Wages and salary (Rs. in '000)	20,660	22,446

Required:

a. i. Value added per employees
   ii. Wage distribution ratio
   iii. Value added to net worth
   iv. Value added to fixed assets

b. Which enterprise is performing better base on calculation made in (a) above? [4+3=7]

Ans: (a) (i) Rs. 42,032 and Rs. 45,367 (ii) 86.54% and 88.99% (iii) 55.78% and 112.11% (iv) 52.24% and 118.98%

■