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Class:-B.Com Part 3

Subject:-Management

(b) *Reserve & Surplus :*				
Capital Reserve	50	2.44	100	3.38
General Reserve	300	14.63	250	8.45
(B)	350	17.07	350	11.83
(ii) *Non-current Liabilities :*				
12% Debentures (C)	100	4.88	200	6.75
(iii) *Current Liabilities* (D)				
Creditors	600	29.27	410	13.85
Total (A + B + C + D)	2,050	100.00	2,960	100.00
II. *ASSETS*				
(i) *Non-current Assets :*				
Fixed Assets				
Land	200	9.76	600	20.27
Building	400	19.51	800	27.03
Machinery	300	14.63	900	30.41
Other Fixed Assets	100	4.88	150	5.07
Total (A)	1,000	48.78	2,450	82.77
(ii) *Other Non-current Assets :*				
Investments				
Subsidiary AB Ltd.	50	2.44	50	1.69
Inmovable Property	400	19.51	200	6.76
(B)	450	21.95	250	8.45
(iii) *Current Assets :*				
Cash	100	4.88	10	0.34
Debtors	300	14.63	100	3.38
Stock	200	9.76	150	5.06
(C)	600	29.27	260	8.78
Total (A + B + C)	2,050	100.00	2,960	100.00

Problem 11

The Balance Sheets of A Ltd. and B Ltd. are as follows :

Balance Sheet of A Ltd. & B Ltd.

(as at 31st March, 2013)

Particulars	*Note No.*	*A Ltd.*	*B Ltd.*
		₹	₹
I. *EQUITY & LIABILITIES*			
1. *Shareholders' Fund :*			
Equity Share Capital		1,50,000	4,00,0
Pref. Share Capital		1,20,000	1,60,0
Reserves and Surplus		14,000	18,0
2. *Non-current Liabilities :*			
Long-term Loans		1,15,000	1,30,0
3. *Current Liabilities :*			
Trade Payables :			
Bills Payable		2,000	—
Sundry Creditors		12,000	4,0

Outstanding Expenses		15,000	6,000
Proposed Dividend		10,000	90,000
Total (1 + 2 + 3)		4,38,000	8,08,000
II. *ASSETS*			
1. *Non-current Assets :*			
Land and Building		80,000	1,23,000
Plant and Machinery		3,34,000	6,00,000
2. *Current Assets :*			
Temporary Investments		1,000	40,000
Inventories		10,000	25,000
Trade Receivables (Debtors)		4,000	8,000
Prepaid Expenses		1,000	2,000
Cash and Bank Balance		8,000	10,000
Total (1 + 2)		4,38,000	8,08,000

Compare the financial position of two companies with the help of Common-size Balance Sheet.

Solution

Comman-size Balance Sheet

(as on 31st March, 2013)

Particulars	*A Ltd.*		*B Ltd.*	
	Amount	%	*Amount*	%
I. EQUITY & LIABILITIES				
1. *Shareholder's Fund :*				
Pref. Share Capital	1,20,000	27.39	1,60,000	19.80
Equity Share Capital	1,50,000	34.25	4,00,000	49.50
Reserves & Surplus	14,000	3.19	18,000	2.23
Total (A)	2,84,000	64.83	5,78,000	71.53
2. *Non-current Liabilities :*				
Long-term Loans (B)	1,15,000	26.25	1,30,000	16.09
3. *Current Liabilities :*				
Bills Payable	2,000	0.46	—	—
Sundry Creditors	12,000	2.74	4,000	0.49
Outstanding Expenses	15,000	3.44	6,000	0.74
Proposed Dividend	10,000	2.28	90,000	11.15
Total (C)	39,000	8.92	1,00,000	12.38
Total Liabilities (A + B + C)	4,38,000	100.00	8,08,000	100.00
II. ASSETS				
1. *Non-current Assets :*				
Fixed Assets :				
Land & Building	80,000	18.26	1,23,000	15.22
Plant & Machinery	3,34,000	76.26	6,00,000	74.26
Total (A)	4,14,000	94.52	7,23,000	89.48
2. *Current Assets :*				
Temporary Investments	1,000	0.23	40,000	4.95

Inventories	10,000	2.28	2,50,000	
Debtors	4,000	0.91	8,000	
Prepaid Expenses	1,000	0.23	2,000	
Cash & Bank Balance	8,000	1.83	10,000	
Total (B)	24,000	5.48	85,000	1
Total Assets (A + B)	4,38,000	100.00	8,08,000	10

Interpretations :

1. An analysis of financing pattern of both the companies shows that B L is more traditionally financed as compared to A Ltd. The former company depended more on its own funds as is shown by Balance Sheet. Out of t investments, 71.53% of the funds are proprietor's funds and outsiders' f accounts only for 28.47% *i.e.*, (16.09 + 12.38). In A Ltd. proprietors' funds are 64. while outsiders' share is 35.17% *i.e.*, (26.25 + 8.92) which shows that the comp has depended more upon outsiders' funds. In the present day economic w generally, companies depend more on outsiders' fund. In this context both companies have good financial planning but B Ltd. more financed on traditi lines.

2. Both the companies are suffering from inadequacy of working capi The percentage of current liabilities is more than the percentage of curr assets in both the companies. The first company (A Ltd.) is suffering more fr working capital position than the second company (B Ltd.) because curr liabilities are more than current assets by 3.44% *i.e.*, (8.92 – 5.48) in A Ltd. a in B Ltd. by 1.86% *i.e.*,(12.38 – 10.52).

3. A close book at the Balance Sheets shows that investments in fixed ass have been financed from working capital in both the companies. In A Ltd. fix assets account for 94.52% of total assets while long-term funds account f 91.08% *i.e.*, (64.83 + 26.25) of total funds. In B Ltd. fixed assets account f 89.48% whereas long-term funds account for 87.62% *i.e.*, (71.53 + 16.09) of tot funds. Instead of using long-term funds for working capital purposes t companies have used working capital for purchasing fixed assets. Theref working capital problem should be solved immediately in both the compani

Problem 12