

1. The finished product of a factory has to pass through three processes (A, B, and C). The normal wastage of each process is 2% in process A, 5% in process B and 10% in C. the percentage of wastage on the number units entering each process.

The scrap value of wastage of process A, B, and C are Rs.10, Rs.40 and Rs.20 per 100 units respectively.

The output of each process is transferred to the next process and the finished products are transferred from process C into stock. The following further information is obtained.

	Process A Rs.	Process B Rs.	Process C Rs.
Materials used	24000	12000	12000
Direct wages	16000	10000	8000
Manufacturing Expenses	5000	7000	5000

Establishment expenses amounted to Rs.8, 500 which has to be apportioned in the proportion of direct wages amongst the three processes.

20000 units have been put into process A at a cost of Rs.60, 000. The output of each process has been A – 19600, B – 18,400, C – 16,700.

- Process Accounts
- Normal Loss Accounts
- Abnormal Loss Account.
- Abnormal Gain Account.

II ANSWER ANY TWO OF THE FOLLOWING

(12x2=24)

2. In a chemical factory the product passes through three processes. The production of each process is passed on to the next process immediately on completion. The following information is available for the month of January 2015.

Particulars	Blast Furnace	Open Hearth Rolling Mill	
	Rs.	Rs.	Rs.
Materials	18,400	32,000	80,000
Wages	9,600	24,000	36,000
Factory Overhead	22,400	9,400	18,400
	(Units)	(Units)	(Units)
Production	18,000	18,750	24,000
Stock (01.01.2015)	--	2,000	8,250
Stock (31.01.2015)	--	500	2,250

The finished stock obtained at the end of Rolling Mill process is sold at a profit of 20% of selling price. Selling and distribution expenses for the month was Rs.20,000.

Prepare process accounts and show the profit made during the month.

3. Mayura Co. Produces A as a main product, B and C as its by- products, the following expenses have been incurred for the above products.

	Joint expenses Rs.	Separate expenses		
		A Rs.	B Rs.	C Rs.
Materials	5,000	2,000	900	1,300
Labour	4,500	1,000	800	800
On cost	4,000	500	300	400
Selling Price	--	21,000	10,000	9,000
Profit on sale	--	50%	50%	33 1/3%

Show the method of apportionment of joint Expenses and also prepare necessary accounts.

4. A factory is engaged in the production of a chemical X and in the course of manufacture a By-product Y is produced, which after a separate process has a commercial value. For the month of August 1999 the following are the summarized costing data.

	Joint expenses Rs.	Separate expenses	
		X Rs.	Y Rs.
Materials	19,000	7,000	900
Labour	11,500	6,000	2,000
Overhead	3,400	1,500	500

The output for the month was 120 tons of X and 30 tons of Y and selling price of Y averaged Rs.300. Assuming that the profit on 'Y' is estimated at 50% of the selling price, prepare an account showing the cost of X per ton.

(6x2=12)

III ANSWER ANY TWO OF THE FOLLOWING

5. Following particulars are available

Joint Products	Yield in pound per ton of coal
Coke	1,420
Coal tar	120
Benzol	22
Sulphate	26
Gas	<u>412</u>
	<u>2,000</u>

The price of coal is Rs.80 per ton. Direct wages Rs.40, Overheads Rs.60 per ton of coal to the point of split off.

Prepare the Statement of apportionment of joint cost.

6. The output from process 'B' totaled Rs.2,500 units. Abnormal loss was 200 units. Normal loss allowed was 10%. Additional information obtained was as under:

Material	Rs.5 per unit
Wages	Rs.4,000
Overheads	Rs.3,350
Scrap Value	Rs.2.50 per unit

Prepare Process Account and Abnormal loss account.

7. From the following figures relating to a Chemical Company show the main product account and profit and loss account for the month of August 2009. When the sale value of by-product is treated as miscellaneous income.

- Direct materials -5000 units-Rs.75,000
- Direct labour Rs.40,000
- Manufacturing Overheads at 100% of direct wages.
- Total units of main product produced 5000 units.
- Sales 4000 units at Rs.80 per unit.
- Closing stock 1000 units.
- Amount realized from sale of by-product Rs.2,000.

II Internal - V Sem III B.com Oct - 2019
 Cost And Management Accounting III

(24x1=24)

Answer the following.

① Process 'A' Account

Particular	unit	Rate	Amount	Particular	unit	Rate	Amount
TO Raw material	20,000	3	60,000	By Normal loss			
TO material			24,000	(20,000 x 2%)	400	0.1	40
TO Direct wages			16,000	By Process 'B' A/c	19,600	5.5592	1,08,960
TO manufacturing expenses			5,000				
TO Establishment expenses			4,000				
	<u>20,000</u>		<u>1,09,000</u>		<u>20,000</u>		<u>1,09,000</u>

$$\text{Transfer price} = \frac{\text{Cost of Normal Production}}{\text{Normal Production}}$$

$$= \frac{1,08,960}{19,600} = \underline{\underline{5.5592}}$$

Process 'B' Account

Particular	unit	Rate	Amount	Particular	unit	Rate	Amount
TO Process 'A' A/c	19,600	5.5592	1,08,960	By Normal loss	900	0.4	392
TO material			12,000	By abnormal loss	220	7.5224	1,655
TO Direct wages			10,000	By Process 'C' A/c	18,400	7.5224	1,38,413
TO manufacture exp			7,000				
TO Establishment exp			2,500				
	<u>19,600</u>		<u>1,40,460</u>		<u>19,600</u>		<u>1,40,460</u>

$$\text{Transfer Price} = \frac{\text{Cost of Normal Production}}{\text{Normal Production}}$$

$$= \frac{140068}{18620} = \underline{\underline{7.522448}}$$

Process 'C' Account

Particular	unit	Rate	Amount	Particular	unit	Rate	Amount
To Process B A/c	18400	7.522448	138413	By Normal loss	1840	0.2	368
To material			12000	By finished stock	16700	9.9665	166440
To Direct wages			8000				
To manufacturing exp			5000				
To Establishment exp			2000				
To abnormal gain	140	9.9665	1395				
	<u>18540</u>		<u>166808</u>		<u>18540</u>		<u>166808</u>

$$\text{transfer Price} = \frac{\text{Cost of normal Production}}{\text{Normal Production}}$$

$$= \frac{165045}{16560} = \underline{\underline{9.9665}}$$

Abnormal Loss A/c

Particular	unit	Rate	Amount	Particular	unit	Rate	Amount
To Process 'B' A/c	220	7.522448	1655	By Bank A/c	220	0.4	88
				By closing Profit & loss A/c			1567
	<u>220</u>		<u>1655</u>		<u>220</u>		<u>1655</u>

Abnormal Gain A/c

Particular	unit	Rate	Amt(₹)	Particular	unit	Rate	Amt(₹)
To Normal loss A/c	140	0.2	28	By Process 'c' A/c	140	9.9665	1395
To Costing P&L A/c			1367				
	140		1395		140		1395

Normal loss A/c

Particular	unit	Rate	Amt(₹)	Particular	unit	Rate	Amt(₹)
To Process 'A' A/c	400	0.1	40	By abnormal gain A/c	400	0.2	28
To Process 'B' A/c	980	0.4	392	By cash/debtors A/c	3080	0.25	772
To Process 'C' A/c	1840	0.2	368	(bal)			
	3220		800		3220		800

Ans were Any two.

(12x224)

⑤

Black- finance process A/c

Particular	unit	Rate	Amt(₹)	Particular	unit	Rate	Amt(₹)
To Raw material	10000	1.02	10200	By open hearth process	10000	2.8	50400
To wages			9800				
To factory overhead			22400				
	10000		50400		10000		50400

$$\text{Transfer Price} = \frac{\text{Cost of normal production}}{\text{Normal production}}$$

$$= \frac{50400}{18000} = \underline{\underline{2.8}}$$

Open hearth process A/c

Particular	unit	Rate	Amt(₹)	Particular	unit	Rate	Amt(₹)
To opening stock	2000	2.8	5600	By closing stock	500	2.8	1400
To Blast furnace Process A/c	18000	2.8	50400	By Normal loss of	750	-	-
To material			32000	By Rolling mill			
To wages			26000	Process A/c	18750	6.4	120000
To factory o/h			9400				
	<u>20000</u>		<u>121400</u>		<u>20000</u>		<u>121400</u>

$$\text{Transfer Price} = \frac{\text{Cost of normal production}}{\text{Normal production}}$$

$$= \frac{120000}{18750} = \underline{\underline{6.4}}$$

Rolling Mill process A/c

Particular	unit	Rate	Amt(₹)	Particular	unit	Rate	Amt(₹)
To opening stock	8250	6.4	52800	By closing stock	2250	6.4	14400
To open hearth Process A/c	18750	6.4	120000	By Normal loss	750	-	-
To material			80000	By finished stock	24000	12.2	292800
To wages			36000				
To factory o/h			18400				
	<u>27000</u>		<u>307200</u>		<u>27000</u>		<u>307200</u>

Transfer Bce. = $\frac{\text{Cost of Normal Production}}{\text{Normal production}}$

$$= \frac{292800}{24000} = \underline{\underline{\text{₹ } 12.2}}$$

Finished stock A/c

Particular	unit	Rate	Amts)	Particular	unit	Rate	Amts)
To Rolling mill Process A/c	24000	12.2	292800	By bank A/c			
To Selling & distro - buktion			20000	C + P = S.P			
To Costing P&L A/c			78200	20 + 20 = 100			
				312800	24000	16.29	391000
	<u>24000</u>		<u>391000</u>		<u>24000</u>		<u>391000</u>

③ Statement of allocation of expenses

Particular	A	B	C	Total
Sales	21000	10,000	9000	40,000
↳ Profit	10500	5000	3000	18500
Total cost	10500	5000	6000	21500
↳ Subsequent exp material.	2000	900	1300	4200
labour	1000	800	800	2600
other expenses	500	300	400	1200
Joint-Expenses	7000	3000	3500	13500

Statement - showing element of joint cost -

Particular	Amount	Percentage	(7000) A	(3000) B	(3500) C
material	5000	37%	2590	1110	1295
labour	4500	33%	2310	990	1155
overhead other exp.	4000	30%	2100	900	1050
	13500				

Product - Account -

Particular	A	B	C	Particular	A	B	C
To Subsequent expenses				By sales	21000	10000	9000
material	2000	900	1300				
labour	1000	800	800				
other expenses	500	300	400				
To Joint expenses							
material	2590	1110	1295				
labour	2310	990	1155				
other expenses	2100	900	1050				
To Profit & loss etc	10500	5000	3000				
	21000	10000	9000		21000	10000	9000

④ Statement of allocation of joint expenses of Y

Sales (300 x 30)	9000
↳ profit	4500
Total cost	<u>4500</u>
↳ Separate expenses	
materials	900
labour	2000
overhead	<u>500</u>
∴ joint expenses of Y	<u>1100</u>

$$\begin{aligned} \text{Joint exp} &= \text{Exp of X} + \text{Exp of Y} \\ 33900 &= \text{Exp of X} + 1100 \\ \text{Exp of X} &= \underline{32800} \end{aligned}$$

Product 'X' Account

Particular	Amt(₹)	Particular	Amt(₹)
To Separate expenses		By closing stock	
material	7000	$\frac{47300}{120} = \underline{394.1667}$	47300
labour	6000		
overhead	1500		
To joint expenses	32800		
	<u>47300</u>		<u>47300</u>

Product 'Y' Account

Particular	Amt(₹)	Particular	Amt(₹)
To separate expenses		By sales etc	9000
material	900		
labour	2000		
overhead	500		
To joint exp.	1100		
To P&L etc	4500		
	<u>9000</u>		<u>9000</u>

Answer any two

(6x2=12)

5) Statement of apportionment of joint cost

Joint Product	Yield in Pound	% of output to total output	Coal	Direct wage	Overhead
			₹80	₹40	₹60
Coke	1420	71%	56.8	28.4	42.6
Coal tar	120	6%	4.8	2.4	3.6
Benzol	22	1.1%	0.88	0.44	0.66
Sulphate	26	1.3%	1.04	0.52	0.78
Gas	412	20.6%	16.48	8.24	12.36

6) Input = Normal loss + Abnormal loss + output

$$100\% = 10\% + 200 \text{ units} + 2500 \text{ units}$$

$$100\% - 10\% = 200 \text{ units} + 2500 \text{ units}$$

$$90\% = 2700 \text{ units}$$

$$\begin{array}{l} 2700 \text{ units} \times 90\% \\ ? \times 100\% \end{array}$$

Process 'B' A/c

Particular	units	Rate	Amount	Particular	units	Rate	Amount
To Raw material	3000	5	15000	By normal loss	300	2.50	750
To wages			4000	3000 x 10%			
To overhead			3350	By abnormal loss	200	8	1600
				By finished stock	2500	8	20000
	<u>3000</u>		<u>22350</u>		<u>3000</u>		<u>22350</u>

$$\text{Transfer price} = \frac{\text{Cost of normal Production}}{\text{Normal production}}$$

$$= \frac{21600}{2700} = \underline{\underline{₹8}}$$

Abnormal loss A/c

Particular	unit	Rate	Amt(₹)	Particular	unit	Rate	Amt(₹)
To Process 'B' A/c	200	8	1600	By bank A/c	200	2.50	500
				By closing P&L A/c	-	-	1100
	<u>200</u>		<u>1600</u>		<u>200</u>		<u>1600</u>

④ Main Product Account

Particular	unit	Rate	Amt(₹)	Particular	unit	Rate	Amt(₹)
To Direct material	5000	15	75000	By sales	4000	80	320000
To Direct labour			40000	By closing stock	1000	31	31000
To manufacture expenses			40000				
To P&L A/c (bal)			196000				
	<u>5000</u>		<u>351000</u>		<u>5000</u>		<u>351000</u>

Rate of closing stock & cost of product - 7 unit =

$$\frac{\text{total cost}}{\text{unit}} = \frac{75000 + 40000 + 140000}{5000}$$

$$= \underline{\underline{₹31}}$$

Profit & loss A/c

Particular	Amt(₹)	Particular	Amt(₹)
To balance c/d	198000	By main product-	196000
		By sale of by product-	2000
	198000		198000
		By balance b/d	198000

PADUA COLLEGE OF COMMERCE AND MANAGEMENT
I INTERNAL – V SEM III BCOM –AUGUST-2018

TIME: 1.30 HOUR FINANCIAL MANAGEMENT TOTALMARKS: 60

I ANSWER THE FOLLOWING COMPULSORY

(24x1=24)

1. A) DM Company needs Rs.5, 00,000 for construction of new plant. The following three financial plans are feasible.
- The Company may issue 50,000 equity shares of Rs.10 per share
 - The Company may issue 25,000 equity shares of Rs.10 per share and 2500 debentures of Rs.100 denominations bearing 8% rate of interest.
 - The Company may issue 25000 equity shares at Rs.10 per share, and 2500 preference share at Rs.100 per share bearing 8% rate of dividend.

If the Company searing before interest and taxes are Rs.30, 000, Rs.50,000, Rs.70,000, Rs.90,000 and Rs.1,20,000, what are the earning per share under each of the three financial plans. Which alternative would you recommend and why? Assume a corporate tax rate of 50%. (12)

B) Star Limited needs Rs.14, 00,000 for expansion. The expansion is expected to yield an annual EBIT of Rs.3, 50,000. In choosing a financial plan, AB Limited has an objective of maximising earnings per share. It is considering the possibility of issuing equity shares of Rs.100 each and raising debt of Rs.2, 50,000 or Rs.3, 00,000 or Rs.6, 00,000. Funds can be borrowed at the rates indicated below.

- Upto and including Rs.2,50,000 – 15%
- Over Rs.2,50,000 and upto Rs. 3,50,000 – 16%
- Over Rs. 3,50,000-18%

Assume tax rate at 35% and determine the best option based on the EPS. (12)

II ANSWER ANY TWO OF THE FOLLOWING:

(12x2=24)

2. Explain the scope of financial management under modern approach.
3. Calculate financial leverage and operating leverage under situation A and B financial plan 1 and plan 2 respectively from the following relating to the operations and capital structure of XYZ Ltd.

Installed capacity	800 units
Selling price per unit	20,000
Variable cost per unit	15,000
Fixed cost : Situation A	8,00,000
Situation B	15, 00,000

Capital Structure

Particulars	Financial plan 1	Financial plan 2
Equity capital	50,00,000	70,00,000
Debt (cost of debt at 10%)	50,00,000	20,00,000

4. Explain the functions of SEBI.

III ANSWER ANY TWO OF THE FOLLOWING:

(6x2=12)

5. Write a note on profit maximisation.
6. The summarized cost sheet of Careful Ltd is presented below:

Cost sheet for the month ended 31/3/2017

Elements of cost	Rs.
Direct material cost	40,000
Direct wages	30,000
Prime cost	70,000
Factory overhead	20,000
Works cost	90,000
Office & administrative overhead	30,000
Cost of production	1,20,000

Selling and distribution overhead	15,000
Total cost	1,35,000
Profit	65,000
Sales	2,00,000

Calculate the operating leverage of the company

7. Rose and Co Ltd. presents to you the following Balance Sheet as on 31/12/2017.

Liabilities	Rs	Assets	Rs
Equity capital	5,00,000	Fixed assets	8,75,000
Preference share	1,00,000	Investments	2,50,000
Reserve fund	4,00,000	Stock	3,00,000
6% Debentures	2,00,000	S. Debtors	1,35,000
S. creditors	3,00,000	Bank balance	70,000
Profit & loss A/c	2,10,000	Preliminary expenses	80,000
	17,10,000		17,10,000

The directors intended to transfer a sum of Rs.50, 000 out of profits to provision for tax. You are required to calculate the debt-equity ratio.

Financial Management

Answer the following

(24x1=24)

① A) Financial Plan - 1

Particular	1	2	3	4	5
EBIT/EBT	30,000	50,000	70,000	90,000	120,000
(-) Tax 50%	15,000	25,000	35,000	45,000	60,000
EAT	<u>15,000</u>	<u>25,000</u>	<u>35,000</u>	<u>45,000</u>	<u>60,000</u>
EPS = $\frac{EAT}{\text{No. of equity share}}$		$= \frac{15,000}{50,000}$	$= \frac{25,000}{50,000}$	$= \frac{35,000}{50,000}$	$= \frac{45,000}{50,000}$
		<u>0.3</u>	<u>0.5</u>	<u>0.7</u>	<u>0.9</u>
					$\frac{60,000}{50,000} = \underline{1.2}$

Financial Plan - 2.

Particular	1	2	3	4	5
EBIT	30,000	50,000	70,000	90,000	120,000
(-) Interest 6%	15,000	15,000	15,000	15,000	15,000
EBT	<u>15,000</u>	<u>35,000</u>	<u>55,000</u>	<u>75,000</u>	<u>1,05,000</u>
(-) Tax @ 50%	7,500	17,500	27,500	37,500	52,500
EAT	<u>7,500</u>	<u>17,500</u>	<u>27,500</u>	<u>37,500</u>	<u>52,500</u>

EPS	$\frac{7500}{25000}$	$\frac{17500}{25000}$	$\frac{27500}{25000}$	$\frac{37500}{25000}$	$\frac{52500}{25000}$
	<u>0.3</u>	<u>0.7</u>	<u>1.1</u>	<u>1.5</u>	<u>2.1</u>

Financial Plan - 3

Particular	1	2	3	4	5
EBIT	30,000	50,000	70,000	90,000	120,000
(-) Interest 6%	6000	6000	6000	6000	6000
EBT	24000	44000	64000	84000	114000
(-) Tax 50%	12000	22000	32000	42000	57000
EAT	12000	22000	32000	42000	57000
(-) Pref. dividend	7500	7500	7500	7500	7500
	<u>4500</u>	<u>14500</u>	<u>24500</u>	<u>34500</u>	<u>49500</u>
EPS = $\frac{4500}{25000}$	$\frac{14500}{25000}$	$\frac{24500}{25000}$	$\frac{34500}{25000}$	$\frac{49500}{25000}$	
= <u>0.18</u>	<u>0.58</u>	<u>0.98</u>	<u>1.38</u>	<u>1.98</u>	

B) Statement of capital structure

Total funds	14,00,000	14,00,000	14,00,000
debt	25,00,000 15%	30,00,000 16%	60,00,000 18%
Equity	1150,000	11,00,000	800,000

Statement of Income.

EBIT	350,000	350,000	350,000
(-) Interest	37,500	48,000	108,000
EBT	312,500	302,000	242,000
(-) Tax @ 35%	109,375	105,700	84,700
EAT	203,125	196,300	157,300

$$\text{EPS} = \frac{\text{Surplus / EAT}}{\text{No. of equity share}}$$

$$= \frac{203125}{11500} \quad \frac{196300}{11000} \quad \frac{157300}{8000}$$

$$= \underline{17.66} \quad \underline{17.85} \quad \underline{19.66}$$

option 'c' is the best option based on EPS.

(12x284)

⑤

Scope under modern approach

Modern approach assign a far greatest role to financial management. It has become more advance because of emergence of technology the modern approach assign the following functions to financial management

financial decisions

Every corporate raises fund from promoters share holders, creditors and financial institutions financing is the base function of financial management

→ Estimation of fund required.

The funds needed by an organization are to be estimated in advance. As there are many choices to raise funds the requirement should be estimated in advance by establishing financial control & budgeting.

→ Procurement of funds

once the funds needed are estimated they should be procured from relevant sources. There are principles that guide the selection of sources like cost of funds, procedure, securities to offered etc,

→ Planning the capital structure

The funds can come from two sources ownership funds can come from equity share & preference share & creditorship funds like debenture, bonds and long term loans. financial management also plans how much should be ownership funds and how much should be creditorship fund.

→ Negotiating with funding agencies.

Corporates raise funds from all over the world. There are many funding agencies like financial institutions, mutual funds, insurance company, investment trust, venture capital funds.

Investment decisions

these decisions pertain for the following areas

→ Cash management.

Dividend Policy decisions

These decisions relate to two aspects

→ Profit- allocations

Profit is to be allocated among various types of reserves like general reserve and dividend equalization fund such an allocation is made in line with the plan of the organization regarding organic and inorganic growth. It is necessary to meet future contingency decisions must be taken regarding the types of reserves to be created and the amount to be transferred to these reserves

→ framing dividend policy

Corporates have to decide whether they will follow liberal dividend policy or strict dividend policy. It is to also be decided whether the company will declare interim dividend also. Many of the corporates are coming up with novel ideas of rewarding the shareholders through special dividend.

③ Capital structure.

Particular	Financial Plan 1	Financial Plan-2
Equity share capital	50,00,000	70,00,000
Debt	50,00,000	20,00,000.
Cost of debt @ 10%.		

Financial Plan - 1

Particular	Situation A	Situation B
Sales (800 x 20,000)	16,00,00,000	16,00,00,000
(-) variable cost - (800 x 15,000)	12,00,00,000	12,00,00,000
Contribution	4,00,00,000	4,00,00,000
(-) fixed cost	8,00,000	15,00,000
EBIT	32,00,000	25,00,000
(-) Interest @ 10%	5,00,000	5,00,000
EBT	<u>27,00,000</u>	<u>20,00,000</u>

$$OL = \frac{\text{Contribution}}{\text{EBIT}} = \frac{4,00,00,000}{32,00,000} = \underline{1.25} \quad \frac{4,00,00,000}{25,00,000} = \underline{1.6}$$

$$FL = \frac{\text{EBIT}}{\text{EBT}} = \frac{32,00,000}{27,00,000} = \underline{1.19} \quad \frac{25,00,000}{20,00,000} = \underline{1.25}$$

Financial Plan - 2

Particular	S. A	S. B.
Sales	16,00,00,000	16,00,00,000
(-) variable cost	12,00,00,000	12,00,00,000
Contribution	4,00,00,000	4,00,00,000
(-) fixed cost	8,00,000	15,00,000
EBIT	32,00,000	25,00,000
(-) Interest @ 10%	5,00,000	5,00,000
EBT	<u>27,00,000</u>	<u>20,00,000</u>

$$OL = \frac{\text{Contribution}}{\text{EBIT}} = \frac{4000,000}{3000,000} = 1.33 \quad \frac{4000,000}{2500,000} = 1.6$$

$$FL = \frac{\text{EBIT}}{\text{EBT}} = \frac{3000,000}{3000,000} = 1.00 \quad \frac{3500,000}{3300,000} = 1.06$$

Answer any two

(6/2/12)

5) Profit maximization

This is the basic objective of any organization. It involves maximizing super value of income during every accounting period. Profit is earned by increasing sales, reducing cost & both. Companies do maximize profit, survive well, gain market share, spend on research & development, take over competing and other organization also expand & diversified constantly.

Criticism

The profit maximization objective is heavily criticized by giving remarks that it is a misleading objective

→ Vagueness

The objective does not give a clear idea whether the profit should short-term or long term profit.

→ Ignoring time value of money

This objective does not take into account the time value money. In capital budgeting return at different points of time cannot be added together to get a total return.

→ Ignoring risk and uncertainty while evaluating the projects the profit-estimated should be suitably discounted for the risk and uncertainty.

→ Ignoring the role of growth.

Many corporates sacrifice profit in order to achieve long term growth profit maximization objectives totally ignores role of growth giving importance only to market- and market share.

⑥ Statement of Income.

Sales		200,000
↳ variable cost-		
Direct material cost-	40,000	
Direct wages	30,000	70,000
Contribution		130,000
↳ fixed cost-		
factory cost-	20,000	
office & administration o/h	30,000	
selling & distribution o/h	15,000	65,000
EBIT		<u>65,000</u>

$$\text{Operating leverage} = \frac{\text{Contribution}}{\text{EBIT}}$$

$$= \frac{130,000}{65,000} = \underline{\underline{2}}$$

④ Debt equity ratio = long term debt : networth

$$= 200,000 : 1,080,000$$

$$= 20 : 108 = \underline{\underline{10 : 54}}$$

long term debt : 6% debture = 200,000

networth	equity share	500,000
	pref share	400,000
	reserve fund	400,000
		<hr/>
		1,000,000

G, Profit & loss.

(210,000 - 50,000)

160,000

1160,000

G, preliminary exp

80,000

1080,000