

Theoretical Questions

1. Define operating cycle
2. Explain the difference between current assets and liquid assets
3. List the major items of current assets and current liabilities.
4. Examine the limitations of current ratio.
5. List the two methods of computing inventory turnover.
6. High current assets mean high liquidity. Do you agree?
7. What is working capital?
8. Explain the concept of working capital through current items and also through non-current items.
9. What is negative working capital?
10. What is funds flow statement?
11. How is fund different from cash?
12. Explain the process of determining funds from operation.
13. Is fund from operation same as cash from operation?
14. How is debtors days calculated?
15. Explain the reasons for very high debtor days.

Numericals

1. Working capital = 50,000. Current assets = 100,000. Find current liabilities
 - a. **50,000**
 - b. 150,000
 - c. 35,000
 - d. None of the above
2. Working capital = 150,000, Current Ratio = 2, Find current assets.
 - a. **300,000**
 - b. 150,000
 - c. 100,000
 - d. None of the above
3. Working capital = 150,000, Current Ratio = 2, Find current liabilities
 - a. 300,000
 - b. **150,000**
 - c. 100,000
 - d. None of the above
4. Inventory days of D ltd was 53 in 2004 and in 2005 it decreased by 30%. The average inventory also decreased from by 30% to Rs.128 lakhs. Find the inventory days in 2003 and 2005

5. Balance sheet of AB Ltd is given below:

Balance Sheet of AB Ltd as on 31st March 2005			
Capital (10)	50000	Plant (Cost - Depreciation)	48750
		Computers (Cost - Depreciation)	50000
Accumulated Profits	50000	Stock	50000
12% Loan	100000	Debtor	76250
Creditors	25000		
	225000		225000

Additional information:

- Plant was purchased on 1st October 2001.
- Depreciation on plant per year 10% SLM basis
- Depreciation on computer per year 10,000
- Stock was valued on the basis of FIFO

Following decisions were taken by the company during the year ending March 2006.

- Sold entire stock for 150,000 for cash.
- Paid creditors fully
- Repaid loan on 1st October.
- Initiated extensive drive to improve collections from debtors. Collections from the debtors : 35,000.
- Distributed dividend: 10,000

Required:

- Balance sheet as on 31st March 2006
- Funds Flow Statement for the year ending 31st March 2006
- Compare the cash from operation with the funds from operation. Explain why are they different.

6. Following are the balance sheet and income statement of Altd.

Balance Sheet					
Sources			Assets		
	2001	2002		2001	2002
Share Capital	100000	200000	Plant and Machinery	100000	120000
Debentures	70000	30000	Investments	30000	80000
Creditors	28000	82000	Debtors	10000	40000
Tax Payable	0	6000	Cash	40000	10000
Profit and Loss A/c	16000	20000	Prepaid Expenses	4000	8000
			Stock	30000	80000
	214000	338000		214000	338000

During the year debentures were converted into share

Income Statement			
Sales	200000		
Less COGS		Other Expenses	
Opening Stock	30000	General Expenses	22000
Purchase	196000	Depreciation	16000
Closing Stock	80000	Taxes	8000
	146000	Total Expenses	46000
Profit after Tax		8000	
Dividend		4000	

Required:

- Statement of changes in the working capital and Funds Flow Statement,
- Cash flow statement as per Accounting Standard-3

Write True or false: Give reasons

- Retained earnings are shown as a current asset.
- Cash is a part of the shareholders' fund.
- Working capital is the difference between Capital employed and capital.
- Negative working capital is excess of current liabilities over current assets.
- Capital employed is the summation of owners fund (equity) and long term liabilities.
- Share premium is included in working capital.
- Working capital is excess of sales over the cost of goods sold.
- Working capital increases if goods are sold at a profit.
- Working capital decreases if plant and machinery are purchased for cash..
- Issue of share capital of cash will not affect working capital.
- Issue of shares in consideration of plant and machinery will not affect working capital.
- Converting debentures into capital will increase working capital.
- Issues of shares at discount will decrease working capital.
- Money received from debtors will increase working capital.
- A company cannot have a negative working capital.
- Depreciation on plant and machinery will decrease working capital.
- Issue of bonus shares will increase working capital.
- Sale of investments for cash will increase working capital.
- Working Capital = Total liabilities – Total Assets
- Working Capital = Capital Employed – Long Term Liabilities
- Sale of goods at profit will increase current ratio.
- Sale of goods at loss will decrease current ratio
- Purchase of goods for cash will increase current ratio.
- Purchase of goods for cash will have no impact on current ratio.
- Issue of shares at discount will decrease current ratio.
- Issue of bonus shares will decrease current ratio.

27. Stock split will increase current ratio.
28. Buy back of shares will increase current ratio.
29. Distribution of dividend will decrease current ratio.
30. Converting debentures into capital will decrease current ratio.
31. Purchase of stock of raw material on credit will increase working capital.
32. Repayment of loan will increase working capital.
33. Change in debt-equity ratio due to repayment of loan will increase current ratio.
34. Change in debt-equity ratio due to repayment of loan will decrease working capital.
35. Change in debt-equity ratio due to repayment of loan will decrease current assets, decrease working capital, and decrease current ratio.
36. Working capital will not change with the change in the market price of shares.
37. Sale of investment at a premium will increase current ratio.
38. Sale of investment at loss will increase current ratio.
39. Payment of outstanding salary will decrease working capital
40. Rent due but not paid will increase working capital.
41. Repayment of loan by giving the stock of inventory will increase working capital.
42. Repayment of loan by giving fixed assets will increase working capital.
43. Repayment of loan by giving cash will increase working capital.
44. Converting loan into capital will not have any impact on working capital.
45. Repayment of loan by giving cash will decrease current ratio.

Accounting in real life

1. Working capital of the HLL as on 31st March 2006 was Rs. -1493 and current ratio was 0.65. Find current assets and current liabilities.
2. Working capital of Siemens ltd was Rs. 204.5; Current liabilities were 2023. Find current ratio.
3. Current ratio and liquid ratio of SAIL was 1.3 and 0.8 respectively. Working capital was 4046. Find current assets, current liabilities and value of stock.
4. Current ratio of TCS is 2.33 as on March 31, 2007. Explain the impact of the following transactions on the current ratio.
 - a. Issue of shares at a premium
 - b. Tata Sons, one of its shareholders, sells reduces its stake by disposing of the shares in the market.
 - c. TCS receives money from one of its clients.
7. Net working capital cycle days of Tata Steel as on 31st March 2006 was 75.33. Creditors days and debtors days were 94.5 and 12 respectively .
 - a. Find the inventory days.
 - b. Find the total debtors and inventory if the average if the average daily sales in the above case was 46.96.
 - c. Examine the impact of increase in the debtor days to 20 on the working capital. Assume other things to be constant.
8. Refer to the table no.15.1 and answer the following:

- Give reasons for high and low working capital.
 - Refer to web site of Satyam Computer Services and check how the current assets being financed.
 - Working capital is 9% of the total funds in the case of Grasim Industries. Can we say that very small percentage of current assets are funded by the long term sources (Debt and Equity).
 - Refer to Reliance Energy and Reliance Industries. Can we conclude that in case of Reliance Energy portion of the current assets funded by the long term sources is more than that of the Reliance Industries.
9. Net operating cycle days of Hindustan level as on 31st March 2006 was negative 5.35. Average daily sales was 33.2.
- a. Find net creditor days if the gross working capital days was 104.
 - b. Find gross working capital.
 - c. Find net working capital.
 - d. Find current assets
10. Some of the financial items of NALCO for the year ending March 31, 2006: Equity Capital= 644; Long Term Loans = 0; Capital Employed = 4697; Gross Block of Fixed Assets= 8784; CWIP = 207; Current Assets = 1861; Working Capital = 352. Source: <http://www.nalcoindia.com>.
Required:
- a. Balance Sheet
 - b. Current Ratio

11. Following table shows the working capital of Tata Motors.

Working Capital of Tata Motors Ltd.(Rs. in Crores)			
CURRENT ASSETS, LOANS & ADVANCES	2004-05	2003-04	2002-03
Interest accrued on investments	6.12	0.03	0
Inventories	1,601.36	1,147.44	1,159.29
Sundry Debtors	811.32	614.99	946.1
Cash & Bank Balances	2,005.04	770.49	245.35
Loans, Advances & Deposits	2,722.35	1,162.75	631.27
Total Current Assets	7,146.19	3,695.70	2,982.01
Working Capital	545.36	-959.24	-509.16

Required

- a. Find current liabilities
- b. Comment on the liquidity position of the company
- c. Find debtor turnover and inventory turnover, sales during the period was
 - 2005: 17419
 - 2004: 13223
 - 2003;9096
- d. Using the additional information given below prepare the condensed balance sheet for the year ending 2004-05:
 - Total capital employed = 7154 crore

- Debt Equity ratio = 1:2 (approx)
- Investments = 1139 crore

12.

Current Assets and Current Liabilities OF RANBAXY LABORATORIES LTD			
	Rs Millions		
	2005	2004	2003
Current Assets			
Inventories	8909.33	8,963.38	7,047.31
Sundry debtors	8066.18	7,846.89	4,829.44
Cash and bank balances	1165.93	372.6	985.3
Other current assets	1179.16	805.08	1,767.69
Loans and advances	3333.08	5,094.25	9,898.16
	22653.68	23082.2	24527.9
Current liabilities and provisions			
Current liabilities	7282.8	8,307.37	6,070.55
Provisions	4139.92	5,078.10	5,154.46
	11422.72	13385.47	11225.01

Required

- Find all possible liquidity ratios
 - Compare the ratios with its nearest competitor.
 - Compare the ratios with that of Tata Motors as given in the previous question.
13. Tata Steel had negative working capital of 959.83 as on 31st March 2006. Current ratio as on that date was 0.82 and the liquid ratio was .40. Find current assets, current liabilities and stock as on that date.
14. Inventory days of Dabur decreased from 53 in 2003 to 37 in 2005. Average inventory decreased from 178.
15. Refer to the table 15.16 and answer the following
- How can Satyam computers reduce its current ratio to the level of Infosys and still not affect its liquidity?
 - The current ratio of above mentioned companies is positive. Does that mean current assets are fully financed by current liabilities
 - Comment on the financing of their non-current assets
16. Refer to the table 15.19 and answer the following
- Why is the liquid ratio of the IT companies same as the current ratio?
 - What will be the impact of issue of further capital on the above ratios?
 - Explain the gap between current ratio and liquid ratio of pharmaceutical companies.

- How will the above ratio change if you purchase 50 shares of infosys and make the payment in cash immediately?
17. Refer to the table 15.21 and answer the following questions
- How can Cipla ltd. Reduce its debtor days?
 - Why are the debtor days of pharmaceutical companies more than that of the automobile companies?
 - Average daily sales of Hero-Honda Motors Ltd for the year ending 31s March 2006 was Rs. 27.66 crores. Find the average debtors.