1. Grow More Ltd. is presently operating at 60% capacity level, producing 36,000 units of a product per annum. In view of favourable market conditions, it has been decided that from 1\textsuperscript{st} January, 2016, the company would operate at 90% capacity.

Following information is available:

— Existing cost-price structure per unit is:
  
  Raw material : ₹4
  Wages : ₹2
  Variable overheads : ₹1
  Fixed overheads : ₹1
  Profits : ₹1

— It is expected that the cost of raw material, wages, overheads and sales per unit will remain unchanged in the year 2016.

— Raw material remain in stores for 2 months before being issued to production. These units remain in production process for one month.

— Finished goods remain in godown for 2 months.

— Credit allowed to debtors is 2 months while credit allowed by creditors is 3 months.

— Lag in wages and overheads payments is 1 month; it may be assumed that wages and overheads accrue evenly throughout the production cycle.

Assume that the opening balance of raw material, work-in-progress and finished goods have already been brought to desired level. Consequently, goods purchased during the period will only be for the production requirement and not for increasing the level of stock.

You are required to —

(a) Prepare a statement of profit and loss at 90% capacity level. 

(b) Calculate the working capital requirements on an estimated basis to sustain the increased production level.
(c) Compute the permissible bank finance under the 1st and 2nd method of lending.  

(10 marks)

(d) What is the direction to banks regarding determination of working capital credit?  

(5 marks)

(e) What precautions should have been taken by the bank, if the bank has granted working capital finance to the company against inventory/goods?  

(5 marks)

2. (a) Using the information on ratios and the format given below, compute and provide the value of balance sheet items for Wisdom Ltd. which has sales of ₹36 lakh for the year 2015-16:

Sales : Total assets 3  
Sales : Fixed assets 5  
Sales : Current assets 7.5  
Sales : Inventories 20  
Sales : Debtors 15  
Current ratio 2  
Total assets : Net worth 2.5  
Debt : Equity 1

Balance Sheet of Wisdom Ltd. as on .........

\[
\begin{array}{l}
\text{LIABILITIES} \\
\text{Net worth} & ₹
\end{array}
\]
\[
\begin{array}{l}
\text{Long-term debt} & ₹
\end{array}
\]
\[
\begin{array}{l}
\text{Current liabilities} & ₹
\end{array}
\]
\[
\begin{array}{l}
\text{TOTAL} & ₹
\end{array}
\]

\[
\begin{array}{l}
\text{ASSETS} \\
\text{Fixed assets} & ₹
\end{array}
\]
\[
\begin{array}{l}
\text{Inventories} & ₹
\end{array}
\]
\[
\begin{array}{l}
\text{Trade receivables} & ₹
\end{array}
\]
\[
\begin{array}{l}
\text{Liquid assets} & ₹
\end{array}
\]
\[
\begin{array}{l}
\text{TOTAL} & ₹
\end{array}
\]

(20 marks)
(b) Explain briefly the significance of any four types of ratio that the management of every firm is interested in.

(10 marks)

3. Explain the relationship of a banker and customer in the following transactions:
   (i) Loan from the bank
   (ii) Safe custody of articles
   (iii) Collection of cheques
   (iv) Standing instructions
   (v) Mortgage.

(5 marks)

4. What is the period of limitation under the Limitation Act, 1963 in respect of following documents:
   (i) Mortgage-foreclosure
   (ii) Guarantee
   (iii) Demand promissory note
   (iv) Mortgage-possession of immoveable property
   (v) Money payable for money lent.

(5 marks)

5. On what grounds, a customer can lodge a complaint with the Office of Banking Ombudsman for deficiency in service with respect to loans and advances? What is the cost involved in filing complaint with Banking Ombudsman?

(5 marks)

6. What is regulatory capital? State the composition of regulatory capital for banks under Basel III norms.

(5 marks)