FINANCIAL REPORTING & CONTROL

COMPREHENSIVE ASSIGNMENT

1. Date of Birth: 30.03.1968
   Date of commencement of business: 30.03.2012
   Thus, the periods are:
   (a) 30.03.2012 to 31.03.2013
   (b) 2013-14
   (c) 2014-15

2. Roll No. : 47
   Contributed Capital : Rs. 4.70 crores

3. Long term loan @ 10% per annum
   Maximum available: Rs. 9.40 crores
   Minimum to be utilized: Rs. 4.70 crores

4. Fixed Assets
   Minimum : 20% of total assets
   Depreciation: Straight Line Method
   Life of asset: 5 to 10 years

5. Sales volume : Annual increase 10 % on previous year sales
   Sales price: Annual increase 5 % over previous year prices
   Purchase price (of raw materials) : Annual increase @ 6.5% over previous year price

6. Credit sales – Up to 4 times of cash sales

7. Credit purchase: 3 times cash purchase

8. Wage cost : 10 % to 30 %

Setting up of Bar Mill

With the experience of working in a steel industry, I decide to set up a Bar Mill in Mandi Gobindgarh in Punjab. This place is a heaven for steel industry and with continuous and almost unceasing development, with new industries coming up in private sector, the setting up of a bar mill is a natural choice. The capacity has been kept as **25000 TPA (tones per annum),** based on the total capital to be invested and considering the raw material availability.

The mill will be a sole proprietorship firm and will be called as “Lala Gela Ram Chugh Bar Mill” (In the fond memory of my grandfather). An MOU has been signed with M/s. Lamba Loha unit (A Pvt. Company, involved in manufacturing of long products, namely blooms and billets) for supply of steel billets to our manufacturing firm.

Raw Materials

The basic raw materials for the mill will be the billets of size varying from 100 mm x 100 mm to 125 mm x 125 mm in cross-section and 4 m to 7 m in length. The present cost of billets (as on 30.03.2012) is **Rs. 20000/- per t**. The market for these items is very fluctuating but the MOU has ensured that these rates will be valid till 31.03.2013. MOU also incorporates increase of purchase volume by 10% every year. However, the prices shall be increased by not more than 7%, over the previous year prices. The MOU contracts envisage the delivery of material on 30.03.12 for the first time and then 01.04.12 onwards on monthly basis.

Other major Inputs shall include Electricity (for running the rolling mills motors, pump & drives, and illumination etc.), water (for cooling of rolls) and furnace oil (fuel).

Finished products (Bars)

The process includes two major facilities, i.e. Re-heating furnace and Rolling Mills. The billets are heated to a temperature of around 600^0 C and then rolled, in a rolling mills, which has three stand, reducing the size of the billet to achieve the desired bar size of 8 mm to 32 mm dia. Wastage of this type of operations is very low (less than 1 %).

An MOU has been signed with M/s. Bhawan Builders for sale of these finished products. They are building a huge mall in Chandigarh and have several housing projects in major cities of Punjab & Haryana. They also are in the business of taking up the construction of Industrial factories and buildings, as a Civil contractors.

M/s. Bhawan Builders needs a huge amount of reinforcement bars and therefore, the entire range of output produced by us, shall be sold to them. Here again, even though there may be volatility in the market and thus the rates may go up, but MOU shall ensure that during the period up to 31.03.2012, the rates shall remain firm @**Rs. 40000/- per t**. MOU, however, allows an increase of 5% in the prices over the previous period and also sales volume go up every period by 10%.

Land, Buildings and Plant & Machinery

M/s. Tiwari Rolling Mills had set up this mail, very recently. All the plant & equipment etc. were installed and they were going to start the manufacturing very soon. However, a bitter family feud forced them to drop these plans. The timing was perfect for me and I, with the help of a mediator, was able to seal the deal with them. The total amount to be paid was Rs. 2 crores towards the land the buildings and Rs. 4 crores was for the plant & the machinery.

Depreciation

1. Re-heating furnace
   Initial cost : Rs. 1.5 crores
   Life : 5 years
   Straight line method gives depreciation @ 20%, i.e. Rs. 0.3 crores very year.
2. Rolling Mills
   Initial cost : Rs. 2.5 crores
   Life : 10 years
   Straight line method gives depreciation @ 10%, i.e. Rs. 0.25 crores very year.

Transaction Details and financial statements have been prepared in the enclosed Excel sheet, for the first period.

Second Period

1. The capacity has been increased, by now, to **27,500 TPA.**
2. Due to capex by 10%, now the volume of sales shall go up by 10%.
3. Purchase price go up by 5 % due to increase in cost of raw materials for the steel industry. Thus, the new purchase price is now **Rs. 21000/- per t.**
4. Sales price shall also go up by 5%. Thus, the new sales price shall now be **Rs. 42000/- per t.**

Transaction Details and financial statements have been prepared in the enclosed Excel sheet, for the Second period.

Third Period

1. The capacity has been increased, by now, to **30250 TPA.**
2. Due to capex by 10%, now the volume of sales shall go up by 10%.
3. Purchase price go up by 5 % due to increase in cost of raw materials for the steel industry. Thus, the new purchase price is now **Rs. 22050/- per t.**
4. Sales price shall also go up by 5%. Thus, the new sales price shall now be **Rs. 44100/- per t.**

5. The company decides to go public and collect an amount of Rs. 30 crores from public shareholders. A total of 3 crores shares at a face value of Rs. 10/- per share are floated in the market. The response is overwhelming. Now, the company decides to invest this money in buying new machinery on the additional piece of land adjoining to our premises. A total of Rs. 10 crores have been spent on buying the land. And it was decided to keep Rs. 10 crores in fixed deposit with the bank at a rate of interest of 10% for one year. The balance Rs. 10 crores shall be utilized for the installation of the new unit.
6. At the end of the period, the company decides to award a dividend @ 10% to the shareholders.

Transaction Details and financial statements have been prepared in the enclosed Excel sheet, for the third period.

ANLAYSIS OF THE CASH FLOW STATEMENT

1. The company over the last three periods has ensured the cash availability at all times. *(Here, it may be mentioned that there is a huge difference between the purchase price of the raw materials and its cost price after conversion. This may not be a "true" picture of the real market scenario, however this has been done to simplify the data and the situation. Probably, that is the reason that cash liquidity has always been comfortable).*
2. All the conditions, adumbrated in the case, have been complied with.
3. Company is well poised to move to forward, with expansion plans in place.
4. Company has gone public in the third period. It was able to pay dividend as well.
5. The cash-in-hand has gone up from first to the second year. During the third year, there has not been an appreciable increase, owing to the fact that a major investment has been made in acquisition of new assets. The future thus looks quite assured.