

2016

M. Com.

4th Semester Examination

FINANCIAL STATEMENT ANALYSIS

PAPER — COM-404

Full Marks : 50

Time : 2 Hours

The figures in the right-hand margin indicate full marks.

Candidates are required to give their answers in their own words as far as practicable.

Illustrate the answers wherever necessary.

Unit—I

[Marks : 20]

1. Answer any two questions from the following : 2×5

- (a) Sundarsan Trading Limited is considering to increase its credit period from 'net 35' to 'net 50'. The firm's sales are expected to increase from Rs. 120 lakhs to Rs. 180 lakhs and average collection period to increase from 35 days to 50 days. The bad-debt loss ratio and collection costs ratio are expected to remain at 5 per cent and 6 per cent respectively. The firm's

(Turn Over)

variable costs ratio is 85 per cent. Assuming a 20 per cent rate of return on investments what would be your recommendation? Should the firm implement the decision? 5

(b) What is Economic Value Added (EVA) and how is it measured? 2+3

(c) Mention the major objectives of financial statement analysis. 5

(d) Distinguish between Cash Flow Statement and Fund Flow Statement. 5

2. Answer any *one* question from the following : 1×10

(a) Some ratios of the Bright Company and corresponding standard ratios (Industry standard) are given below.

	<i>Industry Standard</i>	<i>Bright Company</i>
Current Ratio	2:1	1.5:1
Liqued Ratio	1:1	0.75:1
Debtors' Turnover	5 times	6 times
Creditors' Turnover	4 times	3.8 times
Debt-Equity Ratio	1:1	2:1
Proprietors' equity to total assets	0.4:1	0.24:1
Fixed Assets to Proprietors' equity	1.25:1	2.44:1
Capital Turnover	1.87 times	1.85 times
Total Assets Turnover	1.36 times	1.35 times
Fixed Assets Turnover	3 times	2.3 times
Working Capital Turnover	1.94 times	2.7 times

Stock Turnover	5 times	5.4 times
Gross profit Ratio	25%	20%
Operating Ratio	88%	85%
Net profit Ratio	12%	15%
ROI	22.5%	28%

Comment on the performances of the company

(b) The Balance Sheet of Glory Ltd. as on 31.3.15 and 31.03.16 are as below (rupees in '000)

Liabilities	31.3.15		31.3.16		Assets	31.3.15		31.3.16	
	₹	₹	₹	₹		₹	₹		
Share Capital	2,000	2,500	Fixed Assets	2,000	2,500				
Reserve	1,500	2,200	Investment	500	300				
Creditors	700	900	Stock	1000	1500				
Proposed Dividend	30	40	Debtors	600	1000				
Outstanding Wages	70	60	Bank	200	400				
Outstanding Exp.	200	100	Prepaid Exp.	200	100				
	<u>4,500</u>	<u>5,800</u>		<u>4,500</u>	<u>5,800</u>				

Additional Information :

Accumulated depreciation balance were ₹ 3,50,000/- and ₹ 450,000/- on 31.3.15 and 31.3.16 respectively. The amount of sales ₹ 70,00,000, Cost of goods sold ₹ 40,00,000/-, Wages paid ₹ 400,000/-, Rent paid ₹ 150,000/-, Expenses paid ₹ 9,00,000/-, Depreciation provided ₹ 60,000/-, Fixed asset sold for ₹ 700,000/-. The WDV of the same being ₹ 6,40,000/-. Prepare a Cash Flow Statement for the year ended 31.3.2016.

Unit—II

[Marks : 20]

3. Answer any *two* questions : 2×5
- (a) What is International Financial Reporting Standards (IFRSs)? List up the latest eight IFRSs as issued by IASB. 1+4
- (b) What do you understand by harmonization of accounting standards? What is the need of such harmonization? 2+3
- (c) Distinguish between positive environmental disclosure and negative environmental disclosure.
- (d) In Corporate Social Responsibility (CSR) reporting mandatory in India? Write your answer as per the provisions of Section 135 of Companies Act 2013. State the limitations of Social Accounting. 2+3
4. Answer any *one* of the following : 1×10
- (a) Write down the important provisions of segment reporting for an entity as per the guidelines of Ind AS-108. State its major disclosure requirements. 5+5

- (d) In Kolkata, Traffic Lights control the flow of traffic across and between two busy roads A and B. It is estimated that 50% of the traffic on each road is delayed ; the average loss of time per vehicle delayed is 1.2 minutes in road A and 1 minute in road B. The traffic on road A Averages 5,000 vehicles a day and on B it is 6,000. 30% of the traffic is commercial vehicles and the rest are private. Whether business or non-business, the time is viewed as valuable. The cost of time for commercial vehicles is estimated as Rs. 50 per hour and for private as Rs. 20 per hour. The cost of stop and start is estimated to be Rs.2 per commercial and Re. 1 per private vehicles.

Two fatal accidents occurred in last four years for violation of traffic signals and the insurance settlements were Rs. 2,00,000 each. Forty non-fatal accidents had also occurred in the same period, averaging a claim of Rs. 10,000 each.

The Kolkata Corporation has planned to construct an overpass on road A to replace the intersection and to avoid accidents. The overpass will cost Rs. 80 lakh and will add a quarter of kilometer to the distance.

The maintenance cost of overpass will be Rs. 50,000 per year. The incremental operating cost due to added distance of commercial vehicles will be Rs. 5 per km and for private vehicles Rs. 2 per km.

The cost of operating the traffic lights is Rs. 1,000 per month and 2 traffic police work on the signal lights on a monthly salary of Rs.12,000 each.

The expected economics life of the overpass is 25 years with no salvage value. The cost of capital is 7% (capital recovery factor is 0.0858).

Evaluate the feasibility of the overpass computing B-C ratio.

[Internal Assessment : 10 Marks]
