M.Com. 4th Semester Examination, 2012

FINANCIAL STATEMENT ANALYSIS

Optional Group I : (*Accounting and Finance*)

PAPER—COM-404 (AF)

Full Marks : 50

Time : 2 hours

The figures in the right-hand margin indicate marks

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

Illustrate the answers wherever necessary

UNIT – I

1. Answer any *two* questions : 5 × 2

(*a*) Two companies have the same amount of working capital. The current debt paying ability of one company is much weaker than that of the other. Explain how this could occur. 5

(*b*) Briefly discuss the concept MVA, as an emerging tools for performance measurement. 5

(*c*) "Cash Flow Statement as per AS-3 of the ICAI is considered superior to the conventional one." Examine the validity of the statement. 5

(*d*) The following information of two companies *A* and *B*, belonging the same industry are as follows :

	A	*B*
Current ratio	3·2 : 1	2·0 : 1
Acid test ratio	1.5 : 1	1.1 : 1
Debtors turnover (times)	8	7
Stock turnover (times)	5	6
Debt-equity ratio	35%	30%
Interest coverage rate	7	6

Assuming you are a loan officer of a Commercial Bank and both the companies have requiested a loan of equal amount, to be paid within 1 year. Based on the above information :

(*i*) If you could grant a loan to only one company, which it be ?

(*ii*) If you could grant a loan to both the companies would you be willing to do so ? 3 + 2

2. Answer any *one* question : 10 × 1

(*a*) Bright Ltd. has at present annual sales level of Rs. 10,000 units at Rs. 300 per unit. The variable cost is Rs. 200 per unit and fixed cost amount to Rs. 3,00,000 per annum. The present credit period allowed by the company is 1 month. The company is considering a proposal to increase the credit period to 2 months and has made the following estimates :

	Existing	Proposed
Credit period (month)	1	2
Increase in sales (per cent)	–	20
Bad debts (per cent)	2	5

There will be increase in fixed cost by Rs. 30,000 on account of increase in sales beyond 15 per cent level. The company plans a pre-tax return of 20 per cent on investment in receivables.

You are required to calculate the most paying credit policy for the company. 10

(*b*) The following are the summarised balance sheet of Sound Ltd. as on 31. March for the two consecutive years 2011 and 2012 :

(Rs. in thousand)

Particulars	2012	2011
Assets :		
Plant and machinery	1,980	1,010
Land and buildings	1,000	1,000
Long-term investments	550	550
Short-term investments	470	85
Sundry debtors	2,195	2,500
Inventories	1,400	1,300
Interest receivable	100	65
Cash in hand	300	500
Cash at bank	405	300
	8,400	7,310
Liabilities :		
Share capital	2,600	2,150
Reserve and surplus	1,460	900
15% debentures	2,000	1,800
Sundry creditors	440	650
Wages outstanding	40	20
Income tax payable	400	450
Accumulated depreciation :		
Plant and Machinery	910	840
Land and building	550	500
	8,400	7,310

Income statement for the period ending 31.3.2012 (Rs. in thousand)

Sales revenue	45,300
Less : cost of sales	39,000
Gross Profit	6,300
Less : Depreciation	(540)
Interest paid	(300)
Selling and administrative exp.	(2,960)
Add : Interest income	65
Dividend income (Gross)	95
Net Profit before extraordinary items	2,660
Add : Insurance settlement received	10
	2,670
Less : Provision for income taxes	550
Net Profit after tax	2,120

Additional Information (Rs. in thousand) :

(*i*) 15% debentures of Rs. 300 was redeemed during year 2012.

(*ii*) Tax deducted at source on dividend received (included in provision for taxes) amounts to Rs. 15.

(*iii*) A plant costing Rs. 500, having accumulated depreciation of Rs. 420 was sold for Rs. 80.

(*iv*) During the year 2012, interim dividend of Rs. 760 was paid, final dividend paid was Rs. 800.

(*v*) All sales and purchases are made on credit basis.

You are required to prepare a cash flow statement. 10

UNIT – II

3. Answer any *two* questions : 5 × 2

(*a*) Narrate the objectives of social reporting. 5

(*b*) Define 'Reportable Segment' as per Ind AS-1. 5

(*c*) Write a short note on IFRS. 5

(*d*) Define operating segment. What information would you require to provide about the profit or loss of a reportable segment as per Ind AS-108 ? 2 + 3

4. Answer any *one* question : 10 × 1

(*a*) Write down the major disclosure requirements in the preparation and presentation of financial statements as per Ind AS-1. 10

(*b*) 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 on Road-A and 1 minute on Road-B. The traffic on A averages 5,000 vehicles a day and on B it is 6,000. 30% of the traffics are commercial and the rest are private. Whether commercial or private, the time for the vehicle has to be viewed valuable. The cost of time for commercial vehicle is estimated as Rs. 50 per hour and for private at Rs. 20 per hour. The cost of a stop and start is estimated to be Rs. 2 per commercial and Re. 1 per private vehicles.

During the last four years forty-four accidents had been occured for violation of traffic signals on the crossing, out of which four were fatal. The insurance settlement for fatal accidents was Rs. 2,00,000 each and for non-fatal, the average claim was Rs. 10,000 each.

Currently the Kolkata Corporation is planning to construct an overpass on Road-A to replace the intersection and to avoid accidents. The overpass will cost Rs. 80 lakhs, but it will add a quarter of mile of the distance of the total traffic on Road-A. The maintenance cost of the overpass is estimated to be Rs. 50,000 per year. The incremental operating cost due to added distance for commercial vehicles will be Rs. 5 per mile and for private Rs. 2 per mile.

The cost of operating traffic signals is Rs. 1,000 per month and in addition to that two traffic polices work on the signals on a monthly salary of Rs. 12,000 each. No signal light or police man will be needed if overpass will be constructed.

The expected economic life of overpass is 25 years with no salvage value. The cost of capital is 7% (capital recovery factor 0·0858).

Assess the feasibility of the project by calculating benefit-cost ratio. 10

[*Internal Assessment* : 10 Marks]
