PG/IVS/CM-2204/11

M.Com. 4th Semester Examination, 2011

FINANCIAL STATEMENT ANALYSIS

Optional Group I : (*Accounting and Finance*)

PAPER—CM-2204 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

UNIT – I

1. Answer any *two* questions : 5 × 2

(*a*) "As ratios are insensitive as to negative numbers, mechanical calculation and interpretation may give wrong signals." Discuss the statement with an example. 5

(*b*) Briefly discuss how common-size statement is used as a tool of financial statement analysis. 5

(*c*) (*i*) What are the objectives of preparing cash flow statement ?

(*ii*) Differentiate between a cash flow statement and an income statement. 2 + 3

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

2. Answer any *one* question : 10 × 1

(*a*) The ratios for the industry and of Bright Company are given as follows :

	Industry Average	Bright Company
Current ratio	2 : 1	1·5 : 1
Liquid 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

	Industry Average	Bright Company
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 : 10

(*b*) You have been given the following balance sheets of a company as on 31.12.2009 and 31.12.2010 :

	31.12.2009	31.12.2010
Sources of funds :		
Share capital	3,94,000	4,60,000
Reserve and surplus	2,96,000	6,24,000

	31.12.2009	31.12.2010
Source of funds :		
Secured Loan from Bank	1,74,000	—
Provision for taxation	1,30,000	3,44,000
Sundry creditors	5,02,900	5,96,000
	14,96,900	20,24,000
Application of funds :		
Fixed Assets less Depreciation	7,20,000	12,00,000
Investments	22,500	20,000
Stock-in-trade	2,82,000	3,92,000
Sundry Debtors	1,81,400	2,80,000
Cash at Bank	2,60,000	90,000
Prepaid Expenses	28,000	42,000
Prepaid Taxes	3,000	—
	14,96,900	20,24,000

The following further information are available from the records :

(*i*) The position in respect of Reserves and Surplus is as under :

	Rs.
Balance as on 1st January 2010	2,96,000
Net profit for the year	3,97,000
	6,93,000
Less, Dividend	69,000
	6,24,000

(*ii*) On 31st December, 2010, the accumulated depreciation on fixed assets was Rs. 4,00,000 and on 31st December 2009, it was Rs. 3,60,000. Machinery costing Rs. 40,000 which was one-half depreciated was discarded and written off in 2010. Depreciation for the year amounted to Rs. 60,000.

(*iii*) Investments costing Rs. 10,000 were sold during the year 2010 for Rs. 9,600 and government securities of the face value of Rs. 8,000 were purchased during the year for Rs. 7,500.

You are required to prepare a cash flow statement. 10

UNIT – II

3. Answer any *two* questions : 5 x 2

(*a*) Define 'reportable segment' as per AS-17. 5

(*b*) Write a brief note on the current Indian scenario about IFRS adoption. 5

(*c*) What is environmental reporting? What principle do you follow in preparation of an environment report ? 2 + 3

(*d*) Write down the important objectives of International Accounting Standards Board (IASB). 5

4. Answer any *one* question : 10 x 1

(*a*) (*i*) Distinguish between 'basic earning, per share' and 'diluted earning per share'.

(*ii*) Net profit of X Ltd. for the year –

2009-2010	– Rs. 11,00,000
2010-2011	– Rs. 15,00,000

No. of shares outstanding prior to right issue	– 5,00,000 shares.
Right issue	– One new share for each five outstanding shares.
Right issue price	– Rs. 15 each
Last date of exercising right	– 1st June, 2010
Fair value of one equity share immediately prior to right issue	– Rs. 21 each

Calculate :

(*I*) Ex-rights fair value per share as on 1st June, 2010.

(*II*) Compute restated earning per share as on 31.3.2010 and

(*III*) Earning per share as on 31.3.2011 giving effect of right issue. 4 + (2 x 3) (*b*) (*i*) Write down the objectives of segment reporting.

(*ii*) Give a brief description about the primary and secondary disclosure requirements of segment reporting. 3 + 7

[*Internal Assessment* : 10 Marks]