AFS02

Solution
MMS - II
Anlys. of Fin. statement

Roll No:

Total No. of Questions: Eight (8) Total No. of Printed pages: 4

Duration (hrs): 3 hrs Maximum Marks: 60

Note:

1. All questions are compulsory.
2. Figures to the right indicate marks allotted to the question.
3. Working notes should form part of your answer, where applicable.

Question 1 (6)

Fill in the blanks with the correct answer:

a) A measure of financial performance calculated as operating cash flow minus capital expenditure is called ____________.(FCFF/FCF/FCFE)

b) Cash payments to acquire long term assets forms part of __________activities in the preparation of cash flow statement. (financing/investing)

c) Return on equity (ROE) is computed as _________divided by equity shareholders funds.(PBIT/PBT/PAT)

d) A company can pay cash to its shareholders in two ways, either as ________ or ____________of shares.(Dividend/stock-split/buyback/bonus shares)

e) Any profit earned over and above the cost of capital is called __________. (Bonus/Super profits/EVA)

Question 2 (6)

Choose the right answer from the given choices (Show workings, wherever applicable)

a) The market price per share of a firm having equity capital of Rs. 1,00,000 (face value Rs. 50 per share) the profit after tax Rs. 12,000 and the P/E ratio 5 will be

(i) Rs. 50 (ii) Rs. 30 (iii) Rs. 60

b) An analyst applied the DuPont system to the following data of a company. (a) equity turnover ratio is 4 times (b) net profit margin 5.5% (c)Total asset turnover ratio is 2 times. The company's return on equity (ROE) will be

(i) 22% (ii) 11% (iii) 44%

(hint: Assume sales(turnover) as Rs. 100)

c) A Ltd acquires B Ltd on the basis of exchange ratio of 0.80. If the share capital of A Ltd consists of 50,000 shares and share capital of B Ltd consists of 20,000 shares what will be the share capital of A Ltd after acquiring B Ltd?

(i) 70000 shares (ii) 66000 shares (iii) 75,000 shares

Question 3 (10)

The following is data relating to Precision Tools Ltd. and its industry averages

a) Determine the indicated ratios for the company.
b) Indicate the company's strengths and weaknesses in terms of liquidity, solvency and profitability, as revealed by the ratios for the company.

Balance sheet as on 31st March 2009

Sources of funds	31st Mar 09 Amt (Rs.)	*Application of funds*	31st Mar 09 Amt (Rs.)
Equity Share capital	10,00,000	Plant and equipments	15,10,000
10% preference capital	4,00,000	Stock	6,08,000
Reserves and surplus	2,74,000	Debtors	3,60,000
Long term debts	3,40,000	Cash	1,23,000
Sundry Creditors	3,15,000		
Outstanding expenses	12,000		
Other current liabilities	2,60,000		
Total	**26,01,000**	**Total**	**26,01,000**

Statement of income for the year ended 31st March 2009

Particulars	**Amt Rs.**	**Amt Rs.**
Sales	-	**22,50,000**
Less: cost of goods sold	15,25,000	
Selling expenses	2,95,000	
Administrative expenses	1,48,000	
Research and development expenses	65,000	
Interest	29,000	20,62,000
Earnings before taxes		**1,88,000**
Less income tax		65,800
Net income		**1,22,200**

Financial ratios of the industry:

1	Current ratio	2.2:1
2	Stock turnover (times)	2.8
3	Debtors collection period (days)	56
4	Total debt (including preference shares)/shareholders equity(percentage)	45
5	Interest coverage ratio (times)	10
6	Turnover /total assets (times)	1.35
7	Income before tax/sales (percentage)	11.9
8	Rate of return on shareholders equity (percentage)	10.9

Question 4 (6)

A company has 12% debt capital of Rs. 1500 crores, Equity capital of Rs.2500 crores, Reserves and surplus of Rs. 3500 crores. The return on tax free Government bonds is 9%. Beta is 1.02. Market rate is 16% and corporate tax rate is 30%. Net operating profit after tax of the company is Rs. 1200 crores. Compute EVA.

OR

Question 4

Explain with examples, how firms can increase their EVA (6)

Question 5 (10)

Write short notes on **any two**:

a) Bonus shares and stock splits
b) Buy back of shares.
c) Accounting methods for mergers and acquisitions
d) Manipulation of the bottom line

Question 6 (6)

State with reasons whether the following statements are true or false

a) A positive net profit after taxes always implies that there is an economic value addition to the firm.
b) In general low turnover ratios are desirable
c) The cash flow statement shows the relationship between profitability and liquidity.

Question 7 (6)

The profit and loss account and Balance sheet of Zenith Ltd for 2 years are given below

Profit and loss account **(Rs. In millions)**

	Year I	Year II
Net sales	800	916
Income from marketable securities	-	12
Non-operating income	-	32
Total Income	800	960
Cost of goods sold	420	500
Selling and administrative exps	140	164
Depreciation	60	72
Interest expenses	60	64
Total costs and expenses	680	800
PBT	120	160
Tax provision	36	48
PAT	84	112
Dividend	48	48
Retained earnings	36	64

Balance sheet **(Rs. In millions)**

	Year I	Year II
Equity capital	360	360
Reserves and Surplus	196	260
Debt	476	516
Total	**1032**	**1136**
Fixed assets	700	760
Investments	80	80
Net current assets	252	296
Total	**1032**	**1136**

The company is in the 30% tax bracket. Calculate the following for year II:

a) NOPLAT

b) FCFF

OR

<u>Question 7</u> **(6)**

What do you understand by the term 'Mergers and acquisitions'? Explain the merits of mergers and acquisitions.

<u>Question 8</u> **(10)**

Answer **<u>any two</u>** of the following questions

a) What are accounting standards? Why are they needed?

b) CAMEL model in credit rating

c) Value drivers in measuring corporate productivity

d) Explain the relationship between a company's life cycle growth and its dividend policy.

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