MMS - II

AFS02

17.04.2012

Roll No. An **Total no. of printed pages: 2**

Total no. of questions: 5 **Maximum marks: 60**

Duration (hrs.): 3 Analysis of Financial Statements

Note: Attempt all questions. Each question carries 12 marks. Answers should be to the point, concise and supported by appropriate examples. Marks will be deducted for too long answers.

Q.1. Explain with illustrations:

A. Why a decrease in cash is classified as a cash inflow and why an increase in cash is classified as a cash outflow in preparing the statement of cash flows.

B. Is it possible for a firm to have a high current ratio and still find difficulties in paying its current debt?

Q.2. In the context of a firm, analyse the following statement and in brief give your interpretation as to how the firm is using its cash flows:

A. The firm has positive cash flows from operations, negative investment cash flows and positive cash flows from financing".

B. The firm has positive cash flow from operations, negative investment cash flows and negative cash flows from financing.

C. The firm has negative cash flow from operations, positive investment cash flows and positive cash flows from financing.

D. The firm has negative cash flow from operations, negative investment cash flows and positive cash flows from financing.

Q.3. Assume that a firm has owners' equity of Rs. 1, 00,000. The ratios of the firm are:

a. Current debt to total debt 0.40
b. Total debt to owners' equity 0.60
c. Fixed assets to owners' equity 0.60
d. Total asset turnover 2 times
e. Inventory turnover 8 times

Complete the following balance sheet:

Liabilities	Rs.	Assets	Rs
Current debt		Cash	
Long term debt		Inventory	
Total debt		Total current assets	
Owners' equity		Fixed assets	
Total capital		Total assets	

OR

The following financial data relate to West Coast Ltd., a sanitary ware manufacturing company for the period ending on March 31st, 2010 and 2011:

	(Rs. Lac)	
Year	**2010**	**2011**
Sales	6500	9800
Operating profit (PBITDA)	600	840
Depreciation	90	115
PBIT	510	725
Interest	200	370
Tax	20	60
PAT	290	295
Share capital	500	500
Reserve and surplus	1130	1260
Borrowings	1400	1530
Capital employed	3030	3290
EPS (Rs.)	10.50	9.00
DPS (Rs.)	6.00	6.00

Analyse the performance of the company with supporting computations.

Q.4. Mukund Ltd. ended 2010 with a net profit before taxes of Rs.3,50,000. The company is subject to 50 percent tax rate and must pay Rs. 40,000 in preferred stock dividends before distributing any earnings on 75000 shares of common stock currently outstanding. The company desires to maintain dividend payout at 60 percent.

A. Calculate Mukund 's 2010 earnings per share (EPS)
B. If the P/E multiple is 12, find out the market price of the common stock.
C. Find out yield.

Q.5. Write short note on any two:

A. Economic value added (EVA)
B. Objectives of financial statements' analysis
C. Share buyback and its reasons