MMS-II

Analysis of Financial Statements. 30-04-2013

30/4/13

AFS02

Roll No.

Total No. of Printed Pages:8

Total No. Of Questions: 7

Maximum Marks: 60

Duration (hrs): 3 hrs

Section, if any:

Note: 1) Question 1 (A & B) is compulsory carrying 20 Marks. Attempt any FOUR out of the remaining SIX questions.
2) Working notes should form part of your answer, where applicable.
3) Make suitable assumptions wherever necessary.

Q. 1 A. Choose the most appropriate option. (Note: more than one answer may be correct)

1. An example of a liquidity ratio is _______.
A. fixed asset turnover
B. current ratio
C. acid test or quick ratio
D. A and C
E. B and C

2.__________ of the profitability of the firm over a period of time such as a year.
A. The balance sheet is a summary
B. The income statement is a summary
C. That statement of cash flows is a summary
D. The audit report is a summary
E. None of the above is a summary

3. A measure of asset utilization is ________.
A. Working Capital Turnover ratio
B. Return on total assets
C. Return on equity capital
D. operating Profit Ratio
E. none of the above

4. There is deterioration in the management of working capital of XYZ Ltd. What does it refer to?
A. That the capital employed has reduced,
B. That the profitability has decreased,
C. That the debtor's collection period has increased,
D. That the sales have decreased,
E. None of the above.

5. Inventory turnover measures the relationship of the inventory with
A. Average sales,
B. Cost of Goods Sold,
C. Total purchases,
D. Total Assets,
E. B & C.

6. Return on investment may be improved by
A. Increasing turnover
B. Reducing expenses
C. Increasing capital utilization
D. All of the Above
E. None of the above.

7. Debt to total assets ratio can be improved by

A. Borrowing more
B. Issue of Debentures
C. Issue of equity shares
D. Redemption of Debt
E. All of the above

8. Fixed Asset to proprietary fund ratio is .60
What would be the working capital of the firm if the proprietary fund is Rs. 7.5 Cr.?

A. Rs. 7.5 Cr.
B. Rs. 3 Cr.
C. Rs. 4.5 Cr.
D. Rs.18.75 Cr.
E. Rs.12.5 Cr.

9. Deferred Tax Liability comes into existence when

A. Accounting income is more than the taxable income
B. Taxable income is more than the accounting income
C. Accounting income is equal to the taxable income
D. There is accounting loss but there is taxable income as per IT Act
E. There is accounting income but there is loss as per IT Act

10. Change in the percentage of Depreciation is a ________.

A. Change in accounting estimate.
B. Change in accounting policy.
C. Change in the accounting standard
D. Change in the basic concept of accounting
E. None of the above

Q 1 B. Analyze the following cash flows and comment on the cash flow from the various activities and the quality of cash.

Cash Flow Statements for two years-

Particulars	Currency: Rs. Million			
	W Ltd		K Ltd	
	Mar 20x1	Mar 20x2	Mar 20x1	Mar 20x2
Net cash flow from operating activities				
Net profit before tax & extra-ordinary income	46,625.00	58,495.00	55,103.10	69,616.55
Add: Adjustments for non-cash and non-operating expenses				
Depreciation	4,270.00	4,640.00	3,676.30	4,589.70
Amortisation and w offs			130.3	326.85
Unrealised foreign exchange loss	5.00	265		166.05
Other provisions like RDD etc			23.15	37.1
Interest Paid			132.4	111.15
Loss on sale of assets			9.1	1.75
Less: Adjustments for non-cash and non-operating income				
Unrealised foreign exchange gain			246.75	
Provision or liabilities written back			511.50	133.7
Interest income	5,665.00	9,035.00	2,486.15	3,826.10
Dividend income	105.00	135.00	80.2	32.05
Profit or loss on sale of assets		10	409.25	158.8
Operating cash flow before working capital changes	45,130.00	54,220.00	55,340.50	70,698.50
Add:Cash inflow due to				
Decrease in inventories				25.25
Increase in trade & other payables	2,445.00	3,100.00	2,784.70	6,698.95
Increase in other current liabilities			57.9	1,977.05
Less: Cash outflow due to				
Increase in trade & other receivables	9,585.00	10,195.00	13,768.45	24,016.00
Increase in inventories			25.15	
Cash outflow due to direct taxes paid	14,230.00	15,585.00	11,317.60	20,342.00
Cash outflow due to dividend tax paid	2,620.00	1,635.00	41.55	56.75
Net cash flow from operating activities	**21,140.00**	**29,905.00**	**33,030.35**	**34,985.00**
Net cash inflow from investing activities				
Cash outflow due to investing activities				
Purchase of fixed assets	6,525.00	7,655.00	9,133.05	10,035.35
Acquisition or merger of companies or units	15.00	995.00		
Purchase of investments		1,140.00	249,193.10	85,836.75
Loans to other companies				3,417.05
Other income			10,706.90	3,501.40
Cash inflow due to investing activities				
Sale of fixed assets			90.55	98.55
Merger or hiving off of companies or units			172.45	
Sale of Investments	17,790.00		259,188.40	86,926.15
Loans from other companies			200	
Interest received	5,635.00	8,920.00	1,993.75	2,096.55
Dividend received	105.00	135	80.2	32.05
Net cash inflow or (outflow)from investing activities	**16,990.00**	**(735.00)**	**(7,307.70)**	**(13,637.25)**

Net cash inflow or (outflow) from financing activities				
Cash outflow due to financing activities				
Interest paid			132.5	111.
Dividend paid	15,700.00	10,005.00	23,001.80	19,484.6
Repayment of long term borrowings			21.4	6.25
Repayment of short term borrowings			152	164.5
Cash inflow from financing activities				
Proceeds from share issue	120.00	30.00	3.3	48.55
Proceeds from long term borrowings			51.45	
Other cash receipts or payables from financing activities	225.00	430.00		
Net cash inflow or (outflow) from financing activities	**(15,355.00)**	**(9,545.00)**	**(23,252.95)**	**(19,718.70)**
Net increase or (decrease) in cash & cash equivalents	**22,775.00**	**19,625.00**	**2,469.70**	**1,629.05**
Cash & bank - opening balance	60,555.00	83,330.00	5,121.85	7,591.55
Cash & bank - closing balance	83,330.00	102,955.00	7,591.55	9,220.60
Net increase or (decrease) in cash & cash equivalents(cl-op)	**22,775.00**	**19,625.00**	**2,469.70**	**1,629.05**

Q. 2 Attempt any Two from the following

(a) M Ltd has two divisions A and B. Details are given below-

Particulars	Division A (Rs Cr)	Division B (Rs Cr)
Divisional Sales	160	384
Divisional Investment	80	128
Operating Profit	12	19.2

Analyze and comment on divisional performance of each with respect to Operational Excellence and Marketing Effectiveness.

(b) Explain with the help of example AS-4 'Contingencies and Events occurring after the Balance Sheet Date'

(c) Calculate Economic Value Added (EVA) and comment. If the following information is given: Financial Leverage 1.40 times, Cost of Equity 17.50%, Income tax rate 30%,

Capital Structure

1) Equity Capital Rs. 170 lacs
2) Retained earnings Rs.130 lacs
3) 10% Debentures Rs.400 lacs.

Q. 3 Write a short notes on any two from the following. Give example.

(a) Buy Back of Shares and its reasons

(b) Manipulation of Bottom line

(c) Du-Pont Analysis

Q. 4 Attempt any Two from the following

(a) State with reason whether the following statement is true or false-
"The cash flow statement shows the relationship between profits and liquidity"

(b) Does leverage decide the future profitability of the company? How does it affect Free Cash Flow for the company and for the Equity holders? Discuss with example.

(c) Explain with example-Is it possible for a firm to have a high current ratio and still find difficulties in paying its current debt?

Q. 5 Attempt any Two from the following

(a) From the following details show as much details of working capital as possible There was no term loan or intangible asset. Comment on utilization of funds in Year 2 as compared to Year 1. Make suitable assumptions.

	Year 1	**Year 2**
Current Ratio	2.50	1.80
Liquid Ratio	1.20	.60
Fixed Assets to Proprietary Fund	.70	.80
Working Capital	Rs. 2,25,000	Rs. 2,40,000

(b) Under what heads and sub-heads the following items will appear in the Balance sheet of a company as per revised schedule VI:

(i) 10% Debentures
(ii) Securities Premium Reserve
(iii) Goodwill
(iv)Provision for Taxation
(v) Unclaimed Dividend

(c) Advise to Gracy Ltd. about the treatment of the following in the final statement of accounts for the year ended on 31st march 2010 with reference to Accounting Standard-9 Revenue Recognition.
A claim lodged with the railways in march 2007 for loss of goods of Rs.2,00,000 had been passed for payment in march 2010 for Rs.1,50,000. no entry was passed in the books of the company, when the claim was lodged.

Q. 6 Attempt any Two from the following

(a) Following information is relevant for A Ltd.as its financial year just ended:

7 % Preference Shares, Rs. 100 each	Rs. 6,00,00,000
Ordinary Equity shares, Rs.100 each	Rs. 16,00,00,000
	Rs. 22,00,00,000

Profit after tax(PAT) is Rs.5,42,00,000 (tax rate 40%)
Equity dividend paid @20%
Market price of Equity Shares Rs. 400
You are required to state the following showing the necessary working:
(1) The Dividend yield on ordinary shares.
(2) The cover for Preference and Equity Dividends

(b) The following is the Balance Sheet of the company as at 31st March 2012 –

Particulars	(Rs.In lacs)	(Rs.In lacs)
EQUITY AND LIABILITIES		
Shareholders' funds		
a) Share capital		
i) Equity Share Capital	**500**	
ii) 8% preference Share capital	**200**	**700**
b) Reserves and surplus		**250**
Non-current liabilities		
Long-term borrowings		**300**
Current liabilities		
(a) Short-term borrowings		**200**
(b) Trade payables		**150**
(c) Other current liabilities		**100**
(d) Short-term provisions		**370**
Total		**2,070**
ASSETS		
Non-current assets		
(a) Fixed assets (Tangible assets)		**880**
(b) Non-current investments		**200**
(c) Deferred tax assets (net)		**50**
Current assets		
(b) Inventories		**400**
(c) Trade receivables		**470**
(d) Cash and cash equivalents		**70**
Total		**2,070**

Net Profit for the year was Rs. 200 lacs after charging interest of Rs. 40 lacs on term loan, but before tax.
Calculate the Return on Capital Employed for the year. And interpret the results.

(c) ABC Industries Ltd has submitted the following projections. You are required to work out yearly Debt Service Coverage Ratio (DSCR) and average DSCR.

Year	Net profit for the year	Interest on term loan during the year	Repayment of term loan in the year
	(Amt in Rs. Lacs)		
1	21.67	19.41	10.7
2	34.77	17.64	18
3	36.01	15.12	18
4	19.2	12.6	18
5	18.61	10.08	18
6	18.4	7.56	18
7	18.33	5.04	18
8	16.41	Nil	18

The net profit has been arrived after charging Depreciation of Rs. 17.68 Lacs p.a.

Q 7 Attempt any Two from the following

(a) (1) Prepare the common size statement comparing the results of operations of S Paper Mills Ltd with the industry average

2) Comment on the significant relationships revealed by the comparisons

Particulars	Amount (Rs.'000)
Sales	70,70,000
Cost of material consumed	45,40,000
Changes in inventory of Finished goods, Work-in-progress, & Stock in trade	5,00,000
Finance Cost	4,34,000
Employee benefit expenses	5,74,000
Other Income	35,000
Other Expenses	84,000

- Additional Information

1)Income tax expenses of S ltd is 3,61,200(Rs.'000) and of Industry it is 40%.

2) Sales Return of company is 70,000(Rs.'000) and Industry standard is 0.5%.

3)Details of industry standard is as follows:

Finance Cost	8%
Employee benefit expenses	9.2%
Other Expenses	1.4%
Cost of goods Sold	70%
Other Income	.6%

(b) Prepare the Consolidated Financial Statement from the information given below-

H ltd is holding 90% of S Ltd

Fig in Rs lacs

Assets	H ltd	S ltd
Fixed assets (Gross)	75,000	45,000
Less : Acc. Depreciation	15,000	5,000
Fixed assets (Net)	**60,000**	**40,000**
Investment in S ltd	**50,000**	
Current Assets		
Cash	10,000	10,000
Other current assets	45,000	15,000
Total Current Assets	**55,000**	**25,000**
Total Assets	**1,65,000**	**65,000**
Liabilities	**H ltd**	**S ltd**
Shareholders' equity		
Capital	1,00,000	30,000
Reserves & surplus	20,000	10,000
Shareholders' equity	**1,20,000**	**40,000**
Current liabilities		
Accounts payable	20,000	15,000
Other current liabilities	25,000	10,000
Total current liabilities	**45,000**	**25,000**
Total liabilities	**1,65,000**	**65,000**

(c) Assuming that the Debt-equity ratio is 2. State giving reasons, whether this ratio will increas or decrease or will remain unchanged in each one of the following cases:

(1) Purchase of fixed Assets on long term deferred payment basis
(2) Sale of Fixed Asset (Book Value Rs. 4,00,000) for Rs. 5,00,000
(3) Issue of Bonus Shares
(4) Conversion of Debentures into Equity shares
(5) Issue of new shares for cash