

VPM's
Dr. V. N. BRIMS, Thane
Program: MMS (2017-19) Batch
Semester II Examination April 2018

Subject		Analysis of Financial Statements	
Roll No.		Marks	60
Total No. of Questions	7	Duration	3 Hours
Total No. of printed pages	4	Date	27.04.2018

Note: Q1 is compulsory and solve any FOUR from the remaining SIX questions.

- Q. 1 (a) Fill in the blanks: 5 marks**
- Dividend is paid out of -----.
 - Balance Sheet Income Statement, Cash Flow Statement are collectively termed as -----.
 - If Debt – Equity ratio of a firm is 4:7, Debt – Asset ratio is -----.
 - The concept of Economic Value Added (EVA) is designed by -----.
 - Brand, Copyright, Trademark are examples of ----- assets.

- (b) Expand the following abbreviations: 5 marks**
- FCFF
 - FMP
 - ROCE
 - NPM
 - CMP

- (c) Case Study: 10 marks**

Neel Ltd. had earned a profit after tax of Rs. 48 lakhs for the year just ended. It wants you to ascertain the value of its business, based on the following information:

- Tax rate for the year just ended was 36%. Future tax rate is estimated at 34%.
- The company's equity shares are quoted at Rs.120 at the balance sheet date. The company had an equity capital of Rs.100 lakhs, divided into shares of Rs.50 each.
- Profit for the year has been calculated after considering the following in the Profit and Loss account:
 - Subsidy Rs.2,00,000 received from Government towards fulfillment of certain social obligation. The Government has now discontinued this subsidy and hence, this amount will not be received in future.
 - Interest Rs.8,00,000 on term loan. The final installment of this term loan was fully settled in the last year.
 - Managerial remuneration Rs.15,00,000. The shareholders have approved an increase of Rs. 6,00,000 in the overall managerial remuneration from the next year onwards.
 - Loss on Sale of fixed assets and investments amounting to Rs. 8,00,000.

Attempt Any FOUR from the Remaining SIX Questions

Q2) Any two from (a) or (b) or (c) (5x2) = 10 Marks

- a) What kind of conditions of a company are represented by the following pattern of cash flows? You are required to provide your analysis of each case separately:

Cash Flow Pattern	Net cash Flows from		
	Operating Activities	Investing Activities	Financing Activities
1	+	-	+
2	-	+	-
3	-	-	+
4	+	-	-
5	-	+	+

- b) The following are the income statements of A Ltd. for the years ended 31.03.2017 and 31.03.2018:

Particulars	31.03.2017 (Rs.)	31.03.2018 (Rs.)
Net Sales	1,70,000	1,90,400
Less: Cost of goods sold	1,05,000	1,20,000
Gross Profit	65,000	70,400
Administrative Expenses	13,200	14,960
Selling Expenses:	3,000	4,000
Advertisement Expenses		
Other Selling Expenses	40,800	41,800
Operating Profit	8,000	9,640
Other Incomes	6,400	9,200
Other Expenses	6,800	4,800
Profit Before tax	7,600	14,040
Income Tax	3,800	6,200
Profit after tax	3,800	7,840

You are required –

- To prepare a comparative income statement.
- To comment on the performance of the company supported by your analysis.
- Define EVA. Also state the means to enhance EVA of a company.

Q3) Any two from (a) or (b) or (c) (5x2) = 10 Marks

a) Balance Sheet of Dayal Ltd. as on March 31, 2018 is given below:

Liabilities	Rs. in Crores	Assets	Rs. in Crores
Equity Shares	20.80	Fixed Assets	105.60
Long-term Liabilities	104.00	Current Assets	57.60
Current Liabilities	78.40	P & L A/c	40.00
	203.20		203.20

The following are the additional information:

- Depreciation written off Rs.8 crores.
- Preliminary Expenses written off Rs. 1.60 crore.
- Net loss Rs.25.60 crores.

You are required to ascertain the stage of sickness and comment on them.

b) The following financial data pertaining to Infotech Ltd., an IT company are made available to you:

Rs. Crores

FY ended	2018	2017	2016
EBIT	696.03	325.65	155.86
Non-branded Income	53.43	35.23	3.46
Inflation Compounded factor@8%	1.000	1.087	1.181

Capital Charge: 5 % of average capital employed

Average Capital employed: Rs. 1,112 crores

Corporate Tax Rate: 35%

Capitalization Factor: 16%

You are required to calculate the Brand value for Infotech Ltd.

c) (i) The following information is related to A Ltd.:

Current liabilities	Rs. 400 lakh
Inventory turnover ratio	2
Quick ratio	1.5
Cost of goods sold	Rs. 180 lakh
Opening stock	Rs. 40 lakh

Compute the total of current assets of A Ltd.

(ii) R Ltd. furnishes the following information for the year 2017-18:

Rs.

Opening balance of trade creditors	1,80,000
Closing balance of trade creditors	2,00,000
Net credit annual purchases	7,30,000

Compute the average payment period (assuming 365 days a year) for the year 2017-18.

Q4) Any two from (a) or (b) or (c) (5x2) = 10 Marks

a) XYZ Ltd. Company currently sells for Rs.32.50 per share. In an attempt to determine if XYZ Ltd. is fairly priced, an analyst has assembled the following information:

- The before-tax required rates of return on XYZ Ltd. debt, preferred stock, and common stock are 7.0 percent, 6.8 percent, and 11.0 percent, respectively.
- The company's target capital structure is 30 percent debt, 20 percent preferred stock, and common stock 50 percent common stock.
- The market value of the company's debt is Rs.145 million and its preferred stock is valued at Rs.65 million.
- XYZ Ltd's FCFE for the year just ended is Rs.28 million. FCFE is expected to grow at a constant rate of 4 percent for the foreseeable future.
- The tax rate is 35 percent.
- XYZ Ltd. has 8 million outstanding common shares.

What is XYZ Ltd's estimated value per share? Is XYZ Ltd's stock underpriced?

b) From the following information, make out a Statement of Proprietors' Funds with as many details as possible:

(i) Current Ratio	2.5
(ii) Liquid Ratio	1.5
(iii) Proprietary Ratio (Fixed Assets: Proprietary Funds)	0.75
(iv) Working Capital	60,000
(v) Reserves and Surplus	40,000
(vi) Bank Overdraft	10,000
(vii) No long term loan or fictitious Assets.	

c) What are the uncertainties in business valuation?

Q5) Any two from (a) or (b) or (c) (5x2) = 10 Marks

a) Sun Ltd. projects the following figures for the financial year 2018-2019:

Net Income after tax	= Rs.130 crores.
Depreciation	= Rs.50 crores.
Capital expenditure planned	= Rs.80 crores.
Additional working capital needed	= Rs.25 crores.
Principal repayment of debt	= Rs.10 crores.

As the firm has a very low debt equity ratio, it plans to increase its leverage by financing debt repayment and 30% of the planned capital expenditure and additional working capital needs by raising fresh debt.

Project the free cash flow to equity for 2018-2019.

b) Why are brands increasingly important for company's management?

c) From the following Balance Sheet, prepare common size statement and comment on the same.

	Amount (Rs.) 31.03.2017	Amount (Rs.) 31.03.2018
Shareholders' Fund		
Equity share capital (of Rs.10 each)	7,20,000	7,20,000
Reserve and Surplus	2,88,000	5,46,000
Non-current Liabilities:		
Long term debt	5,46,000	5,08,500
Current Liabilities:		
Current Liabilities and Provisions	2,46,000	1,75,500
Total	18,00,000	19,50,000
Non-current Assets:		
Fixed Assets	12,06,000	11,70,000
Current Assets:		
Inventory	2,52,000	3,51,000
Debtors	1,80,000	1,95,000
Bank	1,62,000	2,34,000
Total	18,00,000	19,50,000

Q6) Any two from (a) or (b) or (c)**(5x2) = 10 Marks**

a) A Ltd. is considering the acquisition of B Ltd., with stock. Relevant financial information is given below:

Particulars	A Ltd.	B Ltd.
Present earnings	Rs. 7.5 lakhs	Rs. 2.5 lakhs
Equity (No. of shares)	Rs. 4.0 lakhs	Rs. 2.0 lakhs
P / E ratio	10	5

Answer the following question:

- What is the market price of each company?
- What is the market capitalization of each company?
- If the P / E of A Ltd. changes to 7.5, what is the market price of A Ltd.?
- Does market value of A Ltd. change?
- What would be the exchange ratio based on Market Price? (Take revised Price of A Ltd.)

b) (i) K Ltd., furnished the following information :

9% Preference share capital	6,00,000
12% Debentures	4,00,000
Equity Shareholder's fund	25,00,000

Compute the capital gearing ratio of K Ltd.

(ii) The following information is related to A Ltd.:

Current liabilities and provisions Rs. 150 lakh

Net sales = Rs. 700 lakh

Inventory turnover ratio = 7

Current ratio = 1.50

Receivables / Quick Assets Ratio = 0.8

What is the amount of cash and bank balance? (Assume 360 days in a year).

c) Distinguish between Comparative statement and Common-size Statement.

Q7) Any two from (a) or (b) or (c)**(5x2) = 10 Marks**

a) You are given following information about Sandeep Ltd.:

- Beta for the year 2017- 18 1.05
- Risk free Rate 12%
- Long Range Market rate (based on BSE Sensex) 15.14%
- Extracts from the liabilities side of balance sheet as at 31st March, 2018

	Rs.
Equity	29,160
Reserves and surplus	43,740
Shareholder's fund	72,900
Loan funds	8,100
Total funds (long – term)	81,000

- Profit after tax Rs. 20,394.16 lakhs
- Interest deducted from profit Rs. 487.00 lakhs .
- Effective tax rate 24.45%

Calculate Economic Value Added of Sandeep Ltd. as on 31st March 2018.

b) (i) S Ltd. provided the following information:

Profit before tax	Rs. 12,00,000
Dividend per share	Rs.10
Number of outstanding equity shares	9,000
Tax rate	40%

Compute dividend pay-out ratio of S Ltd.

- The gross profit and the administrative expenses of P Ltd., for 2016-17 were Rs.3,00,000 and Rs.2,00,000 respectively. In 2017-18, the gross profit increased by 20% and administrative expenses also increased by 10%. If the sales during 2017-18 were Rs. 8,00,000, compute net profit margin for the year.

c) Name two important ratios from the point of view of each of the following:

- | | |
|-------------|-----------------|
| (i) Lender | (iii) Investor |
| (ii) Vendor | (iv) Management |