UNIVERSITY OF GUJRAT
A WORLD CLASS UNIVERSITY

(M.Com Part-II) Financial Statement Analysis

Roll No: ______________

in words: ______________

Cutting, Overwriting, Erasing, Fluid painting and use of Lead Pencil will earn no marks. Write answer of the Question No.1 and 2 on this sheet and handover it to the supervisory staff of examination within first 35 minutes.

Time Allowed: 35 Minutes ***(OBJECTIVE PART)*** ***Max. Marks: 32*** ***Sign of Supdt.***

1- a) Encircle the correct answer: ***1x8***

i) Which of the following indicates how revenue is usually recognized?

a) Point of sale b) End of Production

c) Receipt of Cash d) During Production

ii) In terms of debits and credits, which accounts have the same normal balances?

a) Dividends, Retained Earnings, Liabilities b) Revenues, Capital Stock, Expenses

c) Expense, Assets, Dividends d) Dividends, Assets, Liabilities

iii) The current liabilities section of the Balance Sheet should include:

a) Cash surrender value of life insurance b) Accounts Payable

c) Bonds Payable d) Preferred Stock

iv) Which of the following would be classified as an extraordinary item on the income statement?

a) Loss on disposal of a segment of business b) Cumulative effect of a change in accounting principle

c) An error correction that relates to a prior year

d) A loss from a flood in a location that would not be expected to flood

v) If a firm has a high current ratio but a low acid test ratio, one can conclude that:

a) The firm has a large outstanding accounts receivable balance

b) The firm has a large investment in inventory c) The firm has a large amount of current liabilities

d) The cash ratio is extremely high.

vi) All but which of these ratios are considered to be debt ratio?

a) Time Interest Earned b) Debt / Equity

c) Fixed Charge Ratio d) Current Ratio

vii) Which of the following is not a type of operating asset?

a) Intangible b) Receivables c) Land d) Inventory

viii) The earning per share ratio is computed for:

a) Convertible Bonds b) Redeemable Preferred Stock

c) Common Stock d) Non-redeemable Preferred Stock

b) Encircle True or False: ***1x4***

i) Short term investment in marketable securities is classified as cash and cash Equivalent with reference to Cash Flow Statement. **True \ False**

ii) Earning per share is equal to net income divided by total no. of shares. **True \ False**

iii) In Common Size Statements no percentages appear. **True \ False**

iv) Debt ratio is the ratio of total liabilities to total assets. **True \ False**

c) Fill in the blank meaningfully: ***1x4***

i) Accounting Equation indicates assets, liabilities and ______________________________.

ii) Income Statements are of two types-one is Multiple Steps Income Statement and the other is ______________ ______________________________.

iii) Debt / Equity ratio is for measuring of long term debt paying ability but operating asset turnover is for measuring of ______________________________.

iv) Dividend Yield = $\frac{\text{Dividend per Share}}{?}$ ______________________________.

(Continued Overleaf)

2- Give short answers to the following questions: ***2x8***

i) What is Financial Leverage?

ii) Give the Formula for Return on Investment.

iii) What is Operating Cash Flow per Share?

iv) Name Four different Ratios to measure long term debt paying ability.

v) What is Multiple Steps Income Statement?

vi) What is difference between IAS and IFRS?

vii) Describe the Depreciation, Depletion and Amortization.

viii) Give Four Items appearing in the current assets section of balance sheet.

Total Marks: 32 + 68 = 100
Pass Marks = 40%

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(M.Com Part-II) **Financial Statement Analysis**

Roll No: ________

Time Allowed : 2:25 hrs
Max. Marks : 68

Attempt **FOUR** Questions in all. All Questions carry equal marks.

SUBJECTIVE PART

3- Following particulars relate to Robbert Industries for the year ending December 31, 2012: *17*

Cash	Rs. 50,000
Bonds Payable	123,000
Accounts Receivable, Net	60,000
Retained Earning	50,000
Treasury Stock	20,000
Land and Buildings, net	160,000
Investments:	
Short term U.S notes	20,000
Supplies	4,000
Marketable Equity Securities	19,000
Accounts Payable	40,000
Wages Payable	10,000
Common Stock ($20 par, 20,000 shares authorized 6,000 shares outstanding)	120,000
Inventory	30,000
Redeemable Preferred Stock	20,000

Required: Prepare a classified Balance Sheet in reporting form.

4- Following data relate to the financial year ending on June 30, 2012 of ABC Ltd. *17*

Royalty Income	Rs. 25,429
Selling, General & Administrative Expense	236,840
Cost of Goods Sold	573,046
Depreciation and Amortization (charged to operating expenses)	14,784
Minority Interest	612
Net Sales	925,868
Impairment on Marketable Securities	2,797
Interest Expense	17,491
Impairment on long lived assets (charged to operating expenses)	22,299
Income Tax Provision	3,682

Required: Prepare Multiple Steps Income Statement.

5- A partial balance sheet and income statement for Kings Corporation follow: *17*
Kings Corporation's partial balance sheet December 31, 2012.

Current Assets:	**(Rs.)**
Cash	33,493
Marketable Securities	215,147
Trade Receivables, less allowances of Rs. 6,000	255,000
Inventories under LIFO	523,000
Prepaid Expenses	26,180
Total Current Assets	**1,052,820**
Liabilities:	
Current Liabilities:	
Trade Accounts Payable	103,689
Notes Payable (Primary to banks) and Commercial Paper	210,381
Accrued Expenses and Other Liabilities	120,602
Income Taxes Payable	3,120
Current Maturities of Long Term Debt	22,050
Total Current Liabilities	**459,842**

(Continued Overleaf)

Partial Income statement for the year ending December 31, 2012.

Particulars	**(Rs.)**
Net Sales	3,050,600
Miscellaneous Income	45,060
Total Revenue	**3,095,660**
Costs and Expenses:	
Cost of sales	2,185,100
Selling, General and Administrative Expense	350,265
Interest Expense	45,600
Income Taxes	300,000
Total Cost and Expenses	**2,880,965**
Net Income	**214,965**

Note: The trade receivables at December 31, 2011 were Rs. 280,000 net of an allowance of Rs. 8,000. The inventory at December 31,2011 was Rs. 565,000.

Required: Compute the following:

a) Working Capital
b) Current Ratio
c) Acid-test Ratio
d) Cash Ratio
e) Days Sales in Receivables
f) Accounts receivable turnover in days
g) Days sales in Inventory
h) Inventory Turnover in Days
i) Operating Cycle

6- D.H Muller Company presented the following Income Statement in its 2012 annual report.

Rupees in thousands except earning per share	**2012**	**2011**	**2010**
Net sales	297,580	256,360	242,150
Cost of sales	206,000	176,300	165,970
Gross profit	91,580	80,060	76,180
Sellings, Administrative and other expenses	65,200	57,200	56,000
Operating Earnings	26,380	22,860	20,180
Interest expense	5,990	5,100	4,000
Other deductions, net	320	1,100	800
Earnings before income taxes, non controlling interests and extra ordinary items	20,070	16,660	15,380
Income Taxes	8,028	6,830	6,229
Net earnings of subsidiaries applicable to non controlling interests	700	670	668
Earnings before extraordinary items	11,342	9,160	8,483
Extraordinary items:			
Gain on sale of investment, net of income taxes of Rs. 520	-	1,050	-
Loss due to damages to Foreign facilities, net of non controlling interest of Rs. 430	-	(1,600)	-
Net earnings	11,342	8,610	8,483
Earnings per common shares:			
Earnings before extraordinary items	2.20	1.82	1.65
Extraordinary items	-	(0.06)	-
Net earnings	2.20	1.76	1.65

The asset side of the balance sheet is summarized as follows:

Rs. in thousands	**2012**	**2011**	**2010**
Current assets	89,800	84,500	83,100
Property, plant and equipment	45,850	40,300	39,800
Other assets (including investments, deposits, deferred charges and intangibles)	10,110	12,200	13,100
Total assets	**145,760**	**137,000**	**136,000**

Required:

a) Based on these data, compute the following for 2012 and 2011:

i) Net Profit Margin
ii) Return on Assets
iii) Total Asset Turnover
iv) DuPont Analysis
v) Operating Income Margin
vi) Return on Operating Assets
vii) Operating Asset Turnover
viii) DuPont Analysis with Operating Ratios
ix) Gross Profit Margin

b) Discuss your findings.

7- Zaro Company's balance sheets for December 31, 2012 and 2011, income statement for the year ended December 31st, 2012 follow: *17*

Assets	(Rs.) 2012	(Rs.) 2011
Cash	30,000	15,000
Account receivables net	75,000	87,000
Inventory	90,000	105,000
Prepaid Expenses	3,000	2,000
Land	25,000	25,000
Building and Equipment	122,000	120,000
Accumulated Depreciation	(92,000)	(80,000)
Total assets	**253,000**	**274,000**
Liabilities and Stockholders' equity: Account Payable	25,500	32,000
Income Taxes Payable	2,500	3,000
Accrued Liabilities	5,000	5,000
Bonds payable (Current Rs. 20,000 on 31-12-12)	90,000	95,000
Common Stock	85,000	85,000
Retained Earnings	45,000	54,000
Total Liabilities and Stock Holder Equity	**253,000**	**274,000**

Income Statement for the year ended December 31, 2012

Sales	Rs. **400,000**
Less: Expenses	
Cost of goods sold (including depreciation of Rs. 5,000)	280,000
Selling & administrative expenses (including depreciation of Rs. 7,000)	78,000
Interest Expenses	8,000
Total Expenses	**366,000**
Income before Income Tax	34,000
Income Tax Expense	14,000
Net Income	**20,000**

Required: Prepare a Statement of Cash Flow.

8- Indicate the effect of each of the transactions on the ratios listed below. Use + to indicate an increase, - to indicate a decrease and 0 to indicate no effect. Assume an initial times interest earned of more than 1, and debt ratio, debt/equity ratio and total debt to tangible net worth of less than 1. *17*

Ratio Transaction	Times Interest Earned	Debt Ratio	Debt Equity Ratio	Debt to Tangible Net Worth
a) Purchase of building financed by mortgage.				
b) Purchase of inventory on short-term loan at 1% over prime rate.				
c) Declaration and payment of cash dividend.				
d) Declaration and payment of stock dividend.				
e) Firm increases profits by cutting cost of sales.				
f) Appropriation of retained earnings.				
g) Sales of Common Stock.				
h) Repayment of long-term bank loan.				
i) Conversion of bonds to common stock outstanding.				
j) Sale of inventory at greater than cost.				