

M.Com. 4th Semester Examination, 2010

FINANCIAL STATEMENT ANALYSIS

Optional Group I : (*Accounting and Finance*)

PAPER — CM-2204 AF

Full Marks : 50

Time : 2 hours

The figures in the right-hand margin indicate marks

Candidates are required to give their answers in their own words as far as practicable

UNIT—I

1. Answer any *two* questions : 5 x 2

(a) What are the objectives of preparing Financial Statement ?

(b) What are the limitations of financial ratios as a technique for appraising the financial position of a company ?

(Turn Over)

(c) Distinguish between a Cash Book and a Cash Flow Statement.

(d) Describe the importance of profitability analysis.

2. Answer any *one* question : 10 x 1

(a) The following information of two companies A and B, belonging to the same industry are as follows :

	<u>A</u>	<u>B</u>
Current Ratio	3.2:1	2.0:1
Acid test Ratio	1.7:1	1.1:1
Debt-equity Ratio	40%	30%
Debt Assets Ratio	48%	40%
Number of times interest earned	6	5

Assuming you are a loan officer of a Commercial Bank and both the companies have requested for a loan of equal amount, to be paid in 5 years. Based on the above information

(i) If you could grant a loan to only one company, which it be.

(ii) If you could grant a loan to both the companies would you be willing to do so? Explain.

(b) From the following information prepare a Cash Flow Statement for Ghosh & Brothers Co. Ltd. for the year ended 31-3-2010 :

Balance Sheets as on 31.03.09 and 31.03.10

<i>Liabilities</i>	31.03.09	31.03.10	<i>Assets</i>	31.03.09	31.03.10
	Rs. (‘000)	Rs. (‘000)		Rs. (‘000)	Rs. (‘000)
Paid-up Capital	50	50	Gross Fixed Assets	1000	1125
Retained earning	350	415	<i>Less</i> : Accumulated Depreciation	100	175
Long-term debt	500	550		900	950
Notes payable	80	100	Inventory	100	110
Accounts payable	80	90	Accounts receivables	50	60
			Cash	10	85
	1,060	1,205		1,060	1,205

Income Statement, March 31, 2010 (Rs. '000)

Sales	1,200
<i>Less</i> : Cost of goods Sold	<u>800</u>
Gross Profit—	400
<i>Less</i> : Selling and Administrative expenses	<u>150</u>
EBIT—	250
<i>Less</i> : Interest expenses	<u>50</u>
EBT—	200
<i>Less</i> : Taxes (50%)	<u>100</u>
Net Income—	<u>100</u>

Additional Information :

	(Rs. '000)
(i) Dividend paid	35
(ii) Additions to retained earnings	65
(iii) Depreciation	75

UNIT—II

3. Answer any *two* questions : 5×2

(a) What is 'Environmental Report'? Write down the benefits of environmental reporting.

(b) What do you understand by 'business segment' and 'geographical segment'?

(c) Write down the functions of International Accounting Standards Board (IASB).

(d) List up the IFRSs so far issued by IASB.

4. Answer any *one* question : 10×1

(a) What do you understand by 'Amalgamation in the nature of merger' and 'Amalgamation in the nature of purchase'? How will you treat goodwill arising on amalgamation? Write down the disclosures requirement in case of amalgamation as per AS-14. 4 + 2 + 4

(b) An enterprise operates through eight segments, namely, A, B, C, D, E, F, G and H. The relevant information about these segments are given in the following table :

(Amount in Rs. Lakhs)

Segments →	A	B	C	D	E	F	G	H
1. Segment Revenue :								
(a) External Sales	50	—	300	100	30	60	20	40
(b) Inter-segment Sales	15	100	35	10	5	10	5	20
2. Segment Assets	70	40	140	50	25	30	25	20
3. Segment Results [Profit/(Loss)]	15	(10)	40	10	(5)	15	(10)	(5)

Identify the reportable segments as per AS-17 with necessary calculations and explanations. 10

[Internal Assessment — 10 Marks]