

2014

M. Com.

4th Semester Examination

FINANCIAL STATEMENT ANALYSIS

PAPER — COM-404 (AF)

Full Marks : 50

Time : 2 Hours

The figures in the right-hand margin indicate full marks.

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

Illustrate the answers wherever necessary.

Unit—I

[Marks : 20]

1. Answer any two questions from the following : 5×2

(a) High Vision Ltd. has prepared the following projections for a year :

Sales	21,000 units
Selling price per unit	Rs. 40
Variable cost per unit	Rs. 25

(Turn Over)

Total cost per unit	Rs. 35
Credit period allowed	one month

The company proposes to increase the credit period allowed to its customers from one month to two months. It is envisaged that the change in the policy as above will increase the sales by 8%. It is also likely that the bad debt expenses will increase from the current level of 1% to 3% of sales. The company desires a return of 25% on its investment. You are required to examine and advise whether the proposed credit policy should be implemented or not.

5

- (b) Briefly discuss the concept of Market Value Added (MVA).

5

- (c) What are the objectives of preparation of a Cash Flow Statement? Distinguish between a Cash Book and a Cash Flow Statement.

2+3

- (d) As ratios are insensitive to negative numbers, mechanical calculation and interpretation may give wrong signals. — Discuss the statement with an example.

5

2. Answer any *one* question from the following : 10×1

(a) (i) The standard ratios for an industry and the ratios of Xenos Ltd. which belongs to that industry are given below. Indicate the strengths and weaknesses of the firm.

	<i>Industry Standard</i>	<i>Xenos Ltd.</i>
Current Ratio	2.4	2.67
Debtors Turnover Ratio	8.0	10.0
Stock Turnover Ratio	9.8	3.33
Assets Turnover Ratio	2.0	1.43
Net Profit Ratio	3.3%	2.1%
Net Profit on Total Assets Ratio	6.6%	3.0%
Net Profit on Net Worth	10.7%	4.8%
Total Debts on Total Assets	63.5%	37.7%

(ii) State the limitations of Ratio Analysis.

7+3

(b) The Balance Sheet of R & Co. Pvt. Ltd. as at March 31.2013 and 2014 are presented below :

	2013 (Rs.)	2014 (Rs.)
Assets :		
Fixed Assets	70000	88000
Investment	40000	40000
Cash	6000	8000
Debtors	7000	12000
Prepaid Rent	3600	2400
Stock	32000	28000
	158600	178400
Liabilities :		
Equity capital	50000	60000
Profit and Loss Account	26400	20900
Debentures	35000	35000
Accumulated Depreciation	20000	21500
Creditors	7200	9000
Taxes Payable	6000	6000
Bills Payable	14000	26000
	158600	178400

Additional Information :

- (i) The company purchased a new fixed assets costing Rs. 25000;
- (ii) It disposed off a fully depreciated asset having original cost of Rs. 7000 and no salvage value.
- (iii) The net profit during the year amounted to Rs. 2000;
- (iv) Income tax paid during the year was Rs. 6000.

Prepare a statement of changes in financial position (cash basis) for the year ended 31st March, 2014.

10

Unit—II**[Marks : 20]**

3. Answer any two questions of the following : 5×2

- (a) 'Indian corporates need to face some initial challenges to adopt IFRS'—Briefly explain.
- (b) Under that conditions of Operating segment will be considered as 'Reportable segment'?
- (c) Give a theoretical format for computing social surplus of a large steel company.
- (d) What do you understand by harmonization of Accounting Standard? Write down the benefits of harmonization.

4. Answer any one question : 10×1

- (a) What are the main contents of IFRS financial statement? How would you measure inventories of a business for its balance sheet purpose? Write down the disclosure requirements about inventories in the preparation of financial statements, as per Ind AS-2.

3+3+4

- (b) (i) A divisional manager of Indian railways is considering whether the division should close down a branch line of passenger services from station A to Station B. Presently no goods are carried by rail between these two stations.

The Chief Accountant of the division estimates the annual cost of train movement, track maintenance, signaling and other expenses to be Rs. 50,00,000, including depreciation and interest charges.

If the line were closed at any time, the diesel train operating on the could be sold to another country for Rs. 20,00,000. The scrap value of the tracks and others is estimated as Rs. 4,50,000. The line is used for 1,500 single journeys each day. The single fare is Rs. 5.00. So the line will lose money for closing the station.

If the line is closed, it is expected that the passengers will make their journey by bus at the same fare. But the journey by bus will take an average of 30 minutes longer than the rail journey. The average value of passengers' time is Rs. 20 per hour.

Moreover the journey by bus is risky one due to poor roadways infrastructure. The number of accidents in last three years in the buses of the same route was 12, in which 24 passengers had died and 60 were seriously injured. The compensation of the family of the deceased passengers was Rs. 2,00,000 each and for the passengers seriously injured who were Rs. 50,000 each.

Enumerate the social costs and benefits associated with the proposal.

- (ii) State the limitations of social accounting and reporting. 7+3

[Internal Assessment : 10 Marks]
