

2019

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.

(Turn Over)

Unit-I
(Marks : 20)

1. **Answer any TWO of the following questions. 2×5**

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

	Company -A	Company-B
Current ratio	2.5 : 1	2 : 1
Acid test ratio	1.5 : 1	1.1 : 1
Debt-equity ratio	30%	40%
Number of times interest earned	6	5

Assume that you are a loan officer of a commercial bank and both the companies have requested you for a loan of equal amount, to be repaid over next 3 years. Based on the above information-

- i) If you could grant a loan to only one company, which it would be?
 - ii) If you could grant a loan to both the companies would you be willing to do so? Explain. **5**
- a) What are the objectives of maintaining debtors? Explain the various costs of maintaining debtors to a firm. **5**
 - b) Briefly discuss the similarities and dissimilarities between Cash Flow Statement and Income Statement. **5**
 - c) There can be no such ratio which may be treated as 'ideal' for the firms belong to different industries - Explain. **5**

a) Answer any **ONE** of the following questions **1×10**

a) A company currently has an annual turnover of Rs. 10,00,000 and an average collection period of 45 days. The company wants to experiment with a more liberal credit policy on the ground that increase in credit will generate additional sales. From the following information, kindly indicate which of the policies that the company would like to adopt:

Credit Policy	Increase in credit period	Increase in sales	% of Default
I	15 days	Rs. 50,000	2
II	30 days	Rs. 80,000	3
III	40 days	Rs. 1,00,000	4
IV	60 days	Rs. 1,25,000	6

The selling price of the product is Rs. 5 , and the variable cost per unit is Rs. 3. The current bad debts loss is 1 per cent and the required rate of return on investment is 20 per cent.

Consider 1 year =360 days.

10

b) The Balance Sheet of X Ltd. as on March 31, 2018 and 2019 are presented as follows:

	2018 (Rs.)	2019 (Rs.)
Assets:		
Land and Building	80,000	1,20,000
Plant and Machinery	5,00,000	8,00,000
Stock	1,00,000	75,000
Sundry Debtors	1,40,000	1,50,000
Prepaid Expenses	14,000	12,000
Cash at Bank	<u>16,000</u>	<u>18,000</u>
	<u>8,50,000</u>	<u>11,75,000</u>

Liabilities		
Share Capital	5,00,000	7,00,000
Profit and Loss Account	1,00,000	1,60,000
General Reserve	50,000	70,000
Sunday Creditors	1,63,000	2,00,000
Bills Payable	30,000	40,000
Outstanding Expenses	7,000	5,000
	<u>8,50,000</u>	<u>11,75,000</u>

Additional Information:

- Rs. 50,000 depreciation has been charged to plant and machinery during the year.
- A piece of machinery was sold for Rs. 80,000 during the year. It has cost Rs. 12,000, depreciation of Rs. 7,000 has been provided on it.

Prepare a Cash Flow Statement from the above details. **10**

UNIT-II**[Marks : 20]**

- 3. Answer any TWO of the following questions: 2×5**
- Write a brief note on Economic Value Added (EVA), as a metric of corporate performance measurement. **5**
 - What is IASB? State its objectives. **(1+4)**
 - State the provisions of Ind AS 108 for identifying the operating segment as 'reportable' segments. **5**
 - Mention the GRI standards (300 Series) that have been issued by Global Sustainability Standards Board (GSSB) regarding corporate environmental disclosure. **5**

2. Answer any one of the following questions: 1×10

a) NTPC has initiated a thermal power project at Katwa, Burdwan. The project has an initial investment of Rs. 3,000 crore, evenly distributed over three years. The project will earn net revenues over its 40 years life whose present value as discounted at 8% comes out to be Rs. 2,600 crore. The project will generate other social benefits as under:

- i) It will provide the employment opportunity to the skilled labour during its operational period.
- ii) It will generate employment opportunity of the skilled and unskilled labour in production of bricks from fly ashes. The fly ash bricks will reduce the environmental damages and waste disposal costs.
- iii) It will provide the employment opportunity to the skilled and unskilled labour during its construction period.
- iv) It will provide revenue to the government by way of taxes. The estimated present value of such social benefits is computed as Rs. 560 crore.

The project will also have some social costs:

- i) It increases the air pollution by increased emission of carbon dioxide, sulfur dioxide, nitrogen oxide etc.
- ii) It pollutes the surface water and ground water due to liquid coal waste.
- iii) It increases the fuel cost and coal cost to the end consumers.

The estimated present value of such social costs is computed as Rs. 320 crore.

Savings of different benefitted groups associated with the project:

Stake holders	Net benefits (in Rs. Crore)	MPS
Government	200	0.6
NTPC	300	0.55
Workers	90	0.2

Assume that the social value of savings of Re 1 for the public utility projects in India is 1.56.

Assume also that there is a negative impact of income distribution which amounts to Rs. 120 crore over the project life.

After considering the social costs and social benefits of the project it is found that the social Value of the project exceeds 40% over its economic value, as the project is producing a merit goods (electricity).

Make an appraisal of the project applying UNIDO Approach. **10**

- b) Narrate down the important provisions of Ind AS-2 regarding inventory valuation and also the disclosures requirement of the same. **(5+5)**

[Internal Assessment : 10 Marks]