

STELLA MARIS COLLEGE (AUTONOMOUS) CHENNAI – 600 086.
(For candidates admitted during the academic year 2004-05 & thereafter)

SUBJECT CODE : **CM/AC/TF33**

B.A. DEGREE EXAMINATION NOVEMBER 2008
BRANCH III - ECONOMICS
THIRD SEMESTER

REG. No. _____

COURSE : **ALLIED – CORE**
PAPER : **TOOLS FOR FINANCIAL STATEMENT ANALYSIS**
TIME : **30 MINS.** MAX. MARKS : **30**

SECTION – A

TO BE ANSWERED IN THE QUESTION PAPER ITSELF

ANSWER ALL QUESTIONS: (30 x 1 = 30)

I CHOOSE THE CORRECT ANSWER:

1. Financial statements are prepared from the point of view of
a) shareholders b) management c) creditors d) investors
2. Comparative balance sheet is useful for studying
a) the trends b) financial position c) liquidity d) profitability
3. Debt-equity ratio is a
a) short term solvency ratio b) operating ratio
c) activity ratio d) long term solvency ratio
4. The term fund in the fund flow statement means
a) cash b) money c) working capital d) resources
5. An increase in current asset would result in
a) decrease in working capital b) increase in working capital
c) no change in working capital d) increase in cash
6. The Turnover ratio helps management in
a) managing resources b) increase in cash
c) evaluating performance d) ascertaining profit
7. Increase in the amount of creditors result in
a) decrease in cash b) increase in cash
c) no change in cash d) increase in profit
8. Observing changes in the financial variables across the years is
a) Vertical analysis b) Horizontal analysis
c) Inter-firm comparison d) Intra-firm comparison

9. Break even point is the level of activity where
 a) the total cost equals the profit b) the total costs equal total sales
 c) the total cost equals total loss d) fixed cost is equal to marginal cost
10. Contribution is equal to
 a) sales + profit b) profit
 c) fixed cost + profit d) variable cost + profit

II FILL IN THE BLANKS:

11. Fund flow statement is the financial statement which reveals the _____ and _____ of funds.
12. 'Acid Test' denotes _____.
13. Redemption of preference shares is a _____ of fund.
14. Working Capital is the difference between _____ and _____.
15. Goods purchased on credit results in _____ flow of funds.
16. Operating ratio is a _____ ratio.
17. Financial statements disclose only _____ facts.
18. The valuation of stock is at _____ in absorption costing as compared to marginal costing.
19. Margin of safety is the difference between _____.
20. The angle formed at the intersection of the sales line and the total cost line is called _____.

III STATE WHETHER TRUE OR FALSE:

21. In Marginal costing technique, profit is the difference between sales and marginal cost.
22. Assets and liabilities in a Balance Sheet may be arranged either according to liquidity order or permanency order.
23. The statistical yardstick that provides a measure of the relationship between two accounting figures is the accounting ratio.
24. Return on capital employed is an indicator of the earning capacity of the capital employed in the business.
25. Increase in selling price will have no effect on margin of safety.

26. Contribution margin is also known as Gross Profit.
27. Cash from operation is equal to net profit plus increase in outstanding expense.
28. Payment of dividend is cash flow from financing activity.
29. Ratio of Net Profit before Interest and Tax to Sales is Operating Profit ratio.
30. Depreciation is sometimes treated as a source of funds.

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COURSE : **ALLIED – CORE**
PAPER : **TOOLS FOR FINANCIAL STATEMENT ANALYSIS**
TIME : **2 ½ HOURS** MAX. MARKS : **70**

SECTION – B

ANSWER ANY FOUR QUESTIONS: (4 x 10 = 40)

1. Prepare a Common size Income Statement for the year ending 31.12.2005, from the following information:

| Trading and Profit and Loss account | | | | | |
|-------------------------------------|-----------|-----|----------------------------|--|-----------|
| | | Rs. | | | Rs. |
| To Cost of sales | 11,50,000 | | By Sales | | 15,00,000 |
| Gross profit | 3,50,000 | | | | |
| | 15,00,000 | | | | 15,00,000 |
| To Operating expenses: | | | By Gross profit | | 3,50,000 |
| Administration | 1,60,000 | | By Interest on investments | | 50,000 |
| Selling | 20,000 | | | | |
| Distribution | 20,000 | | | | |
| To Non operation expenses: | | | | | |
| Finance | 1,20,000 | | | | |
| To Net profit | 80,000 | | | | |
| | 4,00,000 | | | | 4,00,000 |

2. Prepare a statement of changes in working capital and calculate funds from operation:

| BALANCE SHEET | | | | | |
|-------------------|----------|----------|------------------|----------|----------|
| LIABILITIES | 2003 | 2004 | ASSETS | 2003 | 2004 |
| | Rs. | Rs. | | Rs. | Rs. |
| Share capital | 2,00,000 | 2,00,000 | Goodwill | 24,000 | 22,000 |
| General reserve | 28,000 | 36,000 | Building | 80,000 | 72,000 |
| Profit & loss a/c | 32,000 | 26,000 | Plant | 74,000 | 72,000 |
| Creditors | 16,000 | 10,800 | Investment | 20,000 | 20,000 |
| Bills payable | 2,400 | 1,600 | Bills receivable | 4,000 | 6,400 |
| Provision for | | | Bank | 13,200 | 34,400 |
| taxation | 32,000 | 36,000 | Stock | 60,000 | 46,800 |
| Provision for | | | Debtors | 36,000 | 38,000 |
| Doubtful debts | 800 | 1,200 | | | |
| | 3,11,200 | 3,11,600 | | 3,11,200 | 3,11,600 |

Additional information:

- a) Depreciation on plant was Rs.8,000 and building Rs.6,000.
b) Interim dividend of Rs.16,000 was paid during the year.

c) Provision for taxation of Rs.26,000 was made during the year. .2

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3. Following is the balance sheet of Reems Ltd. As on 31st March 2007:

| LIABILITIES | Rs. | ASSETS | Rs. |
|-----------------------------|------------------|------------------------|------------------|
| Equity share capital | 10,00,000 | Goodwill | 5,00,000 |
| 6% preference share capital | 5,00,000 | Plant & machinery | 6,00,000 |
| General reserve | 1,00,000 | Land and buildings | 7,00,000 |
| Profit and loss a/c | 4,00,000 | Furniture and fixtures | 1,00,000 |
| Provision for tax | 1,76,000 | Stock | 6,00,000 |
| Bills payable | 1,24,000 | Bills receivable | 30,000 |
| Bank overdraft | 20,000 | Debtors | 1,50,000 |
| Creditors | 80,000 | Bank | 2,00,000 |
| 12% debentures | 5,00,000 | Investments | 20,000 |
| | <u>29,00,000</u> | | <u>29,00,000</u> |

You are required to calculate:

- a) Current ratio b) Quick ratio c) Absolute liquidity ratio
d) Debt equity ratio e) Proprietary ratio

4. From the following information, calculate cash from operations:

| PROFIT & LOSS ACCOUNT | | | |
|--------------------------|---------------|---------------------------|---------------|
| (Rs.in '000) | | (Rs.in '000) | |
| To Salaries | 5,000 | By Gross Profit | 25,000 |
| To Rent | 1,000 | By Profit on sale of Land | 8,000 |
| To Depreciation | 2,000 | | |
| To Loss on sale of Plant | 1,000 | | |
| To Goodwill written off | 4,000 | | |
| To proposed Dividend | 5,000 | | |
| To Provision for Tax | 5,000 | | |
| To Net Profit | 10,000 | | |
| | <u>33,000</u> | | <u>33,000</u> |

5. The following particulars are extracted from the records of a company:

| | Per unit | |
|------------------------------------|-----------|-----------|
| | Product A | Product B |
| Sales price | 100 | 110 |
| Consumption of materials (in kgs.) | 5 | 4 |
| Materials (Rs.) | 24 | 14 |
| Direct wages (Rs.) | 2 | 3 |
| Machine hours used | 2 | 3 |
| Variable overheads (Rs.) | 4 | 6 |

Prepare a marginal cost statement. Comment on the profitability of each product (both use the same raw material) when -

- a) Total sales potential in units is limited
b) Total sales potential in value is limited
c) Raw material is in short supply
d) Production capacity (in terms of machine hour) is the limiting factor.

6. Write short notes on –
- Importance of financial statement.
 - Trend analysis.
 - Significance of ratio analysis.
 - Solvency ratio.
 - Cost-Volume – Profit analysis.

SECTION – C

ANSWER ANY TWO QUESTIONS:

(2 x 15 = 30)

7. From the following information relating to Lee Ltd., prepare a Balance sheet as on 31.12.2006:
 Current ratio 2.5
 Liquid ratio 1.5
 Net working capital Rs.3,00,000
 Cost of sales / closing stock 8 times
 G.P. ratio 20%
 Average debt collection period 1.5 months
 Fixed assets turnover ratio (on cost of sales) 2 times
 Fixed assets/share holders net worth 0.80
 Reserves and surplus/share capital 0.25.
8. From the following Balance sheets as on 31st Dec. 2005 and 2006 and additional information, you are required to prepare a schedule of changes in working capital and fund flow statement:

| LIABILITIES | Rs. | Rs. | ASSETS | Rs. | Rs. |
|-------------------------|-----------------|-----------------|------------|-----------------|-----------------|
| Share capital | 1,00,000 | 1,10,000 | Buildings | 40,000 | 38,000 |
| General reserve | 14,000 | 18,000 | Plant | 37,000 | 36,000 |
| P&L a/c | 16,000 | 13,000 | Investment | 10,000 | 21,000 |
| Creditors | 8,000 | 5,400 | Stock | 30,000 | 23,400 |
| B/P | 1,200 | 800 | B/R | 2,000 | 3,200 |
| Prov. for tax | 16,000 | 18,000 | Debtors | 18,000 | 19,000 |
| Prov. for Doubtful debt | | | Cash | 18,600 | 25,200 |
| | 400 | 600 | | | |
| | <u>1,55,600</u> | <u>1,65,800</u> | | <u>1,55,600</u> | <u>1,65,800</u> |

Additional information:

- Depreciation on plant was Rs.4,000.
 - Interim dividend of Rs.8,000 was paid during the year.
 - Plant of the value Rs.5,000 was sold for Rs.7,000.
9. The financial position of A Ltd. As on 31st March 2001 and 2002 was as follows:
- | LIABILITIES | Rs. | Rs. | ASSETS | Rs. | Rs. |
|---------------------|--------|--------|---------|--------|--------|
| Current liabilities | 72,000 | 82,000 | Cash | 8,000 | 7,200 |
| Loan from Co. | -- | 40,000 | Debtors | 70,000 | 76,800 |
| Loan from bank | 60,000 | 50,000 | Stock | 50,000 | 44,000 |

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| | | | | CM/AC/TF33 | |
|----------|-----------------|-----------------|-----------|-------------------|-----------------|
| Capital | 2,00,000 | 2,00,000 | Land | 40,000 | 60,000 |
| Reserves | 96,000 | 98,000 | Buildings | 1,00,000 | 1,10,000 |
| | | | Machinery | 1,60,000 | 1,72,000 |
| | <u>4,28,000</u> | <u>4,70,000</u> | | <u>4,28,000</u> | <u>4,70,000</u> |

Prepare cash flow statement.

10. Present the following information to show to the management:
- The marginal product cost and the contribution per unit
 - The total contribution and profits resulting from each of the following sales mixtures.

| | Product A | Product B |
|--------------------------|-----------|-----------|
| Direct material per unit | Rs.10 | Rs.9 |
| Direct wages per unit | Rs.3 | Rs.2 |
| Sales price per unit | Rs.20 | Rs.15 |
| Fixed expenses | Rs.800 | |

Variable expenses are allocated to products as 100% of direct wages. Sales Mixtures:

- 100 units of Product A and 200 of B
- 150 units of Product A and 150 of B
- 200 units of Product A and 100 of B

Recommend which of the sales mixtures should be adopted.

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