POST-GRADUATE COURSE

Term End Examination — December, 2008

M.Com.

FINANCIAL STATEMENT
ANALYSIS AND REPORTING

PAPER XV

Time — 2 hours   *Full marks—50*

(Weightage of marks—80%)

Special credit will be given for accuracy and relevance in the answer. Marks will be deducted for incorrect spelling, untidy work and illegible handwriting. The weightage for each question has been indicated in the margin.

Group – A

Answer **any two** questions :   12½×2=25

1. (a) Discuss the major objectives of analyzing financial statements.

   (b) Distinguish between horizontal and vertical analysis techniques.   6+6½

2. (a) Explain the dupont model of disaggregation of return on equity. Also discuss the contribution of each component to the change in return on equity over a period.

   (b) Explain briefly the concept of Economic Value Added (EVA).   4+4+4½

3. (a) How would you analyse the changes in business operations to determine whether they drive the growth in residual earnings?

   (b) What are transitory earnings? Give four examples of it.   8+4½

4. The composition of current assets of XY Ltd. for the year ended 2006 and 2007 are given below :

	Year 2006	Year 2007
	Rs.	Rs.
Cash	30,000	40,000
Debtors	70,000	40,000
Inventories	50,000	80,000
Total Current Assets	1,50,000	1,60,000

It is reported that conversion of inventories into debtors takes on an average 50 days and the conversion of debtors into cash takes 40 days on an average. Compute the liquidity index of XY Ltd. for the years 2006 and 2007 and analyse the liquidity position of the firm.

12½

Group – B

Answer **any two** questions :   12½×2=25

5. (a) How would you prepare a cash flow statement under Indian Accounting Standard – 3 ?

   (b) What imformation does a cash flow statement convey ?   8+4½

6. (a) Define an efficient stock market.

   (b) Discuss briefly the anomalies of the efficient market hypothesis.   8+4½

7.(a) What do you mean by bond risk premium ? Mention two utilities for prediction of bond risk premium.

(b) Briefly discuss J. O. Horrigan's model for forecasting credit rating. 5+7½

8. Company X is considering buying company Y in exchange for shares. The details of the two companies are given below :

	Company X	Company Y
Profit before Tax (Rs.)	20,00,000	4,00,000
Tax	50%	50%
Number of shares	5,00,000	1,00,000
EPS (Rs)	2·00	2·00
Market value per share	40	30
P/E ratio (times)	20	15
Total market capitalization	200	30
Present value of target firm Y (Rs. in lakhs)	—	35
Market value per share of company X after merger (Rs)	40	—

Calculate share exchange ratio, merger gains and show the impact of merger on PES, P/E ratio and market capitalization of the merged firm. 12½

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