

Post-Graduate Course  
Term End Examination – 2006

M. Com.

Financial Statement Analysis And Reporting

Paper - XV

Time : Two 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 one* question. 15×1=5

1. From the following Profit and Loss Account and the Balance Sheet of XYZ Ltd. for the year ended 31st March 2005 and 2006. You are required to prepare a Comparative Income Statement and a Comparative Balance Sheet.

Profit and Loss Account

		(In Lakhs of Rs.)			
Particulars	31.3.05	31.3.06	Particulars	31.3.05	31.3.06
To Cost of Goods sold	600	750	By Net Sales	800	1,000
To Operating Expenses					
Administration Exp.	20	20			
Selling Exp.	30	40			
To Net Profit	150	190			
	<u>800</u>	<u>1,000</u>		<u>800</u>	<u>1,000</u>

P.T.O.

**Balance Sheet as on 31st March**

(In Lakhs of Rs.)

Liabilities	2005	2006	Assets	2005	2006
Bills Payable	50	75	Cash	100	140
Sundry Creditors	150	200	Debtors	200	300
Tax Payable	100	150	Stock	200	300
6% Debentures	100	150	Land	100	100
6% Preference Capital	300	300	Building	300	270
Equity Capital	400	400	Plant	300	270
Reserves	200	245	Furniture	100	140
	<u>1300</u>	<u>1520</u>		<u>1300</u>	<u>1520</u>

15

2. (a) Explain why profitability may not always assure liquidity.  
 (b) The following ratios of Prottoy Ltd. and their corresponding Industry Averages are available.

**Prottoy Ltd. Industry Averages**

Current ratio	1.75	2.20
Quick ratio	1.20	2.00
Stock turnover ratio	7 times	10 times
Debt collection period	30 days	37 days
Return on Capital Employed	15%	25%
Earning per share	Rs 5	Rs 3

You are required to comment on the financial position and performance of Prottoy Ltd. 7+8=15

**Group B**

Answer *any one* question. 10×1=10

3. What is meant by financial statement analysis? Discuss the purposes and significance of financial statements. 4+6
4. Define briefly the classification of activities, as suggested in Accounting Standard 3, to be used for preparing a cash flow statement. Give two examples of each such class of activities. 10

**Group C**Answer *any one* question.

15×1=15

5. A Ltd is considering the acquisition of B Ltd. The financial data at the time of acquisition is as follows :

	A Ltd.	B Ltd.
Net Profit after tax (Rs / Lakhs)	30	6
Number of shares (Lakhs)	6	2.5
Earning per share (Rs.)	5	2.40
Market price per share (Rs.)	75	24
Price Earning Ratio	15	10

Assuming that the net profit after tax of the two companies would remain the same after merger (i.e., it would be Rs. 36 lakhs), explain the effect on EPS of the merged company under each of the following situations :

- (i) A Ltd. offers to pay Rs. 30 per share to the shareholders of B Ltd.  
 (ii) A Ltd. offers to pay Rs. 40 per share to the shareholders of B Ltd.

The amount in both cases is to be paid in the form of shares of A Ltd.

Do you have any comments to offer ? 15

6. Explain the various types of risk that are associated with bond holding. Define 'bond risk premium' in this context.

10+5

**Group D**Answer *any one* question.

10×1=10

7. What are the reasons for corporate sickness ? Discuss the steps that should be taken to turn around a sick company.  
4+6=10
8. What do you mean by credit rating ? Discuss J. O. Horrigan's model for forecasting credit rating ? 3+7=10