CA- INTER TEST
FINANCIAL STATEMENT ANALYSIS

Time Allowed:3 hours **MM:85 Marks**

Question No 1: Balance Sheet-Textiles Mills Ltd. as on 31st March, 1994

Particulars	**Amount in (₹)**	**Particulars**	**Amount in (₹)**
Share Capital:		Freehold Factory at Cost	4,00,000
8% Cumulative Preference Shares of ₹100 each	2,50,000	Plant & Machinery at Cost less depreciation	2,00,000
Equity Shares of ₹100 each	4,00,000	Goodwill at cost	1,00,000
General Reserves	1,29,875	Quoted Investments	45,000
Dividend Equalisation Reserve	30,000	Stock in Trade	1,80,000
5% Debentures secured on Factory Buildings	2,00,000	Debtors	3,50,000
Liabilities-Creditors	2,45,125	Balance with Bank	1,50,000
Taxation Payable on 1-3-95	1,00,000		
Proposed Dividend	70,000		
	14,25,000		**14,25,000**

Year	**1994 (₹) in Lakhs**
Sales	10
Gross Profit	3.22
Income from Investments	0.03
Administrative & General Expenses	0.95
Depreciation: Plant & Machinery	0.33
Debenture Interest paid	0.10
Dividend on Preference share	0.20
Dividend from Equity Shares	0.50

70% of Total Sales are Credit Sales.

From the above statement, you are required to work out the following ratios

(a) Capital Gearing Ratio (b) Quick Assets Ratio (c) Ratio of Sales to Net Worth (d) Return on Capital Employed (e) Current Ratio (f) Capital Turnover Ratio (g) Debt-Equity Ratio (h) Total Assets Turnover Ratio (i) Interest Coverage Ratio (j) Preference Dividends Coverage Ratio (k) Equity Dividends Coverage Ratio (l) Return on Net Worth (m) EPS (n) Retention Ratio (o) Debtors Turnover Ratio **(15 Marks)**

Question No. 2: The following information relates to Mr. X in respect of the year ended 31st March, 1999.

(i) Gross Profit Ratio – 25% (ii) Stock Turnover Ratio – 10 (iii) Net Profit/Closing Capital – 1/5 (iv) Closing Capital/Total Liabilities – ½ (v) Fixed Assets/Closing Capital 5/4 (vi) Fixed Assets/Total Current Assets – 5/7 (vii) Fixed Assets – 10,00,000; and (viii) Closing Stock - ₹1,00,000.

Prepare a Trading and Profit & Loss Account for the year ended 31st March, 1996 and Balance Sheet on that date.

(10 Marks)

Question No. 3: Uday is an entrepreneur and has recently set up production unit of cotton shirts. He currently sells 1,00,000 shirts in a year at ₹500 each. His variable cost to produce the shirt is ₹300 each and he has ₹1,20,00,000 as fixed costs. His sales to assets ratio is 4 times, and 30% of his assets are financed by 10% debt, with the balance being financing by equity shares of ₹100 each. The tax rate applicable is 40%.

His newly appointed finance manager Urvashi feels that Uday is doing it all wrong. She feels that by reducing the price to ₹450 per shirt, she could increase her sales volume of shirts by 30%. Fixed costs would remain constant, and variable costs would remain unchanged. Her sales to asset ratio would be 4.68 times. Furthermore, she could increase her debt to assets ratio to 50% with the balance in shares. It is assumed that the interest rate would go up 1 % and that the price of shares would remain constant.

(i) Compute the EPS under the Uday and Urvashi plants. Is Urvashi's perception right?

(ii) Uday's partner does not think that fixed costs would remain constant under Urvashi plan, but they would go up by 15%. If this is the case, should Uday shift to Uravashi's plan based on earnings per shares?

(8 Marks)

Question No. 4: The projected cash operating expenditure of a company for the next year 2014-2015 is ₹1,82,500. It has quick current assets amounting to ₹40,000. You are required to determine the defensive-interval ratio.

(2 Marks)

Question No. 5: From the ratios given below, draw the Profit and Loss Account and the Balance Sheet of X ltd.

Trading and Profit & Loss A/c for the year ended 31st March, 1999

Particulars	**Amount in (₹)**	**Particulars**	**Amount in (₹)**
To Opening Stock	4,80,000	By Sales	?

To Purchases	?	By Closing Stock	?
To Purchase Expenses	40,000		
To Gross Profit	?		
	?		?
To Office Expenses	2,40,000	By Gross Profit	?
To Selling Expenses	1,86,000	By Commission	40,000
To Interest on Debentures	30,000		
To Provision for Taxation	?		
To Net Profit for the year	?		
	?		?
To Proposed Dividend	?	By Balance brought forward	60,000
To Transfer to General Reserve	?	By Net Profit for the year	?
To Balance Carried to Balance Sheet	?		
	?		?

Balance Sheet as on 31st March, 1999

Liabilities	Amount in (₹)	Assets		Amount in (₹)
Share Capital:		**Fixed Assets:**		
Authorised: 5,00,000 equity shares of ₹100 each	5,00,000	Goodwill	72,000	
Issued, Subscribed and Paid up:		Land	3,00,000	
4,000 equity shares of ₹100 each fully paid	4,00,000	Plant & Machinery	2,00,000	5,72,000
Reserves and Surplus:		**Current Assets:**		
Reserve-Balance at the beginning of the year	?	Stock-in-Trade	?	
Proposed addition Surplus	?	Sundry Debtors	?	
Balance from P/L Appropriation A/c	?	Bank Balance	40,000	?
Secured Loans:				
15% Debentures of ₹100 each	?			
Current Liabilities	?			
	?			?

(a) Dividend proposed are 30% of share capital
(b) Current Ratio 2:1
(c) Sundry Debtors represent two month's sales
(d) Stock Turnover Ratio 6 $^{2}/_{3}$.
(e) Gross Profit Ratio 33 $^{1}/_{3}$.
(f) Provision for taxation is at 50% of profits.
(g) Profits carried forward were 10% of the transfer to General Reserves.
(h) Transfer to General Reserve was equivalent to proposed dividends.
(i) Secured loans were half of Current Liabilities.
(j) Balance to the credit of General Reserve at the beginning of the year was twice the amount transferred to that account from current profits.

Working should from part of your answer.

(15 Marks)

Question No. 6:

Particulars	1st Case	2nd Case	3rd Case
Return (EBIT) (₹)	75,000	80,000	60,000
Sales (₹)	3,00,000	3,00,000	3,00,000
Capital Employed (₹)	2,00,000	2,25,000	1,75,000

Compute Capital Turnover Ratio, Net Operating Profit ratio and applying Du-Pont analysis state the relationship between the two.

(6 marks)

Question No. 7: The budgeted sales and cost of sales of Rahaman Brothers for the coming year are ₹15 crore and ₹10 crore respectively. The current level of inventory turnover is 5 times. Considering that the inventory is financed at an average cost of 10% p.a., the expected cost saving for the budget period by doubling the inventory turnover would be

A	₹20 lakhs
B	₹10 lakhs
C	₹15 lakhs
D	₹7.5 lakhs

(4 marks)

Question No. 8: Sigma Ltd. has an equity of ₹8,40,000 and retained earnings of ₹12,60,000. The face value of its shares is ₹10 and the current market price is ₹20. It has preference share capital of ₹6,00,000 at 15%. If it had a profit after tax of ₹9,00,000 this year and paid ₹3,36,000 by way of equity dividends, calculate the following ratios for Sigma Ltd.

i. Dividend Yield
ii. EPS
iii. P.E. Ratio
iv. Dividend Pay-out Ratio
v. Return on equity

(5 marks)

Question No. 9: Exe Limited is a dealer in automobile components. While preparing the financial statements for the year ended 31.03.2000, it was discovered that a substantial portion of the records were missing. However the accountant was able to gather the following data:

Liabilities	₹	₹	Assets	₹	₹
Authorised, subscribed and paid up			Land		1,20,000
Share Capital (20,000 Equity Shares of ₹10 each)		2,00,000	Plant and Machinery		
Reserves and Surplus			At Cost	?	
Balance on 1.4.99	60,000		Less: Depreciation	?	?
Add: Transfer during the year	?	?	Current Assets		
15% Loan		?	Cash and Bank	?	
Current Liabilities			Debtors	?	
Proposed Dividend	?		Stock	?	?
Provision for Tax	?				
Creditors	?	2,00,000			
		Total ?			**Total ?**

The following are other information:

(1) Current Ratio	2 times
(2) Cash and Bank	30% of Total Current Assets
(3) Debtors Velocity (Sales/Debtors)	12 times
(4) Stock Velocity (Cost of goods sold/Stock)	12 times
(5) Creditors Velocity (Cost of goods sold/Creditors)	12 times
(6) Gross Profit/Sales	25%
(7) Proposed Dividend	20%
(8) Tax Rate	$33\frac{1}{3}$
(9) Debt Service Coverage Ratio	1 time
(10) Interest Coverage Ratio	3 times Interest on the balance of Loan Outstanding on 1.4.99
(11) Selling and Distribution Expenses	₹1,80,000
(12) Cost of Goods Sold does not Include Depreciation.	
(13) Depreciation Rate is 40%.	

(20 marks)