POST-GRADUATE COURSE
Term End Examination :
December, 2014 / June, 2015

COMMERCE

Paper-XV :Financial Statement Analysis & Reporting

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.

MODULE – I

Answer any *two* questions : $12\frac{1}{2} \times 2 = 25$

1. a) Discuss the major objectives of analyzing financial statements.
   b) Compare the new versus traditional approach to financial statement analysis.
   $6 + 6\frac{1}{2}$

2. a) What do you mean by common-size statement ?
   b) With the help of the following information for the year ended on 31st March, 2015, prepare a common-size statement :

Selling & Distribution Expenses	Rs. 10,000
Administration Expenses	Rs. 20,000
Cost of Sales	75 % of net sales
Income Tax	20% of net profit before tax
Net income after tax	Rs. 48,000
Other income	Rs. 10,000

$2\frac{1}{2} + 10$

3. a) Why is it necessary to evaluate the quality and liquidity of inventories while assessing the liquidity of a firm ?
   b) The composition of current assets of a company for the year ended on 31st March, 2014 and 31st March 2015 are given below :

Current Assets	31.03.14 Rs.	31.03.15 Rs.
Cash	20,000	15,000
Accounts Receivables	30,000	25,000
Inventories	25,000	40,000
Total Current Assets	75,000	80,000

It is reported that conversion of inventories into accounts receivables takes on an average 50 days and the conversion of receivables into cash takes 40 days on an average.

Compute the Liquidity Index of the company for the years ended on 31st March, 2014 and 31st March, 2015 and analyse the liquidity position of the company. $4\frac{1}{2} + 8$

4. a) What is cash flow statement ? State its utility.
   b) How would you prepare a cash flow statement as per AS-3 of ICAI ?
   $(2 + 4) + 6\frac{1}{2}$

MODULE – II

Answer any *two* questions : $12\frac{1}{2} \times 2 = 25$

5. a) Define an efficient stock market. Discuss briefly the anomalies of efficient stock market.

   b) How does efficient market theory provide an explanation for random walk hypothesis ? Discuss. $(2 + 6) + 4\frac{1}{2}$

6. a) Distinguish between incipient sickness and sickness. What are the causes of corporate sickness ?

   b) Write a short note on Board for Industrial and Financial Reconstruction (BIFR).

   $2 + 6 + 4\frac{1}{2}$

7. a) Discuss the various types of risk associated with bond holding.

   b) What is credit rating ? What are the different types of credit rating agencies in India ? $8 + (2 + 2\frac{1}{2})$

8. a) Distinguish between Backward merger and Forward merger.

   b) Company *X* is considering to buy company *Y* in exchange for shares. The details of the two companies are given below :

Current Assets	**Company *Y* Rs.**	**Company *X* Rs.**
Number of Shares	5,00,000	1,00,000
Profit after tax (Rs.)	10,00,000	2,00,000
EPS (Rs.)	2·00	2·00
Market value per share (Rs.)	40	30
P/E ratio (times)	20	15
Total market capitalization (Rs. in lakhs)	200	30
Present value of company *Y* (Rs. in lakhs)	-----	35
Market value per share of Company *X* after mergers (Rs.)	40	---

You are required to calculate the share exchange ratio and the impact of merger on EPS, P/E ratio and market capitalisation of the merged firm.

$2\frac{1}{2} + 10$