

**WEST BENGAL STATE UNIVERSITY**

B.Com. Honours 6th Semester Examination, 2021

**FACADSE07T-B.COM. (DSE3/4)****FINANCIAL STATEMENT ANALYSIS**

Time Allotted: 2 Hours

Full Marks: 50

*The figures in the margin indicate marks of question.**Candidates should answer in their own words and adhere to the word limit as practicable.***GROUP-A****Answer any two questions from the following**

10×2 = 20

1. From the following information prepare a summarized Balance Sheet of X Company as on 31.03.2021 assuming that the capital is composed of Equity Shares of Rs. 10 each. 10

|   |              |
|---|--------------|
| (i) Liquid ratio                                | 1.5          |
| (ii) Current Ratio                              | 2.5          |
| (iii) Fixed Assets to Proprietorship Fund Ratio | 0.75         |
| (iv) Working Capital                            | Rs. 1,20,000 |
| (v) Reserves and Surplus                        | Rs. 60,000   |
| (vi) Bank Overdraft                             | Rs.20,000    |

2. **Balance sheet as on 31.03.2021**

8+2

| Particulars   | Note No. | 31.03.2021 (Rs.) |
|---|----------|------------------|
| <b>I. EQUITY AND LIABILITIES</b>                      |          |                  |
| 1. <b>Shareholders' Funds</b>                         |          |                  |
| (a) Share Capital— Equity Share Capital @ Rs. 10 each |          | 1,00,000         |
| (b) Reserve & Surplus                                 |          | 50,000           |
| 2. <b>Non-Current Liabilities</b>                     |          |                  |
| (a) Long-term Borrowings:                             |          |                  |
| (i) 10% Debenture                                     |          | 3,00,000         |
| (ii) 12% Loan   |          | 1,00,000         |
| 3. <b>Current Liabilities</b>                         |          |                  |
| (a) Short-term Borrowings— Bank Overdraft             |          | 50,000           |
| (b) Trade Payables— Creditors                         |          | 50,000           |
| <b>Total</b>  |          | <b>6,50,000</b>  |
| <b>II. ASSETS</b>                                     |          |                  |
| 1. <b>Non-Current Assets</b>                          |          |                  |
| (a) Fixed Assets                                      |          |                  |
| (i) Tangible Assets                                   | 1.       | 5,30,000         |
| 2. <b>Current Assets</b>                              |          |                  |
| (a) Inventories— Stock                                |          | 60,000           |
| (b) Trade Receivables— Debtors                        |          | 40,000           |
| (c) Cash and Cash Equivalent— Bank                    |          | 20,000           |
| <b>Total</b>  |          | <b>6,50,000</b>  |

**Note to accounts:**

| 1. Fixed Assets— Tangible Assets | 31.03.2021 (Rs.) |
|----------------------------------|------------------|
| (a) Building                     | 3,50,000         |
| (b) Machinery                    | 1,80,000         |
|                                  | <b>5,30,000</b>  |

**Additional information:**

- (i) Income Tax Rate is 35%.
- (ii) Net sales during 2020-21 are Rs. 7, 80,000.
- (iii) EPS as on 31.03.2021 is 0.975
- (iv) Price Earnings Ratio is 9.

Using Altman's functions calculate Z score and analyze the result.

3. What do you mean by Financial Statement Analysis? Briefly explain the importance of Financial Statement Analysis. 2+8
4. Distinguish between Comparative Statement and Common-size Statement. 10
5. From the following information, prepare a Common-size Statement. 10
  - (i) Selling and Distribution Expenses Rs. 10,000
  - (ii) Administrative Expenses Rs. 20,000
  - (iii) Cost of Sales 75% of Net Sales
  - (iv) Income Tax 20% of Net Profit before Tax
  - (v) Net Income after Tax Rs. 48,000
  - (vi) Other Income Rs. 10,000
6. Briefly explain the Dividend Discount Model. 10

**GROUP-B**

**Answer any two questions from the following**

15×2 = 30

7. What do you mean by Ratio Analysis? Explain the importance and limitations of Ratio Analysis. 2+7+6
8. From the following information prepare (a) A Statement of Changes in Working Capital, and (b) Fund Flow Statement for the year ended 31.03.2021. 15

**Balance Sheets as on 31.03.2020 and 31.03.2021**

| Particulars  | Note No. | 31.03.2020 (₹)   | 31.03.2021 (₹)   |
|--|----------|------------------|------------------|
| <b>I. EQUITY AND LIABILITIES</b>                     |          |                  |                  |
| <b>1. Shareholders' Funds</b>                        |          |                  |                  |
| (a) Share Capital— Equity Share Capital              |          | 10,00,000        | 11,00,000        |
| (b) Reserve & Surplus                                | 1.       | 2,80,000         | 3,70,000         |
| <b>2. Non-Current Liabilities</b>                    |          |                  |                  |
| Long-term Borrowings— Debenture                      |          | 5,00,000         | 3,00,000         |
| <b>3. Current Liabilities</b>                        |          |                  |                  |
| (a) Trade Payables                                   | 2.       | 70,000           | 70,000           |
| (b) Short-term Provisions— Provisions for Income Tax |          | 40,000           | 1,10,000         |
| <b>Total</b>   |          | <b>18,90,000</b> | <b>19,50,000</b> |

|                                      |    |                  |                  |
|--------------------------------------|----|------------------|------------------|
| <b>II. ASSETS</b>                    |    |                  |                  |
| <b>1. Non-Current Assets</b>         |    |                  |                  |
| (a) Fixed Assets                     |    |                  |                  |
| (i) Tangible Assets                  | 3. | 10,20,000        | 14,60,000        |
| (ii) Intangible Assets— Goodwill     |    | 50,000           | 40,000           |
| (b) <b>Current Assets</b>            |    |                  |                  |
| (i) Inventories— Stock               |    | 2,50,000         | 2,10,000         |
| (ii) Trade Receivables— Debtors      | 4. | 2,70,000         | 2,16,000         |
| (iii) Cash and Cash Equivalent— Cash |    | 3,00,000         | 24,000           |
| <b>Total</b>                         |    | <b>18,90,000</b> | <b>19,50,000</b> |

**Notes to Accounts:**

| Details                                     | 31.03.2020 (Rs.) | 31.03.2021 (Rs.) |
|---|------------------|------------------|
| <b>1. Reserves and Surplus</b>              |                  |                  |
| (a) General Reserve                         | 2,00,000         | 2,00,000         |
| (b) Balance in Statement of Profit and Loss | 80,000           | 1,70,000         |
|   | <b>2,80,000</b>  | <b>3,70,000</b>  |
| <b>2. Trade Payables</b>                    |                  |                  |
| (a) Creditors                               | 50,000           | 40,000           |
| (b) Bills Payable                           | 20,000           | 30,000           |
|   | <b>70,000</b>    | <b>70,000</b>    |
| <b>3. Fixed Assets— Tangible Assets</b>     |                  |                  |
| (a) Land                                    | 4,20,000         | 6,60,000         |
| (b) Machinery                               | 6,00,000         | 8,00,000         |
|   | <b>10,20,000</b> | <b>14,60,000</b> |
| <b>4. Trade Receivables</b>                 |                  |                  |
| (a) Debtors                                 | 3,00,000         | 2,40,000         |
| Less: Provision for Bad Debt                | 30,000           | 24,000           |
|   | <b>2,70,000</b>  | <b>2,16,000</b>  |

**Additional Information:**

- (i) During the year, a part of machine costing Rs. 7,500 (accumulated depreciation Rs. 2,500) was sold for Rs. 3,000.
- (ii) Income tax paid during the year Rs. 20,000.
- (iii) Depreciation provided on machinery during the year was Rs. 50,000.

9. What is meant by Corporate Distress? Briefly explain the symptoms of Corporate Financial Distress.

2+13

10. Write Short Notes: (any *three*) 5×3
- Advantages of Common-Size Income Statements
  - Free cash flow to equity
  - Decision-tree analysis
  - Major sources of financial information.
- 11.(a) What are the merits of Trend analysis? 5
- (b) Calculate the trend percentages from the following figures of Arun Ltd. and interpret the results. 10

| Year    | Sales Revenue (Rs.) | Inventory (Rs.) | Earnings Before Tax (Rs.) |
|---------|---------------------|-----------------|---------------------------|
| 2016-17 | 5,600               | 1,200           | 400                       |
| 2017-18 | 6,400               | 1,400           | 520                       |
| 2018-19 | 7,000               | 1,500           | 410                       |
| 2019-20 | 7,900               | 1,150           | 690                       |
| 2020-21 | 8,200               | 1,000           | 540                       |

12. From the following information, prepare a Cash Flow Statement for the year ended 31.03.2021. 15

**Balance Sheets as on 31.03.2020 and 31.03.2021**

| Particulars                                       | Note No. | 31.03.2020 (₹)   | 31.03.2021 (₹)   |
|---|----------|------------------|------------------|
| <b>I. EQUITY AND LIABILITIES</b>                  |          |                  |                  |
| <b>1. Shareholders' Funds</b>                     |          |                  |                  |
| (a) Share Capital                                 | 1.       | 15,00,000        | 15,00,000        |
| (b) Reserve and Surplus                           | 2.       | 13,00,000        | 15,00,000        |
| <b>2. Current Liabilities</b>                     |          |                  |                  |
| (a) Trade Payable— Creditors                      |          | 7,00,000         | 2,00,000         |
| (b) Short-term Provisions— Provision for Taxation |          | 3,00,000         | 4,00,000         |
| <b>Total</b>                                      |          | <b>38,00,000</b> | <b>36,00,000</b> |
| <b>II. ASSETS</b>                                 |          |                  |                  |
| <b>1. Non-Current Assets</b>                      |          |                  |                  |
| (a) Fixed Assets                                  |          |                  |                  |
| (i) Tangible Assets— Plant at WDV                 |          | 15,00,000        | 18,00,000        |
| <b>2. Current Assets</b>                          |          |                  |                  |
| (i) Inventories— Stock                            |          | 6,00,000         | 3,00,000         |
| (ii) Trade Receivables— Debtors                   |          | 15,00,000        | 9,00,000         |
| (iii) Cash and Cash Equivalents— Cash             |          | 2,00,000         | 6,00,000         |
| <b>Total</b>                                      |          | <b>38,00,000</b> | <b>36,00,000</b> |

**Notes to Accounts:**

| Details   | 31.03.2020<br>(Rs.) | 31.03.2021<br>(Rs.) |
|---|---------------------|---------------------|
| <b>1. Share Capital</b>                                       |                     |                     |
| (a) Equity Share Capital of Rs. 100 each                      | 10,00,000           | 15,00,000           |
| (b) Redeemable Preference Shares of Rs. 100 each; Rs. 50 paid | 5,00,000            | Nil                 |
|   | <b>15,00,000</b>    | <b>15,00,000</b>    |
| <b>2. Reserves and Surplus</b>                                |                     |                     |
| (a) General Reserve   | 10,00,000           | 7,00,000            |
| (b) Balance in Statement of Profit and Loss                   | 2,75,000            | 3,00,000            |
| (c) Share Premium   | 25,000              | Nil                 |
| (d) Capital Redemption Reserve                                | Nil                 | 5,00,000            |
|   | <b>13,00,000</b>    | <b>15,00,000</b>    |

**Additional Information:**

- (i) During the year the Company paid Rs. 2, 00,000 as equity dividend and Rs. 56,250 as preference dividend.
- (ii) The Company redeemed the preference shares at a premium of 5 % after making a call of Rs. 50 per share to make the shares fully paid.
- (iii) One plant whose book value was Rs. 1, 00,000 was sold at a loss of Rs. 25,000 and the company purchased plant for Rs. 6, 00,000.
- (iv) Rs. 3, 50,000 was provided by the company during the year for taxation.

**N.B. :** Students have to complete submission of their Answer Scripts through E-mail / Whatsapp to their own respective colleges on the same day / date of examination within 1 hour after end of exam. University / College authorities will not be held responsible for wrong submission (at in proper address). Students are strongly advised not to submit multiple copies of the same answer script.

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