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MBM-008

MBA – MARKETING/FINANCE/HR/ PRODUCTION & OPERATIONS MANAGEMENT (MBABM)

00263

Term-End Examination

June, 2015

MBM-008 : FINANCIAL STATEMENT ANALYSIS

Time : 3 hours *Maximum Marks : 100*

Note :

(i) *Section I is **compulsory**.*

(ii) *In Section II, solve any **five** questions.*

(iii) *Assume suitable data wherever required.*

(iv) *Draw suitable sketches wherever required.*

(v) *Italicized figures to the right indicate maximum marks.*

SECTION I

1. "Activity Based Costing is an accounting methodology that assigns costs to activities rather than products or services." Elucidate. *10*

2. A single product company furnishes the following data :

	Year 1	*Year 2*
Sales	₹ 24,00,000	?
P/V ratio	$33\frac{1}{3}\%$	30%
Margin of safety	25%	40%

While there was no change in the volume of sales in Year 2, the selling price and fixed cost was reduced. Calculate the sales, fixed costs and profit for Year 2. *10*

3. What is CVP analysis and what purposes does it serve ? Explain. *10*

SECTION II

4. Following information is given for two companies A Ltd. and B Ltd. *14*

Particulars	*A Ltd.*	*B Ltd.*
Current Ratio	1·25	1·01
Liquid Ratio	0·96	0·69
Gross Profit Ratio	26·7%	33·3%
Debt Equity Ratio	0	0·33
Net Profit Ratio	15%	10%

Analyse the financial position of the two companies.

5. (a) Classify each of the following ratios according to a ratio category (Liquidity ratio, Asset management ratio, Debt management ratio, Profitability ratio or Market value ratio) : *8*

(i) Current ratio

(ii) Inventory turnover ratio

(iii) Return on assets

(iv) Accounts payable period

(v) Times interest earned

(vi) Capital intensity ratio

(vii) Equity multiplier

(viii) Basic earnings power ratio

(b) Explain the difference between : *6*

(i) Revenue expenditure and Capital expenditure

(ii) Perpetual inventory accounting and Periodic inventory accounting

6. You are evaluating the Balance Sheet for Goodman Bees Corporation. You find the following balances from the Balance Sheet : Cash and marketable securities = \$ 400,000, Accounts receivable = \$ 1,200,000, Inventory = \$ 2,100,000, Accrued wages and taxes = \$ 500,000, Accounts payable = \$ 800,000 and Notes payable = \$ 600,000. Calculate Goodman Bees' Current ratio, Quick ratio and Cash ratio. *14*

7. Prepare projected Income Statement for the financial year 2011 on the basis of Profit & Loss A/c of Mayavati Electricals Ltd., assuming that projected sales for 2011 is estimated at ₹ 46,00,000. (Use percentage of sales method). *14*

PARTICULARS	2009 (₹ '000)	2010 (₹ '000)
Total Sales	2,400	3,600
Cost of Goods Sold	1,400	2,200
Gross Profit	1,000	1,400
Selling & Distribution Expenses	360	440
Depreciation	100	160
Operating Profit	540	800
Non-operating Surplus	80	160
EBIT	620	960
Interest	320	320
Tax	120	200
PAT	180	440
Dividends	60	120
Retained Earnings	120	320

8. Titan Engineering is operating at 70% capacity and presents the following information :

Break-even point	₹ 200 crores
P/V Ratio	40%
Margin of Safety	₹ 50 crores

Management has decided to increase production to 95% capacity level with the following modifications. The selling price will be reduced by 8%. The variable cost will be reduced by 5% on sales.

The fixed cost will increase by ₹ 20 crores, including depreciation on additions, but excluding interest on additional capital. Additional capital of ₹ 50 crores will be needed for capital expenditure and working capital.

The management will be needed to earn ₹ 10 crores over and above the present profit and also meet 20% interest on the additional capital.

What will be the revised Break-even point, P/V Ratio and Margin of Safety ? *14*

9. From the following balances extracted from the books of XYZ Ltd. prepare Trading and Profit & Loss Account for the year ended 31.03.2012 and a Balance Sheet as on that date : *14*

	₹
Stock on 01.04.2011	10,000
Purchases less returns	49,000
Wages	15,000
Loan from Shri. Aman	1,50,000
Capital	60,000
Sundry Debtors	42,700
Reserve for bad debts (01.04.2012)	2,800
Rent and Taxes	1,000
Salaries	8,000
General expenses	900
Discount allowed	500
Sundry Creditors	20,000
Sales	1,28,600
Plant and machinery	1,50,000
Furniture	18,000
Cash	2,300
Drawings	6,000
Sales returns	2,000
Cost of lease on 01.04.2011	56,000

Adjustments :

(i) The closing stock was ₹ 9,800.

(ii) Write off 10% depreciation on plant and 5% on furniture.

(iii) Write off bad debts ₹ 700 and maintain Reserve for bad debts at 6% on debtors.

(iv) Write off ₹ 6,000 in the current year from the cost of lease.