SL No of QP 13347
Semester-VII
Generic Elective- 3.4(GE-3.4): Financial Statement Analysis
Paper code: 2414002004

Q1.(a) Discuss the importance of financial statements in business decision-making. Explain how different users of financial statements, such as investors, creditors, and management, utilize this information to make informed decisions. (9 marks)

(b) Describe the primary objectives of a Balance Sheet. Explain the main heads under which the financial position of a company is summarized in the balance sheet. (9 marks)

OR

(a)Write brief notes on any three of the following topics:

- users of accounting information
- balance sheet
- statement of profit and loss
- cash flow statement
- statement of changes in equity
- notes to the accounts
- significant accounting policies
- introduction to accounting standards

(9 marks)

(b)How will you show the following information relating to inventories in the Statement of Profit & Loss for the year 2019-20?

- Material purchased during the year: ₹ 350,000.
- Stock in Trade purchased during the year: ₹ 770,000.

Inventory	**1st April 2019 (₹)**	**31st March 2020 (₹)**
Raw Material	55,000	107,000
Work in Progress	4,000	25,000
Stock in Trade	120,000	144,000
Finished Goods	128,000	124,200

(9 marks)

Q2. (a) Discuss the Techniques of financial statement analysis with suitable examples (9 marks)

(b) A company has provided its common size cash flow statement for the years 2022-2023 and 2021-2022, using revenue as the common denominator. You are required to analyse the Operating, investing and financing cashflow of the same:

Particulars	**2022-2023**	**2021-2022**
Net income	18.20%	20.30%
Accounts receivable	-2.00%	-1.60%
Inventory	-9.20%	-10.40%

Depreciation	5.20%	4.30%
Operating cash flow	10.50%	12.60%
Purchase of Plant and Machinery	-8.80%	-10.60%
Cash dividends received	1.90%	1.80%
Investing cash flow	-7.90%	-8.80%
Purchase of bonds	-1.70%	-1.55%
Cash dividends paid	-2.10%	-2.00%
Financing cash flow	-3.70%	-3.55%
Total cash flow	0.30%	0.25%

(9 marks)

OR

(a)Explain the techniques of Financial statement analysis (Comparative Financial statements , Common size financial statements , Ratio analysis)

(9 marks)

(b)Write short notes on the objectives of financial statement analysis, its uses, and its limitations.

(9 marks)

Q3. (a) Define ratio analysis and explain its role in the overall financial analysis process. How does ratio analysis help in identifying financial strengths and weaknesses within a company?

(9 marks)

(b)The following information is given for Bharti Ltd.:

- Equity share capital (Rs.10 each) 20,00,000
- Reserve and Surplus 12,00,000
- 15% Debentures 1,00,000
- Profit before interest and Tax 4,70,000
- Tax Rate 40%
- Market Price of equity share 48

Calculate any 3 of the following:
(a)Return on Equity Shareholder's Fund
(b) Return on Capital Employed
(c)Earnings Per Share
(d) Price Earning Ratio

(9 marks)

OR

(a) Explain the four major categories of ratios used in financial analysis: liquidity, solvency, profitability, and efficiency ratios. For each category, provide a list of common ratios and the type of insights they offer regarding the financial health of a company. (9 marks)

(b) The following data is available for Pooja Ltd whose Earnings Before Interest and Tax (EBIT) was ₹1,20,000 for the period.

Assets	**₹ (in lakhs)**	**Liabilities**	**₹ (in lakhs)**

Cash and Bank	2,00,000	Equity Share Capital (₹10 each)	10,00,000
Accounts Receivable	3,00,000	Reserves and Surplus	5,00,000
Inventory	4,00,000	10% Debentures	3,00,000
Prepaid Expenses	1,00,000	Current Liabilities	2,00,000
Fixed Assets	12,00,000		

Compute any 3 ratios from the following:
(a) Debt to Equity Ratio
(b) Current Ratio
(c) Interest Coverage Ratio
(d) Quick Ratio

(9 marks)

Q4.(a) Describe the structure of a Cash Flow Statement, detailing the three main categories: Operating, Investing, and Financing Activities. Explain how each section provides unique insights into a company's financial health.

(9 marks)

(b) The following information has been extracted from the financial activities of XYZ Textiles Ltd. for the year ended 31st March 2024. Classify each item as a cash flow from Operating Activities, Investing Activities, or Financing Activities and calculate net cash flow from each activity.

1. Issued preference shares for cash: ₹150,000
2. Paid interest on bonds: ₹20,000
3. Purchased office equipment for cash: ₹35,000
4. Received cash from customers: ₹450,000
5. Repaid loan: ₹40,000
6. Paid wages to employees: ₹120,000
7. Received dividend income on shares: ₹15,000
8. Sold old vehicle (Book Value: ₹40,000) for ₹30,000
9. Purchased land for a new facility: ₹180,000
10. Paid rent for warehouse: ₹25,000
11. Received cash for issuing debentures: ₹80,000
12. Purchased raw materials: ₹90,000
13. Paid corporation taxes: ₹35,000
14. Proceeds from sale of investments: ₹60,000
15. Decrease in accounts receivable: ₹12,000

(9 marks)

OR

(a) What are some common adjustments made to net income when calculating cash flow from operating activities using the indirect method? Explain why these adjustments are necessary.

(9 marks)

(b) Alpha Textiles Ltd. provides the following information for the year ended 31st March 2024:

- Net Income: ₹300,000
- Depreciation Expense: ₹40,000
- Loss on Sale of Machinery: ₹8,000
- Increase in Accounts Receivable: ₹25,000
- Decrease in Inventory: ₹15,000
- Decrease in Accounts Payable: ₹12,000
- Increase in Accrued Expenses: ₹5,000
- Purchased New Machinery: ₹60,000
- Proceeds from Sale of Old Machinery: ₹20,000
- Issued Equity Shares: ₹90,000
- Paid Dividends: ₹40,000
- Raised Short-Term Loan: ₹50,000
- Paid Off Long-Term Loan: ₹70,000

Beginning Cash Balance: ₹45,000
Closing Cash Balance: ₹3,66,000

Prepare a Cash Flow Statement for Alpha Ltd. for the year ended 31st March 2024, using the indirect method.

(9 marks)

Q5. (a)Analyse the Inter-Firm Short Term Solvency Ratios of the given table and compare all three companies on the basis of all the given criterias :

Short Term Solvency Ratios

The short-term solvency ratios of the three companies are given below:

₹ Crores

Particulars	**Maruti Suzuki**	**Tata Motors**	**Mahindra and Mahindra**
Current Assets	12,362.00	13,229.00	18,071.00
Current Liabilities	14,150.00	22,941.00	14,334.00
Inventories	3,326.00	4,662.00	3,839.00
Current Ratio (Times)	0.87	0.58	1.26
Liquid Ratio (Times)	0.64	0.37	0.99

(9 marks)

(b) Analyse the Inter-Firm Profitability Ratios of the given table and compare all three companies on the basis of all the given criterias :

Profitability Analysis

The profitability ratios of the three companies are given below:

₹ Crores

Particulars	**Maruti Suzuki**	**Tata Motors**	**Mahindra and Mahindra**
Profit for the Year	7,501.0	2,021.0	4,796.0
Operating Profit (EBIT)	10,541.0	4,396.0	6,468.0
Operating Revenue	86,020.0	69,203.0	53,614.0
Number of Shares Outstanding (Crores)	30.2	339.6	297.9
Operating Margin	12.3%	6.4%	12.1%
Net Profit Ratio	8.7%	2.9%	8.9%

Earnings Per Share (₹)	248.36	5.95	16.10

(9 marks)

OR

Analyse the Market Ratios on the basis of the given table and compare the five years performance of the company on the basis of all the given criterias:

Market Ratios

Particulars	Formula	2019	2018	2017	2016	2015
Share Price (₹)		6,671	8,863	6,024	3,719	3,699
Earnings Per Share (₹)		248.36	255.69	243.38	177.63	122.89
Book Value Per Share (₹)	Shareholders' Funds / Number of Shares	1,528	1,383	1,206	990	785
Market Capitalization (₹ Crores)	Share Price × Number of Shares	201,464	267,663	181,925	112,314	111,710
Price Earnings Ratio (Times)	Share Price / Earnings Per Share	26.86	34.66	24.75	20.94	30.10
Price Book Value Ratio (Times)	Share Price / Book Value Per Share	4.37	6.41	4.99	3.76	4.71

(18 marks)