SEMESTER-V

COURSE- B.COM (P)

SUBJECT- FINANCIAL REPORTING AND ANALYSIS

ASSIGNMENT

1. Assignment on fraud in different scams.

CLASS TEST

SET-I

1. Discuss the qualitative characteristics which make information useful. Also state the benefits of financial reporting. (9)

   Or

   Explain the procedure for formulating Accounting standards in India. Also discuss the scope of Accounting standards in India. (9)

2. The Capital of A Ltd. is as follow:

Equity Share of Rs. 10 each	Rs. 10,00,000
9% Preference Shares	Rs. 4,50,000

Additional Infromation:

Profit (after tax @ 30 per cent) Rs. 3,25,000;
Depreciation Rs. 80,000;

Equity dividend paid @ 25 pecent;
Market Price of Equity Share Rs. 50
Calculate the following with working notes:

(a) Dividend Yield on Equity Share.
(b) Dividend Coverage Ratio for the Preference and Equity Share.
(c) Earnings per Shares.
(d) Price-Earnings Ratio. (4x4=16)

3.

Prepare cash flow statement from the following Balance sheet of Sonal Ltd. for the year ended 31st March:

Liabilities	2010 (₹)	2011 (₹)	Assets	2010 (₹)	2011 (₹)
20% Preference share capital	4,00,000	3,00,000	Plant	4,00,000	4,70,000
Equity share capital	6,00,000	13,00,000	Goodwill	80,000	60,000
Reserves	2,00,000	2,20,000	Current Investment	2,00,000	3,00,000
Profit & loss A/c	80,000	1,80,000	Inventories	1,20,000	1,40,000
12% Debentures	2,00,000	2,80,000	Debtors	1,00,000	1,40,000
Creditors	3,00,000	3,40,000	Bills Receivables	80,000	40,000
Bills payable	1,20,000	60,000	Cash & Cash equivalents	20,000	50,000
Provision for tax	40,000	1,20,000	Building	9,40,000	16,00,000
	19,40,000	28,00,000		19,40,000	28,00,000

Additional information:

(a) A part of machinery costing Rs. 40,000 (accumulated depreciation thereon ₹20,000) was sold at 25% profit on It's book value.

(b) Provision for tax made during the year was ₹12,000.

(c) Depreciation provided during the year was ₹1,20,000.

Prepare Cash Flow Statement. **(25)**

Financial Reporting and Analysis

CLASS TEST

SET – II

1. (a) Explain the relevance and reliability characteristics of financial accounting and reporting. Also state the salient contents of Annual Report briefly.

(b) What do you mean by Accounting Standards? State the objectives of forming Accounting Standard Board? Discuss the composition of Accounting Standard Board (ASB) of India.

2.

The following information is obtained from the annual report of AB Limited.

Particulars	2017	2018
Total Fixed Assets	56,00,000	64,00,000
Total Current Assets	25,88,000	30,52,000
Short term investments	2,00,000	3,20,000
Inventories	18,40,000	21,60,000
Trade receivables	3,20,000	4,00,000
Cash and cash equivalent	2,00,000	1,60,000
Prepaid Expenses	28,000	12,000
Share Capital	20,00,000	20,00,000
Reserves and Surplus	4,68,000	8,12,000
Long term Borrowings	16,00,000	16,00,000
Current Liabilities	6,40,000	8,00,000

Statement of Profit and Loss account for the current year 2017-18

Revenue from Operations	40,00,000
Total Revenue	40,00,000
Expenses:	
Cost of Goods Sold	28,00,000
Finance Cost	1,60,000
Total Expenses	29,60,000
Profit or loss before tax	10,40,000
Tax @50%	5,20,000
Profit after tax	5,20,000

From the above information, calculate the following ratios for the current year:

(a) Interest coverage ratio

(b) Quick ratio

(c) Receivables turnover ratio

(d) Inventory turnover ratio

(e) Total assets turnover ratio

(f) Return on investments

(g) Return on shareholder's funds.

Also, analyse the company's financial position on the basis of these ratios. (20)

3.

Cash Flow Statement:

Particulars	Note No.	31st March, 2018 (₹)	31st March, 2017 (₹)
I. EQUITY AND LIABILITIES			
1. Shareholders' Funds			
(a) Share Capital	1	4,50,000	4,50,000
(b) Reserves and Surplus	2	1,86,000	(12,000)
2. Non-Current Liabilities			
Long-term Borrowings (8% Debentures)		1,56,000	90,000
3. Current Liabilities			
(a) Short-term Borrowings (8% Bank Loan)		24,000	30,000
(b) Trade Payables		72,000	66,000
(c) Short-term Provisions	3	30,000	24,000
Total		9,18,000	6,48,000

(a) *Fixed Assets:*			
(i) Tangible Assets (Net)		5,16,000	3,72,000
(ii) Intangible Assets (Goodwill)		9,000	24,000
(b) Non-current Investments		75,000	48,000
2. Current Assets			
(a) Current Investments		3,000	9,000
(b) Inventories		1,17,000	60,000
(c) Trade Receivables		1,20,000	1,20,000
(d) Cash and Cash Equivalents		78,000	15,000
Total		9,18,000	6,48,000

Notes to Accounts

Particulars	31st March, 2018 (₹)	31st March, 2017 (₹)
1. Share Capital		
Equity Share Capital	3,30,000	2,70,000
10% Preference Share Capital	1,20,000	1,80,000
	4,50,000	4,50,000
2. Reserves and Surplus		
Securities Premium Reserve	6,000	—
General Reserve	90,000	72,000
Surplus, *i.e.*, Balance in Statement of Profit and Loss	90,000	(84,000)
	1,86,000	(12,000)
3. Short-term Provisions		
Provision for Tax	30,000	24,000

Additional Information:

(*i*) During the year a piece of machinery costing ₹ 36,000 on which depreciation charged was ₹ 12,000 was sold for ₹ 12,000. Depreciation provided on Tangible Assets ₹ 36,000.

(*ii*) Income Tax ₹ 27,000 was provided.

(*iii*) Addititional Debentures were issued at par on 1st October, 2017 and Bank Loan was repaid on the same date.

(*iv*) The shareholders approved the redemption of 10% Preference Shares of ₹ 60,000 at a premium of 5% at their Annual General Meeting held on 20th September, 2017, although the terms of issue did not provide for redemption at a premium. Accordingly, the shares were redeemed.

MULTIPLE CHOICE QUESTIONS

LIQUIDITY RATIO

(1). Current Assets Rs. 1,00,000, Inventory Rs. 20,000, Working Capital Rs.60,000. Quick Ratio will be?
(a) 2 : 1
(b) 1.67 : 1
(c) 2.5 : 1

Assuming that the Current Ratio 2:1. State whether the ratio will improve / decline or will have no effect in each of the following cases:

(2). Purchase of Stock in Trade on credit
(a) Improve
(b) Decline
(c) No-effect

(3) Cash paid to creditors
(a) Improve
(b) Decline
(c) No-effect

(4) Bills Receivable endorsed to creditors
(a) Improve
(b) Decline
(c) No-effect

(5) Issue of new shares for cash
(a) Improve
(b) Decline
(c) No-effect

(6) Redemption of debenture for cash
(a) Improve
(b) Decline
(c) No-effect

What will be the affect of below mentioned cases on Current ratio (CR) and Quick ratio (QR)?

(7) Cash purchases:
(a) Decrease in CR and decrease in QR
(b) No change in CR and decrease in QR
(c) No change in CR and no change in QR

(8) Cash deposited with bank:
(a) Decrease in CR and decrease in QR
(b) No change in CR and decrease in QR
(c) No change in CR and no change in QR

Assuming that the Current Ratio of a Company is 0.8:1, State whether the ratio will improve / decline or will have no effect in each of the following cases:

(9) Payment of a Current Liability
(a) Improve
(b) Decline
(c) No-effect

(10) Purchasing goods on credit
(a) Improve
(b) Decline
(c) No-effect

(11) Sales of an office Typewriter (book value Rs 4,000) at a loss of Rs 3,000.
(a) Improve
(b) Decline
(c) No-effect

(12) Sales of merchandize (cost Rs 10,000) at a profit of Rs 1,000.
(a) Improve
(b) Decline
(c) No-effect

(13) Purchase of goods for cash.
(a) Improve
(b) Decline
(c) No-effect

Assuming that Quick Ratio of a company is 2:1, State whether the ratio will improve / decline or will have no effect in each of the following cases:

(14) Purchase of goods for cash
(a) Improve
(b) Decline
(c) No-effect

(15) Purchase of goods on credit
(a) Improve
(b) Decline
(c) No-effect

(16) Sales if goods (costing Rs 10,000) for Rs 11,000
(a) Improve
(b) Decline
(c) No-effect

(17) Cash received from debtors
(a) Improve
(b) Decline
(c) No-effect

Ans. 1 (a), 2 (b), 3 (a), 4 (b), 5 (a), 6 (b), 7 (b), 8 (c), 9 (b), 10 (a), 11 (a), 12 (a), 13 (c), 14 (b), 15 (b), 16 (a), 17 (c)

SOLVANCY RATIO

Assuming Debt – Equity Ratio is 2 :1. State what will be the effect on below transactions.

(1) Sale of Fixed Asset (book value Rs. 4000) for Rs. 5000.
(a) Increase
(b) Decrease
(c) No Effect

(2) Making provision for interest accrued and due but not paid on debentures.
(a) Increase
(b) Decrease
(c) No Effect

(3) Conversion of Debentures to Equity Shares
(a) Increase
(b) Decrease
(c) No Effect

(4) Total Debt Rs. 900000, Capital Employed Rs. 1200000, Current Liabilities Rs. 100000. What will be Debt equity ratio?
(a) 2:1
(b) 3:4
(c) 2:3

Ans. 1 (b), 2 (a), 3 (b), 4 (a)

PROFITABILITY RATIO

(1). Opening Stock Rs. 60,000, Closing Stock Rs. 1,00,000, Stock turnover Ratio 8 times. GP Ratio is 20%. The amount of gross profit is.
(a) 128000
(b) 200000
(c) 160000

(2). A company has net profit margin of 4%, Assets Turnover of 2 times and debt to asset ratio of 60%. The 'Return on Equity' of company will be?
(a) 48%
(b) 32%
(c) 20%

Ans. 1 (c), 2 (c)

TURNOVER RATIO

(1). Current Assets Rs. 3,00,000, Current Liabilities Rs. 60,000, Credit Sales Rs. 6,00,000. Cash Sales Rs. 1,30,000, Sales Return Rs. 10,000. Calculate Working Capital Turnover Ratio.
(a) 7.5 : 1
(b) 18 : 1
(c) 3 : 1

(2). Opening Stock Rs. 29,000, Closing Stock Rs. 31,000, Sales Rs 3,20,000.Gross Profit 1/3rd on cost. Stock Turnover Ratio will be?
(a) 8 : 1
(b) 10 : 1
(c) 10.67 : 1

(3). Cost of goods sold Rs. 1,00,000, Stock Turnover Ratio 4 times, Closing Stock was Rs. 10,000 in excess of opening stock. Calculate closing stock.
(a) 25000
(b) 30000
(c) 20000

(4). Shareholder Funds Rs 2,00,000, Long Term Debt Rs 3,00,000. Gross Profit at 25% on sales. Cost of goods sold was was Rs. 40,00,000. Calculate Capital Turnover Ratio.
(a) 3.33 : 1
(b) 10 : 1
(c) 4 : 1

(5). Fixed Assets at cost Rs 3,50,000, Accumulated Deprecations till date Rs 50,000, Credit Sales Rs 8,50,000, cash Sales Rs 75,000, Sales Return Rs 25,000. Calculate Fixed Assets Turnover Ratio.
(a) 2.5 : 1
(b) 3 : 1
(c) 2.57 : 1

(6). Calculate Debt Collection Period of X Ltd for the year ending 31st March 1996:

	RS
Sales during the year	3,65,000
Debtors as on 31.3.1996	45,000
Bills receivable as on 31.3.1996	5,000

(a) 45 days
(b) 50 days
(c) 60 days

Ans. 1 (c), 2 (a), 3 (b), 4 (b), 5 (b), 6 (b)