



Final Year Repeat Examination in Business Administration/Commerce/
(Specialization in Enterprise Development) - 2007/2008(Feb'2010)

DAF 4213 - Financial Reporting and Statement Analysis

Answer All Questions

Time Allowed: 03 Hours

Non Programmable Calculators are permitted.

(I) Briefly state the objectives of financial statement analysis by the following groups:

- (a) Managers
- (b) Creditors
- (c) Investors

(10 Marks)

(II) How financial statements report different business activities?

(10 Marks)

(Total 20 Marks)

2. Comparative income statements of a Company for the years 2008 and 2009 are as below (1)

	2009	2008
Net sales	Rs.600000	Rs.500000
Cost of goods sold	390000	280000
Gross Profit	210000	220000
Operating expenses	100000	130000
Income before taxes	110000	90000
Income taxes	30000	25000
Net income	80000	65000

Required:

- (a) Prepare common-size statements showing the percent of each item to sales for both years 2008 and 2009.
- (b) Interpret the trend shown in your percent calculations. What areas should management must concern?

(20 Marks)

3. (I) Distinguish between "Capital Leases" and "Operating Leases" from a Lessee perspective.

(10 Marks)

- (II) A Distinguish between "Accounting for Postretirement Employee Benefits" and "Accounting for Pensions"

(10 Marks)

(Total 20 Marks)

(I) Current Assets and Current Liabilities for companies X and Y are summarized as follows:

	Company X	Company Y
Current Assets	Rs.400000	Rs.800000
Current Liabilities	200000	700000
Inventory	200000	500000

Required: Evaluate the relative liquidity of Companies X and Y

(05 Marks)

(II) Company is a retailer dealing in a single product. Beginning inventory is zero at 1st of January and the operating expenses for the year are Rs.60000. The following purchases are made during the year:

Month	No. of Units	Cost Per Unit (Rs.)	Total Cost (Rs.)
January	200	100	20000
March	300	110	33000
June	600	120	72000
October	400	140	56000
December	500	150	75000
Total	2000		256000

Ending inventory at December 31 is 800 units.

Required:

Determine net income for the year using each of the following inventory accounting methods. Assume a sale price of Rs.300 per unit and ignore income taxes.

- (i) First In First Out (FIFO)
- (ii) Last In First Out (LIFO)
- (iii) Average Cost (weighted average)

(15 Marks)

(Total 20 Marks)

5. (I) ABC plc lists the following data for 2009 and 2008

	2009	2008
	Rs.	Rs.
Net income	160000	100000
Net Sales	1200000	1000000
Average Total Assets	500000	400000
Average Common Equity	1000000	800000

Required:

Calculate the net profit margin, return on assets, total asset turnover, and return on common equity for both years. Comment on the results

(10 Marks)

(II) Determine the cost of sales of a firm with following financial data:

Current ratio	2.5
Quick ratio	2.0
Current Liabilities	Rs.800000
Inventory turnover	3 times

(10 Marks)

(Total 20 Marks)