Answer All Questions

Time Allowed: 03 Hours

Non Programmable Calculators are permitted.

(I) Identify and describe five classes of financial statement users

(04 Marks)

(II) Explain why financial statements are important to the decision making process in financial statement analysis

(04 Marks)

(III) Identify seven types of additional information items accompanying financial statements.

(04 Marks)

(IV) What do understand by "Building Blocks of Financial Statement Analysis"?

(04 Marks)

(V) Briefly describe the four broad categories of financial statement analysis tools

(04 Marks)

(Total 20 Marks)

2. (I) You are management consultant to JKH plc. The following data for the financial year ended 31st December 2009 are available in your financial analysis task:

Current ratio	2
Accounts receivable turnover ratio	16
Beginning accounts receivable	Rs.50000
Return on equity	20%
Sales for the year (all on credit)	Rs.1000000
Days' sales in inventory	36 days
Gross profit on sales	50%
Expenses (excluding cost of goods sold)	Rs.450000
Total debt to equity ratio	1
Noncurrent assets	Rs.300000

Required:

Construct the Balance Sheet as at 31st December 2009 for your analysis. All data are of Yea 2009, unless otherwise indicated. Current assets consist of cash, accounts receivable, and inventory. Balance sheet items include cash, accounts receivable, inventory, noncurrent assets current assets, current and noncurrent liabilities, and equity.

(10 Marks

(II) Comparative income statements of DMO plc, a manufacturing company, for years ended 31st December 2008 and 2009 are reproduced below:

	2009	2008
	Rs.	Rs.
Net sales	1400000	1200000
Cost of goods sold	850000	730000
Gross Profit	550000	470000
Selling expenses	205000	240000
Administration expenses	140000	100000
Profit before taxes	205000	130000
Income taxes	82000	50000
Profit after taxes	123000	80000

Required:

(a) Prepare common-size statements showing the percent of each item to sales for both years 2008 and 2009. Include a column reporting the percent of increase or decrease of year 2009 relative to year 2008 (round numbers to the tenth of 1 Percent).

(b) Interpret the trend shown in your percent calculations. What areas should be a matter of managerial concern?

(10 Marks

(Total 20 Marks

03. (I)   Identify and explain any concerns when a company includes short-term bank debt in its current liabilities

(04 Marks

(II)   Describe conditions required to demonstrate the ability of a company to refinance its short-term debt on a long-term basis

(04 Marks

(III) Identify the different classifications of leases by a lessor. Describe the criteria for classifying each lease type.

(04 Marks)

(IV) Companies use various financing methods to avoid reporting debt on the balance sheet. Identify and describe some of these financing methods

(04 Marks)

(V) Relevance and Reliability are the two primary qualities that make accounting information useful for decision making. Explain this statement.

(04 Marks)

(Total 20 Marks)

4. (I) FAC plc purchases its merchandise, a standard item, at the current market price and resells the same product at a price 20 percent higher. The purchase price remains constant throughout the year. Data on number of units in inventory at the beginning of year, unit purchases, and unit sales are shown below:

Number of units in inventory- beginning of year (Rs.100.00 cost)   1000 units
Number of units purchased during year @ Rs.150.00   1000 units
Number of units sold during year @ Rs.170.00   1000 units

The beginning of year balance sheet for FCA plc lists the following:

Liabilities	Rs.	Assets	Rs.
Equity	100000	Inventory (1000 @ Rs.100)	100000
	100000		100000

Required:

(a) Calculate the after-tax profit for FCA plc using the (1) FIFO and (2) LIFO methods of inventory valuation if the company has no expenses other than cost of goods sold and it computes income taxes using a 50 percent rate. Taxes are accrued currently and paid the following year.

(b) If all sales and purchases are for cash, construct the balance sheet at the end of the year using the (1) FIFO and (2) LIFO method of inventory valuation.

(c) Describe the signification of each of these methods of inventory valuation for profit determination and financial position in a period of increasing prices.

(10 Marks)

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(II) The LUX Company experienced the following unrelated events and transactions during yea ended 31st December 2009. The Company's existing current ratio is 2:1 and its quick ratio i 1.2:1.

1. LUX Company estimates Rs.5000 of accounts receivable are uncollectible.

2. A bank notifies LUX Company that a customer's cheque for Rs.4000 is returned marke insufficient funds. The customer is bankrupt.

3. The owners of LUX Company make additional cash investment of Rs.75000.

4. Inventory costing Rs.6000 is judged obsolete when a physical inventory is taken.

5. LUX declares a Rs.15000 cash dividend to be paid during the first week of next reportin period.

6. LUX purchases long-term investments for Rs.100000.

7. Accounts payable of Rs.19000 are paid.

8. LUX borrows Rs.12000 from a bank and gives a 90-day, 6 percent promissory note ir exchange

9. LUX sells a vacant lot for Rs.200000 that had been used in its business.

10. A three-year insurance policy is purchased for Rs.15000.

Required:

Separately evaluate the immediate effect of each of the transactions for the company's

(a) Current ratio

(b) Quick (acid-test) ratio

(c) Working capital

(10 Marks)

(Total 20 Marks)

05. (I) The relevant financial information of SDN plc for its financial years ending 31st December 2008 and 2009 is given below:

Items	2009	2008
	Rs.	Rs.
Cash	8000	60000
Marketable securities	32000	8000
Accounts receivable	40000	110000
Inventory	80000	140000
Net property, plant, and equipment	240000	280000
Accounts payable	60000	100000
Short- term notes payable	30000	50000
Cash sales	1500000	1400000
Credit sales	600000	900000
Cost of goods sold	1260000	1403000

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Required:

Based on the above information answer the following multiple- choice questions:

(a) Acid test ratio as of December 31, 2009 is

    (1) 0.63   **(2)** 0.70   **(3)** 0.89   **(4)** 0.99

(b) Receivable turnover for 2009 is

    (1) 8 times   **(2)** 6 times   **(3)** 12 times   **(4)** 14 times

(c) Inventory turnover for 2009 is

    (1) 11.45 times   **(2)** 10.50 times   **(3)** 9.85 times   **(4)** 8.45 times

(d) Current ratio at December 31, 2009 is

    (1) 1.40   **(2)** 2.60   **(3)** 1.90   **(4)** 1.78

(e) If current assets exceed current liabilities, payments to creditors made on the last day of the year will

    (1) Decrease current ratio   **(3)** Decrease working capital

    (2) Increase current ratio   **(4)** Increase working capital

(10 Marks)

I) The following three companies, A, B, and C, are operating in the same industry. The following data are available for those companies for the financial year ended 31st December 2009:

	Companies		
	A	B	C
Net sales(Rs.)	500000	?	?
Net Profit (Rs.)	25000	30000	?
Total Assets (Rs.)	100000	?	250000
Total Asset Turnover(Times)	?	?	0.4
Net Profit Margin (%)	?	0.4	5
Return on Total Assets (%)	?	2	?

Required:

Find out the missing data (?) in the above, and comment on the relative performance of each company.

(10 Marks)

(Total 20 Mark)