

**Jagan Institute of Management Studies**  
**End-Term Examination, September, 2016**  
**Trimester IV – PGDM (IB) 2015-17**

***Financial Statement Analysis & Credit Appraisal***  
***ET\_IB\_FSACA\_2909***

Time: 3 Hrs.

M. Marks: 70

**INSTRUCTIONS: Attempt any SIX questions including Q1 which is compulsory.**

- Q 1** The Final accounts of Amtek Auto Ltd. for 5 years are given in Exhibit A & B. The share price of the company crashed to Rs. 52/- in Sept 2015 from 170/- in June 2011. Using appropriate ratios, analyze the reasons for this sharp fall in the share price of the company. **20**
- Q 2** Attempt any **TWO** of the following: (Not more than 100 words for each part)
- a) In recent past it is observed that most companies are maintaining a low current ratio by keeping inventory and debtors at a low level and trade payables at a high level. Is it a good financial practice? Will it not impact the company's ability to pay its creditors' on time and lead it to bankruptcy?
- b) A firm has a debt ratio of 20%. The industry average debt ratio is 65%. Is this a good or poor sign about the management of the firm's financial leverage? Explain with reasons.
- c) Why is it important to know a firm's accounting rules before making any conclusions about its performance from ratios analysis? **10**
- Q 3** For each of the actions listed below, determine what would happen to the current ratio. Assume nothing else on the balance sheet changes and that net working capital is positive. Give reasons for your answer.
- i) Accounts receivable are paid in cash.
- ii) Notes payable are paid off with cash.
- iii) Inventory is sold on account.
- iv) Inventory is purchased on account.
- v) Accrued wages and taxes increase. **10**
- Q 4** Enumerate six major differences in analysis of a domestic company as against an International company? **10**

- Q 5** Attempt any **TWO** of the following:
- a) Calculate the times interest earned ratio for Tonya's Flop Shops, Inc. using the following information. Sales = Rs.1 million, EBIDTA = Rs.400,000, depreciation expense = Rs.100,000, addition to retained earnings = Rs.97,500, dividends per share = Rs.1, tax rate = 30%, and number of shares of common stock outstanding = 60,000. Tonaya's Flop Shops has no preferred stock outstanding.
  - b) Minden Co has current assets of \$180,000 (cash: \$20,000, accounts receivable: \$70,000, inventory: \$90,000), and long-term assets that had cost \$400,000, with accumulated depreciation to date of \$180,000. Sales were \$500,000, and operating profit was \$50,000. Tax was \$20,00 and interest paid was \$10,000. Calculate its total asset turnover ratio.
  - c) The current assets and current liabilities of a firm are Rs, 1500 and Rs. 600 respectively. How much it can borrow for short term without reducing the current ratio below 1.5. **10**
- Q 6** What is window dressing? Enumerate the usual ways in which the companies' windows dress their accounts. **10**
- Q 7** You want to prepare the balance sheet for Usher Inc. as of December 31, 2005. Use the following information. All numbers pertain to fiscal 2005 unless otherwise stated.
- i) Retained earnings at December 31, 2004 are \$234,000.
  - ii) Sales (all credit sales) are \$2.5 M
  - iii) Days to sell inventory is 20
  - iv) Cash on hand is 1% of sales.
  - v) All sales are paid 30 days after purchase
  - vi) Non-current assets are \$ 1M
  - vii) Long-term debt to equity ratio is 1
  - viii) All liabilities, other than long term debt, are short-term liabilities.
  - ix) 20,000 shares outstanding issued at \$10 in 2004
  - x) No dividends are paid.
  - xi) Gross margin is 40%
  - xii) Net profit margin is 8%
  - xiii) Assume there are 360 days in a year **10**

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