

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

Financial Statement Analysis & Credit Appraisal
ET_PG_FSACA_2909

Time: 3 Hrs.

M. Marks: 70

INSTRUCTIONS: Attempt any FOUR questions including Q6 which is compulsory.

- Q 1** Depreciation is important component of any manufacturing company's income statement. Discuss how the following changes in various estimates of depreciation are going to affect the various ratios like ROE, ROA, Fixed asset turnover ratio, Debt to equity ratio (Increase, Decrease or No effect) in following format specifying reason in one line.

	Effect on			
	ROE	ROA	Fixed Asset Turnover Ratio	D/E Ratio
a) Increase in estimated use full life.				
b) Accelerating the amount of depreciation in initial years.				
c) Reducing the estimates of salvage values				

15

- Q 2** You are marketing head of a company who has been negotiating for large order from one of the big four consumers for supplies. Last year has not been good for the industry which consumes your product. What are the various financial and non-financial factors you will be trying to analyse before accepting the order from prospective clients' annual report? Give points only.

15

- Q 3** Ratio analysis is a major tool for financial statement analysis. Discuss its limitations.

15

- Q 4** Management and Discussion Analysis is an important part of disclosures about the company's performance. Discuss the important components of MD&A for analysis.

15

Q 5 Discuss the financial reporting treatment and analysis of nonrecurring items (including discontinued operations, extraordinary items, and unusual or infrequent items), and changes in accounting standards. **15**

Q 6 Following is the Income statement and balance sheet of Bharat Forge Ltd.

INCOME STATEMENT

Period & months	2016/03	2015/03	2014/03	2013/03	2012/03
INCOME					
Net Operating Income	4,305.41	4,548.05	3,399.27	3,151.23	3,685.97
EXPENSES					
Material Consumption	1,826.00	2,026.59	1,597.96	1,570.53	1,842.03
Manufacturing Expenses	312.32	353.2	316.43	310.15	433.4
Personnel Expenses	372.16	331.93	278.85	257.39	255.46
Selling Expenses	0	0	0	0	111.33
Administrative Expenses	511.92	511.92	511.92	511.92	511.92
Capitalized Expenses	0	0	0	0	-0.66
Cost of Sales	3,022.39	3,218.07	2,535.59	2,435.65	2,768.82
Reported PBDIT	1,283.02	1,329.98	863.68	715.58	917.16
Other Recurring Income	99.87	93.32	114.7	91.63	53.48
Adjusted PBDIT	1,382.89	1,423.30	978.38	807.2	970.64
Depreciation	261.38	250.51	245.32	223.93	214.93
Other Write-offs	0	0	0	0	0
Adjusted PBIT	1,121.51	1,172.79	733.06	583.27	755.71
Financial Expenses	86.32	111.84	149.57	153.36	129.96
Adjusted PBT	1,035.19	1,060.95	583.49	429.91	625.74
Tax Charges	329.91	338.34	195.91	134.88	184.99
Adjusted PAT	705.28	722.62	387.58	295.02	440.76
Non-recurring Items	-4.22	-3.63	12.35	10.57	-78.81
Other Non-cash Adjustments	0	0	0	0	0.12
REPORTED PAT	701.06	718.98	399.93	305.59	362.07
APPROPRIATIONS					
Equity Dividend	139.05	139.31	86.95	65.88	78.01
Preference Dividend	0	0	0	0	0
Retained Earnings	2,386.37	1,888.32	1,442.11	1,231.63	1,097.37

BALANCE SHEET

Period & Months	2016/03	2015/03	2014/03	2013/03	2012/03
SOURCES OF FUNDS					
Owned Funds					
Equity Share Capital	46.57	46.57	46.57	46.57	46.57
Share Application Money	0	0	0	0	0
Preferential Share Capital	0	0	0	0	0
Reserves & Surplus	3,593.89	3,449.11	2,646.74	2,264.56	2,096.53
Loan Funds					
Secured Loans	47.9	208.49	349.66	806.96	1,059.66
Unsecured Loans	1,413.55	1,443.98	1,117.35	681.03	624.84
TOTAL	5,101.90	5,148.15	4,160.31	3,799.12	3,827.59
USES OF FUNDS					
Fixed Assets					
Gross Block	4,568.82	4,102.58	3,877.47	3,623.26	3,198.40
Accumulated Depreciation	2,401.48	2,146.49	1,852.04	1,624.45	1,402.21
Less: Revaluation Reserve	0	0	0	0	0
Net Block	2,167.34	1,956.09	2,025.43	1,998.81	1,796.20
Capital Work-in-progress	272.12	207.68	131.4	222.81	400.97
Investments	1,429.82	1,103.74	1,340.89	930.65	884.83
Net Current Assets					
Current Assets, Loans & Advances	2,498.53	3,108.27	2,200.78	1,990.46	2,300.35
Less: Current Liabilities & Provisions	1,265.92	1,227.63	1,538.19	1,343.59	1,554.76
Total Net Current Assets	1,232.61	1,880.64	662.58	646.86	745.59
Miscellaneous Expenses not written off	0	0	0	0	0
TOTAL	5,101.90	5,148.15	4,160.31	3,799.12	3,827.59
Number of Equity shares outstanding (Cr.)	23.28	23.28	23.28	23.28	23.28
Bonus component in Equity Capital	8.68	8.68	8.68	8.68	8.68
Notes:					
Contingent liabilities	1,516.19	1,943.89	1,224.51	1,034.56	1,114.52
Book Value of Unquoted Investments	1,379.80	1,078.71	1,276.53	880.44	829.77
Market Value of Quoted Investments	49.18	27.6	66.1	51.39	49.38

You are Required to analyze the company performance and financial position on various parameters like profitability, solvency, liquidity, efficiency etc.

Also perform ROE (du pont) analysis from the given data.

25
