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63/2 (SEM-1) MCO 101

2021

(held in 2022)

COMMERCE

(Theory Paper)

Paper Code : MCO-101

(Financial Statement Analysis (FSA))

Full Marks – 80

Time – Three hours

The figures in the margin indicate full marks  
for the questions.

(A) Choose the correct option for the following  
questions : 1×8=8

1. Acid Test ratio is also known as

- (a) Current ratio
- (b) Liquid ratio
- (c) Absolute liquid ratio
- (d) None of the above

[Turn over

2. Debt to Equity Ratio is used to analyze the
- (a) Liquidity of the firm
  - (b) Long-term solvency of the firm
  - (c) Profitability of the firm
  - (d) None of the above
3. Which of the following are the component of the financial statement ?
- (a) Cash Flow Statement
  - (b) Balance Sheet
  - (c) Profit & Loss A/c
  - (d) All of the Above
4. Which of the following is not an example of current liability ?
- (a) Bank Overdraft
  - (b) Outstanding Salary
  - (c) Prepaid Expenses
  - (d) None of the above

5. In trend analysis the year which is used for the calculation of trend percentage of other years are known as
- (a) Initial year
  - (b) Current year
  - (c) Previous year
  - (d) Base Year
6. Which of the following equation is true ?
- (a)  $\text{Asset} + \text{Expenses} = \text{Capital} + \text{Liability} + \text{Revenue}$
  - (b)  $\text{Asset} + \text{Revenue} = \text{Capital} + \text{Liability} + \text{Expenses}$
  - (c)  $\text{Liability} + \text{Expenses} = \text{Capital} + \text{Assets} + \text{Revenue}$
  - (d)  $\text{Asset} + \text{Liability} = \text{Capital}$
7. In indirect method of cash flow analysis to find out the cash flow from operating activity, increase in current asset is
- (a) Added to Net profit
  - (b) Deducted to Net profit
  - (c) Neither added nor deducted to Net profit
  - (d) None of the above

8. Fund flow statement is prepared on

(a) Accrual basis (b) Cash basis

(c) Both (a) & (b) (d) None of the above.

(B) Answer the following questions :  $4 \times 4 = 16$

1. Explain the importance of common size statement as a tool of financial statement analysis.

2. What are the essential qualities of a good financial statement ?

3. What is annual and interim financial report ? State some of the difference between annual and interim financial report.  $2 + 3 = 5$

4. Write short notes on the following ?  $2\frac{1}{2} + 2\frac{1}{2} = 5$

(i) Current Ratio

(ii) Debtors Turnover Ratio.

(C) Answer the following questions :  $14 \times 4 = 56$

1. Explain the reason why do you think that a trend analysis is useful for the financial decision and planning of a firm ? Prepare trend percentage from the following information of the financial statement of ABC Ltd, and analyse whether there is any improvement in the trends.  $4 + 10 = 14$

Years	Sales (Rs)	Cost of Sale (Rs)	Other Expenses (Rs)	Profit (Rs)
2015	2,00,000	80,000	40,000	80,000
2016	2,20,000	88,000	60,000	72,000
2017	2,60,000	1,04,000	92,000	64,000
2018	3,20,000	1,28,000	1,44,000	48,000
2019	3,60,000	1,60,000	1,60,000	40,000
2020	3,80,000	2,00,000	1,48,000	32,000

Or

Prepare a common-size statement with the help of the following information taken from the financial statement of ABC Ltd, and XYZ Ltd. Also analyse the Profitability, short-term and long-term financial position and comment which firm is in the better financial condition than other.  $10 + 4 = 14$

Particulars	ABC Ltd 31-12-2019 (Rs)	XYZ Ltd 31-12-2019 (Rs)
Net Sales	30,00,000	50,00,000
Cost of sales	13,00,000	25,00,000
Gross profit	17,00,000	25,00,000
Total Expenses	10,00,000	20,00,000
Net Profit	7,00,000	5,00,000

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Liabilities	ABC Ltd. 31-12-2019 (Rs.)	XYZ Ltd. 31-12-2019 (Rs.)
<b>Capital &amp; Liabilities</b>		
Equity Share Capital	20,00,000	40,00,000
10% Preference share Capital	11,00,000	25,00,000
Net Profit	7,00,000	5,00,000
Total Shareholders fund	38,00,000	49,00,000
Long term loan from the bank	5,00,000	
<b>Current Liabilities</b>		
Sundry Creditors	6,00,000	10,00,000
Bills Payable	4,00,000	7,00,000
Bank Overdraft	2,00,000	4,00,000
Total Current Liabilities	12,00,000	21,00,000
<b>Assets</b>	55,00,000	70,00,000
<b>Assets</b>		
Land & Building	21,00,000	30,00,000
Plant & Machinery	10,00,000	19,00,000
Total Fixed Assets	31,00,000	49,00,000
<b>Current Assets</b>		
Sundry Debtors	9,00,000	8,50,000
Bills Receivable	8,00,000	6,50,000
Short term investment	3,00,000	
Cash	4,00,000	2,50,000
Total Current assets	24,00,000	3,50,000
	55,00,000	70,00,000

2. What are the limitations of fund flow statement ?  
Explain how fund flow statement is different from  
a cash flow statement ?

7+7=14

Or

With the help of the following information  
prepare a cash flow statement of the Boro Ltd.  
for the year ended 31-12-2021 in indirect method.

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## Balance Sheet

Liabilities	31-12-2020	31-12-2021
Shareholders Fund	1,40,000	1,60,000
Profit & Loss A/C	14,000	17,000
Long Term Loan	—	20,000
Sundry Creditors	20,000	47,000
Bills Payable	8,000	6,000
Tax Payable	2,000	4,000
	1,84,000	2,54,000
Assets	31-12-2020	31-12-2021
Land and Buildings	70,000	1,13,000
Plant and Machinery	30,000	28,000
Debtors	8,000	24,000
Bills Payable	2,000	1,000
Stock	30,000	55,000
Prepaid Expenses	4,000	6,000
Cash	40,000	27,000
	1,84,000	2,54,000

Income Statement			
Dr		Cr	
Particulars	31-12-2021	Particulars	31-12-2021
To Opening Stock	30,000	By Sales	2,17,000
To Purchase	1,96,000	By Closing Stock	55,000
To Gross Profit c/d	46,000		
	2,72,000		2,72,000
To Salaries	28,000	By Gross Profit b/d	46,000
To Rent	2,000		
To Depreciation On Land & Building	8,000		
To Taxes	4,000		
To Net Profit c/f	4,000		
	46,000		46,000
To Dividend	1,000	By Balance b/f	14,000
To Balance c/f	17,000	By Net Profit b/f	4,000
	18,000		18,000

3. Explain the significances of ratio analysis as a tool of financial statement analysis. What are the precautions to be taken while using Ratio analysis ? 7+7=14

Or

The following information are taken from the Balance Sheet of Basumatary & Sons Ltd. For the year ended 31-3-2020 : 14

- Share Capital amount to Rs 5,00,000
- Reserve and surpluses is Rs 1,00,000
- Working Capital is Rs 1,00,000
- Current Ratio 2:1
- Liquid Ratio 1:1
- Fixed Assets is 120 % of the capital
- Long term loan to Fixed Asset is Rs 1: 6

Total Current Assets includes inventory, Receivables and Cash which are in the ratio of 4:3:1 respectively. Total Current liabilities include creditors, Bills Payable and Bank overdraft which are in the ratio of 5:3:2 respectively. There are no other items of assets and liabilities. You are required to compute the balance sheet of Basumatary and Sons as on 31-12-2020.

4. Explain the reason why we need to analyse the financial statement of a firm. Explain some of the inherent drawbacks of the financial statement analysis. 7+7=14

Or

What is Accounting Information System (AIS) ?  
What are the components of Accounting Information System (AIS) ? Explain some of the benefits that a business firm can have due to the use of Accounting Information System (AIS).

2+6+6=14