**FINANCIAL STATEMENT ANALYSIS**

**1.** A firm’s sales are Rs. 450000, cost of goods sold is Rs. 240000 and inventory is Rs. 90000. What is its turnover? Also, calculate the firm’s gross margin.

**2.** The only current assets possessed by a firm are: cash Rs. 105000, inventories Rs. 560000 and debtors Rs. 420000. If the current ratio for the firm is 2:1, determine its current liabilities. Also, calculate the firm’s quick ratio.

**3.** A company has an inventory of Rs. 180000, debtors of Rs. 115000 and an inventory turnover of 6. The gross profit margin of the company is 10% and its credit sales are 20% of the total sales. Calculate the average collection period. (Assume a 360-days year).

**4.** A company has the shareholders’ equity of Rs. 250000, total assets is 160% of shareholders’ equity, while the asset turnover is 4. If the company has an inventory turnover of 5, determine the amount of inventory.

**5.** A firm has PBIT of Rs. 80000, interest charges of Rs. 8000, taxes of Rs. 30,000, total assets of Rs. 5,00,000 and total liabilities of Rs. 3,00,000. What is its interest coverage and return on equity?

**6.** A company has made plans for next year. It is estimated that the company will employ total assets of Rs. 8,00,000, 50% of the assets being financed by borrowed capital at an interest cost of 8% per annum. The direct cost for the year are estimated at Rs. 4,80,000 and all other operating expenses are estimated at Rs. 80,000. The goods will be sold to customer at 150% of the direct costs. Tax rate is assumed to be 50%.

You are required to calculate: (i) NPM, (ii) ROA, (iii) Asset t/o, and (iv) Return on Owners’ Equity.

**7.** The following figures relate to trading activities of Hind Traders Limited for the year ended 30th June, 20X1:

|  |  |  |  |
| --- | --- | --- | --- |
|  | Rs. |  | Rs. |
| Sales | 15,00,000 | ***Administrative Expenses*** |  |
| Purchase | 9,66,750 | Salaries | 81,000 |
| Opening Stock | 2,28,750 | Rent | 8,100 |
| Closing Stock | 2,95,500 | Stationery, Postage etc. | 7,500 |
| Sales Return | 60,000 | Depreciation | 27,900 |
| ***Selling and Distribution Expenses*** | | Other Charges | 49,500 |
| Salaries | 45,900 | Provision for taxation | 1,20,000 |
| Advertising | 14,100 | ***Non-operating income*** |  |
| Travelling | 6,000 | Dividend on shares | 27,000 |
| ***Non-operating expenses*** | | Profit on sale of shares | 9,000 |
| Loss on sale of assets | 12,000 |  |  |

You are required: (1) rearrange the above figures in a form suitable for analysis, (2) show separately the following ratios: gross profit margin ratio, operating expenses ratio, stock turnover ratio.

**8.** Assume that a firm has owners’ equity of Rs. 1,00,000. The ratios of the firm are: current debt to total debt 0.40, total debt to owners’ equity 0.60, fixed assets to owners’ equity 0.60, total assets turnover is 2 times, and inventory turnover is 8 times.

Complete the following Balance Sheet using the information given above:

|  |  |  |  |
| --- | --- | --- | --- |
| **Liabilities** | **Rs.** | **Assets** | **Rs.** |
| Current debt | .... | Cash | .... |
| Long-term debt | .... | Inventory | .... |
| Total debt | .... | Total current assets | .... |
| Owners’ equity | .... | Fixed assets | .... |
| Total capital | .... | Total assets | .... |

**9.** The summary of the balance sheets and the profit and loss accounts from 19X1 to 19X5 for Jagan Limited is given below. During this period, the company undertook a major expansion programme. You are required to calculate important ratios for the five years and assess the financial health of the company. Also, explain the implications of the development of the financial health of the company for the shareholders.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Balance sheets (Rs. ‘000)** | | | | | |
|  | 20X1 | 20X2 | 20X3 | 20X4 | 20X5 |
| **Liabilities and Equity** |  |  |  |  |  |
| Creditors | 25 | 25 | 25 | 25 | 25 |
| Debentures | 250 | 1000 | 1750 | 2500 | 3250 |
| Share capital | 1000 | 1000 | 1000 | 1000 | 1000 |
| Reserves | 225 | 225 | 225 | 225 | 225 |
| Total | 1500 | 2250 | 3000 | 3750 | 4500 |
| **Assets** |  |  |  |  |  |
| Cash | 50 | 50 | 50 | 50 | 50 |
| Debtors | 50 | 50 | 50 | 50 | 50 |
| Stock | 400 | 650 | 900 | 1150 | 1400 |
| Fixed assets | 1000 | 1500 | 2000 | 2500 | 3000 |
| Total | 1500 | 2250 | 3000 | 3750 | 4500 |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Profit and Loss Accounts (Summary) (Rs. ‘000)** | | | | | |
|  | 19X1 | 19X2 | 19X3 | 19X4 | 19X5 |
| Sales | 300 | 450 | 600 | 750 | 900 |
| Cost of goods sold | 100 | 150 | 200 | 250 | 300 |
| Gross profit | 200 | 300 | 400 | 500 | 600 |
| Operating expenses | 25 | 50 | 100 | 150 | 200 |
| EBIT | 175 | 250 | 300 | 350 | 400 |
| Interest | 15 | 67.5 | 127.5 | 195 | 270 |
| PBT | 160 | 182.5 | 172.5 | 155 | 130 |
| Tax | 67.55 | 75.35 | 73.55 | 65.15 | 53.1 |
| Net profit | 92.45 | 107.15 | 98.95 | 89.85 | 76.9 |
| No. of shares | 100 | 100 | 100 | 100 | 100 |
| P/E ratio | 5 | 5 | 4 | 3.5 | 3.5 |