

Theoretical Questions

1. What is financial statement analysis?
2. What are the tools of financial statement analysis?
3. Financial statement analysis is the solution to the problem of inefficiency of a company. Comment.
4. Financial statement analysis will help in improving the efficiency of a company. Do you agree with the statement/
5. What is a common size balance sheet?
6. What is a comparative income statement?
7. What is the purpose of common size analysis?
8. What is trend analysis?
9. What is liquidity?
10. How liquidity differs from solvency?
11. What is owners fund?
12. Explain the different ways of finding owners fund.
13. Examine the difference between working capital and capital employed.
14. Explain the different ways of finding capital employed.

Numerical Questions

1. Following table shows the financial items of ABC ltd.

| Financial Items of ABC Ltd | |
|--|--------|
| Miscellaneous Expenses not written off | 216 |
| Investments | 292 |
| Capital Work-in-progress | 758 |
| Secured Loans | 1,122 |
| Unsecured Loans | 3,175 |
| Equity Share Capital | 4,130 |
| Reserves & Surplus | 8,471 |
| Net Block | 12,162 |
| Current Liabilities & Provisions | 15,318 |
| Current Assets, Loans & Advances | 18,789 |

Required

- Balance Sheet
- Common Size balance sheet

2. Following table shows the financial items of ABC ltd.

| Balance Sheet Items of ABC | | |
|--|-----------|-----------|
| | Year 2 | Year 1 |
| Current Assets, Loans & Advances | 18,789 | 15,521 |
| Current Liabilities & Provisions | 15,318 | 13,198 |
| Net Block | 12,162 | 12,485 |
| Reserves & Surplus | 8,471 | 6,176 |
| Unsecured Loans | 3,175 | 4,166 |
| Equity Share Capital | 4,130 | 4,130 |
| Secured Loans | 1,122 | 1,604 |
| Investments | 292 | 607 |
| Capital Work-in-progress | 758 | 366 |
| Miscellaneous Expenses not written off | 216 | 295 |

Required

- Balance Sheet
- Comparative balance sheet

3. Find the missing items

| Balance Sheet of ABC Ltd | | | | |
|--------------------------|-------------|------|-------------|------|
| | 2 | | 1 | |
| Equity | 6028 | ? | 5802 | ? |
| Debt | 662 | 10% | ? | 10% |
| | 6689 | | 6416 | 100% |
| Fixed Assets | 3195 | 48% | ? | 54% |
| Net Working Capital | 910 | ? | 547 | 9% |
| Investments | ? | ? | 2425 | ? |
| | 6689 | 100% | 6416 | 100% |

4. Fixed assets = 60% of total funds. Current liabilities = 25% of the total funds. Current assets = 30,000. Prepare the balance sheet.
5. Capital employed = 75% of total funds. Working capital = 25000; Current Assets = 70,000. Prepare the balance sheet

6. Following table shows financial items of ABC Ltd.

| Financial Items | |
|--|---------|
| Cash & Bank | 56 |
| Loans (Long term) | 165.14 |
| Capital WIP | 186.15 |
| Equity Share Capital (10) | 249.43 |
| Debtors | 527.76 |
| Other Current Assets, Loans and Advances | 952.88 |
| Provisions | 1108.18 |
| Stock | 2002.99 |
| Current Liabilities | 2381.95 |
| Investments | 3874.68 |
| Net Fixed Assets | 3950.76 |
| Reserve & Surplus | 7646.18 |

Required:

- Balance Sheet
- Common-size balance sheet

7. Following is the common size balance sheet of XYZ ltd.

| Common size Balance Sheet of XYZ Ltd | | | |
|--------------------------------------|------|----------------------|------|
| Equity Share Capital (10) | 2% | Net Fixed Assets | 34% |
| Reserve & Surplus | 66% | Capital WIP | 2% |
| Loans (Long term) | 1% | Investments | 34% |
| Current Liabilities | 21% | Stock | 17% |
| Provisions | 10% | Debtors | 5% |
| | | Other Current Assets | 8% |
| | 100% | | 100% |

Capital employed = 7896. Find the following:

- Reserves & Surplus
 - Working capital
 - Total Assets
 - Current assets
8. Convert the following items into a common size balance sheet.

| Financial Items of X Ltd | |
|---------------------------|-------|
| Equity Share Capital (10) | 5000 |
| Reserve & Surplus | 7000 |
| Loans (Long term) | 8000 |
| Current Liabilities | 7600 |
| Net Fixed Assets | 19000 |
| Investments | 3600 |
| Current Assets | 5000 |

9. Following table shows the common size income statement of two different companies. Profit before tax of A was Rs 2000 crores and that of B was Rs. 25 crores.

| Common Size Income Statement | | |
|------------------------------|------|------|
| | 2006 | 2006 |
| | A | B |
| Net Sales | 96% | 99% |
| Other Income | 4% | 1% |
| | 100% | 100% |
| Raw Materials | 47% | 62% |
| Selling & Manufacturing Exp. | 39% | 28% |
| Depreciation | 1% | 1% |
| | 87% | 92% |
| Profit Before Tax | 13% | 8% |
| Provision for Taxation | 3% | 1% |
| Profit After Tax | 10% | 8% |

Required : Income statement of A and B

Accounting in Real Life

1. Following is balance sheet of HLL

| Balance sheet of HLL (Rs. In crores) | | | | | |
|--------------------------------------|------|------|------------------------|------|------|
| | 2004 | 2003 | | 2004 | 2003 |
| Equity Share Capital | 220 | 220 | Fixed Assets | 1427 | 1296 |
| Reserves and surplus | 1873 | 1919 | Capital W.I.P | 94 | 74 |
| Long term Loans | 1471 | 1608 | Investments | 2328 | 2575 |
| Current Liabilities | 2731 | 2656 | Inventories | 1470 | 1393 |
| Provisions | 1222 | 1311 | Debtors | 489 | 471 |
| | | | Cash and Bank Balances | 699 | 806 |
| | | | Other Current Assets | 1008 | 1099 |
| | 7516 | 7714 | | 7516 | 7714 |

Required

- Common size balance sheet
- Comparative balance sheet
- Comment on the liquidity and solvency position

2. Following is the balance sheet of Marico.

| Balance sheet of Marico (Rs. In crores) | | | | | |
|---|------------|------------|------------------------|------------|------------|
| | Mar-05 | Mar-04 | | Mar-05 | Mar-04 |
| Equity Share Capital | 58 | 29 | Fixed Assets | 88 | 82 |
| Reserves and surplus | 161 | 151 | Capital W.I.P | 12 | 8 |
| Long term Loans | 52 | 9 | Investments | 29 | 14 |
| Current Liabilities | 109 | 94 | Inventories | 112 | 95 |
| Provisions | 15 | 12 | Debtors | 35 | 33 |
| | | | Cash and Bank Balances | 18 | 24 |
| | | | Other Current Assets | 101 | 40 |
| | 395 | 296 | | 395 | 296 |

Required

- Common size and comparative balance sheet
- Compare liquidity and solvency of HLL and Marico

3. Profit after tax of ITC Ltd. for the year ending March 2005 was 21900 mn. Other relevant information are given in the following table:

| Financial items as % of Total Income | |
|--------------------------------------|-----|
| Net Sales | 97% |
| Raw Materials | 35% |
| Selling & Manufacturing Expenses | 27% |
| total expense | 66% |
| Profit Before Tax | 34% |
| Profit After Tax | 28% |

Required

- Income Statement of ITC for the year ending 31st March 2005

4. Following table shows relevant financial items of SAIL as on 31st March 2005

| | |
|----------------------|--------|
| Equity Share Capital | 13% |
| Reserves & Surplus | 26% |
| Secured Loans | 3% |
| Unsecured Loans | 10% |
| Current Liabilities | 48% |
| Working capital | 3,471 |
| Current Assets | 18,789 |

Required

- Capital employed
- Capital
- Other Assets
- Balance Sheet

5. Following table shows relevant financial items of SAIL.

| SAIL (financial items as % of Total Assets) | | |
|--|----------------|----------------|
| | 2006/03 | 2005/03 |
| Net worth | 39% | 35% |
| Capital | 13% | 14% |
| Long Term funds | 52% | 54% |
| Fixed Assets | 40% | 44% |
| Current Assets | 59% | 54% |

Equity capital of SAIL was 4130 crores. No change in the capital during this period.

Required:

- Capital Employed
- Working Capital
- Balance Sheet

6. Following table shows the condensed common size balance sheet of ABB and HLL.

| Balance Sheet ABB | | | | Balance Sheet HLL | | | |
|--------------------------|-----|-----------|-----|--------------------------|-----|-----------|-----|
| LTF | 39% | LT Assets | 15% | LTF | 33% | LT Assets | 61% |
| STF | 61% | ST Assets | 85% | STF | 67% | ST Assets | 43% |

Source: CMIE data base

Required: Comment on the financing and investment decisions of the companies.

7. Visit the website of Mahindra and Mahindra and check the changes in the current year. Investigate the reasons for the change in the current liabilities by 180% during the year ending 2006.
8. Refer to the tables 14.14 and 14.15 showing the comparative financial statements of Mahindra and Mahindra. Comment on the change in the owners fund.