Name: **Enrolment No:**	UPES

UNIVERSITY OF PETROLEUM AND ENERGY STUDIES
End Semester Examination, December 2018

Course: Financial Statement Analysis **Semester: 1st**
Programme: MA Economics **CourseCode:FINC 7001**
Time: 03 hrs. **Max. Marks: 100**
Instructions:

SECTION A

S. No.		Marks	CO
Q 1	Which of the following is considered a profitability measure? a. Days sales in inventory b. Fixed asset turnover c. Price-earnings ratio d. Cash coverage ratio e. Return on Assets	**2**	**1**
Q 2	Firm A has a Return on Equity (ROE) equal to 24%, while firm B has an ROE of 15% during the same year. Both firms have a total debt ratio (D/V) equal to 0.8. Firm A has an asset turnover ratio of 0.9, while firm B has an asset turnover ratio equal to 0.4. From this we know that a. Firm A has a higher profit margin than firm B b. Firm B has a higher profit margin than firm A c. Firm A and B have the same profit margin d. Firm A has a higher equity multiplier than firm B e. You need more information to say anything about the firm's profit margin	**2**	**4**
Q 3	If a firm has Rs100 in inventories, a current ratio equal to 1.2, and a quick ratio equal to 1.1, what is the firm's Net Working Capital? a. Rs0 b. Rs100 c. Rs200 d. Rs1,000 e. Rs1,200	**2**	**3**
Q 4	To measure a firm's solvency as completely as possible, we need to consider a. The firm's relative proportion of debt and equity in its capital structure b. The firm's capital structure and the liquidity of its current assets c. The firm's ability to use Net Working Capital to pay off its current liabilities d. The firms leverage and its ability to make interest payments on its long-term debt e. The firm leverage and its ability to turn its assets over into sales	**2**	**2**
Q 5	The term cash profit indicates: a. Gross profit + Interest + Depreciation b. Net profit + Depreciation	**2**	**1**

	c. Net profit – Interest – Tax d. Net profit before depreciation, interest and tax		
Q 6	One of the following is not an absolute liquid asset: a. Cash in hand b. Cash at bank c. Bills receivable d. Marketable investments	**2**	**1**
Q 7	The return on equity indicates: a. Measure of profitability b. The efficiency in use of assets in achieving sales c. Measure of leverage d. All of the above	**2**	**1**
Q 8	Return on investment can be increased by: a. Increasing the profit margin b. Increasing the investment turnover c. Reduction of invested capital d. All of the above	**2**	**2**
Q 9	A high ratio of total assets turnover ratio indicates: a. Over trading b. Over gearing c. Idle capacity d. Capital gearing	**2**	**2**
Q 10	A very high current ratio will: a. Increase the profitability b. Adverse impact on profitability c. Not affect the profitability d. None of the above	**2**	**2**
SECTION B			
Q 11	For 20X1, Mohan Company's profit margin and return on assets, respectively, were 10% and 18%. 1. Compute the company's asset turnover for 20X1 2. Compute the company's total assets at the end of 20X1 3. Suppose that in 20X2, the company plans to increase sales by 15% over 20X1. Compute its asset turnover for 20X2 assuming no increase in assets over 20X1. For the purpose of 2 and 3, suppose that the company's profit after tax for 20X1 was Rs 2,700 and its total assets at the end of 20X0 were Rs 14,000.	**10**	**3**
Q 12	From the extracts from the financial statement of Hindustan Unilever, recommend an action of the following parties on the basis of the company analysis: 1. Bharat Chemical Company is considering a one-year contract for supply of raw materials on credit to the company. 2. Arvind Shah is to decide whether to invest his retirement benefits in the shares of the company.	**10**	**4,5**

	Hindustan Unilever	Industry a

	2006	2005			
Profit margin ratio	12.72%	12.25%	4.2%		
Asset turnover	1.72 times	1.58 times	1.7 times		
Return on assets	21.86%	19.31%	7.4%		
Return on equity	61.23%	61.59%	21%		
Earnings per share	Rs 6.98	Rs6.15	Rs 4.21		
Current ratio	0.77	0.67	1.46		
Debt to equity	0.03	0.03	2.3		
Interest coverage	141.14 times	68.72 times	4.13		
Price earning ratio	32.85 times	31 times	27 times		

SECTION-C

Q 13	The current ratio of a company is 2:1. State giving reasons which of the following would improve, reduce or not change the ratio: 1. Purchasing goods on cash 2. Payment of dividend	**6**	**3**
Q 14	The operating ratio of a company is 80%. State giving reasons which of the following would improve, reduce or not change the ratio: 1. Goods costing Rs 2,000 withdrawn for personal use 2. Paid income tax Rs 7000	**6**	**3**
Q 15	The quick ratio of a company is 2:1. State giving reasons which of the following would improve, reduce or not change the ratio: 1. Purchase of goods on credit 2. Cash received from debtors	**6**	**3**
Q 16	Company has sales of Rs 7,74,000 with after-tax profit of Rs 93,000. If the company’s asset turnover is 2.55, its ROA will be?	**6**	**2**
Q 17	Company’s equity shares are being traded in the market at Rs 54 per share with a price-earning ratio of 9. The company’s dividend payout is 72%. It has 100,000 equity shares of Rs 10 each and no preference shares book value per share is Rs 42. Calculate EPS and Dividend yield.	**6**	**4**

SECTION-D

	You have been hired as an analyst for Mellon Bank and your team is working on an independent assessment of Daffy Duck Food Inc. (DDF Inc.) DDF Inc. is a firm that specializes in the production of freshly imported farm products from France. Your assistant has provided you with the following data for Flipper Inc and their industry.		

Ratio	2002	2001	2000	2002-Industry Average
Long-term debt	0.45	0.40	0.35	0.35
Inventory Turnover	62.65	42.42	32.25	53.25
Depreciation/Total Assets	0.25	0.014	0.018	0.015
Days' sales in receivables	113	98	94	130.25
Debt to Equity	0.75	0.85	0.90	0.88
Profit Margin	0.082	0.07	0.06	0.075
Total Asset Turnover	0.54	0.65	0.70	0.40
Quick Ratio	1.028	1.03	1.029	1.031
Current Ratio	1.33	1.21	1.15	1.25
Times Interest Earned	0.9	4.375	4.45	4.65
Equity Multiplier	1.75	1.85	1.90	1.88

Q 18	In the annual report to the shareholders, the CEO of Flipper Inc wrote, "2000 was a good year for the firm with respect to our ability to meet our short-term obligations. We had higher liquidity largely due to an increase in highly liquid current assets (cash, account receivables and short-term marketable securities)." Is the CEO correct? Explain and use only relevant information in your analysis.	**10**	**5**
Q 19	What can you say about the firm's asset management? Be as complete as possible given the above information, but do not use any irrelevant information.	**10**	**5**
Q 20	You are asked to provide the shareholders with an assessment of the firm's solvency and leverage. Be as complete as possible given the above information, but do not use any irrelevant information.	**10**	**5**