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Odd Semester Examination - January 2023 – February 2023
MBA-III Semester
MBA-GE-FM-04
Financial Statement Analysis

Duration: 3 Hours **Max Marks: 75**

*Note: Attempt any Five Questions, all questions carry equal marks. [15*5=75]*

Q1. Brianair plc is a budget airline. Brainair plc draws up its financial statements to 31 January each year. Below are the income statements, extracts from the statements of financial position and extracts from the notes to the financial statements for Brianair plc for the financial years ended 31 January 2020 and 31 January 2019. (15)

	2020 (£m)	2019 (£m)
Revenue: Seat revenue	1,718	1,594
Revenue: Other revenue	80	92
Total revenue	1,798	1,686
Cost of sales	1,410	1,362
Gross profit	388	324
Selling and distribution costs	41	40
Administration expenses	100	94
Operating profit	247	190
Finance income	5	4
Finance expense	7	7
Profit before tax	245	187
Income tax	49	37
Profit for the year	196	150
	2020 (£m)	2019 (£m)
Non-current assets	1,326	1,266

	2020 Number	2019 Number
Average number of employees during the year	3,728	3,417
Average number of aircraft leased during the year	250	235
Total number of passengers during the year (millions)	32.5	29.6
Total aircraft capacity during the year (millions of passengers)	40.0	37.6

All the costs that make up cost of sales are fixed apart from the cost of fuel for aircraft.
Selling and distribution costs consist entirely of advertising expenses.
Calculate the following ratios for 2020 and 2019 for Brianair plc:

i) Gross profit percentage, ii) Operating profit percentage, iii) Profit before tax percentage, iv) Profit after tax percentage, v) Non-current asset turnover, vi) Revenue per employee, vii) Operating profit per employee, and viii) any other ratios you consider to be relevant to an evaluation of the profitability of Brianair plc

Your calculations should be made to two decimal places where appropriate.

Q2. Based on the information available in Question Number 1, Evaluate the increase in profitability for Brianair plc, using your ratios and the other information in the question to explain why profitability has increased in the financial year to 31 January 2020. (15)

Q3 a). Equity listed are the equity sections of balance sheets for the year 2020 and 2021 as reported by Mountain Air Ski Resorts Ltd. The overall value of stockholders' equity has risen from \$2,000,000 to \$7,500,000. Use the statements to discover how and why that happened. (7.5)

Mountain Air Ski Resorts Ltd.
Balance Sheets (Partial)

Shareholders' Equtiy	*2020*	*2021*
Common Stock (\$ 1.00 par)		
Authorized: 5,000,000 shares		
Outstanding: 1,500,000 shares 2021		\$ 1,500,000
500,000 shares 2020	\$ 500,000	
Paid-in capital in excess of par	500,000	4,500,000
Retained Earnings	1,000,000	1,500,000
Total Stockholders' Equity	\$ 2,000,000	\$ 7,500,000

The company paid total dividends of \$ 200,000 during fiscal 2020.

i). What was Mountain Air's net income for fiscal [redacted] 2020?
ii). How many new shares did the company issue and sell during the year?
iii). At what average price per share did the new stock sold during 2020 sell?
iv). At what price per share did Mountain Air's original 500,000 shares sell?

Q3 b). Hayes Enterprises began 2021 with a retained earnings balance of \$ 928,000. During 2021, the firm earned \$ 377,000 after taxes. From this amount, preferred stockholders were paid \$ 47,000 in dividends. At year-end 2021, the firm's retained earnings totaled \$ 1,048,000. The firm had 140,000 shares of common stock outstanding during 2021. (7.5)

i). Prepare a statement of retained earnings for the year ended December 31, 2021 for Hayes Enterprises. (Note: Be sure to calculate and include the amount of cash dividends paid in 2021.)
ii). Calculate the firm's 2021 earnings per share (EPS)
iii). How large a per-share cash dividend did the firm pay on common stock during 2021?

Q4) Prepare Trading, Profit and Loss A/c. and Balance Sheet from the given data for Xpress Manufacturing Ltd. You are require to follow financial statement, Schedule III, Companies Act, 2013. (15)

Find out missing items with the help of other details are as under:

i). Current Ratio was 2:1.
ii). Closing Stock is 25% of Sales.
iii). Proposed Dividend was 40% of paid up capital.
iv). Gross profit Ratio was 60%.
v). Amount transfer to General Reserve is same as proposed Dividend.
vi). Balance of P & L Account is calculated 10% of proposed dividend.
vii). Commission income is 1/7 of Net profit.
viii). Balance of General reserve is twice the current year transfer amount.

Trading and P&L Account

Particular	Amount (Rs)	Particular	Amount (Rs)

To Op. stock	3,50,000	By Sales	(?)
To Purchase	(?)	By Closing Stock	(?)
To Purchase Return	87,000		
To Gross Profit	7,18,421		
	14,96,710		14,96,710
To Office Exp.	3,70,000	By Gross Profit	7,18,421
To Int. on Deb.	30,000	By Commission	?
To Tax. Provision	18,421		
To Net Profit	3,50,000		
	?		?

Balance Sheet

Liabilities	Amount	Assets	Amount
Paid Up Capital	5,00,000	Plant & machinery	7,00,000
General Reserve	(?)	Stock	(?)
P & L a/c.	(?)	Debtors	(?)
10% Debenture	(?)	Bank	62,500
Current Liabilities	6,00,000	Other Fixed Assets	(?)

Q5 Consider the following balance sheets and selected data from the income statement of Keith Corporation, an Indian Company. (15)

Keith Corporation Pvt. Ltd.

Balance Sheets as on 31st December

Assets	*2021 (₹)*	*2020 (₹)*
Cash	1500	1000
Marketable Securities	1800	1200
Accounts Receivable	2000	1800
Inventories	2900	2800
Total Current Assets	8200	6800
Gross Fixed Assets	29,500	28,100
Less: Accumulated Depreciation	14,700	13,100
Net Fixed Assets	14,800	15,000
Total Assets	23,000	21,800
Liabilities and Stock holders' Equity		
Accounts Payable	1600	1500
Notes Payable	2800	2200
Accruals	200	300
Total Current Liabilities	4600	4000
Long Term Debt	5000	5000
Total Liabilities	9600	9000
Common Stock	10,000	10000
Retained Earnings	3400	2800
Total Stockholders' Equity	13400	12800
Total Liabilities and Stockholders' Equity	23,000	21800

Keith Corporation Income Statement Data (2021) (in ₹)

Depreciation Expenses	1,600
Earnings before Interest and Taxes (EBIT)	2,700

Interest Expenses	367
Net Profits After Taxes	1400
Tax Rate - As per corporate tax levied.	

i).Calculate the firm's net operating profit after taxes for the year ended December 31, 2021.
ii).Calculate the firm's operating cash flow for the year ended December 31, 2021
iii).Calculate the firm's free cash flow for the year ended December 31, 2021.
iv).Interpret, compare, and contrast your cash flow estimates in parts ii and iii.

Q6. Red Queen Restaurants wishes to prepare financial decisions. Use the financial statements and the other information provided below to prepare the suitable financial statements. (15)

Red Queen Restaurants Balance Sheet for the Year Ended December 31, 2019 (In $)

Assets	Amount	Liabilities	Amount
		Account Payable	100,000
Cash	32,000	Taxes Payable	20,000
Marketable Securities	18,000	Other Current Liabilities	5,000
Accounts Receivable	150,000	Total Current Liabilities	125,000
Inventories	100,000	Long-term Debt	200,000
Total Current Assets	300,000	Total Liabilities	325,000
Net Fixed Assets	350,000	Common Stock	150,000
Total Assets	650,000	Retained Earnings	175,000
		Total Liabilities and stockholders' Equity	650,000

The following financial data are also available:

a) The firm has estimated that its sales for 2020 will be $ 9000,000.
b) The firm expects to pay $35,000 in cash dividends in 2020.
c) The firm wishes to maintain a minimum cash balance of $ 30,000.
d) Accounts receivable represent approximately 18% of annual sales.
e) The firm's ending inventory will change directly with changes in sales in 2020.
f) A new machine costing $ 42,000 will be purchased in 2020. Total depreciation for 2020 will be $ 17,000.
g) Accounts payable will change directly in response to changes in sales in 2020.
h) Taxes payable will equal one-fourth of the tax liability on the pro forma income statement.
i) Marketable securities, other current liabilities, long-term debt, and common stock will remain unchanged.

Red Queen Restaurants Income Statement
for the Year Ended December 31, 2019 (In $)

Sales Revenue	800,000
Less: Cost of Goods Sold	600,000
Gross Profit	200,000
Less: Operating Expenses	100,000
Net Profits before taxes	100,000
Less: Taxes (rate = 40%)	40,000
Net Profits after taxes	60,000
Less: Cash Dividends	20,000
Transfer to Retained Earnings	40,000

i). Prepare an Income Statement for the year ended 31st December, 2020.

ii). Prepare Balance sheet dated 31st December 2020, as per financial statement, Schedule III, Companies Act, 2013.

iii). Analyse these statements, and discuss the resulting financing requirement.

Q7. Jane wants to retire in exactly 15 years from now, and wishes to create a fund that will allow her to receive $30,000 at the end of each of the next 30 years from the date of her retirement. Jane knows that she will be able to earn 9% a year on any investment during her retirement period.

a. How large of a fund will Jane need when she retires 15 years from now, in order to receive the 30-year, $30,000 per year retirement annuity she desires? (5)

b. How much will Jane need to invest today as a single amount, in order to receive the amount calculated in part a., 15 years from today, if she earns 7% per year between now and then? (5)

c. What would happen to the values you found in part a). and part b)., if the rate of return increases both prior to and during Jane's retirements? (5)

Q8. a). Explain the factors affecting demand and supply of financial statement information. (5)

b). From the following information, prepare a Comparative and Common size Income Statement and Balance Sheet for the year ended March 31, 2021 and 2022. (10)

Balance Sheet

Particulars	31st March – 2021 (In Rs)	31st March – 2022 (In Rs)
Share capital	15,00,000	12,00,000
Reserve and surplus	5,00,000	5,00,000
Long-term borrowings	6,00,000	5,00,000
Trade payables	15,50,000	10,50,000
Total	**41,50,000**	**32,50,000**
Tangible assets	14,00,000	8,00,000
Intangible assets	16,00,000	12,00,000
Investments	10,00,000	10,00,000
- Inventories	1,50,000	2,50,000
Total	**41,50,000**	**32,50,000**

Particulars	31st March – 2021 (In Rs)	31st March – 2022 (In Rs)
Net Sales	18,00,000	25,00,000
Cost Of Goods Sold	10,00,000	12,00,000
Operating Expenses	80,000	1,20,000
Non-Operating Expenses	12,000	15,000
Depreciation	20,000	40,000
Wages	10,000	20,000