**Financial Reporting & Analysis – I**

**April 2023 Examination**

**1. Given below are the financial statements of GoodLife Ltd a company operating in a FMCG segment, for the year ending 31st March 2022. Certain industry ratios are also specified. Determine the key ratios as specified for the Industry standards and comment on GoodLife Ltd.’s performance vis-à-vis industry. (10 Marks)**

**Balance Sheet as at 31.03.22**

|  |  |  |  |
| --- | --- | --- | --- |
| **Liabilities** | **Amt. Rs. '000** | **Assets** | **Amt. Rs. '000** |
| **Equity share capital** | **8,850** | **Fixed assets** | **4,840** |
| **Retained Earnings** | **750** | **Cash** | **1,760** |
| **10% debentures** | **1,840** | **Sundry debtors** | **2,200** |
| **Sundry creditors** | **1,320** | **Stock** | **6,600** |
| **Bills payable** | **1,760** |  |  |
| **Other current liabilities** | **880** |  |  |
| **Total** | **15,400** | **Total** | **15,400** |

**Statement of Profit and Loss for the year ended 31.03.22**

|  |  |  |
| --- | --- | --- |
| **Particulars** | **Amt. (Rs. '000)** | **Amt. (Rs. '000)** |
|  |  |  |
| **Sales** |  | **22,000** |
| **Less - Cost of goods sold:** |  |  |
| **Material** | **8,360** |  |
| **Wages** | **5,280** |  |
| **Factory overheads** | **2,596** | **16,236** |
|  |  |  |
| **Gross profit** |  | **5,764** |
| **Less- Selling & Distribution expense** | **2,200** |  |
| **Administrative costs** | **2,456** | **4,656** |
| **Earnings before interest and tax** |  | **1,108** |
| **Less - Interest charges** |  | **184** |
| **Earnings before tax** |  | **924** |
| **Less - Tax @ 30%** |  | **277** |
| **Net profit after tax** |  | **647** |

**Industry standards have been given below for some ratios**

|  |  |  |
| --- | --- | --- |
| **1** | **Current Ratio** | **2.5:1** |
| **2** | **Receivables turnover ratio** | **8 times** |
| **3** | **Inventory turnover ratio (considered with respect to sales)** | **9 times** |
| **4** | **Total assets turnover ratio** | **2 times** |
| **5** | **Net profit ratio** | **3.50%** |
| **6** | **Return on total assets** | **7%** |
| **7** | **Return on net worth** | **10.50%** |
| **8** | **Total debt / total assets** | **60%** |

**Ans 1.**

**Introduction**

Financial statements can be written facts that deliver the company's business operations and economic activities. Financial statements are commonly audited through accountants, government businesses, companies, accountants, etc., to ensure accuracy and for financing, tax, or investing functions. For-profit, general economic statements include:

* The income statement.
* Stability sheet.
* Statement of modifications in equity.
* Assertion of coins and float.

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**2. As a financial Analyst you are entrusted with the task of analyzing the cash flow statements of Relcon ltd.**

**Cash Flow Statement of Relcon ltd for the year ended 31st March 2022**

|  |  |  |
| --- | --- | --- |
| **Particulars** | **Amount** | **Amount** |
| **Cash flow from Operations** |  |  |
| **Net Profit before tax** |  | **200000** |
| **Add: Depreciation** | **72800** |  |
| **Add: Interest** | **11250** |  |
| **Less: Profit on Sale of Machinery** | **(5000)** | **79050** |
| **Cash Flow from operations before working capital changes** |  | **279050** |
| **Increase in Inventories** | **(47310)** |  |
| **Increase in Receivables** | **(50000)** |  |
| **Increase in Payables** | **33634** | **(63676)** |
| **Cash Flow from operations before tax** |  |  |
| **Less : Income tax paid** |  | **(60000)** |
| **Net Cash Flows from Operating Activities(A)** |  | **155374** |
| **Cash Flows from investing activities** |  |  |
| **Proceeds from sale of machinery** | **20000** |  |
| **Purchase of Plant and Machinery** | **(320374)** |  |
| **Purchase of Investments** | **(125000)** |  |
| **Net Cash Flows from Investing Activities (B)** |  | **(425374)** |
| **Cash Flow from financing activities** |  |  |
| **Interest paid** | **(11250)** |  |
| **Term loan taken** | **135000** |  |
| **Dividend paid** | **(78750)** |  |
| **Equity share capital issued** | **100000** |  |
| **Debenture issued** | **125000** |  |
| **Net Cash Flows from Financing Activities (C)** |  | **270000** |
| **Net Increase in Cash and Cash Equivalents**  **(A)+(B)+(C)** |  | **0** |
| **Cash and Cash Equivalents at the beginning of the year** |  | **20000** |
| **Cash and Cash Equivalents at the end of the year** |  | **20000** |

**Analyse the cash Flow statement with reference to the following:**

**1) Ability of the operating cash flows to service providers of capital.**

**2) Financing the acquisition of fixed Assets.**

**3) Financial Flexibility.**

**4) Whether the company will be able to sustain the existing rate of dividend for the next year. The share capital at the beginning of the year is Rs 8,00,000.**

**5) Comment on the “Free Cash Flows” available with the company. (10 Marks)**

**Ans 2.**

**Introduction**

A finance analyst may be responsible for an extensive range of activities, including organizing information, amassing information, making forecasts and projections, studying historical effects, generating excel models, and making recommendations, reports, and presentations.

A security analyst, a finance analyst, or an investment analyst assists firms in making commercial enterprise selections based on factors just as the company's financial status, market trends, and the forecasted

**3a. Mechatronics ltd sells ‘Industrial batteries’. The cost of finished product-(per unit) as per the accounting records is Rs 30,000; and the estimated selling price is Rs 32,000 and estimated selling expenses are Rs 3000. At what amount should the finished product be valued at the end of the accounting period? State the accounting principle and the value at which the stock should be recorded. (5 Marks)**

**Ans 3a.**

**Introduction**

Accounting principles are the suggestions and regulations firms and other bodies must follow when reporting financial records. These guidelines simplify examining financial facts by standardizing the methods and terms that accountants must use.

This makes it easier for buyers to assess and extract valuable records from the firm's financial

**3b. A company purchased a Machinery for Rs 8,00,000 with an estimated useful life of 10 years and an estimated residual value of Rs 50,000. It follows straight line method for charging depreciation. At the end of the three years, the management revised the Machinery’s remaining useful life to five years and residual value to Rs 40,000. What will be the depreciation expense for the 4th year? Why is it relevant to review the estimates of ‘useful life’ and ‘residual value’ of the fixed assets at the end of each year? (5 Marks)**

**Ans 3b.**

**Introduction**

The term depreciation may be defined as an accounting method used to allocate the price of a physical or tangible asset over its useful life. Depreciation represents how much of the value of the belongings have been incurred or used. It allows firms to earn revenue from their