**Financial Statement Analysis**

**April 2024 Examination**

**Q1. XYZ reported a net income of $ 5,000,000 over the years. For that year weighted average number common shares outstanding was 2,000,000. XYZ also had 30,000 convertible preferred shares outstanding on which it paid a dividend of $10 per share. Each of these are convertible into 2 shares of common stock. Define the concept of EPS, calculate basic EPS and if the last year EPS is $5.5 per share against current year EPS, Interpret the findings. (10 Marks)**

**Ans 2.**

**Introduction**

Earnings Per Share (EPS) is a vital metric in financial analysis, offering insights into a company's profitability on a per-share basis. It serves as a barometer for investors, indicating the amount of net income a company earns for each share of its stock, thus reflecting the company's financial health and efficiency in generating profits. The calculation of EPS can be basic or diluted, considering the company's potential shares from convertible instruments. XYZ's financial performance, showcasing a net income of $5,000,000 with 2,000,000 weighted average number of common shares and additional convertible preferred shares, sets the stage for a nuanced examination of its EPS. By comparing the current year's EPS with the

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**Q2. Deferred tax assets and deferred tax liabilities are accounting concepts that arise due to differences between the treatment of certain transactions for financial reporting purposes and tax reporting purposes. These differences occur because accounting principles (Generally Accepted Accounting Principles or International Financial Reporting Standards) and tax regulations follow different rules and standards.**

**Differentiate between Deferred Tax Assets and Deferred Tax Liabilities with suitable examples. (10 Marks)**

**Ans 2.**

**Introduction**

Deferred tax assets and deferred tax liabilities represent significant elements of financial reporting, bridging the gap between accounting practices and tax regulations. These concepts emerge from timing and recognition differences in income and expenses as per accounting principles like Generally Accepted Accounting Principles (GAAP) or International Financial Reporting Standards (IFRS) and the respective tax laws. The essence of these deferred tax elements lies in their capacity to reflect future tax effects of current transactions, providing a more accurate picture of a company's financial health. Understanding these elements is crucial for stakeholders to assess the temporal financial implications and tax obligations or

**Q3. These selected condensed data are taken from a recent balance sheet of Sambhav Realities (Rs in crores)**

|  |  |
| --- | --- |
| **PARTICULARS** | **AMOUNT** |
| **Cash** | **29.3** |
| **Debtors** | **20.5** |
| **Inventory** | **28.7** |
| **Prepaid expenses** | **24** |
| **Outstanding payments** | **15.5** |
| **Trade payables** | **30.7** |
| **Unpaid taxes** | **25** |
| **Loan taken for construction of building for 11 months** | **50** |

**a. Discuss about current assets and current liabilities, classify the above into current assets and current liabilities. (5 Marks)**

**Ans 3a.**

**Introduction**

In the financial analysis of a company, understanding the composition of current assets and current liabilities is crucial. These elements are essential for assessing a company's short-term financial health and liquidity. Current assets are resources expected to be converted into cash or used up within one year or one operating cycle, whichever is longer. Conversely, current

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**b. Calculate the working capital and current ratio. (5 Marks)**

**Ans 3b.**

**Introduction**

Working capital and the current ratio are fundamental indicators of a company's financial health, particularly its liquidity and short-term operational efficiency. Working capital represents the difference between a company's current assets and current liabilities, indicating the funds available for day-to-day operations. The current ratio, calculated as current assets divided by current liabilities, measures a company's ability to cover its short-term obligations