

**XLRI JAMSHEDPUR – BM****End-term Examination, Time: 90 Minutes, Total Weightage: 40%, Date: Sep. 2008**

NAME: \_\_\_\_\_

ROLL # \_\_\_\_\_

**INSTRUCTIONS**

This is a closed book examination. You are not allowed to borrow books, calculators, etc. Answer all questions. Please read all footnotes (some of them might contain crucial information). Marks in brackets at the start of each section indicate the marks assigned for that section. In case of multiple-choice questions, you are required to mark (tick) the appropriate choice in the question paper and also work out the solution (or give reasonable explanation) in the space provided.

Anyone who resorts to unfair practices, as judged by the examiner, the minimum penalty will be zero in this segment of evaluation, while the maximum penalty could be expulsion from the institute. There will be no further warnings.

**Section – I** [Max marks: 14]

Pick the most appropriate answer [Each Correct Match: 1 mark, Each Wrong match: – ½ mark, No Attempt: – ½ mark]

1. Lawreshwar Polymers Limited is a Jaipur-based public company listed on the Bombay Stock Exchange with an issued and fully paid up share capital of Rs. 13.6 crores (each share of Rs. 10 par value). Theoretically, the maximum number of members Lawreshwar Polymers can have as its shareholders would be equal to:
  - a) 13.6 crore shareholders
  - b) 13.6 lakh shareholders
  - c) **1.36 crore shareholders**
  - d) None of the above
2. As part of its long-term capital employed, a public company cannot have which of these instruments:
  - a) Irredeemable cumulative non-convertible participating preference shares
  - b) Convertible non-cumulative preference shares
  - c) **Secured cumulative redeemable non-convertible preference shares**
  - d) None of the above
3. A company may increase its authorized capital by altering the capital clause of its Memorandum. Such increase in authorized capital:
  - a) does not require any accounting entry
  - b) may be shown in the Balance Sheet
  - c) **both (a) and (b)**
  - d) None of the above
4. Discount allowed on reissue of forfeited shares is debited to:
  - a) Discount on issue of shares account
  - b) Profit & Loss Account
  - c) **Forfeited shares account**
  - d) None of the above

5. The balance of the Forfeited Shares Account after reissue of forfeited shares account is transferred to:
- a) Profit and Loss Account  
b) Share Capital Account  
c) **Capital Reserve Account**  
d) None of the above
6. If a share of Rs.10, on which Rs.6 has been paid, is forfeited, it can be reissued at the minimum price of:
- a) Rs. 6 per share  
b) Rs. 10 per share  
c) **Rs. 4 per share**  
d) None of the above
7. In case debentures of Rs.10,000 are issued at par but payable at a premium of 10 per cent, the premium payable will be debited to:
- a) Debentures suspense account  
b) Premium on redemption of debentures account  
c) **Loss on issue of debentures account**  
d) None of the above
8. The balance of the debentures sinking fund after redemption of debentures is transferred to:
- a) Profit and loss account  
b) Debentures account  
c) **General reserve**  
d) None of the above
9. A company issues 1,000 debentures of Rs. 100 each at a discount of 10%. The company gives option to its debenture holders to get their debentures converted into equity shares of Rs.10 each at a premium of 10%. By the end of the current year holders of debentures of Rs.33,000 expressed a desire to exercise this option. In the present case, the number of equity shares to be issued in exchange of Rs.33,000 debentures will be:
- a) Less than 2,600  
b) More than 2,800  
c) **2,700**  
d) None of the above

**Solution:**

|   |               |
|---|---------------|
| Face Value of debentures to be converted:     | Rs.33,000     |
| Less: Discount allowed @ 10% on issue         | <u>3,300</u>  |
| Actual amount realised on issue of debentures | <u>29,700</u> |
| Face value of an equity share                 | 10            |
| Premium of 10%                                | <u>1</u>      |
| Issue Price of an equity share                | <u>11</u>     |

Number of equity shares to be issued in exchange for debentures =  $29,700/11 = 2,700$ .

Thus, the consideration for redemption of debentures will be as follows:

|                          |               |
|--------------------------|---------------|
| Equity share capital     | Rs.27,000     |
| Premium on equity shares | <u>2,700</u>  |
|                          | <u>29,700</u> |

10. Refer to the discussion in the previous question (i.e., question no. 9). The premium on equity shares would be:

- a) Less than Rs. 2,600
- b) More than Rs. 2,800
- c) **Rs. 2,700**
- d) None of the above

11. During 2004-05, Enterprise A gives a guarantee of certain borrowings of Enterprise B, whose financial condition at that time is sound. During 2005-06, the financial condition of Enterprise B deteriorates and at 30 September 2005 Enterprise B goes into liquidation.

At 31<sup>st</sup> March 2005, the Enterprise A would:

- a) No provision is recognized. No disclosure is provided as a contingent liability.
- b) A provision is recognized for the best estimate of the obligation.
- c) **No provision is recognized. The guarantee is disclosed as a contingent liability unless the probability of any outflow is regarded as remote.**
- d) None of the above

**Solution:**

**Present obligation as a result of a past obligating event.** The obligating event is the giving of the guarantee, which gives rise to an obligation.

**An outflow of resources embodying economic benefits in settlement.** No outflow of benefits is probable at 31 March 2005.

Conclusion: No provision is recognized. The guarantee is disclosed as a contingent liability unless the probability of any outflow is regarded as remote.

Note: This example deals with a single guarantee. If an enterprise has a portfolio of similar guarantees, it will assess that portfolio as a whole in determining whether an outflow of resources embodying economic benefit is probable. Where an enterprise gives guarantees in exchange for free, revenue is recognized under AS 9, Revenue Recognition.

12. Refer to the discussion in the previous question (i.e., question no. 11). At 31<sup>st</sup> March 2006, the Enterprise A would:

- a) No provision is recognized. No disclosure is provided as a contingent liability.
- b) No provision is recognized. The guarantee is disclosed as a contingent liability unless the probability of any outflow is regarded as remote.
- c) **A provision is recognized for the best estimate of the obligation.**
- d) None of the above

**Solution:**

**Present obligation as a result of a past obligating event.** The obligating event is the giving of the guarantee, which gives rise to a legal obligation.

**An outflow of resources embodying economic benefits in settlement.** At 31<sup>st</sup> March 2006, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation.

Conclusion: A provision is recognised for the best estimate of the obligation.

13. A company having large losses in the past will usually end up having:

- a) **Deferred Tax Assets** c) Both (a) and (b)  
 b) **Deferred Tax Liabilities** d) None of the above

14. A manufacturing company had a opening inventory position of raw material, work-in-progress, and finished goods inventory stood at Rs. 3, Rs. 4, and Rs. 5 respectively. At the end of the accounting period, the stock taking revealed the raw material inventory at Rs. 28. During the year the company made raw material purchases of Rs. 400. The Cost of Goods Sold for the company for the accounting period would be:

- a) 420 c) 440  
 b) 430 d) **Can't say**

### **SECTION II** [Max marks: 4]

[Each Correct answer + 2 marks]

A company forfeits 100 shares of Rs 10 each, originally issued at a premium of Rs. 2 per share. The shareholder paid Rs. 4 per share on application but did not pay the allotment money of Rs. 4 per share (including premium) and call of Rs. 4 per share. The company takes credit for the premium as soon as it becomes due. The shares are subsequently reissued at Rs 11 per share fully paid up. The journal entries for the forfeiture of the shares are passed as follows:

|                           |     |             |           |
|---------------------------|-----|-------------|-----------|
| By Share capital a/c      | Dr. | Rs. 1,000/- |           |
| By Securities premium a/c | Dr. | Rs. 200/-   |           |
|                           |     |             |           |
| To share allotment a/c    | Cr. |             | Rs. 400/- |
| To share call a/c         | Cr. |             | Rs. 400/- |
| To shares forfeited a/c   | Cr. |             | Rs. 400/- |

Explanation: *being forfeiture of 100 shares on account of non-payment of allotment and call moneys.*

1. Pass the journal entry for reissue of forfeited shares (explanation provided below).

|                           |     |             |             |
|---------------------------|-----|-------------|-------------|
| By Bank a/c               | Dr. | Rs. 1,100/- |             |
|                           |     |             |             |
| To share capital a/c      | Cr. |             | Rs. 1,000/- |
| To securities premium a/c | Cr. |             | Rs. 100/-   |

Explanation: *being reissue of forfeited shares.*

2. Pass the journal entry for transfer of profit on shares forfeited (explanation provided below)

|                         |     |           |  |
|-------------------------|-----|-----------|--|
| By shares forfeited a/c | Dr. | Rs. 400/- |  |
|-------------------------|-----|-----------|--|

To capital reserve a/c                      Cr.                      Rs. 400/-

Explanation: *being transfer of profit on shares forfeited to ..... reserve* (please fill the blank therein)

**SECTION III** [Max marks: 6]

[Each Correct answer + 2 marks]

In the following cases of companies, whose accounting year ended on 31<sup>st</sup> March, 2007, the accounts for that period were considered and approved by the respective Boards of Directors on 15<sup>th</sup> May, 2007. The following events took place after April 2007 and you are required to state, with reasons, how each of the events would be dealt with in the financial statements for the year ended 31<sup>st</sup> March, 2007. In case any disclosures are deemed necessary, you are required to draft the relevant notes also.

- (i) The company had taken a large-size civil construction contract, for a public sector undertaking, valued at Rs 2 crores. In the course of execution of the work on 29 May, 2007, the company found while raising the foundation work that it had met a rocky surface and costs of contract would go up by an extra Rs 50 lakhs which would not be recoverable from the contractee.

Your response (please restrict yourselves to the space provided below)

*Solution:*

*'According to AS 4 assets and liabilities should not be adjusted but disclosure should be made in the report of the approving authority of significant events affecting the financial position of the enterprise, if such events have occurred after the balance sheet date.*

*In the present case, the fact regarding likely increase in costs came to be known after the approval of the Balance Sheet by the Board of Directors. Hence, it may simply be disclosed in the Directors' Report.*

- (ii) A claim for damages of Rs 10 lakhs for breach of patents and copyright had been served on the company in January, 2007. The Directors sought competent legal advice on the eligibility of the claim and were advised that the claim was highly frivolous, without any bases and would not survive even in the first trial court. The company, however anticipates a long drawn legal battle and huge legal costs.

Your response (please restrict yourselves to the space provided below)

*Solution:*

*In the present case, on the basis of evidence possessed by the company, claim for damages cannot be legally enforced against it. The outcome is not certain and so it is a contingency. A long legal battle has been anticipated even before the balance sheet date for which a reasonable provision for legal expenses should be made. A note should also be attached to*

*the balance sheet on the following lines: "Contingent liability not provided for. A claim for damages of Rs 10 lakhs for breach of patents and copyright has been served on the company. It has been ascertained by expert legal advice that such claim is highly frivolous but may involve the company in lengthy legal process. Estimated legal expenses of Rs.....as been duly provided for in the accounts."*

- (iii) A company entered into an agreement to sell its immovable property included in the Balance Sheet at Rs 5 lakhs to another company for Rs 20 lakhs. The agreement to sell was concluded on 31<sup>st</sup> January, 2007 and the sale deed registered on 30<sup>th</sup> April, 2007

Your response (please restrict yourselves to the space provided below)

*Solution:*

*In the present case, sale of immovable property was concluded before approval of the balance sheet by the Board. The registration of sale deed is clearly an event occurring after the balance sheet date. However, the agreement to sell was entered into before the balance sheet date. Registration of the sale deed simply provides additional information relating to the conditions existing at the balance sheet date. Hence, adjustments to assets are necessary as required by AS 4 "Contingencies and Events occurring after the Balance Sheet Date."*

**SECTION IV** [Max marks: 4]

[Each Correct answer + 2 marks]

Advise B Co. Ltd. about the treatment of the following in the final statement of accounts for the year ended 31<sup>st</sup> March, 2008:

- (i) On 15<sup>th</sup> April, 2008, due to destruction of the factory by fire, X, one of the company's debtors, declared himself insolvent. He owed Rs 1,17,000 to B Co. Ltd.

Your response (please restrict yourselves to the space provided below)

*Solution:*

*As per AS:4, events occurring after the balance sheet date are of two kinds:*

- (a) those that provide further evidence of conditions that existed at the balance sheet date; and  
(b) those that are indicative of conditions that are subsequent to the balance sheet date.*

*As per AS 4, assets and liabilities should not be adjusted but only disclosure should be made in the report of the approving authority of events that are indicative of the conditions that arose subsequent to the balance sheet date.*

*In the given case, the fire occurred on 15th April, 2008 i.e. the date after the balance sheet due to which the debtor became insolvent. Hence, only a disclosure is required in the financial statements.*

- (ii) The company finds that the stock sheets as on 31<sup>st</sup> March, 2007 had included twice 'an item the cost of which was Rs 55,000.

Your response (please restrict yourselves to the space provided below)

*Solution:*

According to AS 5 rectification of error in stock valuation is a Prior Period Item. It is necessary to deduct Rs 55,000 from opening stock in the profit and loss account for the year ended on 1<sup>st</sup> March, 2008. However, it is also necessary to charge Rs 55,000 as prior period adjustment in the Profit and Loss Account "below the line". AS 5 requires separate disclosure of such Prior Period Items.

**Section – V** [Max marks: 6]

The following is the balance Sheet of Downhill Ltd. as at 31<sup>st</sup> March, 2005:

| <i>Liabilities</i>                  | <i>Rs</i> | <i>Assets</i>        | <i>Rs</i> |
|-------------------------------------|-----------|----------------------|-----------|
| 20,000 Equity shares of Rs 100 each | 20,00,000 | Goodwill             | 25,000    |
| 12% Debentures                      | 5,00,000  | Land and buildings   | 1,50,000  |
| Outstanding debentures interest     | 1,20,000  | Plant and machinery  | 3,00,000  |
| Creditors                           | 3,00,000  | Furniture            | 80,000    |
|                                     |           | Stock                | 2,70,000  |
|                                     |           | Debtors              | 60,000    |
|                                     |           | Cash at bank         | 35,000    |
|                                     |           | Preliminary expenses | 20,000    |
|                                     |           | Profit and loss A/c  | 19,80,000 |
|                                     | 29,20,000 |                      | 29,20,000 |

The following scheme of reconstruction is executed:

- (i) Equity shares are reduced by Rs 95 per share. They are, then, consolidated into 10,000 equity shares of Rs 10 each.
- (ii) Debenture holders agree to forego outstanding debenture interest. As a compensation 12% Debentures are converted into 14% Debentures, the amount remaining Rs 5,00,000.
- (iii) Creditors are given the option to either accept 50% of their claim in cash in full settlement or to convert their claim into equity shares of Rs 10 each. Creditors for Rs 2,00,000 opt for shares in satisfaction of their claims.
- (iv) To make payment to creditors opting for cash payment and to augment working capital, the company issues 50,000 equity shares of Rs 10 each at par, the entire amount being payable along with applications. The issue was fully subscribed.
- (v) Land and Buildings are revalued at Rs 2,00,000 whereas Plant Machinery is to be written down to Rs 2,10,000. A provision amounting to Rs 5,000 is to be made for

doubtful debts. Pass journal entries and draft the company's balance sheet immediately after the reconstruction.

Based on the above information, you are required to make adjustments to the balance sheet and prepare the balances again:

Fill the appropriate answer in the blank portions [Each Correct Answer: 1 mark, Each Wrong Answer: – ½ mark]

- I. The issued and subscribed share capital of the company would be \_\_\_\_\_
- II. The long-term liabilities would be having the following \_\_\_\_\_
- III. The current liabilities and provisions of the company would be \_\_\_\_\_
- IV. The fixed assets of the company would be equal to \_\_\_\_\_
- V. The bank balance of the company would be \_\_\_\_\_
- VI. The current assets of the company would be \_\_\_\_\_

Solution: M/s. Downhill Ltd. (And reduced) BALANCE SHEET as on 31st March, 2005

| <i>Liabilities</i>                 | <i>Rs</i> | <i>Assets</i>                       | <i>Rs</i> |
|------------------------------------|-----------|-------------------------------------|-----------|
| Share capital:                     |           | Fixed assets:                       |           |
| Authorised capital                 |           | Land and buildings                  | 2,00,000  |
| ...Shares of Rs 10 each            |           | Plant and Machinery                 | 2,10,000  |
| Issued & Subscribed                |           | Furniture                           | 80,000    |
| 80,000 Equity shares of Rs 10 each | 8,00,000  | Current assets, loans and advances: |           |
| Secured loans:                     |           | Stock                               | 2,70,000  |
| 14% Debentures of Rs 100 each      | 5,00,000  | Debtors                             | 60,000    |
| Current liabilities and provisions | Nil       | Less: Provision for doubtful debts  | 5,000     |
|                                    |           | Bank balance                        | 4,85,000  |
|                                    | 13,00,000 |                                     | 13,00,000 |

### **Section – VI** [Max marks: 4]

The following balances are extracted from the books of M/s Flashlight Electric Company Ltd.

- (i) Fixed Assets: Expenditure upto 1 January, 2004
  - a) Land and Buildings Rs 10,00,000; (b) Machinery Rs 15,00,000
  - (ii) Additions during the year—Machinery Rs 3,50,000
  - (iii) Depreciation Fund:
    - a) Machinery Rs 3,00,000, and b) Buildings Rs 1,00,000.
  - (iv) Authorised Capital Rs 50,00,000 divided into Equity Shares of Rs 100 each.
  - (v) Issued and Fully paid up 20,000 equity shares of Rs 100 each (including 2,500 equity shares issued during the year).
  - (vi) 7½ per cent Debentures Rs 10,00,000 secured by a charge on fixed assets.
  - (vii) Sundry creditors Rs 2,50,000; Reserve Fund Rs 5,00,000; Investments at cost Rs 5,00,000; (Market Value Rs 5,25,000).

Date: 2008



(viii) ,Stock Rs 3,02,500; Sundry Debtors Rs 4,50,000; Cash at Bank Rs 2,00,000; Cash on Hand Rs 50,000.

(ix) Profit and Loss A/c (Cr.) Rs 2,02,500.

You are instructed to prepare:

Balance Sheet as at 31 December, 2004 according to Schedule VI to the Companies Act.1956 i.e., Based on the above information, you are required to make complete the balance sheet below:

Fill the blank portions [Each Correct Answer: ¼ mark, Each Wrong Answer: – ¼ mark, No Attempt: - ¼ mark]

| Liabilities   | Rs      | Assets                                | Rs      |
|---|---------|---------------------------------------|---------|
| Share capital:  |         | Fixed assets:                         |         |
| Authorised: XXXXX Equity shares of Rs.XXX each                                | _____   | Land & Buildings (at cost)            | _____   |
| Issued, Subscribed and paid up: XXXXX Equity shares of Rs.XXX each fully paid | _____   | Less: Depreciatin Machinery (at cost) | _____   |
| Reserves and Surplus:   |         | Addition during the year              | XXXXXX  |
| Reserve fund  | _____   | Less: Depreciation                    | _____   |
| Profit and Loss A/c   | _____   | Investments:                          |         |
| Secured Loans:  |         | Investments (at cost)                 | _____   |
| 7½ per cent debentures (secured by a charge on fixed assets)                  | _____   | Market value                          | XXXXXX  |
| Unsecured loans   | _____   | Current Assets,                       |         |
| Current Liabilities & Provisions:   |         | Loans and Advances:                   |         |
| Sundry creditors  | XXXXXXX | Stock                                 | XXXXXXX |
|   |         | Sundry debtors                        | XXXXXX  |
|   |         | Cash in hand                          | XXXX    |
|   |         | Cash at bank                          | XXXXXXX |
|   |         |                                       | XXXXXXX |

Note: Just fill the underlined places. XXXXX columns need not be filled.

Solution:

| Liabilities  | Rs        | Assets                     | Rs              |
|--|-----------|----------------------------|-----------------|
| Share capital:   |           | Fixed assets:              |                 |
| Authorised: 50,000 Equity shares of Rs.100 each                                | 50,00,000 | Land & Buildings (at cost) | 10,00,000       |
| Issued, Subscribed and paid up: 20,000 Equity shares of Rs.100 each fully paid | 20,00,000 | Less:Depreciation          | <u>1,00,000</u> |
| Reserves and Surplus:  |           | Machinery (at clost)       | 15,00,000       |
| (a) Reserve fund   | 5,00,000  | Addition during the year   | <u>3,50,000</u> |
| (b) Profit and Loss A/c  | 2,02,500  | Less: Depreciation         | <u>3,00,000</u> |
| Secured Loans:   |           | Investments:               |                 |
| (c) 71/2 per cent debentures (secured by a charge on fixed assets)             | 10,00,000 | Reserve fund               |                 |
| (d) Unsecured loans  |           | Investments (at clost)     | 5,00,000        |
| (e) Current Liabilities & Provisions:  |           | Market value               | 5,25,000        |
| (f) Sundry creditors   | 2,50,000  | Current Assets,            |                 |
|  |           | Loans and Advances:        |                 |

Date: 2008

|  |           |                |                 |                  |
|--|-----------|----------------|-----------------|------------------|
|  |           | Stock          | 3,02,500        |                  |
|  |           | Sundry debtors | 4,50,000        |                  |
|  |           | Cash in hand   | 50,000          |                  |
|  |           | Cash at bank   | <u>2,00,000</u> | <u>10,02,500</u> |
|  | 39,52,500 |                |                 | <u>39,52,500</u> |

**Section – VII** [Max marks: 2]

From the following balance sheet, prepare a consolidated balance sheet:

**BALANCE SHEET**  
as on 31<sup>st</sup> December, 2007

| <b>Liabilities</b>              | <b>H Ltd.<br/>Rs</b> | <b>S Ltd.<br/>Rs</b> | <b>Assets</b>                  | <b>H Ltd.<br/>Rs</b> | <b>S Ltd.<br/>Rs</b> |
|---------------------------------|----------------------|----------------------|--------------------------------|----------------------|----------------------|
| Share Capital (in Rs 10 shares) | 20,000               | 10,000               | Shares, in S Ltd. (800 shares) | 8,000                |                      |
| Sundry Liabilities              | <u>10,000</u>        | <u>5,000</u>         | Other Assets                   | <u>22,000</u>        | <u>15,000</u>        |
|                                 | <u>30,000</u>        | <u>15,000</u>        |                                | <u>30,000</u>        | <u>15,000</u>        |

H Ltd. acquires shares in S Ltd. on 31 December, 2007.

You are instructed to prepare the consolidated balance sheet: i.e., Based on the above information, you are required to make complete the balance sheet below:

Fill the blank portions [Each Correct Answer: + ½ mark, Each Wrong Answer: – ¼ mark]

| <b>Liabilities</b>  | <b>Rs</b> | <b>Assets</b>  | <b>Rs</b>    |
|---------------------|-----------|----------------|--------------|
| Share Capital (H)   | _____     | Sundry Assets: |              |
| Sundry Liabilities: |           | H              | XXXXX        |
| H                   | XXXXX     | S              | <u>XXXXX</u> |
| S                   | XXXXX     |                | XXXXX        |
| Minority interest   | _____     |                |              |
|                     | _____     |                | <u>XXXXX</u> |

Note: Just fill the underlined places. XXXXX columns need not be filled.

Correct Solution:

| <b>Liabilities</b>  | <b>Rs</b>     | <b>Assets</b>  | <b>Rs</b>     |
|---------------------|---------------|----------------|---------------|
| Share Capital (H)   | 20,000        | Sundry Assets: |               |
| Sundry Liabilities: |               | H              | 22,000        |
| H                   | 10,000        | S              | <u>15,000</u> |
| S                   | 5,000         |                | 37,000        |
| Minority interest   | <u>2,000</u>  |                |               |
|                     | <u>37,000</u> |                | <u>37,000</u> |

**Section – VIII** [Max marks: 6]

Pick the most appropriate answer [Each Correct Match: 1 mark, Each Wrong match: – ½ mark, No Attempt: – ½ mark]

**Problem I**

Using published data, we provide select financial ratios of eight Indian steel players listed in the Bombay Stock Exchange (BSE).

**Table: Selected Ratios of Players in Indian Steel Industry for FY2007**

| Company →                         | Aditya Ispat | Bhusan Steel | Ispat Industries | Jindal Steel | JSW Steel | Lloyd Steel | Steel Authority of India (SAIL) | Tata Steel |
|-----------------------------------|--------------|--------------|------------------|--------------|-----------|-------------|---------------------------------|------------|
| <b>Selected Ratios ↓</b>          |              |              |                  |              |           |             |                                 |            |
| <b>Short-term solvency ratios</b> |              |              |                  |              |           |             |                                 |            |
| • Current ratio                   | 10.58        | 1.87         | 1.58             | 1.13         | 0.75      | 0.81        | 1.59                            | 1.74       |
| • Quick ratio                     | 7.55         | 1.07         | 0.80             | 0.72         | 0.44      | 0.41        | 1.01                            | 1.46       |
| <b>Long-term solvency ratios</b>  |              |              |                  |              |           |             |                                 |            |
| • Debt-equity ratio               | 0.20         | 2.67         | 14.87            | 1.41         | 0.84      | NA          | 0.24                            | 0.69       |
| • Times interest earned ratio     | 10.42        | 7.53         | 1.48             | 8.35         | 6.99      | 2.08        | 33.12                           | 29.18      |
| <b>Turnover ratios</b>            |              |              |                  |              |           |             |                                 |            |
| • Inventory turnover ratio        | 5.86         | 5.84         | 10.72            | 6.99         | 11.04     | 8.08        | 7.50                            | 8.47       |
| • Fixed assets turnover ratio     | 3.17         | 1.42         | 0.57             | 0.71         | 0.81      | 0.78        | 1.16                            | 1.09       |
| <b>Profitability ratios</b>       |              |              |                  |              |           |             |                                 |            |
| • Profit margin (%)               | 0.86         | 8.14         | -0.12            | 19.75        | 14.98     | -3.83       | 17.38                           | 23.42      |
| • Return on Equity (ROE) (%)      | 1.24         | 25.79        | -1.50            | 28.20        | 24.79     | NA          | 36.09                           | 30.71      |
| <b>Market value ratio</b>         |              |              |                  |              |           |             |                                 |            |
| • Price-earnings ratio            | 172.9        | 10.8         | -435.7           | 50.7         | 11.0      | -3.9        | 12.0                            | 11.1       |

Note: NA indicates figures are not available

Based on the ratios, answer the following:

- Identify the company that is having the highest asset utilization ratio?
  - Aditya Ispat
  - Bhusan Steel
  - Steel Authority of India Ltd.**
  - None of the above
- What is the reason for the wide range of price-earnings ratios?
  - The firms are probably at different stages of growth
  - The definition of the industry is very wide (capturing all types of firms)
  - Both (a) and (b)**
  - None of the above
- Identify the company with the highest equity multiplier?
  - Tata Steel
  - JSW Steel
  - Ispat Industries**
  - None of the above

**Problem II**

In year 2008, a company was having an average collectibles period of 630 days and an inventory conversion period of 900 days. Its sales for the year stood at 700 and cost of goods sold stood at 720. The balance sheet for FY2008 showed the accounts receivables to be 1500 and inventory to be 1000. Based on the above, answer the following:

4. The company would probably be from \_\_\_\_\_ industry:
- (a) Agriculture Processing (c) **Ship Building Industry**  
(b) Mineral Water (d) Airline Industry
5. One can say that:
- (a) During FY2008, the company changed its credit policies (with customers) and inventory policies  
(b) Manipulated its accounts  
(c) Both (a) and (b)  
(d) **Can't say**
6. Given the above information, we can say that for FY2007:
- (a) Receivables was less than FY2008; Inventory was less than FY2008  
(b) Receivables was more than FY2008; Inventory was more than FY2008  
(c) **Receivables was less than FY2008; Inventory was more than FY2008**  
(d) Receivables was more than FY2008; Inventory was less than FY2008  
(e) Can't say

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**THE INFORMATION GIVEN BELOW WILL BE KEPT CONFIDENTIAL**

(You can pick a name of any student)

In my view, \_\_\_\_\_ (mention the name of a student) in the class helped in better learning of the course