

2021

TWO YEAR M. COM. SEMESTER 4 EXAMINATION

(New Syllabus under CBCS)

Instructions for Examinees

The students are required to strictly adhere to the following instructions:

1. Use A4 size paper for giving the examination.
2. Write the following on the top of the first page of answer sheet:
 - i) Roll Number: (as per the Admit Card)
 - ii) Registration Number: (as per the Admit Card)
 - iii) Paper Code and Name of the Paper
 - iv) Date of the examination
 - v) Duration of examination (12 noon to 2pm)
3. Put page number on the top right of each page (including the first page).
4. Only one side of the paper should be used for examination.
5. Put your signature with date, at the bottom right of every page used.
6. Before sending your answer scripts, arrange the pages sequentially. Scan them in the order of page number and convert them into a single pdf. file.
7. Pdf. file name should be your **Full Roll Number <underscore> paper code**. While submitting the answer scripts, the subject of the mail will be exactly the same with the file name. [e.g., if the roll no of a student is C95/MCM/123456, for fifth paper (Paper Code DSE 405A) the file name will be: **123456_ DSE 405A**]
8. Submit your answer scripts in pdf. format within the stipulated time through designated email id given to you.
9. Preserve your answer scripts in soft as well as hard-copy form of all the papers of your examination.

2021

COMMERCE

Paper – DSE 405 A

(Financial Analysis)

Full Marks -40

The figures in the margin indicate full marks

Candidates are required to give their answers in their own words as far as practicable

Time: 2 Hours

Duration of Examination: 12noon to 2pm

Module –I

Answer *any two* questions.

1. (a) Explain how accounting distortions may arise in published financial statements, and what should be the objective of financial analysis in that regard.
- (b) Compute index numbers and increases (decreases) in percents for both the years 2018 and 2019 by entering all missing data in the table below. Analyse and interpret any significant results revealed from such trend analysis.

Particulars	2019		2018		2017
	Index No.	Change in percent	Index No.	Change in percent	Index No.
Net Sales	129	.....	100	.....	80
Cost of Goods Sold	.....	25	100	.....	85
Gross Profit	104	.....	100	.....	70
Operating expenses	.....	(5)	100	.....	75
Earnings before Tax	.....	9	100	.....	60
Net Income	100	.....	100	.....	55

() implies negative change

4 + 6

2. (a) How are Basic EPS and Diluted EPS determined?
- (b) The following balances are extracted from the annual reports of PQR Ltd. for the financial years ended 31st March, 2016, 2017, 2018 and 2019

	(Rs. '000,000)			
	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Stock	115	120	110	130
Trade Receivables	90	92	95	85
Cash & Cash Equivalents	35	32	30	35
Marketable Securities	60	50	55	55
Current Liabilities	210	204	200	215

Interpret the liquidity position of PQR Ltd. based on Motaal's Comprehensive Test.

3 + 7

3. (a) Explain the significance of Defensive Interval ratio.
- (b) The association between working capital management and profitability of Star Ltd. over the period 1999-2000 to 2019-2020 has been found as follows.
- (i) Karl Pearson's correlation coefficient between inventory turnover ratio and return on assets is 0.7.
 - (ii) Karl Pearson's correlation coefficient between debtors turnover ratio and return on assets is 0.5.
 - (iii) Karl Pearson's correlation coefficient between cash turnover ratio and return on assets is (-) 0.6.

Comment on the statistical significance of the above findings considering table values of 't' at 1% level with relevant degrees of freedom as 2.861, and at 5% level as 2.093 in two tailed test.

3 + 7

4. The following information has been extracted from the Statement of Profit and Loss and Balance Sheet of an IT company for the year ended 31st March, 2020. Determine the company's cash flows from operating activities (under indirect method) based on such information, and interpret the financial position of the firm using appropriate cash flow based ratios.

	<u>Amount (Rs.)</u>
Surplus in Profit and Loss Statement	2,60,000
Depreciation and Amortization Expense	3,60,000
Profit on Sale of Investments	40,000
Finance Costs	1,44,000
Interest Income	13,000
Dividend Income	9,000
Taxes Paid	65,000
Dividend Paid	1,80,000
Purchase of Property, Plant and Equipment	9,00,000
Equity Share Capital (Rs. 10 each)	30,00,000
Reserves (including Surplus for FY 19-20)	20,00,000
Changes in Current Assets (other than cash)	(1,00,000)
Changes in Current Liabilities	(2,00,000)
Long term Borrowings	24,00,000
Current Liabilities	12,60,000
Total Assets	86,60,000

Module – II

Answer *any two* questions.

5. (a) “In an efficient market an analyst will still be relevant due to his ability to conduct an analysis of projected performance of a company by using his uniquely devised cost-effective analytical model.” – In the light of the above statement, discuss the dynamic role of a financial analyst in an efficient market.
- (b) The manager of an asset management company believes that Indian stock exchanges are not efficient in semi-strong form and hence trading based on publicly available price sensitive information will surely earn abnormal return. In order to confirm his belief, he has decided to conduct an event study on rights issue announcements by Indian companies. For his sample of 3 companies (X Ltd., Y Ltd. and Z Ltd.), he has considered a 7 days event window to investigate the abnormal market reaction to rights issue announcements along with a 180 days estimation window to determine the characteristics line.
- Following is the information relating to the abnormal returns (i.e., actual return minus estimated return) for each company for each day:

Day (t)	Abnormal Return on Company Stocks (%)		
	AR (X)	AR (Y)	AR (Z)
-3	-0.82	-0.78	-0.80
-2	0.21	0.25	0.20
-1	-0.32	-0.35	-0.32
0	0.58	0.62	0.51
+1	0.44	0.41	0.41
+2	-0.42	-0.40	-0.41
+3	0.12	0.15	0.18

Complete the calculations for the event study and comment on the level of market efficiency.

[Given, $t_{0.025,2} = 4.31$ and $t_{0.005,2} = 9.925$]

4 + 6

6. (a) A sample consisting of 10 firms (5 failed and 5 non-failed) is first divided into two sub samples of randomly selected 5 firms. The first sub sample is known as estimation sample and the second sub sample is known as validation hold-out sample. The values of 'cash flow to total debt' ratio were determined for each of the two sub-samples and their actual status i.e., failure or non-failure was examined. The following results were obtained.

	Firms	Cash Flow/ Total Debt	Actual Status (F = Failed; NF = Non failed)
Estimation Sample	A	0.45	NF
	B	0.40	NF
	C	0.35	F
	D	0.30	F
	E	0.25	F
Validation Sample	F	0.44	NF
	G	0.40	NF
	H	0.37	NF
	I	0.33	F
	J	0.32	F

Determine the optimal cut-off point and percentage of misclassification by applying the cut off score in the Validation Sample.

- (b) 'It has been observed in many capital markets that smaller companies tend to outperform larger companies and also the market.' – Identify the market anomaly described in the statement. Why is it considered as an anomaly? Should it really be considered as an anomaly? Give your opinion.

(5 + 1) + 4

7. (a) From the following information relating to ten companies, find the cut-off discriminant Z Score:

Company	Sales (Rs. In lakhs) (X)	Net Assets (Rs. In lakhs) (Y)	Class (F= Failed; NF = Nonfailed)
A	60	30	NF
B	50	20	F
C	45	30	NF
D	40	20	F
E	65	45	NF
F	50	35	NF
G	70	40	NF
H	55	20	F
I	40	25	F
J	75	35	F

The discriminant function is $Z = -0.311 X + 1.06 Y$.

- (b) How are efficient markets beneficial for the common investors of the securities?

8 + 2

8. (a) 'No bond is risk free' – With a brief account of different types of bond risks, justify the given statement.

- (b) In L. Fisher's model on prediction of bond risk premium for the independent variables, 'all the coefficients had the expected signs' – Name the independent variables incorporated in Fisher's model and indicate the risk each of them measures. How will you justify the above statement?

(4 + 1) + (2 + 3)

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