



Attempt this Paper on this Question Sheet only.

Division of marks is given in front of each question.

This Paper will be collected back after expiry of time limit mentioned above.

Q.1. Encircle the right answer cutting and overwriting is not allowed. (10x1=10)

1. When inventory turnover is too high with respect to industry average, there may be the possibility of:
 - a. Stock out
 - b. Increase in accounts payable
 - c. Decrease in cost of goods sold
 - d. None of the above
2. If interest coverage ratio is high with respect to industry average, it is:
 - a. Favorable
 - b. Unfavorable
 - c. Not considered in analysis
 - d. None of the above
3. If we multiply the product of assets turnover and net profit margin with financial leverage multiplier, the resulting figure would be:
 - a. DuPont return on assets
 - b. DuPont return on equity
 - c. Return on sales
 - d. None of the above
4. Which of the following is called non-cash expense?
 - a. Interest expense
 - b. Dividend payments
 - c. Amortization of intangible asset
 - d. All of the above
5. Which of the followings is true when a cash dividend is declared and paid:
 - a. Retained earnings is increased by the amount of dividend
 - b. Retained earnings is reduced by the amount of dividend
 - c. Retained earnings is not affected
 - d. None of the above
6. If a company pays its current liabilities, the current ratio would:
 - a. Increase
 - b. Decrease
 - c. Remains constant
 - d. None of the above

7. From the point of view of long term creditors, if debt ratio is low with respect to industry average, it is:
- Favorable
 - Unfavorable
 - Not considered in analysis
 - None of the above
8. Common size statement analysis is also known as:
- Horizontal analysis
 - Vertical analysis
 - Index analysis
 - None of the above
9. Treasury stock is best classified as:
- Current liability
 - Current liability
 - Reduction of stock holder's equity
 - Contra asset
10. Which of the following accounts would not appear on a conventional Balance Sheet:
- Accounts Receivable
 - Accounts payable
 - Patents
 - Gain from sale of land



ATTEMPT THIS (SUBJECTIVE) ON THE SEPARATE ANSWER SHEET PROVIDED

Q.2. Give short answers of the following: (5x4=20)

- a) Trend analysis.
- b) Operating Cycle.
- c) DuPont analysis.
- d) Window dressing.
- e) Retention ratio.

Answers the following questions. (3x10=30)

Q.3 Briefly describe how each of these groups might use financial reports?

- a) Managers
- b) Investors
- c) Creditors

Q.4 Answer to the following questions:

- a. A company has gathered the following data which is reported in its equity section of the Balance Sheet

Paid in Capital-Common (\$10 par)	\$1500000
Paid in Capital in excess of Par-Common	900000
Paid in Capital-Preferred Stock	500000
Paid in Capital in excess of Par-Preferred	200000
Retained Earnings	1700000

Calculate Book Value per share of the company

Calculate Return on Equity (ROE) by using DuPont analysis if assets turnover is 2.5, net profit margin is 15%, total assets are \$1000000, and total Owner's equity is \$400000.

Q.5 RS Corporation, which has been in operation for five years. Total liabilities of the company are \$125000 and stockholder's equity is \$75000. Half of their current liabilities are current liabilities and the company has \$75000 in current assets. The company's profit before interest and taxes is \$22000 and its total interest charges are \$10000. The company has a net operating income of \$185000. The company is interested in applying for a line of credit at the local bank.

- a) Calculate the company's (1) debt to equity ratio; (2) Current ratio; and (3) times interest earned ratio.
- b) What do the results of these ratios tell the bank about extending credit to RS Company? Why might quick ratio be more important to a banker in this situation than the current ratio?