



**FINAL EXAMINATION, JUNE 2010: AFFILIATED COLLEGES
ANALYSIS OF FINANCIAL STATEMENT BA (H) – 633
BS – VII**

Date: July 06, 2010

Max Marks: 60

Max Time: 3 Hrs

Instructions: Attempt all questions.

Q. # 1. Top managers of Karachi Sports Company have asked your help in comparing the company's profit performance and financial position with the average for the sporting goods industry. The accountant has given you the company's income statement and balance sheet and also the following data for the sporting goods industry.

KARACHI SPORTS COMPANY INCOME STATEMENT COMPARED WITH INDUSTRY AVERAGE YEAR ENDED DECEMBER 31, 2009		
	Company	Industry Average
Net sales	Rs.957,000	100.0%
Cost of goods sold	653,000	65.9%
Gross profit	304,000	34.1
Operating expenses	257,000	28.1
Operating income	47,000	6.0
Other expenses	2,000	0.4
Net income	Rs.45,000	5.6%

KARACHI SPORTS COMPANY BALANCE SHEET COMPARED WITH INDUSTRY AVERAGE YEAR ENDED DECEMBER 31, 2009		
	Company	Industry Average
Current assets	Rs.448,000	74.4%
Fixed assets, net	127,000	20.0
Intangible assets, net	42,000	0.6
Other assets	13,000	5.0
Total	Rs.630,000	100.0%
Current liabilities	Rs.246,000	35.6%
Long-term liabilities	144,000	19.0
Stockholders' equity	240,000	45.4
Total	Rs.630,000	100.0%

Required:

Prepare a two-column common-size income statement and a two-column common-size balance sheet for the Company. The first column of each statement should present Company's common-size statement, and the second column should show the industry average.

For the profitability analysis, compute Company's (a) ratio of gross profit to net sales, (b) ratio operating income (loss) to net sales, and (c) ratio of net income (loss) to net sales. Compare these figures with the industry averages. Is Company's profit performance better or worse than average for the industry?

For the analysis of financial position, compute Company's (a) ratio of current assets to total assets and (b) ratio of stockholders' equity to total assets. Compare these ratio with the industry averages. Is Company's financial position better or worse than average for the industry?

(2)

Q. # 2. Assume that you are purchasing an investment and have decided to invest in a company in the air-conditioning and heating business. You have narrowed the choice to Pak. National and Karachi Corp. You have assembled the following selected data:

	Pak National	Karachi Corp.
Net sales (all on credit)	Rs.497,00	Rs.371,000
Cost of goods sold	258,000	Rs.371,000
Income from operations	258,000	209,000
Interest expense	19,000	-----
Net income	72,000	48,000

Selected balance sheet and market price data at end of current year:

	Pak. National	Karachi Corp.
Current assets:		
Cash	Rs.19,000	Rs.22,000
Short-term investments	18,000	20,000
Current receivables, net	46,000	42,000
Inventories	100,000	87,000
Prepaid expenses	3,000	2,000
Total current assets	186,000	173,000
Total assets	328,000	265,000
Total current liabilities	98,000	108,000
Total liabilities	131,000	108,000
Preferred stock: 5%, Rs.100 par	20,000	
Rs.2.50 par (5,000 shares)		10,000
Total stockholders equity	197,000	157,000
Market price per share of common stock	Rs.112	Rs.51

Selected balance sheet data at beginning of current year:

	Pak. National	Karachi Corp.
Current receivable, net	Rs.48,000	Rs.40,000
Inventories	88,000	93,000
Total assets	270,000	259,000
Preferred stock, 5% Rs.100 par	20,000	-----
Common stock, Rs.1 par (10,000 shares)	12,500	10,000
Rs.2.50 par (5,000 shares)	12,500	
Total stockholders' equity	126,000	118,000

Your investment strategy is to purchase the stocks of companies that have low price/earnings ratios but appear to be in good shape financially. Assume that you have analyzed all other factors and your decision depends on the results of the ratio analysis to be performed.

Instruction: Solve any one of the following Case Studies**CASE STUDY - 1**

You are a head of the loan department at National Bank of Pakistan, you have been approached by two firms in the retail toy business. Each firm is requesting a nine-month term loan in order to purchase inventory for the holiday session. You must make recommendation to the loan committee and have gathered the following data in order to make your analysis.

The Fun Toy Company was organized in early 2008. The first year of operations was fairly successful, as the firm earned net income of Rs45,000. Total assets at year-end, December 31 2008, were Rs350,000. A condensed balanced sheet at September 30, 2009 follows. The firm is requesting a Rs100,000 loan.

<u>Assets</u>		<u>Liabilities and Owner's Equity</u>	
Cash	Rs. 60,000	Accounts payable	Rs 70,000
Accounts	65,000	Note payable, due 10/05/08	100,000
Inventory	125,000	Owner's equity	240,000
Prepays	5,000		
Furniture and fixtures, net	155,000		
		Total liabilities	
Total assets	<u>Rs410,000</u>	And owner's equity	<u>Rs410,000</u>

The Toy Store, the other firm, has been in business for many years. The firm's net income is Rs100,000 on total sales of Rs2,000,000. Total assets at year-end, December 31, 1986, were Rs1,250,000. A condensed balance sheet at September 30, 1987 follows. The firm is seeking a Rs200,000 loan.

<u>Assets</u>		<u>Liabilities and Owner's Equity</u>	
Cash	Rs. 60,000	Accounts payable	Rs 350,000
Accounts receivable	100,000	Current bank loan payable	150,000
Inventory	400,000	Long-term debt	400,000
Supplies	10,000	Owner's equity	500,000
Prepays	5,000		
Property, plant, and equipment	825,000	Total liabilities	
Total assets	<u>Rs1,400,000</u>	And owner's equity	<u>Rs1,400,000</u>

Required:

- Calculate the ratios that you think will help you.
- Based on the above data and your further analyses, what should you recommend to the loan committee regarding each firm's request? Explain your reasoning.

CASE STUDY-2

The financing Statements were taken from the form the annual report of Karachi super stores refers to year-end and February 3, 2009, refers to year end 2008.

Required:

Answer the following questions based on financial statements given:

- What type of income statement is prepared?
- Property, plant and equipment are shown net. What does this mean?
- Explain the difference between accounts payable and accrued liabilities.
- Explain the term accumulated earnings.
- Computer the following data for year-end 2009 and 2008

(4)

Required:

Compute the following ratios for both companies for the current year, and decide which company's stock better fits your investment strategy.

1. Current ratio	2. Acid-test ratio	3. Inventory turnover
4. Day's sales in average receivables	5. Debt ratio	6. Times-interest-earned ratio
7. Return on net sales	8. Return on total assets	9. Return on common stockholders' equity
10. Earnings per share of common stock	11. Book value per share of common stock	12. Price/earnings ratio

Q. # 3. As a money market manager, you must decide whether to buy a rather large amount of commercial paper from either of two companies, X Comp. and Y Comp. The following are selected items from their balance sheets and income statements. All figures are in millions of rupees.

1. Calculate the liquidity ratios, the activity ratios, the times interest earned, and the fixed-charge coverage for both companies. Which company is in a better short-term position?
2. What other information, if any, would you like to see before making your decision?

Company	X Comp.	Y Comp.
Cash	Rs.143.3	Rs.351.2
Accounts receivable	1,598.7	1,591.3
Inventory	253.5	159.3
Notes payable	1,244.0	1,237.9
Accounts payable	1,244.0	1,237.9
Accrued expenses	595.7	443.1
Sales	9,012.1	8,436.7
Credit sales	85%	75%
Cost of goods sold	1,602.7	1,437.3
Interest	412.9	463.6
Lease payments	124.9	117.5
Preferred dividends	13.5	45.7

(5)

Karachi Store

	2009	2008	2007
<i>(In thousands except per share data)</i>	52 Weeks	53 Weeks	52 Weeks
Sales	Rs.3,977,913	Rs.3,724,294	Rs.3,101,682
Cost and expenses	Y - 9	Y - 8	Y - 7
Cost of goods sold, including occupancy and buying cost	2,850,599	2,702,055	2,240,404
Selling, general, and administrative expenses	923,504	862,272	706,368
Interest expenses and discount, net	131,235	117,237	92,345
	3,905,338	3,681,561	3,039,117
Earnings from continuing before non-operating income and income taxes	72,575	42,730	62,565
Non-operating income			
Loss on sale of Karachi Store	(2,450)		
Cost relating to unsolicited tender offer		(7,100)	
Gain on sale of joint venture interest			12,768
Gain retirements of debentures			4,252
	(2,450)	(7,100)	17,020
Earnings from continuing operations before income taxes	70,125	35,630	79,585
Earnings from continuing operations	48,025	27,130	55,385
Discontinued operations			
Earnings (loss) from operations, net of income taxes of (Rs.1,050) and Rs.10,600		(510)	12,100
Gain on sale of Waldenbooks, net of income taxes of Rs.29,8580		63,050	
		62,540	12,100
Net earnings	Rs.48,025	Rs.89,670	Rs.67,485
Primary earnings per common share			
Continuing operations	Rs.0.92		Rs.1.57
Discontinued operations		Rs.2.57	Rs.0.36
	Rs. .92	Rs.2.75	Rs. 1.93
Fully diluted earnings per common share			
Continuing operations		Rs. .83	Rs. 1.56
Discontinued operations		Rs.2.72	Rs.1.90

(8)

Karachi Super Store

	2010 February 1	2009 February 2
<i>(Thousands)</i>	Y - 10	Y - 9
Assets		
Current assets		
Cash	Rs.18,147	Rs.22,727
Accounts receivable, net	292,785	125,524
Merchandise inventories	776,831	717,300
Receivable on sale of Holt Renfrew	29,682	
Other current assets	41,416	39,487
	1,158,861	905,038
Property and equipment, net	855,494	823,569
Investment in finance subsidiaries	142,916	143,864
Other assets	77,496	74,735
	Rs.2,234,767	Rs.1,947,206
Liabilities and Shareholders Equity		
Current liabilities		
Notes payable and current installments	Rs.84,707	Rs.50,370
Accounts payable	344,036	285,466
Accrued liabilities	158,967	134,562
Dividends payable	6,145	5,983
Current income taxes	8,355	16,933
Deferred income taxes	114,399	99,648
	716,609	592,962
Long term debt	551,613	396,654
Capital lease obligations	145,940	152,006
Other liabilities	57,857	55,922
Long term deferred income taxes	103,394	101,496
Redeemable preferred stock, Rs.3 per value, stated at redemption value of Rs.300 per share	300,000	300,000
Common stock, Rs.3 par value	97,797	95,334
Other paid-in capital	149,957	140,358
Accumulated earnings	111,600	112,474
	Rs.2,234,767	Rs.1,947,206

(8)(7)

- a. Working capital.
 - b. Current ration.
 - c. Debt to total assets ratio.
 - d. Gross margin percentage.
 - e. Profit margin percentage.
 - f. Profit margin percentage.
 - g. Return on total assets.
6. Would you say that the firm's financial performance and position have improved from 2009 to 2008. Explain.
- B. The statements were taken from the annual report of Karachi Gas and Electric Company.

Required:

- a. In what ways do these statements differ from those of Karachi Store? What do you think are the reasons for the differences in the format?