

International Islamic University Chittagong
Department of Business Administration
Final Examination: Autumn-2018
Program: BBA

Course Code: FIN-4807
 Time: 2.5 Hours

Course Title: Financial Analysis
 Full Marks: 50

Answer any Five of the following questions.

1. a. What do you mean by securitization of receivables? What is operating cycle? Show the cycle in a diagram. 3
- b. Distinguish between financial asset and operating asset. Define the following terms: capitalization, allocation and impairment. 3
- c. The following reflects the inventory records of a company: 4

Items	Units & Prices
Inventory on January 1, year 2	40 units @ \$500 each
Inventories purchased during the year	60 units @ \$600 each
Units sold during the year	30 units @ \$800

Analyze the inventory costing effects on profitability under FIFO, LIFO and average cost method.

2. a. Why is return on invested capital one of the most relevant measures of company performance? How do we use this measure in our analysis of financial statements? 3
- b. Roll Corporation's return on net operating assets is 10% and its tax rate is 40%. Its net operating asset \$10 million are financed entirely by common stockholders' equity. Management is considering using bonds to finance an expansion costing \$6 million. It expects return on net operating assets to remain unchanged. There are two alternatives to finance the expansion: 7

- 1st: Issue \$2million bonds with 5% coupon and \$4million common stock.
- 2nd: Issue \$6 million bonds with 5% coupon.

Required:

- i) Compute Roll's current net operating income after tax and net income.
 - ii) Determine net income and net operating income after tax for each alternative financing plan.
 - iii) Compute return on common stockholders' equity for each alternative.
 - iv) Explain any difference in the ROCE for the alternative plans computed in (iii).
3. a. Why is working capital important to measure liquidity? What are the advantages and limitations of using current ratios as the measure of liquidity? 4
 - b. Highlights of financial statements of Campbell Soup co. for the 2017 are as follows: 6

Items	Amount in Million (\$)
Current assets	1665.5
Accounts receivables	624.5
Inventories	819.8
Prepaid expense	118
Current liabilities	1298.1
Net sales on credit	6205.8
Cost of goods sold	4258.2
Accounts payable	525.2
Purchase	4061.1
Operating cash flow	448.4

Required: Calculate and comment on liquidity position: i) Operating cycle ii) Net trade cycle and iii) Cash flow ratio

4. a. Discuss the steps in analyzing financial statements. 3

- b. What is financial statement analysis report? What distinct sections constitute a complete financial analysis report? 4
- c. Identify and describe the six major building blocks of financial statement analysis. 3
5. You are required to analyze the comprehensive case analysis of the Campbell Soup Company. 10
- Comparative financial statements are as follows:

Campbell Soup Company Income Statement (amount in \$ millions)		
Items	Year 17	Year 16
Net sales	6204.1	6205.8
Total costs and expenses	5531.9	6034.2
EBIT	672.2	171.6
EBT	667.4	179.4
Net earnings	401.5	4.4
Number of shares	127	126

Campbell Soup Company Balance Sheet (amount in \$ millions)		
Items	Year 17	Year 16
Total current assets	1518.50	1665.50
Total assets	4149.00	4115.60
Total current liabilities	1278.00	1298.10
Long term debt	1077.60	1125.70
Total shareholders' equity	1793.40	1691.80
Total liabilities & equity	4149.00	4115.60

- Requirement: Determine the followings-
- Short -Term liquidity Analysis (current ratio, working capital)
 - Capital structure and solvency analysis (debt to equity, total debt ratio, fixed assets to equity)
 - Return on Invested Capital ratios (RNOA, ROCE, return on LTD & equity, equity growth rate, Total asset turnover).
6. From the information of question no (5), Calculate the following items: 10
- Analysis of asset utilization (sales to working capital, sales to fixed assets, sales to current liabilities)
 - Analysis of operating performance and profitability (operating profit margin, net profit margin)
 - Provide a brief listing of the main findings of the analysis of Campbell Soup Company.
7. a. The marketing vice president for Boston products Company requests an analysis to explain why the gross profit for 20B is smaller than for 20A. The following information is available: 8

Product	Quantity	20A sales		20A cost of goods sold		20A
		Unit price	Amount	Unit cost	Amount	Gross profit
A	30000 units	\$3.62	\$108600	\$2.70	81000	27600
B	25000	3.00	75000	2.38	59500	15500
C	75000	2.50	187500	2.00	150000	37500
Total			\$371100		\$290500	80600
Product	Quantity	20B sales		20B cost of goods sold		20B
		Unit price	Amount	Unit cost	Amount	Gross profit
A	40000 units	\$4.00	\$160000	\$3.00	120000	40000
B	24000	2.75	66000	2.40	57600	8400
C	70000	2.50	175000	2.10	147000	28000
Total			\$401000		\$324600	\$76400

- Prepare the requested analysis for marketing vice-president.
- b. Describe the uses of gross profit analysis.