

Bangladesh Open University
BBA Program
Semester: 192 (8th Level-AIS & Finance)

Course Title: Financial Statement Analysis

Due on: 03 September, 2021

Instructions

- Answer the all questions in your own handwriting on A4 size white paper.
- Fill-in the cover page of your assignment with care.
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Questions

1. (a) A business executive once stated, “Depreciation is one of our biggest operating cashinflows.” Do you agree? Explain.
- (b) Comparative financial statement data for Harun Limited follow:

	<u>2020</u>	<u>2019</u>
Assets		
Cash	Tk. 300	Tk. 600
Accounts receivable	2,200	2,400
Inventory	<u>5,000</u>	<u>4,000</u>
Total current assets	<u>7,500</u>	<u>7,000</u>
Property, plant, and equipment	24,000	20,000
Less accumulated depreciation	<u>6,500</u>	<u>5,000</u>
Net property, plant, and equipment	<u>17,500</u>	<u>15,000</u>
Total assets	Tk. <u>25,000</u>	Tk. <u>22,000</u>
Liabilities and Stockholders' Equity		
Accounts payable	4,000	3,600
Common stock	15,000	14,500
Retained earnings	<u>6,000</u>	<u>3,900</u>
Total liabilities and stockholders' equity	Tk. <u>25,000</u>	Tk. <u>22,000</u>

For 2020, the company reported net income as follows:

Sales	Tk. 27,500
Cost of goods sold	<u>15,000</u>
Gross margin	12,500
Selling and administrative expenses	<u>9,000</u>
Net income	Tk. <u>3,500</u>

During 2020, HarunLtd. declared and paid a cash dividend. There were no sales of property,plant, and equipment during 2020. The company did not repurchase any of its

own stock this year.

Required:

- (i) Using the indirect method, prepare a statement of cash flows for this year.
 - (ii) Compute Harun's free cash flow for 2020.
2. (a) Suppose, Square Pharmaceuticals Limited and Beximco Pharmaceuticals Limited have equal earnings. Why might these companies have different price-earnings ratios? If a company has a price-earnings ratio of 20 and reports earnings per share for the current year of Tk. 400, at what price would you expect to find the stock selling on the market?
- (b) A comparative income statement is given below for Kaniz Sales, Ltd., of Barishal:

Kaniz Sales, Ltd.		
Comparative Income Statement		
	<u>2020</u>	<u>2019</u>
Sales	Tk. 8,000,000	Tk. 6,000,000
Cost of goods sold	<u>4,984,000</u>	<u>3,516,000</u>
Gross margin	<u>3,016,000</u>	<u>2,484,000</u>
Selling and administrative expenses:		
Selling expenses	1,480,000	1,092,000
Administrative expenses	<u>712,000</u>	<u>618,000</u>
Total expenses	<u>2,192,000</u>	<u>1,710,000</u>
Net operating income	824,000	774,000
Interest expense	<u>96,000</u>	<u>84,000</u>
Net income before taxes	Tk. <u>728,000</u>	Tk. <u>690,000</u>

Members of the company's board of directors are surprised to see that net income increased by only Tk. 38,000 when sales increased by two million takas.

Required:

- (i) Express each year's income statement in common-size percentages. Carry computations to one decimal place.
 - (ii) Comment briefly on the changes between the two years.
3. (a) Define off-balance-sheet financing and explain how off-balance-sheet financing items should be treated for financial analysis purposes.
- (b) On January 1, 2017, Apex Company leases equipment from Phoenix Company for an annual lease rental of Tk. 10,000. The lease term is five years, and the lessor's interest rate implicit in the lease is 8%. The lessee's incremental borrowing rate is 8.25%. The useful life of the equipment is five years, and its estimated residual value equals its removal cost. Annuity tables indicate that the present value of an annual lease rental of Tk. 1 (at 8% rate) is Tk. 3.993. The fair value of leased equipment equals the present value of rentals. (Assume the lease is capitalized.)

Required:

- (i) Prepare accounting entries required by Apex Company for 2017.
- (ii) Compute and illustrate the effect on the income statement for the year ended December 31, 2017, and for the balance sheet as of December 31, 2017.
- (iii) Construct a table showing payments of interest and principal made every year for the five-year lease term.

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1. (a) Explain the operating cycle of a manufacturing organization known to you.
 (b) Excerpts from the annual report of Lands' End follow (Tk. in thousands):

	<u>Year 9</u>	<u>Year 8</u>
Inventory	Tk.219,686	Tk.241,154
Cost of sales	754,661	675,138
Net income	31,185	64,150
Tax rate	37%	37%

Note 1: If the first-in, first-out (FIFO) method of accounting for inventory had been used, inventory would have been approximately Tk.26.9 million and Tk.25.1 million higher than reported at Year 9 and Year 8, respectively.

Required:

- (i) What would ending inventory have been at Year 9 and Year 8 had FIFO been used?
 (ii) What would net income for the year ended Year 9 have been had FIFO been used?
 (iii) Discuss the usefulness of LIFO to FIFO restatements for analysis purposes.
2. (a) Describe accounting procedures governing valuation and presentation of noncurrent investments.
 (b) PRAN Company acquires 90% of RFL Company in a business combination. The total consideration is agreed upon, but the exact nature of PRAN's payment is not yet fully specified. This business combination is accounted for as a purchase. It is expected that at the date of the business combination, the fair value will exceed the book value of RFL's assets minus liabilities. PRAN desires to prepare consolidated financial statements that include the financial statements of RFL.

Required:

- (i) Explain how the method of accounting for a business combination affects whether goodwill is reported.
 (ii) If goodwill is recorded, explain how to determine the amount of goodwill.
 (iii) From a conceptual standpoint, explain why consolidated financial statements should be prepared.
3. (a) Distinguish between net income, comprehensive income, and continuing income. Cite examples of items that create differences between these three income measures.

(b) Hamim Group reported net income totaling Tk.1,000,000 for the year 2016. The following is additional information obtained from the Hamim Group's financial reports:

- The Company purchased 100,000 shares of Micron Specialists for Tk.10 per share during the fourth quarter of 2016. The investment is accounted for as "available for sale." The value of the shares is Tk.9 at the end of 2016.
- The Company purchased 10,000 shares of Sunlight Properties for Tk.20 per share during the fourth quarter of 2016. The investment is accounted for as "trading" securities. The value of the shares is Tk.22 at the end of 2016.
- The company began operations in the northern region of Bangladesh during the year and reports a foreign currency translation gain at the end of 2016 totaling Tk.50,000.
- The decrease in the net pension assets for the year was Tk.175,000. However, the periodic pension expense reported in the income statement was only Tk.100,000.
- The company reported unrealized holding losses on derivative instruments totaling Tk.12,000.

Required:

- (i) Compute comprehensive income for Hamim Group.
- (ii) For each item in comprehensive income, discuss balance sheet accounts affected by the item.

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Questions

1. (a) How would you define “Management of Commercial Bank”? What types of environmental factors is more important for banks in Bangladesh?
(b) Discuss the techniques followed by the Bangladesh Bank as a regulatory authority to control the activities of commercial banks in Bangladesh.
(c) What are the different kinds of banks operating in Bangladesh?
2. (a) Discuss the roles and responsibilities of Audit Committee in a commercial bank.
(b) Do you think bank directors are liable for all activities of a bank? Why or why not?
(c) To what extent board of directors and bank management are related? Explain your answer.
3. (a) What are the factors banks consider when banks collect funds? Which factor is more important? Why?
(b) Discuss the quantitative models for bank failure.
(c) Discuss different types of deposit accounts offered by commercial banks and Islamic banks in Bangladesh.
4. (a) Which instrument is less risky for rising bank capital? Why?
(b) “Secondary capital is more important than primary capital” Do you agree? Why or why not?

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Questions

1. (a) Explain why you agree or disagree with the following statement: “Liquidity and Profitability are two contradictory concepts”.
- (b) Explain how fiscal and monetary policy affects secondary reserve.
- (c) Differentiate between required reserve and excess reserve.

2. (a) Discuss the relationship between economic condition and liquidity position of the bank.
- (b) Differentiate between anticipated income theory and liability management theory.
- (c) Discuss liquidity management strategies for banks. Which strategy is following the commercial banks in Bangladesh?

3. (a) What should a bank’s loan policy contain?
- (b) What risks are associated with bank lending in Bangladesh?
- (c) As you have read Bank Management course, state which businesses are relatively more eligible for bank loan – existing or new? Consider the context of Bangladesh and discuss briefly with logic.

5. (a) Discuss the risks associated with e-banking in Bangladesh.
- (b) What do you think what kind of impact Covid-19 pandemic situation has on e-banking?

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Questions

1. (a) Explain why unfavorable economic or political conditions affect the MNC's cash flows, required rate of return, and valuation.
(b) What are the ways a firm can engage in international business? Discuss each method focusing risks and benefits.
(c) Describe a scenario in which the size of a corporation is not affected by access to international opportunities.
2. (a) Do you think the acquisition of a foreign firm or licensing will result in greater growth for an MNC? Which alternative is likely to have more risk?
(b) Explain why MNCs such as Coca-Cola and PepsiCo, Inc., still have numerous opportunities for international expansion.
(c) What factors cause some firms to become more internationalized than others? Offer your opinion on why the Internet may result in more international business.
3. (a) Explain why a global recession like that in 2008–2009 might encourage some governments to impose more trade restrictions.
(b) It is sometimes suggested that a floating exchange rate will adjust to reduce or eliminate any current account deficit. Explain why this adjustment would occur.
(c) How is the IMF involved in international trade? Explain.

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Questions

1. (a) A recent shift in the interest rate differential between the United States and Country A had a large effect on the value of Currency A. However, the same shift in the interest rate differential between the United States and Country B had no effect on the value of Currency B. Explain why the effects may vary.
- (b) Why do you think most crises in countries (such as the Asian crisis) cause the local currency to weaken abruptly? Is it because of trade or capital flows?
- (c) Explain in general terms how various forms of arbitrage can remove any discrepancies in the pricing of currencies.
- (d) Explain the concept of covered interest arbitrage and the scenario necessary for it to be plausible. Why would U.S. investors consider covered interest arbitrage in France when the interest rate on euros in France is lower than the U.S. interest rate?
2. (a) One assumption made in developing the IFE is that all investors in all countries have the same real interest rate. What does this mean?
- (b) Japan has typically had lower inflation than the United States. How would one expect this to affect the Japanese yen's value? Why does this expected relationship not always occur?
- (c) Why should capital budgeting for subsidiary projects be assessed from the parent's perspective? What additional factors that normally are not relevant for a purely domestic project deserve consideration in multinational capital budgeting?

3.
 - (a) Explain how the financing decision can influence the sensitivity of the net present value to exchange rate forecasts.
 - (b) Carson Co. is considering a 10-year project in Hong Kong, where the Hong Kong dollar is tied to the U.S. dollar. Carson Co. uses sensitivity analysis that allows for alternative exchange rate scenarios. Why would Carson use this approach rather than using the pegged exchange rate as its exchange rate forecast in every year?
 - (c) Baxter Co. considers a project with Thailand's government. If it accepts the project, it will definitely receive one lump-sum cash flow of 10 million Thai baht in 5 years. The spot rate of the Thai baht is presently \$.03. The annualized interest rate for a 5-year period is 4 percent in the United States and 17 percent in Thailand. Interest rate parity exists. Baxter plans to hedge its cash flows with a forward contract. What is the dollar amount of cash flows that Baxter will receive in 5 years if it accepts this project?

4.
 - (a) Explain how to assess performance in forecasting exchange rates. Explain how to detect a bias in forecasting exchange rates.
 - (b) Suppose, Memphis Co. hires you as a consultant to assess its degree of economic exposure to exchange rate fluctuations. How would you handle this task? Be specific.

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Questions

1. What do you mean by international trade? Why should a country be engaged in international trade?
2. What are the key factors that need to be considered while one country engages in international trade? Identify the countries with which Bangladesh got highest trade.
3. Examine the impact of trade policy on the trade diversion of Bangladesh.
4. What is impact of trade policies on the industrialization in Bangladesh?

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Questions

1. Sketch the status of Balance of Payments (BoP) in the context of Bangladesh. Does the trade protection influence the BoP of Bangladesh?
2. What is Foreign Exchange/Forex/FX? Mention the foreign exchange systems/regimes. What is the relationship between Foreign Exchange Rate and Balance of Payments? Mention the factors affect the exchange rate. If our local currency appreciates, how it will influence our trade?
3. What is FDI? Why the developing countries like Bangladesh offer various incentive packages to attract FDI? Do you think FDI always benefit the host country? Justify your answer with relevant argument.