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UNIVERSITY OF RUHUNA
FACULTY OF MANAGEMENT AND FINANCE

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BACHELOR OF BUSINESS ADMINISTRATION HONOURS DEGREE

3000 LEVEL FIRST SEMESTER END EXAMINATION - Aug./Sep. 2022

Three Hours

ACC 31123 Financial Information Analysis

Academic Year 2021/2022

Instructions

- ➡ Answer all questions.
- ➡ Calculators are permitted

01. (a) "The purposes of Financial Information Analysis depend on the individual who uses them"

Briefly discuss this statement with suitable examples

(03 marks)

(b) What are the difference sources of information available for financial analysis?

(03 marks)

(c) Following data are extracted from the Comprehensive Income Statements of the Apex Lanka Plc.

Apex Lanka Plc
Comprehensive Income Statements.

	31.3.2022	31.3.2021	31.3.2020
	Rs.	Rs.	Rs.
Sales	326,700	272,250	217,800
Cost Sales	(212,355)	(168,795)	(130,680)
Gross Profit	114,345	103,455	87,120
Operating Expenses	(102,257)	(91,749)	(77,100)
Profit before income tax	12,088	11,706	10,020
Income Tax	(4,230)	(4,096)	(3,510)
Net Profit For the Year	7,858	7,610	6,510

Required

(i) Prepare a Common Size Comparative Income Statement for the three-year period, taking sales as the base item for each year.

(03 marks)

(ii) Comment on the significant trends and relationships revealed by the analytical computations.

(02 marks)

(d) (i) What is the difference between "borrowing income from future" and "savings income for the future"?

(02 marks)

(ii) Briefly explain the factors that contribute to manipulating the financial statements.

(03 marks)

(iii) "In analyzing the quality of the Accounting, an analyst seeks answers to five questions"

Explain the five questions relating to the quality of Accounting

(04 marks)

(Total Marks 20)

02. Kanchana Rathnayake has decided to invest some of his savings in ordinary shares. He feels that the computer software industry has good growth. He has decided to seek your help to make a ratio analysis of the two software companies of Global Software Ltd and Universal Software Ltd. Statements of Financial Positions and Comprehensive Income Statements for the latest financial years are available for this purpose.

Statements of Financial Position as at 31st March 2022

	Global Plc (Rs.)	Universal Plc (Rs.)
Assets		
Property plant and other equipment (Net)	2,647,689	9,581,220
Intangibles and other assets	507,415	887,100
Inventory	530,600	1,853,220
Trade debtors (net)	222,766	1,287,000
Marketable Securities	58,163	594,000
Pre-paid expenses	35,937	77,517
Cash at bank	62,420	254,578
	<u>4,064,990</u>	<u>14,534,635</u>

Shareholders equity and Liabilities		
Ordinary share capital (Rs.10 each)	1,273,250	2,695,000
Retained profit	999,345	2,198,075
Debentures	850,520	4,950,000
Accrued expenses	148,500	2,475,000
Trade Creditors	751,200	2,158,200
Provision for income tax	42,175	58,360
	<u>4,064,990</u>	<u>14,534,635</u>

Comprehensive Income Statements for year ended 31st March 2022.

	Global Plc (Rs.)	Universal Plc (Rs.)
Sales	4,695,670	13,506,570
Cost of Sales	<u>(2,877,040)</u>	<u>(9,094,338)</u>
Gross Profit	1,818,630	4,412,232
Selling and distribution expenses	(591,030)	(967,428)
Administrative expenses	(602,610)	(2,042,370)
Interest expenses	(133,650)	(673,200)
Profit before income tax	491,340	729,234
Income Tax	(171,970)	(255,334)
Profit for the year	<u>319,370</u>	<u>473,900</u>

Additional Information

1. 70% of Global Company's Sales and 80% of Universal company's sales were made on Credit basis.
2. The following ending balances were available as at 31st March 2021

	Global Plc (Rs.)	Universal Plc (Rs.)
Total Assets	2,530,310	13,362,355
Inventory	620,400	2,467,580
Trade debtors	236,364	1,365,000

3. During the year, Global Plc paid a total of Rs.101,860 in dividends and the current market price per ordinary share is Rs.15. Universal Plc paid a total of Rs.134,750 in dividends during the year and the current market price per ordinary share is Rs. 8.80.
4. The industry averages are available for the year 2021/2022 as follows.

Ratios	Industry averages
(i) Current ratio	2:1
(ii) Quick ratio	1:1
(iii) Trade debtors turnover ratio	12 times
(iv) Inventory turnover ratio	5 times
(v) Average collection period	30 days
(vi) Return on assets ratio	20%
(vii) Return on Sales ratio	10%
(viii) Earnings per share ratio	Rs.3.00
(ix) Debt to total capital ratio	49%
(x) Interest coverage ratio	5 times
(xi) Price Earnings ratio	8 times
(xii) Dividend pay- out ratio	30%

Required

- (a) Calculate the above ratios for both Global and Universal Companies for the Year ended 31st March 2022. (12 marks)
- (b) Based on the calculated ratios, provide a comparative analysis of operating performance, financial position and market tests of the two companies. (06 marks)
- (c) Briefly explain the limitations of the ratio analysis. (02 marks)
- (Total Marks 20)

03. (a) Distinguish the terms "Expensing inventory cost" and "Capitalizing inventory cost"

(03 marks)

(b) Childcare company is distributing a milk powder packet. The company decided to set a constant gross profit margin of Rs.600 per unit on cost of purchase. According to inventory handling procedure of the company, they should have 03 units in inventory at all times to make an issue. Company can both buy and sell one unit in each month. Purchasing and selling prices of the company during the first six months in 2022 is as follows.

Month	Unit purchasing price	Unit selling price
January	2,000	2,600
February	2,400	3,000
March	2,600	3,200
April	2,800	3,400
May	3,000	3,600
June	3,300	3,900

Show the financial effects of the inventory and the gross profit when changing inventory prices under First In First Out (FIFO), Last In First Out (LIFO) and average method.

(07 marks)

(c) Dunhida Lanka Plc prices its products at 20% of the current cost and details of the company's operations for the year 2021 as follows.

Sales (20,000 units at Rs.75) = Rs. 1,500,000

Cost of sales

Beginning LIFO inventory (6,000x Rs. 45) = Rs. 270,000

Purchases (20,000 x Rs.60) = Rs. 1,200,000

Rs. 1,470,000

Ending inventory (5500x Rs. 45) = Rs. (247,500) Rs. 1,222,500

Gross Profit Rs. 277,500

The company continues its 20% margin in the year 2022. While cost increases by 10%. Purchases are 16,000 units.

Required

Identify and analyze the consequences of LIFO layer liquidation.

(05 marks)

(Total Marks 15)

04. (a) Describe the marketable securities with examples.

(03 marks)

(b) Briefly explain the classification of marketable securities.

(03 marks)

(c) What is the meaning of "disposing receivables" and list out the reasons for disposing receivables?

(03 marks)

(d) Briefly explain the six steps of aging receivables in an organization.

(03 marks)

(e) Describe the factors affecting to the authenticity of receivables

(03 marks)

[Total Marks 15]
