	UNIVERSITY OF RUHUNA **FACULTY OF MANAGEMENT AND FINANCE**	No. of Pages : 06 No. of Questions:04 Total Marks :70
BACHELOR OF BUSINESS ADMINISTRATION HONOURS DEGREE		Three Hours
3000 LEVEL FIRST SEMESTER END EXAMINATION – AUG/SEP. 2023		

ACC 31123- Financial Information Analysis Academic Year 2022/2023

Instructions

- Answer all questions.
- Calculators are permitted.

Question No. 01

(A)

(i) Briefly explain the purposes of financial analysis. (03 Marks)

(ii) "Managers have different perspectives on risk." Analyze this statement with risk preferences. (03 Marks)

(iii) Discuss the relationship between risk and return with suitable examples. (02 Marks)

(B)

(i) Marketable securities can be divided into two categories as debt and equity. Describe types of marketable securities with examples. (04 Marks)

(ii) Assume that you decide to invest some of your savings on marketable securities. What factors to be considered before investing marketable securities? (03 Marks)

(Total Marks 15)

Question No. 02

Galaxy Group is currently in the process of evaluating the possibility of acquiring and gaining control of another entity. There are two companies under consideration, namely Moon PLC (M PLC) and Star PLC (S PLC). The Chief Financial Officer (CFO) of Galaxy Group has the responsibility of preparing a comprehensive report and presenting it to the board of directors. This report will play a crucial role in the decision-making process surrounding the potential acquisition.

The following reports and additional information have been retrieved from the annual reports of the companies.

Statements of Financial Position
As at 31st March 2023

	Moon PLC (Rs.'000')	Star PLC (Rs.'000')
Non-current Assets	**4,750**	**5,200**
Current Assets		
Inventories	6,500	4,120
Trade Debtors	1,000	3,850
Marketable Securities	240	4,000
Cash	360	530
	8,100	**12,500**
Total Assets	**12,850**	**17,700**
Equity and Liabilities		
Equity		
Ordinary share Capital	3,000	2,000
Reserves	180	100
Retained Earnings	2,200	6,400
Total Equity	**5,380**	**8,500**
Non-Current Liabilities	**1,600**	**2,490**
Current Liabilities		
Trade Creditors	1,430	2,030
Other Trade Borrowings	3,180	4,070
Tax liabilities	270	110
Bank Overdraft	990	500
	5,870	**6,710**
Total Equity and Liabilities	**12,850**	**17,700**

Income Statements
For the year ending from 31st March 2023

	Moon PLC (Rs.'000')	Star PLC (Rs.'000')
Sales Revenue	9,500	16,800
Cost of Sales	(6,890)	(11,260)
Gross Profit	**2,610**	**5,540**
Other Income	1,210	1, 100
Administrative Expenses	(550)	(1,370)
Distribution Expenses	(670)	(500)
Operating Profit	**2,600**	**4,770**
Financial Expenses	(800)	(670)
Profit Before Tax (PBT)	1,800	4,100
Income Tax	(300)	(500)
Profit for the period	**1,500**	**3,600**

Additional Information:

1. Assume that 30% of sales of Moon PLC and 40% of sales of Star PLC were on credit basis. The given table illustrates year end balances of 31st March 2022 for both companies.

	Moon PLC (Rs.'000')	Star PLC (Rs.'000')
Trade receivables	3,520	2,650
Trade creditors	950	830
Total Assets	2,100	5,600

2. At 31st March 2023, the compositions of cost of sales were as follows:

	Moon PLC (Rs.'000')	Star PLC (Rs.'000')
Opening Stock	2,300	5,600
Purchases	11,090	9,780
Closing stock	(6,500)	(4,120)
Cost of sales	6,890	11,260

3. During 2022/2023 financial year Moon PLC and Star PLC has distributed Rs.300,000 and Rs.500,000 of dividends to ordinary shareholders respectively. The current market price per share is Rs. 150 and Rs. 120 respectively. However, the nominal value per share is Rs. 100 for both companies.
4. The industrial averages for 2022/2023 financial year are showed as follows:

Current Ratio	2:1
Quick Ratio	1:1
Gross Profit Margin	32%
Net Profit Margin	20%
Return on Assets	36%
Return on Capital Employed	44%
Debt-to-Equity Ratio	1
Interest Coverage Ratio	7 times
Inventory Turnover Ratio	2 times
Accounts Receivable Turnover Ratio	3 times
Earnings per Share	Rs. 160
Dividends Payout Ratio	15%

Assume that you are the CFO of Galaxy Group; you are tasked with evaluating two potential acquisition targets, M PLC and S PLC, to determine the most suitable candidate for Galaxy Group's expansion plans. Your responsibility is to conduct a comprehensive financial analysis and present a report to the board of directors, recommending the best company to acquire.

Required;

(i) Calculate the financial ratios related to industrial averages for both M PLC and S PLC for the 2022/2023 financial year. (12 Marks)

(ii) Prepare a report by interpreting the liquidity, profitability, solvency, efficiency, and investor ratios based on above calculations and provide insights into the financial performance of M PLC and S PLC. (06 Marks)

(iii) Briefly discuss the limitations of financial ratios. (02 Marks)

(Total Marks 20)

Question No. 03

(A)

The Finance Manager at Lucky PLC is preparing to conduct a comprehensive common-size analysis for the company. This analysis will involve a comparative evaluation of Lucky PLC's financial performance with its primary competitor; Gold PLC. By undertaking this in-depth comparison, the Finance Manager intends to gain valuable insights into Lucky PLC Company's financial structure and identify areas where improvements can be made to bolster its competitive standing relative to Gold PLC.

The following information has been extracted from the annual reports of Lucky PLC (L PLC) and Gold PLC (G PLC).

Comparative Income Statements
For the Year Ended 31st March 2022

	Lucky PLC (Rs.'000)	**Gold PLC (Rs.'000)**
Sales	76,000	119,000
Cost of Sales	(49,400)	(52,000)
Gross Profit	26,600	67,000
Other Income	12,000	10,500
Expenses	(23,500)	(42,000)
Profit Before Tax	15,100	35,500
Taxation	(1,510)	(3,550)
Profit for the period	**13,590**	**31,950**

Comparative Statements of Financial Position
As at 31st March 2022

	Lucky PLC (Rs.'000)	**Gold PLC (Rs.'000)**
Non-Current Assets		
Property, Plant and Equipment	140,000	432,000
Current Assets		
Inventories	41,000	140,000
Trade Receivables	27,000	22,000
Cash and Cash Equivalents	7,200	6,400
	75,200	**168,400**
Total Assets	**215,200**	**600,400**

Equity		
Stated Share Capital	100,000	350,000
Retained Earnings	49,500	193,360
Non-Current Liabilities		
Long Term Loan	18,000	24,000
Current Liabilities		
Trade Payables	35,700	27,000
Accrued Expenses	12,000	6,040
	47,700	**33,040**
Total Equity and Liabilities	**215,200**	**600,400**

Required;

(i) Prepare common size comparative statements for both companies. (06 Marks)

(ii) Provide insight to Lucky PLC by interpreting the results of both companies based on the common size financial statements. (04 Marks)

(B)

(i) REX Company is a local manufacturing company. The company decided to set a constant gross profit margin of Rs.500 markup on cost. According to inventory handling procedure, the company should have 3 units in inventory at all times to make an issue. It can both buy & sale one unit each month.

Purchase price and selling price per unit from January to June is as follows:

Month	Purchase price (Rs.)	Selling price (Rs.)
January	900	1,400
February	1,200	1,700
March	1,800	2,300
April	2,100	2,600
May	2,500	3,000
June	2,800	3,300

Required;

Show the financial effects of the inventory and gross profit when changing inventory prices in Average cost method. (05 Marks)

(ii) Delta Company uses a periodic inventory system. The beginning balance of inventory and purchases made by the company during the financial year are given below:

	Number of units	cost per unit (Rs.)
Inventory on 01/04/2022	60	15,000
Order 1	100	20,000
Order 2	40	20,000
Order 3	100	24,000
Order 4	50	25,000

At the end of the year 120 units remained in the stores. During the year company recorded Rs. 8.6 million of sales.

Required;

Compute the closing inventory as at 31st March 2023 and cost of goods sold & gross profit for the year ended 31st March 2023 under First in First out (FIFO), Last in First out (LIFO) and Average Cost methods, and briefly discuss the relationship between closing inventory and gross profit under the various inventory valuation methods.

(05 Marks)

(Total Marks 20)

Question No. 04

(A) "ASM Company, a medium-sized manufacturing firm, is facing an increasing bad debt risk." Advice to ASM Company to mitigate bad debt risk. (03 Marks)

(B) How factoring is important to a company? Briefly discuss with the benefits of factoring.

(03 Marks)

(C) Define receivable aging and mention the steps of aging the receivables.

(03 Marks)

(D) "Financial information can be manipulated in different ways." How companies manipulate financial information. Discuss with suitable examples.

(03 Marks)

(E) "Manipulated financial information provides a misleading picture of company financial performance." Discuss why companies tend to manipulate the financial information?

(03 Marks)

(Total Marks 15)

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