



**UNIVERSITY OF RUHUNA**  
**FACULTY OF MANAGEMENT AND FINANCE**

No. of Pages : 05  
No. of Questions: 04  
Total Marks : 70

BACHELOR OF BUSINESS ADMINISTRATION HONOURS DEGREE

4000 LEVEL FIRST SEMESTER END EXAMINATION (OLD SYLLABUS/REPEAT) AUG./SEP. 2023

Three Hours

**ACC 4111 Financial Statement Analysis**

Academic Year 2022/2023

**Instructions**

- ➡ Answer all questions.
- ➡ Calculators are allowed.

**Question No.01**

1. (a) (i) Briefly describe objectives of financial information analysis. (03 marks)
- (ii) List out different sources of information available for financial analysis. (02 marks)
- (iii) Explain the difference between intra - firm and inter - firm comparisons of financial statement analysis. (02 marks)

(b) Following data are extracted from the Comprehensive Income Statements of the Dunhida Lanka Plc.

	2018 Rs.	2019 Rs.	2020 Rs.	2021 Rs.	2022 Rs.
Net Sales	500,000	475,000	620,000	650,000	690,000
Cost of goods sold	(300,000)	(294,500)	(348,000)	(360,000)	(380,000)
Gross profit	200,000	180,500	272,000	290,000	310,000
Operating expenses	(50,000)	(85,000)	(55,000)	(60,000)	(65,000)
Net profit before tax	150,000	95,500	217,000	230,000	245,000

- (i) You are required to make a trend analysis for the above information (03 marks)
- (ii) Do the trends signify a favourable or unfavourable situation? Explain (02 marks)

- (c) (i) How do you explain accounting quality of the Financial Statements ?  
(02 marks)
- (ii) Briefly describe how does the accounting become low quality?  
(03 marks)
- (iii) "Firms are using generally accepted accounting principles to manipulate financial reports"  
Evaluate this statement explaining five questions relating to quality of the financial reporting  
(03 marks)
- (Total marks 20)

**Question No.02**

Following information have been extracted from the books of New South Lanka Plc. Directors of the company concern about the profitability, financial position and capital market indicators during the past two years. Financial analyst has decided to make a ratio analysis with a support of you for this purpose.

	(Rs. Thousands)	
	31.03.2023	31.03.2022
Stated ordinary share capital (Rs.10 each)	45,000	42,000
Retained Earnings	6,800	5,200
Sales (80% on credit)	60,000	40,000
Cost of Sales	34,000	24,000
Operating expenses	10,800	8,600
Non – current assets( net)	27,000	15,800
Inventory	19800	10,200
Debtors (net)	20,000	8,400
Non- current Liabilities	8,000	10,600
Current Liabilities	14,200	14,500
Interest expenses	960	670
Cash at bank	12,600	7,200



### Additional Information

1. The balances of the net debtors and inventory as at 01.04.2021 were Rs.4,800,000 and Rs.9,800,000 respectively.
2. Corporate tax rate is 30% on profit before tax.
3. South Lanka PLC paid Rs. 3,150,000 and Rs. 3,960,000 in dividends for years of 2021/2022 and 2022/2023 respectively.
4. The market price per ordinary share of the company as at 31<sup>st</sup> March 2023 and 2022 were Rs.20 and Rs.15 respectively.
5. Company credit policy is "net 60".
6. Following are the industry averages available for the year 2022/2023.

	<b>Ratios</b>	<b>Industry Averages</b>
(i)	Return on sales ratio	15%
(ii)	Return on equity ratio	20%
(iii)	Current ratio	2: 1
(iv)	Quick ratio	1: 1
(v)	Debtors turnover ratio	5 times
(vi)	Average collection period	75 days
(vii)	Inventory turnover ratio	4 times
(viii)	Debt equity ratio	48%
(ix)	Interest coverage ratio	15 times
(x)	Earnings per share ratio	Rs.5
(xi)	Dividend yield ratio	10%
(xii)	Dividend pay-out ratio	40%

**Required**

- (a) (i) Calculate the above ratios for the New South Lanka PLC for the both years ended 31<sup>st</sup> March 2022 and 2023.

(12 marks)

- (ii) On the basis of the ratios calculated, evaluate the New South Lanka PLC's profitability, financial position and capital market test with reference to the industry averages.

(05 marks)

- (b) Briefly explain the limitations of the ratio analysis with suitable examples

(03 marks)

(Total marks 20)

**Question No. 03**

- (a) What is the difference between expensing inventory cost and capitalizing inventory cost?

(04 marks)

- (b) Medicare company is distributing a bottle of herbal oil . The company decided to set a constant gross profit margin of Rs.600 per bottle on cost of purchase. According to inventory handling procedure of the company, they should have 03 bottles in inventory at all times to make an issue. Company can both buy and sell one bottle in each month. Purchasing and selling prices of the company during the first six months in 2023 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)

- (ii) Ravindu Plc prices its products at 15% 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 15% 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.

(04 marks)

(Total marks 15)

**Question No.04**

- (i) Describe the marketable securities with examples. (03 marks)
- (ii) Briefly explain the classification of marketable securities. (03 marks)
- (iii) What is the meaning of "disposing receivables" and list out the reasons for disposing receivables? (03 marks)
- (iv) Briefly explain the six steps of aging receivables in an organization. (03 marks)
- (v) Describe the factors affecting to the authenticity of receivables (03 marks)

[Total marks 15]

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