



UNIVERSITY OF RUHUNA

FACULTY OF MANAGEMENT AND FINANCE

Bachelor of Business Administration Honours Degree Programme 3000 Level First

Semester End Examination (November / December 2021)

Academic Year 2020/2021

ACC 31123: Financial Information Analysis

Time: Three hours (03)

The question paper contains 04 questions.

Instructions: Answer all questions.

Calculators are permitted.

Total Marks: 70

1. (a) "Comparative financial statements are mainly used for financial statement analysis and interpretation".

Briefly explain the following terms in relation to above statement.

- (i) Cross Sectional Analysis
- (ii) Time Series Analysis

(04 marks)

- (b) Briefly discuss the importance of financial information analysis for internal and external stakeholders of a firm.

(03 marks)

- (c) Following financial statements have been extracted from the books of New Araliya PLC for the years 2019, 2020 and 2021.

Araliya PLC

Comparative income statements for 31st March.

	2021	2020	2019
Sales	192,000	144,000	160,000
Cost of goods sold	(88,000)	(75,000)	(76,800)
Gross profit	104,000	69,000	83,200
<u>Operating expenses</u>			
Marketing expenses	(11,000)	(11,000)	(9,600)
Administrative expenses	(32,000)	(35,000)	(35,000)
Finance expenses	(24,000)	(6,500)	(16,000)
Profit before taxation	37,000	16,500	22,600
Income taxes	(12,800)	(3,200)	(8,000)
Net profit for the year	24,200	13,300	14,600

Required:

(i) Prepare common-size analysis for each year using sales as the base.

(03 marks)

(ii) Comment briefly on the changes among the years based on the common-size analysis.

(01 mark)

(d) (i) Briefly describe the term “accounting quality”.

(02 marks)

(ii) How does the accounting quality become low?

(03 marks)

(iii) “Generally accepted accounting principles are deficient”.

Evaluate this statement explaining five questions relating to the quality of the accounting.

(04 marks)

[Total marks 20]

(2) Following financial statements have been extracted from the books of Country Style Equipment PLC for the years of 2021 and 2020.

Country Style Equipment PLC
Statement of Financial Position as at 31st March 2021 and 2020

		2021 (Rs.)	2020 (Rs.)
A	<u>Net Worth</u>		
	Share capital (Rs.10/= each)	1,822,500	1,822,500
	Reserves	2,899,500	3,627,500
	Total Net Worth	4,722,000	5,450,000
B	<u>Borrowings</u>		
	Long term Debentures	2,929,000	3,152,000
	Long term Bank Loan	5,195,000	6,812,000
	Total borrowings	8,124,000	9,964,000
C	Total capital employed (A+B)	12,846,000	15,414,000
D	<u>Non-current Assets</u>		
	Property and equipments (at cost)	6,800,000	7,800,000
	Provision for depreciation	(1,575,000)	(1,960,000)
	Other non – current Assets	135,000	492,000
	Total Non-current Assets	5,360,000	6,332,000
E	<u>Current Assets</u>		
	Inventories	6,300,000	9,318,000
	Debtors	2,758,000	3,915,000
	Pre-paid expenses	788,000	212,000
	Cash and bank	1,550,000	1,712,000
	Total current Assets	11,396,000	15,157,000
F	<u>Current Liabilities</u>		
	Trade creditors	1,710,000	2,748,000
	Accrual expenses	2,200,000	3,327,000
	Total current Liabilities	3,910,000	6,075,000
G	Net Current Assets (E-F)	7,486,000	9,082,000
H	Net Assets (D+G)	12,846,000	15,414,000

Country Style Equipment PLC

Comparative Income Statements for years Ended 31st March 2021 and 2020

	2021 (Rs.)	2020 (Rs.)
Net sales	22,888,000	31,050,000
Cost of goods sold	(18,814,000)	(25,025,000)
Gross profit	4,074,000	6,025,000
Less-Selling & Dis. expenses	(1,274,000)	(1,739,000)
Administrative expenses	(850,000)	(1,158,000)
Operating income	1,950,000	3,128,000
Add - other income	205,000	298,000
Earnings before interest and tax	2,125,000	3,426,000
Less – Interest expenses	(1,012,000)	(1,162,000)
Profit before tax	1,113,000	2,264,000
Income tax	(245,000)	(520,000)
Profit after tax	868,000	1,744,000
Dividends	(320,000)	(364,000)
Retained earnings	548,000	1,380,000

Additional Information

- (1) Credit sales amounts to 70% of Company's sales were made on credit.
- (2) The following ending balances were available as at 31st March 2019.

Closing Inventory	Rs. 8,580,000
Trade Debtors	Rs. 3,470,000
Total Assets	Rs. 13,650,000
- (3) Company Credit Policy is “ net 60”
- (4) The industry averages for year 2020/21 are as follows.

Industry Averages		
1	Return on Assets ratio	20%
2	Return on Sales ratio	5%
3	Gross Profit margin ratio	20%
4	Current ratio	2 : 1
5	Quick ratio	1 : 1
6	Inventory turnover ratio	5 times
7	Debtor turnover ratio	6 times
8	Average collection period	60 days
9	Debt to total capital ratio	60%
10	Interest coverage ratio	4 times
11	Earnings per share	Rs.8
12	Dividends per share	Rs.3

- (i) You are required to calculate the above-mentioned ratios for 2021 and 2020 years.
(12 marks)
- (ii) On the basis of the ratios calculated by you, provide a comparative analysis of operating performance. Financial position and firm's solvency and leverage of Country Style Equipment PLC.

(08 marks)

[Total Marks 20]

3. (a) Briefly explain the appropriateness of using Last-In-First-Out (LIFO) method by a firm for stock evaluation in an inflationary economy.

(02 marks)

- (b) New Rasaco Company is manufacturing and distributing a food supplementary product. Assume that company expects a markup of Rs.10 per unit cost. The following table shows the details on purchases and sales.

Quarters	Purchases in units	Sales in units
1 st Quarter – 2020	200	-
2 nd Quarter – 2020	100	100
3 rd Quarter – 2020	100	150
4 th Quarter – 2020	200	150

The following are the inventory and gross profit values calculated by using FIFO and LIFO methods

FIFO method

	2 nd Quarter	3 rd Quarter	4 th Quarter
Sales	2500	3800	4500
Cost	1000	1750	2550
Gross Profit	1500	2050	1950

LIFO Method

	2 nd Quarter	3 rd Quarter	4 th Quarter
Sales	2500	3800	4500
Cost	1500	2300	3000
Gross Profit	1000	1500	1500

Required

(i) Calculate the gross profit for each quarter using the average cost method. (05 marks)

(ii) Base on your calculations, discuss the effect of inventory accounting methods on financial information analysis. (03 marks)

(C) Roland Food PLC is going to assess the effect of LIFO consequences of a changing in purchasing policy. following information has been given by the company for the year 2020.

Period /Month	Purchases in units	Purchase price
January to June	16,000	Rs. 6.00
July to November	12,000	Rs. 7.00
December	8,000	Rs. 8.00

Ending inventory equals 5000 units and it is valued under LIFO method. Total sales for the year is Rs. 260,000 and company has decided to purchase Rs. 12,000 units in December as a purchasing policy change.

Required

Access the effect of LIFO consequences of changing in purchasing policy as at the end of the year 2020.

(05 marks)

[Total marks 15]

4. (i) Briefly explain the two types of marketable securities with examples. (03 marks)
- (ii) Discuss the classification of marketable securities in brief. (03 marks)
- (iii) List out the main factors that should be considered when analyzing the marketable securities. (03 marks)
- (iv) Explain the difference between account receivables and note receivables. (03 marks)
- (v) What are the six steps of aging receivables in an organization. (03 marks)

[Total marks 15]
