



UNIVERSITY OF RUHUNA
FACULTY OF MANAGEMENT AND FINANCE

No. of Pages : 06
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Total Marks :70

BACHELOR OF BUSINESS ADMINISTRATION HONOURS DEGREE

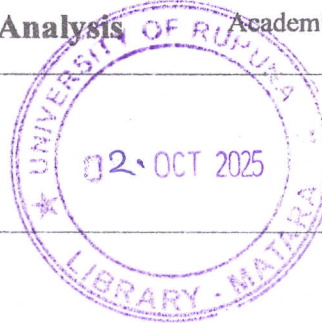
3000 LEVEL FIRST SEMESTER END EXAMINATION – AUG/SEP 2025

Three Hours

ACC 31123 – Financial Information Analysis Academic Year 2025/2026

Instructions

- Answer all five (05) questions.
- Calculators are permitted.



Question One

- A. "The Process of critical evaluation of the financial information contained in the financial statements to understand and make decisions regarding the operations of the firm is called 'Financial Statement Analysis'."

Required:

Critically evaluate the above statement, highlighting the advantages and criticisms of the financial statement analysis.

(05 Marks)

- B. Financial information analysis serves as a critical tool for understanding investment risk and return relationships in modern capital markets."

Required:

Critically analyse the fundamental relationship between investment risk and return. Discuss how different risk preferences influence investment decision-making and portfolio construction.

(04 Marks)

- C. Analyzing investing activities provides insights into a company's capital allocation decisions, risk appetite, and strategic direction for future growth. When combined with operating performance data, it helps stakeholders evaluate whether the company's investment strategies are generating adequate returns and supporting long-term value creation.

Required:

- I. Explain the reasons why companies choose to invest in marketable securities and discuss the different types of marketable securities.

(03 Marks)

- II. Briefly discuss the different approaches to analysing marketable securities.

(02 Marks)

(Total Marks 14)

Question Two

- A. The Ratio analysis is a quantitative method of gaining insight into a company's liquidity, operational efficiency, and profitability by studying its financial statements, such as the statement of financial position and income statement. Ratio analysis is a cornerstone of fundamental equity analysis.

Global Industries Ltd. is a manufacturing company that has experienced deteriorating financial performance. The following financial ratios have been extracted from the audited financial statements of Global Industries for the financial year 2023/2024 and 2024/2025, along with industry benchmarks for comparison.

Financial Ratio	2024/2025	2023/2024	Industry average for 2024/2025
Gross Profit Margin	27%	35%	32%
Net Profit Margin	4.5%	13%	11%
Return on Assets	5%	16%	12%
Return on Capital Employed	7%	21%	15%
Debt-to-Equity	2.1	0.8	1.5
Current Ratio	1.0	2.7	1.6
Quick Ratio	0.7	1.6	1.2
Inventory Turnover	3.6 times	8.5 times	6.2 times
Receivables Turnover	4.7 times	8.9 times	7.6 times

Required:

- I. Write a report to the Board of Directors on the financial analysis of Global Industries, conducting a comprehensive financial performance analysis, comparing with the previous financial year's performance and benchmarking against industry averages. Your answer should identify key areas of concern and potential underlying causes.
(06 Marks)
 - II. Critically evaluate the company's liquidity position and working capital management efficiency. What strategic recommendations would you propose?
(04 Marks)
- B. Do you agree with the following statements? Justify your answers.
- I. "In the era of digital transformation and ESG reporting, traditional financial ratios are becoming obsolete for measuring true business performance."
(02 Marks)
 - II. "The use of fair value accounting in financial statements provides more relevant information to users than historical cost accounting, despite increased volatility."
(02 Marks)

(Total Marks 14)

Question Three

- A. Giant Eagle operates a chain of department stores and uses the retail inventory method (RIM) for inventory valuation. The company has experienced significant challenges with inventory management due to seasonal fluctuations and changing consumer preferences.

The following information is available for the quarter ended 31st March 2025.

Item	Cost (Rs.)	Retail (Rs.)
Opening Inventory	780,000	1,530,000
Net Purchases	2,350,000	3,650,000
Purchase Returns	135,000	242,000
Additional Markups	-	210,000
Markup Cancellations	-	52,000
Net Sales	-	3,420,000
Sales Returns	-	158,000
Markdowns	-	240,000
Markdown Cancellations	-	46,000

Following additional information is available.

- The historical shrinkage rate has been identified as 3% of net sales.
- The company uses the traditional RIM method for inventory valuation.

Required:

Calculate the ending inventory value using the retail inventory method (RIM), showing all workings clearly and critically evaluate the challenges Giant Eagle might face in applying RIM.

(06 Marks)

- B. Casey Manufacturing Ltd. uses different inventory valuation methods for its three product lines. The following data relates to Product Line A for the financial year 2024/2025.

Quarter	Units Purchased	Cost per Unit	Units Sold	Selling Price per Unit
Q2 2024	11,000	Rs. 48	9,500	Rs. 74
Q3 2024	12,500	Rs. 56	12,100	Rs. 79
Q4 2024	9600	Rs. 63	11,400	Rs. 88
Q1 2025	16,800	Rs. 52	15,300	Rs. 82

The opening inventory of 7,200 units was purchased at Rs. 45 per unit.

Required:

- I. Calculate the value of inventory and cost of goods sold using FIFO, LIFO, and weighted average methods. (04 Marks)

- II. Analyse the impact of each method on gross profit and discuss the strategic implications for financial reporting, tax planning, and stakeholder perception in an inflationary environment.

(04 Marks)

(Total marks 14)

Question Four

- A. The following information relates to the Transnational Industries PLC, a manufacturing company, for the years ended 31st December 2023 and 2024:

Condensed Financial Statements (Rs. 000)

	2024	2023
Income Statement		
Sales Revenue	4,850	4,200
Cost of Goods Sold	2,910	2,520
Operating Expenses	1,455	1,260
Interest Expense	145	105
Tax Expense (28%)	339	287
Net Income	1,001	1,028
	4,850	4,200
Statement of Financial Position		
Cash and Cash Equivalents	450	380
Marketable Securities	285	240
Accounts Receivable	680	560
Inventory	920	840
Property, Plant & Equipment (net)	2,850	2,650
Long-term Investments	180	150
Total Assets	5,365	4,820
Accounts Payable	485	420
Short-term Debt	320	280
Long-term Debt	1,450	1,200
Common Equity	3,110	2,920
Total Equity & Liabilities	5,365	4,820

Required:

- I. Reformulate the statement of financial position to separate operating and financing activities. Calculate Net Operating Assets (NOA) and Net Financial Obligations (NFO) for both years.

(03 Marks)

- II. Reformulate the income statement to distinguish between operating income and financial income/expenses. Allocate taxes appropriately using a 28% tax rate.

(03 Marks)

- B. Assume that a manufacturing company is currently experiencing a situation where its Operating Liabilities are significantly exceeding its Operating Assets, resulting in negative Net Operating Assets.

Required

Briefly explain the potential underlying reasons that could lead to this unfavorable financial position and the strategies that the management team should implement to overcome this situation.

(04 Marks)

- C. Enhanced transparency through integrated non-financial reporting strengthens stakeholder confidence in organizations' financial positions. Technology solutions like Artificial Intelligence (AI) and Machine Learning can further support this transparency by enabling faster analysis of comprehensive financial and non-financial data, uncovering insights in complex reports, and improving decision-making accuracy.

Required

Critically evaluate the above statement.

(04 Marks)

(Total Marks 14)

Question Five

- A. Alfa Corporation's financial statements show concerning trends. You are considering to calculate the Beneish M-Score using the following formula to detect potential earnings manipulation.

$$\text{Beneish M-Score} = -4.84 + 0.92 \times \text{DSRI} + 0.528 \times \text{GMI} + 0.404 \times \text{AQI} + 0.892 \times \text{SGI} + 0.115 \times \text{DEPI} - 0.172 \times \text{SGAI} + 4.679 \times \text{TATA} - 0.327 \times \text{LVGI}$$

Following information is available from Alfa Corporation regarding the Beneish M-Score.

Variable	Index Value
DSRI (Days Sales in Receivables Index)	1.15
GMI (Gross Margin Index)	1.08
AQI (Asset Quality Index)	1.12
SGI (Sales Growth Index)	1.25
DEPI (Depreciation Index)	1.18
SGAI (Selling, General and Administrative Expenses Index)	0.95
LVGI (Leverage Index)	1.05
TATA (Total Accruals to Total Assets)	0.08

Required:

Calculate the Beneish M-Score for Alfa Corporation and interpret the result.

(04 Marks)

- B. Beta Technologies (Pvt) Ltd. is a rapidly growing technology company incorporated under the Companies Act in Sri Lanka. The Board of Directors has raised concerns about the quality of its financial reporting. As a financial analyst, during the financial year 2024/2025, you have identified the following red flags:

- ✓ Significant increase in accounts receivable relative to sales growth
- ✓ Revenue from long-term software contracts recognized upfront
- ✓ Substantial capitalization of software development costs
- ✓ Aggressive depreciation policies on equipment
- ✓ Large increases in deferred marketing costs
- ✓ Operating cash flow consistently lower than reported earnings
- ✓ Significant timing differences between cash receipts and revenue recognition
- ✓ Related party transactions with entities controlled by key management personnel

Required:

- I. Based on the concern highlighted above, identify the specific financial statement manipulation techniques that might be employed and explain how these techniques can artificially inflate earnings and mislead stakeholders.

(06 Marks)

- II. Develop a comprehensive framework covering both internal controls and governance structures to prevent financial statement manipulation. Your framework should include the analytical procedures to detect such manipulations at Beta Company.

(04 Marks)

(Total Marks 14)
