



UNIVERSITY OF RUHUNA
FACULTY OF MANAGEMENT AND FINANCE

No. of Pages : 06
No. of Questions: 05
Total Marks : 70

BACHELOR OF BUSINESS ADMINISTRATION HONOURS DEGREE

3000 LEVEL FIRST SEMESTER END EXAMINATION – AUG/SEP 2025

Three Hours

FIN 31323: Financial Information Analysis

Academic Year 2024/2025

Instructions:

- Answer all questions.
- Non-programmable calculators are allowed.

Question 01

The following financial statements have been extracted from BlueHarbor PLC for the years 2023 and 2024.

BlueHarbor PLC
Statement of profit and loss for the year ended 31st March 2023 and 2024

	2023	2024
	Rs.	Rs.
Revenue	5,250,000	4,330,000
Cost of sales	(4,370,000)	(3,780,000)
Gross profit	880,000	550,000
Operating expenses		
Marketing and distribution expenses	(120,000)	(71,000)
Administrative expenses	(381,000)	(326,000)
Total operating expenses	(501,000)	(397,000)
Operating profit	379,000	153,000
Interest expense	(297,000)	(82,000)
Profit before tax	82,000	71,000
Tax expenses	(51,000)	(30,000)
Profit for the year	31,000	41,000

BlueHarbor PLC
Statement of Financial position as at 31st March 2023 and 2024

Assets	2023	2024
	Rs.	Rs.
Non-Current Assets		
Property, plant and equipment	1,428,700	1,294,000
Investment property	47,000	42,400
Financial investments	52,400	50,400
Total Non-Current Assets	1,528,100	1,386,800
Current Assets		
Inventory	358,900	398,500
Trade receivables	343,600	297,300
Prepaid expenses	368,500	316,600
Cash in hand and at bank	101,100	100,800
Total Current Assets	1,172,100	1,113,200
Total Assets	2,700,200	2,500,000
Equity and Liabilities		
Capital and Reserves		
Stated capital	1,564,500	1,564,500
Retained earnings	680,300	603,600
Total Equity	2,244,800	2,168,100
Non-Current Liabilities		
Retirement benefit obligation	94,600	42,000
13% Debentures	198,700	110,300
Total Non-Current Liabilities	293,300	152,300
Current Liabilities		
Trade payables	127,300	151,600
Accrued expenses	34,800	28,000
Total Current Liabilities	162,100	179,600
Total Equity and Liabilities	2,700,200	2,500,000

Additional information;

- (a) Depreciation costs amount to Rs. 58,000 in 2024.
(b) The industry average ratios are as follows;

Gross profit margin	36.12 %	Debt-equity ratio	62.00%
Operating profit margin	12.50 %	Proprietary (Equity) Ratio	72%
Net profit margin	5.25%	Debt service (Interest coverage) ratio	3 times
Return on assets	6.50%	Quick Ratio	1.5
Return on equity	12.50%	Current ratio	2.5

Required;

- (A) Prepare the Common Size Financial Statement for BlueHarbor PLC for the year ended 31st March 2024. (04 marks)
- (B) Interpret the key points that can be highlighted in the common size financial statements prepared in part (A). (04 marks)
- (C) Explain three (03) objectives of ratio analysis, highlighting how each objective helps in evaluating a company's performance and financial position. (03 marks)
- (D) Calculate the financial ratios of the company for 2024, as specified in additional information (b). (10 marks)
- (E) Evaluate BlueHarbor PLC by comparing its financial ratios with the industry averages. (03 marks)
- (Total marks 24)**

Question 02

- (A) State the key components of the Conceptual Framework for Financial Reporting. (02 marks)
- (B) Explain the purpose of analysing financial information and its importance in decision-making for different stakeholders. (03 marks)
- (C) Explain how changes in accounting policies can affect the outcomes of financial analysis. (03 marks)
- (D) Discuss how financial analysis support investment and credit decisions, both for internal and external users. (04 marks)
- (Total marks 12)**

Question 03

- (A) What is meant by "beating benchmarks"? Briefly explain with a relevant example. (02 marks)
- (B) Discuss the factors that affect earnings quality and why high-quality earnings are important for investors and other stakeholders. (04 marks)

(C) The following data has been extracted from the financial statements of NovaTech Ltd in 2023 and 2024.

Financial Item	2023	2024
	Rs.	Rs.
Accounts Receivable	120,000	100,000
Sales Revenue	1,200,000	1,000,000
Cost of Goods Sold (COGS)	720,000	600,000
Gross Profit	480,000	400,000
Property, Plant & Equipment	450,000	420,000
Total Assets	1,500,000	1,400,000
Current Assets	750,000	730,000
Depreciation Expense	70,000	60,000
Sales, General & Administrative Expense	180,000	150,000
Income from Continuing Operations	120,000	130,000
Current liabilities	350,000	340,000
Total Liabilities	700,000	700,000
Net Income (Profit Before Tax)	100,000	90,000
Total long term investments	50,000	75,000
Total long term debts	100,000	120,000
Cash Flow from Operations	120,000	110,000
Accounts Payable	110,000	90,000

Additional information;

- The accounts receivable balance for 2023 includes Rs. 15,000 related to a recent asset acquisition.
- The total liabilities for 2024 include a Rs. 20,000 short-term loan obtained after the balance sheet date.

Required;

NovaTech Ltd. seeks to evaluate whether their financial statements have been subject to manipulation. Using an appropriate analytical technique, provide your opinion on the likelihood of such manipulation.

(06 marks)

(Total marks 12)

Question 04

(A) State the key sources of investment risk.

(02 marks)

(B) What is the tax burden in ROE decomposition, and how does a change in the tax burden affect a company's profitability in terms of ROE? Illustrate your answer with a relevant example.

(03 marks)

(C) The following information has been extracted from the financial statements of McLeren PLC.

Balance Sheet (Extraction)	2024	2023	2022	2021
	Rs.	Rs.	Rs.	Rs.
Non-current Assets	27,000	22,000	20,000	17,000
Current Assets	75,000	72,000	63,000	54,000
Total Assets	102,000	94,000	83,000	71,000
Shareholders' Equity	45,000	58,000	51,000	38,000
Non-current Liabilities	25,000	10,000	7,000	7,000
Current Liabilities	32,000	26,000	25,000	26,000
Total Equity & Liabilities	102,000	94,000	83,000	71,000

Income Statement (Extraction)	2024	2023	2022	2021
	Rs.	Rs.	Rs.	Rs.
Revenue	400,000	359,000	255,000	205,000
Net Income	35,000	34,000	24,000	21,000

Additional Information;

- The 2024 non-current liabilities include a Rs. 4,000 long-term loan taken after the reporting date.
- The 2023 depreciation expense was understated by Rs. 2,500 due to a clerical error, which affects the net income.

Required;

(i) Perform a DuPont analysis from 2022 to 2024 using the available data.

(03 marks)

(ii) Provide an interpretation of the results, emphasizing the key drivers behind the changes in ROE over the period.

(04 marks)

(Total marks 12)

Question 05

- (A) State two main characteristics of high earnings quality. (02 marks)
- (B) Define the concept of a reformulated financial statement and explain its purpose in financial reporting. (03 marks)
- (C) Briefly explain how an increase in operating assets relative to financial assets impacts the overall performance of a company. (03 marks)
- (D) Briefly explain the treatment of taxes and interest in a reformulated income statement using a relevant example. (04 marks)

(Total marks 12)

Formulas

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

$$\text{Altman Z Score Formula} = 1.2X_1 + 1.4X_2 + 3.3X_3 + 0.6X_4 + 1.0X_5$$