



UNIVERSITY OF RUHUNA  
FACULTY OF MANAGEMENT AND FINANCE

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

BACHELOR OF BUSINESS ADMINISTRATION HONOURS DEGREE  
4000 LEVEL FIRST SEMESTER END EXAMINATION–AUG/SEP 2025  
(Old Syllabus)

*Three Hours*

**ACC 4111 – Financial Statement Analysis**

Academic Year 2024/2025

**Instructions**

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

**Question No. 01**

- A. "Financial statement analysis is essential for understanding a company's true financial health and making informed business decisions."

**Required:**

Explain why financial statement analysis is crucial for different stakeholders in an organisation.  
(04 Marks)

- B. Critically evaluate the following statements:

"Historical financial data is sufficient for predicting future company performance."  
(02 Marks)

"Audited financial statements guarantee the accuracy of all financial information presented."  
(02 Marks)

"Non-financial information in annual reports is irrelevant for investment decisions."  
(02 Marks)

- C. According to Agency Theory, conflicts may arise between shareholders and management due to divergent interests.

**Required:**

Identify and explain key factors that contribute to this agency problem.

(04 Marks)  
**(Total Marks 14)**

**Question No. 02**

- A. You have been hired as a financial analyst for Wealth Metrics, and your team is working on an independent assessment of Farm Fresh Delights (FFD), one of the clients of Wealth Metrics. FFD specialises in the production and distribution of fresh farm products. Your assistant has provided you with the following data for FFD and their industry.

Ratio	2024	2023	2022	Industry Average (2024)
Long-term Debt	0.45	0.40	0.35	0.35
Inventory Turnover	62.65	42.42	32.25	53.25
Return on Assets	0.065	0.034	0.038	0.025
Accounts Receivable Days	54	38	34	65
Debt to Equity	0.75	0.85	0.90	0.88
Net Profit Margin	0.082	0.072	0.067	0.075
Total Asset Turnover	0.54	0.65	0.70	0.40
Quick Ratio	1.42	1.21	1.02	1.1
Current Ratio	2.13	1.81	2.15	1.54
Interest Coverage Ratio	0.9	4.375	4.45	4.65

**Required:**

- i. Evaluate the firm's asset management, liquidity position and profitability based on the 2024 data and the two previous years, compared to industry averages?  
(06 Marks)
  - ii. Analyze and assess the firm's solvency and leverage for the shareholders.  
(04 Marks)
- B. Briefly discuss the limitations of ratio analysis as a financial statement analysis technique.  
(04 Marks)
- (Total Marks 14)**

**Question No. 03**

- A. Sunshine Manufacturing Ltd. has provided you with the following financial information for trend analysis:

Year	2020	2021	2022	2023	2024
Sales (Rs. '000)	2,800	3,150	3,920	4,480	5,320
Operating Profit (Rs. '000)	420	441	549	582	638
Total Assets (Rs. '000)	4,200	4,830	5,880	6,720	7,980
Current Assets (Rs. '000)	1,680	1,932	2,352	2,688	3,192
Current Liabilities (Rs. '000)	840	966	1,176	1,344	1,596

**Required:**

- i. Prepare a trend analysis using 2020 as the base year for all the above items.  
(04 Marks)
  - ii. Analyze the trends and discuss their implications for the company's financial performance and position. Identify any areas of concern.  
(03 Marks)
- B. Discuss the concept of earnings quality and identify key indicators that analysts should examine when evaluating the quality of a company's reported earnings.  
(04 Marks)
- C. Examine the concept of marketable securities and discuss the strategic advantages that both corporate entities and individual investors gain from holding such assets.  
(03 Marks)
- (Total Marks 14)**

**Question No. 04**

Crystal Electronics Ltd. has the following inventory transactions during the first quarter of 2024:

Month	Units Purchased	Cost per Unit (Rs.)	Units Sold	Selling Price per Unit (Rs.)
January	1200	4200	850	7000
February	1420	4500	1210	7200
March	1550	5100	1400	7800

Beginning inventory: 650 units at Rs. 4000 each

**Required:**

- i. Calculate the cost of goods sold and the ending inventory value under the FIFO, LIFO, and Weighted Average methods.

(06 Marks)

- ii. Prepare a comparative analysis showing the impact of each method on:

- Gross profit for the quarter
- Inventory turnover ratio
- Working capital (assume current liabilities of Rs. 780,000)

(04 Marks)

- iii. Discuss how each inventory method would affect the company's tax liability and cash flows during inflationary periods.

(04 Marks)

**(Total Marks 14)**

**Question No. 05**

- A. Omega Enterprises Ltd. has provided the following information for preparing forecasted financial statements:

**Base Year (2024) Information:**

- Sales Revenue: Rs. 4,500,000
- Operating Expenses: Rs. 3,825,000 (85% of sales)
- Interest Expense: Rs. 180,000
- Tax Rate: 30%
- Total Assets: Rs. 6,750,000
- Current Assets: Rs. 2,700,000
- Accounts Receivable: Rs. 675,000
- Inventory: Rs. 1,125,000
- Current Liabilities: Rs. 1,350,000
- Long-term Debt: Rs. 2,025,000
- Shareholders' Equity: Rs. 3,375,000

**Forecasting Assumptions for 2025:**

1. Sales are expected to grow by 25%
2. Operating expense ratio will improve to 82% of sales
3. Accounts receivable collection period: 40 days (assume 360 days/year)
4. Inventory and other current assets will grow proportionally with sales
5. Current liabilities will maintain the same percentage of sales
6. The company will issue Rs. 500,000 in new equity
7. Interest rate and tax rate remain unchanged
8. Total assets to sales ratio will be maintained at 1.5:1

**Required:**

- i. Prepare the Forecasted Statement of Profit or Loss for 2025. (04 Marks)
  - ii. Prepare the Forecasted Statement of Financial Position as at December 31, 2025. (04 Marks)
  - iii. Calculate the external financing needed (if any) and comment on the company's growth sustainability. (03 Marks)
- B. Explain, with examples, the various types of investment risks that companies face when making capital allocation decisions.

(03 Marks)

**(Total Marks 14)**

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