

**EASTERN UNIVERSITY, SRI LANKA**  
**FACULTY OF COMMERCE AND MANAGEMENT**

**Final Year First and Second Semesters Examination in Bachelor of Commerce /  
Bachelor of Commerce (Specialization in Accounting and Finance)-**

**2013/2014(April 2017) (Special Repeat)**

**DAF 4013 - Financial Reporting and Statement Analysis**

**Answer All Questions**

**Time Allowed: 03 Hours**

**Use of Programmable Calculators are permitted.**

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i) What are the advantages for users in analyzing financial statements of firms?

**(10 Marks)**

ii) What are techniques used for analyzing financial statements?

**(10 Marks)**

**(Total 20 Marks)**

If a firm has a current ratio of 3:1 and net working capital of Rs. 300,000, determine its current assets, current liabilities and liquid assets assuming an inventory of Rs. 250,000.

**(05 Marks)**

iii) A company has an inventory of Rs.360,000, debtors of Rs.180,000 and an inventory turnover of 6. The gross profit margin of the company is 20 per cent, and its credit sales are 40 per cent of the total sales. Calculate the average collection period. (Assume a 360 days operating cycle)

**(05 Marks)**

- (III) Comparative income statements of JGD plc for years ended 31<sup>st</sup> December 2016 - 2012 are reproduced below (Rs.000):

	2016	2015	2014	2013	2012
Net sales	1,594	1,396	1,270	1,164	1,086
Cost of goods sold	1,146	932	802	702	652
Gross Profit	448	464	468	462	434
Operating expenses	340	266	244	180	156
Net Income	108	198	224	282	278

**Required:**

- (a) Compute trend percents for the individual items of the income statement using 2012 as the base year
- (b) Prepare common-size statements showing the percent of each item to sales for the years 2012 - 2016.
- (c) Analyze and comment on Income statement using figures in (a) and (b) above.

(10 Marks)

(Total 20 Marks)

03. (I) Briefly explain the effects of LIFO and FIFO inventory costing methods on earnings in an inflationary period.

(10 Marks)

- (II) DSA plc is a retailer dealing in a single product. Beginning inventory is 600 units @ Rs.150 as at 1<sup>st</sup> of January 2016. The following purchases are made during the year:

Month	No. of Units	Cost Per Unit (Rs.)
January	250	160
March	300	164
June	750	170
October	450	172
December	350	180

Ending inventory at December 31 is 750 units.

**Required:**

Determine net income for the year using each of the following inventory accounting methods. Assume a sale price of Rs.500 per unit and ignore income taxes.

- (i) First In First Out (FIFO)
- (ii) Last In First Out (LIFO)
- (iii) Average Cost (weighted average)

**(10 Marks)**

**(Total 20 Marks)**

(I) Distinguish between "Capital Leases" and "Operating Leases" from a Lessee's perspective.

**(05 Marks)**

(II) The GTX plc experienced the following unrelated events and transactions during year ended 31<sup>st</sup> December 2016. The Company's existing current ratio is 2:1 and its quick ratio is 1.2:1.

- 1. Company estimates Rs.10,000 of accounts receivable are uncollectible.
- 2. A bank notifies Company that a customer's cheque for Rs.5,000 is returned marked insufficient funds. The customer is bankrupt.
- 3. The owners of Company make additional cash investment of Rs.100,000.
- 4. Inventory costing Rs.12,000 is judged obsolete when a physical inventory is taken.
- 5. GTX plc declares a Rs.25,000 cash dividend to be paid during the first week of next reporting period.
- 6. GTX plc purchases long-term investments for Rs.200,000.
- 7. Accounts payable of Rs.24,000 are paid.
- 8. GTX plc borrows Rs.20,000 from a bank and gives a 90-day, 10 percent promissory note in exchange
- 9. GTX plc sells a vacant lot for Rs.200,000 that had been used in its business.
- 10. A three-year insurance policy is purchased for Rs.25,000.

**Required:**

Separately evaluate the immediate effect of each of the transactions for the company's

- (a) Current ratio
- (b) Quick (acid-test) ratio
- (c) Working capital

**(15 Marks)**

**(Total 20 Marks)**

05. (I) Distinguish between "Economic Income" concept and "Accounting Income" concept.

(05 Marks)

- (II) Capital Structure and Earnings for Year 2016 of HES plc are as follows:

Number of ordinary shares outstanding on 31.12.2016	5,000,000
Number of 15% Convertible debentures of Rs.100 each	100,000
Ordinary Shares of issuable on conversion per debenture	10
Interest for the year	1,500,000
Net Income After Interest for Year 2016	Rs.12,000,000

**Required:**

**Calculate the following:**

- (a) Basic Earnings Per Share
- (b) Diluted Earnings Per Share

(15 Marks)

(Total 20 Marks)