EASTERN UNIVERSITY, SRI LANKA

FACULTY OF COMMERCE AND MANAGEMENT

Final Year First Semester Examination in Bachelor of Commerce / Bachelor of Commerce (Specialization in Accounting and Finance)-2012/2013 (February 2014)

(Proper/Repeat/Re-Repeat)

DAF 4013 - Financial Reporting and Statement Analysis

Answer All Questions

Time Allowed: 03 Hours

Non Programmable Calculators are permitted.

(I) Explain the claim: Financial statement analysis is an integral part of business analysis

(05 Marks)

(II) Explain at least five different internal and external users of financial statements.

(05 Marks)

(III) Identify and discuss the four primary financial statements of a business firm.

(05 Marks)

(IV) Identify and describe the specialized financial analysis tools

(05 Marks)

(Total 20 Marks)

(I) Calculate the Financial Position items given in the under mentioned proforma with the help of following ratios:

Total Assets/Net Worth	= 3.5
Sales/Fixed Assets	= 6
Sales/Current Assets	= 8
Sales/Inventory	= 15
Sales/Debtors	= 18
Current Ratio	= 2.5

(10 Marks)

(II) Comparative income statements of Ramco plc for years ended 31st December 2010 - 2012 are reproduced below:

	2010	2011	2012
Net sales	8,000	10,000	15,000
Cost of goods sold	6,000	7,500	10,500
Gross Profit	2,000	2,500	4,500
Operating expenses	500	600	2,200
Net Income	1,500	1,900	2,300

Required:

(a) Compute trend percents for the individual items of the income statement using 2010 as the base year

(b) Prepare common-size statements showing the percent of each item to sales for the years 2010 - 2012.

(c) Analyze and comment on Income statement using figures in (a) and (b) above.

(10 Marks)

(Total 20 Marks

03. (I) Describe the criteria for classifying leases by a lessee.

(05 Marks

(II) Explain two conditions necessary before a company charges a provision for loss contingency to income

(05 Marks

(III) Describe the major disclosure requirements regarding terms of short-term debt

(05 Mark

(IV) Accounting for postretirement employee benefits draws on the accounting f pensions, with some important differences. Explain these differences

(05 Mark

(Total 20 Mark

(I) Explain the concept of a company's operating cycle and its meaning.

(05 Marks)

(II) Discuss the consequences for each of the acceptable inventory methods in recording costs of inventories and in determination of income.

(05 Marks)

(III) Compare and contrast the effects of LIFO and FIFO inventory costing methods on earnings in an inflationary period.

(05 Marks)

(IV) Excerpts from the annual report of Lands' End follow (Rs. in thousands):

	Year 2012	Year 2011
Inventory	Rs. 219,686	Rs. 241,154
Cost of sales	754,661	675,138
Net income	31,185	64,150
Tax rate	37%	37%

Note 1: If the first-in, first-out (FIFO) method of accounting for inventory had been used, inventory would have been approximately Rs. 26.9 million and Rs. 25.1 million higher than reported at Year 2012 and Year 2011, respectively.

Required:

a) What would ending inventory have been at Year 2012 and Year 2011 had FIFO been used?

b) What would net income for the year ended Year 2012 have been had FIFO been used?

c) Discuss the usefulness of LIFO to FIFO restatements for analysis purposes.

(05 Marks)

(Total 20 Marks)

05. (I) Distinguish between operating and non-operating income. Cite examples of items that are typically included in each category.

(05 Marks)

(II) Accounting practice distinguishes among different types of accounting changes. Identify three different types of accounting changes.

(05 Marks)

(III) Accounting income has elements of both permanent income and economic income. Explain this statement.

(05 Marks)

(IV) To illustrate the computation of EPS, consider a company with the following securities outstanding:

i. Common stock: 1,000,000 shares outstanding for the entire year.
ii. Preferred stock: 500,000 shares outstanding for the entire year.
iii. Convertible bonds: Rs.5,000,000 6% bonds, sold at par, convertible into 200,000 shares of common stock.
iv. Employee stock options: options to purchase 100,000 shares at Rs.30 have been outstanding for the entire year. The average market price of the company's common stock during the year is Rs.40.
v. Net income: Rs.3,000,000
vi. Preferred dividends: Rs.50,000
vii. Marginal tax rate: 35%

Required:

Calculate the following:

(a) Basic Earnings Per Share

(b) Diluted Earnings Per Share

(05 Marks)

(Total 20 Marks)