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(April 2015)

(Special Repeat)

DAF 4013 - Financial Reporting and Statement Analysis

Answer All Questions   Time Allowed: 03 Hours

Non Programmable Calculators are permitted.

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1.   (I) Describe the uses of financial statement analysis by the various groups

(10 Marks)

(II) Briefly describe the four specialized financial analysis tools

(10 Marks)

(Total 20 Marks)

2.   (I)   The following data of ANM plc for the financial year ended 31st December 2014

are available for financial analysis:

Current ratio	2.5
Quick ratio	1.3
Non-Current Asset / Equity	0.6
Gross Profit Margin	10%
Debtors' velocity	40 days
Sales	Rs.730,000
Working Capital	Rs.120,000
Bank Overdraft	Rs.15,000
Ordinary Share Capital	Rs.250,000
Net Profit	10% of Equity
Closing Stock	10% more than Opening Stock

Required:

Construct for the company the Income Statement for the year ended 31.12.2014 and

Balance Sheet as at that date.

(10 Marks)

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(II) Comparative income statements of DGH plc for years ended 31st December 2010 - 2014 are reproduced below (Rs.000):

	2014	2013	2012	2011	2010
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 2010 as the base year

(b) Prepare common-size statements showing the percent of each item to sales for the years 2010 - 2014.

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

(10 Marks)

(Total 20 Marks)

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

(10 Marks)

(II) JKL plc is a retailer dealing in a single product. Beginning inventory is 500 units @ Rs.100 as at 1st of January 2014. The following purchases are made during the year:

Month	No. of Units	Cost Per Unit (Rs.)
January	200	90
March	300	100
June	800	105
October	400	115
December	300	120

Ending inventory at December 31 is 700 units.

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Required:

Determine net income for the year using each of the following inventory accounting methods. Assume a sale price of Rs.300 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)

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

(10 Marks)

(II) ABC plc lists the following data for 2014 and 2013

	2014	2013
	Rs.	Rs.
Net income	52500	40000
Net Sales	1050000	1000000
Average Total Assets	230000	200000
Average Common Equity	170000	160000

Required:

Calculate the net profit margin, return on assets, total asset turnover, and return on common equity for both years. Comment on the results

(10 Marks)

(Total 20 Marks)

05. (I) Distinguish between net income, comprehensive income, and continuing income. Cite examples of items that create differences between these three income measures.

(10 Marks)

(II) Capital Structure and Earnings for Year 2014 of SIL plc are as follows:

Number of ordinary shares outstanding on 31.12.2014	5,000,000
Number of 12% Convertible debentures of Rs.100 each	100,000
Ordinary Shares of issuable on conversion per debenture	10
Interest for the year	1,200,000
Net Income After Interest for Year 2014	Rs.10,000,000

Required:

Calculate the following:

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

(10 Marks)

(Total 20 Marks)