

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)-2016/2017 (January 2019)

(Proper/Repeat)

DAF 4013 - Financial Reporting and Statement Analysis

Answer All Questions

Time Allowed: 03 Hours

Non-Programmable Calculators are permitted.

01. "The objective of financial statements is to provide information about the financial position, financial performance and cash flows of an entity that is useful to a wide range of users in making economic decisions. Financial statements are prepared to meet this purpose and common needs of current and prospective users of financial statements. However, financial statements do not provide all the information that users may need to make economic decisions."

a. Explain the components of a complete set of financial statements by mentioning key objectives of each component.

(06 Marks)

b. "Financial statements are used by different users in order to satisfy some of their information needs" Discuss.

(08 Marks)

c. Briefly describe the required qualitative characteristics of financial statements.

(06 Marks)

(Total 20 Marks)

02. The Income statement, statement of financial position and other extracted details of Zega Trading PLC for the year ending 31st December for the past three years are given below.

Income Statement for the year ended 31st March

	2018	2017	2016
	Rs 'Mn	Rs 'Mn	Rs 'Mn
Revenue	2,620	2,280	2,190
Cost of sales	(1,850)	(1,710)	(1,660)
Gross profit	770	570	530
Other operating income	10	5	5
Selling and distribution expenses	(230)	(180)	(150)
Administrative expenses	(120)	(120)	(110)
Other operating expenses	(70)	(60)	(90)
Operating profit/(loss)	360	215	185
Finance costs	(40)	(50)	(50)
Finance income	30	40	30
Net finance costs	(10)	(10)	(20)
Profit/(loss) before tax	350	205	165
Tax (expense)	(70)	(45)	(45)
Profit for the year	280	160	120

Additional Details	2018	2017	2016
No. of Ordinary shares	25,000,000	25,000,000	25,000,000
Ordinary Dividends (Rs.)	36,000,000	30,000,000	30,000,000
Market Price Per Share (Rs.)	105.00	70.00	55.00

Statement of Financial Position as at 31st March

	2018	2017	2016
	Rs 'Mn	Rs 'Mn	Rs 'Mn
Non-current assets			
Property, plant and equipment	1,150	1,160	900
Intangible assets	250	250	250
Investment in subsidiary			
Other non-current financial assets	30	20	20
Other non-current assets	10	5	5
Total Non-current Assets	1,440	1,435	1,175
Current assets			
Inventories	220	200	180
Trade and other receivables	270	230	200
Amounts due from related parties	90	80	50
Other current assets	30	30	20
Short term investments	60	100	80
Cash in hand and at bank	110	20	20
Total Current Assets	780	660	550
Total Assets	2,220	2,095	1,725
Equity and Liabilities			
Stated capital (Ordinary)	1,290	1,290	1,290
Revenue reserve	400	260	40
Total equity	1,690	1,550	1,330
Non-current liabilities			
Borrowings/Loans	280	250	195
Current Liabilities			
Trade and other payables	250	220	135
Current portion of borrowings	50	50	40
Other current liabilities	20	13	15
Bank overdrafts	30	12	10
Total Current Liabilities	350	295	200
Total Equity and Liabilities	2,220	2,095	1,725

Using the above details, you are required to,

- i. Prepare common size income statement and statement of financial position for the year 2018 and 2017 and discuss the progress during last two years' period. (15 Marks)
- ii. Compute the ratios relevant to the following categories and discuss the progress of the company during the year 2018 and 2017.
 - a. Liquidity Ratios
 - b. Solvency/Leverage Ratios
 - c. Profitability Ratios
 - d. Activity/Efficiency Ratios
 - d. Market/Investors' Ratios

(15 Marks)

(Total 30 Marks)

03.

- a. Discuss the importance of financial analysis for different stakeholders and the areas of financial analysis.

(08 Marks)

- b. "Annual reports of public limited companies are providing both Accounting and Non-accounting information which are important for business and economic decisions." Discuss about the information which are presented in the annual reports and state how these Accounting and Non-accounting information are useful for the internal management, investors and creditors.

(12 Marks)

(Total 20 Marks)

04.

- a. Summary of information regarding entity A & B as follows.

	Entity A	Entity B
Market Price	75	15
No of Shares	100,000	60,000

- i. If A intends to pay Rs 1.2mn cash for B what is the cost premium?
(02 Marks)
- ii. If A intends to offer their shares how many shares they need to offer?
(02 Marks)
- iii. If so what is the share of ownership for B's shareholders in company A.
(02 Marks)

b. MTK Ltd. is considering acquiring TNS Ltd. The following information is available:

Company	Earning after tax (Rs.)	No. of Equity Shares	Market Value Per Share (Rs.)
MTK Ltd	6,000,000	1,200,000	200
TNS Ltd	1,800,000	300,000	160

Exchange of equity shares for acquisition is based on current market value as above. There is no synergy advantage available.

i. What is the earning per share for company MTK Ltd. after merger?

(04 Marks)

ii. Find the exchange ratio so that shareholders of TNS Ltd. would not incur a loss.

(05 Marks)

(Total 15 Marks)

05.

a. "Credit analysis is the method by which one calculates the creditworthiness of a business organization. In other words, it is the evaluation of the ability of a company to honor its financial obligations." Discuss the general steps in the credit analysis process and users of credit analysis with the relevant reasons for using the credit analysis.

(05 Marks)

b. Describe the role of credit rating agencies in the business world and its usefulness for the different business organizations.

(05 Marks)

c. "There are a number of internal and external factors responsible for corporate distress and also different methods are available to predict the corporate distress." Discuss.

(05 Marks)

(Total 15 Marks)